



# STAFF REPORT

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June 5, 2024  
File Number 0430-30

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## **SUBJECT**

### **USER AND REGULATORY FEE STUDY WORKSHOP**

## **DEPARTMENT**

Finance

## **RECOMMENDATION**

Request the City Council provide direction regarding the results of the User and Regulatory Fee Study prepared by ClearSource.

Staff Recommendation: Provide Direction (Finance: Christina Holmes, Director of Finance)

Presenter: Christina Holmes, Director of Finance and Terry Madsen, President of ClearSource Financial Consulting

**ESSENTIAL SERVICE** – Police Services; Fire/EMS Services; Keep City Clean for Public Health and Safety; Land Use/Development; Clean Water; Sewer; Public Works/Infrastructure; Maintenance of Parks facilities/Open Spaces

**COUNCIL PRIORITY** – Eliminate Structural Deficit

## **FISCAL ANALYSIS**

If the amended fees proposed in the Study (Attachment “1”) are adopted by the City Council, the anticipated fiscal impact of the proposed fee changes is approximately \$1,270,000.

## **PREVIOUS ACTION**

A comprehensive user fee study was last performed by a consultant in FY2019/20 and adopted by the City Council on April 8, 2020.

## **BACKGROUND**

California cities regularly conduct these studies to justify fee amounts imposed and to optimize the overall portfolio of revenues available to the municipality to fund its services. Industry practice and fiscal conditions in the state have led most cities to link cost recovery for services of individual action, cause, or



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benefit to that same individual through user fee revenue, relieving the agency's general revenues as much as possible for use toward services of broader community benefit.

Recovering the costs of providing fee-related services directly influences the City's fiscal health and increases the City's ability to meet the service level expectations of fee payers.

The services for which the City imposes a user or regulatory fee typically derive from an individual person or entity's action, request, or behavior. Therefore, except in cases where there is an overwhelming public benefit generated by the City's involvement in the individual action, a fee for service ensures that the individual bears most, if not all, of the cost incurred by the City to provide that service. When a fee targets "100% or full cost recovery," the individual is bearing the entirety of the cost. When a fee targets less than full cost recovery, another City revenue source – in most cases, the General Fund – subsidizes the individualized activity.

Generally, fees for service are targeted to full cost recovery, inclusive of operating, direct, indirect, and capital costs, except in cases where the City Council cites a public interest in lower fees. The City may also be influenced by market conditions, comparing to municipalities of similar size and service profile.

### User and Regulatory Fee Study

The results of the User and Regulatory Fee Study are provided in Attachment "1". During the course of the study, information and analysis was generated and is discussed substantively throughout the fee study report and its technical appendices. However, summarized in the following findings statements by broad fee category, are outcomes and proposals of particular interest to City leaders and policymakers.

- Development-related and operational permitting fees are proposed for adjustment to more closely align to the City's cost of service.
  - Building Fees: target full cost recovery.
  - Current Planning Fees, Engineering Fees, and Fire Prevention Fees: Generally, target full cost recovery for most services. However, initial fee adjustments have been capped in order to phase-in fee increases where more than 50 percent adjustment to costs would be required.
- Community Services Rental Fees are recommended for adjustment.
  - Proposed adjustments continue to prioritize the City's residents and non-profit renters by providing reduced rental rates for those users as opposed to non-resident and commercial users, which are assessed the full cost to provide the service.
- Public Works Fees have been calculated to allow the City to fully recover the costs of:
  - Special event support provided by Public Works staff.
  - Over street banner hanging.



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- Police Fees are collected for certain discrete services required/requested. Many police fees are limited by State Law. For fees set by the City, fee amounts have been adjusted to reflect the City's cost of service. Fees for police range facilities are also proposed for adjustment. Facility rental rates are based on the market demand for reserved facility use.
- Utility Service Fees (Non-rate fees) are proposed to be adjusted to reflect the City's current costs of service. Several of these fee-related services, require materials (e.g., meters) that have increased in costs over the last several years. These material cost increases are reflected in the proposed fees. In addition, new fees are recommended to recover the costs of services provide by the city not currently on the fee schedule.
- Banner Hanging. The City charges a \$40 fee for hanging banners over streets for special events. Hanging over street banners requires special equipment; therefore, the city has engaged with a consultant to provide this service. The consultant fees are \$1,200, the City absorbs the remaining costs, a 3 percent cost recovery rate. In 2023, the City hung a total of 11 banners, of those, 8 were paid, and 3 were City sponsored events (Fire and Water Expo, National Night Out, and Free E-Waste Shred Event).

The City operates a Hero banner program that honors men and women who serve, or have served, in the U.S. Armed Forces, and First Responders by offering personalized banners that will be hung around downtown Escondido. Banner hanging services are also provided by a consultant; however, the current fees cover the full cost of this service.

- Business License Application Fee. Staff are recommending adding a flat fee of \$25 to cover the costs associated with each business license application review.

### Regional Fee Comparison

Similar fees are collected by communities throughout the region and the State. The proposed fee amounts do not exceed the City's cost of service and are in-range of amounts charged by other jurisdictions. In order to provide the City Council with additional information as it considers potential adjustments to fees, current and proposed fees were compared to amounts collected by other agencies.

The City of Escondido, consistent with other cities throughout the State, has an existing fee schedule that contemplates hundreds of potential unique requests for service. This can result in thousands of fee scenarios when comparing among multiple agencies. Consequently, an exhaustive comparison of the hundreds, and potentially thousands of scenarios is unrealistic. Instead, comparison information for several targeted fee categories (e.g., high volume categories, fee categories of particular interest to community, etc.) are provided in order to provide City Council with a reasonable sense of changes expected.



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For Escondido, outcomes will show that new fees may range from low, mid, to upper end of regional fee spectrum depending on the service provided. This is common among municipalities due to differing levels of service and review included among various fee categories.

### **NEXT STEPS**

With the direction from the City Council received on June 5, 2024, a Public Hearing will be held on June 19, 2024, for the adoption of the amended fee schedule establishing and updating user and regulatory fees.

### **FUTURE FEE UPDATES**

User fees should be updated annually to keep pace with rising costs over time. A common method of adjusting fees is to evaluate regional cost indicators, such as the Consumer Price Index to ensure that the City receives appropriate fees for work being conducted. Staff recommends annually adjusting user fees by July 1, 2024, utilizing an inflation factor equal to changes in the San Diego area's Consumer Price Index for all Urban Consumers published by the US Department of Labor, Bureau of Statistics. This approach is consistent with other jurisdictions in the region for evaluating their annual user fee adjustments. The proposed CPI adjusted fee updates will be reflected in an annual fee Resolution to City Council and in accordance with the requirements pursuant to Government Code Section 66000, et seq.

### **ATTACHMENTS**

- a. Attachment "1" – User and Regulatory Fee Study
- b. Attachment "2" – Proposed User Fee Schedule