



AGENDA REPORT SUMMARY

Meeting Date: March 12, 2024

Subject Study Session – Development Services Cost of Services (User Fee) Study

Prepared by: Nick Zornes, Development Services Director

Reviewed by: Jolie Houston, City Attorney

Reviewed by: Jon Maginot, Assistant City Manager

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Report on Development Services Cost of Services (User Fee) Study

Initiated by:

Adopted 6th Cycle Housing Element – Program 3.D

Fiscal Impact:

On June 27, 2023, the Los Altos City Council authorized Professional Services Agreement with Matrix Consulting Group in an amount not-to-exceed \$198,885.00 and up to 10% contingency funds not-to-exceed \$19,888.50 for a total of \$218,773.50. The current funds expended for this study are within the original contract amount.

Environmental Review:

Pursuant to CEQA Guidelines Section 15273 this item is exempt from environmental review. CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies.

Summary:

The City of Los Altos has not previously conducted an external evaluation of its development fees. The Comprehensive Development Services Cost of Services (User Fee) Study was initiated in Summer 2023 with Matrix Consulting Group. Upon completion of the study, it was found that the City has been under collecting (subsidizing) all development related fees; on average the City is only collecting 66% of development related fees or under collecting by \$1.9million annually.

Staff Recommendation:

Direct staff to return March 26, 2024, at the City Council’s regularly scheduled public meeting, with an updated Development Services Cost of Services based on the completed Study by Matrix Consulting Group and recommended deviations as contained at the end of this report.

City Manager

GE

Reviewed By:

City Attorney

JH



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Purpose

Typically, it is best practice to conduct a comprehensive fee update every 3-5 years (completed by an outside and independent consultant to ensure validity) to account for market conditions and changes in organizational structure (if any). Beyond best practices to ensure that the city is not under collecting or unnecessarily subsidizing development related fees, the Adopted 6th Cycle Housing Element Program 3.D identifies the evaluation of a comprehensive fee study to begin in August 2023, and modify fees no later than December 2024.

Background

The City of Los Altos last reviewed and updated its development-related fees in 2015 (internally completed). As there have been many changes since the previous fee study, the city is interested in updating its fees to be reflective of current organizational structures and costs. The Matrix Consulting Group analyzed the cost-of-service relationships that exist between fees for service activities in the following areas: Planning, Building, Fire Prevention, and Engineering.

Analysis

Results of the Development Services Cost of Services (User Fee) Study are presented as follows (broken down by discipline or category):

Building Division

The Building Division collects fees for inspections, plan checks, and mechanical, electrical, and plumbing permits, among others. The total cost calculated for each service includes direct City staff costs, Departmental, and Citywide overhead. The current cost recovery for the Building Division is the highest of all revenue generating streams within the Development Services Department, currently 79%. Although the Building Division is the highest for cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of \$700k.

As a part of the review, the Building Division proposes creation of new fees for the following:

- ADU Plan Check
- Water Heater
- Water Line, Sewer Line
- Photovoltaic (PV/Solar)
- Single Family EV Charging Stations

Engineering Division

The Engineering Division ensures public safety through construction inspections, the review of private development and renovation plans, and the issuance of permits for utility work and encroachment permits, among other services. The current cost recovery for the Engineering Division is collecting just over half of the necessary revenue within the Development Services Department, currently 57%. Although the Engineering Division is in the middle of the road for



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cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of just over \$500k.

Planning Division

The Planning Division is responsible for the development of the General Plan, land use decisions and development review, and policy documents such as the City’s Zoning Ordinance. Fees examined in this study relate to development review and include conditional use permits, variances, and design reviews. The current cost recovery for the Planning Division is the lowest of all revenue generating streams within the Development Services Department, currently 34%. Given the Planning Division is the lowest for cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of \$666k.

As a part of the review, the Planning Division proposes creation of new fees for the following:

- Historic Alteration Permit
- Historic Resource/Landmark Designation
- Home Occupation Permits
- Mills Act Contract
- Temporary Use Permit
- Consulting Arborist

General Plan Maintenance Fee

A General Plan Maintenance fee is meant to account for updates to the general plan, zoning ordinance, housing elements, and other long-range planning activities that are part of the larger General Plan.

The General Plan Maintenance fee is governed by Government Code Section 66014(b), which states that fees “may include the costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and recommendations.” This code states that fees can be charged against zoning changes, zoning variances, use permits, building inspections, and filing applications. More typically, the fee is charged during the building permit phase so as to ensure any development project, which gets to that phase, makes enough of an impact to require the need for an update to the Zoning Code or the General Plan. This fee should only be applied to major building permits (when a building/permit valuation is calculated), building permits for standalone permits such as Solar, EV and Water Heaters would be excluded from this surcharge.

Previously, the city most recently expended close to \$600k on the Housing Element Update. Currently, the city will spend close to \$100k for the Safety Element Update. Additional General Plan Elements will be required to be updated in coming years in order for the city to develop and implement other desired masterplans and regulatory documents within the city. The General Plan



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Maintenance fee will create a funding mechanism to ensure the General Plan is updated accordingly.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of the General Plan Maintenance Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 12: General Plan Maintenance Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0016% of Building Valuation
Los Gatos	0.5% of Building Valuation
Menlo Park	3% of Permit Fee
Morgan Hill	15% of Permit Fee
Mountain View	0.26% of Building Valuation
Palo Alto	0.00117% of Building Valuation
Saratoga	0.285% of Building Valuation

The General Plan Maintenance fees charged by the surveyed jurisdictions are either based on building valuation or building permit costs. The City of Los Altos’ full cost fee of **7%** of the building permit falls between Menlo Park and Morgan Hill’s fee calculation.

Technology Surcharge Fee

A Technology Fee allows the city to support the costs associated with the City’s permitting system, staff time for managing the systems, acquiring the system, mobile devices used for permitting, etc. The City of Los Altos currently assesses a Technology surcharge fee as 8% of all development-related fees.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of a Technology Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 15: Technology Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0004% of Building Valuation
Los Gatos	4.0% of Permit Fee
Menlo Park	3.0% of Permit Fee
Morgan Hill	5.0% of Permit Fee
Mountain View	4.0% of Permit Fee
Palo Alto	Built into permit fees
Saratoga	8.1% of Permit Fee



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With the exception of Palo Alto, which does not individually charge a technology fee, all surveyed jurisdictions charge their technology fee as a percentage of the permit. The City of Saratoga, at 8.1%, most closely matches Los Altos’ current surcharge of 8%, whereas the full cost of 5% is more in alignment with Los Gatos, Mountain View, and Morgan Hill.

General Plan Maintenance and Technology Surcharge Fee

It is a best practice to collect and account for General Plan Maintenance and Technology surcharges in separate accounts, as doing so ensures compliance with funding requirements, enables appropriate allocation of funds to general plan or technology related activities, and mitigates any potential issues with the comingling of funds.

Discussion

As mentioned, Development Services Cost of Services (User Fee) on average the city is only collecting 66% of development related fees or under collecting by \$1.9million annually. The following table identifies specific fee revenues, and the annual cost associated with the development review process, and the difference which reflects an under collection or loss of revenue across all disciplines.

Category	Current Fee Revenue	Annual Cost	Difference	Cost Recovery %
Building	\$2,673,949	\$3,373,448	(\$699,499)	79%
Planning	\$346,470	\$1,012,499	(\$666,030)	34%
Engineering	\$666,813	\$1,178,495	(\$511,681)	57%
Total	\$3,687,233	\$5,564,433	(\$1,877,210)	66%

As graphically shown in the above table, the City of Los Altos is under collecting by nearly \$1.9million in activities directly related to current development within the jurisdiction.

Annual Adjustment Recommended

Conducting a comprehensive analysis of fee-related services and costs annually would be cumbersome and costly. The general guideline for comprehensive fee analyses is between three and five years. This allows for jurisdictions to ensure they account for organizational changes such as staffing levels, as well as process efficiencies, code or rule changes, or technology improvements.



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Developing annual update mechanisms allows jurisdictions to maintain current levels of cost recovery while accounting for increases in staffing or expenditures related to permit services. The two most common types of update mechanisms are the Consumer Price Index (CPI) and Cost of Living Adjustment (COLA) factors. The following points provide further detail on each of these mechanisms.

- COLA / Personnel Cost Factor: Jurisdictions often provide staff with annual salary adjustments to account for increases in local cost of living. These increases are not tied to merit or seniority but rather meant to offset rising costs associated with housing, gas, and other livability factors.
- CPI Factor: A common method of increasing fees is to look at regional cost indicators, such as the Consumer Price Index. These factors are calculated by the Bureau of Labor Statistics, put out at various intervals within a year, and are specific to states and regions. (the City of Los Altos has historically applied the CPI Factor in prior years)
 - Staff recommends adopting a CPI Factor for the annual fee increase mechanism.

Permit Specific Recommendation

ADU Building Permit: as contained in the Adopted 6th Cycle Housing Element Program 2.D, to increase the number of ADU's constructed, at the completion of the comprehensive fee study, the City will adopt a zero cost (\$0.00) permit fee for ADUs to incentivize the creation of ADUs.

Photovoltaic/Solar (50kw or less): currently the city collects the maximum of \$450.00 per permit as allowed by Government Code Section 66015 for installations 50kw or less (the typical residential installation is under 20kw). In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$300/per permit for installations of 50kw or less.

Photovoltaic/Solar (50kw or greater): currently the city collects the maximum of \$1,000.00 per permit as allowed by Government Code Section 66015 for installations 50kw or greater. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$500/per permit for installations of 50kw or greater.

Electric Vehicle (EV) Charging: currently the city collects EV permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$300/per terminal EV charging port.

Battery Storage: currently the city collects battery storage permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$400/per permit.

Water Heater: currently the city collects water heater permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to streamline the



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permitting process for what is commonly found to be a flat rate fee in other jurisdictions the recommended permit cost is \$150/per installation.

Tree Removal Permit: the City Council recently approved a modification of the previous Tree Removal Permit which goes into effect on March 14, 2024. The previous Tree Removal Permit was \$86.75/per permit (no limit on trees removed under each permit), and as approved on February 13, 2024, the new Tree Removal Permit will be \$300/for the first tree, and \$150/for each additional tree removed under the same permit. The fee study results show the actual cost of a Tree Removal Permit is \$868.00. There is no recommended change at this time, however it is important to note that prior and recently approved permit fees are still significantly under collecting from the actual cost burden to the City.

Appeals: appeals are allowed as prescribed in Title 14 – Zoning of the Los Altos Municipal Code. The current fee for appeals filed is \$691.00. The fee study results show the actual cost of an Appeal is \$3,905.00. Appeals are generally under collected in jurisdictions in order to allow access to the ability to appeal a project with a legitimate claim. The recommended cost of an appeal is \$1,000.00 which would allow for access for the public to make a file of appeal with the city, and still subsidizing the community’s access to an appeal by almost 75%.

Deviation from Fee Study Results

The following deviations are based upon prior City Council action and align with existing policies and priorities of the City of Los Altos.

FEE NAME/TITLE	PERMIT COST
ADU Building Permit	\$0.00
Photovoltaic/Solar (50kw or less)	\$300.00
Photovoltaic/Solar (50kw or greater)	\$500.00
Electric Vehicle (EV) Charging	\$300.00
Battery Storage	\$400.00
Water Heater	\$150.00
Tree Removal Permit	\$300.00 (first tree) \$150.00 (each additional tree) \$0.00 (invasive species)
Appeals	\$1,000.00