



Item No. 6 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: JANUARY 17, 2024

SUBJECT: REVIEW AND DISCUSSION OF THE TOWN’S USER MASTER FEE SCHEDULE; AND, IF APPROPRIATE, PROVIDE DIRECTION FOR SPECIFIC ADJUSTMENTS AND ADOPT RESOLUTION 24-XX APPROVING AN AMENDED TOWN MASTER FEE SCHEDULE

RECOMMENDATION

Review and discussion on the Town’s User Master Fee Schedule; and, if appropriate, provide direction for specific adjustments and adopt resolution 24-XX approving an amended Town Master Fee Schedule.

BACKGROUND

At the December 6 City Council Study session, the User Study Cost Allocation was reviewed. Dan Edd’s of Capital Accounting Partners presented and discussed the results of the User Fee Study. Discussion included the process of the cost allocation plan, the hourly rate calculation, and the user fee study. Most of the discussion revolved around the establishment of fees designed for full cost recovery where appropriate and the calculation of building permit fees. Identifying cost components of providing services is important in establishing the fees and rates of cost recovery.

Mr. Edd’s met with individual departments to assess the full cost associated with the services provided. The process involved understanding each task provided at an operational level and identifying tasks involved in the core business processes used to provide services. The primary focus of the Study was development services fees - Building, Planning, and Engineering. These services provide a set amount of core processes that include pre-application review, application intake, plan check, and inspection. Core to this process was understanding the direct and indirect costs for each service delivery for each development service.

FINDINGS

The Master Fee Schedule includes all the fees charged by all Town Departments. Provided in the User Fee Study analysis were fees based on full cost recovery. The Fee Study provided a comparative of the total assigned cost of service and the actual fees being charged. The Study revealed that if the cost to provide the service exceeded the fee charged, there would be a unit surcharge or (subsidy). Staff recommends that fees be set as close to 100% cost recovery as possible within the fee schedule. The Town last performed a User Fee Study Cost Allocation Plan in 2013. Since then, the Town has only increased fees by the CPI index in 2020 and 2022 to reflect accumulated CPI adjustments. During those times, no changes were made to valuation-driven fees or flats fees for Building and Plan check fees. These fees have remained constant since 2013.

Most of the fees in the Town Master Fee Schedule are for specific services where fees are specific to an individual or group that benefits from the regulated use. The Town currently provides development services of which entail Engineering, Planning, and Building departments. Most of the services provided are regulated activities which require compliance with government codes and regulate private development. These are high demand services and setting fees at full cost recovery seeks to recover the cost of services provided to those that receive a private/individual benefit. Any services provided by the Town where the fee for such service is set below full cost recovery results in a public service being provided for private benefit that is subsidized by public funds. The Town may set fees below full cost recovery to incentivize an activity with a strong public purpose or benefit. The Town may not set fees at a cost greater than the cost to provide the service.

The December Study Session provided an opportunity for the City Council to identify areas for cost recovery and areas of public policy consideration. Staff provided broad guidance and options for setting cost recovery. At the Study Session, the Council directed that each Councilmember provide the City Manager with suggestions for specific fee adjustments that could be consolidated and presented to the Council at a Public Hearing in January.

After the December Study Session there were suggestions provided on possible fee adjustments to various fees within the Fee Schedule. The following table lists the suggestions received for policy-driven fee adjustment.

Valuation Based Fees

- *Extract ADUs and JADUs from the valuation calculation for building permits.*

The cost of a Building Permit is valuation-driven and is based on a per square foot calculation. The Study advises that to maintain full cost recovery, valuation-based fees should be adjusted from \$350 per square foot to \$509 per square foot. This amount per square foot does not represent actual construction cost per square foot but is solely a multiplier for fee calculation. If a property owner is obtaining a permit for new square footage, the cost of the ADU or JADU could be removed from the permit cost entirely or at some reduced calculation amount. Removing the ADU or JADU from

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the valuation calculation entirely and at lower percentages is shown in the table below (using the recommended valuation adjusted amount of \$509 per square foot).

Valuation Based Fee Model – JADU				
Number of SF (max 500)	500	500	500	500
Valuation Per SF	\$509	\$305 (60%)	\$255 (50%)	\$204 (40%)
Total Valuation	\$254,500	\$152,500	\$127,500	\$102,000
Permit Fee (Permit Only)	\$2,052.21	\$1,421.85	\$1,267.35	\$1,109.76
Plan Check (% of permit)	\$1,333.94	\$924.20	\$823.78	\$721.34
Total Fees	\$3,386.15	\$2,346.05	\$2,091.13	\$1,831.10

Valuation Based Fee Model – ADU				
Number of SF (max 1,200)	1,200	1,200	1,200	1,200
Valuation Per SF	\$509	\$305 (60%)	\$255 (50%)	\$204 (40%)
Total Valuation	\$610,800	\$366,480	\$305,400	\$244,320
Permit Fee (Permit Only)	\$4,152.73	\$2,744.25	\$2,366.77	\$1,989.30
Plan Check (% of permit)	\$1,868.73	\$1,783.76	\$1,538.40	\$1,293.04
Total Fees	\$6,021.46	\$4,528.01	\$3,905.17	\$3,282.34

Assuming the Town meets its RHNA target of 35 new ADUs per year, the annual permit loss would be approximately \$210,751. Since the building services contract is percentage based, some portion of that amount would be required to be paid to the service provider regardless of the amount of fee waived by the Town. This does not include the loss associated with JADUs.

Another suggestion was to consider a “graduated scale” fee for ADUs based on square footage with larger ADUs paying larger fees. Staff did not run the possible permutations of this suggestion. However, since the building permit is valuation based, the larger square footage ADU would pay a larger fee assuming there is a fee assigned.

- *Extract green-permit fees from the Mechanical, Plumbing and Electrical Permits and set them to \$0*

Building Permits (called Mechanical, Plumbing and Electrical or MP&E) are required for battery back-up systems, installation of heat pumps, electric water heaters, removal of gas lines, and appliances such as cooktops, washers, and dryers. Inspections are required but the fee is a flat fee of \$301. Fees for specific “green” upgrades could be identified and be set to \$0. Staff would like some specific Council direction on the specific green improvements contemplated.

- *Set the Solar Permit Fee to \$0*

The current fee for installation of solar is set to \$0.

- *Set the Planning Permit Fee for JADUs and ADUs to \$0*

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The Study adjusts the planning fee for JADUs to \$778. It was suggested to reduce this fee to \$0.

The Study adjusts the planning fee for ADUs to \$2,516. It was suggested to reduce this fee to \$0.

These fees were originally tied to an Accessory Building or Structures Permit. This made them more difficult to track and did not adequately account for the staff time involved in processing the permit. The new fee schedule culls out these processes as distinct permit applications. As with the building services contract, the Town would be obligated to pay the staff time involved in processing applications even if the fee was waived. The planning services contract are direct costs, not fee based. Assuming approximately 35 ADU applications per year, this would represent a cost of \$88,060. However, it is projected that the Town will process up to 50+/- applications per year – a potential cost of \$125,800.

- *Set Landscape Screening Permit Fees to 30% of Cost Recovery*

The Study adjusts the Planning review fee for a Landscape Screening Permit to \$518. It was recommended to reduce this cost to 30%. The fee would be reduced to \$155. There are approximately 30-35 permits processed each year. This would represent a cost recovery revenue of \$18,130 at 100% cost recovery (35 permits). Reducing this to 30% represents a cost of \$12,691.

- *Set Staff Level Heritage Tree Removal Permits to Direct Costs Only*

The Study adjusts the Staff Level Heritage Tree Removal Permit to \$716 for the first tree and \$248 for each additional tree. The “direct unit” costs for these permits is \$309 and \$107, respectively. There are approximately 200+/- removal permits reviewed each year (1st tree only). This would represent a cost recovery revenue of \$143,200. Setting recovery to direct costs only reduces this to \$61,800 – a cost of \$81,400.

- *Set Fence Permit fees to 30% of Cost Recovery*

The Study adjusts the Fence Permit fee to \$986. It was recommended to reduce this cost to 30%. The fee would be reduced to \$296. There are approximately 68 permits reviewed each year. This would represent a cost recovery revenue of \$67,048. Reducing this to 30% represents a cost of \$49,934.

- *Maintain the Alarm Registration Fees at \$100*

The current initial alarm registration fee is \$100. The Study recommends adjusting the fee to full recovery at \$108. It was suggested to maintain the current fee amount of \$100. Annual renewal is \$50 and not recommended for adjustment.

- *Maintain or adjust upward fees for 4th, 5th, or 6th + False Alarm Fees*

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The current fees for 4th, 5th, and 6th + False Alarms is \$200, \$300, and \$400, respectively. The Study recommends adjusting these fees to full cost at \$679, \$795, and \$854, respectively. It was suggested to maintain or adjust these fees upward to be consistent with full cost recovery.

- *Other Fees*

The preceding were the broad policy recommendations for changes to the Study recommendations. Staff recommends 100% cost recovery to the extent possible; however, the Council is free to set fees at lower amounts for policy purposes. Specific direction on the preceding is requested.

The Council can also review the attached Appendices and go through the fees one by one. The *Total Cost Assigned* represents the new fee. Staff recommends that when considering reductions from the Study recommendations that particular attention be paid to:

- *Actual Work Volume* which represents an estimate of the number of times such permits would be processed (staff workload); and
- *Direct Unit Cost* which represents the basic staff time involved in each permit.

When considering a reduction, setting the reduction no lower than the *Direct Unit Cost* will ensure that at a minimum, the staff time involved in the permit is recovered.

Indexed Escalation

The Master Fee Schedule from the Appendices of the Fee Study Report is provided. The User Fee Study recommends updating fees through a CPI adjustment every year and conducting a thorough assessment of Town fees every 3 to 5 years.

Instead of building the CPI escalator into the Resolution, staff suggests that the Resolution be returned for Council review each year as part of the budget adoption.

POLICY ISSUES

The City Council's policy discussion should revolve around ensuring the Town's compliance with Proposition 26 which requires the Town's fees to be set at or below full cost recovery.

FISCAL IMPACT

None. Any proposed fee adjustments would be incorporated into the Town's Master Fee Schedule and would be reflected in the remainder of the FY 2023/24 anticipated revenues.

GOAL ALIGNMENT

Goal A- Maintain Fiscal Responsibility

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PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials. The Town maintains an active and up to date Project Website at <http://ca-atherton.civicplus.com/index.aspx?NID=290>.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item has not been before a Town Committee or Commission.

ATTACHMENTS

1. User Fee Appendices
2. Resolution