



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: April 21, 2020

Subject

Fiscal Year (FY) 2020-21 Fee Schedule Update

Recommended Action

Adopt Resolution No. 20-___ Amending Below Market Rate Housing Mitigation Fees to adopt fee categories and amounts for self-storage and warehouse uses; and, Adopt Resolution No. 20-___ adopting FY 2020-21 Fee Schedules A, B, C, D, and E

Summary

User fees are reviewed each year in conjunction with budget preparation. City policy ensures that, to the extent possible, fees cover the cost of providing services. The majority of the fees proposed for adoption are based on the estimated actual cost to perform the service. Some fees, such as those for recreational purposes, are based on market conditions or fees charged by outside service providers and other governments. Fees that do not generate sufficient revenue to cover the cost of providing the service are subsidized by the General Fund.

Background and Recommendation

The FY 2016-17 Fee Schedule was revised after a comprehensive Fee Study was completed in conjunction with a Cost Allocation Study. Both studies relied upon the same data to determine costs that can be allocable between City departments and costs that can be recovered through fees charged to the public. These studies are conducted approximately every seven years, and in between studies, the City adjusts fees using either the Bay Area consumer price index (CPI), Bay Area construction cost index (CCI), or the estimated increase in the cost of labor derived through the City's budget process. For this year, the CPI is 2.906%, CCI is 6.3%, and the cost of labor is 17.31%. Labor negotiations commenced in the spring of 2019 and due to the uncertainty of the FY 2019-20 cost of labor, only a 1% increase in cost of labor was applied to the FY 2019-20 fee schedules. This 1% represented base increases in labor that were not subject to negotiation (e.g., step increases). As a result, and as has been done historically, staff have applied the increase in cost of labor from FY 2018-19 to FY 2020-21 less the 1% accounted for in the FY 2019-20 fee schedules.

The CPI was applied to Schedule A and the estimated increase in FY 2020-21 labor costs was applied to Schedules B, C, and D to produce the City’s recommendations. Schedule E was revised using staff recommendations that targeted specific fees that were no longer competitive or were not projected to be sufficient to cover City costs. Some targeted increases made to Schedule E were needed to get the City’s fees better aligned with agencies that charge similar fees for similar services.

In FY2016-17, a comprehensive Fee Study was conducted by a City consultant, Matrix, which allowed the City Council to update the City fee schedules for FY2016-17. The changes to fees since FY 2011-12 are summarized in the table below:

Fiscal Year	Schedule A – General Fees	Schedule B – Engineering Fees	Schedule C – Planning Fees	Schedule D – Building Fees
2020-21	2.906% CPI	6.3% CCI 17.31% Estimated Labor Cost increase	17.31% Estimated Labor Cost increase	17.31% Estimated Labor Cost increase
2019-20	3.526% CPI	1.0% CCI 4.0% Estimated Labor Cost Increase	4.0% Estimated Labor Cost Increase	4.0% Estimated Labor Cost Increase
2018-19	3.546% CPI	3.5% CCI 4.10% Estimated Labor Cost Increase	4.10% Estimated Labor Cost Increase	4.10% Estimated Labor Cost Increase
2017-18	3.44% CPI	11.16% Estimated Labor Cost Increase	11.16% Estimated Labor Cost Increase	11.16% Estimated Labor Cost Increase
2016-17	Varied and comprehensive changes due to Fee Study.			
2015-16	No Changes due to anticipated Fee Study.			
2014-15	2.6% CPI	3.0% Estimated Labor Cost Increase	3.0% Estimated Labor Cost Increase	3.0% Estimated Labor Cost Increase
2013-14	2.4% CPI	2.4% CPI, plus 2.0% for increased costs	2.4% CPI, plus 2.0% for increased costs	2.4% CPI, plus 2.0% for increased costs ¹
2012-13	2.4% CPI	2.4% CPI	2.4% CPI	2.4% CPI

¹ New construction planning and inspection fees included an additional 5.28% adjust for additional increased costs.

2011-12	2.0%	3.5%	3.5%	3.5%
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New Fees and Substantial Changes

Schedule A – General: This schedule is being updated by CPI of 2.906% across all applicable fees. Increases to these fees are mostly impacted by the cost of materials or external prices that are not under the control of the City. In the process of finalizing this schedule for the FY 2020-21 Fee Schedule update, the following addition was made:

- *Tobacco Retailer (County Regulated Fee) - \$340 for Application Fee and \$425 for Annual Fee*

Schedule B – Engineering: In addition to applying a 17.31% increase for anticipated labor cost increases for FY 2020-21, the fee schedule was amended to include the City’s existing Park Land Dedication fee:

- *Park Impact Fees – The Park Land Dedication fee (Muni Code chapter 13.08) or Park Maintenance fee is based upon an appraised/fair market value of land in Cupertino and other factors. The City currently uses an appraised value of \$10,000,000/acre of land to determine the Park Fee. This is not a new fee; rather, it has never been included as part of the fee schedule.*

Density Dwelling Units/acre	Avg Park Land Dedication/ DU (in acre)	Park Fee w/ \$10M/acre Land Valuation (per Dwelling Unit)
0 - 5	.0105	\$105,000
5 - 10	.0060	\$60,000
10 - 20	.0060	\$60,000
20 +	.0054	\$54,000
Senior Citizen Housing Development	.0030	\$30,000
ADU 750 SF or less		\$15,000 or proportional to main DU whichever is less

Schedule C – Planning: A 17.31% increase for anticipated labor cost increases for FY 2020-21 has been applied for all fees in Schedule C, except the Housing Mitigation In-lieu fees. The Housing Mitigation In-lieu fees increase annually (on July 1 of each year) by the Consumer Price Index (CPI) for All Urban Consumers for San Francisco, CA.

Below Market Rate (BMR) Non-residential linkage fees: The City’s Below Market Rate (BMR) Housing Mitigation program requires the payment of residential housing in-lieu of mitigation fees for projects with six or fewer units and the payment of non-residential (office, retail, hotel, research and development (R&D) and industrial) linkage fees for the

development of non-residential development. The purpose of the non-residential linkage fee is to mitigate housing needs created by the development of non-residential uses by imposing fees to support the development of affordable housing. Adopted in 2015, these fees are automatically adjusted by the Consumer Price Index pursuant to City Council Resolution No. 15-036. As part of the 2020-2021 fee schedule update, Staff is proposing to implement three new non-residential (self-storage and warehouse) fees. The City has been including self-storage and warehouse land uses in the Office/R&D/industrial category, but in light of the characteristics of those uses, and upon further research, has found that many jurisdictions with housing mitigation fee programs have recognized separate categories for those uses.

The fee update is based on the analysis and findings of the Supplement to the Non-Residential Jobs-Housing Nexus Study (Attachment F) dated January 2020 by Keyser Marston Associates, Inc. (KMA) to implement new storage and warehouse fees. The report does not establish a recommended fee level, but instead sets a ceiling for the fee which is the maximum supportable housing impact fee that the City can legally implement.

The underlying concept for non-residential job-housing nexus analysis is that jobs in non-residential development cover a range of compensation levels, and households in a range of sizes, which results in a need for additional housing at all affordability levels. The analysis indicates that since the employment generation of self-storage projects is low, the housing impact is also low. Additionally, for self-storage projects that provide an employee unit, the housing impact is lower. On the other hand, warehouse projects have higher employment generation at the lower income levels and therefore, generate a greater need for affordable housing. The table below indicates the maximum non-residential linkage fees allowed by the KMA report.

Use	Maximum Supportable Fee Per Square Foot
Self-storage facility, employee unit not provided	\$1.18
Self-storage facility, employee unit provided	\$0.56
Warehouse facility	\$41.67

Fee recommendations are based on the following factors:

1. Findings of the nexus analysis – the nexus study establishes the maximum fee that may be charged to mitigate the impacts of new development on the need for affordable housing;
2. Policy objectives of the Housing Element
3. Requirements in neighboring jurisdictions – staying competitive with neighboring cities
4. Setting a fee high enough to support meaningful affordable housing projects and programs; and
5. Setting a fee low enough to not discourage development

The updated fee schedule reflects the maximum fees that were determined to be feasible per the final report prepared by KMA in January 2020 while taking the factors discussed above into consideration.

The existing BMR linkage fees are annually adjusted by the Consumer Price Index pursuant to Resolution 15-036. It is recommended that the new and updated fees continue to be automatically adjusted by the CPI. This is reflected in the draft resolution.

Schedule D – Building: The Building Fee Schedule contains four tables which have been numbered to facilitate reference between them. The tables are numbered as follows:

1. Table 1 – Plan Check Fees Only
2. Table 2 – Inspection Fees Only
3. Table 3 – Mechanical, Electrical and Plumbing Fees
4. Table 4 – Miscellaneous Items

All of the fees in the Schedule D tables been increased by the 17.31% anticipated labor cost increases for FY 2020-21. The following fees are proposed additions to the Schedule:

Pre-Construction Meeting @ \$419 each – pre-construction meetings are opportunities for various City Departments, Consultants, Developers, Contractors, etc., to meet and review the conditions of approvals and requirements of the project. It is also a good opportunity to establish lines of authority and communication between the City and the team that will be involved with the project to its completion. Some of the primary goals of the preconstruction meeting include: 1) Identify potential issues and the process for resolution; 2) Resolve potential sources of misunderstanding; and 3) Plan and discuss detailed arrangements necessary for a successful project. A pre-construction meeting is not required nor practical for every project approved by the City. Staff anticipate holding two to three pre-construction meetings per year for these types of projects and the meeting.

Battery Energy Storage System @ \$209 (up to three) and \$105 for each additional – In the past, generators were the standard to keep your power on in case of a power failure in your home. Although generators are still widely used, battery energy storage systems are increasing in popularity. The City currently receives about two applications per week for which each requires approximately two hours of staff time for up to three (3) batteries and approximately one-half hour for each additional battery.

The following fees (currently effective) are proposed to be removed as the City does not currently have the means for performing the service.

- *Field Evaluation Certification @ \$419*
- *Special Inspector Certification Application @ \$7,098*
- *Materials Testing Lab Certification @ \$4,385*

Schedule E – Parks & Recreation: City staff are proposing the following modifications to the schedule:

- The “overtime fee” is being clarified to state, “Rentals exceeding, prior to or following the permitted reservation time, shall be charged the overtime fee for any time up to the first half-hour, and the overtime fee per hour for every hour thereafter. This charge will be deducted from the security deposit.” This change is solely for purposes of clarity and understandability.
- The Sports Center/Child Care/Teen Center portion of the schedule is removing its daily rate and applying an annual rate of \$25 dollars for non-residents. Staff analyzed the daily versus annual pass fees with other agencies and determined that an annual rate would not only align the program more consistently within the region, but also increase the level of customer service and accessibility of the facility for non-residents.

Sustainability Impact

None.

Fiscal Impact

Based on historical trends, total City fee revenues are estimated to increase by \$1,252,259 for Schedules A through D, if all proposed fee increases are adopted. If increases are not adopted, the cost of providing the corresponding services will be further subsidized by the General Fund and the service cost will compete with tax dollars used for City services benefitting the general public. Revenues derived from changes to Schedule E mostly increase Enterprise Funds of the City and not the General Fund.

The recommended increase in fees and estimated revenue are summarized as follows:

Fee Schedule	Additional Revenue	Factor and Basis
Schedule A – General	\$5,868	2.906% CPI for Bay Area
Schedule B – Engineering	\$211,714	17.31% for labor costs, 6.3% CCI
Schedule C – Planning	\$132,292	17.31% for labor costs
Schedule D – Building	\$902,111	17.31% for labor costs
Schedule E – Parks & Recreation	No increase	Primarily market driven

Impacts on the City’s FY 20-21 fee revenues due to COVID-19 are difficult to estimate at this time. As long as the City is under shelter-in-place orders, the City can expect to experience significant declines in user fees. Understanding that COVID-19 is affecting all constituents of the City, staff recommend City Council approve and adopt the following:

1. Adopt Resolution No. ___ adopting Fee Schedules A, B, C, D, and E effective July 1, 2020 with the following exceptions:
 - a. All proposed increases to existing fees resulting from consumer price index (CPI), construction cost index (CCI), and labor be postponed until October 1, 2020.

Postponing the proposed increases until October 1, 2020 provides community members with financial relief in obtaining services from the City while shelter-in-place orders may be extended well-beyond May 3, 2020. Estimated fiscal impact on City fee revenues may be estimated by reducing the amounts in the table above by 25% in each of the respective schedules.

As the City moves forward and the COVID-19 situation evolves, staff will continue to analyze the data and bring forward budget adjustments and recommendations to the City Council on a quarterly basis, or as needed.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Deborah L. Feng, City Manager

Attachments:

A – Proposed Fee Schedule A – General (Clean)

B – Proposed Fee Schedule A – General (Redline)

C – Proposed Fee Schedule B – Engineering (Clean)

D – Proposed Fee Schedule B – Engineering (Redline)

E – Proposed Fee Schedule C – Planning (Clean)

F – Proposed Fee Schedule C – Planning (Redline)

G – Proposed Fee Schedule D – Building (Clean)

H – Proposed Fee Schedule D – Building (Redline)

I – Proposed Fee Schedule E – Parks & Recreation (Clean)

J – Proposed Fee Schedule E – Parks & Recreation (Redline)

K – Supplement to the Non-Residential Jobs-Housing Nexus Study prepared by Keyser Marston Associates

L – User Fee Study 2016

M – Draft Resolution

N – Draft Resolution – BMR Housing Mitigation Fees