RESOLUTION NO. 24-041

A RESOLUTION OF THE CUPERTINO CITY COUNCIL ADOPTING USER FEE COST RECOVERY POLICY

WHEREAS, the Cupertino City Council has identified a need to adopt a policy governing general guidelines for establishing and maintaining a comprehensive user fee schedule to ensure the City adequately recovers costs for the provision of services, benefits, or privileges (Services) in an efficient, legal, and accountable manner; and

WHEREAS, on May 14, 2024, the City Council considered proposed policy at a duly noticed special meeting of the City Council.

NOW, THEREFORE, BE IT RESOLVED that:

1. The City Council hereby adopts the User Fee Cost Recovery Policy attached hereto as Exhibit A. The Policy shall be effective on July 14, 2024.

PASSED AND ADOPTED at a special meeting of the City Council of the City of Cupertino this 14th day of May, 2024, by the following vote:

Members of the City Council

AYES: Mohan, Fruen, Chao, Moore, Wei
NOES: None
ABSENT: None
ABSTAIN: None

SIGNED: Sheila Mohan Sheila Mohan, Mayor City of Cupertino	 6/3/24 Date
ATTEST: Kirsten Squarcia Kirsten Squarcia, City Clerk	 6/3/24 Date

CITY OF CUPERTINO # USER FEE COST RECOVERY POLICY	**Citywide Policy Manual** **Attachments:** N/A
Effective Date: July 14, 2024 per Resolution 24-041	**Responsible Department:** Administrative Services
Related Policies & Notes:	

Purpose

To provide general guidelines for establishing and maintaining a comprehensive user fee schedule to ensure the City adequately recovers costs for the provision of services, benefits, or privileges (Services) in an efficient, legal, and accountable manner.

Background

The City conducts comprehensive Cost Allocation Plans (CAP) and Fee Studies on a seven-year cycle to assess the alignment of current fees with the actual cost of providing each service. CAP establishes a data-driven methodology for distributing administrative and overhead charges to programs and services, while a Fee Study determines the full cost of services for which fees are charged. The most recent study, presented during the February 6,2024, City Council Meeting, recommended the adoption of a formal cost recovery policy across all service sectors, including General, Engineering, Building, Planning, and Parks and Recreation. The CAP and Fee Study guided the crafting of the policy by City staff, aligning closely with Council directives and recommendations.

Between CAP and fee studies, the City adjusts fee schedules annually to reflect changes in the Consumer Price Index (CPI), the Bay Area Construction Cost Index (CCI), or changes in budgeted labor costs. These adjustments require annual review and approval by the City Council to ensure fees accurately reflect current service costs, accommodate new City services, and eliminate fees for discontinued services.

Policy

The policy has three main components:

- Provision for ongoing review
- Process of establishing cost recovery levels
    - Factors to be Considered
- Target Cost Recovery Levels
    - General ranges
    - Target cost recovery by service area

Provision for ongoing review

Fees will undergo annual reviews to ensure they remain aligned with changes in the cost of living and evolving methods or levels of service delivery. To facilitate an evidence-based approach to this review process, the City will conduct a CAP and Fee Study every seven years. During the interim periods, fee adjustments will be made based on annual cost factors, such as the Consumer Price Index (CPI), the Bay Area Construction Cost Index (CCI), or changes in budgeted labor costs.

Furthermore, should a significant fee increase be warranted after the completion of the study, the fee structure may be phased in over a period of 2-3 years to reach the desired cost recovery rate.

This proactive approach ensures that our fee structures remain fair, transparent, and reflective of current economic conditions and service standards.

Process of establishing user fee cost recovery levels

The following factors will be considered when setting service fees and cost recovery levels:

1. Community-wide vs. private benefit
    a. The use of general purpose revenue is appropriate for community-wide services while user fees are appropriate for services that are of private benefit to individuals or groups. Full cost recovery is not always appropriate.
2. Service recipient vs. service driver
    a. Particularly for services associated with regulated activities (development review, code enforcement), from which the community eventually benefits, cost recovery from the "driver" of the need for the service (applicant, violator) is appropriate.
3. Consistency with City public policies and objectives
    a. City policies and Council goals focused on long-term improvements to community quality of life may also impact desired fee levels, as fees can be used to change community behaviors, promote certain activities, or provide funding for the pursuit of specific community goals, for example, health and safety, environmental stewardship.
4. Impact on demand (elasticity)
    a. Pricing of services can significantly impact demand. At full cost recovery, for example, the City is providing services for which there is a genuine market not over-stimulated by artificially low prices. Conversely, high-cost recovery may negatively impact lower-income groups, and this can work against public policy outcomes, especially if the services are specifically designed to serve particular groups.
5. Discounted Rates and Surcharges
    a. Rates may be discounted to accommodate lower income groups or groups who are the target of the service, such as senior citizens or residents.
    b. Higher rates are considered appropriate for non-residents to further reduce general fund subsidization of services.

6. Feasibility of Collection
    a. It may be impractical or too costly to establish a system to appropriately identify and charge each user for the specific services received. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.

Target cost recovery levels

1. Low-cost recovery levels (0% - 30%) are appropriate if:
    a. There is no intended relationship between the amount paid and the benefit received
    b. Collecting fees is not cost-effective
    c. There is no intent to limit the use of the service
    d. The service is non-recurring
    e. Collecting fees would discourage compliance with regulatory requirements
    f. The public at large benefits even if they are not the direct users of the service
2. Services having factors associated with both cost recovery levels would be subsidized at a mid-level of cost recovery (31% - 80%).
3. High-cost recovery levels (81% - 100%) are appropriate if:
    a. The individual user or participant receives the benefit of the service
    b. Other private or public sector alternatives could or do provide the service
    c. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received
    d. The use of the service is specifically discouraged
    e. The service is regulatory in nature

Schedule/Service Area	Target Cost Recovery Range
Schedule A – General	100%
Schedule B – Engineering (PW)	75-100%
Schedule C – Building	80-100%
Schedule D – Planning	50-80%
Schedule E – Recreation*	Market-driven

**Parks and Recreation Fees exclusion – fees will be administratively updated per Resolutions No. 04-350, authorizing the City Manager to set all recreation fees.*

Revisions: