



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

### CITY COUNCIL STAFF REPORT

Meeting: May 14, 2024

#### Subject

Fiscal Year (FY) 2024-25 Fee Schedule Update

#### Recommended Action

1. Adopt Resolution No. 24-XXX approving FY 2024-25 Fee Schedules A, B, C, and D. If adopted, new fees will be effective by July 14, 2024.
2. Adopt Resolution No. 24-XXX adopting User Fee Cost Recovery Policy

#### Reasons for Recommendation

The objective of a Comprehensive Fee Study is to re-evaluate time and cost assumptions and determine the full cost (direct and indirect) of providing City services based on the current organizational structure and processes. A User Fee Cost Recovery policy can support a fee study and aid in establishing clear guidance for determining cost recovery.

A comprehensive Fee Study is typically completed in conjunction with a Cost Allocation Plan (CAP) approximately every seven years. The City last completed a comprehensive fee study with a CAP in 2016. A new study was undertaken in 2023, and the results were presented at the February 6, 2024, City Council meeting. At that meeting, the City Council directed staff to complete the Fee Schedule update and to prepare a draft User Fee Cost Recovery policy for review.

Additionally, Council accepted the Cost Allocation Plan and Fee Study, and staff sought specific direction regarding the level of cost recovery for the proposed Fiscal Year 2024-25 fees, inclusion of new fees, and language in the Cost Recovery Policy. Council direction included staff proposing full cost recovery for most fees except for appeal fees and those fees with the intention to incentivize compliance. Additionally, Council agreed to the inclusion of a *Credit Card Transaction Fee* to offset the merchant costs and a *Technology Fee* to recover costs associated with the permit tracking system. A phased-in approach towards achieving full cost recovery for fees with more significant proportionate increases was also supported. Lastly, Council directed staff to incorporate key elements in the proposed User Fee Cost Recovery Policy, as outlined later in this staff report.

The proposed full cost recovery rates outlined in the recent Fee Study are derived from the following factors: revenue activity in FY 2022-23, current fiscal year cost of service, staff time, and budget. In addition to utilizing the full cost recovery rate, staff recommends applying index-based adjustments, such as the Consumer Price Index (CPI), the Bay Area Construction Cost Index (CCI), or budgeted labor costs, to most FY 2023-24, excluding state regulated fees.

#### *New Fees and Substantial Changes*

Per Council's direction to prepare full cost recovery fees, staff also presented a list of new fees to be adopted. A summary of these new fees within each schedule is discussed below.

**Schedule A – General:** This schedule includes fees not specific to a department or division that would require a dedicated schedule, such as code enforcement permits, City Clerk services, database requests, business license applications and related fees, and other fees for service.

While no new fees were proposed, the fee schedule includes several modifications, such as consolidating multiple fees, eliminating the 'Microfilm/Microfiche Printout' fee (no longer offered), and modifying enforcement fees to align with services provided.

A CPI adjustment is also proposed for all relevant fees using the full cost recovery rate included in the fee study. The adjustments to these fees are primarily influenced by changes in the cost of materials or external factors beyond the City's control.

**Schedule B – Engineering:** Utilized by the Development Services Division within the Public Works Department, this schedule covers fees necessary for the division to review plans and applications for private developments (onsite grading and drainage operations), issuance of encroachment permits, inspections of work performed within the Public Right of Way, along with other permits, and services. Engineering fees are typically adjusted annually by CCI and Budgeted Labor Costs.

The following proposed new fees aim to recover costs for services already provided by the Public Works Department. Over recent years, these service requests have required increased staff time to complete, in which the current fee schedule did not have an appropriate fee item that correlated to these service requests.

- *Crane Lift Encroachment Permits* have seen a surge in demand due to the rise in prefabricated ADUs, requiring additional plan review and coordination with crane lift companies.
- The *Planning Application Review* fee aims to recover costs for Public Works staff time and coordination required for medium to large development projects. This is in addition to application fees that Community Development Department currently charges.

- Similarly, the *Environmental Programs Plan Review* fees aim to recover costs for plan reviews of planning applications or building permits, a service historically provided without charge.
- *VMT Monitoring Fees* address the new concept of VMT and the City's efforts to ensure compliance with SB 743 and related Municipal Code requirements. These fees cover staff time for evaluating impacts, determining mitigations, and ensuring ongoing compliance throughout a project's lifespan.

In addition to new fees, the schedule incorporates several adjustments, including the implementation of a three-year phase-in period for fees related to a Certificate of Compliance. Furthermore, the schedule continues the practice of not charging for Block Party services but will now begin recovering costs associated with the Bi-Annual Parking Permit. Additionally, Transportation Impact Fees and Park Land Dedication In-Lieu Fees will remain unchanged.

- *Park Land Dedication In-Lieu Fees and Transportation Impact Fees*
  - Park Land Dedication In-Lieu Fees are calculated per Municipal Code section 13.08. On an annual basis, the Public Works Department updates the fair market value of land within the City based on the appraised values of land sales.
  - The Public Works Department continues to evaluate Parkland Dedication and Transportation Impact fees for FY 2024-25. Per Cupertino Municipal Code section 13.08.060, the Director of Public Works had a qualified appraiser evaluate the fair market value of land within the City. The evaluation prepared in March 2024 showed that value of land remained substantially unchanged since the report prepared in 2023, and therefore the Director recommends the Parkland Dedication fee remain the same. Public Works staff recommends that increases to Transportation Impact fees be deferred to allow for further review of potential fee increases.

**Schedule C – Planning:** This schedule is utilized by the Planning Division, which administers all required review and evaluation processes for proposed land use projects and maintains the goals and objectives of the City's General Plan and Zoning Ordinance. Planning fees are typically adjusted annually by CPI and Budgeted Labor Costs.

The following new fees are proposed to address the increased demand for certain specific services and to streamline existing processes. Over recent years, there has been a surge in requests for these services, leading to significant staff time allocation and a backlog in other permit applications. The first four fees—*Project Review Meeting*, *Preliminary Application Review*, *Planning Inspections*, and *Special Events (Large and Small)*—aim to recover costs for complementary services provided by the City that are subsidized by the General Fund. The latter two fees—*Sign Permit* and *Mercury News Ad*—clarify existing procedures.

- *Project Review Meeting* offers preliminary feedback on proposed development but requires substantial staff time and coordination. This service is often requested by the applicant.
- *Preliminary Application Reviews* assess project feasibility to assist the applicant in a more streamlined application review process.
- *Planning Inspections* ensure code compliance and will capture staff costs from excessive rounds of review.
- *Special Events* permits, which assess potential impacts on parking, traffic, and safety, have traditionally been provided at no charge but require significant staff time and coordination.
- *Sign Permit* fees are proposed to establish a fee category for certain signs requiring public meeting review. A new permit type was necessary to align with the existing Municipal Code. This fee, aligning with existing sign exception fees, which have similar processing requirements, is proposed to capture the time associated with processing such permits.
- *Mercury News Ad* fee aims to recover the expenses associated with notices published in the Mercury News instead of the Cupertino Courier to meet public notice deadlines before desired hearing dates. This fee ensures transparency and accountability in the noticing process.

Following Council direction, the schedule purposefully includes decreased cost recovery levels for Reasonable Accommodation by 50% and most tree-related fees by 67%, albeit the fees marginally increased compared to current rates.

**Schedule D – Building:** Utilized by the Building Division of the Community Development Department, this schedule includes fees for providing the following services: plan review and permit issuance of all proposed construction; code, ordinance, requirements, and regulation explanations; building inspection services; and other building and development-related services. Building fees are typically adjusted annually by Budgeted Labor Costs.

The proposed schedule includes fees for services provided but not captured in the current fee schedule, such as inspection and plan review fees for larger *Additions* ranging from 500 to 999 square feet, *Solar Thermal Systems* to heat liquids for water heaters and boilers, and *Accessory Buildings* like sheds. The schedule also consolidated fees in the *Mechanical, Electrical, and Plumbing Fee Table 3* to become more general and inclusive. Additionally, the schedule includes the removal of fees for services no longer offered, such as review of third parties and life safety reports.

The most significant change proposed in this schedule involves the consolidation of the plan review and inspection fees, located in Tables 1 and 2 of Schedule D, where several occupancy subclasses have been averaged into one for enhanced usability by staff and clarity for citizens.

Index-Based Adjustments

Depending on the user fee, the CPI, CCI, or change in budget cost adjustment is applied based on the user fee’s underlying cost driver. For FY 2024-25, the CPI increase is 2.37% per Bureau of Labor Statistics, the CCI increase is 0.70% per Engineering News Record, and the labor cost increase is 1.02%, as shown in the table below.

	February 2023	February 2024	Index Increase	Percent Increase
<b>Consumer Price Index for All Urban Consumers (CPI-U)</b>	337.17	345.151	7.978	2.37%
<b>Construction Cost Index (CCI)</b>	15,419.90	15,527.50	107.6	0.70%
<b>Budgeted Labor Costs</b>	\$ 41,187,505 <sup>1</sup>	\$ 41,606,027 <sup>2</sup>	\$418,522	1.02%

<sup>1</sup> Base Salary and Benefits (FY 2023-24 Adopted Budget)

<sup>2</sup> Base Salary and Benefits (FY 2024-25 Estimated Budget)

The net 1% increase in estimated Budget Labor Costs is primarily comprised of approximately a 1% increase to account for employees progressing to higher salary steps, increases in negotiated benefits, and a decrease in staffing levels through attrition. Attrition is the elimination of positions after they become vacant.

The following table summarizes the current year’s application of indexes to Schedules A-D, along with the rate increases for the previous four years.

Fiscal Year	Schedule A – General Fees	Schedule B – Engineering Fees	Schedule C – Planning Fees	Schedule D – Building Fees
<b>2024-25 (Proposed)</b>	FY 2023-24 cost-recovery plus 2.4% CPI	FY 2023-24 cost-recovery plus 0.7% CCI, 1.0% Estimated Labor Cost increase	FY 2023-24 cost-recovery plus 2.4% CPI 1.0% Estimated Labor Cost increase	FY 2023-24 cost-recovery plus 1.0% Estimated Labor Cost increase
<b>2023-24</b>	5.3% CPI	7.1% CCI, 9.0% Estimated Labor Cost increase	5.3% CPI 9.0% Estimated Labor Cost increase	9.0% Estimated Labor Cost increase
<b>2022-23</b>	5.2% CPI	9.8% CCI, 1.0% Estimated Labor Cost increase	5.2% CPI 1.0% Estimated Labor Cost increase	1.0% Estimated Labor Cost increase

<b>2021-22</b>	1.6% CPI	2.5% CCI, 5.7% Estimated Labor Cost increase	1.6% CPI 5.7% Estimated Labor Cost increase	5.7% Estimated Labor Cost increase
<b>2020-21</b>	2.9% CPI	6.3% CCI, 17.3% Estimated Labor Cost increase	17.3% Estimated Labor Cost increase	17.3% Estimated Labor Cost increase

Separately and as explained in the February 7 report, Parks and Recreation fees (Schedule E) are not part of the proposed fee increase because they are set by current market rates per Resolutions No. 04-350.

User Fee Cost Recovery Policy

Following City Council’s direction, staff prepared a User Fee Cost Recovery Policy for adoption 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. The policy incorporates the following:

- Seven-year Cost Allocation Plan and User Fee Study cycle
- Annual fee update following the City’s current practice
- A phase-in period for more significant fee increases
- Target cost recovery range by service area

Sustainability Impact

No sustainability impact.

Fiscal Impact

If Council approves the proposed fee updates, with an effective date of July 14<sup>th</sup>, 2024, the proposed fee schedule adjustments are anticipated to generate additional revenues totaling \$774,680 in the General Fund for Fiscal Year 2024-25. Estimated revenues for Schedules B, C, and D were determined based on the full cost recovery rates established in the fee study, incorporating an application factor where applicable (utilizing the lower rate for schedules employing multiple factors). Anticipated revenue generation from the proposed adjustments in Schedule A is expected to be minimal. Adding new charges, such as the Credit Card Transaction Fee, may deter the use of credit cards for higher-priced permits and bonds, although accurately assessing potential revenue generation remains challenging.

A decision to forego implementing these increases would result in further subsidization of service costs by the General Fund. Consequently, service expenses would compete with other General Fund allocations designated for City services benefiting the broader public.

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

Fee Schedule	Additional Revenue	Factor and Basis
<b>Schedule A – General</b>	Nominal change	Cost-recovery plus 2.4% CPI
<b>Schedule B – Engineering</b>	\$60,829	Cost-recovery plus 0.7% CCI, 1.0% Labor Costs
<b>Schedule C – Planning</b>	\$171,190.51	Cost-recovery plus 24% CPI, 1.0% Labor Costs
<b>Schedule D – Building</b>	\$542,659.24	Cost-recovery plus 1.0% Labor Costs

California Environmental Quality Act

Not applicable.

---

Prepared by: Jonathan Orozco, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services  
Matt Morley, Assistant City Manager

Approved for Submission by: Pamela Wu, City Manager

Attachments:

- A – FY 2024-25 Proposed Fee Schedule A – General (Redline)
- B – FY 2024-25 Proposed Fee Schedule B – Engineering (Redline)
- C – FY 2024-25 Proposed Fee Schedule C – Planning (Redline)
- D – FY 2024-25 Proposed Fee Schedule D – Building (Redline)
- E – FY 2024-25 Proposed Fee Schedule A – General (Clean)
- F – FY 2024-25 Proposed Fee Schedule B – Engineering (Clean)
- G – FY 2024-25 Proposed Fee Schedule C – Planning (Clean)
- H – FY 2024-25 Proposed Fee Schedule D – Building (Clean)
- I – Draft Resolution No. 24-XXX approving FY 2024-25 Fee Schedules A, B, C, and D
- J – User Fee Study 2023
- K – Cost Allocation Plan and Fee Study Staff Report
- L – User Fee Cost Recovery Policy
- M – Draft Resolution No. 24-XXX User Fee Cost Recovery Policy