



CITY OF  
**PALO  
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## Finance Committee Supplemental Report

**From: Lauren Lai, Administrative Services Director**

**Meeting Date: May 7, 2025**

**Item Number: 4**

Report #:2504-4591

### **TITLE**

FY 2026 Proposed Municipal Fee Schedule

### **RECOMMENDATION**

Staff recommends that the Finance Committee review amendments to the Municipal Fee Schedule for FY 2026 and make recommendations to Council for incorporation into the FY 2026 budget.

### **EXECUTIVE SUMMARY**

This report represents the City's annual update to over 350 fees as part of the budget process. It highlights proposed changes to the FY 2026 Municipal Fee Schedule. These changes encompass 6 new fees in the Community Services Department, and adjustments to 306 existing fees. It is based on the general premise of exception reporting, which is reflected in the practice of applying a General Rate Increase (GRI) to fees to keep up with the cost of service, new service delivery, and changes in cost recovery levels, and reporting out any fees that are proposed to stay the same or change by an amount other than the GRI of 6.8%. The fees included in this report were not part of prior fee adjustment actions presented earlier in the fiscal year – specifically those brought forward through the Citywide Cost of Services Study<sup>1</sup> and the Planning and Development Cost of Services Study.<sup>2</sup> Upon Council approval, the recommended changes will be incorporated in the FY 2026 Adopted Budget and take effect July 1, 2025.

### **BACKGROUND**

The City charges fees for a variety of services provided, such as fees for parking permits, building inspection services, recreation classes, and facility rentals. As part of the annual budget

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<sup>1</sup> Finance Committee, April 29, 2025: Agenda Item #2, 2503-4351  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=167215&repo=r-704298fc>

<sup>2</sup> Finance Committee, March 4, 2025: Agenda Item #2, 2501-4019  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=146000&repo=r-704298fc&searchid=15f371b7-7bbd-41ac-9e82-1f0f1bd1045d>

process, staff submit changes to the Municipal Fee Schedule for review, followed by finalization and approval during City Council's budget adoption.

To ensure fees reflect the cost of service, the city periodically conducts cost of services studies in addition to making annual adjustments. In FY 2025, two such studies were completed. Those efforts brought forward targeted fee changes based on a detailed cost analysis that estimated staff time per unit of service and incorporated all applicable City costs to determine the full cost of providing each fee-based service. These costs reflect staff time, direct expenses, and overhead costs associated with each fee-generating activity.

Since it was last updated by Council in FY 2019, the User Fee Cost Recovery Level Policy has served as a guide for departments to update fees by ensuring proper alignment with user cost recovery levels.

**Table 1: Summary of Municipal Fee Cost Recovery Policy**

<b>Cost Recovery Level Group</b>	<b>Cost Recovery Percentage Range</b>	<b>Policy Considerations</b>
Low	0% - 30%	<ul style="list-style-type: none"><li>• No intended relationship between the amount paid and the benefit received</li><li>• Fee collection would not be cost effective and/or would discourage compliance with regulatory requirements</li><li>• No intent to limit the use of the service</li><li>• Public at large benefits even if they are not the direct users of the service</li><li>• Affordability of service to low-income residents</li><li>• The service is heavily supported through donations</li></ul>
Medium	30.1% - 70%	<ul style="list-style-type: none"><li>• Services which promote healthy activities and educational enrichment to the community</li><li>• Services having factors associated with the low and high cost recovery levels</li></ul>
High	70.1% - 100%*	<ul style="list-style-type: none"><li>• Individual users or participants receive most or all of the benefit of the service</li><li>• Other private or public sector alternatives provide the service</li><li>• The use of the service is specifically discouraged</li><li>• The service is regulatory in nature</li></ul>

\*Certain types of fees, such as fines, penalties and/or late charges, or any charge imposed for entrance to or use of, as well as the purchase, rental, or lease of local government property, are not bound by state laws that limit to full cost recovery.

This annual report brings forward amendments to the Municipal Fee Schedule organized into three categories

- (1) New fees,
- (2) Deletion of existing fees, and
- (3) Changed fees to attain a cost recovery level consistent with other fees or based on a market study for similar services.

## ANALYSIS

The development of the Municipal Fee Schedule for FY 2026 reflects a best practice of updating fees to maintain cost recovery levels. The general rate of increase (GRI) of 6.8% was based upon factors of salaries and benefits from FY 2025 to FY 2026, and is applied to most fees to maintain current cost recovery levels, as directed by the policy. Fees that were updated by a factor greater or less than GRI to realize an alternative cost recovery level, or were adjusted based on a fee study, market study, or staff recommendation are further detailed in Attachment A.

## New Fees

As identified in Table 1 below, six (6) new fees are recommended to be added to the FY 2026 Municipal Fee Schedule. All are within the Community Services Department and pertain to rental spaces at the Roth and Bryant Street facilities.

These fees are being added to reflect anticipated availability of newly designated rooms for public use and to improve clarity in the schedule. Establishing individual fees for each space allows staff to better manage bookings, provide consistent pricing, and enhance transparency for users.

**Table 2. New Fees for FY 2026**

Department	Fee Title	FY 2025 Proposed Fee	Cost Recovery Level
Community Services	Downstairs Community Room - Roth	\$143.00 per hour \$205.00 per hour	High
Community Services	Downstairs Education Resource Room - Roth	\$143.00 per hour   \$205.00 per hour	High
Community Services	Upstairs Meeting Room - Roth	\$212.00 per hour \$328.00 per hour	High
Community Services	Downstairs Large Space - Bryant	\$143.00 per hour \$205.00 per hour	High

Community Services	Upstairs, Classroom 1 - Bryant	\$188.00 per hour \$263.00 per hour	High
Community Services	Upstairs, Classroom 2 - Bryant	\$143.00 per hour \$205.00 per hour	High

### **Deleted Fees**

2 fees in the Office of Transportation – One-Way Fare and Discounted Fare -- are deleted following Council action in FY 2025 to standardize fares for all users of the Palo Alto Link on-demand transit service.

### **Changed Fees**

304 fees are recommended to be adjusted by a factor other than the 6.8% GRI to adjust for the general change in salary and benefits adjustments between FY 2025 and FY 2026. While specific reasons for fee adjustments vary year to year, such changes often reflect one or more of the following considerations: Changes to these fees as detailed in Attachment A generally reflect changes to:

- (1) Attaining a cost recovery level consistent with other fees;
- (2) Aligning with rates charged by comparable jurisdictions
- (3) Modifying the fee structure to align with current service delivery; or
- (4) Holding a fee flat to preserve accessibility or encourage participation; or
- (5) Reflecting fees or rates consistent with prior Council action.

Attachment A lists each changed fee alongside the Adopted FY 2025 rate, the Proposed FY 2026 rate, the percentage change, and the fee change justification.

Also to note, the golf fees reflect the East Palo Alto residential discounts per FY 2025 City Council referral.

### **Parking In-Lieu fees**

Palo Alto Municipal Code (PAMC) Chapter 16.57.030 requires that the Parking In-Lieu Fee be adjusted annually for inflation. The FY 2025 fee amount was \$135,514. The Construction Cost Index (CCI) decreased by 0.7% for FY 2026, which brings the fee to \$134,623.

### **Development Impact and In-Lieu Fees**

In the Planning and Development Services Department, impact fees (i.e., community center, park, library, and citywide transportation impact fees) and in-lieu fees were decreased by 0.7% to reflect the most recently published Construction Cost Index (CCI) for the San Francisco Bay

Area, as calculated by the Engineering News Record. This is in accordance with Municipal Code 16.64.110, as amended on November 28, 2016 (CMR 7518), to standardize when these fees are paid, bring uniformity to the calculation in effect, bring uniformity to the annual adjustment rate, and other updates. Since these fees are governed by the applicable Municipal Code section, they are not discussed in Attachment A.

### **FISCAL/RESOURCE IMPACT**

This action aligns fees with expense increases associated with these services. It works to ensure the City can maintain cost recovery levels, and is part of the FY 2026 Proposed Operating Budget.

### **POLICY IMPLICATIONS**

These recommendations are consistent with existing City policies. Where a fee or charge is subject to Proposition 26, the amount of the new or increased fee or charge is no more than necessary to cover the reasonable cost of the City service, and the manner in which those costs are allocated to a payer bears a fair and reasonable relationship to the payer's burden on, or benefits received from, the City service funded by the fee. Certain types of fees, such as fines, penalties and/or late charges, or charges imposed for entrance to or use of, as well as the purchase, rental, or lease of local government property, are generally not limited to the actual costs of providing service. Instead, these types of fees are more typically governed by local market rates, reasonableness, and potentially other policy factors. These types of fees may have rates that are higher than the full cost recovery level.

### **STAKEHOLDER ENGAGEMENT**

Staff has coordinated internally with budget and management staff in each department citywide to develop the recommendations in this report. Conversations with the City Council throughout May and June prior to the adoption of the FY 2026 Operating and Capital Budgets and Municipal Fee Schedule allow for public participation in this annual process.

### **ENVIRONMENTAL REVIEW**

Adjustment to the Municipal Fee Schedule is a governmental fiscal activity that does not involve any commitment to any specific project, and therefore does not constitute a "project" pursuant to CEQA regulation 15378(b)(4).

### **ATTACHMENTS**

Attachment A: Municipal Fee Schedule Amendments for FY 2026 Changed Fees

### **APPROVED BY:**

Lauren Lai, Chief Financial Officer/Director Administrative Services