



Finance Committee Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: Administrative Services

Meeting Date: May 9, 2023

Report #:2304-1386

TITLE

Review and Recommend to Council to Approve the FY 2024 Proposed Municipal Fee Schedule Amendments as Part of the FY 2024 Budget

RECOMMENDATION

Staff recommends that the Finance Committee review amendments to the Municipal Fee Schedule for FY 2024 and make recommendations to Council for incorporation into the FY 2024 budget.

EXECUTIVE SUMMARY

This report presents the annual update to over 960 fees as part of the budget process. It highlights proposed changes to the FY 2024 Municipal Fee Schedule, which include 19 new fees for the Community Services Department and Office of Transportation, deletion of 3 fees in the Office of Transportation, and 237 fee adjustments. It is based on the general premise of exception reporting, which is reflected in the practice of applying a General Rate of Increase (GRI) to fees to keep up with the cost of service, new service delivery or changes to 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 7.5% for FY 2024. Recommended approval will be incorporated in the FY 2024 budget process and ultimately result in the fees for FY 2024 services.

BACKGROUND

The City charges fees for a variety of services provided, such as fees for photocopies, building inspection services, and room rentals. As part of the annual budget process, staff submit changes to the Municipal Fee Schedule for review, followed by final approval during City Council's budget adoption.

In FY 2013, staff completed a cost of services study for most departments. Results from that study set the standards used by departments to review and calculate the City's expenditures linked to a particular fee activity to determine the fee amount and cost recovery level. These expenditures represent the budgeted cost of staff time including salaries and benefits, related non-salary expenditures, department and citywide cost allocations to recuperate costs for department

management oversight and internal support functions (e.g. purchasing, payroll, human resources).

Since its adoption in FY 2015, 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. To maintain this alignment, departments periodically conduct an in-depth fee analysis or undergo a fee study. The Policy was last updated by Council in June 2019.¹

Table 1: Summary of Municipal Fee Cost Recovery Policy

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

*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

¹ Adoption of FY 2020 Budget & Municipal Fees <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/10419.pdf?t=52421.18>

- (3) Changed fees to attain a cost recovery level consistent with other fees or based on a market study for similar services.

DISCUSSION

The development of the Municipal Fee Schedule for FY 2024 reflects department service realignments, as most fees across the City have been updated to maintain cost recovery levels. The average increase of salaries and benefits from FY 2023 to FY 2024 was 7.5% and is the general rate of increase that 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 lesser than 7.5% to realize a higher cost recovery level, or were adjusted based on a fee study, market study, or staff recommendation are further detailed in Attachment A. Budget proposals that will be discussed by the Finance Committee and City Council that result in an impact to fees have been identified and considered in staff's analysis of fees.

New Fees

As identified in Table 2 below, nineteen (19) new fees are recommended to be added to the FY 2024 Municipal Fee Schedule for the Community Services Department (14 fees) and Office of Transportation (five fees).

Community Services Department recommended additions:

- Twelve fees for veterinary services for cats and dogs
- One fee for community center rental lighting
- One fee for camp rentals

Office of Transportation recommended additions:

- Five fees for on-demand transportation and parking fares/passes

Table 2: New Fees for FY 2024

Department	Fee Type	Fee Title	FY 2024 Proposed Fee	Cost Recovery Level
Community Services	Veterinary Medication	Brachycephalic Fee	\$75.00 per pet	High
Community Services	Adoption	Cats (5+ Years)	Resident: \$50.00 per cat Non-Resident: \$50.00 per cat	High
Community Services	Adoption	Cats (6 months - 5 years)	Resident: \$125.00 per cat Non-Resident: \$125.00 per cat	High
Community Services	Adoption	Cats (Two adopted at once)	Resident: \$175.00 per cat Non-Resident: \$175.00 per cat	High
Community Services	Adoption	Cats (Under 6 Months)	Resident: \$150.00 per cat Non-Resident: \$175.00 per cat	High

Department	Fee Type	Fee Title	FY 2024 Proposed Fee	Cost Recovery Level
Community Services	Adoption	Dogs (5+ Years)	Resident: \$75.00 per dog Non-Resident: \$75.00 per dog	High
Community Services	Adoption	Dogs (6 months - 5 years)	Resident: \$150.00 per dog Non-Resident: \$175.00 per dog	High
Community Services	Adoption	Dogs (Under 6 Months)	Resident: \$150.00 per dog Non-Resident: \$250.00 per dog	High
Community Services	Veterinary Medication	Injectable Medication	\$18.00 - \$58.00 each	High
Community Services	Lab Services	Labwork - USG	\$17.00 each	High
Community Services	Community Rental	Lighting	Resident: \$170.00 per use Non-Resident: \$220.00 per use	High
Community Services	Veterinary Medication	Rabbit Hemorrhagic Disease Vaccine	\$150.00 - \$250.00 each	High
Community Services	Animal Transport	Specialty Animal Program Fee	\$150.00 - \$250.00 each	High
Community Services	Community Rental	Towle Camp Group (16 People)	\$50.00 per day	High
Office of Transportation	On-Demand Transit	Discounted Fare (age 65+)	\$1.00 per passenger trip	High
Office of Transportation	On-Demand Transit	Monthly Pass	\$65.00 per month	High
Office of Transportation	On-Demand Transit	On-Demand Transit (Palo Alto Link)	\$0.00 - \$3.50 per passenger trip	High
Office of Transportation	On-Demand Transit	One-Way fare	\$3.50 per passenger trip	High
Office of Transportation	On-Demand Transit	Weekly Pass	\$20.00 per week	High

Deleted Fees

Sixteen (16) fees in the Community Services Department and three (3) fees in the Office of Transportation are recommended to be deleted in the FY 2024 Municipal Fee Schedule. Each fee, and the justification for its deletion, is detailed in Table 3 below.

Table 3. Deletion of Fees for FY 2024

Department	Fee Title	Justification
Community Services	Common – Procedures – Special Prescription Diets	Vendor recommended
Community Services	Bandages – Paws	Consolidate into new fee “Bandage.”

Department	Fee Title	Justification
Community Services	Bandages – Robert Jones	Consolidate into new fee “Bandage.”
Community Services	Bandages – Splint	Consolidate into new fee “Bandage.”
Community Services	Common Procedures – Incubator/ICU Cage with O2	Vendor recommended
Community Services	Common Procedures - Intensive Care (additional)	Vendor recommended
Community Services	Dogs & Cats	Changed to multiple fees based on age criteria
Community Services	Injections - IM & SQ	Consolidated into new fee “Injectable Medication.”
Community Services	Injections - IV	Consolidated into new fee “Injectable Medication.”
Community Services	Injections - IV solu-delta cortef 100mg	Consolidated into new fee “Injectable Medication.”
Community Services	Injections – IV solu-delta cortef 500mg	Consolidated into new fee “Injectable Medication.”
Community Services	Fluid Therapy – IVAC Set Up and Use	Vendor recommended
Community Services	Labwork – Multistick Urinalysis	Consolidated into new fee “Labwork - Urine Dipstick.”
Community Services	Labwork - Azostick or Dextrostick	Consolidated into new fee “Labwork - Urine Dipstick.”
Community Services	Microchip Rescue Group	Consolidated into existing “Microchip” fee.
Community Services	Rx for Clinic	Consolidated into “Oral Prescription Medication.”
Office of Transportation	Downtown RPP - Daily Employee Parking Permit	Permit will no longer be offered.
Office of Transportation	Evergreen Park - Mayfield RPP Daily Employee Parking Permit	Permit will no longer be offered.
Office of Transportation	Southgate RPP - Daily Employee Parking Permit	Permit will no longer be offered.

Changed Fees

235 fees are recommended to be adjusted by a factor other than the 7.5% to adjust for the general change in salary and benefits adjustments between FY 2023 and FY 2024. Changes to these fees as detailed in Attachment A generally reflect changes to:

- (1) Attain a cost recovery level consistent with other fees;
- (2) Align with a market study;

- (3) Modify the fee structure to align with current service delivery; or
- (4) Hold the fee flat to avoid discouraging use of the service or activity.

Each fee is listed by name along with the Adopted FY 2023 rate, the Proposed FY 2024 rate, the percentage change, and the fee change justification in Attachment A. The 235 changed fees detailed in the attachment are for the following departments: five in Administrative Services, four in City Clerk, 115 in Community Services, seven in Fire, 15 in Library, 14 in non-departmental, 45 in Office of Transportation, 10 in Planning and Development Services, 12 in Police, and 8 in Public Works.

Partner Agencies or Vendor Fees

The City may form partnerships to provide services it wishes to maintain but not provide directly using City staff. While the City no longer directly administers these services, the fees may still be included in the Municipal Fee Schedule. Changes to these fees are based on the contract terms, such as Community Services animal shelter fees, which were changed based on the market value for providing animal care services or held at the same level at the shelter operator's recommendation; Community Services golf course fees, which are adjusted to align with the upper and lower limits of the course's dynamic, demand-based pricing model. Since these fees are governed by the contract through which partner agencies or vendors provide the service, they are discussed in Attachment B.

Parking In-Lieu fees

Palo Alto Municipal Code (PAMC) Chapter 16.57.030² requires that the Parking In-Lieu Fee be recalculated in the event the City Council approved the construction of a public parking structure. Per the Municipal Code, the fee shall be adjusted at the time the construction contract is awarded to include actual costs to date, plus the projected construction cost, and authorized contingency. A second recalculation must occur after the project is completed, based on actual design and construction costs incurred. The recalculated fee may be higher or lower than the initial fee.

In December 2018, Council awarded a construction contract to Swinerton Builders³ for the California Avenue Area Parking Garage. The total project cost was calculated per PAMC 16.57.030² and includes design costs plus additional services, the construction bid with authorized contingency, and all other staff and administrative costs incurred. This calculation was done and approved as part of the FY 2020 budget development process⁴. The cost per parking space was calculated at \$106,171 for the FY 2020 Adopted Municipal Fee Schedule. The California Avenue Parking Garage was completed and opened in December 2020. Staff has completed all project close-out documents and recalculated the Parking In-Lieu Fee at \$105,811. After adding the appropriate construction cost indexes for the San Francisco Bay Area for FY 2021 through FY

² Municipal Code 16.57.030 https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-74866

³ CMR 9688 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2018/id.-9688-350-sherman-ave-garage-construction.pdf?t=62452.05>

⁴ CMR 10225 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/10225.pdf>

2023, the revised fee was set at \$124,275. Adding the respective construction cost index for FY 2024 brings the fee to \$130,823.

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 (parking and housing in-lieu, parkland dedication) were increased by 5.27% 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 16.64.110⁵, as amended on November 28, 2016⁶, 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.

The Park, Library, and Community Center impact fee increases proposed for FY 2024 do not yet reflect the changes that Council approved on June 13, 2022⁷, including (1) new fee categories; (2) increased land valuation for new park acquisition; and (3) a square foot basis (instead of a per housing unit basis) to calculate the fees. The Council directed staff to conduct an economic feasibility study before implementing these changes. The economic feasibility study has not been completed, and staff will return to Council upon completion. The fees can be updated upon an amendment to the Municipal Fee Schedule.

FISCAL 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 2024 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 expressly exempted from the requirements of Proposition 26. These types of fees are more typically governed by local market rates, reasonableness, and potentially other policy factors.

STAKEHOLDER ENGAGEMENT

Staff has coordinated internally with budget and management staff in each department citywide

⁵ Municipal Code 16.64.110 https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-75337

⁶ CMR 7518 <https://www.cityofpaloalto.org/civicax/filebank/documents/54800>

⁷ CMR 14074 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220613/20220613pccsm-final-amended-linked.pdf>

to develop the recommendations in this report. Conversations with the City Council throughout May and June prior to the adoption of the FY 2024 Operating and Capital Budgets and Municipal Fee Schedule allow for public participation in this annual process. Staff will also comply with notice requirements under state law for amending the fees, including the Mitigation Fee Act.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS

Attachment A: Municipal Fee Schedule Amendments for FY 2024 Changed Fees

Attachment B: Municipal Fee Schedule Amendments for FY 2024 Partner Agency or Vendor Changed Fees

APPROVED BY:

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