

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jennifer A. Maguire
City Manager

**SUBJECT: 2024-2025 PROPOSED FEES &
CHARGES REPORT**

DATE: May 3, 2024

The 2024-2025 Proposed Fees and Charges Report documents the majority of the fees and charges accruing to the City's General Fund and selected fees within other funds. This report does not, however, include a number of fees assessed by the City's enterprise operations (e.g., Airport and Downtown Parking) and City utilities (e.g., Recycle Plus solid waste and San José Community Energy), as they are brought separately to the City Council for consideration.

The fees proposed in this document are assumed in the revenue estimates contained in the 2024-2025 Proposed Operating Budget. Cumulative departmental fees and charges for 2024-2025 are projected to generate revenue of approximately \$134.4 million, of which \$48.4 million would accrue to the General Fund. This overall collection level is \$4.7 million above the 2023-2024 Adopted Budget estimate level of \$129.7 million, of which nearly all is attributable to the General Fund.

Overall net collections have experienced year-over-year growth, which is mainly attributable to higher overall activity levels, along with proposed fee changes (increases and decreases) to better align ongoing revenues and costs and to maintain or adjust cost recovery levels. The net anticipated General Fund revenue increase in 2024-2025 from 2023-2024 levels reflects: updated staffing costs and updated analyses of the time spent performing fee-related work within several departments; and higher activity levels, primarily in the Fire Department and Parks, Recreation and Neighborhood Services Department. While the majority of fees are staying the same or slightly growing in 2024-2025, there are a few fees that are recommended to be reduced, the largest of which is the Police Department's Cannabis Annual Operating Fee, which is being adjusted downward at the request of the City Council. In addition, recommendations are included in this report to add or delete a limited number of fees.

The overall cost recovery rate for the proposed fees designated as Category I (should be 100% cost recovery) is 73.8%, which represents a decrease from the 78.1% cost recovery level for Category I fees in 2023-2024. The cost recovery rate falls below 100% due primarily to lower cost recovery rates for the Parks, Recreation, and Neighborhood Services (PRNS) Department, and for the development-related fees in the Fire, Planning, Building and Code Enforcement, and Public Works Departments.

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As described further in this message, PRNS program costs are increasing at a rate that outpaces the City's ability to increase fees without unduly impacting customers, therefore the cost recovery rate is declining. In addition, as further discussed in the Development Fee Program section, development-related fee activity has dropped, thereby reducing their cost recovery levels. However, when the use of the Ending Fund Balance within the Development Fee Program Funds, (primarily works-in-progress funding) is factored in as a source of revenue, development-related fees are at the 100% cost recovery level.

The body of this report contains details, by responsible department, of the proposed fees and estimated costs for the services for which the fees are assessed. In developing the 2024-2025 fee structure, staff was guided by City Council policy direction to both strive for 100% cost recovery for most fee-related programs while also balancing equity considerations by acknowledging that increased fees have disproportionate impacts among communities and can present a barrier to accessing quality services.

Highlights of the 2024-2025 Proposed Fees and Charges Report are provided on the following pages.

DEVELOPMENT FEE PROGRAMS

Development activity in San José peaked in 2019-2020 and 2020-2021 with construction valuation of \$2.0 billion. Beginning in 2021-2022 development activity began a downward trend with valuation totaling \$1.5 billion, and further dropping to \$1.3 billion in 2022-2023. As reported in the Development Activity Highlights appendix of the 2025-2029 Five-Year Forecast that was released in February 2024, activity in 2023-2024 is projected at \$1.3 billion, a slight 2% decrease from the 2022-2023 valuation.

Currently in the development process are several new affordable housing projects such as 1936 Alum Rock, 2880 Alum Rock Avenue, 4300 Monterey Road, 802 South 1st Street, and 1371 Kooser Road, as well as commercial projects for SK Hynix, Turn Biotechnologies, Jabil, Kaiser, Cisco, Cadence, NXP Semiconductors, and XP Power. Other projects that are anticipated to be in the development process in the near future include El Paseo De Saratoga Buildings 1, 2, and 4, Builder's Remedy Projects, Western Digital, Icon Echo Update, Fountain Alley Update, Caltrain Transit Oriented Development, Good Smartian Hospital Rezoning, and Evergreen Circle Tesla.

DEVELOPMENT FEE PROGRAMS

Planning, Building and Code Enforcement Department (Development Fees)

It is estimated that the 2024-2025 Building, Planning, and Citywide development-related fee programs will collect revenues of \$47.8 million, reflecting a combined cost recovery rate of 81.4%. To maintain a cost recovery rate of 100%, the use of Ending Fund Balance in the Building and Planning Development and Citywide Planning Fee Program Funds is necessary in 2024-2025.

The Building Development Fee Program is projected at an 83.5% cost recovery rate in 2024-2025 with a projected revenue estimate of \$36.6 million. The use of \$7.2 million from the Building Development Fee Program Fund Ending Fund Balance will balance this fee program (the estimated remaining balance of \$25.1 million is primarily for works-in-progress projects). With these actions, the Building Development Fee Program is expected to remain at 100% cost recovery.

For 2024-2025, the Building Division is proposing fee increases to two of the three Building Development Fees of 8% and 5.5% for both Plan Review and Inspection related permits, respectively. These recommended increases are determined using the fee model which incorporated fee-generating hours, total staff and other costs, as well as activity. A decrease in fee revenue of \$1.8 million is anticipated in the Building Development Fee Program due to decreased activity. Other recommended actions included in the 2024-2025 Proposed Operating Budget that impact the Building Development Fee Program are the addition of an Analyst I/II position (partially funded at 76%) to assist with policy and technology implementation, a fund shift of a Planner IV to the Planning Development Fee Fund that supervises the Permit Planner Staff, the deletion of an Associate Engineer and addition of an Engineer I/II as recommended by City Auditor's Report #2307 to prioritize recruitment of entry-level positions, and deletion of 12.0 positions (1.0 Building Manager, 8.0 Building Inspectors, 1.0 Permit Specialist, 1.0 Principal Permit Specialist, and 1.0 Senior Engineer) due to the reduction of current and forecasted development. The recommended deletion of these positions will ensure that future expenditures are aligned with forecasted revenues and activity level. It is important to note that the Administration will bring forward recommendations to the City Council to restore any Development Fee Program staffing, as necessary, once development activity rebounds.

The Planning Development Fee Program is projected to be at 81.9% cost recovery in 2024-2025 with a projected revenue estimate of \$7.7 million. The use of \$1.7 million from the Planning Development Fee Program Fund Ending Fund Balance is recommended to balance this fee program (the estimated remaining balance of \$1.8 million is primarily for works-in progress projects). With these actions, the Planning Development Fee Program is expected to remain at 100% cost recovery.

DEVELOPMENT FEE PROGRAMS

Planning, Building and Code Enforcement Department (Development Fees)

The Planning Division is also proposing to increase fees to the Planning Hourly Rate (from \$337 per hour to \$362 per hour) to account for increasing costs, resulting in a fee increase to all Planning Development Fees of approximately 7.5%. Other recommended actions included in the 2024-2025 Proposed Operating Budget that impact the Planning Development Fee program include the addition of an Analyst I/II position (partially funded at 18%) to assist with policy and technology implementation, fund shift of a Planner IV from the Building Development Fee Fund that supervises the Permit Planner Staff, and deletion of 2.0 vacant positions (2.0 Planner I/II/III).

The Citywide Planning Fee Program is projected to be at 63.5% cost recovery in 2024-2025 with a projected revenue estimate of \$3.5 million. The use of \$2.0 million from the Citywide Planning Fee Program Fund Ending Fund Balance is recommended to balance this fee program (the estimated remaining balance of \$1.9 million is set aside for future General Plan updates). With these actions, the Citywide Planning Fee Program is expected to remain at 100% cost recovery.

The Citywide Planning Fee is an additional fee (11.97%) applied to Entitlement, Building Permit Fees, and Building Plan Check Fee categories. The Citywide Planning Fee will remain the same (11.97%) but due to fee increases to the Planning and Building fees anticipated in 2024-2025 there will be additional impacts to the collection of Citywide Planning to better align fees with the projected costs. Other recommended actions included in the 2024-2025 Proposed Operating Budget that impact the Citywide Planning fees are an Analyst I/II position (partially funded at 6%) to assist with policy and technology implementation, non-personal/equipment funding to develop a citywide adaptive reuse ordinance to facilitate converting vacant office, and commercial buildings into housing and non-personal/equipment funding to comply with the State requirements for General Plan elements for Safety, Open Space, and Environmental Justice.

Fire Department (Development Fees)

The Fire Development Fee Program provides fire safety plan reviews and conducts inspections for construction projects submitted to the Planning, Building and Code Enforcement Department. The Development Fee Program activities also include the issuance of fire protection system permits (sprinklers, fixed extinguishing systems, and fire alarm systems).

DEVELOPMENT FEE PROGRAMS

Fire Department (Development Fees)

The Fire Department's Development Fee Program's 2024-2025 Proposed Fee revenue estimate totals \$9.6 million, which includes an overall fee increase of 10% (\$870,000) from 2023-2024. The use of \$870,000 from the Fire Development Fee Program Ending Fund Balance is recommended to balance this fee program. After accounting for all anticipated revenue, the cost recovery rate for this program is 92.5%, compared to 86.7% in 2023-2024. To achieving this cost recovery rate and to bring expenditures closer in line with estimated revenue levels, the 2024-2025 Proposed Operating Budget includes the eliminate a vacant Senior Permit Specialist position. Moreover, a Fire Inspector currently assigned to the Development Fee Program will be shifted to the Non-Development Fee Program, to keep up with increased workloads within that program.

For the Fire Development Fee Program, fee increases of 10% are recommended for the Plan Check hourly fee (from \$326 to \$359 per hour) and the Inspection hourly fee (from \$365 to \$402 per hour). It is important to note that the Fire Development Fee Program Fund's Ending Fund Balance is estimated at \$499,000 in 2024-2025. Should activity and revenue levels continue at their relatively low levels, the cost structure of the program will need to be re-evaluated during the 2025-2026 budget development process.

Public Works Department (Development Fees)

The Public Works Department has three fee programs; the Development Fee Program, Utility Fee Program, and Small Cell Program. The Development Fee Program is responsible for the collection of various fees associated with private development-related activities, such as: planning application review; plan review and inspection of public improvements; review of subdivision maps; grading permits; and revocable encroachment permits. The Utility Fee Program issues utility excavation and encroachment permits to utility companies and other agencies. The Small Cell Program reviews, issues, and inspects permits for telecommunication companies.

Public Works development activity is expected to decrease in 2024-2025 due to an anticipated reduction in private development activity. To ensure the fiscal stability of the Development Fee Program, increases of approximately 7.5% are proposed across most Category I fees. As a result, Public Works Development fees are expected to generate \$7.7 million in 2024-2025, which is slightly above the 2023-2024 estimate. Factoring for these increases, projected 2024-2025 revenue along with the use of a portion of the Public Works Development Fee Program Fund's Ending Fund Balance (\$2.6 million), is sufficient to support the Development Fee

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Public Works Department (Development Fees)

Program in 2024-2025, which operates on a 100% cost recovery basis. The estimated remaining Ending Fund Balance of \$1.8 million is anticipated to support works-in-progress projects. In the 2024-2025 Proposed Operating Budget, actions are taken to shift 0.5 positions (Engineer I/II) from the Small Cell Program to the Development Fee Program, and shift 1.65 positions (1.0 Associate Construction Inspector and 0.65 Senior Engineering Technician) to the Development Fee Program to support the implementation of the City's capital improvement programs.

The Utility Fee Program, which also operates on a 100% cost recovery basis, is expected to generate \$9.1 million in 2024-2025, an increase of \$600,000 from the 2023-2024 estimate. Most Utility Excavation Permit fees are recommended to increase by 7%, with the exception of Special Permit fees. Projected 2024-2025 revenues are sufficient to support the Utility Fee Program. In the 2024-2025 Proposed Operating Budget, actions are taken to realign 2.0 positions (1.0 Senior Engineer and 1.0 Senior Construction Inspector) from the Small Cell Program to the City's Utilities Fee Program due to the reduction in workload.

Small Cell Program activity is expected to phase out in 2024-2025 as telecommunications companies enter the closeout stages of fifth-generation (5G) broadband cellular upgrade projects throughout the City. This program also operates on a 100% cost recovery basis with telecommunication companies being charged the full cost to administer the program. In 2024-2025, the Small Cell Program is expected to generate no revenue, compared to a revenue estimate of \$56,000 in 2023-2024. The Small Cell Program will be absorbed into the Public Utility Fee Program. In the 2024-2025 Proposed Operating Budget, actions are taken to realign 2.5 positions from the Small Cell Program (1.0 Senior Engineer, 1.0 Senior Construction Inspector, and 0.5 Engineer I/II) to the City's Utilities Fee and Development Fee Programs due to the shifting workload. The realignment of positions will support the BART Phase II, corresponding VTA projects related to BART, and the delivery of capital projects. In 2023-2024, Small Cell Program costs are anticipated to be fully recovered in 2023-2024. The estimated remaining Ending Fund Balance of \$95,000 is anticipated to support the remaining works-in-progress projects.

DEVELOPMENT FEE PROGRAMS

Transportation Department (Development Fees)

The Transportation Department is responsible for the collection of fees for various development-related activities such as the following: Development Review and Traffic Analysis, Tree Planting and Young Tree Trimming in New Subdivisions, New Subdivision Traffic Control Signs and Pavement Markings, Sale of Street Name Signs, Ministerial Permits, Tentative Maps, and Signal Design/Review. Development Fees administered by the Transportation Department are expected to generate approximately \$492,000 in 2024-2025, a significant decrease from the 2023-2024 Adopted Budget revenue estimate of \$604,000. This decrease is primarily due to reduced estimated activity levels for several fees under the Development Review and Traffic Analysis category and the New Subdivision Traffic Control Signs fee. Overall, the Development review charges align with updated personal services costs, indirect costs, and other costs, including supplies, materials, and equipment. Changes were made to three development fees: Site Utilization, Conceptual Design, and Vehicle Miles Traveled (VMT), to use a more accurate hourly rate charge instead of a per plan cost.

OTHER FEE PROGRAMS

City Clerk

The Office of the City Clerk is responsible for making all official City Council records and documents accessible to the public and conducting elections for the Mayor, City Council, and ballot measures. The City Clerk also conducts special research and provides other services to the public, including notary, duplication, sale of publications, document copying, and Lobbyist Registration.

In 2024-2025, several fee changes are proposed to align fees with projected costs. These revisions are based on an analysis of the costs of personal services and updated materials and processing costs. In 2024-2025, City Clerk's Office fee revenues and expenditures are estimated at \$24,930, reflecting a 100% cost recovery rate.

OTHER FEE PROGRAMS

Office of Economic Development and Cultural Affairs

The Office of Economic Development and Cultural Affairs (OEDCA) is responsible for the collection of fees related to cultural affairs activities, including wayfinding banners and various event and use permit fees to spur Downtown vibrancy and cultural development. OEDCA is also responsible for administering the Foreign Trade Zone, a federal program established by Congress. This includes submitting applications for Foreign Trade Zone projects, boundary modifications, contract negotiations, and working with companies that have the Foreign Trade Zone designation under the City's grant of authority.

Several fee changes are proposed to keep up with inflation and maintain a similar cost-recovery level as the prior year. The following increases are recommended for Foreign Trade Zone Fees: Maintenance (from \$1,000 to \$1,060), Application fee (from \$700 to \$770), and Operating Agreement Set-Up Fee (from \$3,000 to \$3,180). Additionally, the Wayfinding Banner Application Review Fee is recommended to increase from \$575 to \$610, and the Wayfinding Banner Application and the Additional Review Fee from \$98 to \$108.

In the continued effort to balance support for special events with City Council direction to maintain cost recovery levels, this report recommends making minor adjustments to the Parque de los Pobladores (Gore Park) permit categories to better align fees with projected costs: Single Use Permit Fee (from \$65 to \$75), Series Permit Fee (from \$105 to \$125), and a permit Amendment Fee (from \$35 to \$45). Conversely, the Private Property Event Permit Fee is proposed to decrease from \$850 to \$825 as process improvements are implemented and the workforce is streamlined, which reduces the staff costs associated with the permit. Even with the modest increases recommended in this report, the cost recovery level for this category is 32.6%.

Note that the Gated Event on Public Property Fee suspension is valid through June 30, 2025, maintaining cost reduction efforts for event organizers, enabling them to potentially invest more resources into event production. Fee revenues, previously 5% of gross gate receipts, have historically augmented Transient Occupancy Tax funding for the Festival, Parade and Celebration Grant Program administered by the Office of Economic Development and Cultural Affairs.

No additional changes are recommended to OEDCA fee programs for 2024-2025. Overall, 2024-2025 fee levels yield an 80.0% cost recovery rate, which is slightly lower than the 2023-2024 cost recovery rate of 82.2%, primarily due to costs associated with Parque de los Pobladores increasing higher than the proposed fee increase.

OTHER FEE PROGRAMS

Environmental Services Department

The Environmental Services Department (ESD) administers three fee programs as part of the Integrated Waste Management Program: Source Reduction and Recycling Fees; Franchise Application Fees; and the Energy and Water Building Performance Ordinance Fee. Overall, 2024-2025 ESD fee levels yield a 99.0% cost recovery rate, which is slightly higher than the 2023-2024 cost recovery rate of 95.3%.

The Waste Diversion Compliance Review Fee reflects the time and resources required to process the program's applications and is recommended to increase from \$203 to \$230 per hour of review, to ensure the fee remains 100% cost recovery. The Franchise Application Fee is recommended to increase from \$1,073 to \$1,265 per application in 2024-2025 to remain at cost recovery for the costs associated with staff application review and processing services.

The exclusive franchise with Republic Services replaced the non-exclusive franchise system for most types of commercial garbage hauling, effective July 1, 2012, and this fee is recommended to be increased to \$4.4 million in 2024-2025 in order to achieve a 98.6% cost recovery. Republic Services will retain \$400,000 for waste processing costs per the franchise agreement. The fee is included in the commercial service rates for 2024-2025, the report for which is anticipated to be heard by the City Council on May 14, 2024.

The Commercial Solid Waste Fee paid by generators and collected by non-exclusive franchisees is recommended to remain unchanged at \$13.00 per debris box per load and \$14.83 per ton collected from City facilities in debris boxes. This franchise fee rate is expected to generate \$14.6 million in Franchise Fee revenue in the General Fund in 2024-2025.

The Disposal Facility Operator Integrated Waste Management Fee and the Landfill Waste Disposal Fee charged at landfills and transfer/processing stations, which is collected by the County of Santa Clara for Household Hazardous Waste and other programs, will remain unchanged in 2024-2025 at \$4.10 per ton of disposed solid waste.

The Energy and Water Building Performance Ordinance Report Submission Fee, intended to recoup costs associated with processing report submissions associated with this ordinance, is recommended to remain at \$150, with a 100% cost recovery level.

OTHER FEE PROGRAMS

Finance Department

The Finance Department is responsible for collecting, accounting, and monitoring the license and permit fees for Christmas tree and pumpkin patch lots, circuses, carnivals, parades, and a number of miscellaneous fees. The Finance Department is also responsible for collecting late charges related to the Integrated Waste Management program.

For 2024-2025, adjustments to various fees are recommended based on projected activity levels and estimated staffing costs to deliver the fee-supported activities. To ensure the Returned Check Fee does not exceed cost recovery, the fee is recommended to be decreased. However, fee increases are proposed for the following programs to maintain cost recovery: CD/E-mail Fees, Computer Printout Fees, Circus Permits, Collection Fees (60-90 days past due), Handbill Distributors Licenses and Owner's Permits; Abatement Lien Fees, Administrative Remedies Lien Fees, Sidewalk Lien Administrative Fees, and Tree Lien Fees. Finance Department fees are projected to generate approximately \$265,253 in the General Fund, reflecting a cost recovery rate of 100%, in comparison to 2023-2024 revenues of \$209,921 and a cost recovery rate of 100%. The increase in revenues is primarily due to higher activity levels and increased fees.

The Solid Waste Delinquency Fees, which are allocated to the Integrated Waste Management Fund, are based on the evaluation of activity levels, staff time involved to administer these fee programs, and updated personnel costs for 2024-2025. To maintain full cost recovery, a fee increase is proposed for the Administrative Charges for Collection Procedures, and Notice of Intent to Lien. Solid Waste Delinquency Fees are projected to generate approximately \$75,820 in 2024-2025, reflecting a cost recovery rate of 100%.

Fire Department (Non-Development Fees)

The 2024-2025 Fire Department's Non-Development Fee Program is estimated to generate \$8.9 million, with a cost recovery rate of 99.9%. This figure encompasses \$7.2 million from non-development fire-related permits and inspections activity and \$1.7 million from the Ambulance Transport and User Fee Program. The City Council authorized the Ambulance Transport and User Fee Program in 2023-2024 to recover costs from authorized ambulance transports; the fee is in the process of being implemented and will become active in 2024-2025, yielding ongoing revenue to the General Fund.

OTHER FEE PROGRAMS

Fire Department (Non-Development Fees)

The 2024-2025 Proposed Operating Budget incorporates strategic measures to align revenue, staffing levels, and operational expenses. These measures include increasing non-development fire permits and inspection fees by 7% and shifting a Fire Inspector from the Development Fee Program. These two strategic actions aim to ensure that revenue and staffing levels correspond to the services provided and associated expenses. Fee increases are recommended for the annual Fire Safety Permits (from \$620-\$2,505 per permit to \$633-\$2,680 per permit) and annual Hazardous Material Permits (from \$239 per quantity range to \$255 per quantity range). The recommended increase to the hourly inspection rate is from \$242 to \$258. The recommended 7% increase will be applied to all non-development fees such as one-time non-renewable permits and inspections.

Finally, two additional fee types are proposed for 2024-2025, the Fire Training Center Facility Rental Fees and the Commercial Stationary Energy Storage Systems Fee. In March 2024, the City of San José unveiled its cutting-edge Fire Training Center, a facility designed to enhance the Fire Department’s capabilities and foster community enhancement. The proposed rental fee program recognizes the value of public-private partnerships by opening the facility to external events. As technological advancements continue to shape the energy landscape, implementation of the Commercial Stationary Energy Storage fee is a reflection of the Fire Department’s committed to ensuring the highest standards of fire safety and hazardous materials regulations by implementing the recent updates to the California Fire Code – Chapter 12.

Housing Department

The Housing Department administers the Rent Stabilization Program, and is responsible for the collection of Inclusionary Fees, Rental Mediation Penalty Fees, Homebuyer Subordination Fees, Multi-Family Fees, and the Commercial Linkage Fee. Overall, Housing Department fees are projected to generate approximately \$5.6 million reflecting a cost recovery rate of 100%, in comparison to 2023-2024 revenues of \$6.1 million and a cost recovery rate of 100%.

Rental Stabilization Program (RSP) fees are collected from property owners, renters, and mobile homeowners to support work associated with implementation of the Apartment Rent Ordinance (ARO), the Tenant Protection Ordinance (TPO), the Ellis Act, and the Mobile Home Ordinance. The fees are set at an amount to cover the estimated costs of providing the RSP, which include mediation services to settle tenant-landlord disputes, information and referral services, tenant protection, and outreach and education

OTHER FEE PROGRAMS

Housing Department

services. For 2024-2025, fees are recommended to increase for rent-controlled apartments from \$72 to \$76, and decrease for Mobile Homes from \$33 to \$30 per unit. Non rent-controlled apartments are subject to TPO fees, which are proposed to increase from \$23 to \$28 per unit. It is important to note that this cost per unit is less than the \$35 per unit projected for 2024-2025 in Manager's Budget Addendum #51, Rent Stabilization Program – *Non-Rent-Controlled Apartment Units Fee*, issued during the 2023-2024 budget development process; the revised amount is based on the updated analysis of activity and work effort associated with this program's implementation. To maintain full cost recovery, the Ellis Act Ordinance fee per unit, up to 10 units, is recommended to maintain the current fee of \$2,833 per unit. Additional units, above 10 units, are also recommended to maintain the current fee at \$951 per unit. Penalties and interest for late payments are no longer waived during 2024-2025.

The City's Inclusionary Housing Policy requires the inclusion of affordable housing units in newly constructed, for-sale housing developments with greater than 10 units that are in former Redevelopment Project Areas. The Inclusionary Housing Ordinance requires the City to establish an in-lieu fee on an annual basis. The Inclusionary Housing Ordinance includes a methodology for setting the rates for Inclusionary Fees on an annual basis. Consistent with the direction provided in the Mayor's March Budget Message for Fiscal Year 2024-2025, as approved by the City Council, and the challenging economic development climate, staff is recommending a pause in increasing the per square foot fee rates for the Inclusionary Housing Ordinance.

The City's Commercial Linkage Fee requires all non-residential projects to pay a fee based on the gross square footage of each use included in the proposed project by geographic sub-area. Staff review preliminary applications for non-residential projects when an application is submitted for a development permit. The application includes a fee to compensate for the staff cost of processing applications. The Application Review Fee (Agreement Required) is recommended to decrease from \$1,785 to \$1,366 per standard application; the Application Review Fee (No Agreement) is recommended to increase from \$753 to \$1,228 per abbreviated transaction; and the Deferred Payment Agreement Fee is recommended to decrease from \$3,826 to \$3,225 per deferred payment agreement application. California Senate Bills 330 and 8 also require the City to review all preliminary applications for new housing development projects applying for demolition permits and proposing to construct a single dwelling unit. The Replacement Unit Determination Application fee is calculated based on staff time spent processing applications; the fee is recommended to increase from \$3,724 to \$4,955 per standard application.

OTHER FEE PROGRAMS

Housing Department

Fee changes pertaining to Single-Family and Multi-Family Housing Loan Portfolio are recommended to more accurately align fees with the cost of delivering the services. To maintain full cost recovery, the below fee changes are recommended to cover staff time and resources necessary to complete the various types of transactions.

For more complicated refinancing scenarios that exceed the base transaction hours, property owners are assessed an additional per hour rate for both Housing and City Attorney staff time. For 2024-2025, rates will decrease from \$134 per hour to \$131 per hour for Housing staff and will decrease from \$210 per hour to \$195 per hour for City Attorney staff time. Additionally, the cost for the Inclusionary Housing Application standard application fee will increase from \$4,119 to \$4,524. Corresponding decreases are also recommended to the Homebuyer Subordination Fee, Miscellaneous Fees, Single-Family Loan Payoff Fees, as well as to the following Multi-Family fees: Loan Conversion Fee, Loan Origination Fee, Loan Payoff Processing Fee, Loan Recapitalization Fee, Loan Refinance Fee, Project Owner Transfer Fees, and Project Restructuring Fee. Supplemental Document Processing Fee is based on actual costs charged by the County.

Library Department

The Library Department levies fines for overdue, lost, and damaged materials, and collects fees for various services such as community room rentals and providing materials through other library systems. To reduce barriers to access, fine revenues have dropped from previous levels due to waivers for overdue materials for Children's and Young Adult materials and programs such as Volunteer Away Your Fines and Read Away Your Fines.

In 2024-2025, library fines remain unchanged from the prior year and are anticipated to generate revenue of \$83,000 with a cost recovery rate of 52.5% (Library Fines – Category II). Library community room rentals are recommended to remain at \$40.00 per use up to 4 hours, \$80.00 per use over 4 hours, and \$35.00 per cancelation (Library Fees – Category I). Community room rentals are expected to generate revenue totaling \$25,000 in 2024-2025, which is a 100.0% cost recovery rate.

There are no fee changes recommended for the Library Department in 2024-2025. Overall, Library fee levels yield a 59% cost recovery rate, which is higher than the 2023-2024 cost recovery rate of 49.5%, which is primarily due to higher revenue anticipated in 2024-2025 for Library Fines.

OTHER FEE PROGRAMS

Parks, Recreation and Neighborhood Services Department

The Parks, Recreation and Neighborhood Services (PRNS) Department collects a variety of fees and charges related to sports, sports fields and facilities, recreational lessons and facilities, and admission charges for Happy Hollow Park & Zoo. The Pricing and Revenue Policy that was first approved and implemented in 2009-2010 allows the City Manager, or their designee, to set PRNS user fees and pricing strategies in accordance with annual City Council-approved cost recovery percentage goals; thereby increasing PRNS' ability to achieve cost recovery goals, to ensure affordable access, and to preserve existing services by decreasing PRNS' dependence on the General Fund where feasible. PRNS strives to ensure services are delivered in an equitable manner, scholarships are available to those who need them, and that programs are accessible to all.

As part of the 2024-2025 Proposed Budget, every revenue category was thoroughly examined and adjusted based on anticipated fee increases or proposed service augmentations, as necessary. As a result, the General Fund revenue estimate for 2024-2025 is \$19.8 million (compared to the 2023-2024 Modified Budgeted revenue estimate of \$18.6 million), which reflects a 47.5% cost recovery rate. This cost recovery rate is higher than the Adopted 2023-2024 General Fund rate of 42.8%.

Participation in PRNS programs has inched closer to pre-pandemic levels, with 2019-2020 revenue totaling over \$23 million and the 2024-2025 estimate totaling almost \$20 million. However, cost recovery rates are not rebounding at the same pace. PRNS' projected cost recovery rate in 2019-2020 was 64.8%; by comparison, the Department's projected 2024-2025 rate is at 47.9% cost recovery. This decrease is a result of program costs increasing at a rate that outpaces the City's ability to increase fees without unduly impacting customers.

The three largest revenue-generating programs in PRNS, which total \$15.4 million, are Happy Hollow Park & Zoo with 2024-2025 revenue projected at \$6.9 million and a cost recovery rate of 43.9%; Rentals and Reservations revenue projected to collect \$3.6 million of revenue with 86.4% cost recovery; and Fee Activity revenue of \$8.6 million at a cost recovery rate of 64.2%. Leisure Programs within the Fee Activity category are expected to see a significant increase in the number of vendors who run classes and a corresponding increase in revenues that stem from an increase in programming participation at various community centers and regional parks. Further, completion of several construction projects at Emma Prusch Park, including renovations to the playground, is expected to positively impact Fee Activity and Facility Rental revenues, as the park becomes fully available once more.

OTHER FEE PROGRAMS

Parks, Recreation and Neighborhood Services Department

In 2024-2025, the Proposed Operating Budget includes reductions to PRNS programming in multiple cost recovery categories to bring the General Fund into balance, with corresponding reductions to revenue estimates. A reduction to outdoor programs at Almaden Lake and Alum Rock Park that is included in the 2024-2025 Proposed Operating Budget will negatively impact the Fee Activity revenue estimate. In addition, a budget action to close all City Gym and Fitness Centers eliminates all revenue associated with the Fitness and Drop-in Program revenue category. Partially offsetting these reduction proposals, however, is a recommendation to increase staffing at Happy Hollow Park and Zoo, which would result in increased Fee Activity revenue. In total, recommendations included in the 2024-2025 Proposed Operating Budget reduce the PRNS General Fund revenue estimate by \$175,000, bringing the 2024-2025 budgeted estimate to \$19.8 million.

Planning, Building and Code Enforcement Department (Non-Development Fees)

The Code Enforcement Division of the Planning, Building and Code Enforcement Department collects fees for multiple housing permits, solid waste enforcement, neglected/vacant building registration, landfill closure and post closure activities, auto body repair shop permits, auto dismantler permits, abandoned shopping cart program, tobacco retail licenses, and off-sale alcohol enforcement. In 2024-2025, fee adjustments are recommended in the Code Enforcement Fee Program to maintain full cost recovery per City Council policy, with the exception of the Abandoned Cart and Building Code Compliance.

In order for the Abandoned Cart Program fee to be 100% cost recovery, a fee increase of 18% would be required. Instead, it is recommended that a multi-year phase-in of the rate increase be implemented to bring the fee to cost recovery. For 2024-2025, it is recommended to increase the fee by 12% (cost recovery rate to 95%), which is an increase from last year's rate of 86%. The Administration will issue a Manager's Budget Addendum later in the budget development process to address direction in the City Council-approved Mayor's March Budget Message for Fiscal Year 2024-2025 that directed staff to "engage with large retailers that fall under Municipal Code 9.60 and, in collaboration with the City Attorney, return to Council with recommendations and draft language for an expanded Abandoned Shopping Cart ordinance to enable the City to collect abandoned shopping carts at a faster rate, return them to their owners, and ensure full cost recovery via an increase in the existing fee associated with this ordinance."

OTHER FEE PROGRAMS

Planning, Building and Code Enforcement Department (Non-Development Fees)

The Building Code Compliance Program is not expected to be 100% cost recovery because the Department has not been able to process sufficient permits due to permit process delays arising from vacancies, which have contributed to a backlog of over 350 Code Enforcement building cases. In order for the Building Code Compliance Program to be 100% cost recovery, the current fee of \$261 would need to triple. Instead, it is recommended to increase the fee by approximately 9% (to \$284) in 2024-2025, which results in a cost recovery rate to 26%. Also as directed in the Mayor's March Budget Message, one-time funding of \$200,000 is included in the 2024-2025 Proposed Operating Budget to fund an assessment of Code Enforcement operations to identify how to modernize the code enforcement process and organizational structure – including assessing fees and fines structure – to allow for a more rapid and effective resolution of code enforcement issues throughout the City of San José. This action will lead to identifying future actions in helping Code Enforcement efficiently close cases, reduce the backlog, and ensure more responsive delivery of services.

Proposed increases to the Code Enforcement Category I Fees largely align with updated compensation, indirect and other costs, including supplies, materials, and equipment. The Code Enforcement Category I fees are projected to be 96.2% cost recovery in 2024-2025 with a revenue estimate of \$10.3 million. It is important to note that all of the 13.0 General Code Enforcement Inspector positions have been filled, which is anticipated to address backlog and improve inspection activity.

Police Department

The Police Department collects fees from the public and other public safety agencies for services such as fingerprinting, computer searches, copying of public records, and releasing impounded vehicles. Certain businesses and activities are also subject to regulation, and fees are charged to offset the costs incurred for processing permits and licenses that accompany the regulatory process, and to partially offset costs for related investigative work.

Overall, Police Department fees in 2024-2025 are anticipated to generate \$4.8 million, with a cost recovery rate of 94.4%. This level is below the 2023-2024 Police Department fee revenue of \$5.7 million and cost recovery rate of 95.8%. This change is primarily due to a reduction to the Cannabis Regulation Program Annual Operating Fee and Application Receipt Fee, which is

OTHER FEE PROGRAMS

Police Department

further described below. Upward and downward fee adjustments are recommended in this document to align fee revenues with the estimated costs of service delivery for 2024-2025, mostly reflective of updated personal services costs and staff allocations.

The Cardroom Regulation Fee is recommended to increase from \$954,190 to \$1,012,184, per cardroom, consistent with personal services cost changes for the complement of staff responsible for program administration.

Decreases are recommended to multiple Cannabis program fees to better align program costs and revenues, following City Council's direction to review and revise the fees to better align with updates to the Cannabis Regulation Program and to eliminate duplicated efforts already being completed by the State of California's Department of Cannabis Control. The Annual Operation Fee is decreasing from \$139,406 per year, per business to \$35,000 per year, for first business activity per location, per business and then \$20,000 per year, for each additional business activity per location, per business. In addition, the Application Receipt Fee is decreasing from \$100 per application to \$0. With these changes to fee revenues, the Cannabis program is expected to achieve a cost recovery level of 100.0%, after accounting for reductions to the program costs that are included in the 2024-2025 Proposed Operating Budget, including the elimination of 1.0 Police Sergeant, 1.0 Staff Specialist and 1.0 Analyst positions in the Police Department, the elimination of 1.0 Code Enforcement Inspector position in the Planning, Building and Code Enforcement Department and minor position shifts to other fee programs, as well as minor position shifts in the Finance Department and City Attorney's Office. Outside of the Annual Operating Fee and Application Receipt Fee, Cannabis Regulation Program fees have increased in 2024-2025 due to normal operating costs increasing. Additional information regarding the Cannabis Regulation Program, including alternative fee reductions, will be included in a forthcoming Manager's Budget Addendum to be issued later in the budget process. Fee increases recommended in this report include: Amendment Processing Fee (from \$1,343 to \$1,528); Initial Application Processing Fee (from \$3,804 to \$3,963); Delivery Vehicle Inspection Fee (from \$56 to \$60); and, Renewal Registration Processing Fee (from \$3,121 to \$3,502); Zoning Code Verification Certificate Application Processing Fee (from \$2,880 to \$3,069).

OTHER FEE PROGRAMS

Public Works Department (Non-Development Fees)

The Public Works Department is responsible for the collection of City Hall Use Fees, which include the Rotunda and mezzanine, outdoor plaza, and committee meeting rooms. In 2024-2025, City Hall Use Fees are anticipated to generate \$250,000, which represents a cost recovery rate of 40.7%. Fee increases ranging from 5-25% is recommended in 2024-2025 to better align program costs and revenues.

In addition, the Department collects Animal Care and Services (ACS) fees related to animal permits, licenses, adoptions, and other animal shelter services. Category I ACS Fees include Animal Event Permit Fees and Animal Permit Fees. In 2024-2025 the Category I fees are anticipated to generate \$24,980, which represents a 99.7% cost recovery rate. A minor adjustment to Category I Animal Permit Fees is included to maintain at cost recovery levels.

Category II ACS Fees, which include Adoption Fees, Board and Impound Fees, Disposal/Euthanasia Fees, License Fees, Other Charges, Owner Surrender Fees, Quarantine Fees, Inspection Fees, Permit Application Fees and Spay & Neuter Clinic Fees, are estimated at \$2.2 million in 2024-2025, which reflects a cost recovery rate of 19.1%. The cost recovery rate for Category II ACS fees decreased from the 2023-2024 rate of 41.3%, due to reduction in paid activity levels and an emphasis on fee waivers such as free adoption events and reducing fees when returning animals back to their owners. In addition, the increased costs can be attributed to various budget changes in 2023-2024 (\$1.4 million) and the 2024-2025 Proposed Budget (\$1.3 million) such as night shift operations, medical services staffing, and administration and technical staffing. Despite the rising expenses, ACS aims to maintain stable fees to minimize the impact on the local community and align with industry standards. This approach ensures that while expenses increase, the community is not disproportionately burdened.

Transportation Department (Non-Development Fees)

The non-development fees administered by the Transportation Department are expected to generate approximately \$1.07 million in 2024-2025. Proposed changes to non-development fees align with updated personal services costs, indirect and other costs, including supplies, materials, and equipment. Non-development, Category I fees are largely expected to keep pace with projected costs, generating a 98.1% cost recovery level.

OTHER FEE PROGRAMS

Transportation Department (Non-Development Fees)

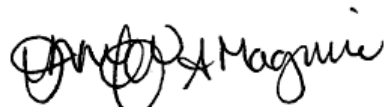
Category II fees (non-cost recovery fees) include Parking Citation Administration Fee, Sidewalk Repair Program fees, and Tree Service Administrative Fee. These fees are expected to generate \$373,400 in 2024-2025, representing a cost recovery rate of 23.6% that is slightly higher than last year's level of 22.5%. The increase in cost recovery is primarily due to increases of 10% to 25% to fees in the Sidewalk Repair Program (Non-Compliance Fee from \$20 to \$25, Sidewalk Grind with City's Contractor from \$20 to \$22, Sidewalk Remove and Replace with City's Contractor from \$100 to \$110, Sidewalk Remove and Replace without City's Contractor from \$100 to \$110) and the Tree Service Administrative Fee from \$120 to \$132. In 2024-2025 these fees changes are proposed to better align fees with projected costs, as these fees had not been adjusted since 2017-2018.

OTHER FEE REVISIONS

As mentioned earlier, there are a number of fees that are not included in this document as they are brought forward separately to the City Council. No rate increase is included for the Storm Sewer Service Charge. The Sewer Service and Use Charge is proposed to increase by 9.0%. The Municipal Water Utility System assumes a revenue increase of 5.2% for 2024-2025. For Recycle Plus rates, a 4.0% increase is proposed for single-family dwellings and 2.0% increase is proposed for multi-family dwellings.

SUMMARY

Notification to the public and interested parties of the proposed fee program changes was provided through various means, including meetings with interested stakeholders, and through distribution of this document to the City Clerk's Office. The Proposed Fees and Charges Report was released on May 3, 2024, allowing for a minimum of 10 days for public review prior to the initial public hearing. Public input on fee proposals will be heard by the City Council at public hearings held on Tuesday, May 14, 2024, at 1:30 p.m. and Monday, June 10, 2024, at 6:00 p.m.



Jennifer A. Maguire
City Manager