



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jennifer A. Maguire
City Manager

**SUBJECT: 2022-2023 PROPOSED FEES AND
CHARGES REPORT**

DATE: May 6, 2022

The 2022-2023 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), 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 2022-2023 Proposed Operating Budget. Cumulative departmental fees and charges for 2022-2023 are projected to generate revenue of approximately \$120.9 million, of which \$44.8 million would accrue to the General Fund. This overall collection level is \$14.6 million above the 2021-2022 Adopted Budget estimate level of \$106.3 million. In addition, General Fund revenue is \$9.2 million above the 2021-2022 Adopted Budget estimate of \$35.5 million.

This net anticipated General Fund revenue increase in 2022-2023 from 2021-2022 levels reflects a partial recovery from the significant impact the pandemic had on fee revenue in both

2021-2022 and 2022-2023. Overall net collections have experienced year-over-year growth, which is mainly attributable to higher than anticipated 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. 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 78.3%, which represents an increase from the 72.7% cost recovery level for Category I fees in 2021-2022. The cost recovery rate falls below 100% due primarily to lower cost recovery rates for the Parks, Recreation, and Neighborhood Services Department, Library Department, and for the development-related fees in the Fire, Planning, Building and Code Enforcement, and Public Works, Departments. 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.

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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 2022-2023 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 often have disproportionate impacts among communities, and can present a barrier to accessing quality City services. Based on this guidance, in a number of instances the Administration declined to recommend fee increases, even though the cost recovery levels were below 100% or decreased from prior year levels.

As examples, the cost recovery for peddler-related permits in the Police Department remained effectively unchanged from prior year levels of 60%, and the cost recovery rate for Library Fines dropped from 32% in 2021-2022 Adopted Operating Budget to 20% in the 2022-2023 Proposed Operating Budget. Overall cost recovery levels in the Parks, Recreation and Neighborhood Services (PRNS) Department, which include a number of youth-focused programs, increased only due to the rise in activity levels resulting from the pandemic's recovery. However, the anticipated cost recovery rate of 50% is still well below pre-pandemic levels of 64%.

Highlights of the 2022-2023 Proposed Fees and Charges Report are provided on the following pages.

DEVELOPMENT FEE PROGRAMS

The COVID-19 pandemic has slowed development activity in San José, with construction valuation dropping in 2020-2021 to \$1.9 billion, from a peak of \$2.5 billion in 2019-2020, and projected to decrease again in the current fiscal year to \$1.3 billion, a 32% decrease from the 2020-2021 valuation. As reported in the Development Activity Highlights appendix of the 2023-2027 Five-Year Forecast, construction activity in 2022-2023 is expected to increase slightly from 2021-2022 levels.

Increased activity is best demonstrated with larger projects currently in the development process such as the City View Plaza, South Almaden, & 550 East Brokaw office projects, mixed-use projects such as El Paseo and 1777 Saratoga Avenue, and housing projects such as the next phases of Communication Hill. Projects expected in the near future include Google and the Station on North First. In addition, the City continues to see increases in annual activity related to Accessory Dwelling Units, primarily due to code changes that were approved by City Council in June 2018.

Planning, Building and Code Enforcement Department (Development Fees)

It is estimated that the 2022-2023 Building, Planning, and Citywide development-related fee programs will collect revenues of \$44.8 million, reflecting a combined cost recovery rate of 80.8%. To maintain a cost recovery rate of 100%, the use of Ending Fund Balance in the Building and

DEVELOPMENT FEE PROGRAMS

***Planning, Building and Code Enforcement Department
(Development Fees) (Cont'd)***

Planning Development and Citywide Planning Fee Program Funds is recommended.

Building Development Fee Program – The Building Development Fee Program is projected to be at 78.0% cost recovery in 2022-2023 with a projected revenue estimate of \$33.6 million. The use of \$9.5 million from the Building Development Fee Program Fund Ending Fund Balance is recommended to balance this fee program (the estimated remaining balance of \$12.1 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 2022-2023, the Building Division is proposing to increase its three hourly rates from 3% to 6% to account for increasing costs, resulting in a fee increase to all Building Development Fees of 3% for Permit related costs and 6% for both Plan Review and Inspection related permits. This recommended increase is anticipated to generate additional fee revenue of \$1.0 million in the Building Development Fee Program. Other recommended actions included in the 2022-2023 Proposed Operating Budget that impact the Building Development Fee program are the continuation of positions to support the ADU program, five additional positions to support

permit processing, technology improvements, and building code reference materials.

Planning Development Fee Program – The Planning Development Fee Program is projected to be at 99.5% cost recovery in 2022-2023 with a projected revenue estimate of \$7.9 million. The use of \$42,000 from the Planning Development Fee Program Fund Ending Fund Balance is recommended to balance this fee program (the estimated remaining balance of \$3.9 million is primarily for works-in-progress projects). With these actions, the Planning Development Fee Program is expected to remain at 100% cost recovery.

The Planning Division is also proposing to increase fees to the Planning Hourly Rate (from \$312 per hour to \$321 per hour) to account for increasing costs, resulting in a fee increase to all Planning Development Fees of approximately 3%.

Additionally, new fees proposed for 2022-2023 include those associated with Modular Construction that apply a reduction in cost for both planning and inspection fees for this type of construction and do not generate any additional revenues.

Citywide Planning Fee Program – The Citywide Planning Fee Program is projected to be at 77.3% cost recovery in 2022-2023 with a projected revenue estimate of \$3.3 million. The use of \$969,000 from the Citywide Planning Fee Program Fund Ending Fund Balance is recommended to balance this fee program (the estimated remaining balance of \$2.0 million

DEVELOPMENT FEE PROGRAMS

**Planning, Building and Code Enforcement Department
(Development Fees) (Cont'd)**

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 proposed to remain unchanged for 2022-2023. However, the Citywide Planning Fee is a percentage of certain Building and Planning Development Fees, and, therefore, additional fee revenue of \$170,000 for the Citywide Planning Fee Program is anticipated to be generated from the fee increases recommended for the Building and Planning Development Fees.

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 issuance of fire system permits (sprinklers, fixed extinguishing systems, and fire alarm systems).

The 2022-2023 Current Fee Estimated Revenue totals \$7.1 million. This estimate reflects a 4% increase from 2021-2022 activity levels. In addition, expenditure budget actions totaling \$67,874 are recommended in the 2022-2023 Proposed Budget, including the addition of an Analyst and Staff

Specialist positions (4% of the positions are funded by the Fire Development Fee Program Fund) to enhance the recruitment and hiring staffing levels, and the permanent continuation of 2.0 Senior Systems Application Programmer positions and the ongoing addition of 1.0 Senior Systems Application Programmer and 1.0 Information Systems Analyst positions that further the continued implementation and support of Development Services' technology platforms.

The estimated cost of the Fire Department Development Fee program is \$10.0 million. The 2022-2023 Proposed Operating Budget includes an overall fee increase of 10%, which would generate an additional \$711,000 in revenue. After accounting for the fee increase, the cost recovery rate for this program is 78.2%, compared to 82.2% in 2021-2022. The slight cost recovery decrease is attributable to the Administration's careful consideration of balancing fee increases with changes in expected activity levels. As activity levels are anticipated to moderately increase in the coming years, the cost recovery level should also increase.

Utilization of the Fire Development Fee Fund's Ending Fund Balance in the amount of \$2.1 million is needed for the fee program to remain 100% cost recovery in 2022-2023 (the estimated remaining balance of \$872,000 is primarily for works-in-progress projects). For the Fire Development Fee Program, fee increases are recommended for the Plan Check hourly fee from \$269 to \$296 per hour, and for the Inspection hourly fee from \$302 to \$332 per hour. It is important to note that the Ending Fund Balance within the Fire Development Fee Program Fund is estimated at \$467,000 in 2022-2023.

DEVELOPMENT FEE PROGRAMS

Fire Department (Development Fees)

Should activity and revenue levels continue at their relatively low levels, the cost structure of the program will need to be reevaluated during the 2023-2024 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 to telecommunication companies.

Public Works development activity is expected to decrease in 2022-2023 due to an anticipated reduction in private development activity. To ensure the fiscal stability of the Development Fee Program, increases of approximately 6% are proposed across most Category I fees. As a result, Public Works Development fees are expected to generate \$8.3 million in 2022-2023, which is consistent with the 2021-2022 estimate. Factoring for these increases, projected 2022-2023

revenue along with the use of a portion of the Public Works Development Fee Program Fund's Ending Fund Balance (\$1.2 million), is sufficient to support the Development Fee Program in 2022-2023, which operates on a 100% cost recovery basis. The estimated remaining Ending Fund Balance of \$4.7 million is anticipated to support works-in-progress projects.

The Utility Fee Program, which also operates on a 100% cost recovery basis, is expected to generate \$5.4 million in 2022-2023, an increase of \$800,000 from the 2021-2022 estimate. Consistent with the Development Fee Program, most Utility Excavation Permit fees are recommended to increase by 6%, with the exception of Special Permit fees. Projected 2022-2023 revenues are sufficient to support the Utility Fee Program.

Small Cell Program activity is expected to decrease in 2022-2023 as telecommunications companies enter the later stages of fifth generation (5G) broadband cellular upgrade projects throughout the City. In 2022-2023, the Small Cell Program is expected to generate approximately \$2.8 million in revenue, a reduction of approximately \$1.4 million from the 2021-2022 estimate. This program also operates on a 100% cost recovery basis with telecommunication companies being charged the full cost to administer the program. With the 2022-2023 projected revenue and use of Small Cell Permitting Fee Program Fund's Ending Fund Balance (\$347,000), program costs will be fully cost recovery in 2022-2023. The estimated remaining Ending Fund Balance of \$12,000 is anticipated to

DEVELOPMENT FEE PROGRAMS

Public Works Department (Development Fees) (Cont'd.)

support works-in-progress projects. It is important to note that, due to further anticipated decreases in activity, the Small Cell Program will be incorporated into the Utility Fee Program within the next several years.

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, General Plan Amendment (GPA) Model Analysis, Tree Planting and Young Tree Trimming in New Subdivisions, New Subdivision Traffic Control Signs and Pavement Markings, Sale of Street Name Signs, and Signal Design/Review. Development fees administered by the Transportation Department are expected to generate approximately \$898,000 in 2022-2023. Overall, the Development review charges align with updated compensation, indirect and other costs, including supplies, materials, and equipment.

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 Office also conducts special research and provides other services to the public, including notary, duplication, sale of publications, document copying, and Lobbyist Registration.

In 2022-2023, several fee changes are proposed to align fees with projected costs. These include upward and downward revisions based on an analysis of the amount of time necessary to provide the service, and updated costs. In this report, the City Clerk’s Office has an estimated \$25,000 in fees for 2022-2023, reflecting a 100% cost recovery rate. In addition, adjustments to the Public Records Act fees have been proposed to maintain a 100% cost recovery level. The City has re-procured the reprographics (printing) contract resulting in lower rental costs for multi-functional devices that lower the cost for duplication services.

Office of Economic Development and Cultural Affairs

The Office of Economic Development and Cultural Affairs (OEDCA) is responsible for administering the City’s Foreign Trade Alternative Site Framework Zone, including processing applications, boundary modifications, and contract negotiations and extensions. This Office is also 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.

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OTHER FEE PROGRAMS

Office of Economic Development and Cultural Affairs
(Cont'd.)

Foreign Trade Alternative Site Framework Zone fees are recommended to be increased in 2022-2023 based on the revaluation of staffing requirements for the processing of applications and annual operating agreements. The Annual Operating Agreement Maintenance Fee is recommended to increase from \$300 to \$1,000, the Application Fee from \$525 to \$700, and the Operating Agreement Set-Up fee from \$2,775 to \$3,000. These recommended increases more closely align annual Foreign Trade Zone fees for the six current operators with those of peer jurisdictions within California, currently ranging from \$7,400 to \$20,000.

Additionally, on June 19, 2018, the City Council approved an additional extension to the fee suspension of the Gated Event on Public Property Fee through June 30, 2020, which was subsequently extended through June 30, 2022 with the adoption of the 2021-2022 Fees & Charges and is set to expire for 2022-2023. As directed by City Council's approval of the Mayor's March Budget Message for Fiscal Year 2022-2023 to allow greater flexibility of ticket pricing for organizations hosting larger events to enable them to secure acts more likely to attract greater public attendance, an increase to the Gated Event Maximum Ticket Charge, from \$35 to \$45 per person, per day, is recommended. The increase provides event organizers flexibility to scale admission prices to reflect the increased cost of production, secure more high profile and

desirable acts, and include enhanced experiences for event attendees. Event organizers still have the flexibility to offer tickets at a lower rate, add amenities and experiences to the ticket price to increase overall revenue, and seek a higher maximum ticket charge through an agreement approved by the City Council.

Overall, the 2022-2023 fees for the OEDCA yield an 84.4% cost recovery rate, which is higher than the 2021-2022 rate of 77.0%. The higher rate is primarily due to the recommended increases to the Foreign Trade Alternative Site Framework Zone fees, reflecting a 93.0% cost recovery rate for 2022-2023, relative to 79.5% in 2021-2022.

Environmental Services Department

The Environmental Services Department 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.

The Waste Diversion Compliance Review Fee reflects the time and resources required to process the program's applications and is recommended to increase from \$158 to \$170 per hour of review, to align with revised staffing costs.

The Franchise Application Fee is recommended to decrease from \$938 to \$858 per application in 2022-2023 to remain at cost recovery for the costs associated with staff application review and processing services.

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OTHER FEE PROGRAMS

Environmental Services Department (Cont'd.)

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 increase from \$2.9 million to \$3.9 million in 2022-2023. Republic Services will retain \$371,748 for waste processing costs per the franchise agreement. The fee is included in the commercial service rates, the report for which is anticipated to be heard by the City Council on May 17, 2022.

The Commercial Solid Waste Fee paid by generators and collected by non-exclusive franchisees is recommended to change to a proposed fee of \$13 per debris box per load. The fee would change from the current Commercial Solid Waste Non-Exclusive Source Reduction and Recycling AB 939 Fee of \$0.89 per compacted cubic yard collected to \$2.67 per compacted cubic yard. This change is recommended to support administrative costs related to contract management, compliance, and monitoring and to provide an equitable, predictable, accurate and verifiable fee structure to haulers.

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 for 2022-2023 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.

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 2022-2023, adjustments to various fees are recommended based on projected activity levels and estimated staffing and overhead costs to deliver the fee-supported activities. To maintain full cost recovery, fee decreases are proposed for the following programs: Circus Permits; Handbill Distributors Licenses and Owner's Permits; Lien Activities; and Christmas Tree/Pumpkin Lot License. In addition, an increase to the Return Check Fee is recommended to maintain cost recovery. These cost recovery fees are projected to generate approximately \$210,500 in the General Fund, reflecting a cost recovery rate of 99.6%, in comparison to 2021-2022 revenues of \$140,000 and a cost recovery rate of 98.5%. The increase in revenues is primarily due to an anticipated increase in activity level for the Collection Fee program and a fee increase for the Returned Check Fee.

OTHER FEE PROGRAMS

Finance Department (Cont'd.)

Modifications to Solid Waste Delinquency Fees are also based on the evaluation of activity levels, staff time involved to administer these fee programs, and updated personnel costs for 2022-2023. To maintain full cost recovery, a fee decrease is proposed for the Administrative Charges for Collection Procedures and Notice of Intent to Lien.

In the Integrated Waste Management Fund, estimated revenue from Solid Waste Delinquency fees, mainly associated with multi-family customers, is projected to increase by \$260,000 from the 2021-2022 Adopted Fees and Charges estimate of \$719,000 to \$979,000. This increase is primarily due to an estimated increase from late payment fees anticipated to be received (from \$630,500 to \$898,500). The year-over-year increase is mainly due to the pandemic; the late payment charge rate remains unchanged. On April 7, 2020, the City Council retroactively imposed a late payment moratorium for Municipal Water and Multi-Family Dwelling Solid Waste delinquent accounts with due dates from March 17, 2020 through June 30, 2020. The City resumed imposing late payment fees for these delinquent accounts on July 1, 2020. After a pause in issuing liens due to sensitivity in doing so given the pandemic, the City has resumed issuing liens to collect these fees and late charges.

Fire Department (Non-Development Fees)

The 2022-2023 Current Fee Estimated Revenue for the Fire Department's Non-Development Fee Program totals \$6.4 million, which is a cost recovery rate of 101.3%. Actions included in the 2022-2023 Proposed Operating Budget decreased Fire Department Non-Development non-renewable permit and inspection fees by 4.5% and decrease the annual renewable permits for fire safety and hazmat inspections by 1.5% to bring the program within cost recovery. In addition, expenditure budget actions totaling \$234,600 are recommended in the 2022-2023 Proposed Budget, primarily consisting of the addition of a Public Information Representative to improve fire safety public education engagement. As a result of the fee decreases and the additional expenditures, the Proposed fee revenue totals \$6.3 million, with a cost recovery rate of 99.6%.

Housing Department

The Housing Department administers the Rent Stabilization Program, and is responsible for the collection of Inclusionary Fees, Affordable Housing Impact Fee Program, Rental Mediation Penalty Fees, Homebuyer Subordination Fees, Multi-Family Fees, and the Commercial Linkage Fee.

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.

OTHER FEE PROGRAMS

Housing Department (Cont'd.)

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 services. For 2022-2023, fees are recommended to increase for rent-controlled apartments from \$55.00 to \$65.00 and for Mobile Homes from \$20.00 to \$30.00 per unit. Non-rent-controlled apartments are subject to TPO fees, which are proposed to increase from \$5.45 to \$15.00 per unit. To maintain full cost recovery, the Ellis Act Ordinance fee per unit, up to 10 units, is recommended to increase from \$2,542 to \$2,833 per unit. Additional units, above 10 units, are recommended to increase from \$932 to \$951 per unit. Penalties and interest for late payments are no longer waived during 2022-2023 and have been restored to prior levels.

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. In accordance with the methodology outlined in the Ordinance and to maintain full cost recovery, the proposed in-lieu fees per each for-sale Inclusionary Housing unit and for-rent developments is recommended to remain at \$157,858 and at \$125,000, respectively.

The Affordable Housing Impact Fees are associated with new market rate rental housing development projects and cover staff costs to track compliance and monitoring of projects. Historically, this fee has increased incrementally in accordance with the methodology outlined in the Inclusionary Ordinance, by approximately 2.4% annually. For 2022-2023, the Housing Impact Fee is proposed to increase from \$19.15 to \$19.61 per square foot.

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 subarea. 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) has been set at \$1,726 per standard application, the Application Review Fee (No Agreement) has been set at \$895 per standard transaction, and the Deferred Payment Agreement Fee has been set at \$3,396 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, and the fee has been set at \$2,904 per standard application.

OTHER FEE PROGRAMS

Housing Department (Cont'd.)

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 will be assessed an additional per hour rate for both Housing and City Attorney staff time. For 2022-2023, rates will increase from \$112 per hour to \$136 per hour for Housing staff and will increase from \$138 per hour to \$187 per hour for City Attorney staff time. Additionally, the cost for Standard Transaction will increase from \$3,206 to \$4,029. Corresponding increases are also recommended to the Homebuyer Subordination Fee, Miscellaneous Fees, Supplemental Document Processing Fee, and Single-Family Loan Payoff Fees, as well as to the following Multi-Family fees: Affordable Restriction Monitoring Fee, Loan Conversion Fee, Loan Origination Fee, Loan Payoff Processing Fee, Loan Recapitalization Fee, Loan Refinance Fee, Loan Servicing Fee, Project Owner Transfer Fees, and Project Restructuring Fee.

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. With ongoing programs to reduce barriers to access, fine revenues have dropped significantly since 2016-2017 when fines were revised and Volunteer Away Your Fines and Read Away Your Fines programs were implemented. Additionally, beginning in 2018-2019 late fines on youth materials were eliminated. In 2022-2023, library fines remained unchanged from the prior year and are anticipated to generate revenue of \$35,500 with a cost recovery rate of 20.1% (Library Fines – Category II).

Library community rooms closed to the public in March 2020 due to the pandemic. In 2022-2023, community rooms are anticipated to be open again, however, no revenue from community room rentals is assumed, as it remains unclear if a significant number of rentals will occur (Library Fees – Category I).

The total Library Department fees and charges revenue for 2022-2023 is projected to be \$35,500, and represent a 20.1% cost recovery rate. While this figure is below the cost recovery rate included in the 2021-2022 Fees and Charges Report (33.0%), leaving library fines at previous levels aligns with the 2022-2023 Budget Balancing Strategy Guidelines, which gives discretion for lower cost recovery levels when taking into consideration the impacts on fee payers, and reflects prior City Council direction to reduce barriers to access to public services for disproportionately impact communities.

OTHER FEE PROGRAMS

Parks, Recreation and Neighborhood Services Department

The 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 continues to work to ensure the Department’s services are delivered in an equitable manner, scholarships are available, and that programs are accessible to all.

As part of the 2022-2023 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 2022-2023 (\$18.0 million) reflects a 49.2% cost recovery rate. This compares favorably to the Adopted 2021-2022 cost recovery rate of 24.1%, though still significantly lower from the pre-pandemic cost recovery rate of 63.9%. When the shelter-in-place mandate began in spring 2020, community programming and recreation opportunities offered by PRNS were significantly impacted. Those impacts continued to be felt in 2021-2022. As pandemic recovery accelerates in 2022

and 2023, programming is continuing to reopen and will begin approaching pre-pandemic levels of activity. Accordingly, cost recovery rates for individual programs have overall increased in accordance with higher expected revenue levels. The most significant drivers of this increased revenue expectation in 2022-2023 are Happy Hollow Park & Zoo (\$7.5 million), Fee Classes/Activities (\$6.3 million), and Rentals and Reservations (\$2.6 million). The 2022-2023 Fees and Charges Report for all funds includes a total cost recovery rate for all funds of 49.8%.

Happy Hollow Park & Zoo revenue expectations reflect the reopening of the park and zoo in compliance with State and County amusement park and zoo guidelines. Daily attendance and food and beverage sales are expected to continue increasing, and the full Picnic Basket on-site menu has also recently resumed operation.

In 2022-2023, many revenue generating programs, such as Family Camp, Summer Swim Aquatics, and Lake Cunningham Action Sports Park are expected to partially rebound and increase to near pre-pandemic levels. Further, Arcadia Ballpark in East San José has opened for operations. The 14.5-acre sports park with a natural grass field and amenities will host little league for summer and fall seasons annually. The facility is also open to additional tournaments and leagues in search of a venue.

OTHER FEE PROGRAMS

Parks, Recreation and Neighborhood Services Department
(Cont'd.)

In 2022-2023, PRNS continues to balance cost recovery goals with a mandate to ensure equitable access for residents via competitive pricing and scholarships, while supporting the safety of our residents. In response to the memorandum from Councilmembers Arenas, Esparza, and Carrasco approved with the Mayor’s March Budget Message for Fiscal Year 2022-2023, a Manager’s Budget Addendum will be issued later in the budget process with options for the City Council “technical changes to align PRNS’ recreation services budget policies with Budget Balancing Strategy Guideline #2’s citywide equity goals, while de-emphasizing strict cost recovery policies for childcare, afterschool care, and aquatics programs.”

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, and off-sale alcohol enforcement. In 2022-2023, 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 Program. In order for the Abandoned Cart Program fee to be 100% cost recovery, it would require a 36% increase. Instead, it is recommended that a multi-year phase-in of the rate increase should be implemented to bring the fee to or closer to cost recovery. For 2022-2023, it is recommended to increase the fee by 16% and bring the cost recovery rate to 85%, which is similar to last year’s rate of 84.2%.

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 99.6% cost recovery in 2022-2023 with a revenue estimate of \$8.8 million.

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, 2022-2023 estimated fee revenue totals \$6.2 million, with an estimated cost recovery rate of 91.0%. This revenue level represents a slight decrease over the 2021-2022 level of

OTHER FEE PROGRAMS

Police Department (Cont'd.)

\$6.3 million, due primarily to lower personal services costs for allocated staff; however, the cost recovery rate remains the same as in 2021-2022 (91.0%).

Upward and downward fee adjustments are recommended to align fee revenues with the estimated costs of service delivery for 2022-2023, mostly reflective of updated personal services costs and staff allocations. The Cardroom Regulation Fee is recommended to decrease from \$966,017 to \$959,690, per cardroom, consistent with personal services cost changes for the complement of staff responsible for program administration. Decreases are also recommended to multiple Cannabis program fees, including: the amendment processing fee; annual operating fee; application receipt fee; initial application processing fee; and, renewal registration processing fee to better realign program costs and revenues. With these changes to fee revenues, the Cannabis program is expected to achieve a cost recovery level of 100.0%.

Temporary Street Closing Permit fees were previously waived on a one-time basis for several years to encourage outdoor gatherings in neighborhoods citywide. The 2022-2023 Proposed Budget eliminates the Temporary Street Closing Permit (\$256 per event) on an ongoing basis with an estimated permanent revenue loss of \$25,600. This fee elimination is recommended in consideration of the positive impacts to the community, and consistent with the prior City Council

direction, which includes direction in the Mayor’s June Budget Message for Fiscal Year 2021-2022 directing the Administration to “explore options to use City funds to cover the cost of block party permits an ongoing opportunity for residents.”

Finally, the Annual Gun Harm Reduction fee is added in 2022-2023. On January 25, 2022, the City Council approved an ordinance establishing the Annual Gun Harm Reduction Fee of \$25 per gun owning household, to be paid to a City-designated nonprofit organization. Services provided by the nonprofit organization may include suicide prevention services or programs, violence reduction or domestic violence services or programs, mental health services related to gun violence, or firearms safety education or training. While the fee is established in 2022-2023, per City Council direction, collection of the fee will not occur until any pending legal challenges are sufficiently resolved.

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. Due to the pandemic, many of the facilities have been closed to reservations. It is anticipated that there will continue to be lower activity throughout 2022-2023. As facilities begin to reopen for full capacity use, it is anticipated that public sentiment around group gatherings will inhibit the return to pre-pandemic activity levels. In 2022-2023, City Hall Use Fees are anticipated to generate \$71,000, which represents a

OTHER FEE PROGRAMS

Public Works Department (Non-Development Fees)
(Cont'd.)

cost recovery rate of 15.1%. No fee changes are recommended in 2022-2023. 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. Multiple Category I fees (Inspection Fees, Permit Application Fees, and several Animal Permit Fees) were moved to Category II to better align these fees with their actual programmed intention. Many of the fees that were moved are associated with dangerous animals and the services attached with these fees serve to improve public safety in the community. As much of this work would need to be completed regardless of collected payment, these fees are better aligned in Category II. In 2022-2023 the Category I fees are anticipated to generate \$21,450, which represents a 99.2% cost recovery rate. No Category I ACS Fee changes are proposed in 2022-2023. 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 \$2.6 million in 2022-2023, which reflects a cost recovery rate of 27.3%. Category II recommended fee adjustments include Disposal/Euthanasia Fees and License Fees.

The cost recovery rate of Category II ACS fees improved from the 2021-2022 rate of 19.2%, due to a methodology change in cost calculations to reflect the true cost of services related to the fee program. Historically, the program has incorporated all expenditures associated with the Department's ACS budgeted costs. The new methodology omits certain service costs, such as public safety, wild animal care, and animal transfers, that are not directly associated with any fees, resulting in a higher cost recovery rate.

Transportation Department (Non-Development Fees)

The non-development fees administered by the Transportation Department are expected to generate approximately \$1.52 million in 2022-2023. Proposed changes to non-development fees align with updated compensation, indirect and other costs, including supplies, materials, and equipment. Prior year one-time adjustments to the Micro-mobility Permit fee that were made due to expected impacts of the pandemic have been eliminated, and the fee has been restored to a cost-recovery program. Non-development, Category I fees are largely expected to keep pace with projected costs, maintaining full cost recovery. Category II fees - Parking Citation Administration Fee, Sidewalk Repair Program fees, Tree Service Administrative Fee - are expected to generate \$494,700, representing a projected recovery rate of 53.9% that is moderately above last year's level of 44.7%.

HONORABLE MAYOR AND CITY COUNCIL
SUBJECT: **2022-2023 PROPOSED FEES & CHARGES REPORT**

OTHER FEE REVISIONS

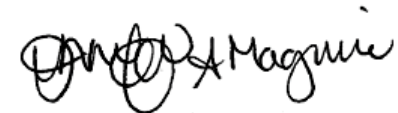
As mentioned earlier, there are a number of fees that are not included in this document as they are brought forward separately to the City Council.

No rate increase is included for the Storm Sewer Service Charge. The Sewer Service and Use Charge proposes a 9.0% aggregate increase for 2022-2023 and the Municipal Water Utility System assumes a revenue increase of 12.2% for 2022-2023. For Recycle Plus rates, an 8.0% increase is proposed for single-family dwellings and 4.0% 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 6, 2022, allowing for a minimum of 10 days for public review prior to the final public hearing. Public input on fee proposals will be heard by the City Council at public hearings held on Tuesday, May 17, 2022, at 1:30 p.m. and Monday, June 13, 2022, at 6:00 p.m.



Jennifer A. Maguire
City Manager