

**MEMORANDUM**

Finance and Administrative Services Department

DATE: May 8, 2025

TO: Council Finance Committee

FROM: Derek Rampone, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: Results of User Fee Study and Update on Capacity Charge Study

RECOMMENDATIONS

1. Receive a presentation on the results of the user fee study
2. Receive status update on Capacity Charge Study
3. Approve the user fee study results and recommend City Council adoption

BACKGROUND**User Fee Study and Cost Allocation Plan**

As part of a general cost recovery strategy, local governments, including the City of Mountain View, have adopted user fees to fund programs and services that provide limited or no direct benefit to the community as a whole. The City's fee schedule was last comprehensively reviewed and updated over ten years ago. Since that time, many things have changed – increased service delivery costs and overhead, inflation, new government regulations and laws, and evolving community needs – and the City's fees need to be updated to ensure that they are current and appropriately recover the City's cost of providing services.

Each fiscal year, the City of Mountain View adopts a fee resolution that establishes the fees and charges for city services for the upcoming fiscal year. Annually, each City department submits any proposed changes to their fee schedule as part of the budget process, which is then compiled into one document referred to as the Master Fee Schedule and incorporated into the Recommended Budget. These updates normally consist of known inflation-related adjustments in an attempt to capture the increased cost of providing the service.

In 2024, the City engaged Willdan Financial Services to conduct a Cost Allocation Plan (CAP) and User Fee Study (Study) to ensure the City is properly recovering the cost of providing services.

The goals of the CAP are to calculate overhead rates that can be used to support hourly rates for user fees and to develop an indirect cost rate that is compliant with Federal regulations related to cost reimbursement and grant funding.

The CAP is a document that defines the indirect costs of an organization and equitably and fairly distributes them to the beneficiaries of those services. The results of that analysis help determine the indirect costs that are used to calculate the full cost of providing fee-related services. As an example of indirect costs, in order to issue a building permit, a building inspector has the direct cost and time to conduct the inspections, but in order for that inspector to perform their inspections, HR conducted a recruitment to hire the employee, and payroll was processed by the Finance and Administrative Services Department. That level of indirect support is captured through the CAP.

The overhead percentages also assist with recovering costs associated with administering federal, state, and local grants received by the City. Having an approved indirect cost rate will allow the City to seek reimbursement from the grantor for overhead and administration costs, as deemed eligible by each grantor.

The principal goal of the Study was to assist the City in determining the full cost of services that the City provides. Additional goals of the study were to:

- Develop a rational basis for setting fees, including an analysis of actual time spent on providing services that reflects current city practices
- Ensure compliance with State law
- Identify any potential new fees that should be charged
- Identify and remove any outdated fees for services that are no longer provided
- Develop an updatable and comprehensive fee model, to be updated annually based on cost-of-service amounts
- Ensure maximum appropriate cost recovery so that revenues generated by fees cover the cost of those services to the greatest extent possible
- Maintain accordance with city policies and goals, specifically Council Policy J-2, *Recreation Cost-Recovery Policy*

The results of the Study help the City better understand its true costs of providing services and can serve as a basis for making informed policy decisions regarding the most appropriate fees to collect from individuals and organizations that require individualized services from the City.

Capacity Charge Study

Separately, to ensure that fees related to development impacts on City infrastructure are appropriate, the City engaged Bartle Wells Associates to conduct a Capacity Charge Study focusing on water and wastewater system capacity needs. The City currently levies water and wastewater capacity charges on new and expanded connections to recover the costs of infrastructure benefiting new development. These charges were originally adopted in 2014 following completion of the City's first Water and Wastewater Capacity Charge Study and have

been adjusted annually to account for construction cost inflation. The updated Capacity Charge Study develops updated capacity charges designed to reflect the current cost of infrastructure and help ensure that new and expanded connections pay for their share of capacity in the City's water and wastewater systems.

ANALYSIS

Completing a comprehensive Study in conjunction with a CAP update is considered a best practice. The completion of a CAP update is a key component and the first step in the analysis necessary to calculate the cost of providing services.

User Fee Study

The basic concept of a Study is to determine the "reasonable cost" of each service provided by the City for which it charges a user fee. The full cost of providing a service may not necessarily become the City's actual fee, but it serves as the objective basis as to the maximum amount that may be collected.

The Study calculates the full cost of providing city services based on the current organizational structure and processes of the City, using the fully burdened hourly rates (FBHR) of staff providing the service, the time spent by staff to provide the specific service, and any other costs incurred to provide the service. The FBHRs used in the Study include both direct costs and indirect costs.

The cost elements used in the calculation of fully burdened rates are:

- Salary and benefit costs of personnel involved
- Operating costs applicable to fee operations
- Indirect city-wide overhead costs calculated through the Cost Allocation Plan

Direct costs are defined as those that are directly tied to a service, such as labor, and materials or supplies. An example of direct costs would be the hourly salary and benefits of the individual processing and reviewing of building permits. Indirect costs are those that support more than one service area and are not directly tied to a specific fee. An example of indirect costs would be the costs of the Finance and Administrative Services Department staff, which help support the departments and staff performing the services for the user.

Once the FBHRs were established, Willdan Financial Services worked with all City divisions and departments to establish the amount of hours (on average) staff takes to accomplish each service that is associated with a fee. Once the number of hours it takes staff to perform each service was gathered, the total cost to provide each service could be calculated. The total cost of each service is the product of the FBHR calculation multiplied by the time spent performing the service, plus any fixed costs, such as consulting or third-party service costs. These total costs are the "full cost" levels shown in the fee schedule attached to this report (Attachment 1).

The City sets fees for services with consideration given for cost recovery. Recreation fees are generally market-based in order to be competitive with other entities offering similar services and are based on the level of community benefit. In accordance with Council Policy J-2, *Recreation Cost-Recovery Policy*, programs that have a community-wide benefit usually have the lowest cost recovery while programs that have the greatest level of individual or group benefit have the highest cost recovery.

As the City attempts to balance levels of service with the variability of demand, it appears that numerous current user fees do not fully recover the actual cost of delivering the service, resulting in subsidies primarily by the General Operating Fund. To the extent that the City uses General Operating Fund monies to provide services that it could recover full cost for, but does not, a subsidy results, which reduces funds that may be available to provide other community-wide benefits. Unlike most revenue sources, the City has more control over the level of user fees it charges to recover costs. There may be policy goals for doing this (such as reducing fees for nonprofit rentals or reducing a fee to encourage participation in a program).

In general, the City's user fees should not be compared to other agencies' fees because the primary focus on the fee amount should be on cost recovery of the City's own operating costs based on salary plans, labor contracts, pension obligations, overhead structures, service levels, technology costs, and facility costs. In addition, fees in other agencies may be structured differently. For example, one city may charge a fee based on an hourly rate, while another might charge the same fee based on a flat amount.

Capacity Charge Study

The cost of water and wastewater system infrastructure has increased substantially since the last capacity charge study was completed. As a result, the new recommended fees are higher than the existing fees:

- Water – Approximate increase 70-85% for residential and 20-25% for non-residential.
- Wastewater – Approximate increase 85% for residential and 90-125% for non-residential.

New fees were also calculated for larger water meter sizes and two new residential categories (assisted living facilities and accessory dwelling units). Although the study calculates a fee for ADUs, staff is recommending the fee be waived for all ADUs to encourage ADU construction, ease implementation tracking, and comply with State law. Currently State law limits the type of ADUs where capacity fees can be charged (e.g., only new ADUs constructed with new homes), and a waiver for all ADU applications would ensure compliance and consistency.

Tables 1 and 2 show the proposed new charges for water and wastewater capacity, respectively, compared to the current charges. For comparison purposes related to development, Figures 1 and 2 show Mountain View's current and proposed charges for single and multifamily residential units, respectively, compared to neighboring agencies.

Table 1 – Current and Proposed Water Capacity Charges

Connection Type	Current Charge	Proposed Charge
Residential (per dwelling unit)		
Class 1 - <i>single family detached</i>	\$ 5,021	\$ 9,169
Class 2 - <i>townhouses, duplexes, row houses, small lot single-family</i>	\$ 4,264	\$ 7,335
Class 3 – <i>apartments, mobile homes, condos</i>	\$ 3,261	\$ 5,501
Class 4 – <i>assisted living units</i>	NA	\$ 2,751
Accessory Dwelling Units (where applicable – waiver recommend)	NA	\$ 4.17 per sq ft
Non-Residential (by meter size)		
¾"	\$ 8,364	\$ 10,248
1"	\$ 13,941	\$ 17,080
1.5"	\$ 27,879	\$ 34,159
2"	\$ 44,607	\$ 54,655
3"	\$ 84,914	\$ 102,478
4"	NA	\$ 170,797
6"	NA	\$ 341,595
8"	NA	\$ 546,551
10"	NA	\$ 853,987
12"	NA	\$ 1,127,262
Other sizes / non-standard (based on estimated water demand)	\$ 22.303	\$ 53.936 per gpd

Table 2 – Current and Proposed Wastewater Capacity Charges

Connection Type	Current Charge	Proposed Charge
Residential (per dwelling unit)		
Class 1 - <i>single family detached</i>	\$ 4,145	\$ 7,737
Class 2 - <i>townhouses, duplexes, row houses, small lot single-family</i>	\$ 3,754	\$ 6,963
Class 3 – <i>apartments, mobile homes, condos</i>	\$ 2,921	\$ 5,416
Class 4 – <i>assisted living units</i>	NA	\$ 2,708
Accessory Dwelling Units (where applicable – waiver recommend)	NA	\$ 3.52 per sq ft
Non-Residential (per 1,000 sq ft building area)		
Commercial / Retail	\$ 2,030	\$ 4,545
Office / R&D	\$ 2,973	\$ 6,016
Restaurant	\$ 17,102	\$ 33,115
Hotels & Motels (per room / dwelling unit)	\$ 1,875	\$ 2,751
Industrial / other		
Flow - per gpd estimated water demand	\$ 18.654	\$ 58.661
BOD - per lb/yr estimated loading	\$ 1.813	\$ 2.291
SS - per lb/yr estimated loading	\$ 1.813	\$ 1.963

Figure 1 – Current and Proposed Charges Compared to Neighboring Agencies (Single Family)

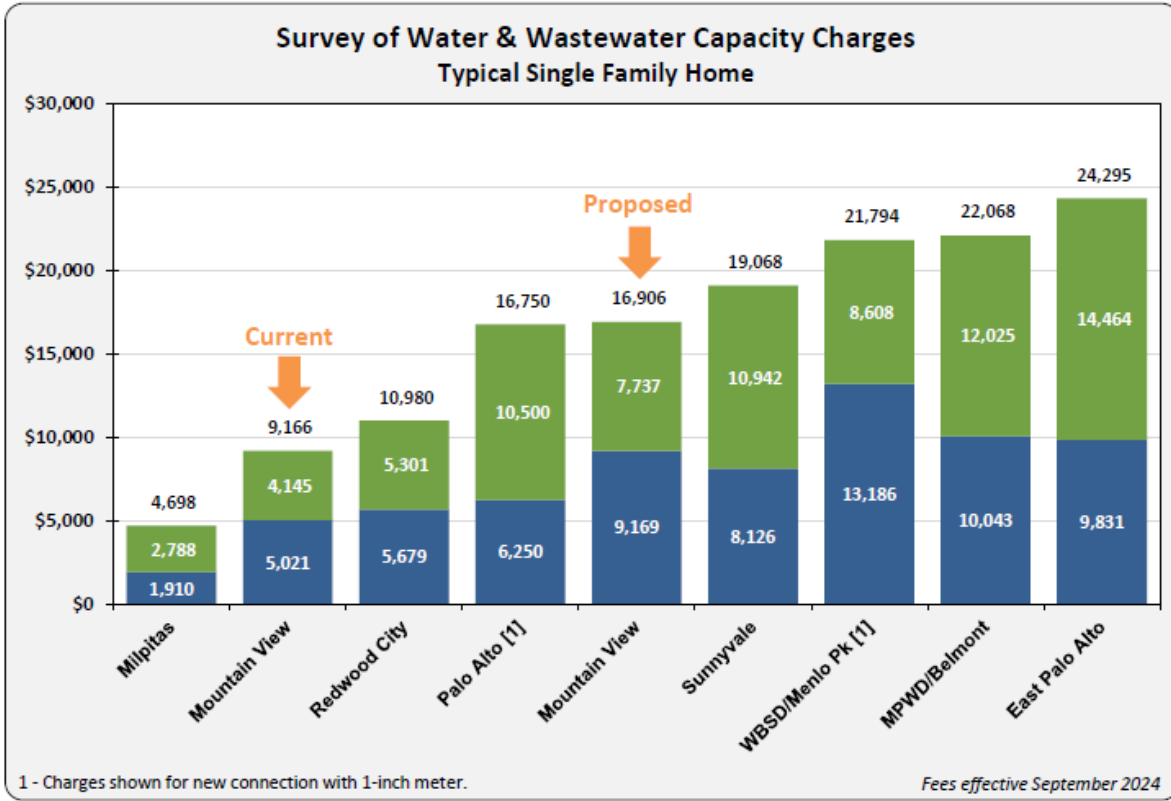
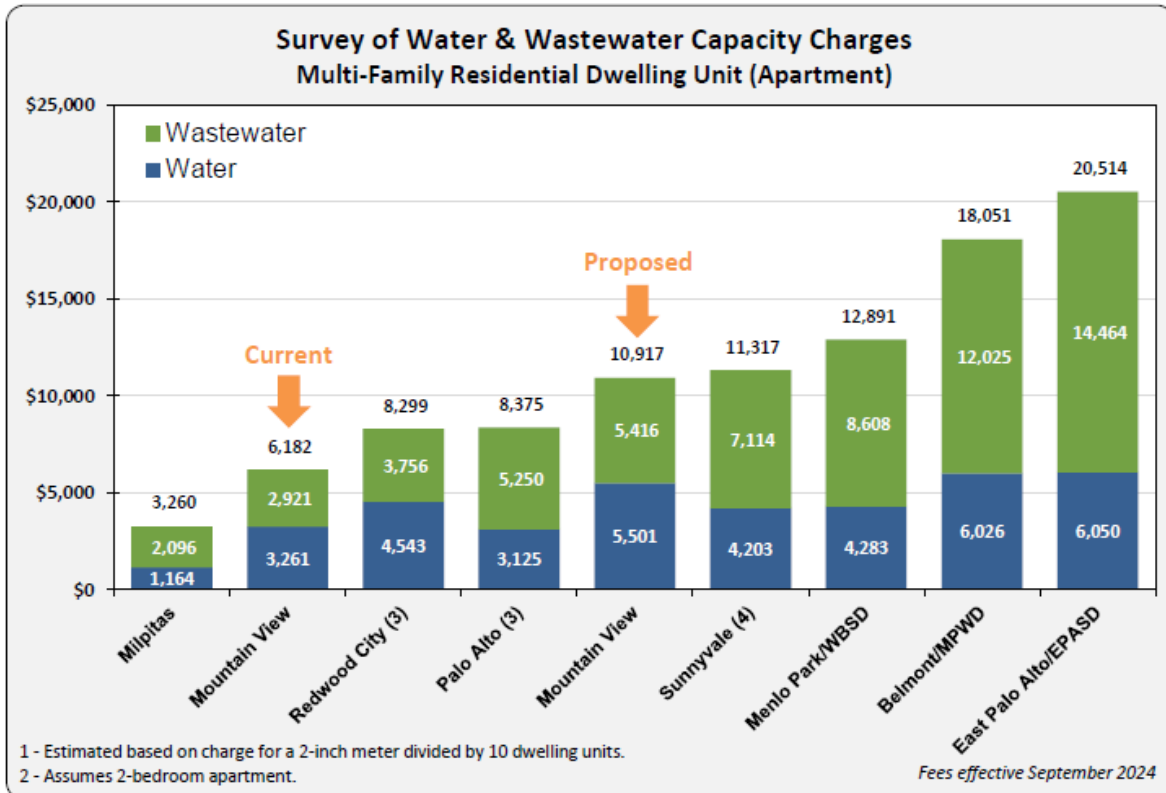


Figure 2 – Current and Proposed Charges Compared to Neighboring Agencies (Multifamily)



Staff's recommendation is to adopt the proposed changes with this year's Master Fee Schedule with an effective date of August 9, 2025. Projects that have a complete planning permit application or a complete building permit application as of the adoption date (June 10, 2025) will not be subject to the new charges. This methodology aligns with recent state laws regarding fees for residential projects. This exemption will expire for projects that are not issued a building permit by January 1, 2029 or date set by state law.

FISCAL IMPACT

It has been over a decade since the City updated user fees. Implementing the proposed fee updates, including the addition of new fees, is a best practice and will allow for more self-sufficient and sustainable service levels in many areas of the City and will have a positive "right-sized" revenue increase in several funds, including the General Operating Fund and the Development Services Fund. The updated fees will also help the City more adequately recover costs from those applicants who are receiving specific services from staff. This will result in the freeing up of General Fund resources for other community-wide services and benefits and align development-related revenues to actual costs in the Development Services Fund instead of being subsidized by the General Operating Fund.

The proposed capacity charges are 20% to 125% higher than the City's current charges (depending on connection type) but are within the range levied by other neighboring agencies.

NEXT STEPS

The City is holding a Development Review Update Meeting with local developers on May 12 where an update on the Study and Capacity Charge Study will be provided as part of the City's outreach efforts. Staff intends to bring the recommended fee schedule, which will include the proposed fees and charges from the Study and Capacity Charge Study, to the City Council for consideration and adoption with the Recommended Budget at a public hearing on June 10, 2025. Once adopted, non-development-related fees will take effect on July 1, 2025. In accordance with California Government Code Section 66017(a), which requires a 60-day period before certain fee changes related to new and increased development related fees to be effective, updates to development related fees will take effect no earlier than August 9, 2025.

Attachment: 1. Proposed Fee Schedule