



CITY COUNCIL STUDY SESSION AGENDA

In-Person

March 12, 2024

6:00 p.m.

SPECIAL MEETING AGENDA

PARTICIPATION: Members of the public may participate by being present at the Los Altos Council Chamber at Los Altos City Hall located at 1 N. San Antonio Rd, Los Altos, CA during the meeting. Public comment is accepted in person at the physical meeting location, or via email to PublicComment@losaltosca.gov.

RULES FOR CONDUCT: Pursuant to Los Altos Municipal Code, Section 2.05.010 "Interruptions and rules for conduct": Understanding that the purpose of the city council meetings is to conduct the people's business for the benefit of all the people, in the event that any meeting of the city council is willfully interrupted by a person or group of persons so as to render the orderly conduct of the meeting impossible, the mayor, mayor pro tem, or any other member of the city council acting as the chair may order the removal of the person or persons responsible for the disruption and bar them from further attendance at the council meeting, or otherwise proceed pursuant to Government Code Section 54957.0 or any applicable penal statute or city ordinance.

REMOTE MEETING OBSERVATION: Members of the public may view the meeting via the link below, but will not be permitted to provide public comment via Zoom or telephone. Public comment will be taken in-person, and members of the public may provide written public comment by following the instructions below.

<https://losaltosca-gov.zoom.us/j/82144356690?pwd=GprPOU5IL9DXLxLqPEMbFo3O5XPDty.1>

Telephone: 1-669-444-9171 / Webinar ID: 821 4435 6690 / Passcode: 131728

SUBMIT WRITTEN COMMENTS: Prior to the meeting, comments on matters listed on the agenda may be emailed to PublicComment@losaltosca.gov. Emails sent to this email address are sent to/received immediately by the City Council. Emails sent directly to the City Council as a whole or individually, and not sent to PublicComment@losaltosca.gov will not be included as a public comment in the Council packet.

Please note: Personal information, such as e-mail addresses, telephone numbers, home addresses, and other contact information are not required to be included with your comments. If this information is included in your written comments, they will become part of the public

record. Redactions and/or edits will not be made to public comments, and the comments will be posted as they are submitted. Please do not include any information in your communication that you do not want to be made public.

Correspondence submitted in hard copy/paper format must be received by 2:00 p.m. on the day of the meeting to ensure distribution prior to the meeting. Comments provided in hard copy/paper format after 2:00 p.m. will be distributed the following day and included with public comment in the Council packet.

The Mayor will open public comment and will announce the length of time provided for comments during each item.

MEETING CALLED TO ORDER

CONFIRM QUORUM

DISCUSSION ITEM(S)

1. Direct staff to return March 26, 2024, at the City Council's regularly scheduled public meeting, with an updated Development Services Cost of Services based on the completed Study by Matrix Consulting Group and recommended deviations as contained at the end of this report

ADJOURNMENT

SPECIAL NOTICES TO THE PUBLIC

In compliance with the Americans with Disabilities Act, the City of Los Altos will make reasonable arrangements to ensure accessibility to this meeting. If you need special assistance to participate in this meeting, please contact the City Clerk 72 hours prior to the meeting at (650) 947-2610.



AGENDA REPORT SUMMARY

Meeting Date: March 12, 2024

Subject Study Session – Development Services Cost of Services (User Fee) Study

Prepared by: Nick Zornes, Development Services Director

Reviewed by: Jolie Houston, City Attorney

Reviewed by: Jon Maginot, Assistant City Manager

Approved by: Gabriel Engeland, City Manager

Attachment(s):

- 1. Report on Development Services Cost of Services (User Fee) Study

Initiated by:

Adopted 6th Cycle Housing Element – Program 3.D

Fiscal Impact:

On June 27, 2023, the Los Altos City Council authorized Professional Services Agreement with Matrix Consulting Group in an amount not-to-exceed \$198,885.00 and up to 10% contingency funds not-to-exceed \$19,888.50 for a total of \$218,773.50. The current funds expended for this study are within the original contract amount.

Environmental Review:

Pursuant to CEQA Guidelines Section 15273 this item is exempt from environmental review. CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies.

Summary:

The City of Los Altos has not previously conducted an external evaluation of its development fees. The Comprehensive Development Services Cost of Services (User Fee) Study was initiated in Summer 2023 with Matrix Consulting Group. Upon completion of the study, it was found that the City has been under collecting (subsidizing) all development related fees; on average the City is only collecting 66% of development related fees or under collecting by \$1.9million annually.

Staff Recommendation:

Direct staff to return March 26, 2024, at the City Council’s regularly scheduled public meeting, with an updated Development Services Cost of Services based on the completed Study by Matrix Consulting Group and recommended deviations as contained at the end of this report.

City Manager

GE

Reviewed By:

City Attorney

JH



Subject: Study Session – Development Services Cost of Services (User Fee) Study

Purpose

Typically, it is best practice to conduct a comprehensive fee update every 3-5 years (completed by an outside and independent consultant to ensure validity) to account for market conditions and changes in organizational structure (if any). Beyond best practices to ensure that the city is not under collecting or unnecessarily subsidizing development related fees, the Adopted 6th Cycle Housing Element Program 3.D identifies the evaluation of a comprehensive fee study to begin in August 2023, and modify fees no later than December 2024.

Background

The City of Los Altos last reviewed and updated its development-related fees in 2015 (internally completed). As there have been many changes since the previous fee study, the city is interested in updating its fees to be reflective of current organizational structures and costs. The Matrix Consulting Group analyzed the cost-of-service relationships that exist between fees for service activities in the following areas: Planning, Building, Fire Prevention, and Engineering.

Analysis

Results of the Development Services Cost of Services (User Fee) Study are presented as follows (broken down by discipline or category):

Building Division

The Building Division collects fees for inspections, plan checks, and mechanical, electrical, and plumbing permits, among others. The total cost calculated for each service includes direct City staff costs, Departmental, and Citywide overhead. The current cost recovery for the Building Division is the highest of all revenue generating streams within the Development Services Department, currently 79%. Although the Building Division is the highest for cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of \$700k.

As a part of the review, the Building Division proposes creation of new fees for the following:

- ADU Plan Check
- Water Heater
- Water Line, Sewer Line
- Photovoltaic (PV/Solar)
- Single Family EV Charging Stations

Engineering Division

The Engineering Division ensures public safety through construction inspections, the review of private development and renovation plans, and the issuance of permits for utility work and encroachment permits, among other services. The current cost recovery for the Engineering Division is collecting just over half of the necessary revenue within the Development Services Department, currently 57%. Although the Engineering Division is in the middle of the road for



Subject: Study Session – Development Services Cost of Services (User Fee) Study

cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of just over \$500k.

Planning Division

The Planning Division is responsible for the development of the General Plan, land use decisions and development review, and policy documents such as the City’s Zoning Ordinance. Fees examined in this study relate to development review and include conditional use permits, variances, and design reviews. The current cost recovery for the Planning Division is the lowest of all revenue generating streams within the Development Services Department, currently 34%. Given the Planning Division is the lowest for cost recovery, the current fee structure results in an annual under collection (or loss of revenue) of \$666k.

As a part of the review, the Planning Division proposes creation of new fees for the following:

- Historic Alteration Permit
- Historic Resource/Landmark Designation
- Home Occupation Permits
- Mills Act Contract
- Temporary Use Permit
- Consulting Arborist

General Plan Maintenance Fee

A General Plan Maintenance fee is meant to account for updates to the general plan, zoning ordinance, housing elements, and other long-range planning activities that are part of the larger General Plan.

The General Plan Maintenance fee is governed by Government Code Section 66014(b), which states that fees “may include the costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and recommendations.” This code states that fees can be charged against zoning changes, zoning variances, use permits, building inspections, and filing applications. More typically, the fee is charged during the building permit phase so as to ensure any development project, which gets to that phase, makes enough of an impact to require the need for an update to the Zoning Code or the General Plan. This fee should only be applied to major building permits (when a building/permit valuation is calculated), building permits for standalone permits such as Solar, EV and Water Heaters would be excluded from this surcharge.

Previously, the city most recently expended close to \$600k on the Housing Element Update. Currently, the city will spend close to \$100k for the Safety Element Update. Additional General Plan Elements will be required to be updated in coming years in order for the city to develop and implement other desired masterplans and regulatory documents within the city. The General Plan



Subject: Study Session – Development Services Cost of Services (User Fee) Study

Maintenance fee will create a funding mechanism to ensure the General Plan is updated accordingly.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of the General Plan Maintenance Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 12: General Plan Maintenance Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0016% of Building Valuation
Los Gatos	0.5% of Building Valuation
Menlo Park	3% of Permit Fee
Morgan Hill	15% of Permit Fee
Mountain View	0.26% of Building Valuation
Palo Alto	0.00117% of Building Valuation
Saratoga	0.285% of Building Valuation

The General Plan Maintenance fees charged by the surveyed jurisdictions are either based on building valuation or building permit costs. The City of Los Altos’ full cost fee of **7%** of the building permit falls between Menlo Park and Morgan Hill’s fee calculation.

Technology Surcharge Fee

A Technology Fee allows the city to support the costs associated with the City’s permitting system, staff time for managing the systems, acquiring the system, mobile devices used for permitting, etc. The City of Los Altos currently assesses a Technology surcharge fee as 8% of all development-related fees.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of a Technology Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 15: Technology Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0004% of Building Valuation
Los Gatos	4.0% of Permit Fee
Menlo Park	3.0% of Permit Fee
Morgan Hill	5.0% of Permit Fee
Mountain View	4.0% of Permit Fee
Palo Alto	Built into permit fees
Saratoga	8.1% of Permit Fee



Subject: Study Session – Development Services Cost of Services (User Fee) Study

With the exception of Palo Alto, which does not individually charge a technology fee, all surveyed jurisdictions charge their technology fee as a percentage of the permit. The City of Saratoga, at 8.1%, most closely matches Los Altos’ current surcharge of 8%, whereas the full cost of 5% is more in alignment with Los Gatos, Mountain View, and Morgan Hill.

General Plan Maintenance and Technology Surcharge Fee

It is a best practice to collect and account for General Plan Maintenance and Technology surcharges in separate accounts, as doing so ensures compliance with funding requirements, enables appropriate allocation of funds to general plan or technology related activities, and mitigates any potential issues with the comingling of funds.

Discussion

As mentioned, Development Services Cost of Services (User Fee) on average the city is only collecting 66% of development related fees or under collecting by \$1.9million annually. The following table identifies specific fee revenues, and the annual cost associated with the development review process, and the difference which reflects an under collection or loss of revenue across all disciplines.

Category	Current Fee Revenue	Annual Cost	Difference	Cost Recovery %
Building	\$2,673,949	\$3,373,448	(\$699,499)	79%
Planning	\$346,470	\$1,012,499	(\$666,030)	34%
Engineering	\$666,813	\$1,178,495	(\$511,681)	57%
Total	\$3,687,233	\$5,564,433	(\$1,877,210)	66%

As graphically shown in the above table, the City of Los Altos is under collecting by nearly \$1.9million in activities directly related to current development within the jurisdiction.

Annual Adjustment Recommended

Conducting a comprehensive analysis of fee-related services and costs annually would be cumbersome and costly. The general guideline for comprehensive fee analyses is between three and five years. This allows for jurisdictions to ensure they account for organizational changes such as staffing levels, as well as process efficiencies, code or rule changes, or technology improvements.



Subject: Study Session – Development Services Cost of Services (User Fee) Study

Developing annual update mechanisms allows jurisdictions to maintain current levels of cost recovery while accounting for increases in staffing or expenditures related to permit services. The two most common types of update mechanisms are the Consumer Price Index (CPI) and Cost of Living Adjustment (COLA) factors. The following points provide further detail on each of these mechanisms.

- COLA / Personnel Cost Factor: Jurisdictions often provide staff with annual salary adjustments to account for increases in local cost of living. These increases are not tied to merit or seniority but rather meant to offset rising costs associated with housing, gas, and other livability factors.
- CPI Factor: A common method of increasing fees is to look at regional cost indicators, such as the Consumer Price Index. These factors are calculated by the Bureau of Labor Statistics, put out at various intervals within a year, and are specific to states and regions. (the City of Los Altos has historically applied the CPI Factor in prior years)
 - Staff recommends adopting a CPI Factor for the annual fee increase mechanism.

Permit Specific Recommendation

ADU Building Permit: as contained in the Adopted 6th Cycle Housing Element Program 2.D, to increase the number of ADU's constructed, at the completion of the comprehensive fee study, the City will adopt a zero cost (\$0.00) permit fee for ADUs to incentivize the creation of ADUs.

Photovoltaic/Solar (50kw or less): currently the city collects the maximum of \$450.00 per permit as allowed by Government Code Section 66015 for installations 50kw or less (the typical residential installation is under 20kw). In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$300/per permit for installations of 50kw or less.

Photovoltaic/Solar (50kw or greater): currently the city collects the maximum of \$1,000.00 per permit as allowed by Government Code Section 66015 for installations 50kw or greater. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$500/per permit for installations of 50kw or greater.

Electric Vehicle (EV) Charging: currently the city collects EV permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$300/per terminal EV charging port.

Battery Storage: currently the city collects battery storage permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to support City Council Priority #3 (CAAP) the recommended permit cost is \$400/per permit.

Water Heater: currently the city collects water heater permit fees based on valuation which can range substantially based on installation method, and cost of installation. In order to streamline the



Subject: Study Session – Development Services Cost of Services (User Fee) Study

permitting process for what is commonly found to be a flat rate fee in other jurisdictions the recommended permit cost is \$150/per installation.

Tree Removal Permit: the City Council recently approved a modification of the previous Tree Removal Permit which goes into effect on March 14, 2024. The previous Tree Removal Permit was \$86.75/per permit (no limit on trees removed under each permit), and as approved on February 13, 2024, the new Tree Removal Permit will be \$300/for the first tree, and \$150/for each additional tree removed under the same permit. The fee study results show the actual cost of a Tree Removal Permit is \$868.00. There is no recommended change at this time, however it is important to note that prior and recently approved permit fees are still significantly under collecting from the actual cost burden to the City.

Appeals: appeals are allowed as prescribed in Title 14 – Zoning of the Los Altos Municipal Code. The current fee for appeals filed is \$691.00. The fee study results show the actual cost of an Appeal is \$3,905.00. Appeals are generally under collected in jurisdictions in order to allow access to the ability to appeal a project with a legitimate claim. The recommended cost of an appeal is \$1,000.00 which would allow for access for the public to make a file of appeal with the city, and still subsidizing the community’s access to an appeal by almost 75%.

Deviation from Fee Study Results

The following deviations are based upon prior City Council action and align with existing policies and priorities of the City of Los Altos.

FEE NAME/TITLE	PERMIT COST
ADU Building Permit	\$0.00
Photovoltaic/Solar (50kw or less)	\$300.00
Photovoltaic/Solar (50kw or greater)	\$500.00
Electric Vehicle (EV) Charging	\$300.00
Battery Storage	\$400.00
Water Heater	\$150.00
Tree Removal Permit	\$300.00 (first tree) \$150.00 (each additional tree) \$0.00 (invasive species)
Appeals	\$1,000.00

Report on Development Services Cost of Services (User Fee) Study

CITY OF LOS ALTOS, CALIFORNIA

FINAL REPORT

February 2024



Table of Contents

1. Introduction and Executive Summary	1
2. Legal Framework and Policy Considerations	4
3. User Fee Study Methodology	7
4. Results Overview	9
5. Building	10
6. Engineering	14
7. Planning	17
8. Development Services Surcharge	21
9. Cost Recovery Considerations	25
Appendix – Comparative Survey	29

1. Introduction and Executive Summary

The report, which follows, presents the results of the Cost of Services (User Fee) Study conducted by the Matrix Consulting Group for development-related fees for the City of Los Altos, California.

Project Background and Overview

The City of Los Altos last reviewed and updated its development-related fees in 2015. As there have been many changes since the previous fee study, the City is interested in updating its fees to be reflective of current organizational structures and costs. The Matrix Consulting Group analyzed the cost-of-service relationships that exist between fees for service activities in the following areas: Planning, Building, Fire Prevention, and Engineering. The results of this study provide a tool for understanding current service levels and the cost of those services.

General Project Approach and Methodology

The methodology employed by the Matrix Consulting Group is a widely accepted “bottom-up” approach to cost analysis, where time spent per unit of fee activity is determined for each position within a Department or Program. Once time spent on a fee activity is determined, all applicable city costs are then considered in the calculation of the “full” cost of providing each service. The following table provides an overview of the types of costs applied in establishing the “full” cost of services provided by the City:

Table 1: Overview of Cost Components

Cost Component	Description
Direct	Fiscal Year 2024 Budgeted salaries, benefits, and allowable expenditures.
Indirect	Program, departmental, clerical, and Citywide support.

Together, the cost components in the table above comprise the calculation of the total “full” cost of providing any particular service, regardless of whether a fee for that service is charged.

The work accomplished by the Matrix Consulting Group in the analysis of the proposed fees for service involved the following steps:

- **Department / Program Staff Interviews:** The project team interviewed department / program staff regarding their needs for clarification to the structure of existing fee items, deletion of unused fees, and addition of new fee items.

- **Data Collection:** Data was collected for each permit / service, including time estimates. In addition, all budgeted costs and staffing levels for Fiscal Year 2024 were entered into the Matrix Consulting Group’s analytical software model.
- **Cost Analysis:** The full cost of providing each service included in the analysis was established.
- **Review and Approval of Results with City Staff:** Department management has reviewed and approved these documented results.

A more detailed description of user fee methodology, as well as legal and policy considerations, are provided in subsequent chapters of this report.

Summary of Results

When comparing FY24 fee-related budgeted expenditures with fee-related revenue, the City is under-recovering its costs by approximately 1.9 million dollars or recovering 66% of its development-related costs. The following table shows by major service area, the revenue collected, the total annual cost, the resulting difference, and the resulting cost recovery percentage.

Table 2: Annual Cost Recovery Analysis

Service Area	Total Revenue	Total Annual Cost	Difference	Cost Recovery %
Building	\$2,673,949	\$3,373,448	(\$699,499)	79%
Planning	\$346,470	\$1,012,499	(\$666,030)	34%
Engineering	\$666,813	\$1,178,495	(\$511,681)	57%
Total	\$3,687,233	\$5,564,443	(\$1,877,210)	66%

The Building and Planning divisions show the largest deficits (approximately \$1.4 million of the \$1.9 million). Building’s deficit is due to the valuation-based fees, whereas Planning’s deficit is driven by the under-recovery of tree removal fees and design reviews of single-family projects.

The detailed documentation of this study will show an over-collection for some fees (on a per unit basis) and an undercharge for most others. The results of this analysis will provide the City with guidance on how to right-size their fees to ensure that each service unit is set at an amount that does not exceed the full cost of providing that service. The cost recovery figures shown in this report are meant to provide a basis for policy development discussions for Council and City staff and do not represent a recommendation for where or how the Council should act. The setting of the “rate” or “price” for services, whether at 100 percent full cost recovery or lower, is a policy decision to be made only by the Council, with input from City staff and the community.

Considerations for Cost Recovery Policy and Updates

The Matrix Consulting Group recommends that the City use the information contained in this report to implement a formal Cost Recovery Policy, including a mechanism for the annual update of fees for service.

1 Adopt a Formal Cost Recovery Policy

The Government Finance Officers Association's (GFOA) best practices for *Establishing Government Charges and fees* state that governmental entities should adopt formal policies regarding charges and fees, which include the jurisdiction's intention to recover the full cost or partial costs of providing services, set forth circumstances under which the jurisdiction might set a charge or fee at less than or more than 100% of full cost and outlines the considerations that might influence the jurisdiction's pricing decision.

The Matrix Consulting Group strongly recommends that the Council adopt a formalized, individual cost recovery policy for each service area included in this Study. Whenever a cost recovery policy is established at less than 100% of the full cost of providing services, a funding gap is created. This gap must then be reconciled through other revenue sources (i.e., taxes, general funds transfers, grants, etc.). The Matrix Consulting Group considers a formalized cost recovery policy for various fees for service an industry Best Management Practice.

2 Adopt an Annual Fee Update / Increase Mechanism

The purpose of a comprehensive update is to completely revisit the analytical structure, service level estimates, and assumptions and to account for any major shifts in cost components or organizational structures that have occurred since the City's previous analysis. It's recommended the City continue the practice of conducting comprehensive analyses every five to seven years as this practice captures changes to organizational structure and processes, as well as any new service areas.

In between comprehensive updates, the City should continue to utilize published industry economic factors such as the Consumer Price Index (CPI) or other regional factors to update the cost calculations established in the Study on an annual basis. Utilizing an annual increase mechanism ensures that the City receives appropriate fee increases that reflect growth in costs.

2. Legal Framework and Policy Considerations

This section of the report is intended to provide an overview of legal rules and regulations as well as general policy considerations regarding fees for service. A “user fee” is a charge for a service provided by a governmental agency to a public citizen or group. In California, several constitutional laws such as Propositions 13, 4, and 218, State Government Codes 66014 and 66016, and more recently, Prop 26 and the Attorney General’s Opinion 92-506 set the parameters under which the user fees typically administered by local government are established and administered. Specifically, California State Law, Government Code 66014(a), stipulates that user fees charged by local agencies “...may not exceed the estimated reasonable cost of providing the service for which the fee is charged”.

General Principles and Philosophies Regarding User Fees

Local governments are providers of many types of general services to their communities. While all services provided by local government are beneficial to constituents, some services can be classified as globally beneficial to all citizens, while others provide more of a direct benefit to a specific group or individual. The following table provides examples of services provided by local government within a continuum of the degree of community benefit received:

Table 3: Services in Relation to Benefit Received

“Global” Community Benefit	“Global” Benefit and an Individual or Group Benefit	Individual or Group Benefit
<ul style="list-style-type: none"> • Police • Park Maintenance • Fire Suppression 	<ul style="list-style-type: none"> • Recreation / Community Services • Fire Prevention 	<ul style="list-style-type: none"> • Building Permits • Planning and Zoning Approval • Engineering Development Review • Facility Rentals

Funding for local government is obtained from a myriad of revenue sources such as taxes, fines, grants, special charges, user fees, etc. In recent years, alternative tax revenues, which typically offset subsidies for services provided to the community, have become increasingly limited. These limitations have caused increased attention on user fee activities as a revenue source that can offset costs otherwise subsidized (usually) by the general fund. In Table 3, services in the “global benefit” section tend to be funded primarily through voter-approved tax revenues. In the middle of the table, one typically finds a mixture of taxes, user fees, and other funding sources. Finally, in the “individual /

group benefit” section of the table are the services provided by local government that are typically funded almost entirely by user fee revenue.

The following are two central concepts regarding the establishment of user fees:

- **Fees should be assessed according to the degree of individual or private benefit gained from services.** For example, the processing and approval of a land use or building permit will generally result in monetary gain to the applicant, whereas Police services and Fire Suppression are examples of services that are essential to the safety of the community at large.
- **A profit-making objective should not be included in the assessment of user fees.** In fact, California laws require that the charges for service be in direct proportion to the costs associated with providing those services. Once a charge for service is assessed at a level higher than the actual cost of providing a service, the term “user fee” no longer applies. The charge then becomes a tax subject to voter approval.

Therefore, it is commonly accepted that user fees are established at a level that will recover up to, and not more than, the cost of providing a particular service.

General Policy Considerations Regarding User Fees

Undoubtedly, there are programs, circumstances, and services that justify a subsidy from a tax-based or alternative revenue source. However, it is essential that jurisdictions prioritize the use of revenue sources for the provision of services based on the continuum of benefits received.

Within the services that are typically funded by user fees, the Matrix Consulting Group recognizes several reasons why City staff or the Council may not advocate the full cost recovery of services. The following factors are key policy considerations in setting fees at less than 100 percent of cost recovery:

- **Limitations posed by an external agency.** The State or an outside agency will occasionally set a maximum, minimum, or limit the jurisdiction’s ability to charge a fee at all. An example includes time spent copying and retrieving public documents and / or transportation permits.
- **Encouragement of desired behaviors.** Keeping fees for certain services below full cost recovery may provide better compliance from the community. For example, if the cost of a permit for charging a water heater in a residential home is higher than the cost of the water heater itself, many citizens will avoid pulling the permit.

- **Benefit received by user of the service and the community at large is mutual.** Many services that directly benefit a group or individual equally benefit the community as a whole. Examples include Planning Design Reviews, historical dedications, and certain types of special events.

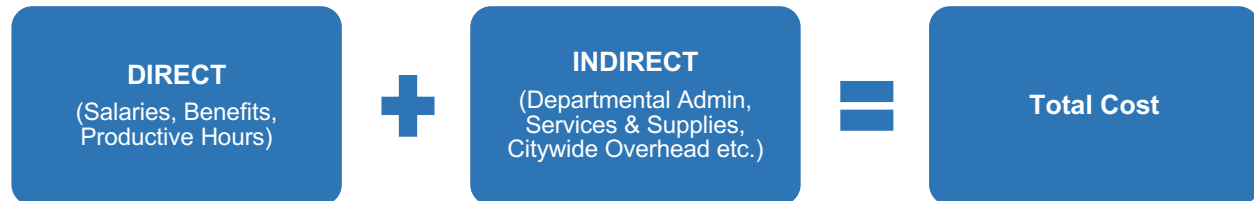
The Matrix Consulting Group recognizes the need for policies that intentionally subsidize certain activities. The primary goals of a User Fee Study are to provide a fair and equitable basis for determining the costs of providing services and ensure that the City complies with State law.

Summary of Legal Restrictions and Policy Considerations

Once the full cost of providing services is known, the next step is to determine the “rate” or “price” for services at a level that is up to and not more than the full cost amount. The Council is responsible for this decision, which often becomes a question of balancing service levels, funding sources, and community priorities. The placement of a service or activity within the continuum of benefit received may require extensive discussion and, at times, fall into a “grey area.” However, with the resulting cost of services information from a User Fee Study, the Council can be assured that the adopted fee for service is reasonable, fair, and legal. The City will need to review all fees for service in this analysis, and where subsidies are identified, increase them to reduce the deficit, and where over-recoveries are identified, the fee must be reduced to be in compliance with the law.

3. User Fee Study Methodology

The Matrix Consulting Group utilizes a cost allocation methodology commonly known and accepted as the “bottom-up” approach to establishing User Fees. The term means that several cost components are calculated for each fee or service. These components then build upon each other to comprise the total cost of providing the service. The following chart describes the components of a full cost calculation:



The general steps utilized by the project team to determine allocations of cost components to a particular fee or service are:

- Calculate fully burdened hourly rates by position, including direct & indirect costs;
- Develop time estimates for the average time spent to deliver each service included in the study;
- Distribute the appropriate amount of the other cost components to each fee or service based on the staff time allocation basis, or another reasonable basis.

The results of these allocations provide detailed documentation for a reasonable determination of the actual cost of providing each service.

One of the key study assumptions utilized in the “bottom-up” approach is the use of time estimate averages for the provision of each fee-related service. Utilization of time estimates is a reasonable and defensible approach, especially since experienced staff members who understand service levels and processes unique to the City developed these estimates.

The project team worked closely with City staff in developing time estimates with the following criteria:

- Estimates are representative of average times for providing services. Extremely difficult or abnormally simple projects are not factored in the analysis.

- Estimates reflect the time associated with the position or positions that typically perform a service.
- Estimates provided by staff are reviewed and approved by the department / program and often involve multiple iterations before a Study is finalized.
- Estimates are reviewed by the project team (e.g., Matrix) for “reasonableness” against their experience with other agencies.
- Estimates were not based on time in motion studies, as they are not practical for the scope of services and time frame for this project.
- Estimates match the current or proposed staffing levels to ensure there is no over-allocation of staff resources to fee and non-fee-related activities.

The Matrix Consulting Group believes that while the use of time estimates is not perfect, it is the best option available for setting a standard level of service on which to base a jurisdiction’s fees for service and meets the requirements of California law.

The alternative to time estimating is actual time tracking, often referred to as billing on a “time and materials” basis. Except in the case of anomalous or sometimes very large and complex projects, the Matrix Consulting Group believes this approach is not cost effective or reasonable for the following reasons:

- Accuracy in time tracking is compromised by the additional administrative burden required to track, bill, and collect for services in this manner.
- Additional costs are associated with administrative staff’s billing, refunding, and monitoring deposit accounts.
- Customers often prefer to know the fees for services in advance of applying for permits or participating in programs.
- Departments can better predict revenue streams and staffing needs using standardized time estimates and anticipated permit volumes.

Situations arise where the size and complexity of a given project warrants time tracking and billing on a “time and materials” basis. The Matrix Consulting Group has recommended taking a deposit and charging Actual Costs for such fees as appropriate and itemized within the current fee schedule.

4. Results Overview

The motivation behind a cost of services (User Fee) analysis is for Council and City staff to maintain services at a level that is both accepted and effective for the community, and also to maintain control over the policy and management of those services.

It should be noted that the results presented in this report are not a precise measurement. In general, a cost-of-service analysis takes a “snapshot in time,” where a fiscal year of financial and operational information is utilized. Changes to the structure of fee names, along with the use of time estimates, only allow for a reasonable projection of subsidies and revenue. Consequently, the Council and staff should rely conservatively upon these estimates to gauge the impact of implementation going forward.

Discussion of results in the following chapters is intended as a summary of extensive and voluminous cost allocation documentation produced during the Study. Each chapter will include detailed cost calculation results for each major permit category, including the following:

- **Modifications:** discussions regarding any proposed revisions to the current fee schedule, including elimination or addition of fees.
- **“Per Unit” Results:** comparison of the full cost of providing each unit of service to the current fee for each unit of service (where applicable).
- **Annualized Results:** utilizing the volume of activity estimates, annual subsidies and revenue impacts were projected.

The full analytical results were provided to City staff under separate cover from this summary report.

5. Building

The City of Los Altos' Building Division is responsible for architectural and structural plan checks, building inspections, and other activities related to the construction and demolition of buildings and structures. This division also enforces state and municipal building codes. The following subsections discuss the proposed fee schedule modifications, the detailed per unit results, and revenue impacts.

Fee Schedule Modifications

The Building fee schedule consists of both flat fees and valuation-based fees, both of which were studied. The project team worked with the Building Division to streamline the current fee schedule by modifying the structure and adding new flat fees. The following points highlight the proposed changes:

- **Removed Fees:** The following fees were removed because these services cannot be charged per California law:
 - 'Property Research – Residential'
 - 'Property Research – Commercial'
- **Added Fees:** The following fees were added to fully capture the division's scope of services:
 - 'ADU Plan Check'
 - 'Water Heater'
 - 'Water Line, Sewer Line'
 - 'Photovoltaic'
 - 'Single Family EV Charging Stations'

Identifying and implementing these changes to the Building fee structure will help to clarify the fee schedule, increase the consistency of fee application, and reduce the complexity in relation to both internal staff and applicants determining the full fees associated with a project.

Detailed Results

The Building Division collects fees for inspections, plan checks, and mechanical, electrical, and plumbing permits, among others. The total cost calculated for each service includes direct City staff costs, Departmental, and Citywide overhead. The following table

details the fee name, current fee, total cost, and the difference associated with providing each service.

Table 4: Total Cost Per Unit Results – Building Flat Fees

Fee Name	Current Fee	Total Cost	Difference
Building Permit			
\$1.00 - \$3,000	\$121.00	\$240.21	(\$119.21)
\$3,001 - \$25,000			
First \$3,000	\$121.00	\$240.21	(\$119.21)
Each Additional \$1000	\$24.15	\$30.99	(\$6.84)
\$25,001 - \$50,000			
First \$25,000	\$652.30	\$921.88	(\$269.58)
Each Additional \$1000	\$18.15	\$31.92	(\$13.77)
\$50,001 - \$100,000			
First \$50,000	\$1,106.05	\$1,719.82	(\$613.77)
Each Additional \$1000	\$12.15	\$17.35	(\$5.20)
\$100,001 - \$500,000			
First \$100,000	\$1,713.55	\$3,472.20	(\$1,758.65)
Each Additional \$1000	\$10.50	\$7.59	\$2.91
\$500,001 - \$1,000,000			
First \$500,000	\$5,913.55	\$7,549.02	(\$1,635.47)
Each Additional \$1000	\$9.10	\$12.33	(\$3.23)
\$1,000,001 and up			
First \$1,000,000	\$11,699.00	\$14,276.78	(\$2,577.78)
Each Additional \$1000	\$8.55	\$6.17	\$2.38
Electrical, Mechanical or Plumbing Permit			
\$1 - \$3,000	\$121.00	\$204.01	(\$83.01)
\$3,001 - \$25,000			
First \$3,000	\$121.00	\$389.92	(\$268.92)
Each Additional \$1000	\$33.60	\$24.18	\$9.42
\$25,001 - \$50,000			
First \$25,000	\$860.20	\$921.88	(\$61.68)
Each Additional \$1000	\$24.15	\$25.51	(\$1.36)
\$50,001 - \$100,000			
First \$50,000	\$1,463.95	\$1,559.68	(\$95.73)
Each Additional \$1000	\$16.80	\$52.47	(\$35.67)
\$100,001 and up	1.60%	1.62%	-0.02%
Plan Check			
ADU Plan Check	New	\$741	N / A
Building Plan Check	65%	135%	-70%
Energy Plan Check (Title 24)	25%	25%	0%
Solar/Photovoltaic Permit (Residential/ Commercial)			
Residential			
15 kw or less	\$450	\$450	\$0
15kw - 50kw	\$450	\$450	\$0
Per kw above 15kw	\$15	\$15	\$0
51-250kw	\$1,000	\$1,000	\$0
Per kw above 50 kw	\$7	\$7	\$0
250+ kw	\$2,393	\$2,393	\$0
Per kw above 250kw	\$5	\$5	\$0

Fee Name	Current Fee	Total Cost	Difference
Commercial			
50 kw or less	\$1,000	\$1,000	\$0
50kw-250kw	\$1,000	\$1,000	\$0
Per kw above 50 kw	\$7	\$7	\$0
250+ kw	\$2,400	\$2,400	\$0
Per kw above 250kw	\$5	\$5	\$0
Standalone Permits			
Water Heater	New	\$178	N / A
Water Line, Sewer Line	New	\$302	N / A
Photovoltaic	New	\$302	N / A
Single Family EV Charging Stations	New	\$356	N / A
Building Code Compliance Review	\$576	\$148	\$427
Demolition Permit			
Single Family	\$518.45	\$233	\$286
Commercial/Multiple-Family	\$852.25	\$356	\$496
Duplicate Permit Request	\$94.50	\$109	(\$14)
Re-Inspection Request	\$147.45	\$248	(\$100)
Street Address Change	\$575.95	\$726	(\$150)
Temporary Certificate of Occupancy	\$554.80	\$653	(\$98)
Inspections outside of normal business hours (minimum charge - 2 hours)	\$425.25	\$576	(\$150)
Stop Work Penalties	2-4x Plan Review and Permit Fees		
In House Review	\$129.50	\$296	(\$167)
Consultant Review	Consultant Cost		
Expired Permit Fees	Based on original permit fees		
Certificate of Occupancy	\$162.35	\$109	\$54
Alternative Means and Methods Request	\$403.20	\$444	(\$41)

The City is currently under-recovering its costs for Building fees. The largest under-recovery is in the fee for building permits for projects with a valuation of over \$1 million. It is important to note that the total cost reflected in the table is inclusive of all city staff and includes Planning and Engineering staff time spent on reviewing and inspecting building permits.

Revenue Impact

The project team worked with City staff to gather permit workload information for the past fiscal year (FY22-23). The workload information is multiplied against the city's current fee to calculate the current revenue, and it is multiplied by the total cost to calculate the total annual cost. Based upon that calculation, the Building division is annually under-recovering its costs by approximately \$699,000. The following table shows by major fee category, the current fee revenue, the total cost, and the resulting difference:

Table 5: Annual Results – Building

Fee Category	Current Revenue	Total Annual Cost	Difference
Building Permits	\$1,988,241	\$2,612,199	(\$623,958)
MEP Permits	\$236,427	\$342,409	(\$105,982)
Other Misc. Fees	\$449,281	\$418,840	\$30,441
Total	\$2,673,949	\$3,373,448	(\$699,499)

The deficit related to Building services is approximately \$700,000, reflecting a cost recovery level of 79%. The largest drivers of this deficit are the valuation-based Building Permits, more specifically, projects that are valued at \$100,000 or higher, which represent the majority of the plan review and inspection workload for the Division. Reviewing and adjusting the valuation-based fees to be more reflective of staff time and effort will help the City adjust this deficit.

6. Engineering

The Engineering Division ensures public safety through construction inspections, the review of private development and renovation plans, and the issuance of permits for utility work and encroachment permits, among other services. The following subsections discuss the proposed modifications to the fee schedule, the per unit results, and revenue impacts.

Fee Schedule Modifications

Based upon discussions with Engineering staff, no modifications to the current fee schedule were needed. The Engineering Division’s fee schedule already accurately reflects the scope of services being provided by the City.

Detailed Results

The Engineering Division collects fees for sewer and stormwater, as well as public right-of-way fees. The total cost calculated for each service includes direct staff costs, Departmental, and Citywide overhead. The following table details the fee name, current fee, total cost, and difference associated with each service offered.

Table 6: Total Cost Per Unit Results - Engineering

Fee Name	Current Fee	Total Cost	Difference
Public Works/Environmental Services and Utilities			
County Sewer Plan Check	\$691.25	\$1,793	(\$1,102)
Encroachment Permit			
Parking Stall			
Base	\$114.10	\$291	(\$177)
Per Stall Per Day	\$34.15	\$34	\$0
Other Permits			
Special	\$489.50	\$705	(\$215)
Miscellaneous	\$288.00	\$1,192	(\$904)
Miscellaneous Permits			
Final Subdivision Map Check			
Base	\$1,347.75	\$4,693	(\$3,345)
City Land Surveyor Deposit	\$2,000.00	\$2,000	\$0
Public Works Inspection	6%	6%	0%
Lot-Line Adjustment	\$633.65	\$2,717	(\$2,083)
Sewer Dye Test	\$167.00	\$191	(\$24)
Stormwater Management Plan Check	\$460.85	\$1,873	(\$1,412)
Temporary Lane Closure Permit			
Application	\$604.75	\$628	(\$23)
Each additional day	\$68.35	\$93	(\$25)

Fee Name	Current Fee	Total Cost	Difference
Utility Street Cut Permit	2%	4%	-2%
Additional Inspection Visit (for existing permit)	\$184.10	\$352	(\$168)
Sewer Permit			
City	\$138.10	\$724	(\$586)
County	\$259.10	\$1,594	(\$1,335)
Sewer Tap-in	\$57.60	\$145	(\$88)
Transportation Permit			
Single	\$28.65	\$16	\$13
Annual	\$28.65	\$90	(\$61)
Public Works Plan Check (Actual Cost)		Actual Cost	
Transportation Plan Check (Actual Cost)		Actual Cost	
Vacating Easement/Right-of-way	\$5,761	\$11,143	(\$5,382)

Most of the Engineering Division’s fees are under-recovering, ranging from a low of \$23 for ‘Temporary Lane Closure Permit – Application’ to a high of \$5,382 for the ‘Vacating Easement/Right-of-way’.

Revenue Impact

The project team worked with City staff to capture workload for the last fiscal year (FY22-23). Based on this workload data, the project team calculated the revenue at the current fee by taking the workload for each fee category and multiplying it by the current fee amount. The full cost was calculated by taking that same workload and multiplying it by the total cost. The difference between current revenue and the full cost is approximately \$512,000. The following table shows by major fee category, the current revenue, the total cost, and the difference.

Table 7: Annual Results - Engineering

Fee Category	Current Revenue	Total Annual Cost	Difference
Encroachment Permits	\$139,139	\$452,219	(\$313,081)
Public Works Inspection	\$16,887	\$16,887	\$0
Temporary Lane Closures	\$379,994	\$448,131	(\$68,138)
Utility Street Cut Permits	\$130,564	\$261,128	(\$130,564)
Transportation Permit	\$229	\$128	\$101
Total	\$666,813	\$1,178,495	(\$511,681)

Approximately \$313,000 of Engineering’s deficit is due to Encroachment Permits, specifically the miscellaneous encroachment permits. The current per unit deficit for that fee category is approximately \$904, and the City processes approximately 339 of those permits annually. Reviewing and adjusting that fee category will have a significant impact on the City’s revenue.

7. Planning

The Planning Division is responsible for the development of the General Plan, land use decisions and development review, and policy documents such as the City's Zoning Ordinance. Fees examined in this study relate to development review and include conditional use permits, variances, and design reviews. The following subsections discuss any proposed fee schedule modifications, detailed per unit results, and revenue impacts.

Fee Schedule Modifications

In discussions with Planning staff, the following modifications to the current fee schedule were proposed:

- **Added Fees:** The following fees highlight new services offered by this Division or services already offered for which the Division would like to assess a fee:
 - Historic Alteration Permit
 - Historic Resource/Landmark Designation
 - Home Occupation Permits
 - Mills Act Contract
 - Temporary Use Permit
 - Consulting Arborist
- **Expanded Fees:** To capture staff time and effort more accurately, the 'Conditional Use Permit' was expanded into Regular and 'Non-Profit' categories

The adjustments and additions proposed will provide applicants with a better reflection of the services being provided by the Planning Division.

Detailed Results

The Planning Division collects fees for conditional use permits, subdivision maps, and sign reviews, among other services. The following table lists all Planning Division fees and details the fee name, current fee, total cost¹, and difference associated with each service offered.

¹ The total cost includes Planning Division, Building Division, and Engineering staff review as well as departmental and citywide overhead.

Table 8: Total Cost Per Unit Results – Planning Fees

Fee Name	Current Fee	Total Cost	Difference
Annexation	\$576	\$18,001	(\$17,425)
Appeal	\$691	\$3,905	(\$3,214)
Application Extension			
Single-Family	\$369	\$1,012	(\$644)
Commercial/Multiple-Family	\$691	\$1,703	(\$1,012)
Application Modification			
Single-Family	\$691	\$2,341	(\$1,650)
Commercial/Multiple-Family	\$2,074	\$5,127	(\$3,053)
Certificate of Compliance	\$1,969	\$4,003	(\$2,034)
Conditional Use Permit			
New Use Permit or Modification	\$5,761	\$9,180	(\$3,419)
New Use Permit or Modification (Non-Profit)	\$5,761	\$8,809	(\$3,048)
Design Review			
Single-Family			
Administrative (<150 sq. ft.)	\$87	\$691	(\$604)
Administrative (>150 sq. ft.)	\$325	\$3,469	(\$3,143)
Zoning Administrator	\$2,304	\$6,415	(\$4,110)
Commercial/Multiple-Family			
Administrative	\$1,603	\$7,131	(\$5,528)
Planning Commission	\$10,939	\$14,825	(\$3,886)
Development Agreement Fee	\$5,761	\$13,986	(\$8,225)
	Actual		
Environmental Initial Study	Cost	\$4,608	N / A
General Plan and / or Zoning Map Amendment	\$6,337	\$4,608	\$1,728
Historic Alteration Permit	New	\$7,172	N / A
Historic Resource/Landmark Designation	New	\$4,275	N / A
Home Occupation Permits	New	\$461	N / A
Flood Hazard Letter	\$81	\$691	(\$610)
Mills Act Contract	New	\$6,579	
Parklet Permit			
Initial Application	\$500.00	\$553	(\$53)
Annual Renewal	\$3.00	\$3	\$0
Planned Unit Development	\$8,640.80	\$15,747	(\$7,106)
Preliminary Project Review			
Staff Review	\$1,267.35	\$6,649	(\$5,382)
Planning Commission Study Session	\$1,728.15	\$11,068	(\$9,340)
Public Notification - Single-Family	\$57.60	\$88	(\$31)
Public Notification - All Other	\$1.05	\$2	(\$0)
Outdoor Display Permit	\$100.00	\$1,152	(\$1,052)
Reversion to Acreage	\$1,967.95	\$7,279	(\$5,311)
Sidewalk Dining Permit			
Initial Application	\$250.00	\$553	(\$303)
Annual Renewal	\$500.00	\$357	\$143
Sign Review			
Modification of Existing Sign	\$115.25	\$461	(\$346)
New/Modification of Sign Program	\$921.70	\$1,382	(\$461)
New Sign	\$230.45	\$691	(\$461)

Fee Name	Current Fee	Total Cost	Difference
Single-Story Overlay Rezoning			
Neighborhood Approval and Election	\$311.60	\$10,998	(\$10,687)
Zoning Map Amendment	\$3,686.75	\$14,265	(\$10,579)
Temporary Use Permit	New	\$451	
Tentative Subdivision Map Review			
Tract Map	\$5,760.55	\$10,546	(\$4,785)
Parcel Map	\$5,760.55	\$10,546	(\$4,785)
Urban Lot Split	\$5,760.55	\$5,987	(\$226)
Lot Line Adjustment / Lot Merger	\$1,967.95	\$5,020	(\$3,052)
Tentative Subdivision Map Extension/Modification			
Administrative	\$1,967.95	\$3,728	(\$1,760)
PC/CC	\$3,168.30	\$6,674	(\$3,506)
Tree Removal	\$86.75	\$868	(\$781)
Consulting Arborist			Actual Cost
Variance Review			
Single Family	\$2,304.25	\$10,595	(\$8,291)
Commercial/Multi-family	\$4,608.45	\$12,900	(\$8,291)
Zoning Compliance / Verification Letters	\$576.00	\$691	(\$115)

The majority of the Planning Division’s fees are under-recovering, ranging from a low of \$31 for ‘Preliminary Project Review - Public Notification - Single-Family’ to a high of \$17,425 for ‘Annexation’.

Revenue Impact

The project team worked with City staff to gather permit workload information for the past fiscal year (FY22-23). The workload information is multiplied against the city’s current fee to calculate the current revenue, and it is multiplied by the total cost to calculate the total annual cost. Based upon that calculation, the Planning division is annually under-recovering its costs by approximately \$666,000. The following table shows by major fee category, the current fee revenue, the total cost, and the resulting difference:

Table 9: Annual Results – Planning

Fee Category	Current Revenue	Total Annual Cost	Difference
Appeal	\$691	\$3,905	(\$3,214)
Certificate of Compliance	\$3,938	\$8,007	(\$4,069)
Conditional Use Permit	\$5,761	\$9,180	(\$3,419)
Design Review	\$267,236	\$658,508	(\$391,272)
Sign Review	\$2,305	\$6,912	(\$4,608)
Temporary Use Permit	\$0	\$451	(\$451)
Tentative Subdivision Map Reviews	\$53,290	\$278,778	(\$225,488)
Tree Fees	\$21,080	\$210,957	(\$189,876)
Variance	\$11,521	\$44,6868	(\$33,165)

Fee Category	Current Revenue	Total Annual Cost	Difference
Zoning Verification / Compliance	\$1,728	\$2,074	(\$346)
Total	\$346,470	\$1,102,499	(\$666,030)

The deficit related to Planning is approximately \$666,000 and represents a cost recovery level of 34%. This deficit is due to Design Review and Tentative Subdivision Maps. Within Design Review, the deficit is primarily due to single-family projects greater than 150 sq. ft. Reviewing those two fee categories will be critical for the City when determining where and how to evaluate fees.

8. Development Services Surcharge

There are two typical surcharges assessed as part of the development review process – General Plan Maintenance Fee and Technology fee. Currently, the City of Los Altos charges a Technology fee but not a General Plan Maintenance Fee. The following subsections discuss the calculation of the General Plan Maintenance Fee and Technology Fee.

General Plan Maintenance Fee

A General Plan Maintenance fee is meant to account for updates to the general plan, zoning ordinance, housing elements, and other long-range planning activities that are part of the larger General Plan.

The General Plan Maintenance fee is governed by Government Code Section 66014(b), which states that fees “may include the costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and recommendations.” This code states that fees can be charged against zoning changes, zoning variances, use permits, building inspections, and filing applications.

More typically, the fee is charged during the building permit phase so as to ensure any development project, which gets to that phase, makes enough of an impact to require the need for an update to the Zoning Code or the General Plan. This fee should only be applied to major building permits (i.e., new or remodel / tenant improvements) rather than standalone permits for water heaters or electrical outlets.

A common methodology for assessing a General Plan Maintenance fee is to set it as a percentage of the building permit fee, meaning the fee is assessed as a percentage of the total building permit fee assessed to a project.

The project team calculated and evaluated the full cost of General Plan Maintenance based on the Building Permit Fee methodology.

Table 10: General Plan Maintenance Fee Cost Components

Cost Category	Estimated Cost	Years	Annual Cost
Housing Element	\$600,000	8.00	\$75,000
Safety Element	\$150,000	5.00	\$30,000
Other Elements	\$1,200,000	15.00	\$80,000
Total Annual Cost			\$185,000

The annual cost to the City for updating its general plan is approximately \$185,000. The largest component of this cost is the annual staff cost associated with long-range activities.

Table 11: General Plan Maintenance Fee Calculation

Category	Building Permit Fee
Total Annual Cost	\$185,000
General Plan Fee Basis	\$2,612,199
General Plan Maintenance Fee	7%

The full cost of the General Plan Maintenance Fee is 7% of the Building Permit Fee. The City can choose whether or not to charge this fee, but either way the fee calculated as part of this study is the maximum justifiable fee that the City can assess to help recover for its general plan maintenance related costs.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of the General Plan Maintenance Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 12: General Plan Maintenance Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0016% of Building Valuation
Los Gatos	0.5% of Building Valuation
Menlo Park	3% of Permit Fee
Morgan Hill	15% of Permit Fee
Mountain View	0.26% of Building Valuation
Palo Alto	0.0017% of Building Valuation
Saratoga	0.285% of Building Valuation

The General Plan Maintenance fees charged by the surveyed jurisdictions are either based on building valuation or building permit costs. The City of Los Altos’ full cost fee of 7% of the building permit falls between Menlo Park and Morgan Hill’s fee calculation.

Technology Surcharge Fee

A Technology Fee allows the City to support the costs associated with the City’s permitting system, staff time for managing the systems, acquiring the system, mobile devices used for permitting, etc. The City of Los Altos currently assesses a Technology surcharge fee as 8% of all development-related fees.

The project team worked with City staff to gather information on the different types of software systems that are in use. The following table shows by cost category the annual cost:

Table 13: Annual Technology Cost Calculation

Cost Category	Estimated Cost	Years	Annual Cost
Bluebeam	\$10,000	1	\$10,000
GIS	\$80,000	1	\$80,000
Annual TrakiT	\$36,000	1	\$36,000
Trakit Deployment	\$1,500,000	10	\$150,000
Total Technology Costs			\$276,000

The annual technology-related costs are approximately \$276,000 for the City of Los Altos. The City is already utilizing the most defensible methodology for assessing the fee, which is based proportionately on the percentage of the permit fee, as the greater the permit fee, the greater the Technology Fee, as there is more software utilization and storage space for larger projects. Therefore, the project team took the total Annual Technology Cost and divided it by the annual fee-related revenue associated with Building, Planning, and Engineering. The following table shows this calculation:

Table 14: Technology Fee Calculation

Category	Amount
Total Technology Annual Cost	\$276,00
Total Fee-Related Cost	\$5,564,443
Technology Fee as % of Permit Fee	5%

Based upon this calculation, the City’s full cost Technology Fee would be 5% of all Building, Planning, and Engineering permit fees. It is recommended that this fee would be assessed on all permits and applications. Therefore, if a permit fee were \$100, the technology fee collected would be \$5.00, whereas if a permit fee were \$1,000, the Technology fee collected would be \$50.00. This type of structure enables the Technology fee to be more proportionately distributed based on the projects and their impact on the system.

As part of this analysis, the project team conducted a comparative survey of other local jurisdictions and their assessment of a Technology Fee. Like other comparative efforts, the survey below shows the fees charged by the jurisdiction and does not include the basis upon which the other jurisdictions calculated or developed their fee. The following table shows the results of this comparative analysis:

Table 15: Technology Fee – Comparative Survey

Jurisdiction	Fee Amount
Campbell	0.0004% of Building Valuation
Los Gatos	4.0% of Permit Fee
Menlo Park	3.0% of Permit Fee
Morgan Hill	5.0% of Permit Fee
Mountain View	4.0% of Permit Fee
Palo Alto	Built into permit fees
Saratoga	8.1% of Permit Fee

With the exception of Palo Alto, which does not individually charge a technology fee, all surveyed jurisdictions charge their technology fee as a percentage of the permit. The City of Saratoga, at 8.1%, most closely matches Los Altos’ current surcharge of 8%, whereas the full cost of 5% is more in alignment with Los Gatos, Mountain View, and Morgan Hill.

Surcharge Funds

It is a best practice to collect and account for General Plan Maintenance and Technology surcharges in separate accounts, as doing so ensures compliance with funding requirements, enables appropriate allocation of funds to general plan or technology-related activities, and mitigates any potential issues with the comingling of funds.

9. Cost Recovery Considerations

The following sections provide guidance regarding how and where to increase fees, determine annual update factors, and develop cost recovery policies and procedures.

Fee Adjustments

This study seeks to document and outline on a fee-by-fee basis where the City is under and over collecting for its fee-related services. City Council and staff should review the results of the study and adjust fees in accordance with Departmental and City philosophies and policies. The following bullet points outline the major options the city has in adjusting its fees.

- **Over-Collection:** Upon review of the fees that were shown to be over-collecting for costs of services provided, the City should reduce the current fee to be in line with the full cost of providing the service.
- **Full Cost Recovery:** For fees that show an under-collection for costs of services provided, the City may decide to increase the fee to full cost recovery immediately.

The City will need to review the results of the fee study and associated cost recovery levels and determine how best to adjust fees.

Based on the permit or review type, the City may wish to increase the fee to cover the full cost of providing services. Certain permits may be close to cost recovery already, and an increase to full cost may not be significant. Other permits may have a more significant increase associated with full cost recovery.

Increasing fees associated with permits and services that are already close to full cost recovery can potentially raise a department's overall cost recovery level. Often, these minimal increases can provide necessary revenue to counterbalance fees that are unable to be increased. (e.g., appeals).

The City should consider increasing fees for permits for which services are rarely engaged to full cost recovery. These services often require specific expertise and can involve more complex research and review due to their infrequent nature. As such, setting these fees at full cost recovery will ensure that when the permit or review is requested, the City is recovering the full cost of its services.

Annual Adjustments

Conducting a comprehensive analysis of fee-related services and costs annually would be cumbersome and costly. The general guideline for comprehensive fee analyses is between three and five years. This allows for jurisdictions to ensure they account for organizational changes such as staffing levels, as well as process efficiencies, code or rule changes, or technology improvements.

Developing annual update mechanisms allows jurisdictions to maintain current levels of cost recovery while accounting for increases in staffing or expenditures related to permit services. The two most common types of update mechanisms are the Consumer Price Index (CPI) and Cost of Living Adjustment (COLA) factors. The following points provide further detail on each of these mechanisms.

- **COLA / Personnel Cost Factor:** Jurisdictions often provide staff with annual salary adjustments to account for increases in local cost of living. These increases are not tied to merit or seniority but rather meant to offset rising costs associated with housing, gas, and other livability factors. Sometimes, these factors vary depending on the bargaining group of a specific employee. Generally, these factors are around two or three percent annually.
- **CPI Factor:** A common method of increasing fees is to look at regional cost indicators, such as the Consumer Price Index. These factors are calculated by the Bureau of Labor Statistics, put out at various intervals within a year, and are specific to states and regions.

The City of Los Altos should review its current options internally (COLA) as well as externally (CPI) to determine which option better reflects its goals. If choosing a CPI factor, the City should outline which CPI should be used, including specific region, and adoption date. If choosing an internal factor, again, the City should be sure to specify which factor if multiple exist.

Policies and Procedures

This study has identified areas where the City is under-collecting the cost associated with providing services. This known funding gap is, therefore, being subsidized by other City revenue sources.

Development of cost recovery policies and procedures will serve to ensure that current and future decision makers understand how and why fees were determined and set, as well as provide a road map for ensuring consistency when moving forward. The following

subsections outline typical cost recovery levels and discuss the benefits associated with developing target cost recovery goals and procedures for achieving and increasing cost recovery.

1 Typical Cost Recovery

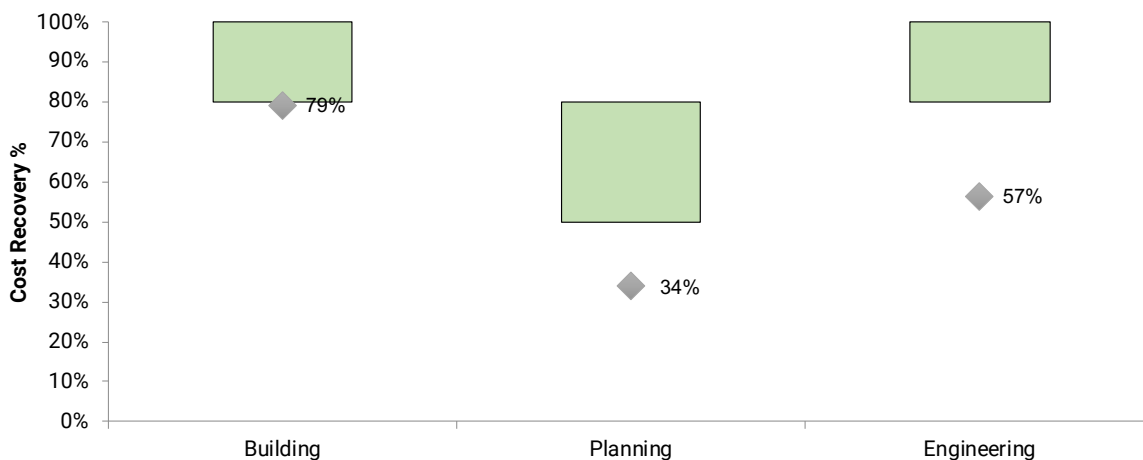
The Matrix Consulting Group has extensive experience in analyzing local government operations across the United States and has calculated typical cost recovery ranges. The following table outlines these cost recovery ranges by major service area.

Table 16: Typical Cost Recovery Ranges by Department

Department / Program	Typical Cost Recovery Ranges
Building	80 – 100%
Planning	50 – 80%
Engineering	80 – 100%

Information presented in the table above is based on Matrix Consulting Group’s experience in analyzing local governments’ operations across the United States and within California and reflects *typical* cost recovery ranges observed by local adopting authorities. The following graph depicts how Los Altos compares to industry cost recovery range standards.

Current Revenue Cost Recovery vs. Typical Revenue Cost Recovery



None of Los Altos’ Development Services divisions are within the typical cost recovery ranges. Building is close to the typical cost recovery, but still slightly under recovering.

2 Development of Cost Recovery Policies and Procedures

The City should review the current cost recovery levels and adopt a formal policy regarding cost recovery. This policy can be general in nature and can apply broadly to the City as a whole or to each department and division specifically. A department specific cost recovery policy would allow the City to better control the cost recovery associated with different types of services being provided and the community benefit received. It should be noted that a jurisdiction may choose not to set all their fees at one hundred percent cost recovery in order to benefit the community.

Appendix – Comparative Survey

As part of the Development Cost of Services (User Fee) Study for the City of Los Altos, the Matrix Consulting Group conducted a comparative survey of development service fees. The City identified seven (7) Northern California jurisdictions to be included in the comparative survey: Mountain View, Palo Alto, Menlo Park, Los Gatos, Campbell, and Saratoga. The project team then reviewed public documents (i.e., agenda items, staff reports, budgets, fee schedules, and ordinances) and / or contacted jurisdictions to get comparative information.

The following sections outline key factors to consider when reviewing the comparative survey, as well as graphical comparisons of current fees and total calculated costs for various permits issued or services provided.

Factors to Consider When Reviewing Comparative Survey Results

While this report provides a reasonable estimate and understanding of the true costs of providing services, many jurisdictions also wish to consider the local “market rates” for services as a means for assessing what types of changes in fee levels their community can bear. A comparative survey does not provide adequate information regarding the relationship between a jurisdiction’s cost and its fees. The following points highlight various factors to consider when reviewing comparative survey results.

- **Economic Factors:** Three important economic factors to consider when comparing fees across multiple jurisdictions are: population, budget, and workforce size. These factors can impact how and when fees are administered, as a jurisdiction with a smaller population may choose not to charge a fee, or a smaller workforce size may inhibit their ability to administer a fee.
- **Recency Factors:** Recency is two-fold; when did a jurisdiction last update their fee schedule and when did they last undergo a comprehensive fee analysis. It is important to note that even though jurisdictions may have conducted fee studies, fees are not always adopted at full cost recovery. The comparative results only show the adopted fee for the surveyed jurisdiction, not necessarily the full cost associated with the comparable service.
- **Cost Recovery Factors:** Each jurisdiction and its fees are different, and many are not based on the actual cost of providing services as various policy decisions may subsidize services.

- Fee Variance Factors:** The same “fee” with the same name may include different steps or sub-activities. In addition, jurisdictions provide varying levels of service and have varying levels of costs associated with providing services, such as staffing levels, salary levels, indirect overhead costs, etc.

In addition to the factors noted, market surveys can also run the risk of creating a confusing excess of data that will obscure rather than clarify policy issues. Because each jurisdiction is different, the Matrix Consulting Group recommends that the information contained in the market comparison of fees be used as supporting information rather than a tool for establishing an acceptable price point for services.

The following subsections provide contextual information regarding the jurisdictions included in the comparative survey.

1. Economic Factors

To provide additional context to the comparative survey information, the project team collected economic factors for the jurisdictions included. The following tables rank each jurisdiction from smallest to largest based on population, budget, and FTE.

Table 17: Ranking of Jurisdictions by Population

Jurisdiction	2021 Population
Mountain View	81,516
Palo Alto	66,680
Morgan Hill	45,342
Campbell	42,754
Los Gatos	30,767
Los Altos	30,700
Menlo Park	30,229
Saratoga	30,163

Table 18: Ranking of Jurisdictions by Citywide Total Budget²

Jurisdiction	FY24 Budget
Palo Alto	\$965,945,000
Mountain View	\$477,721,195
Morgan Hill	\$205,479,142
Menlo Park	\$131,496,718
Campbell	\$105,827,111
Los Gatos	\$56,100,000
Los Altos	\$51,161,309
Saratoga	\$33,395,681

² To ensure appropriate comparisons, full operating budget (all funds) has been used for all jurisdictions.

Table 19: Ranking of Jurisdictions by FTE

Jurisdiction	FY24 FTE
Palo Alto	1017.85
Mountain View	698
Menlo Park	296.5
Morgan Hill	203.75
Campbell	177.5
Los Gatos	162.83
Los Altos	149
Saratoga	56.5

Based on the data shown in the previous tables, the City of Los Altos generally ranks on the lower end in terms of budget, staffing, and population.

2. Recency Factor

While the previous comparative information provides some perspective when comparing the City of Los Altos’ population, budget, and staffing with surveyed jurisdictions, other key factors to consider are when a jurisdiction’s fee schedule was last updated and when the last comprehensive analysis was completed. The following tables detail when each surveyed jurisdiction last updated its fee schedule and last conducted a fee study.

Table 20: Last Fee Schedule Updated

Jurisdiction	Response
Campbell	2023
Los Altos	2023
Los Gatos	2023
Menlo Park	2022
Morgan Hill	2023
Mountain View	2023
Palo Alto	2023
Saratoga	2023

Table 21: Last Fee Study Conducted

Jurisdiction	Response
Campbell	N / A
Los Altos	2020
Los Gatos	2019
Menlo Park	2020
Morgan Hill	N / A
Mountain View	2018
Palo Alto	2013
Saratoga	2023

All of the surveyed jurisdictions have published new fees, and of those surveyed, four have conducted a fee study in the last five years.

It is important to note that even though jurisdictions may have conducted fee studies, fees are not always adopted at full cost recovery. The comparative results will only show the adopted fees for the surveyed jurisdictions, not necessarily the full cost associated with the comparable service.

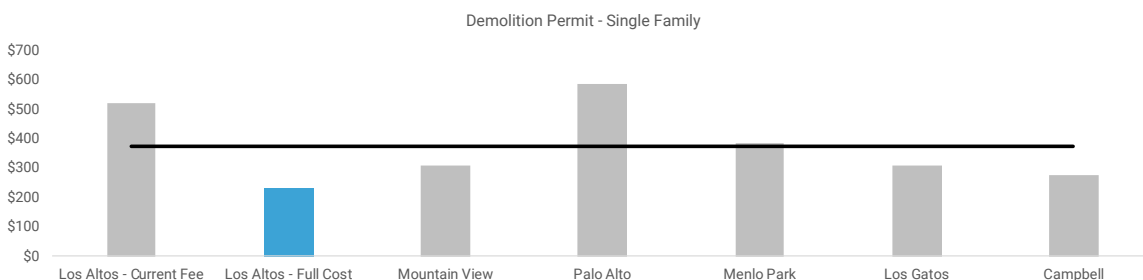
Market surveys can run the risk of creating a confusing excess of data that will obscure rather than clarify policy issues. Because each jurisdiction is different, the Matrix Consulting Group recommends that the information contained in the market comparison of fees be used as a secondary decision-making tool rather than a tool for establishing an acceptable price point for services.

Comparative Survey Results

As part of this study, the project team conducted a survey of how the City’s current user fees and calculated full cost compared to other identified jurisdictions. The following subsections provide a comparative look at several fee-related services provided by the City versus the surveyed jurisdictions.

1 Demolition Permit - Single Family

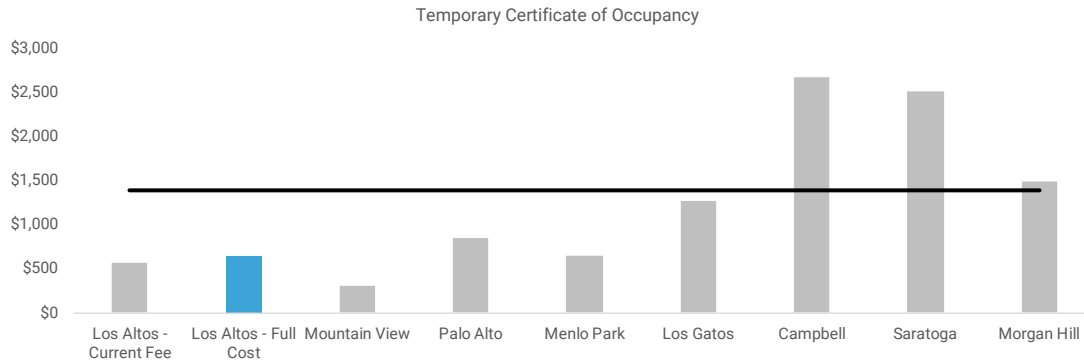
The City of Los Altos currently assesses a fee of \$518.45 for a Demolition Permit. Through this study, the project team calculated the full cost to be \$233. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis, the City’s current fee is higher than the jurisdictional average of \$371, while the full cost fee is lower. The City’s current fee is most closely aligned with Palo Alto’s.

2 Temporary Certificate of Occupancy

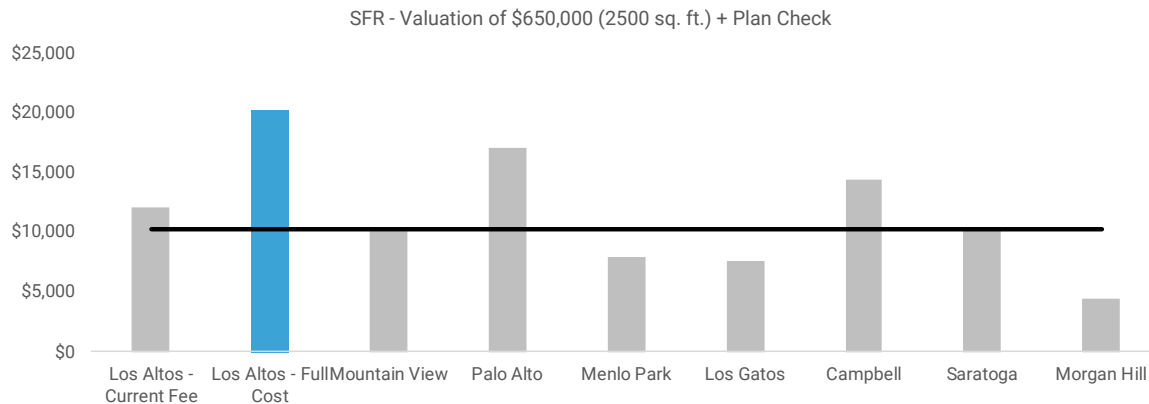
The City of Los Altos currently assesses a fee of \$554.80 for a Temporary Certificate of Occupancy. Through this study, the full cost was calculated at \$653. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current and full cost fee are lower than the jurisdictional average of \$1,386. The city’s current fee and full cost are comparable to the fee charged by Menlo Park. However, the cities of Campbell and Saratoga have high fees.

3 SFR - Valuation of \$650,000 (2500 sq. ft.) + Plan Check

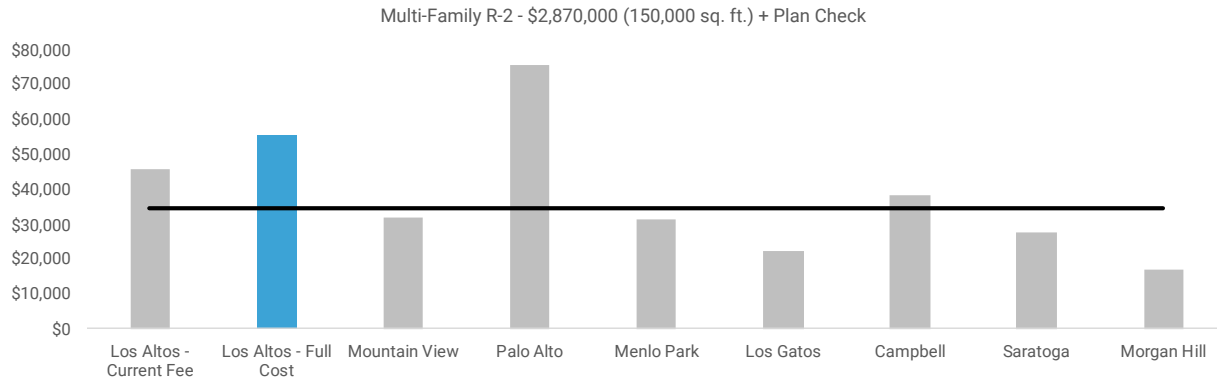
The City of Los Altos currently assesses a fee of \$12,010 for the plan review and inspection of a Single-Family Residential Project valued at \$650,000. Through this study, the project team calculated the full cost to be \$20,208. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee and full cost are above the jurisdictional average of \$10,223. The City’s full cost fee at \$20,208 is closest to the City of Palo Alto’s fee of \$17,063.

4 Multi-Family R-2 - \$2,870,000 (150,000 sq. ft.) + Plan Check

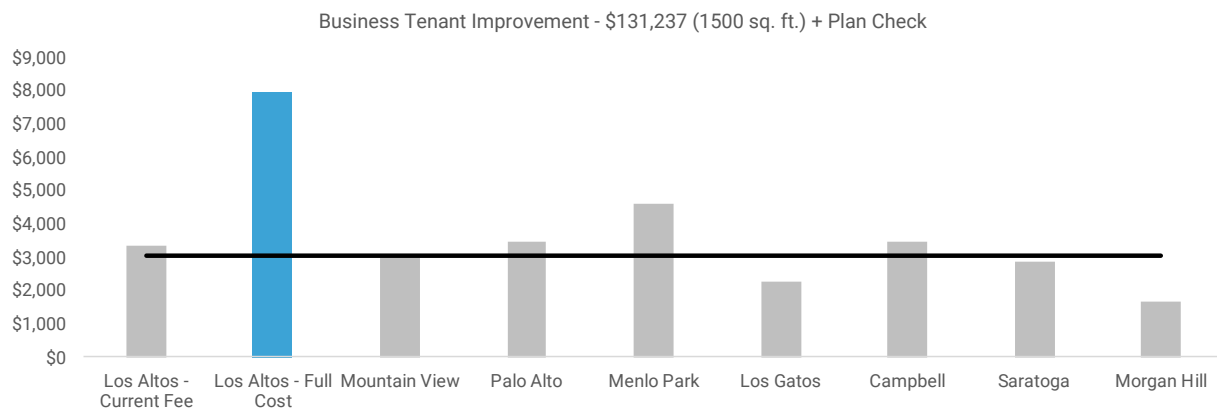
The City of Los Altos currently assesses a fee of \$45,648 for the plan review and inspection of a Multi-Family Residential Project valued at \$2,87 million, and the full cost was calculated at \$55,487. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee and full cost are above the jurisdictional average of \$34,778. The City’s current and full cost fee are still below the fee assessed by the City of Palo Alto (\$75,337).

5 Business Tenant Improvement (B-Occupancy TI) - \$131,237 (1500 sq. ft.) + Plan Check

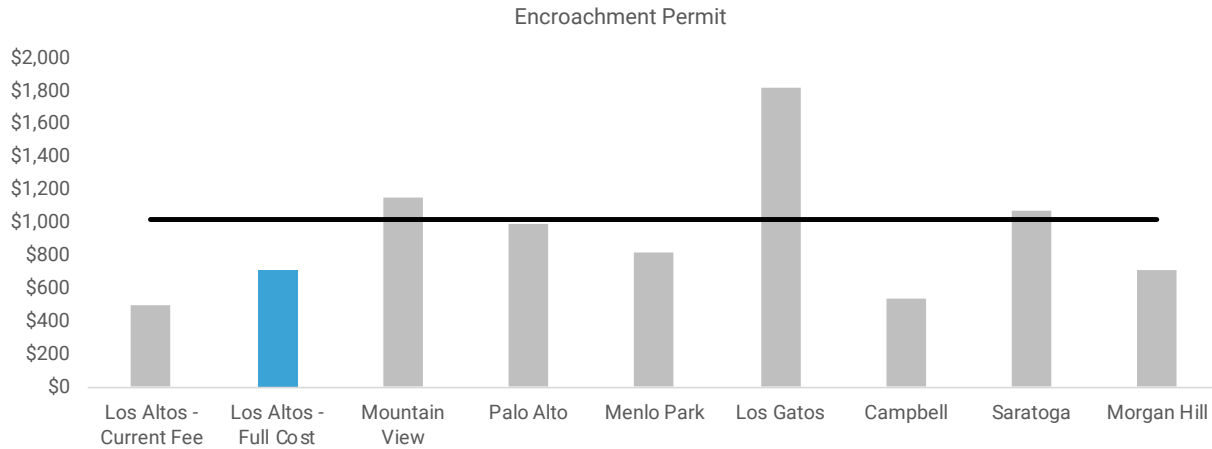
The City of Los Altos currently assesses a fee of \$3,369 for the plan review and inspection of a Business Tenant Improvement Project valued at \$131,237. Through this study, the project team calculated the full cost to be \$7,975. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$3,047, while the full cost fee is significantly above.

6 Encroachment Permit

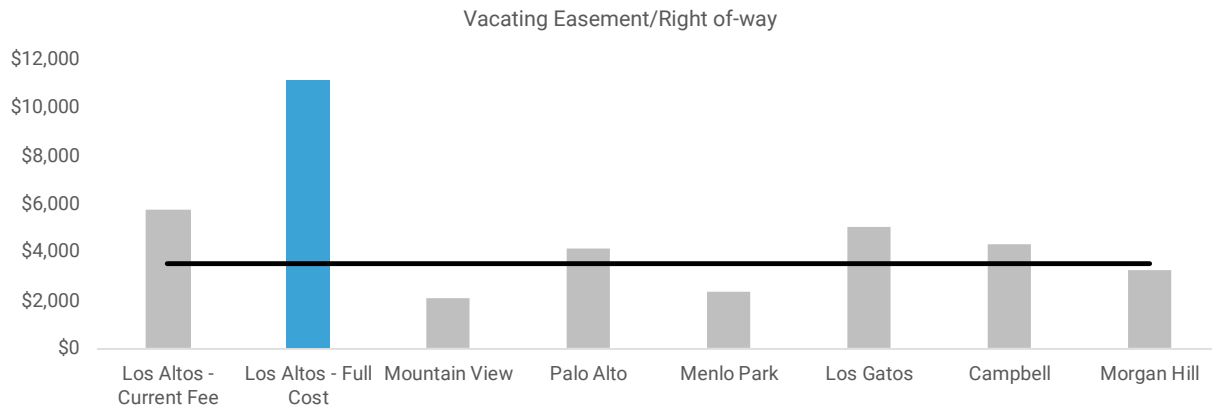
The City of Los Altos currently assesses a fee of \$489.50 for an Encroachment Permit. Through this study, the project team calculated the full cost to be \$705. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee and full cost are below the jurisdictional average of \$1,011. The City’s current fee is the lowest of all surveyed jurisdictions and most closely aligned with Campbell and Morgan Hill.

7 Vacating Easement/Right-of-way

The City of Los Altos currently assesses a fee of \$5,760 for a Vacating Easement/Right-of-Way permit. Through this study, the project team calculated the full cost to be \$11,142. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.

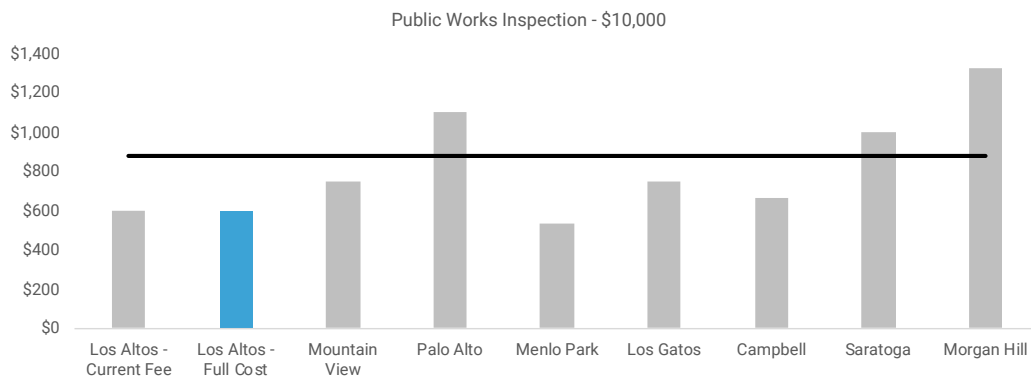


Based on the comparative analysis conducted, the City’s current and full cost fee are above the jurisdictional average of \$3,509. The city’s current fee is the highest being charged of the surveyed jurisdictions and is closest in value to Los Gatos’s fee.

8 Public Works Inspection - \$10,000

The City of Los Altos currently assesses a fee of \$600 for a Public Works inspection of a project valued at \$10,000. Through this study, the project team calculated the full cost to

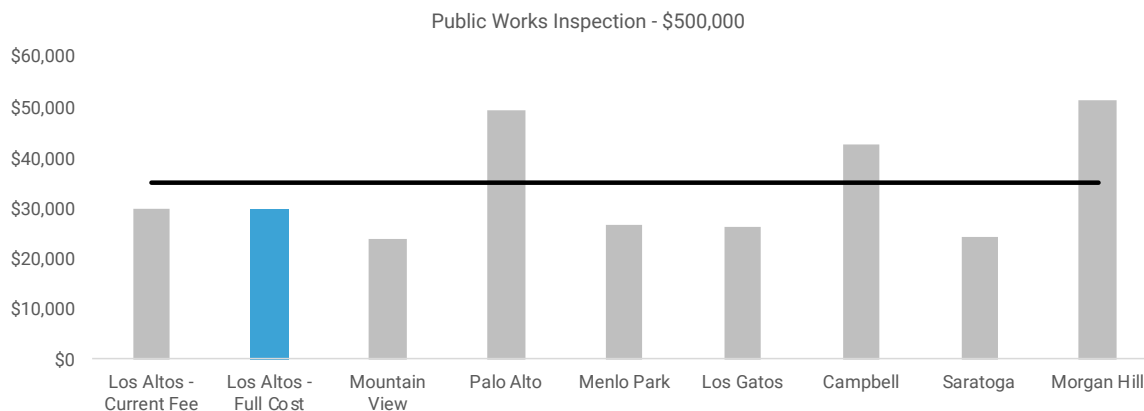
be \$600. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, both the City’s current and full cost fee are below the jurisdictional average of \$876 and are lower than all other surveyed jurisdictions, except for Menlo Park (\$535).

9 Public Works Inspection - \$500,000

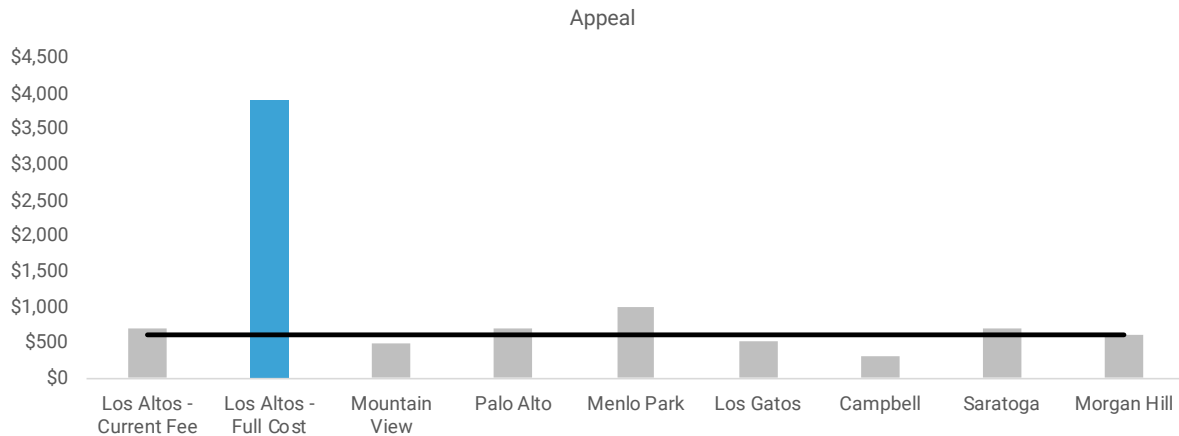
The City of Los Altos currently assesses a fee of \$30,000 for a Public Works inspection of a project valued at \$500,000. Through this study, the project team calculated the full cost to also be \$30,000. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current and full cost fee are below the jurisdictional average of \$34,944. The City’s current and full cost fees are generally in alignment with the other jurisdictions.

10 Appeal

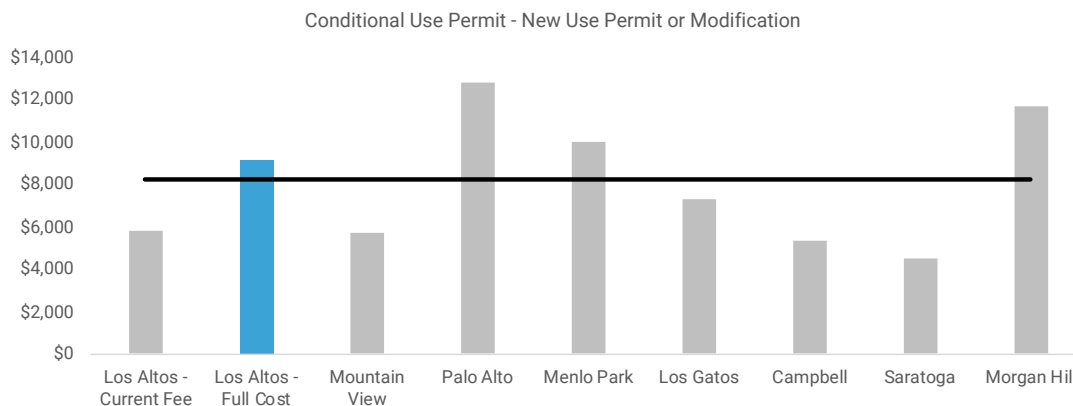
The City of Los Altos currently assesses a fee of \$691 for an appeal. Through this study, the project team calculated the full cost to be \$3,905. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$615, while its full cost is significantly above the average. The City’s current fee is most comparable to the appeal fees that Palo Alto and Saratoga are charging. Appeal fees are typically the most commonly subsidized fees as such many other jurisdictions typically have lower fees.

11 Conditional Use Permit - New Use Permit or Modification

The City of Los Altos currently assesses a fee of \$5,761 for a conditional use permit. Through this study, the full cost was calculated at \$9,180. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$8,195 and is in alignment with the fees Mountain View and Campbell are charging. The City’s full cost is slightly above the average.

12 Sign Review - New

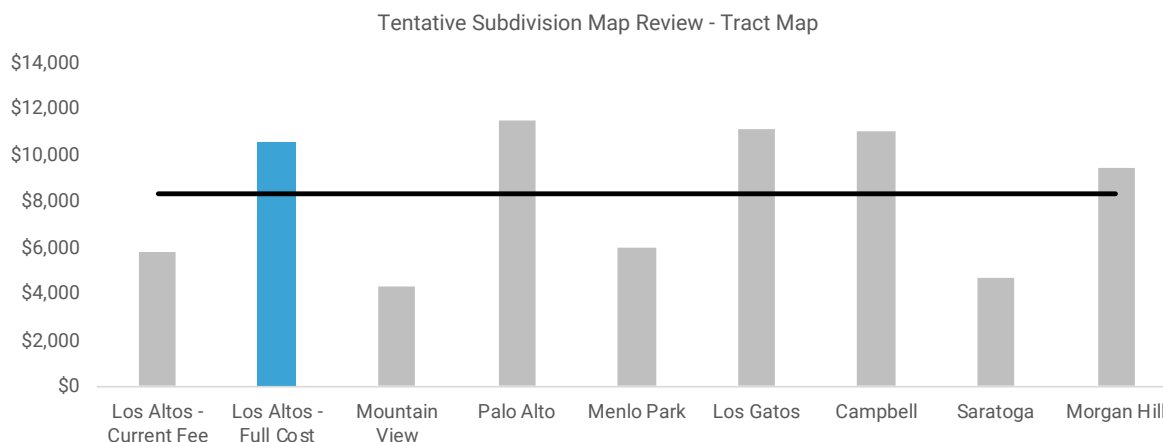
The City of Los Altos currently assesses a fee of \$230.45 for a new sign review. Through this study, the project team calculated the full cost to be \$691. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$349 and the second lowest of the surveyed jurisdictions. Its full cost fee of \$691 is most in alignment with Mountain View (\$544) and Campbell (\$539).

13 Tentative Subdivision Map Review - Tract Map

The City of Los Altos currently assesses a fee of \$5,761 for a Tentative Subdivision Map Review - Tract Map. Through this study, the project team calculated the full cost to be \$10,546. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.

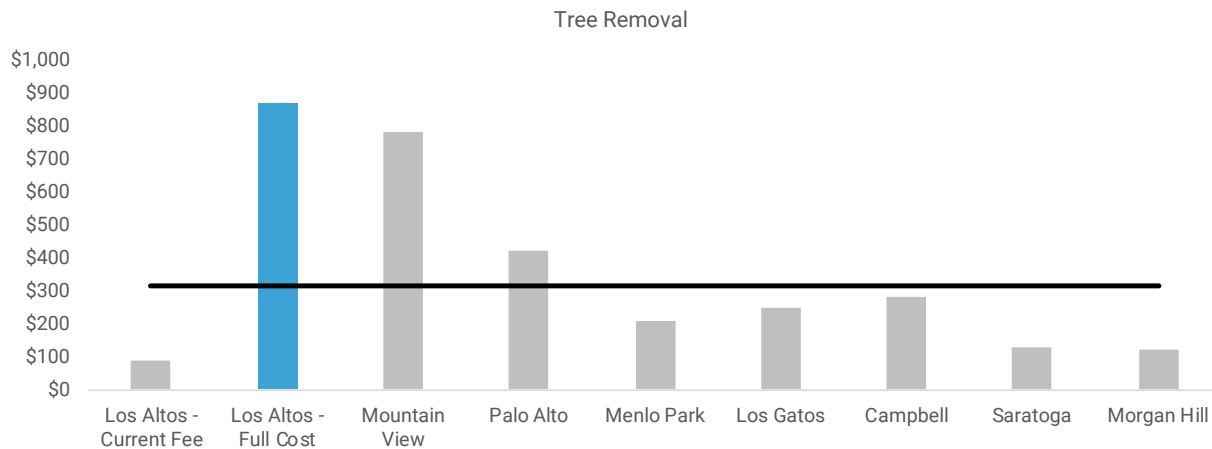


Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$8,286. The full cost fee is higher than the average and aligns

with the fees charged by Palo Alto (\$11,463), Los Gatos (\$11,130), and Campbell (\$11,021).

5 Tree Removal

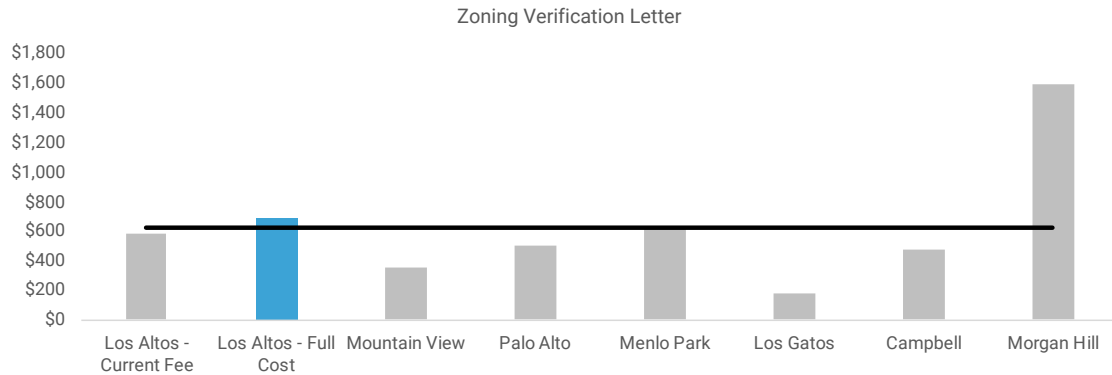
The City of Los Altos currently assesses a fee of \$86.75 for a Tree Removal permit. Through this study, the project team calculated the full cost to be \$868. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee is below the jurisdictional average of \$314, while its full cost is more than double that. The City charges the lowest fee of all the jurisdictions and is most closely aligned with Morgan Hill and Saratoga. Its full cost fee of \$868 is closest to the City of Mountain View’s fee of \$778.

6 Zoning Verification Letter

The City of Los Altos currently assesses a fee of \$576 for a Zoning Verification Letter. Through this study, the project team calculated the full cost to be \$691.23. The following graph compares the City’s current and full cost fee to those of the surrounding jurisdictions.



Based on the comparative analysis conducted, the City’s current fee and full cost are closely aligned with the jurisdictional average of \$616. However, the City of Morgan Hill’s fee at \$1,581 is an outlier. If this fee is removed, the jurisdictional average decreases to \$423. Based on that, the City’s current and full cost fee is higher. Its full cost fee is most in alignment with Menlo Park.

Results Summary

Overall, the City of Los Altos’ current fees are on the lower end of the fees being surveyed, and their full cost helps bring the city more in alignment with other jurisdictions. It is important to note that the results of this survey only show the fees adopted by the council, not the cost recovery policy decisions for departments or a jurisdiction. As such, the results of this survey should be used as a secondary decision-making tool.