



CITY OF COSTA MESA

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 25-314

Meeting Date: 6/3/2025

TITLE:

SCHEDULE OF USER AND REGULATORY FEES

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: CAROL MOLINA, FINANCE DIRECTOR, (714) 754-5036

RECOMMENDATION:

Staff recommends the City Council

1. Open a Public Hearing and take testimony.
2. Adopt a Resolution of the City Council of the City of Costa Mesa, California, Updating and Establishing User and Regulatory Fees for Various City Services.

BACKGROUND:

Fee-related services typically benefit a particular individual, business, or group. Since these services typically provide a specific benefit, communities often seek to recover all, or a portion of, the costs of providing fee-related services from those benefiting from the service provided. This allows unobligated revenues to be more purposefully directed to funding services provided to the community as a whole (e.g., public safety services).

Staff reviews existing user and regulatory fees and rates on a recurring basis to recover allowable costs of certain City services. City staff has obtained the professional services of Clear Source to ensure the User and Regulatory Fee adjustments are within California law, which allows Cities to charge for fee-related services and activities up to the estimated reasonable cost of providing the services, activities, or materials for which fees are charged. The User and Regulatory Fee Study conducted by Clear Source is included in Attachment 3. This report presents recommended changes to the current schedule of user and regulatory fees.

This User Fee Resolution and Fee Schedule report will be presented in a Public Hearing format. At the public hearing, staff will recommend that the City Council adopt a revised schedule of fees for various City services. If adopted, the updated fees will be effective July 1, 2025.

ANALYSIS:

Each year, it is the intent of staff to review and update user and regulatory fees collected for various City services. Periodically, full cost of service studies are undertaken. To keep pace with changes in costs, in years between fee studies ("interim years"), the City Council has authorized the annual adjustment of existing user and regulatory fees. The adjustment is based on the prior year's annual change in the All-Urban Consumer Price Index for Los Angeles-Long Beach-Anaheim, CA (CPI), not to exceed five percent (5%) per year. If the CPI does not change or goes down in a given year, no change shall be made to the fee schedule that year.

While the proposed action provides for an annual review and update of fees, during the course of the year, the City Council may elect to adopt new fees, modify existing fees, or repeal existing fees. As these changes are made, the consolidated fee schedule will be updated to reflect the changes.

Staff intends to conduct periodic studies that will identify the City's full cost of providing fee-related services based on current labor rates and service delivery methods. These studies will provide an opportunity to recalibrate fees based on cost-of-service findings and adjustments to targeted cost recovery levels. The results will be brought to the City Council at a future date.

Since this is an interim year update, this report is intended to primarily reflect a CPI adjustment to the fees in line with the recent annual change in regional CPI of 3.3% until the next full cost of service study is performed. In addition to the annual CPI adjustment, three new fees are proposed for City Council consideration.

Similar fees are collected by communities throughout the region and the State. The proposed fee amounts do not exceed the City's cost of service and are in-range of amounts charged by other jurisdictions. In order to provide the City Council with additional information as it considers potential adjustments to fees, current and proposed fees were compared to amounts collected by other agencies. For sampling purposes, the fee comparison examined fees for:

- Fountain Valley
- Huntington Beach
- Laguna Beach
- Laguna Niguel
- Long Beach
- Mission Viejo
- Newport Beach
- Orange
- Seal Beach

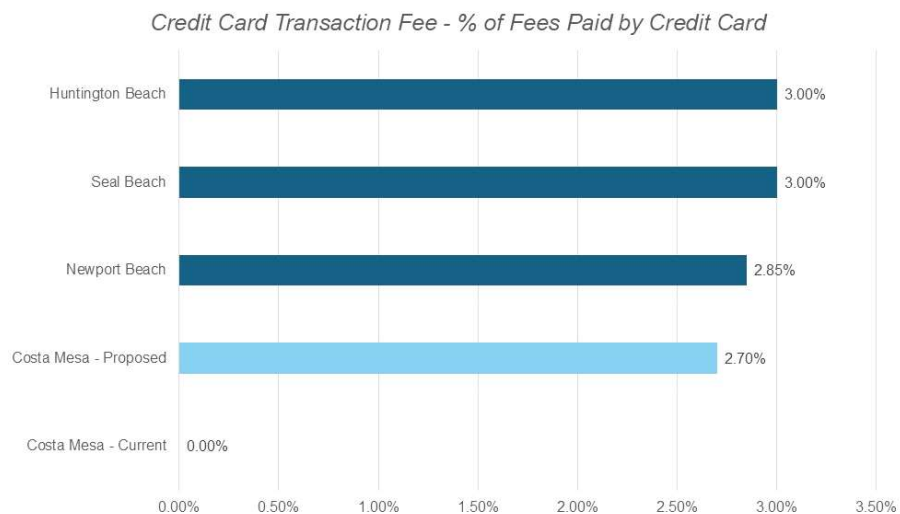
The following provides an overview of adjustments to existing fees and new fees proposed:

- No fee adjustments or increases are proposed for youth or senior services.
- Most fees are proposed to be adjusted by 3.3% (CPI adjustment)
- Three new fees are proposed:

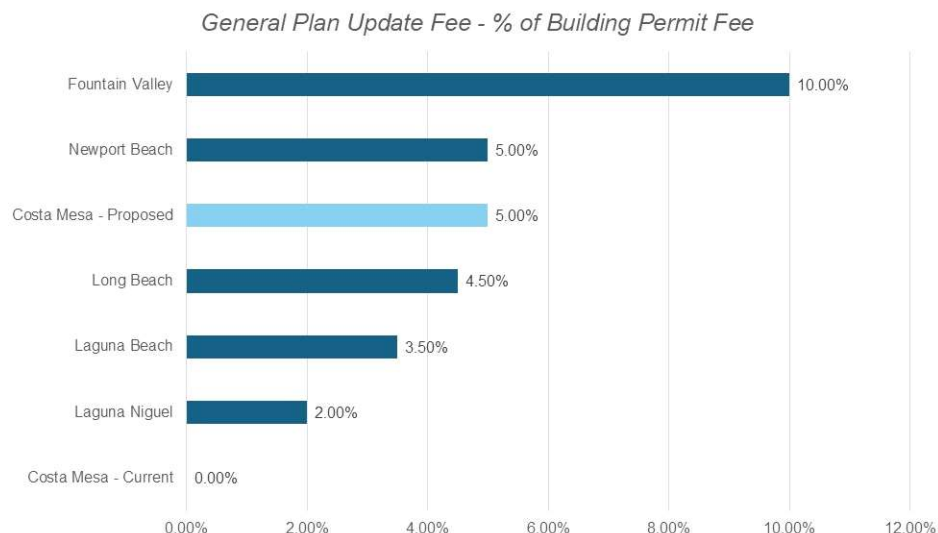
1. Credit Card Transaction Processing Fee:

- This fee is intended to offset processing fees charged by the City's credit card payment processors. Accordingly, this fee will only apply to applicants that pay fees with a credit card.
- The proposed fee is 2.7% of the amount paid by credit card.
- The fee is not intended to generate any new revenue for the City. It is simply intended to function as a pass-through collection of amounts directly payable to the City's credit card transaction processing vendor.

Graph 1: *Credit Card Transaction Fee*

**2. General Plan Update Fee:**

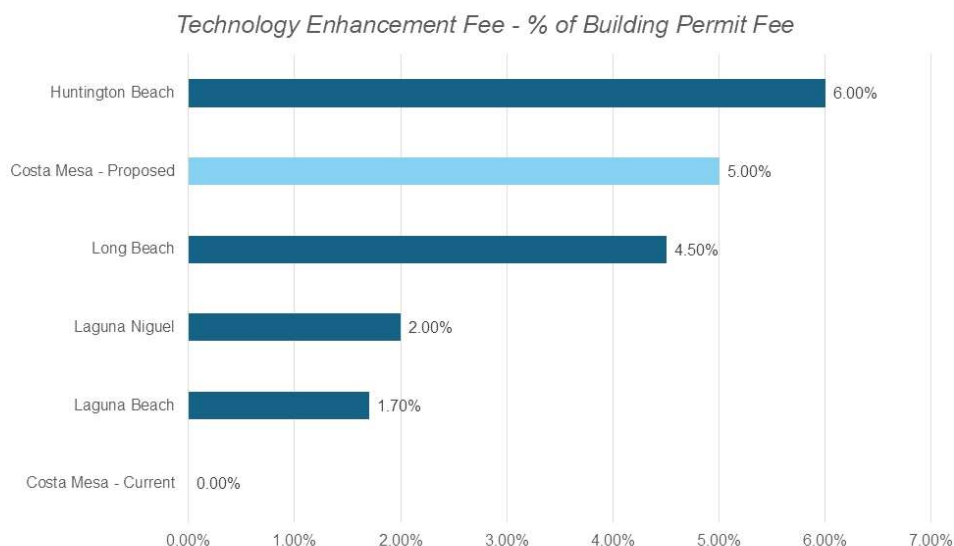
- This fee is proposed to offset a portion of the periodic costs associated with General Plan and supporting document updates.
- Adopting a General Plan Update Fee allows staff to reserve amounts collected and use them to offset costs that may be incurred from time to time.
- In order to maintain alignment with the region, staff proposed less than full cost recovery for this fee. The proposed fee will be collected as 5% of applicable permit fees. The fee will only be paid by construction projects that make use of the City's General Plan and related documents in order to determine whether the project can be constructed (e.g., new construction).

Graph 2: *General Plan Update Fee*

*Fees also collected by City of Huntington Beach, Orange, and Seal Beach. For those agencies, fees are collected as a percent of project valuation, so they are not compatible for chart comparison purposes.

3. Technology Enhancement Fee:

- The City's Technology Enhancement Fee will assist in capturing costs associated with the implementation, enhancement, management, and maintenance of the City's software platform and technology.
- Additionally, the fee will be used to support maintaining and enhancing the City's eServices platforms, ensuring better service for the public and fostering improvements in the interconnected services and business operation across departments.
- The development community has indicated that online permitting, dynamic land management tracking, and good access to historical permit information is critical. These funds will be used to offset the costs of those services.
- In order to maintain alignment to the region, staff proposed less than full cost recovery for this fee. The proposed fee will be collected as 5% of the building permit fee.

Graph 3: *Technology Enhancement Fee*

*Fees also collected by City of Mission Viejo, Orange, and Seal Beach. Those agencies collect fees as a percent of project valuation, rather than as a percent of permit fee, so they are not compatible for chart comparison purposes.

User and Regulatory Fees Best Practices

Industry best practices and California statutes are in harmony: User and regulatory fees should be set according to the estimated reasonable cost of service and should bear a fair and reasonable relationship to the payer's burdens on, or benefits received from the activities and/or services provided by the City. Additionally, ongoing review and adjustment of fees provides multiple benefits, including:

- Increasing the availability of General Fund revenues to be used for services and activities available to all Costa Mesa residents and businesses, such as public safety and parks services.
- Keeping pace with general cost inflation.
- Avoiding fee spikes that are more likely to occur when municipalities leave fees unchanged for a multi-year period.
- Providing fee payers, City Staff, and City policymakers with a pattern of consistency that provides information for forecasting and decision-making purposes.
- Helps meet fee-payer service level expectations by collecting fees to fund the existing level of services provided.
- Encouraging generational equity among fee payers by avoiding long-term stagnation of fees followed by significant fee increases.

ALTERNATIVES:

City Council alternatives include:

- Implement a CPI increase other than 3.3%.
- Approve any combination of partial implementations of the proposed changes.

FISCAL REVIEW:

The anticipated fiscal impact of the proposed fee changes is \$750,000. It is important to note that while adjusting fees and billing rates will provide a fiscal impact in the form of additional revenue; the revenue is not intended to be used to fund new services, rather the revenue is intended to offset the costs of providing existing services that are recoverable from fees. Authorizing an annual inflationary adjustment to fees simply allows the City to better recoup its costs.

LEGAL REVIEW:

The City Attorney's Office has reviewed this agenda report and approves as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Achieve Long-Term Fiscal Sustainability

CONCLUSION:

Staff recommends the City Council

1. Open a Public Hearing and take testimony.
2. Adopt a Resolution of the City Council of the City of Costa Mesa, California, Updating and Establishing User and Regulatory Fees for Various City Services.