

May 10, 2023

Costa Mesa City Council
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Dear Members of the City Council,

We are writing on behalf of the Finance and Pension Advisory Committee (“FiPAC”) regarding the master fee schedule of all fees being charged by the City of Costa Mesa for all City services (the “MFS”), which include Staff’s recommendations regarding which fees should be adjusted yearly to account for inflation and changes in the Consumer Price Index (“CPI”). We have reviewed the MFS and the Staff’s inflation recommendations and, while we are pleased to recommend that the MFS be presented to the City Council, we have also requested that our separate recommendations be included in such presentation.

First, we want to commend the efforts of the Staff and our outside consultants who have worked tirelessly to create a comprehensive and detailed document that reflects the current fees being charged by the City of Costa Mesa for all City services. We believe that presenting this schedule to the City Council will provide transparency to the public and will enable the City to make informed decisions about its revenue policies.

We agree with Staff that adjusting City fees for inflation, especially in this period of relative economic uncertainty, is generally reasonable and necessary to maintain the City’s financial stability. However, we would like to highlight certain categories of fees where we believe an independent evaluation by the City Council would be appropriate before adopting the Staff’s proposals set forth in the MFS.

Non-resident Fees

While we concur with Staff that areas where the City is intentionally subsidizing resident activities, such as the use of our parks and recreation facilities, should not be adjusted for inflation, we recommend the City Council reconsider such recommendations as they apply to *non-residents*. For example, many of our park usage fees distinguish between residents and non-residents. While the interest in providing *residents* with access to our parks below cost is clear, it is less clear why non-residents should be similarly subsidized. Therefore, we would ask that the City Council consider applying a CPI

adjustment throughout the MFS to *non-resident* fees wherever a distinction is made between residents and non-residents.

“Policy” Fees

The MFS does not distinguish between fees that are intended *only* for the purpose of cost recovery – that is, a fee we charge only to cover some or all of the costs of providing the service – versus fees that are also intended to also support a particular policy. For example, a delinquent payment fee may be set at a particular level to *discourage delinquent payments* in addition to defraying the costs caused by delinquency. Where policy is a relevant factor in setting the fee, we would recommend that the City Council independently evaluate, or instruct a resident committee or commission with review jurisdiction over such fees to evaluate and report on, the relevant policy goals behind such fees before setting those fees to adjust with inflation. Examples of such fees include:

- *Animal license fees.* We would specifically recommend these be reviewed by the Animal Services Committee before any adjustments are made.
- *Temporary vendor fees, such as fees relating to Christmas Tree Lots, Fireworks Stands, Sidewalk Vendor Permits, etc.* In addition to revisiting the specific policy questions regarding the encouragement or discouragement of such establishment, we would also specifically recommend the City Council consider distinguishing between residents and non-resident applicants with respect to such fees.
- *Re-hearing or appeals fees.* As these fees can burden legitimate political activity within the City, and due the fact that these fees have not been reviewed in over 10 years (see commentary below), we caution against automatically adjusting such fees for inflation before the Council has an opportunity to substantively review these fees.

Similarly, though we ultimately agree with Staff that the “line item” nature of building and development fees means that annual inflation adjustments are appropriate, we also expect that such fees will be broadly revisited as part of the implementation of Measure K. We recommend that such reevaluation take place before the fees are automatically set to adjust for inflation.

Fees without Recent Evaluation

There are several fees, specifically the animal licensing fees, the administrative/finance department fees, the appeals/rehearing fees, the fire department motor vehicle accident fees, and the police fees, which have been recommended by Staff to be adjusted for inflation, and we generally agree (except as otherwise noted in this letter). However, we

note that these fees have not been reviewed and adopted/reaffirmed by the City Council *for over ten years*. Therefore, we would strongly recommend prioritizing these fees for reevaluation with respect to Council policy and cost recovery in conjunction with determining whether to adjust these fees for inflation. As the upward adjustment to such fees on an inflationary basis alone could be substantial, and as Council policy may have changed in the intervening years, we believe the residents should be provided with analysis and commentary by their current elected officials alongside such adjustments.

In conclusion, we would like to again express our appreciation to the Staff for their hard work and dedication to the City of Costa Mesa. We are confident that the presentation of the MFS to the City Council will be beneficial to all residents and will ensure the long-term success of the City.

Sincerely,

The Members of the Finance and Pension Advisory Committee