



DATE: September 17, 2024

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT Public Hearing for the Adoption of the City of Hayward User Fee Study

RECOMMENDATION

That Council adopts the attached resolution presenting the user fees as calculated in the City's User Fee Study completed by Willdan Financial Services.

SUMMARY

Staff recently completed a comprehensive study of all of the City's User Fees; the study was conducted by Willdan Financial Services. The User Fee Study (the study) has calculated costs associated with all user fees and is presenting those amounts as the proposed fees to be charged by the City as of January 1, 2025. The proposed fees shown in the study have been calculated at a level, unless noted otherwise, to allow the City to achieve full cost recovery, and no more.

BACKGROUND

The last comprehensive user fee study was completed in October 2016. Over the last eight years (FY 2016 – FY 2024), the City has undergone minor annual adjustments and modifications to the fee schedule. Given the changes to the City's structure, staffing levels, and the significant increase in cost of operations during this period, the study recently undertaken is more comprehensive and will provide updates to user fees throughout the City.

As part of a general cost recovery strategy, local governments have adopted user fees to fund programs and services that provide limited or no direct benefit to the community as a whole. As the City struggles to balance levels of service and the variability of demand, Council has become increasingly aware of subsidies provided by the General Fund for fees which do not recover full costs. To the extent that the City uses general tax monies to provide services that it can recover full cost for, but does not, a subsidy is provided, and this reduces funds that may be available to provide other community-wide benefits. Unlike most revenue sources, the City has more control over the level of user fees they charge to recover costs.

At the August 20, 2024 City Council meeting¹, a work session was held to discuss the proposed changes as outlined in the User Fee Study report. During the work session, City Council reviewed and provided feedback on user fees as calculated in the City's User Fee Study.

Legislative Requirements

Before the voters' adoption of Proposition 13 (1978), California cities were less concerned with potential subsidies and recovering the cost of their services from individual fee payers. In times of fiscal shortages, cities simply raised property taxes, which funded everything from police and recreation to development-related services. However, this situation changed with the enactment of Proposition 13, which imposed severe constraints on the ability to increase property taxes. In 1979, with the enactment of Proposition 4, voters further constrained the ability of local government to cover the costs of doing business by strictly defining the difference between a fee and a tax: a fee can be no greater than the cost of providing the service. Propositions 218 (1996) and 26 (2010) imposed more restrictive definitions of fees and taxes, to the extent fees are presumed to be taxes unless they fall into certain categories now set forth in the California Constitution. Subsequent to enactment of Proposition 26, the City Attorney has conducted a review of all new or increased fees, in addition to an on-going review of existing fees, to assure state constitutional compliance.

DISCUSSION

Goals of the study

The principal goal of the study was to help the City determine the full cost of the services that the City provides. Also, Willdan established a series of additional objectives including:

- Developing a rational basis for setting fees
- Identifying subsidy amount, if applicable, of each fee in the model
- Enhancing fairness and equity
- Ensuring compliance with State law
- Developing a comprehensive list of fees that is easy to update
- Maintaining fees in accordance with City policies and goals

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

¹ [Hayward City Council Meeting - August 20, 2024 - Legistar.com](https://legistar.com/View/00000000-0000-0000-0000-000000000000)

Methodology

The basic concept of a User Fee Study is to determine the “reasonable cost” of each service provided by the City for which it charges a user fee. The full cost of providing a service may not necessarily become the City’s fee, but it serves as the objective basis as to the maximum amount that may be collected. The standard fee limitation established in California law for property-related (non-discretionary) fees is the “estimated, reasonable cost” principle. To maintain compliance with the letter and spirit of this standard, every component of the fee study process included a related review. The use of budget figures, time estimates, and improvement valuation clearly indicates reliance upon estimates for some data.

Fully Burdened Hourly Rates

The total cost of each service included in the study are primarily based on Fully Burdened Hourly Rates (FBHRs). FBHRs were determined for City personnel directly involved in providing services. The FBHRs include not only personnel salary and benefits, but also any costs that are reasonably ascribable to personnel. The cost elements that are included in the calculation of fully burdened rates are:

- Salaries & benefits of personnel involved
- Operating costs applicable to fee operations
- Departmental support, supervision, and administration overhead
- Internal Service Costs charged to each department
- Indirect City-wide overhead costs calculated through the Cost Allocation Plan

Changes to fees since August 20, 2024 City Council meeting

At the August 20, 2024, City Council meeting, the study was presented to City Council for review and consideration. Below is a summary of staff recommended changes to the user fee study based in part on considerations made by Council at the meeting, as well as the incorporation of additional user fees identified since the work session. If applicable, all page numbers below in parenthesis refer to pages in Attachment III.

Work Session Considerations and Recommendations:

- During the work session, staff presented Council with options for annual escalation factors to ensure cost recovery, which include annual consumer price index (CPI) or known salary adjustments as outlined in adopted Memorandum of Understandings with City employee group. Staff recommends annual adjustments to the adopted user fees based on known employee salary adjustments as outlined in adopted Memorandum of Understandings with City employee groups. This will assist in mitigating significant cost escalation in-between more in-depth User Fee Studies and Cost Allocations Plans, which are recommended to be conducted every five years.

Updates to User Fee Since Work Session:

- Code Enforcement - Annual Fee for rental housing, hotel or motel- Single-family,

duplex, triplex, or fourplex (Page 60): proposed fee set at \$125 to provide reasonable subsidy to encourage compliance and maintain accessibility.

- Code Enforcement - Annual Fee for rental housing, hotel or motel- Five or more units (Page 60): proposed fee set at \$35 to provide reasonable subsidy to encourage compliance and maintain accessibility.
- Planning Fees – Tree Preservation – Annual Pruning Certification (Page 62): Fee reduced to \$392 based on corrected cost of staff hours necessary to perform service.

ECONOMIC IMPACT

The overall economic impact is currently unknown. Although approving the proposed fee levels may have a minor economic impact on the community, the review of fees in relation to neighboring communities did not indicate any significant proposed outliers that would create a negative economic environment for the City of Hayward.

FISCAL IMPACT

Adopting these fee changes will allow for more self-sufficient and sustainable service levels in many areas of the City and could have a potential net positive increase to revenue in the General Fund of approximately \$1.5 million annually. The fees will also help the City recover the costs of doing business from those who are requesting specific services, thus freeing up General Fund resources for other community-wide services.

PUBLIC CONTACT

On August 20th, City Council was presented with the user fee study for review and consideration at the regularly scheduled City Council meeting. Public notice appeared in the Daily Review on September 6th and 13th. The study was made available to the public for review in the City Clerk's Office, as well as the City Website at <https://www.hayward-ca.gov/your-government/departments/finance>.

NEXT STEPS

Once approved and adopted, the fees will take effect January 1, 2025.

Prepared by: Christina Crosby, Deputy Director of Finance

Recommended by: Nicole Gonzales, Director of Finance

Approved by:



Dustin Claussen, Interim City Manager