



AGENDA NO: 7.a

MEETING DATE: August 12, 2025

Staff Report

TO: Honorable Mayor and City Council

DATE: August 1, 2025

FROM: Emily Conrad, Finance Director

SUBJECT: Public Hearing and Adoption of Resolution No. 47-25 Updating and Establishing Various User and Regulatory Fees

RECOMMENDED ACTION

Conduct the formally noticed public hearing, receive the presentation of the user and regulatory fee study, and adopt Resolution No. 47-25 updating and establishing various user and regulatory fees.

FISCAL IMPACTS

The fee study commissioned by the City has identified approximately \$390,000 in additional cost recovery across the General Fund, Harbor Operating Fund, Water Operating Fund, and Sewer Operating Fund. The proposed fees in the study (Attachment 3) in most cases represent the full cost to deliver services, but no more than the full cost, and thereby decrease the City’s subsidy of private discretionary activity.

BACKGROUND

Annually, the City reviews and revises the adopted Master Fee Schedule, which dictates which charges are approved for various City-provided services. “Fee” activities are services and functions provided by the City to individuals who receive some direct material benefit above and beyond services offered to residents at general taxpayer expense.

User and regulatory fees are set at the direction of the City Council at the conclusion of a public hearing to consider adoption of any new fees or fee increases.

Morro Bay Municipal Code Chapter 3.34, Master Fee Schedule, stipulates how the City will amend the Master Fee Schedule. Relevant sections of that chapter are included below for reference.

[3.34.010 – Established](#)

The City Master Fee Schedule is established, which shall set forth a consolidated listing of fees as fixed and adopted by the City Council, in accordance with all applicable provisions of state and city laws.

[3.34.020 – Fee Revisions and Reviews](#)

Any fees included in the Master Fee Schedule may be reviewed and revised annually by the City Council. The City’s cost of providing the services shall be computed and reflected in these

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fees. The fees shall then be enumerated and the revised Master Fee Schedule adopted by resolution of the City Council.

On July 11, 2022, staff published a Request for Proposals (RFP) from qualified firms with expertise performing comprehensive cost allocation and user fee studies for local municipalities. The RFP closing date was August 22, 2022 and the City received five proposals. Based upon the recommendation of a review panel, staff engaged the services of ClearSource Financial Consulting (ClearSource) to conduct a comprehensive cost allocation plan and user fee study.

Due to capacity restrictions, finance staff approached the two studies in phases. The cost allocation plan was completed April 17, 2023 and implemented in the FY 2023-24 budget. The user fee study was completed in July 2025 and is anticipated to be implemented mid-FY 2025-26.

This item provides findings and recommendations from the completed user fee study. The study provides an up-to-date analysis of the City's current costs of providing various fee-related services. This information can be used by the City Council as it considers potential updates to fees.

DISCUSSION

California cities regularly conduct these studies to justify fee amounts imposed and to optimize the overall portfolio of revenues available to the municipality to fund its services. Industry practice and fiscal conditions in the state have led most cities to link cost recovery for services of individual action, cause, or benefit to that same individual through user fee revenue, relieving the agency's general revenues as much as possible for use toward services of broader community benefit.

Recovering the costs of providing fee-related services directly influences the City's fiscal health and increases the City's ability to meet the service level expectations of fee payers. The services for which the City imposes a user or regulatory fee typically derive from an individual person or entity's action, request, or behavior. Therefore, except in cases where there is an overwhelming public benefit generated by the City's involvement in individual action, a fee for service ensures that the individual bears most, if not all, of the cost incurred by the City to provide that service. When a fee targets "100% or full cost recovery," the individual is bearing the entirety of the cost. When a fee targets less than full cost recovery, another City revenue source – in most cases, the General Fund – subsidizes the individualized activity.

During the course of study, information and analysis was generated and is discussed substantively in the attached User and Regulatory Fee Study. The following are outcomes and proposals that may be of particular interest to City leaders and policymakers.

- **Building Fees**
 - Building plan review, permit processing and field inspection fees have been restructured to enhance the correlation between services provided and fees collected. The proposed fee methodology scales to allow for lower fees for less complex projects and higher fees for more complex projects.
 - Establish fixed, consolidated fees for the City's most common minor permits. This will allow applicants to easily estimate permit fees and allow staff to efficiently administer the fee calculation and collection process.
 - Full cost recovery is targeted for most services due to the regulatory nature of the services and the high level of direct benefit resulting from construction activities

including enjoyment of property enhancements, increased property values, and the desire to avoid having other Morro Bay residents and businesses subsidize an individual's private construction activities.

- Planning Fees
 - Due to the nature of development within California, many projects take a significant amount of resources over a multi-month and potentially multi-year timeframe, depending on project complexity and magnitude.
 - Current cost recovery varies widely depending on the fee examined (10% - 100%).
 - Full cost recovery is targeted for most services with a few specific exceptions for services such as review of certain appeals.

- Engineering, Encroachment Permit, and Utility Services Fees
 - Engineering, encroachment permit fees, and discrete utility services fees are collected to recover the costs associated with activities such as improvement plan review, permitting, and construction inspection, review and inspection of work conducted within the City right-of-way and new meter installations.
 - Plan review, permit processing and field inspection fees have been restructured to enhance the correlation between services provided and fees collected. The proposed fee methodology scales to allow for lower fees for less complex projects and higher fees for more complex projects.
 - Full cost recovery is targeted from proposed fees.

- Public Safety Fees - Fire and Police Fees
 - While most City public safety services such as emergency response and routine patrol services are tax funded services, the City's public safety departments provide certain discrete services that are typically recovered via fees and charges. Examples include:
 - Fire prevention services for review of new construction and certain operations
 - Vehicle impound and release and requests for special reports.Fees for these services are proposed to be adjusted to recover the City's costs of service.

- Harbor Fees and Parks and Recreation Fees
 - Fees for Harbor and Parks and Recreation Services are market-based fees and are primarily proposed to be adjusted by the prior year change in annual cost inflation.

- Administrative Fees
 - Administrative fees have been recalibrated to reflect current costs of service and State limits for certain fee-related services.

- Regional Fee Comparison
 - 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. Current and proposed fees were compared to amounts collected by other agencies. For sampling purposes, the fee comparison examined fees for:
 - City of Atascadero
 - City of Paso Robles

- City of San Luis Obispo
- County of San Luis Obispo

For Morro Bay, outcomes will show that proposed fees may range from low, mid, to upper end of regional fee spectrum depending on the service provided. This is common among municipalities due to differing levels of service and review included among various fee categories. Scenarios considered range from smaller scale projects to larger scale projects.

Per State Law, there is a 60-day waiting period between Council adoption of the Master Fee Schedule and when the new schedule can go into effect. Should a new Master Fee Schedule be adopted on August 12, 2025, it could go into effect as early as October 11, 2025. If adopted, staff is recommending the new fees take effect on November 1, 2025 to correspond with the first of the month. For permit applications submitted prior to the effective date of the new fee schedule, the initial fees and subsequent fees, including those due after the effective date of the new fee schedule, will be calculated based on the current fee schedule (not the new fee schedule).

ATTACHMENTS

1. Resolution No. 47-25
2. Illustration of Current and Proposed Fees
3. [User and Regulatory Fee Study](#)