

CITY of MERCED

User and Regulatory Fee Study
for Development Services Fees

City Council | April 6, 2026



MEETING AGENDA

- Background
- Fundamentals and Terminology
- Study Findings and Recommendations
- Next Steps



Background

clear  source
FINANCIAL CONSULTING

BACKGROUND

- Merced staff and contract service providers review plans, issue permits, and perform required inspections to ensure safe, orderly and aesthetically pleasing development within the City.
- User/regulatory fees are the mechanism by which the City may recoup a portion, or all, of the costs associated with these services.

BACKGROUND

- Communities generally use tax revenues to fund services that provide general (community-wide) benefit
 - Public works
 - Public safety
 - Park maintenance
- Communities generally use fees and charges (direct recovery) to fund services that provide direct benefit
 - Plan Review
 - Permitting
 - Inspection

TYPES OF FEES EXAMINED

- This update DOES NOT examine taxes, assessments, utility rates, or development impact fees

- **Building Fees** - construction permit processing, plan check, and inspection
- **Engineering and Public Works Fees** - engineering review of development-related grading and public improvements; review of temporary encroachments in the City right-of-way
- **Planning Fees** – Zoning and entitlement review and use permitting
- **Fire Construction Review Fees** – construction review for compliance with Fire Code



Fundamentals and Terminology

MUNICIPAL FEES

- Why do Cities Review Fees and Charge Fees for Services?

- Legal requirements
- Encourage direct recovery of costs incurred to serve private interests/benefit or respond to individual actions
- Provide opportunity for relief to General Fund or other Funds where costs are incurred
- Enable continuity of service levels by improving cost recovery levels

FEES ARE APPROVED BY THE CITY COUNCIL

The City Council has authority to Directly Approve User and Regulatory Fees and Increases to Fees

- Fees proposed are not taxes, as defined by Article 13C of the California State Constitution
- Fees are set in accordance with parameters set by Article 13C and by Section 66014 of the California Government Code:
 - Costs allocated to the payer should bear a fair or reasonable relationship to the payer's burdens on or benefits received from the governmental activity
 - Fees should not exceed the reasonable cost of providing the service for which the fee is charged

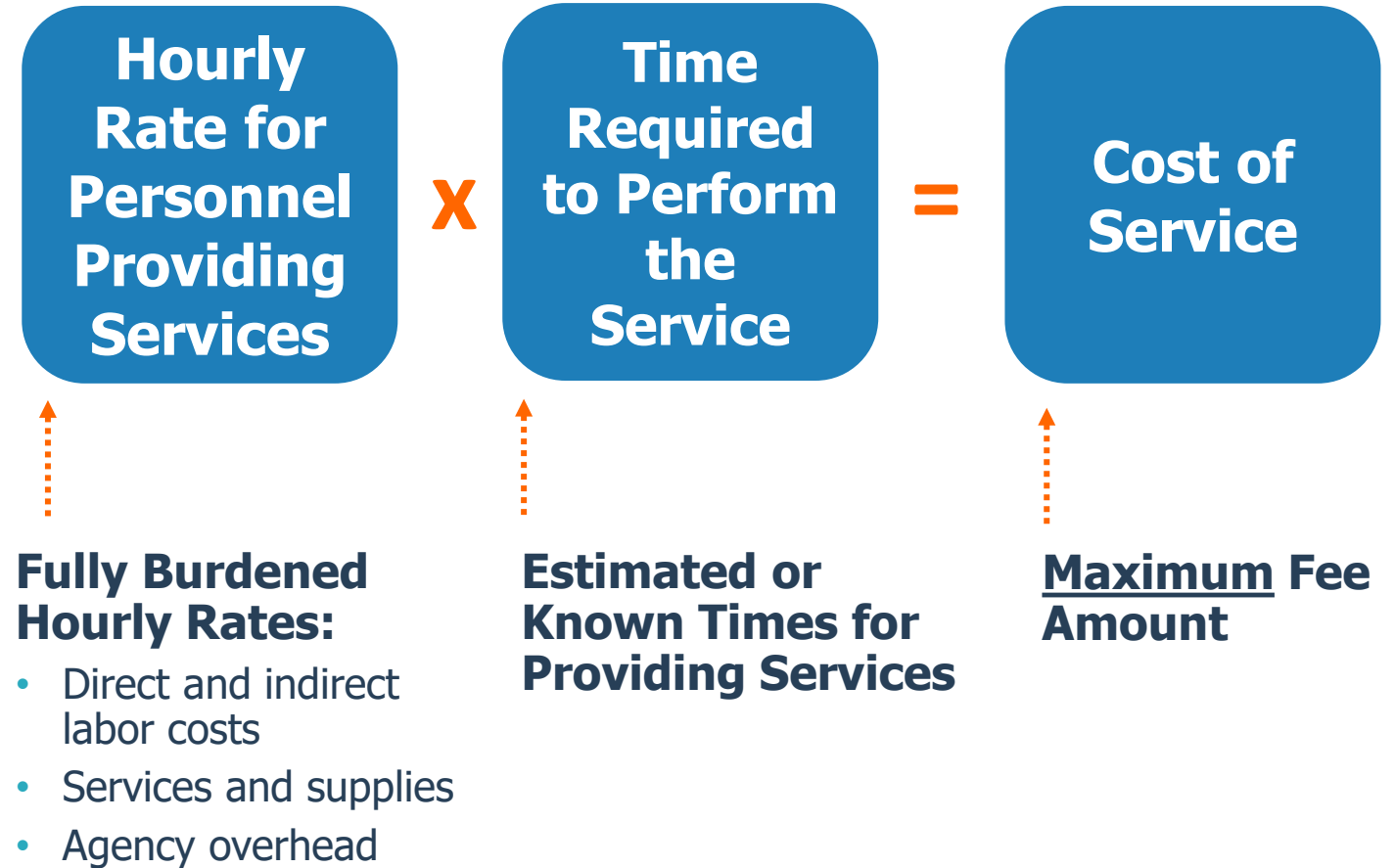
TERMINOLOGY

These terms of art have specific meaning across California municipalities and within the City

- Full Cost of Service
- Cost Recovery
- Subsidy

COST OF SERVICE

- The cost of service sets the maximum limit of a cost-based fee. It includes:
 - Direct program costs for labor, services, and supplies
 - Departmental administration
 - Citywide administration and central support services



COST RECOVERY POLICY FRAMEWORK

Cost recovery policy reflects **local values** regarding the presumed beneficiaries for each program area, ranging from **community benefit to individual benefit**

Exclusively individual benefit

Considerable individual benefit

Balanced individual and community benefit

Considerable community benefit

Mostly community benefit

Entirely community-wide benefit

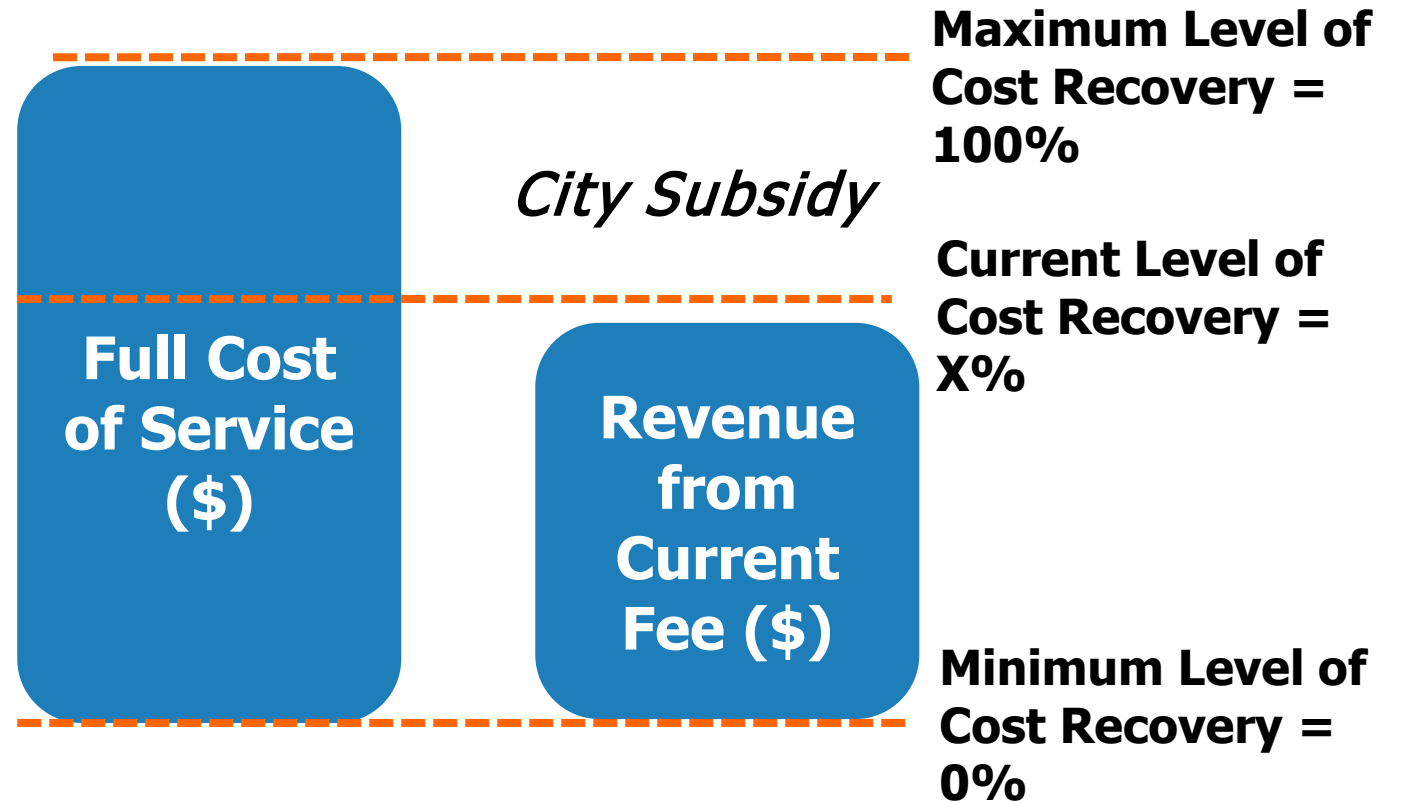
100%

Cost Recovery Targeted

0%

SUBSIDY

- The amount of a program's full cost of service that is supported by other City revenue sources



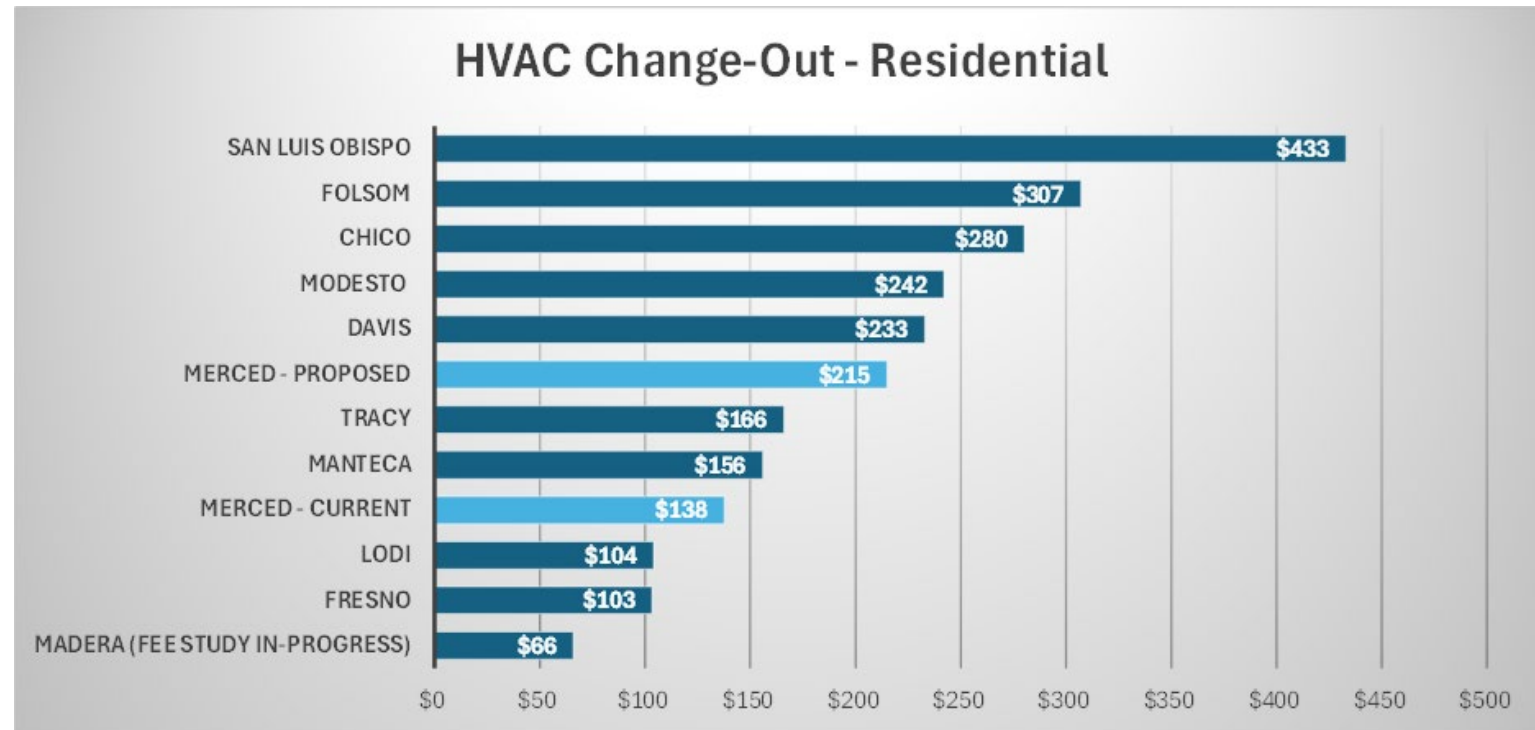


Study Findings and Recommendations

FINDINGS AND RECOMMENDATIONS

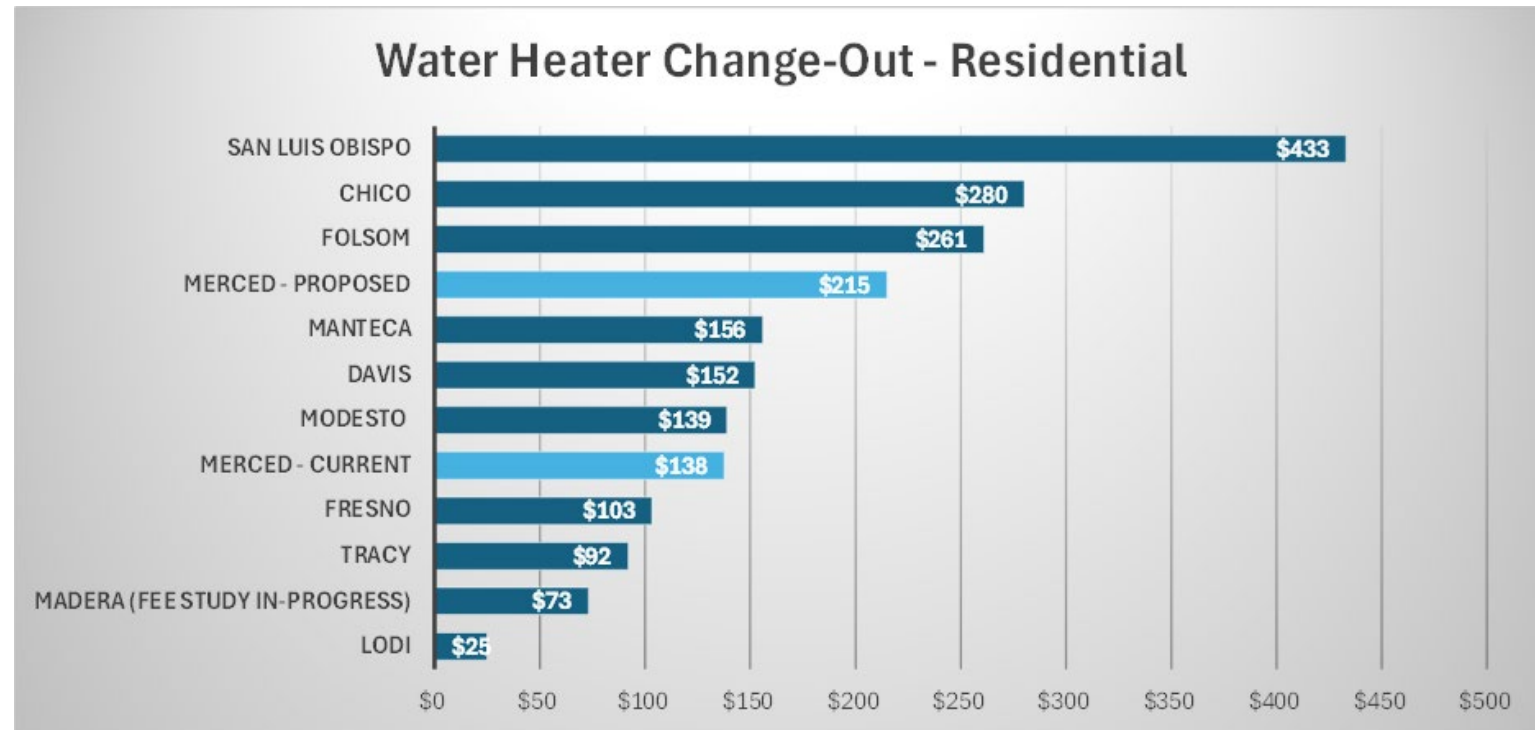
- Enhanced cost recovery is recommended
 - Fees are primarily regulatory
 - High level of direct benefit resulting from construction activities including enjoyment of property enhancements, and increased property values
 - Avoid having other Merced residents and businesses subsidize individual private construction activities

REGIONAL FEE COMPARISON



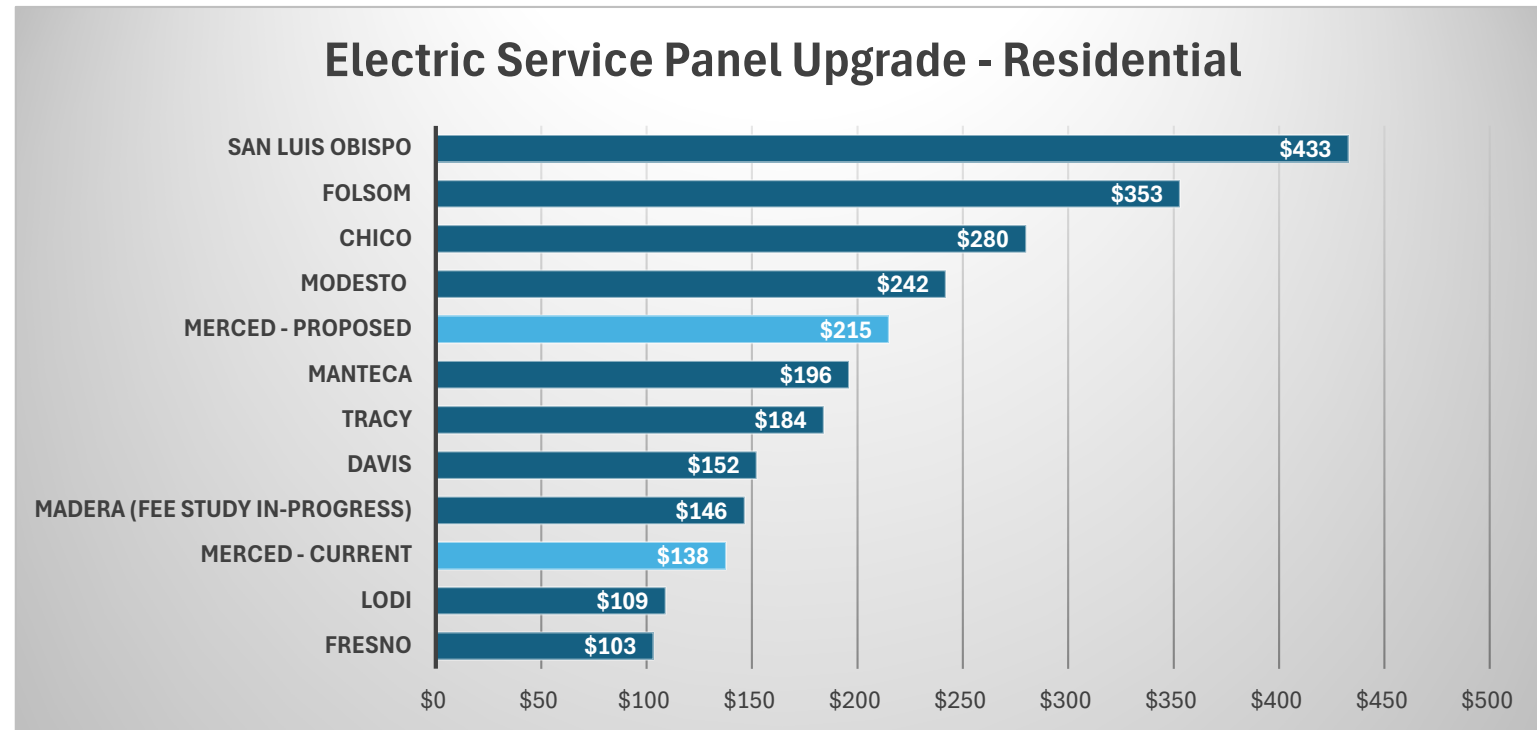
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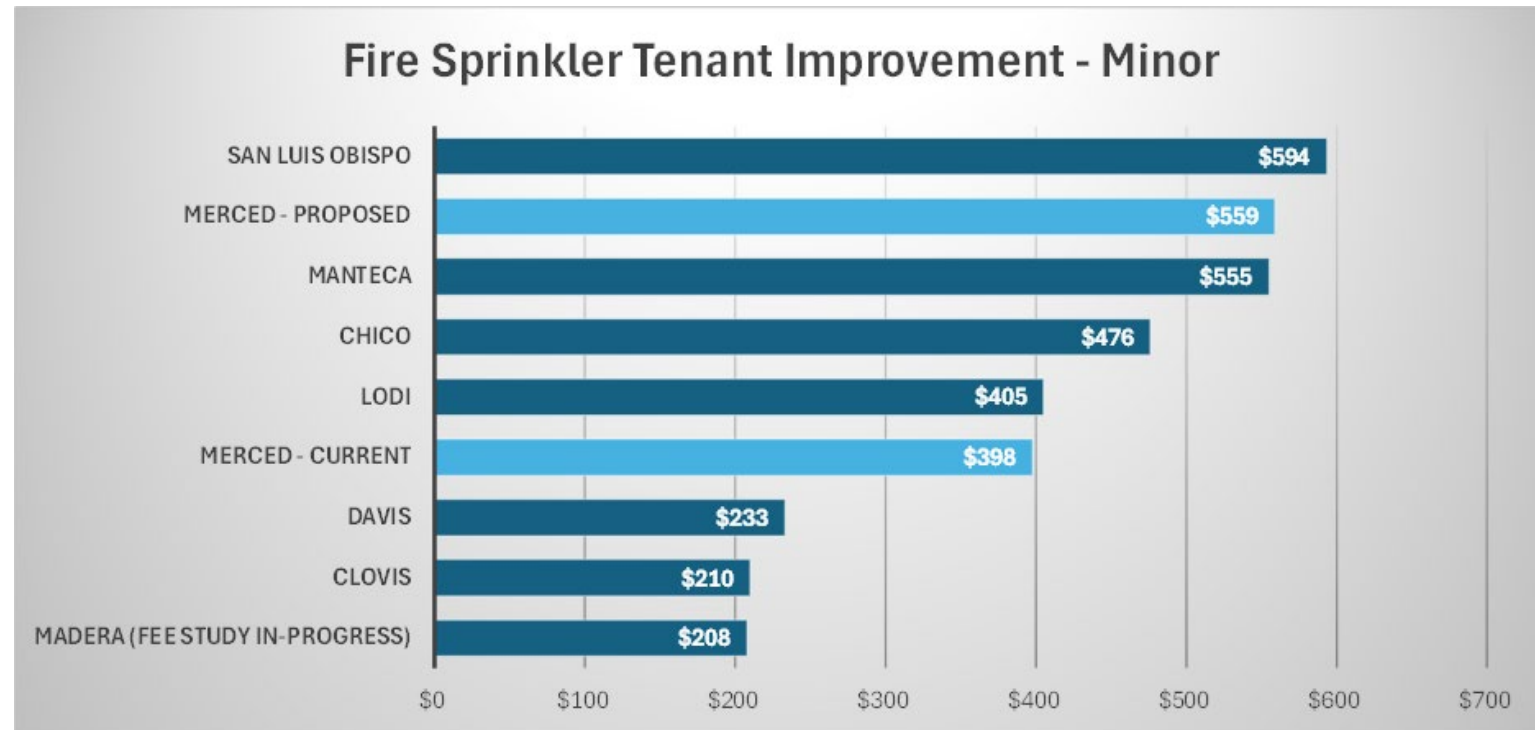
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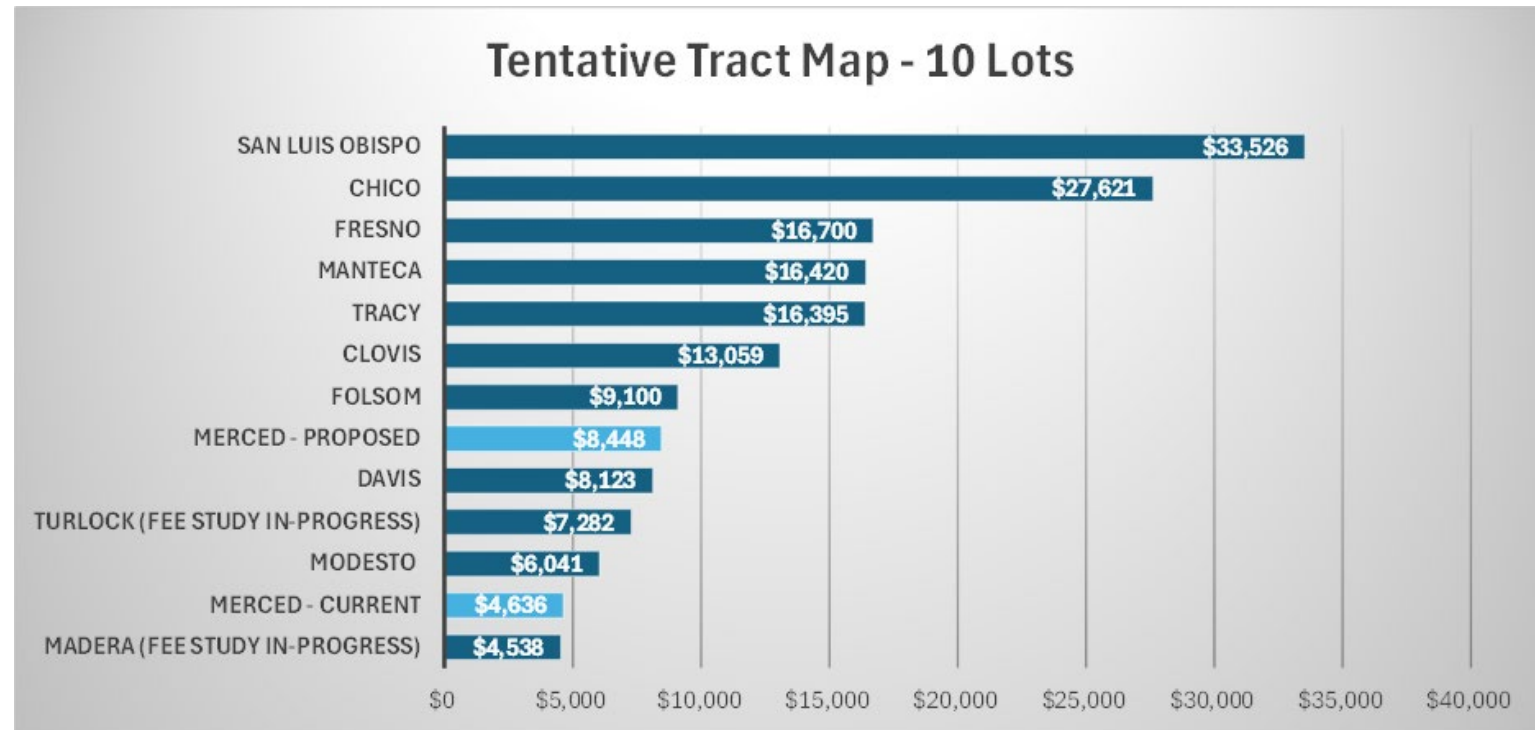
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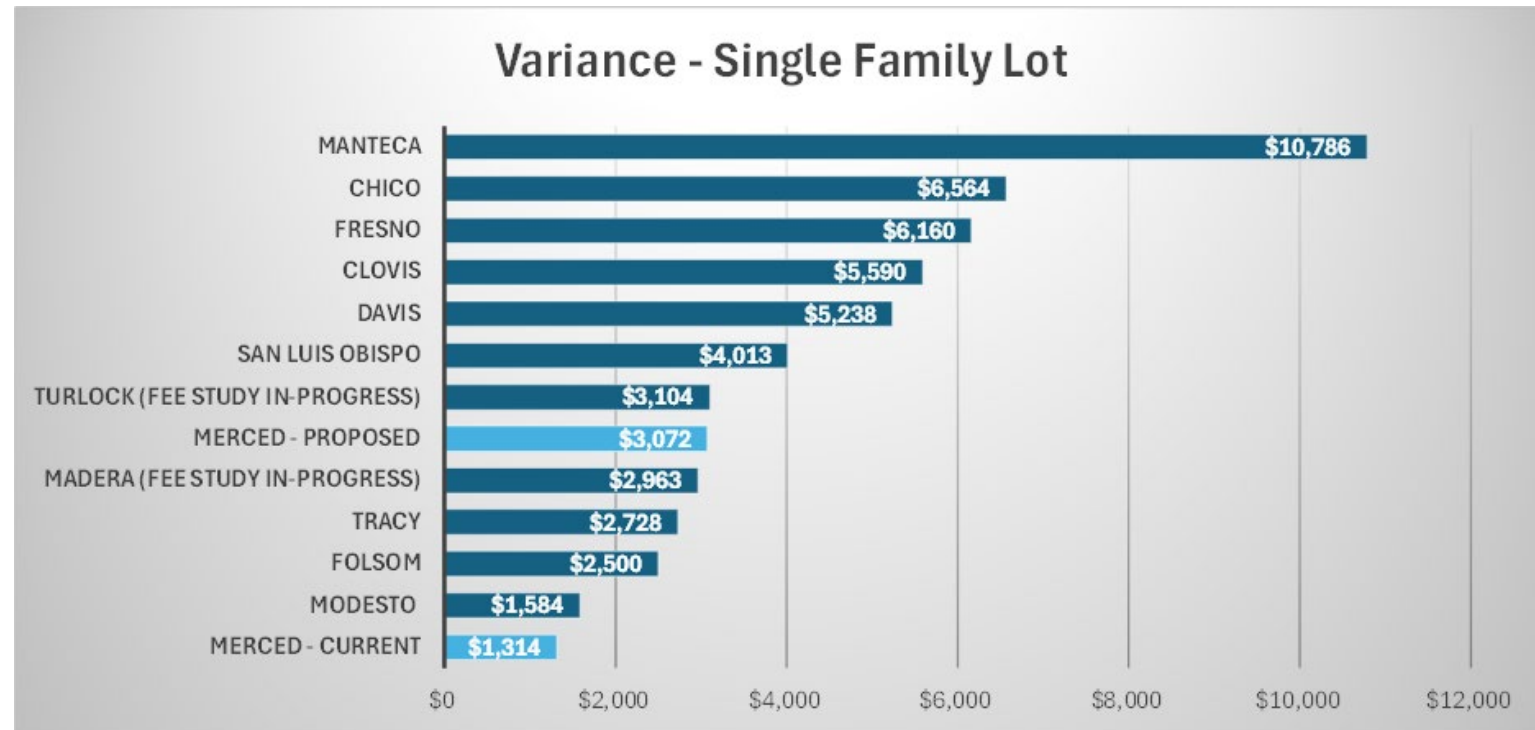
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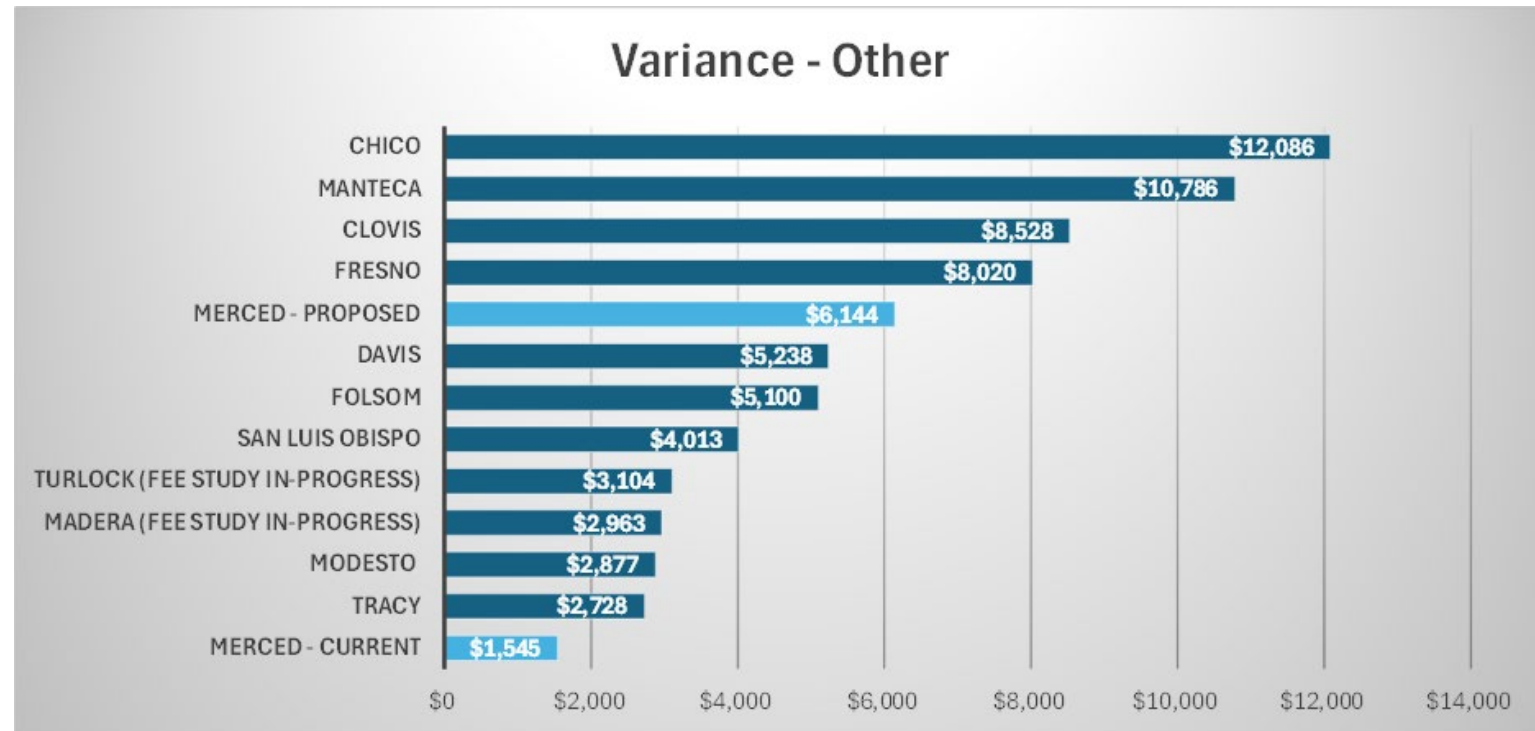
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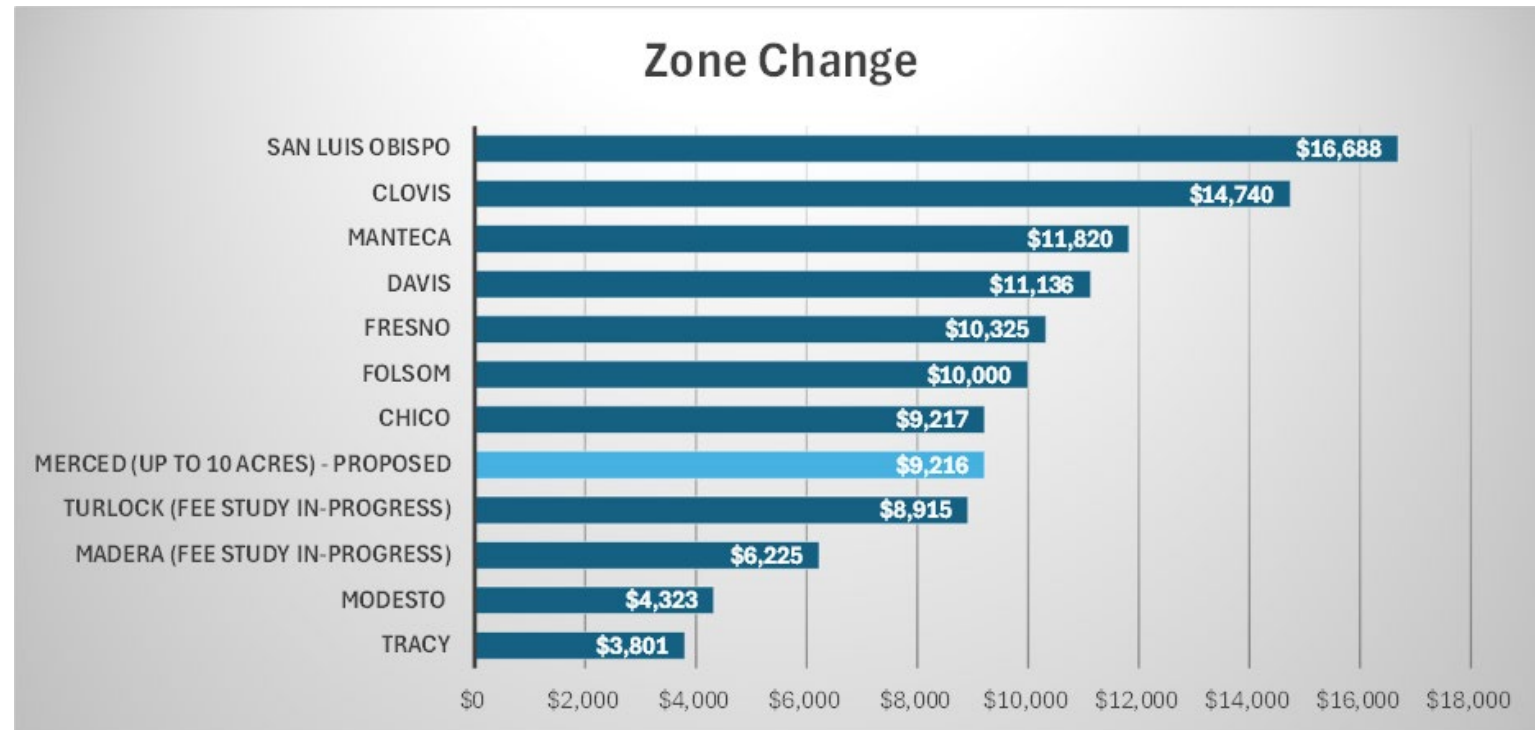
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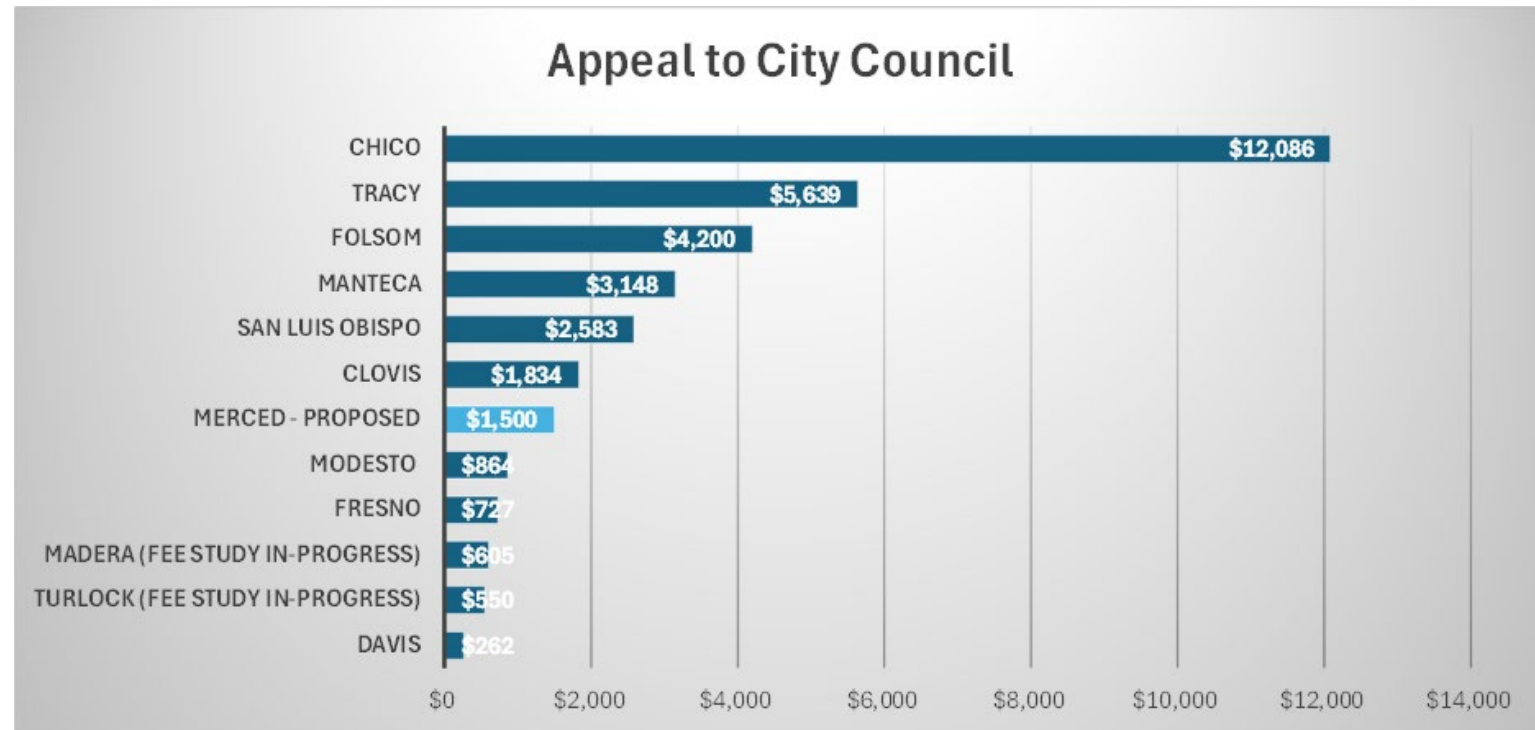
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Fiscal Impact of Proposed Changes

FISCAL IMPACT

- Anticipated fiscal impact is \$1.15M in additional annual cost recovery.
- Additional revenue is intended to offset the costs of existing direct services.



Next Steps

NEXT STEPS

Complete Public Hearing
and Formally Consider Fee Adjustments

Staff Recommendation: Adopt Updated
Schedule of User and Regulatory Fees for Various
Services



Questions or Feedback
