



Agenda Item

Orange City Council

Item #: 9.3.

9/9/2025

File #: 25-0504

TO: Honorable Mayor and Members of the City Council

THRU: Jarad Hildenbrand, City Manager

FROM: Trang Nguyen, Finance Director

1. **SUBJECT**

Results of the Cost Allocation and Draft Fee Study.

2. **SUMMARY**

A Cost Allocation and Fee Study has been conducted by Matrix Consulting Group for the city. The draft results will be presented for City Council review and input.

3. **RECOMMENDED ACTION**

1. Receive and file the Cost Allocation Plan and Draft User Fee Study.
2. Provide staff with direction on the Draft User Fee Study.

4. **FISCAL IMPACT**

None at this time.

5. **STRATEGIC PLAN GOALS**

Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability
2.6 Reduce subsidy from general tax revenues

6. **DISCUSSION AND BACKGROUND**

Background and Purpose

In September 2024, City Council approved a contract with Matrix Consulting to prepare a Cost Allocation Plan and User Fee Study.

The purpose of the cost allocation plan is to identify and distribute central service and other administrative support costs to the users of those services. These kinds of costs include finance, facility maintenance, personnel, and certain departmental administrative functions. Cost Allocation plans help a city determine the full costs by identifying the indirect/overhead allocations to be added to a program's direct cost. Once developed, the full program costs can help set internal city charges and be used as a basis to establish user fees, permits and applications, billing rates, hourly rates, and costs of special services. Furthermore, a cost allocation plan can be used to charge indirect overhead to federal and state grants and charge external agencies and funds their fair share of support costs.

A user fee study determines the full cost of services offered by a government agency for which user fees are currently charged or could be charged. According to State law, city fees for services cannot

exceed the cost of providing the service. The purpose of this updated study is to identify the full cost of providing these services, therefore identifying any subsidy of General Fund tax dollars for said services. This study examined and determined if the actual costs associated with city services are achieving full cost recovery. The last comprehensive citywide user fee study was completed in 2018. It is recommended by industry professionals in the cost recovery sector that local governments update their cost-based fee studies every three to five years.

The scope of services provided by Matrix included examining the total costs associated with providing city services and providing recommendations for changes on fees that will achieve full cost recovery. Matrix's costing model is built based on the City's operations, budget details and intended use for the results. The method used is a customized approach specific to the City.

As part of the Cost of Services (User Fee) study for the City of Orange, Matrix Consulting Group conducted a comparative survey of user fees. The City identified six municipalities to be included in the comparative survey: Brea, Costa Mesa, Fullerton, Garden Grove, Huntington Beach, and Santa Ana. When compared to the surveyed jurisdictions, the City of Orange ranks near the middle in terms of population, but on the lower end for budget and staffing. Overall, Orange generally has current fees that are higher, or in the middle when compared to the fees of the other surveyed jurisdictions. Of the surveyed jurisdictions, Orange's current fees are most comparable with Huntington Beach, Fullerton, and Costa Mesa while the City's full cost calculated is most comparable to fees charged by Santa Ana and Huntington Beach. It is important to note that the results of this survey only show the fees adopted by the council, not the cost recovery policy decisions for departments or a jurisdiction.

Multiple in-depth meetings have been held with department heads and staff to ensure the cost allocation was appropriate and the proposed fees would recapture full cost recovery or a level of recovery that was suitable based on information from Matrix, comparison to other jurisdictions, and impacts to the residents and business community. Each department went through several iterations of the proposed fees discussing changes with Matrix and fine-tuning the results that are presented in the complete draft report that is attached to this staff report.

Findings

Currently, based on comparing FY 25 fee-related budgeted expenditures with fee-related FY 24 revenue, the City is under-recovering its costs by approximately \$2.9 million or recovering about 60% of its costs. Depending on current cost recovery levels, some current fees may need to be increased significantly to comply with established or proposed cost recovery policies, however the City can choose to use a phased-in approach to reaching its cost recovery goals.

While full-cost recovery is not practical in all situations, staff has recommended fees to increase overall cost recovery to 85%, resulting in an increase in General Fund revenue of approximately \$1.9 million. Additionally, the draft report includes a new credit card surcharge of 3.12% which will recover an estimated \$300,000 in credit card fees, if the surcharge is adopted.

Next Steps

Based on feedback from the City Council and the community, a finalized Master Schedule of Fees is tentatively scheduled for public notice and City Council consideration in October. Moving forward, the Cost Allocation Plan and User Fee Study will be integrated into the City's annual budget process. Matrix has provided a model to support annual fee updates, ensuring that any future adjustments are analyzed and presented to Council for adoption.

To establish best practices and align with City Council objectives, Matrix recommends consideration of a formal Cost Recovery Policy. This policy would provide a clear and consistent framework for setting fees, require periodic review, and ensure that adjustments are based on objective and supportable criteria available to the public. A draft policy will be developed with Department Head input, presented during the FY 2026-27 budget workshop, and considered for adoption with the annual budget.

7. ATTACHMENTS

- Cost Allocation Plan Report
- Draft User Fee Study Report
- Draft Master Fee Schedule