

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: August 28, 2025

PREPARED BY: Rosie Lua, Interim Director of Development Services

SUBJECT: ADOPT A RESOLUTION UPDATING AND ESTABLISHING USER AND REGULATORY FEES

RECOMMENDATION:

Adopt a resolution entitled “A RESOLUTION OF THE CITY OF PALM DESERT, CALIFORNIA, APPROVING AN UPDATE AND ESTABLISHMENT OF RELATED USE AND REGULATORY FEES FOR DEVELOPMENT AND REGULATORY SERVICES.”

BACKGROUND/ANALYSIS:

The City provides many services to ensure safe, orderly, and aesthetically pleasing development and construction in Palm Desert. The broad categories of these services include, but are not limited to, project entitlement review, improvement plan check, map check, permits (building, grading, encroachment, and driveway), and land action review (i.e., dedications, parcel mergers, and lot line adjustments). User fees and regulatory fees are the mechanisms by which the City may recoup a portion of, or all of, the costs associated with these services.

- User and regulatory fees for private development projects have not been comprehensively adjusted in more than a decade.
- ClearSource Financial Consulting (“ClearSource”) completed the “User and Regulatory Fee Study” referenced by title as the “Development Services Fee Study” which is the foundation for the proposed fee adjustments. ClearSource has provided similar services to communities throughout the region and State, including Cathedral City, La Quinta, and Rancho Mirage. The User and Regulatory Fee Study does not consider or evaluate Development Impact Fees, only the service fees referenced above.
- Updated the methodology for calculating building fees from an outdated, difficult-to-explain model to a best-practice approach that is based on valuation which is consistent with how building permit fees are assessed across the Coachella Valley and California.
- Stakeholder groups, including the Building Industry Association–Riverside County Chapter, the Desert Valleys Builders Association (“DVBA”), and Southern California Gas Company, were engaged. They have reviewed the study, and their comments have been addressed by staff.
- A letter of support for the proposed fee adjustments has been received from DVBA.
- This study does not include Development Impact Fees (DIFs); it strictly focuses on service-related user and regulatory fees.
- To collaborate with the development community and minimize the impact of fee

adjustments, staff is proposing a three-year phase-in approach for fee adjustments.

- At the conclusion of the three-year phase-in, staff recommends annual CPI adjustments to fees based on the change in regional cost inflation, until the next fee study is completed. Staff anticipates completing a fee study every three to five years.
- In February 2024, the City engaged Holistic System Integration Solutions (HSIS) to assist with streamlining development-related processes across multiple departments, including Planning, Building & Safety, Regulatory, Public Works, and Engineering. The consultant's role was to identify operational bottlenecks, propose alternative service delivery models, and support the City in modernizing its approach. These improvements are being incorporated into the implementation of the City's new land management software. As a result, the updated fee schedule reflects the enhanced service models and more efficient workflows identified through this process.

The user and regulatory fee study:

- Identified the full cost of providing development services.
- Calculated fully burdened hourly rates for fee-related service providers.
- Determined current cost recovery levels at the departmental and individual permit or service fee level.
- Examined existing fee calculation methodologies and modified them, if necessary, to more closely align their calculation methodology to the cost of services being provided.
- Assigned targeted fee and cost recovery levels for each service examined.
- Compared current and proposed fees to those imposed by neighboring communities.
- Estimated anticipated revenue impacts of proposed fee adjustments.
- Includes an updated multi-year schedule of fees for City Council consideration.

User and regulatory fees are established by the City Council. This item and the staff recommendations are intended to be considered upon completion of a public hearing. The public hearing provides all interested parties with an opportunity to comment on or request clarification regarding any of the fees proposed for update.

Overview of Proposed Adjustments to User and Regulatory Fees

During the course of the study, information and analysis were developed and are presented substantively throughout this report and its technical appendices.

A key change is the shift to an updated fee model replacing complex software-based calculations with a simpler, more transparent system that improves cost recovery and public understanding. The City's current fee schedule methodology has remained largely unchanged since its inception and relies heavily on complex calculations embedded within our software system. This makes it difficult for the public to understand how fees are determined.

We are proposing a shift to an updated fee calculation model that aligns with current industry standards and improves cost recovery. This new approach uses a blended rate for staff time, offering a simpler, more transparent system that is easier for the public to understand and for staff to administer.

The following represent key outcomes and proposals of particular relevance to City leaders and policymakers:

Primary Outcomes

- Multi-Year Phase-In Approach
 - Current fees recover less than the City's full cost of providing fee-related services, an estimated 61% overall cost recovery of today's costs for services.
 - Since these fees are regulatory in nature and typically correlated with high levels of direct benefit to the service recipient, communities frequently target full cost recovery for these development-related services.
 - To allow the City to move toward full cost recovery, while being mindful of broad community goals and values and collaboration with the development community, staff recommends using a multi-year phased approach to enhance cost recovery levels.
 - The recommended fee phase-in would take place over a three-year timeframe. An example of the timing of the proposed fee adjustments is as follows:
 - Year 1 Fee Adjustment – Fiscal Year 2025/26, 68% Overall Cost Recovery
 - Year 2 Fee Adjustment – Fiscal Year 2026/27, 75% Overall Cost Recovery
 - Year 3 Fee Adjustment – Fiscal Year 2027/28, 82% Overall Cost Recovery
 - The City will target full cost recovery for most services, however the costs of certain services (e.g., General Plan Update) will continue to be funded via other City sources.

- 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 is scaled 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.
 - The proposed fee model will simplify fee estimates for applicants and streamline fee calculation and collection for staff.
 - The proposed building fees are set to achieve full cost recovery.

- Planning Fees
 - Due to the nature of development in California, many projects require substantial resources over a multi-month and potentially multi-year timeframe, depending on project complexity and magnitude.
 - Full cost recovery is targeted from most proposed fees due to the regulatory nature of the fees 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 Palm Desert residents and businesses subsidize an individual's private construction activities.
 - The City may adjust fees and enhance cost recovery, without positioning itself as a regional outlier.

- Engineering Fees

- Engineering and encroachment permit fees are collected to recover the costs associated with improvement plan review, permitting, and construction inspection, along with review and inspection of work conducted within the City right-of-way.
- The proposed engineering fees are set to achieve full cost recovery.

Fee Comparison

To assist the City Council in evaluating suggested fee adjustments, current and proposed fees were compared with those charged by other agencies in the region.

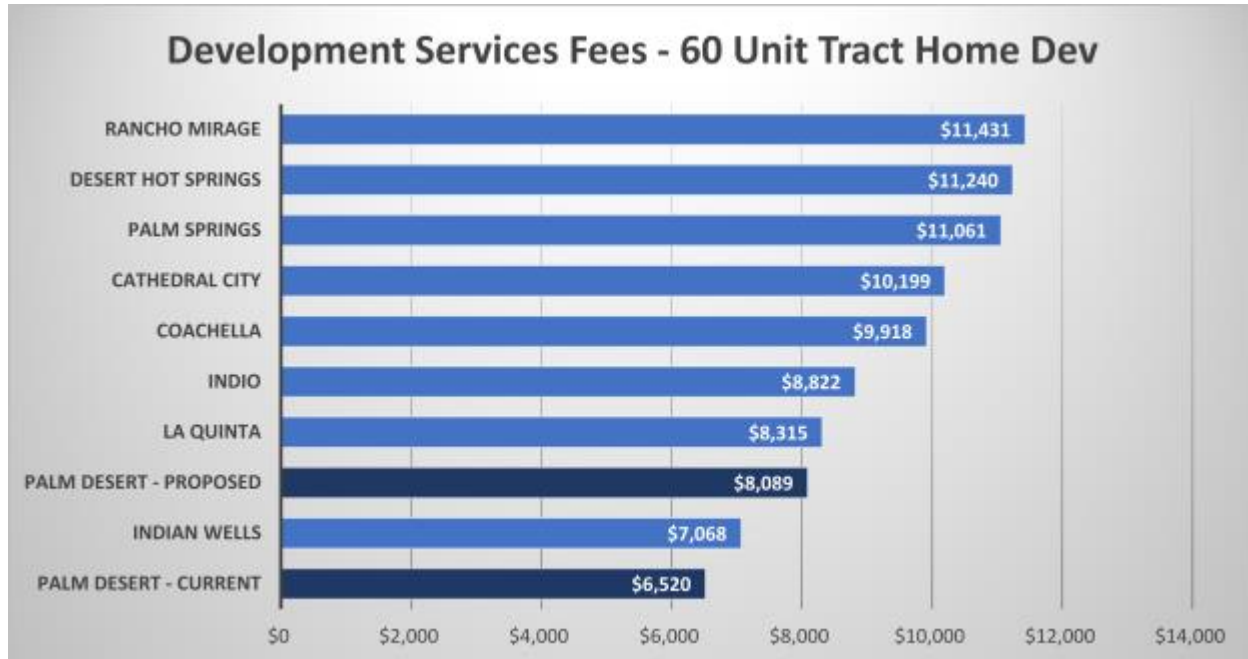
The City of Palm Desert, consistent with other communities throughout the State, maintains a fee schedule that addresses many potential unique service requests. Consequently, an exhaustive comparison of all potential fee scenarios is unrealistic. Instead, comparison information for several targeted fee categories is provided to give the City Council a reasonable sense of expected changes.

For Palm Desert, the outcomes indicate that new fees may fall anywhere from the low to the mid to upper end of the regional fee spectrum, depending on the service provided. This is common among municipalities due to varying levels of service and review included in different fee categories. Although comparison outcomes will differ from fee to fee, some general conclusions can be drawn:

- Fees may be adjusted without positioning Palm Desert as a regional outlier.
- Currently, Palm Desert is at the lower end of the regional fee spectrum for various planning fee scenarios contemplated.
- Comparison information for other regional agencies is based on information contained in the 2024 Residential Development Fee Study, prepared by DVBA.

The services for which a 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 a city's involvement in the 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 bears the entire cost. When a fee targets less than full cost recovery, another City revenue source—most often the General Fund—subsidizes the activity.

The illustration shown below provides a comparison of Development Services fees intended to serve as a reasonable estimate of what an applicant would pay for Building, Planning, and Engineering fees per unit for a 60-unit tract home development in Year 3, measured against fee schedules from surrounding cities. It highlights Palm Desert's current and proposed fees, demonstrating that the City continues to remain on the lower end of the fee spectrum in the region.



Note, amounts shown are based on the consultant’s interpretation of other agency fee schedules. Amounts shown are intended for illustrative purposes rather than representing an exact calculation.

The proposed fees are intended to comply with applicable federal, state, and local laws, including confirmation that they do not constitute a tax as defined in Article 13C of the California Constitution, and that they are no more than necessary to cover the reasonable costs of the City’s activities and services addressed by the fees. Additionally, the allocation of costs to each payer bears a fair and reasonable relationship to the payer’s burdens on, or benefits received from, the activities and services provided by the City.

Industry best practice and California law align in stating that user and regulatory fees should be based on the estimated reasonable cost of service and should bear a fair and reasonable relationship to the payer’s burdens on, or benefits received from, the activities and/or services provided by the City.

This table outlines the current and proposed valuation-based fees for various development-related services, based on the ICC Building Valuation Data from February 2025. The proposed fee adjustments are scheduled to be implemented over a three-year period, allowing for a gradual transition from the existing fee structure to a new model.

Fee Comparison Table 1: Current vs. Proposed Valuation-Based Fees (2025–2028, 3 Year phased approach)

Valuation based fees calculated based on ICC Building Valuation Data February 2025	Current Fee	Year 1	Year 2	Year 3

City of Palm Desert
 Updating and Establishing User and Regulatory Fees

BUILDING				
HVAC Change-out Residential	\$159	\$165	\$172	\$178
Patio Cover	\$159	\$225	\$290	\$356
Re-Roof (up to 2,000 sq. ft.)	\$159	\$210	\$261	\$312
Swimming Pool - Residential	\$318	\$449	\$581	\$712
Single Family Dwelling (21,464 sq. ft./\$3,629,348)				
Plan Check	\$11,885	10,333	\$10,367	\$10,401
Inspection	\$18,021	\$15,897	\$15,949	\$16,001
Hotel - 96 Rooms (62,974 sq. ft./\$12,482,706)				
Plan Check	\$19,851	\$34,445	\$34,479	\$35,513
Inspection	\$19,162	\$52,993	\$53,045	\$53,096
Commercial (3,830 sq. ft./\$792,657)				
Plan Check	\$1,187	\$2,579	\$2,669	\$2,760
Inspection	\$1,226	\$3,968	\$4,106	\$4,246
PLANNING				
Tentative Tract Map - Up to 20 Acres	\$3,308	\$4,781	\$6,255	\$7,728
Tentative Parcel Map	\$1,203	\$2,213	\$3,222	\$4,232
LAND ENGINEERING				
Single Family Grading (plan check only)	\$698	\$1,016	\$1,333	\$1,651
Final Tract Map (20 Acres - 93 Lots)	\$12,878	\$11,354	\$11,505	\$11,655
Final Parcel Map - 2 Sheets/2 Lots	\$1,503	\$1,711	\$1,922	\$2,130

Additionally, ongoing review and adjustment of fees provides multiple benefits, including:

- Increasing the availability of General Fund revenues for services and activities available to all residents and businesses, such as public safety services.
- Keeping pace with general cost inflation.
- Avoiding fee spikes that are more likely when municipalities leave fees unchanged for multiple years.
- Providing fee payers, City staff, and policymakers with a consistent pattern that supports forecasting and decision-making.
- Meeting fee payer service level expectations by collecting fees that fund the existing level of services provided.
- Allows the City to increase service levels in areas where gaps previously existed, supporting more timely and effective processing and inspections.
- Encouraging generational equity among fee payers by avoiding long-term stagnation followed by significant increases.

The User and Regulatory Fee Study is included as **Attachment 2** of this report. The study contains the following information:

- Appendix 1: Detailed cost-of-service information for the services examined in this study, including:
 - Divisional cost-of-service and cost recovery information
 - Calculation of fully burdened hourly rates
 - Service time estimates
 - Cost-of-service calculations and current cost recovery information for the various fee-related services provided by the divisions
 - Proposed fee and proposed cost recovery information for the various fee-related services provided by the divisions.
- Appendix 2: A listing of fees proposed for adoption by the City Council, formatted to help applicants and City staff understand applicable fees and how fees are calculated.
- Appendix 3: A summary illustration of the current fee, current cost recovery level, proposed fee, and proposed cost recovery level for various fee-related services provided by the divisions. This appendix presents a consolidated view of information contained in Appendix 1.

Legal Review:

This report has been reviewed by the City Attorney’s office.

Strategic Plan:

Recovering a greater share of the City’s costs of reviewing plans and construction associated with private development activities aligns with the Land Use, Housing, and Open Space components of the City’s strategic plan. Additionally, it enables the City to allocate more resources to other priority areas in the strategic plan, such as parks, recreation, and public safety.

Public Notice and Compliance

In accordance with applicable regulations and procedural requirements, the following public notice and notification procedures have been completed for the upcoming public hearing:

1. Notice of Public Hearing Publication:

A notice of the public hearing was published twice in the *Desert Sun* newspaper. The first publication occurred at least 10 days prior to the hearing date (August 15, 2025), and the second publication took place at least five days later (August 21, 2025), meeting the required publication interval.

2. Written Notice to Interested Parties:

Written notices of the public hearing were sent to all interested parties who had requested such notifications and were registered with the City Clerk. Both in-person and teleconference meetings were conducted, during which feedback was received and responses to comments were accepted. These notices were dispatched at least 14 days

prior to the hearing date on August 14, 2025, ensuring recipients had time to prepare for participation.

Initial discussions regarding the updated fee schedule began in May 2025, with subsequent meetings held thereafter. Follow-up notices were issued after the City Attorney reviewed the report and provided comments. The revised study presented to stakeholders in May improved upon the previous version by:

- Clearly identifying where specific information is located within the report;
- Clarifying how costs of service are calculated, including the drivers of hourly rates and estimated service times, explaining the basis for proposed fees, and the cost-of-service methodology.

Following these updates, the revised report was recirculated to stakeholders.

3. Public Availability of Supporting Materials:

All materials supporting the proposed fees were made publicly available for review at least 10 days before the scheduled public hearing via the Engage Palm Desert website. These documents are accessible through the City’s website, enabling stakeholders to examine the information prior to the hearing.

4. Notification to Development Community:

An email notice regarding the public hearing and the availability of supporting materials was distributed on August 13, 2025, to the broader development community. This included an active contact list of developers, engineers, and contractors maintained in the Land Management System. This outreach ensured industry stakeholders were informed and had an opportunity to participate in the hearing process. A total of 2,138 emails were sent, and comments received through this outreach were included in the staff report.

This report confirms compliance with all applicable public hearing notice requirements.

FINANCIAL IMPACT:

The anticipated financial impact of the proposed changes is an additional \$971,000 in General Fund revenue over the three-year phase-in period. The adjustments to the City’s fee schedule are intended to align fees with the cost of services provided.

Description	Cost of Service	Fee Cost Recovery	General Fund Subsidy	Incremental Change	Overall Cost Recovery
Current	\$4,500,000	\$2,735,000	\$1,765,000		61%
Year 1	\$4,500,000	\$3,059,000	\$1,441,000	\$324,000	68%
Year 2	\$4,500,000	\$3,383,000	\$1,117,000	\$324,000	75%
Year 3	\$4,500,000	\$3,706,000	\$794,000	\$323,000	82%
Total				\$971,000	

ATTACHMENTS:

1. Resolution and Fee Schedule

2. User and Regulatory Fee Study
3. Public Hearing Notices
4. Presentation
5. Public Comments