
2024-2025 PROPOSED FEES AND CHARGES OVERVIEW

May 16, 2024



2024-2025 PROPOSED FEES AND CHARGES

PURPOSE



- The Fees and Charges program allows the City to set "a reasonable charge for a specific local government service or product provided directly to the payor that is not provided to those not charged"¹
- Fees shall be set to cover 100% of the cost of service delivery, unless such amount prevents residents from obtaining an essential service. Fees may be less than 100% if Council determines that other factors need to be recognized (City Council Policy 1-18, Section 17)
- Allows the City to recover all or a portion of its cost to provide the customer-specific service

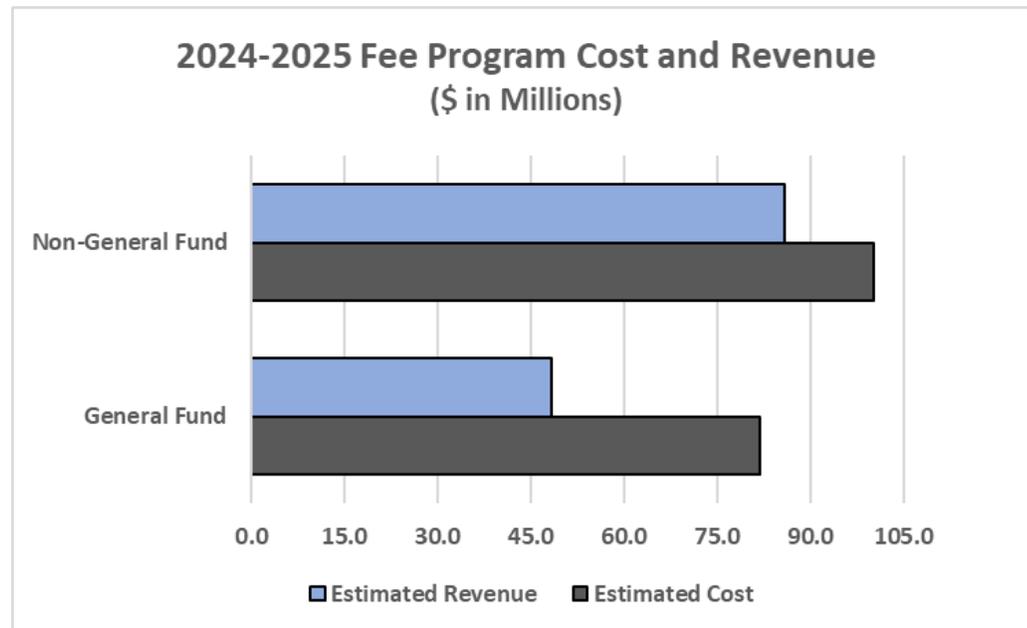
¹Annual ordinance adopted by the City Council to amend and establish various fees and charges

2024-2025 PROPOSED FEES AND CHARGES COST RECOVERY



Category I fees should be set to recover 100% of the program cost

Category II fees may be less (or sometimes more) than 100% cost recovery



2024-2025 Fee Program (All Funds)

Category I = 78.1% Cost Recovery

Category II = 55.0% Cost Recovery

Total Fee Program = 73.8% Cost Recovery

2024-2025 PROPOSED FEES AND CHARGES REVENUE AND COST RECOVERY



Fees and Charges by Department

Department	2024-2025 Estimated Revenue	Cost Recovery Rate	Amount Over/(Under) Cost Recovery
Planning, Building & Code Enforcement Department	\$58,223,393	83.7%	(\$11,359,620)
Parks, Recreation, Neighborhood Services Department	\$20,025,083	47.9%	(\$21,778,507)
Public Works Department	\$19,149,420	61.3%	(\$12,083,041)
Fire Department	\$18,449,700	96.0%	(\$777,201)
Environmental Services Department	\$6,074,545	99.0%	(\$63,046)
Housing Department	\$5,618,730	100.0%	\$0
Police Department	\$4,770,998	94.4%	(\$282,713)
Transportation Department	\$1,566,339	56.2%	(\$1,222,630)
Finance Department	\$341,073	100.0%	\$0
Library Department	\$108,000	59.0%	(\$75,114)
Office of Economic Development and Cultural Affairs	\$33,710	80.0%	(\$8,415)
City Clerk	\$24,930	100.0%	\$0
TOTAL	\$134,385,921	73.8%	(\$47,650,287)

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



On March 19, 2024, City Council directed staff to:

- Reduce the Cannabis Storefront Retail annual fee to \$30,000 per year
- Align San José’s regulations with State regulations
- Analyze existing regulatory activities
- Recommend an alternative regulatory recovery fee structure funding that allows reasonable regulation of the City's cannabis industry

The 2024-2025 Proposed Operating Budget recommends an alternative fee structure to the \$30,000 per year. After further evaluation and outreach, additional modifications are recommended in a Manager’s Budget Addendum, along with the option to institute the \$30,000 fee.

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



- San José's Cannabis Industry Landscape
 - 15 licensed businesses (10 equity applicants in pipeline)
 - Under current operating structure, each business can have up to 3 locations
 - 19 locations
 - 47 business activities occurring across the 19 business locations
 - 5 permitted business activities
 - Retail (Storefront/Delivery)
 - Cultivation (including nursery/processing)
 - Manufacturing (Type 6)
 - Distribution
 - Testing Labs (prohibited from doing other activities)

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES – ANNUAL OPERATION FEE



Cannabis Business Activities Allowed Per Business	Current # of Business Locations (Only for Proposed Budget Methodology)	CURRENT FY 23-24 \$139,406 per business, per year	PROPOSED BUDGET FY 24-25 \$35,000 per year for first business activity per location, per business; \$20,000 per year, for each additional business activity per location, per business	ALTERNATIVE 1 FY 24-25 \$30,000 per year, per retail storefront location	ALTERNATIVE 2 FY 24-25 \$82,070 per year, per business
1 Activity	6	\$ 139,406	\$ 35,000	\$ 30,000	\$ 82,070
2 Activities	2	\$ 139,406	\$ 55,000	\$ 30,000	\$ 82,070
3 Activities	7	\$ 139,406	\$ 75,000	\$ 30,000	\$ 82,070
4 Activities	4	\$ 139,406	\$ 95,000	\$ 30,000	\$ 82,070
Total	19	\$ 2,230,496	\$ 1,225,000	\$ 510,000	\$ 1,231,050
		16 Businesses	15 Businesses 19 Locations	17 Retail Storefront Locations	15 Businesses

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



	FY 23-24 (Current)	FY 24-25 (Proposed/ Alternative 2)	FY 24-25 FTEs (Alternative 1)
Annual Operating FTEs	7.25	3.75	1.82
- Police	5.02	2.82	0.89
- Finance	0.98	0.79	0.79
- CAO	0.74	0.14	0.14
- PBCE	0.51	-	-
Annual Operating Budget	\$2,230,496	\$1,231,050	\$510,000
Other Program*	1.03	0.21	0.14
- Police	0.98	0.18	0.11
- Finance	0.02	-	-
- PBCE	0.03	0.03	0.03
Other Program Budget	\$225,512	\$94,228	\$94,228
Total Program	8.28	3.96	1.96
- Police	6.00	3.00	1.00
- Finance	1.00	0.79	0.79
- CAO	0.74	0.14	0.14
- PBCE	0.54	0.03	0.03
Total Program Expense	\$2,456,008	\$1,325,278	\$604,228

- All alternatives result in a reduction of the regulatory program and fees in comparison to the current program
- Proposed Budget and Alternative 2 reduces the number of positions by 50% compared to current program; Alternative 1 eliminates over 80% of program staff
- Minor position shifts to other fee programs, as well as minor position shifts in the Finance Department and City Attorney's Office
- Reduction of the Application Receipt Fee from \$100 to \$0

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



Consequences of Reduced Regulatory Program

- Elimination of Criminal Background Investigations
 - State will only perform background checks on owners/managers
 - City previously performed background checks on owners and all employees, and provided city issued badges
- No *Local* Labor Peace Agreement Enforcement
 - Only State enforcement going forward
- Significantly Reduced Business Operations Monitoring
 - Current capacity only allows monitoring of about 10% of business hours; will reduce monitoring capacity to about 5%.
 - In last 6 months, discovered 8 instances of adults being allowed to divert cannabis to persons under age 21 at registered cannabis businesses

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



Consequences of Alternative 1 (Retail Storefront Fee)

- Ignores City approved business activities (Delivery Only, Cultivation, Manufacturing, Distribution and Testing Labs)
- Reduces Police Department Division of Cannabis Regulation by 83% resulting in significant impacts to recommended minimal regulation of industry that is still illegal federally
- Relies on the State for regulation
- Anticipate community concerns going unregulated and undiscovered

2024-2025 PROPOSED FEES AND CHARGES

CANNABIS FEES



MBA for City Council Consideration:

- Approve Alternative 2
- Staff will update Title 6 reflective of City Council direction
- Direct the City Manager to conduct a cannabis business regulatory fee study that:
 - Identifies common fee structures;
 - Describes the associated benefits and risks tied to those fee structures;
 - Outlines state regulatory activities in San José and their frequency; and
 - Identifies lessons learned from reduced regulatory oversight during Fiscal Year 2024-2025

2024-2025 PROPOSED FEES AND CHARGES

Questions and
Discussion