

Community Development Department Full Cost of Services Study

***Potential Cost-Recovery Goals, Fee Changes,
Policies, and Implementation Strategies***

November 5, 2013

General Strategy – Fee Adjustment

1. Establish fee categories:

Building

- New Construction projects - new SFD, additions, new nonresidential;
- Miscellaneous projects - retaining walls, PV systems, alterations;
- Trade permits - Mechanical, Electrical, or Plumbing;
- Non-fee services - Pre-submittal plan screening and disabled access site inspection.

Planning

- Non-Fee activities;
- Public Benefit fee-based activities;
- Standard fee-based activities;
- Private Benefit fee-based activities & hard costs.

General Strategy – Fee Adjustment

2. Determine:

a. Fees that should be subsidized:

- Planning: homeowner fences, historic district remodels, trees, child care centers, large family daycare, reasonable accommodation requests, 100% affordable housing, neighbor/non-applicant appeals.
- Building: over-the-counter building permits (hourly rate), roof solar, water heaters/FAUs.

General Strategy – Fee Adjustment

- b. Services where fees are not charged and should be charged:
 - Planning: CEQA exemptions, RFP contract process for EIRs, pre-app meetings (after 1st hour), zoning letters, document research requests.
 - Building: pre-app screenings (new buildings and TIs, disabled access site investigations).
- c. Fees that should be subsidized for economic development reasons:
 - Planning: over-the-counter design review, use permits involving re-occupancy or reactivation, changes to already entitled subdivision projects, pre-application meetings.

General Strategy – Fee Adjustment

3. Improve cost recovery results over time:

- Minimum cost recovery – 50%
- Maximum cost recovery – 75-90%
- Time frame for improvement – 3-5 years

Cost Recovery Strategy – Building

Establish fee categories:

New Construction projects (new SFD, additions, new nonresidential).

Miscellaneous projects (retaining walls, PV systems, alterations).

Trade permits (Mechanical, Electrical, or Plumbing (MEP)).

Non-fee services (Pre-submittal plan screening, pre-submittal disabled access site inspection).

Cost Recovery Strategy – Building

New Construction / Miscellaneous / Trade

- If under 75% cost recovery – increase to 75% cost recovery.
- If over-charged – reduce to 100% cost recovery (cell towers, kitchen/bath remodels, gunite swimming pools, large grading projects, reroofs over 3,000 sf, demolitions, large service change outs, electrical signs, very large motor replacement).
- If between 75-100% cost recovery – no change.
- Miscellaneous administrative fee services (application/permit, 100% to include extension of application/permit, reactivation of permit, hourly billing rate for re-inspection or plan check beyond 3 plan checks. Application to Board of Appeal to be set at 50% of cost recovery.
- Water heater replacement and forced air unit replacements – 75% cost recovery.

Cost Recovery Strategy – Building

*Non-Fee Services**

- Establish a minimum fee at 75% cost recovery for pre-submittal screen of plans. Charge if plans are not accepted.
- Establish a minimum fee at 75% cost recovery for site investigation for existing disabled access review.
- Review other non-fee services to determine if other fees may be established.

*Pre-submittal plan screening, disabled access site inspection

Cost Recovery Strategy – Building

Phasing strategy:

- Phase additional increases for all fees that were increased initially to a minimum 75% cost recovery at 5% increases in cost recovery for the next 3 years to 90% cost recovery.
- Increase fees presently between 75-90% at 5% cost recovery increases until 90% cost recovery established.
- Retain fees presently between 90-100% cost recovery at present cost recovery fee.
- Retain fees lowered from more than 100% to 100% at full cost.
- Retain fees for water heater and forced air unit replacement at 75% cost recovery.
- Retain fee for roof mounted residential PV systems at 75% cost recovery.
- Continue to implement annual CPI adjustments (which may compound any fee increases to achieve cost-recovery goals).
- Conduct a Fee Update in 3-5 years.

Cost Recovery Strategy – Planning

Establish fee categories:

- *Non-Fee* (answering zoning questions, conducting pre-application meetings, zoning clearances);
- *Public Benefit* (residential fences, homeowner landmark alteration permits, appeals);
- *Standard* (use permits, design review, hillside permits);
- *Private Benefit* (vacation of right of way, general plan amendment).

Cost Recovery Strategy – Planning

- *Non-fee and Public Benefit* fees continue existing cost recovery rates, ranging from 0% to 30%.
- *Standard* fees achieve a 50% cost recovery rate in Year One, and a 75% cost recovery goal within 5 years.
- *Private* fees achieve a 60% cost recovery rate in Year One and a 100% cost recovery goal within 5 years.

Cost Recovery Strategy – Planning

- In Year One, Standard fees that currently exceed 75% cost recovery receive a fee reduction to 75%.
- In Year One, Private fees that currently exceed 100% cost recovery receive a fee reduction to 100%.
- In Years Two through Five, annual increases in the cost recovery rate shall not exceed 10%.

Cost Recovery Strategy – Planning

- Allow for time and materials when process extends beyond basic operations or reasonable expectations.
- No fee shall exceed 100% cost recovery.
- Continue to implement annual CPI adjustments.
- Conduct a Fee Update in 5 years.



**FEE SETTING
CONSIDERATIONS
and
ALTERNATIVES**

Reminder: User Fee Definition

User Fee:

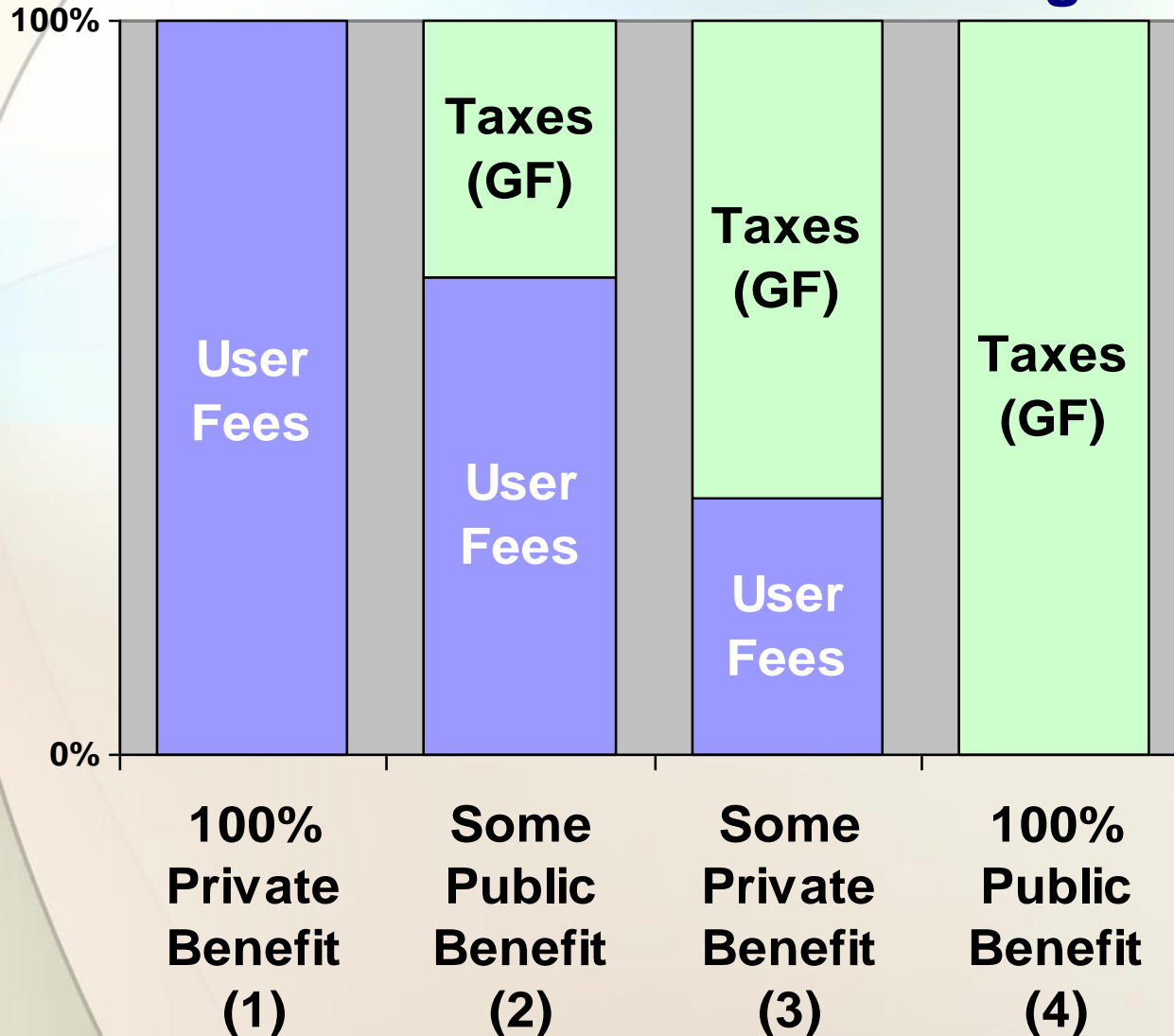
A fee or rate charged to an individual or group that receives a *private benefit* from services provided by the City.

Not a Tax:

- The service is usually a discretionary activity requested by the fee payer.
- If a User Fee *does not* cover the City's cost for the service, taxes (General Fund) pay for the remainder.

Fees vs. Taxes

Source of Service Funding



Examples:

- (1) Building Permits; Adult Rec. Programs
- (2) Environ. Compliance, Youth Programs
- (3) Historic Preservation
- (4) Police Patrol
Fire, Roads

Common Fee Concepts

User Fees Should Be:

- **Based on the Cost of Services:**
 - ✓ Not arbitrary
 - ✓ Not *unintentionally* subsidized or profitable
 - ✓ Not unfairly subsidized
 - ✓ “Estimated reasonable” cost standard
- **Fair and Equitable**
- **Consistent with City Goals / Objectives**
- **Compliant with State Law**
- **Dynamic (to address updates & anomalies)**

Fee Trends and Common Issues

Cost-Recovery Strategies and Goals:

- **Move towards greater cost-recovery & reduced subsidization**
- **Less reliance on General Fund**
- **Enterprise Fund or equivalent**
- **Less reliance on comparisons**

Move to cost-based fees for Building:

- **Defensibility**
- **Cost-recovery**

Building vs. Planning:

- **Inter-department subsidies**
- **“Public Benefit”**

Implementation Considerations

- **Phasing:** Achieving cost-recovery goals over a longer time frame.
- **Cost-recovery levels:** Set a standard level or % of cost to recover or maximum level of increase.
- **Timing:** Schedule for when fees should go into effect, be updated, and/or achieve recovery goals.
- **Customer Service:** Communication & noticing, “grand-fathering” projects.
- **Future Updates:** Maintain cost-recovery performance with future cost increases.

Santa Rosa Fee-Setting Considerations

- ***Staff recommendations are:***
 - Reasonable
 - Less aggressive than consultant's recommendations
 - Less aggressive than current City policy of 100% recovery
 - Consistent with current trend for phased implementation
 - Contrary to current trend for greater cost recovery
- ***Staff recommendations will result in:***
 - Continued reliance on General Fund contributions to subsidize private development activity.
 - Future staff increases related to new development activity will require *additional* GF contributions (same proportion).

Santa Rosa Fee-Setting Considerations (cont'd)

- The Cost Study identified the cost and subsidization of *current services* provided for development activity.
- Therefore, “new” fee revenues only *offset* the current subsidy and free-up General Fund resources for other City priorities.
- What is the “Public Benefit” of development activity to be reflected in cost-recovery standards?:
 - Does the Santa Rosa taxpayer (GF) receive a net benefit from private building projects (large and small)?
 - ...private planning projects? ...commercial vs. residential?
 - How much is that benefit? (What should the subsidy % be?)
 - State codes authorize up to 100% cost recovery.

Santa Rosa Fee-Setting Alternatives

- Staff recommendations for cost recovery and implementation reflect staff response to public input:
 - Cost-recovery rates are less than 100% to reflect potential public benefit.
 - Initial base (Year 1) cost-recovery rates are reasonable and full implementation is phased over multiple years to ease the burden on the public and development industry.
- Alternatives to consider include:
 - Higher or lower cost-recovery standards / rates / policies.
 - Different cost-recovery standards with specific exceptions.
 - Longer or shorter phasing periods.
 - Service reductions to reduce cost and GF subsidy.
 - Status quo.

Anticipated Follow-up Steps

- CDD is presenting the **draft fee and implementation recommendations** to the City Council today (Nov. 5).
- City Council will provide further direction, clarify policy intent, specify changes to the recommended fee plan, and/or request additional information.
- CDD will modify the fee plan to comply with City Council direction and begin the public notification process for fee changes.
- CDD will return to the City Council on December 10 (proposed) to seek approval of **final fee and implementation recommendations**.
- Upon approval, City staff will begin the internal and external implementation processes for fee changes.
- Fees will go into effect no sooner than 60 days from approval.