

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
SUBJECT: PUBLIC HEARING – ADOPTION OF FEES –
COMMUNITY DEVELOPMENT DEPARTMENT
(CONTINUED FROM JANUARY 7, 2014)
STAFF PRESENTER: CHUCK REGALIA, DIRECTOR
COMMUNITY DEVELOPMENT
AGENDA ACTION: ADOPTION OF RESOLUTION

ISSUE(S)

Should the City Council increase development-related fees to more fully recover costs in the Community Development Department?



COUNCIL GOALS AND STRATEGIES

Fee increases to more fully recover costs in the Community Development Department relate to Goal #1 Create a Strong Sustainable Economic Base and Goal #2 Promote a City Organization that is Sustainable and Maintains Employee Morale, Productivity and Effectiveness.

BACKGROUND

1. Recovery of costs for development review activities has been a consideration in Santa Rosa since 2004. At that time, the City Council approved financial principles to guide development fee cost recovery. Prior to that time, fees charged for services were relatively insignificant as compared to General Fund subsidy of development services.

On June 29, 2004, the City Council, by motion, approved Financial Principles that established guidance regarding cost recovery for development services. One of the approved Financial Principles states:

For all services determined to be “development-related,” a cost recovery level of 100% is desired.

2. On October 5, 2004, the City Council adopted Resolution 26099 relating to certain development review fee increases for the Department of Community Development and the Fire Department. Fees were adjusted for development-related applications.

ADOPTION OF FEES – COMMUNITY DEVELOPMENT DEPARTMENT

Page 2

Fire plan review and inspection were charged at 50% of the applicable building permit fee.

3. While these updated fees were intended to recover 100% of the cost to provide development review service, the City Council purposefully set certain fees, like the appeal fee, at a reduced (subsidized) rate so as to not discourage citizen participation.

The Council also directed that development-related fees be adjusted annually to reflect changes in the Consumer Price Index (Bureau of Labor Statistics San Francisco/Oakland/San Jose Consumer Price Index – All Urban Consumers - CPI-U). This adjustment occurs annually in July. The adjusted fees went into effect on January 1, 2005.

4. On August 5, 2008, the City Council adopted Resolution 27184 making adjustments to existing fees. Changes made with this Council action included: subsidizing homeowner landmark alteration fees, adopting fees for reprocessing development applications, and instituting fees to support advance planning and department technology needs.

Between August of 2008 and the present, adjustment of development fees have only occurred with the annual index update. For most of the intervening years, cost recovery has been low, due to economic conditions.

5. In 2009, the City initially engaged Wohlford Consulting to analyze the costs of development-related services. Work on this study, however, was postponed until the number of staff positions and the volume of development-related services achieved a consistent level after significant budget and staffing reductions took place in response to the economy. In April of 2013, this work was complete and the *Full Cost of Services Study for the Community Development Department* was submitted.
6. On September 24, 2013, the City Council considered a consultant/staff presentation regarding the methodology and findings of the *Full Cost of Services Study for the Community Development Department*. During this presentation, the City Council was told that the purpose of this study is to identify the full costs incurred by the City in support of development review activities and to assist the City in the conversion of the Building Division's current system of valuation-based fees to a system of cost-based fees.

As a result of this Council discussion, the City Council:

- Initiated public review of the *Full Cost of Services Study*;
- Began deliberations regarding development-related fees and recovery of development-related costs;

ADOPTION OF FEES – COMMUNITY DEVELOPMENT DEPARTMENT

Page 3

- Adopted a 45-day review schedule during which staff would meet with development review customers; and
 - Set a public hearing to consider development-related fees for November 5, 2013.
7. Since September 24, 2013, two public meetings have been held with customers of the development review process and with interested citizens. These meetings were held in the City Council Chamber from 4 p.m. to 6 p.m.
8. On October 16, 2013, staff and consultants met with approximately 20 persons interested in development review cost and fees. At this meeting, the City's consultant, Chad Wohlford, made a detailed presentation regarding the methodology, approach and results of the study. The following is a summary of the comments made by those attending this meeting:
- Project feasibility and overall impact on the markets and the economy is impacted by all fees;
 - Fees for development review services and impact fees for infrastructure improvements, should be considered as a total fee package and not considered independently;
 - Studies justifying impact fees for infrastructure improvements are considered out-of-date and should be updated; impact fees should be lower;
 - Because the City has no competition, there is not the natural tendency to become more efficient as in the case of businesses;
 - The City should continue its recent trend of reviewing development review standards and procedures and should establish incremental efficiency goals for development review activities;
 - The City should formally consider "Self Certification" by design professionals in the course of development review, plan check and inspection activities;
 - The City Council should review what neighboring cities charge for development review fees; review should also consider other regions and states competing for the same businesses and projects;
 - The City should consider the amount and type and economic development subsidy that should be included in future fees; and
 - Because of work already completed, previously-approved projects, like tentative maps, should not be required to pay the full fees for development review.

9. On October 22, 2013, a second meeting was held with a similar group of interested citizens. The purpose of this meeting was to review alternative concepts for fee adjustment and to encourage public comment. Alternative concepts for fee adjustment suggested by staff included a phasing strategy for both building and planning that would achieve a 90% cost recovery in building within three years and a 75% cost recovery in planning within five years.
10. On November 5, 2013, staff and consultant made presentations regarding potential fee increase and phasing scenarios. The concept presented by staff involved Building fees for service increases to 90% cost recovery within three years and Planning fees for service increases to 50% in year one and to 75% cost recovery within five years.

The consultant reported that in his experience, staff recommendations were conservative and that most agencies increase fees to 100% cost recovery in the first year. The City Council agreed to conduct the public hearing on December 10, 2013.

ANALYSIS

1. **Study Concept** – The basic concept of the *Full Cost of Services Study for the Community Development Department* is to determine the full cost of each individual service provided by the development-related departments for which the City charges a fee for services. The full cost may not necessarily become the City's fee, but it serves as the objective basis upon which the City Council can make informed decisions regarding the final fee level.

2. **Study Findings – Cost of Development Review Activities** – The basic finding of the *Full Cost of Services Study* is that the current full cost of City development-related activities is approximately \$5.0 million annually. Given the current fee levels charged by the City, there is a current annual deficit of approximately \$2.4 million as a result of the current cost-recovery ratio of 52% overall. This also means that the General Fund is currently subsidizing \$2.4 million or 48% of the City's development review services.

At a cost recovery rate of 52%, the City collects about \$2.6 million in annual revenue. If the City set fee levels at the full cost of each service (100% cost recovery rate) and the number of development-related services remained the same, the City could collect an additional \$2.4 million in revenue. The following table shows a summary of the study results:

Summary Results for Community Development Department

| Department/ Division | FULL COST: Annual Cost of Fee- Related Services | POTENTIAL CURRENT COST RECOVERY: Projected Revenue @ Current Fees | CURRENT SURPLUS / (DEFICIT): (Full Cost-Current) | CURRENT COST RECOVERY RATE (Current/Full Cost) |
|---------------------------------|--|--|---|---|
| Building Division | \$1,958,000 | \$1,385,000 | (\$573,000) | 71% |
| Planning Division | \$3,071,000 | \$1,240,000 | (\$1,831,000) | 40% |
| TOTALS: | \$5,029,000 | \$2,625,000 | (\$2,404,000) | 52% |

The details and explanations behind these summary figures are included within the body and appendices of the Full Cost of Services Study. The comprehensive data analysis for the Full Cost of Services Study was provided to the City Council and is available for review.

3. Conceptual Approach–Building & Planning Fees – The following conceptual approach has been used by staff in formulating proposed fee increases:

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

Planning:

- Non-fee activities – zoning questions, pre-application meetings, zoning clearances;
- Public Benefit fee-based activities – residential fences, homeowner landmark alteration permits, appeals;
- Standard fee-based activities – use permits, design review, hillside permits;
- Private Benefit fee-based activities and hard costs – vacation of right of way, general plan amendments.

2. Determine:

- fees that should be subsidized;
- services for which fees are currently not charged, that should be charged;
- fees that should be subsidized for economic development reasons.

3. Improve Cost Recovery results over time.

4. Adopt independent rationale and goals for Building and Planning fees.

4. **Responses to Questions** – During the public review process, members of the public and members of the City Council asked questions and made comments that will be responded to below. These questions and comments include the following:

a). **How do Santa Rosa Proposed Fees Compare to other Cities and Public Agency Fees?** – Attached are the results of staff surveys of North-Bay Agencies. Staff conclusions from these surveys are as follows:

Conclusions: Planning Survey – Eleven jurisdictions, six of which are other agencies within Sonoma County, were surveyed for their cost recovery policy and example Planning application fees. General conclusions based the staff analysis of this survey are as follows:

- 8 out of the 11 jurisdictions surveyed are implementing a “full cost recovery” fee policy for Planning applications;
- All of the full cost recovery jurisdictions require an applicant to sign an agreement to pay the full cost of staff time and materials necessary to process the application;
- All of the full cost recovery jurisdictions utilize a “deposit plus time and materials” type of fee structure. They require payment of an initial Deposit at the time the application is submitted; then following an initial staff analysis, the applicant is required to pay for any additional staff time and materials determined or estimated to exceed the initial deposit expectations;
- All of the full cost recovery jurisdictions require widely varied initial deposit fees; however given the fee structure all are ensured full cost recovery for services provided;
- Out of the eleven jurisdictions surveyed, only Windsor, Healdsburg and Vacaville offer a flat fee for Planning applications, similar to the City of Santa Rosa.

These three cities are also the only cities in the survey to offer fees not set at full cost recovery.

The City of Healdsburg conducted a Cost of Services Study in 2010, following which the Council adopted a 84% cost recovery for Planning applications, with several exceptions.

There is no information about the current cost recovery rate for Windsor as a cost of services study has not been conducted.

The Vacaville Fee Schedule for Planning includes a footnote stating that the cost recovery rate is set at “50% of the suggested full cost recovery”, and that “full cost recovery not recommended at this time.”

- All of the jurisdictions surveyed cite that when staff time is charged, the rate is set at the “fully burdened” rate, however, most jurisdictions do not specifically identify what that hourly rate is in the Fee Schedule.

Conclusions: Building Survey – Seven jurisdictions, five of which are other agencies within Sonoma County, were surveyed for their cost recovery policy and example Building application fees. General conclusions based the staff analysis of this survey are as follows:

- Some jurisdictions have a policy for cost recovery but still use a valuation based fee schedule. There is a trend for jurisdictions to use cost based fees that include the actual time involved by staff based upon a calculated billable hourly rate, like the proposed Santa Rosa rates. Rohnert Park is the only jurisdiction that has a cost based fee schedule, like the proposed fee schedule being considered in Santa Rosa.
- The Santa Rosa cost study indicates a general increase in plan check fees and a general reduction in inspection costs.
- Santa Rosa plan check time has increased, over time due to the enhance regulations relating to disabled access, energy efficiency, green building, and storm drainage.
- The City of Santa Rosa’s current valuation based fees have not been recently updated and are lower than the surrounding jurisdictions. Some jurisdictions, like Vacaville, have not modified their fee schedules for several and their current fees are similar to Santa Rosa’s current fees.
- Valuation based fees under-charge smaller projects and over-charge larger projects. Small project fees will increase in a cost based fee schedule. Some jurisdictions around us have modified their valuation based fees to recognize this issue.

- Large projects will tend to be overcharged in valuation based permits. This is shown in fees for the larger projects identified in other jurisdictions that use valuation based fees. Based on the actual costs, Santa Rosa fees are expected to be reduced for the larger projects. Mid-sized projects will not be impacted as much either way.
- Rohnert Park is the only jurisdiction that has done a cost based study and implemented a fee schedule that represents the actual costs of providing permit services in their jurisdiction. Their current fees are not dissimilar to Santa Rosa's projected fees.
- The County inspection fees should be expected to be higher due to cost of travel and time involved to travel.
- The trade permits charged by the City of Santa Rosa are, in general, in line with other jurisdictions. The trade permits have historically been under-charged with the fee per permit being much less than is cost to administer the permit and do a minimum of one inspection. The Santa Rosa strategy continues to subsidize high volume trade permits.

b). **What is Staff's Response to The Construction Coalition Letter?** – In a letter dated November 4, 2013, The Construction Coalition (TCC) expressed concerns regarding the concept of total cost recovery and the challenges that increased fees represent to sound economic development. In its letter, The Construction Coalition lists several concerns regarding the concept of a "total cost of service recovery model" for the following reasons:

- A total cost recovery model is a flawed and unsustainable concept that must be re-thought;
- Adding costs to the tenuous viability of any new development in these economic times would be seriously counter-productive to the Council's stated goal of stimulating job creation;
- The benefit of development to our community's economic health needs to be valued; and, supported, not treated as a cost burden to be eliminated to help balance the City's budget;
- The fees charged by the Community Development Department need to be assessed within the context of all fees and costs levied upon projects from all government and regulatory agencies, rather than evaluated in isolation.

In order to promote sound economic development, The Construction Coalition believes that Santa Rosa should be a City that is:

- Transparent in revealing the justification for all of its costs for services;

- Realistic in its fee and costs relative to these economic times;
- Efficient and effective in its approval process;
- Understanding of the contribution that development makes to the economic viability of the region and recognizes that development is the first step in growing Santa Rosa's economic base;
- In short, stifling development with barriers such as ever-increasing fees is counter-productive to the City Council's goals.

Staff Response – In reply to the opinions expressed by The Construction Coalition, City staff offers the following:

The basic finding of the *Full Cost of Services Study* is that the current full cost of City development-related activities is approximately \$5.0 million annually. Given the current fee levels charged by the City, there is a current annual deficit of approximately \$2.4 million as a result of the current cost-recovery ratio of 52% overall. This also means that the General Fund is currently subsidizing \$2.4 million or 48% of the City's development review services.

City reports provided to the City Council over the past several weeks have documented why, while some services offer public benefits, other services have more of a private benefit and because of that benefit, additional fees could be justified. In addition, it has been shown that many other local agencies require 100% cost recovery for all services.

If the City Council implements the cost recovery strategy recommended by staff, which spans a five year process, overall cost recovery for the Department will be approximately 80% and not at full cost recovery.

It is staff's view that 100% cost recovery is useful as a goal and as a metric against which cost recovery efforts may be measured.

Staff agrees that adding excessive costs to fees for services may alter the viability of a new development in these economic times and could be counter-productive to stimulating job creation. The key, however, is to increase revenues enough to support needed services to pay for development review activities that support economic development.

Staff also agrees that the benefit of development to our community's economic health should be valued and supported and not treated as a cost burden to be eliminated to help balance the City's budget. That being said, however, instances where the taxpayer is supporting well over 50% of the cost of development-related services, where private benefit is accrued, should be identified and changes made to reduce this type of subsidy.

Fees for service charges by the Community Development Department amount to approximately 3-13% of the total fees assessed to private development projects. These charges pay only for a portion of the costs to provide development review services.

Other fees charged to development projects are impact fees which are levied to mitigate impacts which occur as a result of the development project. Typical impact fees are charged to pay for public improvement projects that mitigate traffic, school, park, sewer & water and environmental impacts which are a result of the development project.

It is The Construction Coalition's view that in order to promote sound economic development, Santa Rosa should be a City that is:

- Transparent in revealing the justification for all of its costs for services;
- Realistic in its fee and costs relative to these economic times;
- Efficient and effective in its approval process;
- Understanding of the contribution that development makes to the economic viability of the region and recognizes that development is the first step in growing Santa Rosa's economic base;
- In short, stifling development with barriers such as ever-increasing fees is counter-productive to the City Council's goals.

Staff not only agrees with The Construction Coalition's premise regarding the City's role to promote economic development, staff is certain that Santa Rosa already is a City that observes the values promoted by The Construction Coalition.

This is evidenced by the fact that the City prepared a detailed study of the costs to provide development review services. The City then made this study available, conducted numerous presentations and discussions and answered all questions regarding the study methodology and findings. The City and its consultant have been transparent in providing the justification for the costs for services and forthcoming in review of alternatives for fee adjustment.

Since 2010, the City has made significant improvements to make the development review process more efficient and effective and has made specific changes to foster economic development. These strategies include:

- Allow automatic time extensions and allow more time for older buildings to be re-occupied;
- Allow more land uses by right, without a use permit;

- Reduce the review authority for design review for certain projects;
- Clarify and add flexibility to the sign code;
- Allow flexibility in public improvement requirements for commercial remodels;
- Postpone the time impact fees are collected for a project.

Thus far, these improvements have had the following results:

- Automatic time extensions granted – residential subdivisions representing about 1,000 residential units city wide have been saved from unnecessary expiration.
- Property owners of non-conforming buildings/uses have an additional 18 months to secure new tenants;
- More businesses can confidently sign a lease and get open or started on tenant improvements without delay - Over 120 applicants were issued Zoning Clearances, instead of having to first secure a Minor Use Permit, and thus are saved about \$2,500 and 8 weeks of time;
- Homebuilders have been able to afford the construction of over 130 single family dwellings, with impact fees collected at the end of the process (final inspection) instead of at the beginning (building permit issuance).

New car auto dealerships jumped at the opportunity for expedited review:

- VW and Subaru both constructed new car dealerships on Corby Avenue
- Kia constructed a new car dealership on Santa Rosa Avenue
- Fiat is currently in review for a new car dealership on Santa Rosa Avenue
- Manly Honda, Manly Hyundai, and BMW all conducted major remodels on Corby Avenue

Small projects and re-occupancies have been expedited:

- An over-the-counter design review program has allowed over 160 applicants to conduct minor building and/or site improvements concurrent with a building permit – saving \$1,500 and 4 to 6 weeks in time.
- Land use tables for the Business Park, Light Industrial, and General Industrial Zoning Districts were amended to increase the number of uses by right and expedite re-occupancies of existing structures. As a result, a total of 30 land use categories are now either permitted or allowed with a minor use permit (instead of needing a major Conditional Use Permit). This saves applicants \$2,600 and 8 weeks of time when the use is now permitted; and \$11,000 and 3 months of time when the use now only needs a minor use permit.

ADOPTION OF FEES – COMMUNITY DEVELOPMENT DEPARTMENT

Page 12

- An over-the-counter Building Permit program was implemented. New businesses such as office, retail, or small food service (like a yogurt shop) can obtain a same day building permit for minor tenant improvements prepared by a licensed professional, saving the applicant about 30 days of plan check time. The service is offered Tuesdays and Wednesdays from 10 a.m. to noon.

Staff believes that a proposal to increase fees over a three to five year time frame is realistic in terms of reducing the shock of more aggressive fee increases. This phased approach is also realistic in that it begins to increase revenue at a time when the need for additional staff resources is becoming evident. In addition, at the end of the fee phase-in period, cost recovery is likely to be approximately 80% as opposed to 100%. Lastly, service fee increases like those under consideration, have not been increased during the last five years.

c). What is the Projected Increase in Revenue if Staff's Cost Recovery Strategy is Implemented? – The chart below is an estimate of potential revenue should fees for service be increased as suggested by staff. If this estimate proves to be correct, about \$1,400,000 might be generated annually, assuming a consistent permit level. Based on the current cost of development review, this additional revenue could increase cost recovery for the Department up to about 80% in a five year period.

| POTENTIAL INCREASE IN REVENUE FROM PHASED IMPLEMENTATION | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-------------|
| Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Totals: |
| BUILDING Revenue Changes: | | | | | | |
| New Construction Plan Check | \$327,465 | \$40,479 | \$40,563 | \$40,577 | | \$449,084 |
| New Construction Inspection | (\$11,801) | \$14,077 | \$14,726 | \$14,990 | | \$31,992 |
| Miscellaneous Plan Check | \$48,666 | \$6,391 | \$6,391 | \$6,391 | | \$67,839 |
| Miscellaneous Inspection | (\$191,646) | \$422 | \$528 | \$564 | | (\$190,132) |
| MPE Plan Check | (\$33,890) | | | | | (\$33,890) |
| MPE Inspection | \$57,885 | \$4,585 | \$4,585 | \$4,677 | | \$71,732 |
| Building Revenue Changes Totals: | \$196,679 | \$65,954 | \$66,793 | \$67,199 | | \$396,625 |
| | | | | | | |
| Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Totals: |
| PLANNING Revenue Changes: | \$368,321 | \$185,332 | \$202,429 | \$163,424 | \$118,667 | \$1,038,173 |
| | | | | | | |
| Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Totals: |
| TOTAL CD Revenue Changes: | \$565,000 | \$251,286 | \$269,222 | \$230,623 | \$118,667 | \$1,434,798 |

| | |
|--------------------|---------------|
| Current Subsidy: | (\$2,403,098) |
| Projected Revenue: | \$1,434,798 |
| Remaining Subsidy: | (\$968,300) |

- d). **What is the Percent of Service Fees to Total Fees?** – Fees charged for development projects include both fees for services and impact fees. Fees for services pay a portion of the staff time needed to conduct development review. These fees account for about 3-13% of total project fees. The remaining fees are impact fees which are used to mitigate impacts which occur as a result of the development project. Project service and impact fee scenarios are attached.
- e). **What is the Impact Increased Service on High Density Projects in Downtown?**
– Services fees for high density projects in the downtown are approximately 3-5% of the total fees required for such projects. This is the case because downtown housing is a permitted use and only design review is required.

5. **Proposed Cost Recovery Strategy – Building**

- a). Establish fee categories as follows:

- New Construction projects (new SFD, additions, new nonresidential)
- Miscellaneous projects (retaining walls, PV systems, alterations)
- Trade permits (Mechanical, Plumbing or Electrical – MPE)
- Non-fee services (Presubmittal plan screening, presubmittal disabled access site inspection)

New Construction

- Projects that are under 75% cost recovery now to be increased to 75% cost recovery, (typically smaller new buildings and most residential additions, tenant improvements).
- Projects over charged now to be reduced 100% cost recovery. (very large nonresidential buildings and large custom SFD).
- Projects between 75-100% cost recovery rate to stay at present cost recovery fee.

Miscellaneous Projects

- Projects less than 75% cost recovery to be increased to minimum 75% cost recovery. Examples include retaining walls, fences, most signs, windows or skylights.
- Projects over charged now to be reduced to 100% of cost recovery. Examples include cell towers, kitchen or bathroom remodels, gunite swimming pools, large grading projects, reroof over 3,000 sq. ft., demolition permits.
- Projects between 75 -100% cost recovery rate to stay at present cost recovery fee.

- Miscellaneous administrative fee services to be set at 100% to include extension of application/permit, reactivation of permit, hourly billing rate for reinspection or plan check beyond three plan checks. Application to Board of Appeal to be set at 50% of cost recovery.

Trade permits – Mechanical, Plumbing and Electrical (MPE) Fees

- Set all MPE fees that are less than 75% cost recovery to a minimum 75%.
- Reduce any overcharged fees to 100%. Examples include large service change-outs, electrical signs, very large motor replacement.
- Any present fee between 75-100% cost recovery to remain at present cost recovery.
- Set water heater replacement and forced air unit replacements at 75% cost recovery.

Non-Fee service

- Establish a minimum fee at 75% cost recovery for pre-submittal screen of plans. Only 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.

b). Phasing strategy

- Phase increases in all fees that have been increased from below 75% at 5% cost recovery increase annually for the next 3 years to 90% cost recovery.
- Increase fees presently between 75-90% at 5% cost recovery increase 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.
- Conduct a Fee-Cost Study Update in 5 years.

6. Proposed Cost Recovery Strategy – Planning

- a). Establish fee categories as follows:

While Planning services are currently established at widely varied cost recovery (and subsidy) rates, the services generally fall into four types of fee categories:

Non-Fee Activities

Non-fee activities represent 100% public benefit. While most development-review activities are associated with a user fee, there other planning services offered to the public at no cost. In many cases, these types of services precede or inform the submittal of fee-based activities, or support important decisions regarding public policy in the City. Per the Cost of Services study, approximately 25% of Planning Division activities are non-fee activities. Examples of current Non-Fee activities are:

- Responding to questions from the public about the City's Zoning and General Plan policies, about the permit review process, about Building and Fire Codes and about the City's fees;
- Pre-application meetings with potential developers, applicants and interested citizens;
- Issuance of over-the-counter zoning clearances, design review permits and building permits; and
- General Plan and Zoning Code updates.

The public benefit to the City is in having informed citizens and applicants, increased compliance with adopted policies, verification of zoning prior to building occupancy, more complete applications, and review of public policy initiated by the City Council.

Public Benefit Fee-Based Activities

Subsidized fee-based activities represent a primarily public benefit. There are several fee-based activities in Planning which charged substantially less in fee than the cost for providing the service. These fees are deliberately subsidized by the General Fund based on previous Council direction. The intent of the subsidy is to attract a specific activity or permit type for the purpose of achieving a broader public benefit.

For example, the City currently subsidizes several common homeowner applications such as use permits for fences, landmark alteration permits for historic home remodels and tree permits. The broader public benefit is that homeowners are more likely to secure the necessary permit prior to conducting the work, thereby ensuring the work is done correctly, in accordance to adopted policy and without the need for code enforcement. Other activities with broad public benefit are activities related to supporting public participation in the permit

review process, or attracting specific land uses that implement important General Plan policies.

Standard Fee-Based Activities

Standard Fee-based activities are partially public benefit, and partially private benefit. Most of development review activities fall within a Standard fee-based category and therefore this category plays the largest role in the overall cost recovery strategy for Planning.

These activities primarily yield private benefits to applicants in the form of entitlement and permit approvals, plan checks and field inspections. It can also be said, however, that these activities also yield a public benefit. Development review activities can provide a public forum for neighborhood input, implementation of up-to-date building, fire and energy codes, implementing public improvements in the vicinity of the project, the payment of impact fees that can be used for further public improvements and city services, as well as providing goods and services, jobs, or housing as desired by the community.

Currently the cost recovery (subsidy) rates for activities in this category vary widely, with an average cost recovery rate of 40% spread across the approximately 80 different Standard Fee-Based activities.

Private Benefit Fee-Based Activities & Hard Costs

Private Benefit fee-based activities are primarily private benefit. While most fee-based applications fall into the Standard activity category above, there are some where no public benefit can be expected, and therefore there should be no subsidy offered by the City.

For example, the purpose of a Vacation of Right of Way application is to review whether or not the City should offer up public right of way to a private buyer. Another example is when an applicant wishes to amend the General Plan land use designation for their property during a time that is outside of the City's comprehensive General Plan Update process.

The following are examples of activities that could be considered as a Private Benefit fee based activity:

- Vacation of Right of Way (summary and standard).
- General Plan Amendments (text and diagram).
- Environmental Assessment – all categories including Exempt, Negative Declaration, Mitigated Negative Declaration, and the Request for

Proposals (RFP) and administrative process for an Environmental Impact Report (EIR).

b). Phasing strategy:

- Non-fee and subsidized fees continue the existing cost recovery rates which range from 0% to 30%.
- Standard fees to achieve a 50 % cost recovery rate in year one, and a 75% cost recovery goal within 5 years.
- Private benefit fees to achieve a 60% cost recovery rate in year one, and a 100% cost recovery goal within 5 years.
- Standard fees that currently exceed 75% cost recovery shall receive a fee reduction to 75% in Year One. Private fees that currently exceed 100% cost recovery shall receive a fee reduction to 100% in Year One.
- In Years Two through Five, annual increases in the cost recovery rate shall not exceed 10%.
- 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-Cost Study Update in 5 years.

7. **Alternatives** – Alternatives for consideration by the City Council include:

- Retain the current fee structure and amounts.
- Adopt the staff proposal, including changing building fees to cost based system and phasing increases over a three to five year time frame.
- Other combinations of increases that do not exceed the maximum amounts listed in the Cost Study.

RECOMMENDATION

It is recommended by the Community Development Department that the Council conduct the public hearing and, by resolution, adopt Service Fee increases based on the proposed Building and Planning Cost Recovery and Phasing Strategy.

Author: Chuck Regalia

Attachments:

- Attachment 1:
 - Full Cost of Services Study for the Community Development Department
- Attachment 2:
 - City Council Staff Report – September 24, 2013
 - City Council Staff Report – November 5, 2013
- Attachment 3:
 - Cost Recovery Comparisons – Planning Fees
 - Cost Recovery Comparisons – Building Fees
- Attachment 4:
 - Correspondence from The Construction Coalition, 11/4/13
- Attachment 5:
 - Projected Service and Impact Fee Scenarios
- Attachment 6:
 - Projected Fee Schedule – Planning Fees (matches Exhibit A of Resolution)
 - Projected Fee Schedule – Building Fees (matches Exhibit B of Resolution)
- Attachment 7:
 - Public Comment