

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: GABE OSBURN, PLANNING AND ECONOMIC DEVELOPMENT  
DIRECTOR  
SUBJECT: DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE  
STUDY

AGENDA ACTION: NONE

---

---

RECOMMENDATION

It is recommended by the Planning and Economic Development Department that the Council hold a study session for Council to receive information, ask questions, and provide direction related to the City's draft Development Related Cost of Service Fee Study

---

---

EXECUTIVE SUMMARY

This study session will provide information on a Cost of Service Fee Study associated with development related functions provided by the Planning and Economic Development, Transportation and Public Works and Fire Departments. The draft fee study focuses on identifying the direct and indirect costs associated with providing the full range of planning, permit processing, plan review and inspection services associated with private land development. During the study session, staff will present information regarding potential amendments and additions to the existing service fee schedules and identify options for cost recovery strategies.

BACKGROUND

The full recovery of the costs for development review activities has been a consideration in Santa Rosa since 2004. On June 29, 2004, the City Council, by motion approved Financial Principles to guide the level of cost recovery associated with development services. Prior to that time, fees charged for the processing, review and inspection of private development applications were relatively insignificant as compared to the General Fund subsidy of development services. One of the Financial Principles approved in 2004 states the following:

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

## DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE STUDY

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

On June 16, 2005, the City Council adopted Resolution 26293 increasing fees associated with the processing, review and inspection of encroachment permits. In 2005, encroachment permits were processed within the Public Works Department and the fees associated with this process were updated separately from the Community Development Department fees specific to building, planning and engineering. Resolution 26293 adopted a fee calculation that collects a specific percentage of the project's valuation for plan review and inspection services. The methodology approved under this resolution currently applies to any new encroachment permit activity.

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 certain department technology needs.

In 2009, the City 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 reductions took place in response to the economy.

On January 21, 2014, the City Council Adopted Resolution 28412, setting new development-related fees and fee increases within the Planning and Building divisions of the Community Development Department. The adopted fee schedule identified goals to achieve cost recovery rates ranging from 50% to 90% of the full cost calculations included within the study provided by Wohlford Consulting. Most building fees were set at an initial cost recovery rate of 75% and included annual increases designed to achieve a 90% cost recovery rate 3 years after fee adoption. The majority of planning application fees were set at an initial 50% cost recovery rate with incremental annual increases that targeted a 75% cost recovery 5 years from the initial adoption. Public benefit fees, such as those related to landmark alterations, residential fences, and appeal applications, were calculated to achieve a cost recovery rate from 30% to 50%.

Minor adjustments to the City's fee schedule were adopted on June 6, 2017, under City Council Resolution RES-2017-090. New fees were added to address the processing of cannabis zoning clearances and the review of encroachment permits not involving additions or modifications to public improvements. Amendments to the existing fees associated with the review of landscape plans and the processing of encroachment permits were also adopted with the resolution.

Each year, as allowed under adopted resolutions, certain fees are adjusted for the variance in the Consumer Price Index. Fees collected based on a percentage of the project's valuation also experience regular adjustments due to fluctuations in private labor and material costs. Adjustments of this nature do not include a revision of the underlying formulas used to generate the fee calculations. As such, the majority of development user fees have not been revisited since 2014.

### PRIOR CITY COUNCIL REVIEW

None.

### ANALYSIS

The Planning and Economic Development Department has contracted with MGT Consulting Group (MGT) to prepare a Development Related Cost of Service Fee Study (Study). The study includes a comprehensive review of development service fees utilizing 2023 budgeted figures, staffing and operational information. MGT was selected to perform this study through a competitive selection process, consistent with Council Policy 600-01.

The goal for the Study was to present a well-documented and defensible cost of service plan that would identify rates that would be used to recover billable costs for services and to develop user fees that comply with Proposition 26, Proposition 218 and other applicable statutory requirements. The primary goals are as follows:

- Create a fee structure that is easy for all parties to understand.
- Define what it costs the City to provide the various fee-related services.
- Determine whether there are any services where a fee should be collected.
- Identify service areas where the City might adjust fees based on the full cost of services and other economic or policy considerations.
- Develop revenue projections based on recommended increases or decreases to fees.

The Study analyzed all existing private development related services and determined the average staff hours needed to perform the function in an efficient manor, consistent with all applicable codes, policies and standards. Although most applications are processed through the Planning and Economic Development Department, support associated with the review and inspection of development proposals is provided by multiple departments throughout the City. The departments that are most impacted by development activities are the Water, Transportation and Public Works and Fire. Fully burdened hourly rates for staff within all affected departments were applied to the average staff hours, and a total average cost to provide each individual development service was identified. The Draft study identifies the full cost to provide all development services.

## DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE STUDY

Page 4

At 100% cost recovery, future fees will cover all labor and indirect costs associated with providing development services. Any reduction in the fee would eliminate the price to the consumer, but would not eliminate the cost of providing the service. The difference between 100% full cost recovery and any reduction in price would need to be covered through other funding sources such as the General Fund. This cost is not eliminated due to a price reduction and cannot be shifted to or covered by another fee under California state law.

Since 2013, both direct and indirect costs associated with providing development review services have increased. In addition, State and Federal requirements associated with land development have increased the number of staff hours needed to ensure that construction and planning activities meet minimum development review requirements. These two factors have caused the majority of the individual review service cost to exceed the fee amounts listed in the most recent adopted fee schedules. Adopting a revised fee schedule based on the full cost to provide services will generally result in an increase in overall fees.

As a companion document to the Study, MGT prepared a Stakeholder Outreach and Comparison Survey. The survey provides a brief summary of public engagement around the proposed fee modifications and compares the proposed full cost to provide services and the current adopted fee structure with 6 jurisdictions in the general region.

### FISCAL IMPACT

There is no fiscal impact from conducting the Study Session. The fiscal impact associated with the adoption of a new fee schedule will vary based on direction provided by City Council and will be analyzed prior to formal adoption of any additions or modifications to the existing published fee schedule.

### ENVIRONMENTAL IMPACT

The Council finds that the proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no further environmental review is required.

### BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

### NOTIFICATION

Not applicable.

### ATTACHMENTS

## DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE STUDY

Page 5

- Attachment 1 - Draft Development Related Cost of Service Fee Study
- Attachment 2 - Stakeholder Outreach and Comparison Survey

### PRESENTER

Gabe Osburn, Director  
Planning and Economic Development