

CITY OF SANTA ROSA  
CITY COUNCIL

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

AGENDA ACTION: STUDY SESSION

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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 Development Related Cost of Service Fee Study adopted by the City Council on March 5, 2024.

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EXECUTIVE SUMMARY

On March 5, 2024, the City Council adopted the full cost development service fees identified in the Development Related Cost of Service Study prepared by MGT Consulting (Study). The Study analyzed the fees associated with all development related services, which include the processing, review and inspection of a variety of different application types. The Study set the majority of fee types to full cost recovery, which aligns with Financial Principles that were set forth by City Council in 2004. The City Council elected to reduce a limited number of specific development service fees to remove economic barriers and support specific project types that align with City Council adopted goals. During the study session, staff will discuss community feedback received during the past six months of operations under the new fee schedule and provide recommendations for minor corrections to the adopted service fees.

BACKGROUND

The full recovery of the costs associated with 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:

## DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE STUDY

Page 2

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

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 community member 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 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.

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 Community Development. 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 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.

### PRIOR CITY COUNCIL REVIEW

On January 30, 2024, a study session was conducted with the City Council to review the draft Development Related Cost of Service Fee Study prepared by MGT Consulting and obtain feedback on potential project or permit specific fee reductions and annual fee adjustments based on the Consumer Price Index.

On March 5, 2024, City Council adopted development services fees based on the full cost of service identified within the Study and applied specific fee reductions associated with building trade permits, encroachment permits for sidewalk replacement, planning appeal fees, daycare facilities, affordable housing and downtown housing.

### ANALYSIS

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 legal requirements. The primary goals were 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 manner, 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. In addition to Planning and Economic Development, the departments that are most impacted by development activities are Water, Transportation and Public Works, Fire and the City Attorney's Office. Average costs were determined by applying the fully burdened hourly rates for staff to the average staff hours identified for each specific application type.

At 100% cost recovery, fees 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.

# DRAFT DEVELOPMENT RELATED COST OF SERVICE FEE STUDY

Page 4

Since 2013, both direct and indirect costs associated with providing development review services have increased. In addition, State requirements associated with land development have increased the number of staff hours needed to ensure that construction and planning activities meet minimum development requirements. These two factors caused the majority of fees to increase within the Study.

In order to reduce the development services burden on the general fund and to ensure that revenue tracks appropriately with the associated permit volumes and services that are needed at the various development stages, the City Council adopted new development service fees that reflect the full cost to provide the services as identified in the Study's Appendix A. To encourage the development of specific project types and participation in public appeal process and health and life safety permitting programs through the removal of economic barriers, City Council adopted the following fee reductions:

Building Permits (Mechanical, Plumbing and Electrical)	25% fee reduction
Encroachment Permits (Residential Sidewalk Replacement)	50% fee reduction
Planning Appeal Fees (Neighbor/Non-Applicant Appeal)	90% fee reduction
Daycare Facilities (Described in City Code section 20-70.020)	50% fee reduction
Grocery Store (Downtown Station Area or Designated Food Desert)	50% fee reduction
Market Rate Housing (Downtown Station Area, 4 units or greater)	50% fee reduction
Affordable Housing (100% affordable, 60% or less of AMI, City Housing Agreement)	50% fee reduction

The fee structure approved on March 5, 2024 went into effect on July 1, 2024. Projects that filed a new application that has not been withdrawn or expired prior to July 1, 2024 are permitted to pay all fees based on the previous fee schedule and are not required to pay any increase in fees associated with the newly adopted fee schedule.

Over the past 6 months, the Planning and Economic Development Department has analyzed the application of the current fee schedule and identified certain areas that may benefit from minor corrections. In addition, staff has collected community feedback from applicants going through the various permitting processes and developed a series of recommendations to address the concerns received. The Study Session will provide an overview of the Study, review feedback received from the community and present a number of recommendations for future adjustments to building, planning and engineering fees.

Larger complex private development projects generate the need for significant legal review from the City Attorney's Office (CAO) and divert limited CAO resources from other City priorities. As a result, it is customary for many cities, including some surrounding jurisdictions, to hire outside legal counsel to provide legal review for certain types of private development projects and pass those costs on to the developers. Given that legal review costs have not historically been included in the PED fee structure, and that a need exists for additional legal resources for review of complex private development projects within specified timelines, staff recommends exploring options for imposing outside legal costs on developers. This would allow the CAO to hire outside lawyers at the developer's cost for projects that require considerable legal resources and free up CAO resources for other City priorities.

### FISCAL IMPACT

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

### ENVIRONMENTAL IMPACT

The action is not a project subject to the provisions of the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15378(b)(4) because it is a fiscal activity, which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

### BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

### NOTIFICATION

Not applicable.

### ATTACHMENTS

- Attachment 1 – Development Related Cost of Service Study
- Attachment 2 – Development Service Fee Reductions

### PRESENTER

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Planning and Economic Development