

Agenda Item # \_\_\_\_\_  
for Council Meeting of: November 5, 2013

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
SUBJECT: REPORT – UPDATE ON FEES – COMMUNITY  
DEVELOPMENT DEPARTMENT  
STAFF PRESENTER: CHUCK REGALIA, DIRECTOR  
COMMUNITY DEVELOPMENT  
  
AGENDA ACTION: MOTION

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ISSUE(S)

Should the Council establish the public hearing for December 10, 2013 (instead of November 5, 2013) to allow the public and staff additional time to consider options for fee adjustment? The 45-day public review period of the *Full Cost of Services Study for the Community Development Department* is under way and two public meetings have been held to allow for additional public discussion, it is necessary to re-schedule the public hearing, initially set for November 5, 2013.



COUNCIL GOALS AND STRATEGIES

This program relates 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

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and the Fire Department. Fees were adjusted for development-related applications. 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;

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- 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 PM to 6 PM.
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 the following:

**Building 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 Update in 5 years.

**Planning 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 Update in 5 years.

Following this staff presentation and discussion, it was mutually agreed that additional time is necessary to review alternative concepts for fee adjustment.

## 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**

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

*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.*

The details of the cost study were presented to the City Council on September 24<sup>th</sup> and to the public on October 16<sup>th</sup>. The City Council staff report, from September 24, 2013 including the cost study details, is attached.

**3. Potential Revenue and Fee Increase Scenarios** – The following charts illustrate current fees and recovery levels and potential Building and Planning revenue under several cost recovery options, or levels of subsidy.

<b>Standard Building Activity (*includes \$57 processing fee)</b>	<b>Current Fee</b>	<b>Current Fee cost recovery %</b>	<b>Fee at 75% cost recovery</b>	<b>Fee at 85% cost recovery</b>	<b>Fee at 100% cost recovery</b>
Single Family Custom 2,500 sqft	\$2,825	69%	\$3,088	\$3,499	\$4,117
Single Family Production 2,000 sqft	\$2,397	139%	\$1,298	\$1,471	\$1,730
SFD Addition 500 sqft	\$1,029	51%	\$1,505	\$1,705	\$2,006
Multifamily Res. Complete 7,500 sqft	\$6,110	81%	\$5,663	\$6,418	\$7,551
Office T.I. 4,000 sqft	\$3,359	61%	\$4,145	\$4,697	\$5,526
Restaurant T.I. 5,000 sqft	\$4,777	81%	\$4,411	\$4,999	\$5,881

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Residential garage 800 sqft	\$594	33%	\$1,367	\$1,550	\$1,823
Residential photovoltaic*	\$208	103%	\$151	\$171	\$202
Reroof less than 3,000 sqft*	\$227	100%	\$171	\$194	\$228
Replace water heater*	\$65	54%	\$90	\$102	\$119
Electrical service upgrade 200 amp*	\$87	73%	\$90	\$102	\$119
Replace furnace*	\$77	65%	\$90	\$102	\$119

The examples above are representative of permits types in building. Some basic conclusions are as follows:

- 2 of 12 exceed 100% of cost and would need to be reduced;
- 3 of 12 recover about 50%, under the average of 71%;
- 7 of 12 are in the range of 60 – 80% cost recovery; and
- All building permitting includes the highest level of private benefit.

<b>Standard Planning Activity</b>	<b>Current Fee</b>	<b>Current Fee cost recovery %</b>	<b>Fee at 60% cost recovery</b>	<b>Fee at 65% cost recovery</b>	<b>Fee at 75% cost recovery</b>	<b>Fee at 85% cost recovery</b>	<b>Fee at 100% cost recovery</b>
Major Conditional Use Permit	\$12,512	93%	\$8,113	\$8,789	\$10,142	\$11,494	\$13,522
Minor Conditional Use Permit	\$2,572	83%	\$1,858	\$2,013	\$2,323	\$2,632	\$3,097
Major Design Review	\$9,493	51%	\$11,272	\$12,211	\$14,090	\$15,968	\$18,786
Minor Design Review	\$1,525	43%	\$2,151	\$2,330	\$2,689	\$3,047	\$3,585
Major Hillside Development	\$5,461	50%	\$6,497	\$7,038	\$8,121	\$9,204	\$10,828
Minor Hillside Development	\$1,872	29%	\$3,939	\$4,267	\$4,924	\$5,580	\$6,565

Major Subdivision	\$15,134	42%	\$21,721	\$23,531	\$27,151	\$30,771	\$36,201
Rezoning-Map Amendment	\$6,877	47%	\$8,842	\$9,578	\$11,052	\$12,526	\$14,736
Annexation	\$7,673	48%	\$9,606	\$10,407	\$12,008	\$13,609	\$16,010
Environmental Assessment MND*	\$2,399	23%	\$6,320	\$6,846	\$7,900	\$8,953	\$10,533

\*Mitigated Negative Declaration

The examples above are representative of permit types in Planning. Some basic conclusions are as follows:

- 8 of 10 recover 50% of costs or less; most of these have significant private benefit; and
- At least one application type, environmental assessment, is mostly private benefit. It is necessary with most entitlement applications and the current cost recovery for this activity is 23%, with a 77% subsidy.

### 8. Conceptual Approach– Building & Planning Fees

During the City Council established 45-day public review of the *Full Cost of Services Study for the Community Development Department*, interested members of the public, staff and consultant discussed issues related to fees and to development in Santa Rosa. Many potential ideas, issues, and approaches to addressing possible fee adjustments were evaluated and discussed. The information and level of discussion has reached a point where staff and consultants are prepared to make conceptual recommendations for City Council consideration.

**Goals and Rationale** - The following suggested goals and rationale establish basic policy and direction for amendment of building and planning fees.

**Building Fees** - Building Fees primarily support activities (plan check and inspections) for private individuals who will derive specific personal benefit from the services. This benefit is generally in the form of personal use of the project results, (house, deck) or profit, (selling the house, construction fees). In almost all cases, the permit applicant or his/her client is the one who will receive the direct and most immediate benefit. Consequently, an argument for fairness would suggest that taxpayers in general should *not* fund the construction activities of the holder of the building permit, for whom Building Fees are just one of the costs of doing business.



**Goal** - Since the holder of the building permit is the beneficiary of the services, a common cost-recovery goal for Building-related fees is “full” cost recovery—or setting fees at 100% of City cost—for almost all fees. Some exceptions are also common, in order to encourage specific project types (solar), allow public input (appeals), or acknowledge practical compliance limits (water heaters).

**Discussion** - Achieving 100% cost recovery is often a very difficult challenge that the City of Santa Rosa is facing now, since the gap between the full cost and current fees is very large. In addition to the potential revenue increases, the City should consider the following issues when determining whether large potential increases are desirable:

- Current fees are extremely low, so increases to 100% may appear to be radical and disruptive;
- Many officials, citizens, and businesses would see large increases as unreasonable, unfair, and punitive;
- Large increases may reduce compliance with permit requirements;
- Large increases may depress some construction activity—especially small projects with little or no profit margin;
- Development-related businesses have not had time to adjust their pricing to fit the new fees.

**Potential Implementation Approach** - In order to mitigate many of these problems, yet still strive to recover the cost of Building fee services, the City Council may wish to adopt a *phased approach*. For example, the City could establish moderate/reasonable annual fee increases, in order to reduce “sticker shock” and spread the fee increases over a number of years (3-5 years).

In this manner, the City could establish a policy of full cost recovery or another higher level of cost recovery, yet give homeowners, the development community and the market, the opportunity to adjust to the new fees in a progressive and manageable way.

**Planning Fees** - The public vs. private benefits situation for Planning fees differs significantly from Building fees. In some cases, even for the same development project, the various services performed by Planning staff can range from primarily public benefit to partial public benefit, to primarily private benefit. Consequently, a single fee-setting strategy is not appropriate for Planning.

The public benefit for Planning fees derives from the idea that the assurance of compliance to the General Plan, design requirements, subdivision standards, and environmental review and mitigation *also* impact and benefit project neighbors, other

community members, and the quality of life standards in the community as a whole. Since the benefits for some of these services are conferred upon both the individual applicants and the community, it could be argued that the costs should be shared for those services and the fees should be subsidized at some level.

**Goal** - Planning should establish categories for the different benefit levels, place individual fees into their appropriate categories, and develop fee-setting goals and strategies for each category. The actual amount of cost-recovery for each level is a policy decision based upon an assumption of the ratio of public vs. private benefit.

**Potential Implementation Approach** - In order to mitigate many of these problems, yet still strive to recover the cost of Planning fee services, the City Council may wish to adopt both a *phased approach* and specific, immediate changes aimed at addressing the most serious issue.

For example, the City may establish moderate/reasonable annual fee increases, in order to reduce “sticker shock” and spread the fee increases over a number of years (5 years). In this manner, the City could establish a policy of cost recovery, yet give homeowners, the development community and the market, the opportunity to adjust to the new fees in a progressive and manageable way. In addition, the City Council may also address the most serious issue by raising all fees, currently recovering less than 50% to the level of 50%.

## 9. General Cost Recovery Strategy

### 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 (a) should be subsidized; (b) services for which fees are currently not charged, that should be charged; (c) 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.

## **10. Cost Recovery Strategy – Building**

1. Establish fee categories as follows:

- 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 (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 3 plan checks. Application to Board of Appeal to be set at 50% of cost recovery.

Trade permits – Mechanical, Electrical & Plumbing (M.E.P. fees):

- Set all M.E.P. 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.

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.

## 11. Cost Recovery Strategy – Planning

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

### 1. 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 & General Plan policies, about the permit review process, about Building & 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.

### 2. 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.

3. 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.

4. 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)

5. 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.

RECOMMENDATION

It is recommended by the Community Development Department that the Council, by motion, schedule a public hearing before the Council on December 10, 2013 to consider potential Community Development fee adjustments

Further, if deemed appropriate by the Council, provide direction regarding the conceptual cost recovery strategy for consideration during the public review process.

Author: Chuck Regalia

Attachments:

*Full Cost of Services Study for the Community Development Department*

*City Council Staff Report – September 24, 2013*