

CITY OF SANTA ROSA
CITY COUNCIL

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

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Planning and Economic Development Department that the Council: 1) adopt the full cost development service fees identified in the Development Related Cost of Service Study prepared by MGT Consulting; 2) authorize the Planning and Economic Development Director to adjust all fees identified within the study annually based on price changes as identified by the Consumer Price Index; and 3) adopt certain fee reductions to further encourage City development goals and public participation in health and life safety permitting programs and community appeal processes.

EXECUTIVE SUMMARY

The Planning and Economic Development Department has contracted with MGT Consulting to perform a cost of service study analyzing the full labor and indirect costs associated with providing development review services such as application processing, plan review, long range planning, and construction inspections. The study is being utilized to set the foundation for a comprehensive update to the Planning and Economic Development Department's service fee schedule. Staff is recommending that the Council adopt development service fees to reflect the changes in fee descriptions, the removal of obsolete fee categories and the full cost rates identified within the cost of service study, with an effective date of July 1, 2024. In addition, the Planning and Economic Development Department is recommending the adoption of specific general fund supported subsidies to reduce fees on certain application and service types that support City Council development goals. The proposed reductions also focus on increasing participation in permitting programs associated with ensuring health and life safety and community appeal processes. Staff is also recommending that the Planning and Economic Development Director be authorized to adjust all adopted fees on July 1st of each year to incorporate price changes identified in the Consumer Price Index.

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:

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 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 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

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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.

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

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

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.

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- 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. In addition to Planning and Economic Development, the departments that are most impacted by development activities are 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.

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 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 costs to exceed the fee amounts listed in the most recent adopted fee schedules.

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, staff is recommending that the Council adopt new development service fees that reflect the full cost to provide the services as identified in the Study's Appendix A. Additionally, staff is recommending that the Council authorize the Planning and Economic Development Director to adjust fees annually in July based on the percentage change in the Bureau of Labor Statistics San Francisco/Oakland/San Jose Consumer Price Index – All Urban Consumers.

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, staff is recommending the adoption of a limited number of specific development service fee reductions. The proposed fee reductions are identified below:

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| | |
|--|-------------------|
| Building Permits (Mechanical, Plumbing and Electrical) | 25% fee reduction |
| Encroachment Permits (Residential Sidewalk Replacement) | 50% fee reduction |
| Planning Appeal Fees (Neighbor/No-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 |

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 different jurisdictions in the general region.

Staff is proposing to set the effective date associated with the adoption of any new or modified fees, the removal of any existing fees and the specific fee reductions identified in the Resolution’s Exhibit B to July 1, 2024. Projects that have filed a new application that has not been withdrawn or expired prior to July 1st will be permitted to pay all fees based on the current fee schedule and will not be eligible for any fee reductions or required to pay any fee increases under the proposed fee schedule.

FISCAL IMPACT

The fiscal impact is analyzed by determining the full costs associated with providing each individual development service and generating an average volume for each permit or service provided within a 12-month period. The exhibit below shows the annualized costs and revenues for the City’s user fees that were part of this analysis. The analysis was based on the average permit volumes from fiscal year 2020/2021, 2021/2022 and 2022/2023. It is difficult to predict future revenues due to the fluctuation in the volumes and economic conditions. The Study has determined the full service costs (column A) by determining the total cost to provide each service analyzed in the study and multiplying by the average permit volumes. The calculated subsidy, as describe in Column C below, is the portion of full cost that is not being collected under the current development services fee schedule.

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| User Fee Department | Current | | | | | |
|----------------------------|------------------------------------|----------------------|------------|---------------------|------------|--|
| | (A) Full Cost User Fee Services | (B) Current Revenue | | (C) Current Subsidy | | |
| Permit Services | \$ 127,135 | \$ 44,124 | 35% | \$ 83,011 | 65% | |
| Building | \$ 6,109,159 | \$ 6,114,461 | 100.1% | \$ (5,302) | -0.1% | |
| Planning | \$ 2,803,175 | \$ 1,814,029 | 65% | \$ 989,146 | 35% | |
| Engineering | \$ 3,461,061 | \$ 2,071,731 | 60% | \$ 1,389,330 | 40% | |
| Fire | \$ 696,510 | \$ 574,370 | 82% | \$ 122,140 | 18% | |
| Technology Surcharge | \$ 416,215 | \$ 55,667 | 13% | \$ 360,548 | 87% | |
| Advance Planning Surcharge | \$ 562,500 | \$ 227,505 | 40% | \$ 334,995 | 60% | |
| Totals: | \$ 14,175,755 | \$ 10,901,887 | 77% | \$ 3,273,867 | 23% | |

Adopting fees that capture the full cost to provide services is anticipated to yield an increase in revenue of \$3,273,867 under a period of high permit totals. This equates to a 23 percent increase in revenue.

The proposed fee reductions associated with high volume permit types such as mechanical, plumbing and electrical building permits are anticipated to produce an average reduction per permit of \$55.00. Based on the average permit total of 4,500 per year, the anticipated reduction in revenue will be \$247,500. Fee reductions associated with larger development projects such as affordable or market rate housing projects, large childcare facilities or grocery stores are anticipated to be approximately \$120,000 for the most complex project when factoring in reductions across the associated Building and Engineering permits. Based on an assumption of 5 larger subsidized projects per year, the reduction in annual revenue is estimated to be \$600,000. The reductions associated with appeals and sidewalk encroachment permits are anticipated to be minimal due to low permit costs and volumes.

The proposed reductions, during years with significant permit volumes in all fee categories, are anticipated to reduce the additional annual fee revenue by approximately \$900,000. This will result in the anticipated additional revenue reducing to \$2,373,867 (17% increase).

ENVIRONMENTAL IMPACT

Adoption of the Resolution is not a project pursuant to the California Environmental Quality Act (CEQA) because it concerns the adoption and approval of a funding mechanism for recovery of costs reasonably borne by the City related to processing applications and other types of submittals related to projects that have been or will be evaluated under CEQA. CEQA applies only to projects which have the potential for causing a significant effect on the environment, whereas here, the proposed activity will not result in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In addition, this action is

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exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) in that it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 - Stake Holder Outreach and Comparison Survey
- Resolution
 - Exhibit A – Development Related Cost of Service Study
 - Exhibit B – Development Service Fee Reductions

PRESENTER

Gabe Osburn, Director
Planning and Economic Development