

Midway City Council
15 October 2019
Work Meeting

Fee for Planner's Time / Proposal



345 West 600 South, Suite 108 • Heber City, Utah 84032
P 435-657-0984 • F 888-822-8796
WWW.GORDONLAWGROUPUTAH.COM

MEMORANDUM

TO: Midway City Council

FROM: Corbin Gordon

DATE: September 24, 2019

Re: Charging for City Planner Time

INTRODUCTION

I have been asked to analyze the legalities of charging for time spent by the City Planner on inquiries and land-use applications. A review of cities throughout Utah, as well as in the intermountain area, reveals that many cities do charge for staff time.

The most common scenario is to list a certain amount of City Planner time per application, with hourly rates that kick in once this time is exceeded. Some towns include a certain number of review meetings, and charge a set fee for every meeting thereafter.

Most cities have fee schedules that are very detailed and require payment for things like giving a zone verification. I think we could clarify what the person is asking and require them to file a formal application, with payment, for some portion of the common questions people have.

For example, there are some properties that consume Mike's time because numerous people are looking at them to develop and want answers to what can be done on the property. It seems logical to make these people submit a formal application for zone verification, with a fee, and with specific questions they want Mike to look at.

WHAT CAN LEGALLY BE RECOVERED

One of the most helpful documents I located was a study commissioned by Sonoma, California, wherein they hired a professional consultant to look at their fees, and to analyze what they were doing, in comparison to other municipalities. I have attached the report for review.

The study concluded that most municipalities recover up to 80% of their costs on applications, which includes staff time. See Exhibit A. I was surprised by this conclusion, but then realized it is true after looking at what other municipalities are doing.

WHAT OTHER MUNICIPALITIES ARE DOING

West Jordan – has set fee and hourly charges of \$83.00 per hour for additional review. The initial application includes a certain amount of time. I have attached this as Exhibit B so you can get a sense of what is possible.

Provo has a very detailed list of charges that is helpful if only to show how many things can be charged for: GIS Mapping Information and Misc. Services --Actual costs; Temporary Use Permit \$100.00; Zoning Disclosure \$10.00; Zoning Verification \$25.00; Board of Adjustment Appeals \$600.00; Variances \$600.00; Public Hearing Notice Fee \$60.00; All Other Requests \$60.00; Bond Release Processing Fee \$100.00; Time Extension \$100.00; Demolition Permit \$100.00; Relocation of a Building \$100.00; Unauthorized Changes to an Approved Plan \$500.00.

Gilbert has a base fee for review, and then charges \$200.00 per meeting.

Boulder County – has a set fee and then charges \$106.00 per hour. On some they have a set fee, and any time that goes over the set fee is billed at \$106.00 per hour.

Peoria charges per acre on development and sets a cap limit (of \$30,000). Also charges for all copies, maps, etc. Charges \$38.00 per hour for staff time.

Orange County has set fees for staff review.

Park City has set fees, but they are based on the number of units being applied for. They do not have an hourly rate for planning review.

Vineyard charges \$1693 for each review of the site plan after 2 reviews. They also charge for many small items.

Moab charges \$50.00 per hour for staff time that exceeds a certain amount allotted for particular applications.

PROPOSAL

In a meeting with Mike, we went through the different options and suggest the following:

1. Inquiries where there is no formal application:

- a. First meeting (one hour) is free (this is associated with the property – not with different people all asking the same questions about the property)
- b. Second meeting and all thereafter must fill out a meeting request, and pay \$100.00 per hour

2. Existing Applications:

TYPE	CURRENT COST	SUGGESTED COST	NUMBER OF STAFF HOURS INCLUDED WITH APPLICATION	COST IF HOURS EXCEEDED
Small Scale Subdivision	\$300 per lot	\$500 per lot	10	\$100.00 per hour
PUD	\$400 per lot	\$400 per lot	20	\$100.00 per hour
Rural Preservation	\$300 per lot	\$300 per lot	10	\$100.00 per hour
Large Scale Subdivision	\$400 per lot	\$400 per lot	20	\$100.00 per hour
Conditional Use Permit	\$250	\$500	5	\$100.00 per hour
Plat Amendment	\$250	\$500	5	\$100.00 per hour
Zone Map Amendment	\$400 plus \$250 per acre	No change	10	\$100.00 per hour
Code Text Amendment	\$1000	No change	10	\$100.00 per hour
Annexation	\$1000 for five acres or less; or \$200 per acre		20	\$100.00 per hour
Variance	\$200	\$1000	10	\$100.00 per hour

These are only suggestions and can be revised. I suggest that everyone scans through the study done by Sonoma, as it will provide a broader context of how to recover costs in the planning department.

Report on the Cost of Services (User Fee) Study for the Planning and Community Services Department

CITY OF SONOMA, CALIFORNIA

matrix 
consulting group

December 2018

Table of Contents

1. Executive Summary	1
2. Legal Framework and Policy Considerations	6
3. User Fee Study Methodology	9
4. Planning and Community Services Department – Fee Study Results	12
5. Deposit-Based Fees	17
6. Comparative Survey	21
7. Cost Recovery	23

1. Executive Summary

The report, which follows, presents the results of the Cost of Services (User Fee) Study for the City of Sonoma’s Planning and Community Services Department conducted by the Matrix Consulting Group.

A PROJECT BACKGROUND AND SCOPE OF WORK

The Matrix Consulting Group analyzed the cost of service relationships that exist between fees for service activities in the Planning and Community Services Department. The results of this Study provide a tool for understanding current service levels, the cost and demand for those services, and what fees for service can be charged. The study will also provide recommendations regarding conversion to deposit-based fees for planning services as well as associated policies and procedures.

B GENERAL PROJECT APPROACH AND METHODOLOGY

The methodology employed by the Matrix Consulting Group is a widely accepted “bottom up” approach to cost analysis, where time spent per unit of fee activity is determined for each position within a Department. Once time spent for a fee activity is determined, all applicable City costs are then considered in the calculation of the “full” cost of providing each service. The following table provides an overview of the cost components used to establish the “full” cost of providing services included in this Study:

Table 1: Cost Components Overview

Cost Component	Description
Direct	Fiscal Year 2017/18 Budgeted salaries, benefits and allowable expenditures.
Indirect	Division and departmental administration / management and clerical support, along with Citywide overhead as calculated through the Cost Allocation Plan ¹ (provided under separate cover).

Together, the cost components in the table above comprise the calculation of the total “full” cost of providing any particular service, regardless of whether a fee for that service is charged.

The work accomplished by the Matrix Consulting Group in the analysis of the proposed fees for service involved the following steps:

¹ The Cost Allocation Plan was adopted by City Council on June 25, 2018.

- **Departmental Staff Interviews:** The project team interviewed Departmental staff regarding their needs for clarification to the structure of existing fee items, or for addition of new fee items.
- **Data Collection:** Data was collected for each permit / service, including time estimates and volume of activity. In addition, all budgeted costs and staffing levels for Fiscal Year 17/18 were entered into the Matrix Consulting Group’s analytical software model.
- **Cost Analysis:** The full cost of providing each service included in the analysis was established. Cross-checks including allocation of not more than 100% of staff resources to both fee and non-fee related activities assured the validity of the data used in the Study.
- **Review and Approval of Results with City Staff:** Department and City management have reviewed and approved these documented results. Additionally, results from this study have been reviewed with the City Council and Ad Hoc-Subcommittee.

A more detailed description of user fee methodology, as well as legal and policy considerations are provided in subsequent chapters of this report.

3 SUMMARY OF RESULTS – CURRENT COST RECOVERY

When comparing Fiscal Year 17/18 fee-related budgeted expenditures with fee-related revenue generated in Fiscal Year 16/17 the Planning Department is under-recovering its costs by approximately \$478,000 and recovering about 15% of its budgeted costs annually. The following table outlines these results on a departmental basis:

Table 2: Departmental Cost Recovery Based on Fee-Related Revenue & Expenditures

Service Area	FY17/18 Projected Revenue	FY17/18 Projected Annual Cost	Surplus / (Deficit)	Cost Recovery Percentage
Planning	\$85,742	\$563,641	(\$477,899)	15%

The detailed documentation of the Study will show an undercharge for fees charged by the Planning and Community Services Department. Overall, the City and the Department is providing an annual subsidy to fee payers for fee-related services included in this analysis. The City has prepared a separate attachment that identifies a comparison of all fees, the current fee levels, the total cost based on the study, and their proposed fees.

The display of the cost recovery figures shown in this report are meant to provide a basis for policy development discussions among Council members and City staff, and do not represent a recommendation for where or how the Council should take action. The setting

of the “rate” or “price” for services, whether at full cost recovery or lower, is a policy decision to be made only by Council, often with input from City staff and the community.

4 DEPOSIT-BASED FEES RECOMMENDATIONS

As part of the cost of services analysis for the Planning and Community Services Department, the project team also conducted a review of converting certain fees to deposit-based fees. The benefits of conversion to deposit-based fees would be consistency across similar types of services among jurisdictions, as well as full cost recovery for services that require extensive effort and support from the Planning and Community Services Department and other City Staff. As the Department does not currently charge any deposits, it would be a major proposed shift for the Department.

Deposit-based fees require the Planning and Community Services Department to collect an initial deposit, and staff then bill against that deposit based upon the actual staff time spent performing a service. Deposit-based fees are the most accurate way for recovering costs, and there is no danger of over-collection or a subsidy, as any leftover funds are refunded, and any additional charges are invoiced to the project.

The following table summarizes the fees being recommended to be converted to deposit-based fees, along with the proposed or recommended initial deposit amount:

Table 3: Recommended Deposit Based Fees and Deposit Amounts

Fee Name	Recommended Deposit
Tentative Parcel Map	
Base	\$3,500
Per Lot	
Tentative Subdivision Map	
Base	\$10,000
Per Lot	
Minor Use Permit	\$1,500
Major Use Permit	\$10,000
Variance / Exception	\$2,000
Planned Unit Development	\$5,000
Rezoning/Annexation	\$7,500
General Plan Amendment	\$10,000
Modification of an Approved Plan	\$1,500
Environmental Review (Initial Study)	\$15,000
Environmental Review (Environmental Impact Report)	\$25,000
Lot Line Adjustment / Lot Merger / Certificate of Compliance	\$1,000
Sign Review (DRC)	\$500
Design Review (Major)	\$1,000
Extensions	\$500

As the table indicates, there is the recommendation to convert several flat fees to deposit-based fees. These recommendations were made based upon criteria such as: typical deposit-based fees in other jurisdiction, extreme variability in processing and review time, requires Commission or Council approval, or rare services.

With the implementation of deposit-based fees, there will also be the need for updated policies and procedures. The Planning and Community Services Department should work closely with staff in Finance to develop a detailed policy and procedure associated with deposit-based fees that identifies the following aspects:

- **Positions(s):** The City staff that can bill to the deposit, i.e. Planning, City Attorney, or all city staff.
- **Timekeeping:** The recording methodology for time tracked on projects as either separate from current timesheet tracking systems or internalized as project numbers to which time can be coded. As well as billing of time, increments of 5 minutes, 15 minutes, etc.
- **Hourly Rates:** The use of fully burdened hourly rates, and hourly rates by position, or blended hourly rates.
- **Billing / Refunding:** Timelines for invoicing for additional funds, i.e. 10% of project budget left, or refunding once final invoice has been paid.
- **Stop Work Order / Permit Issuance:** An insurance policy or penalty policy regarding fear of doing work without payment, so any project can be issued a stop work order if payment has not been received within 90 days.

While there will be other nuanced details that are further explored in the deposit-based fees section, these aspects must be addressed in any deposit-based fee policy and procedure document to ensure that there is consistency in application of deposit-based fees.

E CONSIDERATIONS FOR COST RECOVERY POLICY AND UPDATES

The Matrix Consulting Group recommends that the City use the information contained in this report to discuss, adopt, and implement a formal Cost Recovery Policy, and also to implement a mechanism for the annual update of fees for service.

1. Adopt a Formal Cost Recovery Policy

The Matrix Consulting Group strongly recommends that the Council adopt a formalized, individual cost recovery policy for the fees included in this Study. Whenever a cost

recovery policy is established at less than 100% of the full cost of providing services, a known gap in funding is recognized and may then potentially be recovered through other revenue sources. The Matrix Consulting Group considers a formalized cost recovery policy for various fees for service an industry Best Management Practice.

2. Adopt an Annual Fee Update / Increase Mechanism

The purpose of a comprehensive update is to completely revisit the analytical structure, service level estimates and assumptions applied in previous studies, and to account for any major shifts in cost components or organizational structures. The Matrix Consulting Group believes it is a best management practice to perform a complete update of a Fee Assessment every 3 to 5 years.

In between comprehensive updates, the City has several options for annual updates such as using a cost factor such as a CPI or labor increases, or a methodology for annual phased factor increases that can help the City achieve full cost recovery by a specific year. These annual factors should only be applied to flat fees, as the intent of deposit-based fees is to recover for actual costs incurred. The use of built-in annual cost factors will help the City maintain and achieve their target cost recovery goals.

2. Legal Framework and Policy Considerations

A “user fee” is a charge for service provided by a governmental agency to a public citizen or group. In California, several constitutional laws such as Propositions 13, 4, and 218, State Government Codes 66014 and 66016, and more recently Prop 26 and the Attorney General’s Opinion 92-506 set the parameters under which the user fees typically administered by local government are established and administered. Specifically, California State Law, Government Code 66014(a), stipulates that user fees charged by local agencies “...may not exceed the estimated reasonable cost of providing the service for which the fee is charged”.

A GENERAL PRINCIPLES AND PHILOSOPHIES REGARDING USER FEES

Local governments are providers of many types of general services to their communities. While all services provided by local government are beneficial to constituents, some services can be classified as globally beneficial to all citizens, while others provide more of a direct benefit to a specific group or individual. The following table provides examples of services provided by local government within a continuum of the degree of community benefit received:

Table 4: Services in Relation to Benefit Received

“Global” Community Benefit	“Global” Benefit and an Individual or Group Benefit	Individual or Group Benefit
<ul style="list-style-type: none"> • Police • Park Maintenance 	<ul style="list-style-type: none"> • Recreation / Community Services • Fire Suppression / Prevention 	<ul style="list-style-type: none"> • Building Permits • Planning and Zoning Approval • Site Plan Review • Engineering Development Review • Facility Rentals

Funding for local government is obtained from a myriad of revenue sources such as taxes, fines, grants, special charges, user fees, etc. In recent years, alternative tax revenues, which typically offset subsidies for services provided to the community, have become increasingly limited. These limitations have caused increased attention on user fee activities as a revenue source that can offset costs otherwise subsidized (usually) by the General Fund. In Table 4, services in the “global benefit” section tend to be funded primarily through voter approved tax revenues. In the middle of the table, one typically finds a mixture of taxes, user fee, and other funding sources. Finally, in the “individual / group benefit” section of the table, lie the services provided by local government that are typically funded almost entirely by user fee revenue.

The following are two central concepts regarding the establishment of user fees:

- **Fees should be assessed according to the degree of individual or private benefit gained from services.** For example, the processing and approval of a land use or building permit will generally result in monetary gain to the applicant, whereas Police services and Fire Suppression are examples of services that are essential to the safety of the community at large.
- **A profit-making objective should not be included in the assessment of user fees.** In fact, California laws require that the charges for service be in direct proportion to the costs associated with providing those services. Once a charge for service is assessed at a level higher than the actual cost of providing a service, the term “user fee” no longer applies. The charge then becomes a tax subject to voter approval.

Therefore, it is commonly accepted that user fees are established at a level that will recover up to, and not more than, the cost of providing a particular service.

B GENERAL POLICY CONSIDERATIONS REGARDING USER FEES

Undoubtedly, there are programs, circumstances, and services that justify a subsidy from a tax based or alternative revenue source. However, it is essential that jurisdictions prioritize the use of revenue sources for the provision of services based on the continuum of benefit received.

Within the services that are typically funded by user fees, the Matrix Consulting Group recognizes several reasons why City staff or the Council may not advocate the full cost recovery of services. The following factors are key policy considerations in setting fees at less than 100 percent of cost recovery:

- **Limitations posed by an external agency.** The State or an outside agency will occasionally set a maximum, minimum, or limit the jurisdiction’s ability to charge a fee at all. An example includes time spent copying and retrieving public documents.
- **Encouragement of desired behaviors.** Keeping fees for certain services below full cost recovery may provide better compliance from the community. For example, if the cost of a permit for changing a water heater in a residential home is higher than the cost of the water heater itself, many citizens will avoid pulling the permit.
- **Effect on demand for a particular service.** Sometimes raising the “price” charged for services might reduce the number of participants in a program. This is largely the case in Recreation programs such as camps or enrichment classes,

where participants often compare the City's fees to surrounding jurisdictions or other options for leisure activities.

- **Benefit received by user of the service and the community at large is mutual.** Many services that directly benefit a group or individual equally benefit the community as a whole. Examples include Recreation programs, Planning Design Review, historical dedications and certain types of special events.

The Matrix Consulting Group recognizes the need for policies that intentionally subsidize certain activities. The primary goals of a User Fee Study are to provide a fair and equitable basis for determining the costs of providing services and assure that the City is in compliance with State law.

Once the full cost of providing services is known, the next step is to determine the "rate" or "price" for services at a level which is up to, and not more than the full cost amount. The City Council is responsible for this decision, which often becomes a question of balancing service levels and funding sources. The placement of a service or activity within the continuum of benefit received may require extensive discussion and at times fall into a "grey area". However, with the resulting cost of services information from a User Fee Study, the Council can be assured that the adopted fee for service is reasonable, fair, and legal.

3. User Fee Study Methodology

The Matrix Consulting Group utilizes a cost allocation methodology commonly known and accepted as the “bottom-up” approach to establishing cost of service. The term means that several cost components are calculated for each fee or service. These components then build upon each other to comprise the total cost for providing the service. The following chart describes the components of a full cost calculation:



The general steps utilized by the project team to determine allocations of cost components to a particular fee or service are:

- Calculate fully burdened hourly rates by position, including direct & indirect costs;
- Develop time estimates for each service included in the study;
- Ensure that not more than 100% of a position’s time is allocated between fee & non-fee services.

The results of these allocations provide detailed documentation for the reasonable estimate of the actual cost of providing each service. The following sections highlight critical points about the use of time estimates and the validity of the analytical model.

A TIME ESTIMATES ARE A MEASURE OF SERVICE LEVELS REQUIRED TO PERFORM A PARTICULAR SERVICE

One of the key study assumptions utilized in the “bottom up” approach is the use of time estimates for the provision of each fee related service. Utilization of time estimates is a reasonable and defensible approach, especially since experienced staff members who understand service levels and processes unique to the City of Sonoma developed these estimates.

The project team worked closely with Planning staff in developing time estimates with the following criteria:

- Estimates are representative of average times for providing services. Estimates for extremely difficult or abnormally simple projects are not factored into this analysis.
- Estimates reflect the time associated with the position or positions that typically perform a service.
- Estimates provided by staff are reviewed and approved by the division / department, and often involve multiple iterations before a Study is finalized.
- Estimates are reviewed by the project team for “reasonableness” against their experience with other agencies.
- Estimates were not based on time in motion studies, as they are not practical for the scope of services and time frame for this project.

The Matrix Consulting Group agrees that while the use of time estimates is not perfect, it is the best alternative available for setting a standard level of service for which to base a jurisdiction’s fees for service and meets the requirements of California law.

The alternative to time estimating is actual time tracking, often referred to billing on a “time and materials” basis. Except in the case of anomalous or sometimes very large and complex projects, the Matrix Consulting Group believes this approach to not be cost effective or reasonable for the following reasons:

- Accuracy in time tracking is compromised by the additional administrative burden required to track, bill, and collect for services in this manner.
- Additional costs are associated with administrative staff’s billing, refunding, and monitoring deposit accounts.
- Customers often prefer to know the fees for services in advance of applying for permits or participating in programs.
- Applicants may request assignment of less expensive personnel to their project.
- Departments can better predict revenue streams and staff needs using standardized time estimates and anticipated permit volumes.

Situations arise where the size and complexity of a given project warrants time tracking and billing on a “time and materials” basis. The Matrix Consulting Group has recommended taking a deposit and charging Actual Costs for such fees as appropriate and itemized within the current fee schedule.

B CROSS CHECKS ENSURE THE VALIDITY OF OUR ANALYTICAL MODEL

In addition to the collection of time estimate data for each fee or service included in the User Fee Study, annual volume of activity data assumptions are also a critical component. By collecting data on the estimated volume of activity for each fee or service, a number of analyses are performed which not only provide useful information regarding allocation of staff resources, but also provide valuable cross checks that ensure the validity of each model. This includes assurance that 100% of staff resources are accounted for and allocated to a fee for service, or “other non-fee” related categories. Since there are no objectives to make a profit in establishing user fees, it is very important to ensure that services are not estimated at a level that exceeds budgeted resource capacity. By accounting for not more than 100% of staff resources, no more than 100% of costs will be allocated through the Study.

4. Planning and Community Services Department – Fee Study Results

The Planning and Community Services Department is primarily responsible for enforcing the City of Sonoma’s Development Code and Sign Regulations. The enforcement is performed through the current planning process of reviewing applications and projects related to land use entitlements, building permits, use permits, as well as to long-range planning such as updates to the General Plan or other Specific Plans within the City. The following sections discuss the total cost per unit results, the annual implications of the results, and a brief jurisdictional comparison of certain fees and services.

A DETAILED RESULTS – PER UNIT

The Planning and Community Services Department currently assesses fees for Tentative Maps, Use Permits, Temporary Use Permits, Lot Line Adjustments, Sign Reviews, Design Reviews, and Environmental reports. The total cost calculated for each service includes direct staff costs, direct material / service costs (where applicable), Departmental and Citywide Overhead. The following table details the title / name, current fee, total cost, and surplus or deficit associated with each of the Planning and Community Services Department’s fees:

Table 5: Planning and Community Services Department Total Cost Per Unit Results

Fee Name	Current Fee	Total Cost Per Unit	Surplus / (Deficit) per Unit	Cost Recovery %
Public Notice	\$91	\$346	(\$255)	26%
Tentative Parcel Map		\$0	\$0	0%
Base	\$745	\$3,735	(\$2,990)	20%
Per Lot	\$50	\$395	(\$345)	13%
Tentative Subdivision Map		\$0	\$0	0%
Base	\$1,871	\$10,481	(\$8,610)	18%
Per Lot	\$50	\$726	(\$676)	7%
Music License	\$167	\$1,229	(\$1,062)	14%
Temporary Use Permit	\$93	\$525	(\$432)	18%
Minor Use Permit		\$1,995	(\$1,622)	19%
Major Use Permit	\$791	\$10,634	(\$9,843)	7%
Variance / Exception	\$479	\$2,279	(\$1,800)	21%
Planned Unit Development	\$1,465	\$9,830	(\$8,365)	15%
Prezoning/Annexation	\$1,281	\$15,041	(\$13,760)	9%
General Plan Amendment	\$1,594	\$16,581	(\$14,987)	10%
Modification of an Approved Plan	\$281	\$1,908	(\$1,627)	15%
Deferral Agreement	\$191	\$857	(\$666)	22%
Environmental Review (Initial Study)	\$1,135	\$15,281	(\$14,146)	7%

Fee Name	Current Fee	Total Cost Per Unit	Surplus / (Deficit) per Unit	Cost Recovery %
Environmental Review (Environmental Impact Report)	25% of Contract Cost	\$29,045	N / A	N / A
Environmental Assessment	\$0	\$460	(\$460)	N / A
Lot Line Adjustment / Lot Merger / Certificate of Compliance	\$273	\$1,253	(\$980)	22%
Appeal	\$400	\$8,418	(\$8,018)	5%
Sign Review (Administrative)	\$54	\$218	(\$164)	25%
Sign Review (DRC)	\$102	\$371	(\$269)	27%
Design Review (Alteration)	\$151	\$371	(\$220)	41%
Design Review (Minor)	\$235	\$602	(\$367)	39%
Design Review (Major)	\$561	\$1,114	(\$553)	50%
Design Review (Landscaping Plan)	\$199	\$371	(\$172)	54%
Design Review (Demolition of Relocation)	\$441	\$807	(\$366)	55%
Home Occupation Permit	\$71	\$77	(\$6)	92%
Building Plan Review (per hour)	\$110	\$162	(\$52)	68%
Extensions	\$54	\$549	(\$495)	10%
Sidewalk Seating/Outdoor Display Permit	\$63	\$371	(\$308)	17%
Sidewalk Seating/Outdoor Display Permit Annual Renewal	\$25	\$187	(\$162)	13%
Interpretation	\$148	\$950	(\$802)	16%
Research (per hour)	\$110	\$162	(\$52)	68%
Inspection (per hour)	\$110	\$162	(\$52)	68%
Zoning Permit	\$92	\$77	\$15	120%

As Table 5 indicates, the Planning and Community Services Department is under-recovering for nearly all of its services. The level of under-recovery ranges from a low of \$6 for Building Plan Review per hour to a high of \$14,987 for General Plan Amendment. There is only one fee for which the Department is over-recovering and that is Zoning Permits, with an over-recovery of \$15. On a per unit basis, the straight average cost recovery for the Department is 30%.

The fees highlighted in Table 5 are being recommended to be converted from flat fees currently to deposit-based fees. The Deposit-based fees chapter discusses these fees in further detail.

B ANNUAL REVENUE IMPACTS

The Planning and Community Services Department is under-recovering its fee-related costs associated with its services by approximately \$478,000. The following table shows the annual workload volume for FY17, the projected revenue at current fee, projected annual cost, and the associated annual deficit.

Table 6: Planning and Community Services Department Annual Results

Fee Name	Annual Volume	Revenue at Current Fee - Annual	Total Cost - Annual	Surplus / (Deficit) - Annual
Public Notice	73	\$6,643	\$25,263	(\$18,620)
Tentative Parcel Map				
Base	1	\$745	\$3,735	(\$2,990)
Per Lot	4	\$200	\$1,581	(\$1,381)
Tentative Subdivision Map				
Base	1	\$1,871	\$10,481	(\$8,610)
Per Lot	10	\$500	\$7,263	(\$6,763)
Temporary Use Permit	17	\$1,581	\$8,928	(\$7,347)
Minor Use Permit	33	\$12,309	\$65,834	(\$53,525)
Major Use Permit	14	\$11,074	\$148,880	(\$137,806)
Variance / Exception	14	\$6,706	\$31,899	(\$25,193)
Planned Unit Development	1	\$1,465	\$9,830	(\$8,365)
Modification of an Approved Plan	1	\$281	\$1,908	(\$1,627)
Environmental Review (Initial Study)	10	\$11,350	\$152,814	(\$141,464)
Lot Line Adjustment / Lot Merger / Certificate of Compliance	5	\$1,365	\$6,263	(\$4,898)
Appeal	3	\$1,200	\$25,255	(\$24,055)
Sign Review (Administrative)	10	\$540	\$2,178	(\$1,638)
Sign Review (DRC)	22	\$2,244	\$8,916	(\$6,468)
Design Review (Alteration)	11	\$1,661	\$4,086	(\$2,425)
Design Review (Minor)	29	\$6,815	\$17,463	(\$10,648)
Design Review (Major)	11	\$6,171	\$12,259	(\$6,088)
Design Review (Landscaping Plan)	10	\$1,990	\$3,715	(\$1,725)
Design Review (Demolition of Relocation)	11	\$4,851	\$8,878	(\$4,027)
Home Occupation Permit	52	\$3,692	\$3,996	(\$304)
Extensions	2	\$108	\$1,099	(\$991)
Sidewalk Seating/Outdoor Display Permit	2	\$126	\$743	(\$617)
Sidewalk Seating/Outdoor Display Permit Annual Renewal	2	\$50	\$374	(\$324)
TOTAL		\$85,742	\$563,641	(\$477,899)

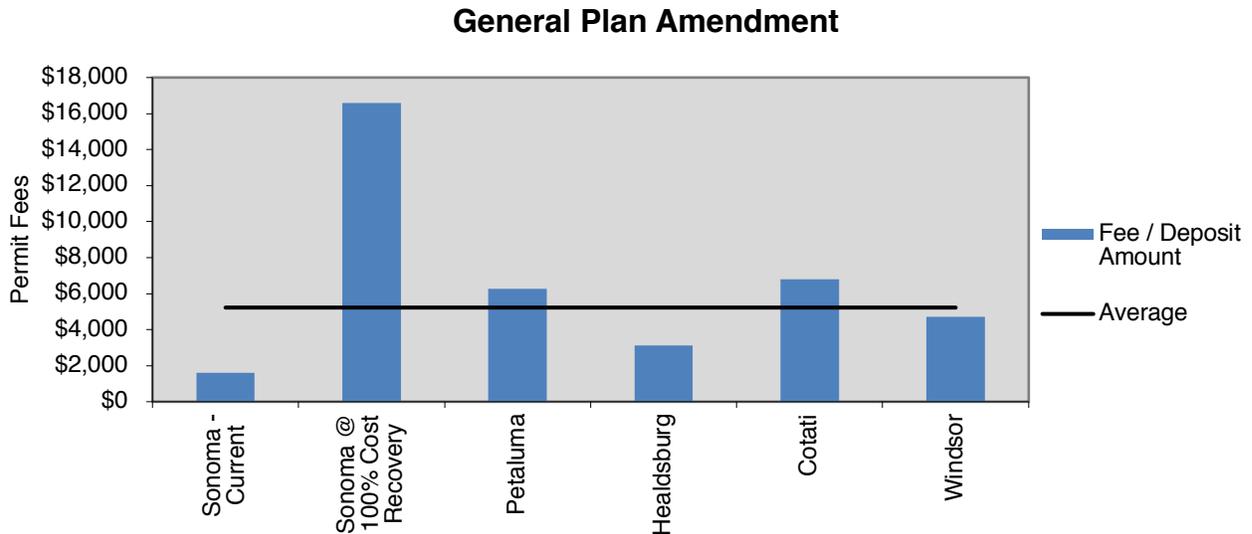
The fees highlighted in the previous table are those fees that are being proposed to be converted to deposit-based fees. Overall, the Planning and Community Services Department is recovering approximately 15% of its fee-related costs. The largest source of deficit for the department is Use Permits (Major and Minor) at approximately \$191,000. Converting these to deposits will help the Department recover its costs for these services.

C JURISDICTIONAL COMPARISON

As part of this study, the Planning and Community Services Department and the City wished to understand how their current fees and total cost compared to other similarly sized and regionally located jurisdictions. The following subsections provide a comparative look at three common Planning Permit and Applications:

1. General Plan Amendment

The Planning and Community Services Department currently assesses a flat fee of \$1,594 for a General Plan Amendment, while the study calculated the full cost of the fee at \$16,581, representing a deficit of \$14,987. The following graph shows how the Department’s current fee and total cost compare to other local jurisdictions.

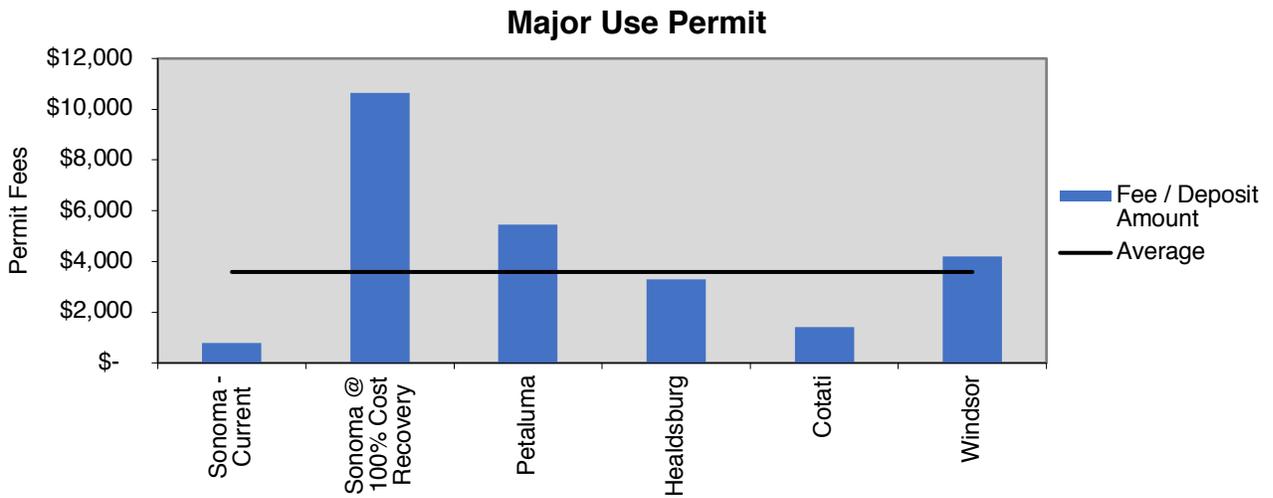


As the graph indicates the Planning and Community Services Department’s current fee is below the average fee / deposit of \$5,226 charged by other surrounding jurisdictions. The current fee for Sonoma is the lowest among all surrounding cities, while the full cost fee is higher than the surrounding jurisdictions.

It is also important to note that certain jurisdictions assess a Deposit for the General Plan Amendment Fee - the City of Cotati collects the \$6,800 fee shown above as the initial deposit for the General Plan Amendment Fee.

2. Major Use Permit

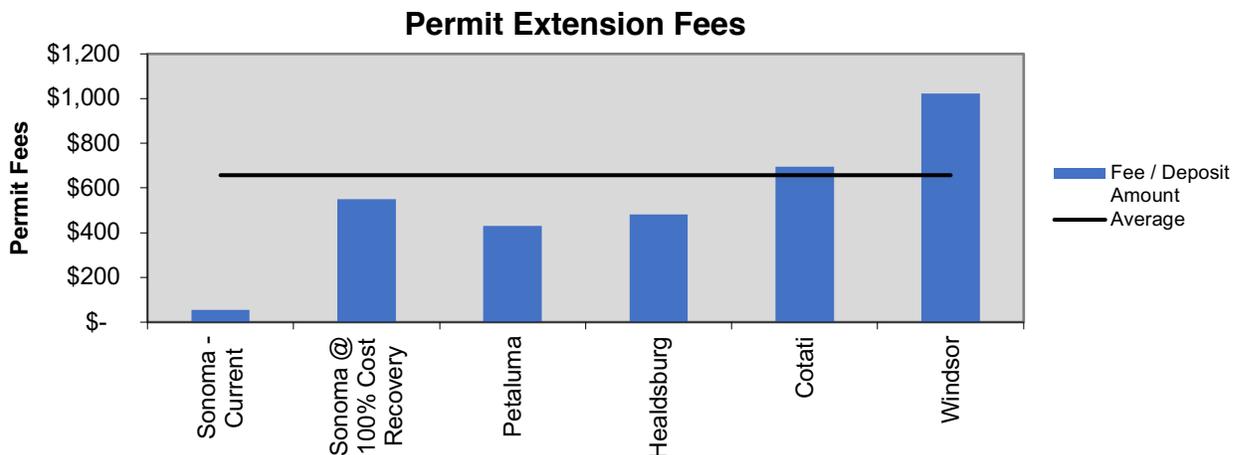
As discussed in the Annual Results section, one of the primary sources of deficit for the Department are the Use Permits. The Department processed approximately 14 permits last year. The Department currently charges a flat fee of \$791, compared to the full cost of \$10,634 calculated through this study. The following graph shows how the Department’s current fee and total cost compare to other local jurisdictions.



Similar to the General Plan Amendment fee, the City of Sonoma’s current Use Permit Fee is the lowest among all surrounding jurisdictions. However, its full cost fee of \$10,634 is higher than the average fee / deposit of \$3,585.

3. Extensions

The City of Sonoma currently charges a flat fee of \$54 for Planning Application Extensions, whereas the study calculated the full cost at \$549 per application. The following graph shows how the Department’s current fee and total cost compare to other local jurisdictions.



As the previous graph indicates, the City of Sonoma’s current and full cost fee is below the average fee / deposit of \$657 charged by the surrounding jurisdictions. The full cost fee is below the fees charged by Cotati and Windsor.

5. Deposit-Based Fees

Currently, all fees charged by the Planning and Community Services Department are flat fees. Due to the nature of Planning Services and the multiple iterations, length of projects, and different approvals, many jurisdictions charge either all or a majority of their Planning fees as Actual Cost. Actual Cost refers to collecting an initial deposit and billing the project based upon actual labor or staff time spent on reviewing the application, as well as any services or material costs, such as external consultants.

The following sections outline criteria and recommendations for converting current Planning fees to deposit-based fees as well as policies and procedures that should be implemented once deposit-based fees are adopted.

A CRITERIA AND RECOMMENDATIONS FOR DEPOSIT-BASED FEES

While certain jurisdictions charge all Planning services based upon deposits, deposits can be cumbersome as they do require additional administrative and staff time associated with tracking time, costs, and invoicing developers and applicants for services. Therefore, it is the project team's recommendation that only certain fees on the City's Planning fee schedule be converted to deposit-based fees.

A deposit-based fee would require the Planning and Community Services Department and the City to identify an initial deposit amount for each fee being converted to a deposit-based fee. The recommendation is that the initial deposit should generally be set at a level, which can sufficiently cover the majority of the costs associated with the project, with the possibility of some refund or additional expenses as necessary.

The project team has developed a list of criteria that was used to establish the recommendations for converting fees to deposit-based. The following points outline these criteria:

- **Typical Deposits:** Certain Planning services are generally always deposit-based due to the extraordinary level of effort associated with those services and the need for external consultants for completion of applications. These services, such as General Plan Amendments or Environmental Impact Reports, are generally seen as deposit-based fees in most jurisdictions.
- **Commission or Council Level Approval:** Services or fees that require Commission or Council Level Approval should be deposit-based as these services can vary greatly in length of time spent by staff. Certain applications can be simplistic and be approved with minimal iterations, while other projects or applications can require extensive staff time, multiple staff reports, and attendance

at multiple commission or council meetings. Therefore, it is difficult to estimate a reasonable amount of time that would not unfairly penalize or result in subsidy for the City.

- **Involvement of Multiple Departments:** While Planning is the primary department responsible for the Planning process, applications frequently require review and approval from multiple departments and divisions. Applications that would require approval and review from more than Planning and one other Division or Department should be converted to deposit-based fees. The deposit-based nature would ensure that the City is not only able to recover the time associated with Planning services, but also for other City staff that spend time on the application / project.
- **Low Volume Applications:** Applications or projects that are rare in nature should be converted to deposit-based fees. Due to the rarity of these applications, time estimates are difficult to project, and as such they should be converted to deposit-based fees to ensure that if and when those projects are submitted, the City is able to fully recover its costs through deposit-based fees.

Utilizing the criteria listed above, the project team developed a list of applications / permits that should be converted to deposit-based fees. Based on the cost analysis conducted the project team is also recommending the initial or minimum deposit amount for each of the fees identified. The following table shows the list of proposed / recommended deposit-based fees, the current fee, the total cost per unit, and the recommended initial deposit amount.

Table 7: Recommended Deposit Based Fees and Deposit Amounts

Fee Name	Current Fee	Total Cost Per Unit	Recommended Deposit
Tentative Parcel Map			
Base	\$745	\$3,735	\$3,500
Per Lot	\$50	\$395	
Tentative Subdivision Map			
Base	\$1,871	\$10,481	\$10,000
Per Lot	\$50	\$726	
Minor Use Permit	\$373	\$1,995	\$1,500
Major Use Permit	\$791	\$10,634	\$10,000
Variance / Exception	\$479	\$2,279	\$2,000
Planned Unit Development	\$1,465	\$9,830	\$5,000
Rezoning/Annexation	\$1,281	\$15,041	\$7,500
General Plan Amendment	\$1,594	\$16,581	\$10,000
Modification of an Approved Plan	\$281	\$1,908	\$1,500
Environmental Review (Initial Study)	\$1,135	\$15,281	\$15,000
Environmental Review (Environmental Impact Report)	15% of Contract Cost	\$29,045	\$25,000

Fee Name	Current Fee	Total Cost Per Unit	Recommended Deposit
Lot Line Adjustment / Lot Merger / Certificate of Compliance	\$273	\$1,253	\$1,000
Sign Review (DRC)	\$102	\$371	\$500
Design Review (Major)	\$561	\$1,114	\$1,000
Extensions	\$54	\$549	\$500

As the table indicates, the fees recommended for conversion to deposit-based are approximately one-third of the total fees charged by the Department. However, in terms of annual impact, the largest impact will be felt in relation to the Use Permits, Variances, Sign Reviews (DRC), and Major Design Review. The other permits and applications are much rarer and therefore, based upon the rarity and extensive variation in work criteria are being recommended to be converted to deposit-based fees.

B POLICIES AND PROCEDURES FOR DEPOSIT-BASED FEES

As discussed in the previous section, while Deposit-Based Fees do ensure full cost recovery for the City and the Division, they also require significant administrative support both from the Department and Finance staff. If the City implements the recommendation for conversion to deposit-based fees, there are additional policies and procedures that must be developed and adopted by the City.

A policy regarding deposit-based fees must be established. The policy should identify the following components:

- **Positions(s):** The policy should identify the position(s) within the Finance Department that will be responsible for conducting the billing and / or invoicing for the deposit-based fees.
- **Timekeeping:** The policy should identify the procedure for timekeeping as it is done by Planning and Community Services Department staff, including if timekeeping will be done outside of the current timekeeping system, or if it will be part of the timekeeping system with project numbers assigned to each deposit-based fee project.
- **Hourly Rates:** It is recommended that the fully burdened hourly rate (salaries + benefits + productive hours + departmental overhead + citywide overhead) be used for billing purposes. The hourly rate should also be specific to the position. The policy should identify the hourly rate(s) that will be used – a singular blended rate, or a separate rate for the position reviewing the application and the type of hourly rate used.

- **Billing / Refunding:** The policy should clearly outline when the department and / or division should request for additional funding. The standard recommendation is if 10% of the initial deposit is left, the applicant should be billed for additional funds. Policies regarding refund amounts and to whom the refund will be issued should be identified. Refunds should not be issued until all invoices have been paid.
- **Stop Work Order / Permit Issuance:** The policy should also include language regarding if no payment has been received on an invoice for 90 days, the application will be considered dormant and City staff will stop all work on the project. Additionally, it should also clearly clarify when the permit will be issued. The standard recommendation is that until final payment has been received no permit should be issued.

As the points above highlight, the implementation of deposit-based fees does require an in-depth policy. Developing such a detailed document will not only provide internal clarity regarding deposit-based fees, but also ensure that there is consistency in implementation of deposit-based fees.

There will be additional procedures that will have to be developed within Finance and Planning services regarding deposit-based fees. The procedures will build upon the policy by focusing on key components such as when to bill applicants, and how to account for time spent on applications.

All deposit-based fee policies, procedures, and initial deposit amounts should be reevaluated every three to five years to ensure that the current process is still relevant based upon projected organizational or application shifts.

6. Comparative Survey

As part of this Cost of Services (User Fee) Study for Planning Services for the City of Sonoma, the Matrix Consulting Group conducted a comparative survey of fees. The City identified four jurisdictions to be included in the comparative survey: City of Petaluma, City of Healdsburg, City of Cotati, and the Town of Windsor.

While this report will provide the City with a reasonable estimate and understanding of the true costs of providing services, many jurisdictions also wish to consider the local “market rates” for services as a means for assessing what types of changes in fee levels their community can bear. However, a comparative survey does not provide adequate information regarding the relationship of a jurisdiction’s cost to its fees. Three important factors to consider when comparing fees across multiple jurisdictions are: population, operating budget, and workforce size. The following tables provide this information regarding the jurisdictions included in the comparative survey.

Table 8: Ranking of Jurisdictions by Population

Jurisdiction	2016 Census
Cotati	7,455
Sonoma	11,054
Healdsburg	11,827
Windsor	27,548
Petaluma	60,530

Table 9: Ranking of Jurisdictions by Operating Budget

Jurisdiction	FY 17/18 Budget
Cotati	\$15,504,569
Sonoma	\$36,205,051
Windsor	\$74,261,039
Healdsburg	\$78,006,900
Petaluma	\$182,051,712

Table 10: Ranking of Jurisdictions by Workforce Size

Jurisdiction	FY 17/18 FTE
Sonoma	39.5
Cotati	48.3
Windsor	108
Healdsburg	127
Petaluma	353.85

Based on the data shown in the above tables, the City of Sonoma ranks on the lower end for everything including population, budget, and workforce.

While the comparative information can provide some perspective when paralleling the Planning and Community services Department’s fees with other jurisdictions, another key factor to consider is when a comprehensive analysis was last undertaken. The following table outlines when the last fee analysis was conducted by each surveyed jurisdiction.

Table 11: Last Comprehensive Fee Analysis

Jurisdiction	Response
Cotati	2011
Healdsburg	2010
Petaluma	No Response
Windsor	Not in the last 20 years

At the time of this report’s writing, three of the four jurisdictions surveyed had responded to the project team discussing when their last fee analysis was concluded. Both Cotati and Healdsburg had conducted their last fee study more than 5 years ago, whereas the Town of Windsor had not conducted a fee study in the last 20 years.

Along with keeping these statistics in mind, the following issues should also be noted regarding the use of market surveys in the setting of fees for service:

- Each jurisdiction and its fees are different, and many are not based on actual cost of providing services.
- The same “fee” with the same name may include more or less steps or sub-activities. In addition, jurisdictions provide varying levels of service and have varying levels of costs associated with providing services such as staffing levels, salary levels, indirect overhead costs, etc.

In addition to the issues noted above, market surveys can also run the risk of creating a confusing excess of data that will obscure rather than clarify policy issues. Because each jurisdiction is different, the Matrix Consulting Group recommends that the information contained in the market comparison of fees be used as a secondary decision-making tool, rather than a tool for establishing an acceptable price point for services.

On average, the survey showed that the City’s fees are in line with the jurisdictions surveyed, with some fees higher than other jurisdictions and other fees significantly lower.

7. Cost Recovery

The following sections provide guidance regarding how and where to increase fees, determining annual update factors, and developing cost recovery policies and procedures.

A FEE ADJUSTMENTS

This study has documented and outlined on a fee-by-fee basis where the Planning and Community Services Department is under collecting for its fee-related services. City and Department management will now need to review the results of the study and adjust fees in accordance with Departmental and City philosophies and policies. The following points outline the major options the City has in adjusting its fees.

- **Full Cost Recovery:** For fees that show an under-collection for costs of services provided, the City may decide to increase the fee to full cost recovery immediately.
- **Phased Increase:** For fees with significantly low cost recovery levels, or which would have a significant impact on the community, the City could choose to increase fees gradually over a set period of time.

The City will need to review the results of the fee study and associated cost recovery levels and determine how best to adjust fees. The following subsections provide further detail on why and how the City should consider either implementing Full Cost Recovery or a Phased Increase approach to adjusting its fees.

1. Full Cost Recovery

Based on the permit or review type, the City may wish to increase the fee to cover the full cost of providing services. Certain permits may be close to cost recovery already, and an increase to full cost may not be significant. Other permits may have a more significant increase associated with full cost recovery.

Increasing fees associated with permits and services that are already close to full cost recovery can potentially bring a Department's overall cost recovery level higher. Often, these minimal increases can provide necessary revenue to counterbalance fees which are unable to be increased.

The City should consider increasing fees for permits for which services are rarely engaged to full cost recovery. These services often require specific expertise and can involve more complex research and review due to their infrequent nature. As such, setting

these fees at full cost recovery will ensure that when the permit or review is requested, the City is recovering the full cost of its services.

2. Phased Increases

Depending on current cost recovery levels some current fees may need to be increased significantly in order to comply with established or proposed cost recovery policies. Due to the type of permit or review, or the amount by which a fee needs to be increased, it may be best for the City to use a phased approach to reaching their cost recovery goals.

As an example, you may have a current fee of \$200 with a full cost of \$1,000, representing 20% cost recovery. If the current policy is 80% cost recovery, the current fee would need to increase by \$600, bringing the fee to \$800, in order to be in compliance. Assuming this particular service is something the City provides quite often, and affects various members of the community, an instant increase of \$600 may not be feasible. Therefore, the City could take a phased approach, whereby it increases the fee annually over a set period until cost recovery is achieved.

Raising fees over a set period of time not only allows the City to monitor and control the impact to applicants, but also ensure that applicants have time to adjust to significant increases. Continuing with the example laid out above, the City could increase the fee by \$150 for the next four years, spreading out the increase. Depending on the desired overall increase, and the impact to applicants, the City could choose to vary the number of years by which it chooses to increase fees. However, the project team recommends that the City not phase increases for periods greater than five years, as that is the maximum window for which a comprehensive fee assessment should be completed.

B ANNUAL UPDATES

Conducting a comprehensive analysis of fee-related services and costs annually would be quite cumbersome and costly. The general rule of thumb for comprehensive fee analyses is between three and five years. This allows for jurisdictions to ensure they account for organizational changes such as staffing levels and merit increases, as well as process efficiencies, code or rule changes, or technology improvements.

Developing annual update mechanisms allow jurisdictions to maintain current levels of cost recovery, while accounting for increases in staffing or expenditures related to permit services. The two most common types of update mechanisms are Consumer Price Index (CPI) and Cost of Living Adjustment (COLA) factors. The following points provide further detail on each of these mechanisms.

- **COLA / Personnel Cost Factor:** Jurisdictions often provide their staff with annual salary adjustments to account for increases in local cost of living. These increases

are not tied to merit or seniority, but rather meant to offset rising costs associated with housing, gas, and other livability factors. Sometimes these factors vary depending on the bargaining group of a specific employee. Generally speaking these factors have recently ranged from two or three percent annually.

- **CPI Factor:** A common method of increasing fees or cost is to look at regional cost indicators, such as the Consumer Price Index. These factors are calculated by the Bureau of Labor Statistics, put out at various intervals within a year, and are specific to states and regions. It is important to note, that these factors are not always specific to the jurisdiction and can result in sometimes over-inflated costs.
- **Phased Increase Factor:** In lieu of annual cost factors, the City could choose an annual phased increase factor to help achieve full cost recovery. For example, if the City was targeting 50% cost recovery for all fees, it could choose to apply a 10% increase annually to fees thereafter for the next 5 years to get to 100% cost recovery by Year 5.

The City should review its current options internally (COLA) as well as externally (CPI) and the possibility of a phased increase factor to determine which option better reflects the goals of departments and the City. If choosing a CPI factor, the City should outline which particular CPI should be used, including specific region, and adoption date. If choosing an internal factor, again, the City should be sure to specify which factor, and when that factor would be applied.

C POLICIES AND PROCEDURES

This study has identified the permit areas where the City is under-collecting the cost associated with providing services. This known funding gap is therefore being subsidized by other City revenue sources. Based on the information provided in this report, at a global or per unit level, the City may not have any issues with using non-fee related revenue to account for the current deficit.

Development of cost recovery policies and procedures will serve to ensure that current and future decision makers understand how and why fees were determined and set, as well as provide a road map for ensuring consistency when moving forward. The following subsections outline typical cost recovery levels and discuss the benefits associated with developing target cost recovery goals and procedures for achieving and increasing cost recovery.

1. Typical Cost Recovery

The Matrix Consulting Group has extensive experience in analyzing local government operations across the United States and has calculated typical cost recovery levels. The

typical cost recovery seen for Planning services is within the range of **50-80%**. This range is based on the Matrix Consulting Group's experience in analyzing local government's operations across the United States and in California and reflects the *typical* cost recovery levels observed by local adopting authorities.

The City of Sonoma's Planning and Community Services Department cost recovery level of **15%**, is significantly below the typical threshold seen for Planning Services.

2. Development of Cost Recovery Policies and Procedures

The City should review the current cost recovery levels and adopt a formal policy regarding cost recovery. This policy can be general in nature and can apply broadly to the City as a whole, or Planning services specifically. Alternatively, the City could choose to adopt cost recovery policies by unique to each Community Development (Planning, Building, Engineering) fee schedule. A fee schedule specific cost recovery policy would allow the City to better control the cost recovery associated with various stages of development projects, as well as ensure that contributing departments are receiving necessary or needing revenue funds.