



# REPORT TO DEVELOPMENT OVERSIGHT COMMISSION City of Sacramento

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915 I Street, Sacramento, CA 95814-2671

STAFF REPORT  
December 4, 2006

Members of the Development Oversight Commission:

**Subject:** Development Fee Proposal Discussion

**Location/Council District:** Citywide

**Recommendation:** Receive and provide input

**Contact:** William A. Thomas, Director of Development Services, 808-3535; Gregory J. Schulte, Program Manager, 808-7116

**Presenters:** William A. Thomas; Director of Development Services and Gregory J. Schulte, Program Manager

**Department:** Development Services

**Division:** Administration

**Organization Number:** 4811

**Description/Analysis:**

**Issue:** After a successful pilot demonstration, the MATRIX business model for development application processing was approved for expansion citywide. On July 25, 2006, the City Council approved staff's recommendation to increase staffing and support resources totaling \$3.5 million. To off-set the cost of the additional resources, City Council approved an update to the valuation tables utilized to calculate building fees and an increase in the residential plan check fees. Staff informed Council at their July 25<sup>th</sup> meeting, that these fee increases were the first part of a two-step process in the overall review of development fees. The second part was to focus on updating and simplifying the overall development fee structure.

Currently, the Development Services Department (DSD) assesses planning, building, and development engineering fees through separate methodologies (Please see Attachment 1, page 4). The general consensus from development

customers and staff is that under the current structure, the process of estimating fees is overly complex and confusing. The goal is to develop a streamlined and simplified fee structure that allows for advanced business planning by customers.

In general, the philosophy is to create a “flat fee” structure for fees. This concept allows for greater predictability and ease of calculation. Staff proposes to structure the fees in accordance with the ten MATRIX product types with ranges that take into consideration the size and complexity of the particular project. In addition, staff proposes that the Development Oversight Commission (DOC) consider establishing a sub-committee charged with reviewing DSD costs and recommending any adjustments of fees.

In preliminary discussions with customers and an ad hoc group of DOC members, there was been general receptivity to the initial approach of orienting fees on a flat-fee basis and structuring them along the MATRIX development types. Comments included:

- Attempt to ensure equity in fees relative to size of project
- If considering valuation, don't penalize quality through fees
- Differentiate between projects that promote City goals and those that do not.

In a meeting with the City Manager's Office, there was also interest in the staff's proposal, but direction was given to explore the following areas:

- Review the existing structure for areas of improvement and streamlining
- Create a structure that can be portrayed on the DSD webpage while utilizing an auto-calculating technology
- Hire an outside legal consultant to review approach for legal vulnerability

Given the comments from the ad hoc DOC group and the City Manger's Office, DSD senior staff conducted a brainstorming session to evaluate potential areas of streamlining and simplification to the existing fee structure. The results of that session are outlined in Attachment 1, page 5.

**Policy Considerations:** State law and industry standards specify that fees shall not exceed the amount reasonably required to administer or process permits/applications. Currently, costs to administer and process building permits exceed the fees collected. DSD has hired Public Resource Management Group (PRM) to assist in developing an accurate cost analysis so that we have an accurate estimate of cost for services.

**Committee/Commission Action:** In the 2005-2006 DOC Annual Report presented to Council on March 21, 2006, the following priorities were presented and received by Council:

1. Expand the MATRIX review process to include all areas of the City
2. Consider funding and staffing augmentations to facilitate the expansion of MATRIX
3. Provide permanent funding support for increased staff resources through an appropriate fee structure

**Rationale for Recommendation:** DSD staff has reviewed the proposed approach with the stakeholder groups outlined above. Prior to working more in depth with the fee consultant (PRM), staff wishes to clarify expectations and to seek further input and advice from DOC members.

**Financial Considerations:** There are no direct financial considerations associated with this report. However, the direction for development fees will have a significant impact on the overall fiscal health of DSD and will impact the cost of development within the City of Sacramento. Any fee proposal brought forward should be at least revenue neutral to the department.

**DOC Goals and Recommendations:** The content of this report is consistent with the adopted 2005-2005 Annual Report Recommendations of:

- Supporting the on-going organizational change of the department
- Continuing technology advancement to support communications with the public, process streamlining, and Best Practices outreach programs
- Support of the Common Sense Policy as adopted by the City Council
- Continued innovative evolution of the City's role in the development process from enforcer, to facilitator and finally, to partner

Respectfully submitted by:   
GREGORY J. SCHULTE  
Program Manager

Recommendation Approved:

  
WILLIAM A. THOMAS  
Director of Development Services

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## BACKGROUND

### Current Fee Methodologies

The Development Services Department (DSD) has three operational units that assess fees for services – Planning, Building, and Development Engineering. All three employ different methodologies. A summary of the methodologies are as follows:

#### *Planning (Planning Commission Example)*

- First step is to determine entitlement and subcategory (Includes 9 categories and 33 subcategories). Flat fees by practice.
- Second step is to determine environmental fees (Includes 3 categories and 7 subcategories). Mostly flat fees but possible full cost recovery in the case of a full Environmental Impact Report.
- Third step is to assess planning fees for engineering and utilities (12 categories between the two. Flat fees assessed.
- Add technology fee on top.

#### *Building (Commercial Project Example)*

- Determine commercial category (18 categories).
- Determine type of construction (7 types).
- Calculate fees based on square footage, valuation, and regional factor.
- Add technology fee on top.
- Add to Fee Summary sheet that includes up to 29 additional City fees and 14 outside agency fees. Equals a total of 51 fee categories calculated by 6 different factors (Sq. Ft., Acreage, Units, Lots, Valuation, and Percentage)

#### *Development Engineering (Public Improvement Example)*

- First step is to estimate value of the public improvement.
- Select the applicable valuation range for the fee to perform plan check and inspection services (4 categories).
- Intake 50% deposit with Plan check submittal
- After bids are completed for improvement, recalculate fee and intake the balance of the fee.
- Service is full cost recovery so additional fees are commonly assessed after project has been completed.

## Development Services Department Brainstorming Session Results

On November 9, 2006, senior members of the Development Services Department met to discuss the development fee proposal. The focus of the discussion was streamlining and simplification, but keeping the current structure. The results by fee category were:

### *Current Planning*

- Consolidate Planning Director, Design Review & Preservation fees with 2 levels at Planning Commission and 1 level at Planning Director
- Implement a Product Type Based Fee that escalates based upon the following factors:
  - Staff (no hearing)
  - Director and staff level hearing
  - Commissions and Boards
  - City Council
- Product Type Based Fees would also need to:
  - Cover Development Engineering & Utility entitlements
  - Include various city costs such as Parks, City Attorney's Office, etc.
- Staff believed we might need a valuation factor for Design Review consideration

### *Environmental Impact Reports (EIR)*

- Staff believes that all three EIR fee categories could be flat:
  - Exempt
  - Negative Declaration
  - EIR (Although full EIRs could have additional fees due to litigation and appeals)
- For efficiency, staff recommends folding in traffic study fees w/ environmental review fees.

### *Building Fees.*

- Generally speaking, building fees are streamlined and are consistent with the industry and other jurisdictions.
- At entitlement phase, provide estimate of geographic based fees
- Review possible consolidation of all city development fees

### *Development Engineering*

- There was general agreement that the current full cost recovery methodology is difficult and unpredictable for staff and customers.
- Proposal is to flat fee this process by incorporating the public improvement valuation into the building valuation calculation.