



DATE: October 18, 2016

TO: Mayor and City Council

FROM: Acting Director of Finance

SUBJECT Presentation of City of Hayward User Fee Study

RECOMMENDATION

That City Council reviews and provides feedback on user fees as calculated in the City's User Fee Study conducted by Willdan Financial Services.

SUMMARY

Staff recently completed a comprehensive study of all of the City's User Fees; the study was conducted by Willdan Financial Services. The User Fee Study (the study) has calculated costs associated with all user fees and is presenting those amounts as the proposed fees to be charged by the City as of January 1, 2017. The proposed fees shown in the study have been calculated at a level, unless noted otherwise, to allow the City to achieve full cost recovery, and no more.

BACKGROUND

The last comprehensive user fee study was completed in July 2008. Over the last eight years (FY 2009 – FY 2016), the City has undergone minor adjustments and modifications to the fee schedule (mostly cost of living adjustments and modifications to support Council policies) as part of the annual budget process. Given the changes to the City's structure, staffing levels, and the cost of operations during this period, the study recently undertaken is more comprehensive and will provide updates to user fees throughout the City. The study has assisted in making appropriate changes to some of the methodology behind calculating user fees.

As part of a general cost recovery strategy, local governments have adopted user fees to fund programs and services that provide limited or no direct benefit to the community as a whole. As the City struggles to balance levels of service and the variability of demand, Council has become increasingly aware of subsidies provided by the General Fund for fees which do not recover full costs. To the extent that the City uses general tax monies to provide services that it has the ability to recover full cost for, but does not, a subsidy is provided and this reduces funds that may be available to provide other community-wide benefits. Unlike most revenue sources, the City has more control over the level of user fees they charge to recover costs.

Legislative Requirements

Proposition 13

Before Proposition 13, California cities were less concerned with potential subsidies and recovering the cost of their services from individual fee payers. In times of fiscal shortages, cities simply raised property taxes, which funded everything from police and recreation to development-related services. However, this situation changed with the passage of Proposition 13 in 1978.

Proposition 4 (1979) defined the difference between a tax and a fee: a fee can be no greater than the cost of providing the service; and Proposition 218 (1996) further limited the imposition of taxes for certain classes of fees. As a result, cities were required to secure a supermajority vote in order to enact or increase taxes. Since the public continues to resist efforts to raise local government taxes, cities have little control and very few successful options for new revenues. Compounding this limitation, the State of California took a series of actions in the 1990s and 2000s to improve the State's fiscal situation—at the expense of local governments. Most recently, the Educational Revenue Augmentation Funds ("ERAF") take-away of property taxes and the reduction of Vehicle License Fees have severely reduced local tax revenues.

Proposition 26 Review

In November 2010, California voters approved Proposition 26, which amended Articles XIII A and XIII C of the State constitution regarding the adoption of fees and taxes. Proposition 26 seeks to assure that taxes are not disguised as fees: taxes must be approved by the voters whereas fees can be approved by legislative bodies, such as a City Council.

Proposition 218

In November 1996, California voters passed Proposition 218, the "Right to Vote on Taxes Act." This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent. Proposition 218 requires voter approval prior to imposition or increase of general taxes, assessments, and certain user fees.

DISCUSSION

Goals of the study

The principle goal of the study was to help the City determine the full cost of the services that the City provides. In addition, Willdan established a series of additional objectives including:

- Developing a rational basis for setting fees
- Identifying subsidy amount, if applicable, of each fee in the model
- Enhancing fairness and equity
- Ensuring compliance with State law
- Developing a comprehensive list of fees that is easy to update

- Maintaining fees in accordance with City policies and goals

The study results will help the City better understand its true costs of providing services and may serve as a basis for making better informed policy decisions regarding the most appropriate fees, if any, to collect from individuals and organizations that require individualized services from the City.

Methodology

The basic concept of a User Fee Study is to determine the “reasonable cost” of each service provided by the City for which it charges a user fee. The full cost of providing a service may not necessarily become the City’s fee, but it serves as the objective basis as to the maximum amount that may be collected. The standard fee limitation established in California law for property-related (non-discretionary) fees is the “estimated, reasonable cost” principle. In order to maintain compliance with the letter and spirit of this standard, every component of the fee study process included a related review. The use of budget figures, time estimates, and improvement valuation clearly indicates reliance upon estimates for some data.

Fully Burdened Hourly Rates

The total cost of each service included in the study are primarily based on Fully Burdened Hourly Rates (FBHRs). FBHRs were determined for City personnel directly involved in providing services. The FBHRs include not only personnel salary and benefits, but also any costs that are reasonably ascribable to personnel. The cost elements that are included in the calculation of fully burdened rates are:

- Salaries & benefits of personnel involved
- Operating costs applicable to fee operations
- Departmental support, supervision, and administration overhead
- Internal Service Costs charged to each department
- Indirect City-wide overhead costs calculated through the Cost Allocation Plan

Changes to calculation methodology and fee structure

The Study shows changes to current and new fees. Most changes are based on the effort and costs associated with said fees. Two notable differences, however, are those related to the methodology used to calculate Development Services Department’s Building Division fees related to new tract homes and subdivisions and the augmentation of the Residential Rental Inspection Program Fee Schedule.

Development Services Department’s Building Division (section begins on page 60 of the study)

The 2008 fee study completed by Maximus created a very complex and difficult to follow fee model for Building Permits and Fees. The City has moved away from the methodology and

has used the valuation method for all Building Permits and Fees aside from fees for new single-family and multi-family homes.

The Willdan fee study proposes to assess all building permit fees based on the valuation method, which is fairly standard throughout the construction industry. Fees using the valuation method consider the following factors to determine the value of a property*:

- Valuation is defined as the fair market value of materials and labor for the work.
- Valuation shall be the higher of the stated valuation or the figure from the current International Code Council valuation.
- The current ICC Valuation data used in the study is adjusted with a regional construction cost modifier for the San Francisco Bay Area of 16%^.
^Source: The local modifier is 1.16 times the cost per square foot as published in the Building Standards Journal, April 2002 edition.
- The valuation for tenant improvements, residential remodels or other projects that do not involve new square footage, shall be a minimum of 60% of the cost per square foot (as shown in the table on page 60 of the study).

*For discussion purposes, the term property includes all new buildings, additions, tenant improvements, residential remodels and cell sites.

A similar method is currently being used by the cities of Berkeley, San Jose, Oakland, the City and County of San Francisco and many more.

Below is a demonstration of the current fees for a new single family residence using methodology from the Maximus study:

Current Fee Schedule Based on Square Footage (Maximus)

Project type: New Single-Family Detached Home

Valuation: N/A since fees are based on square footage

Habitable square footage (R-3 code designation): 3,000 square feet

Non habitable / garage square footage (U code designation): 400

Plan Check Fee: \$6,043

Inspection Fee: \$1,188

The table below shows what the fee for a single family residence using the valuation method as proposed in the study as shown in **Attachment II**.

New Fee Schedule Based on Valuation (Willdan)

Project type: New Single-Family Detached Home

Valuation: \$412,748 (based on minimum valuation per square foot in new fee schedule).

Habitable square footage (R-3 code designation): 3,000 square feet

Non habitable / garage square footage (U code designation): 400 square feet

Plan Check Fee: \$3,476

Inspection Fee: \$3,476

Residential Rental Inspection Program

The City of Hayward currently has 22,974 rental units located on 8,030 parcels. The residential rental inspection program was initiated in February of 1989 to assure California's mandate to maintain minimum housing standards could be accomplished by the City for its residents. The City has never achieved full cost recovery for the efforts and are currently well below the fee level of many comparable cities. The current proposal is designed to recover costs and assist in maintaining and improving the conditions of residential rentals in the City which will achieve many of the goals supported by Council. The proposed fees for the Residential Rental Program are demonstrated in the Development Services section of **Attachment II**.

ECONOMIC IMPACT

The overall economic impact is currently unknown. Although approving the proposed fee levels will have a minor economic impact on the community, in that only certain fees will be increased, others will be decreased.

FISCAL IMPACT

Adopting these fee changes will not materially impact overall City revenues; however, it will allow for more self-sufficient and sustainable service levels in many areas of the City. The fees will also help the City recover the costs of doing business from those who are requesting specific services, thus freeing up General Fund resources for other community-wide services.

PUBLIC CONTACT

On September 12th, representatives from the Development Services Department presented proposed changes to the Residential Rental Inspection Program to the Rental Housing Association of Southern Alameda County. On September 28, 2016 a draft of the study was presented to the Council Budget and Finance Committee.

NEXT STEPS

The study will be brought back to Council on October 25, 2016 for a public hearing and approval. Once approved, the fees will take effect January 1, 2017.

Prepared by and Recommended by: Dustin Claussen, Acting Director of Finance

Approved by:



Kelly McAdoo, City Manager

Attachments:

Attachment II City of Hayward Comprehensive User Fee Study
Report completed by Willdan Financial