



**DATE:** September 28, 2016

**TO:** City Council Budget and Finance Committee

**FROM:** Interim Director of Finance

**SUBJECT** User Fee Study Update

## **RECOMMENDATION**

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

## **SUMMARY**

The City is completing a comprehensive user fee study (the study) conducted by Willdan Financial Services. The study will attempt to allow the City to recover costs associated with specific fee related work. The study is designed to review all costs associated with internal effort and third party expenses to develop full cost recovery fees.

## **BACKGROUND**

The last comprehensive user fee study was completed in July 2008. Over the last eight years (FY 2009 – FY 2016), the City has completed smaller 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 these past years and its cost of operations during this period, the City has embarked on a comprehensive user fee study that will provide updates to user fees throughout the City.

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 26 Review and Compliance

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 Review and Compliance

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.

The study has attempted to calculate all fees included in compliance with Proposition 26 and 218.

## **DISCUSSION**

### **Changes in Fee calculation methodology**

**Attachment II** shows changes to current and new fees included in the study. Most changes are based on the effort and costs associated with said fees. Two of the most notable differences, however, are those related to the methodology used to calculate Development Services Department’s Building Division fees and the augmentation of the Residential Rental Inspection Program Fee Schedule.

### Development Services Department’s Building Division

The 2008 fee study completed by Maximus created a very complex and difficult to follow fee model for Building Permits and Fees. **Attachment III** demonstrates proposed fees using the valuation method considering 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 in the valuation table on page 1 of **Attachment III**.

\*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.

### 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 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 **Attachment IV**.

### **ECONOMIC IMPACT**

Currently unknown. Although approving at proposed fee levels will have a minor economic impact on our community in that only certain fees will be increased while some fees are proposed to 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.

### **PUBLIC CONTACT**

On September 12<sup>th</sup>, representatives from the Development Services Department presented proposed changes to the Residential Rental Inspection Program to the Rental Housing Association of Southern Alameda County.

### **NEXT STEPS**

The complete study will be brought to the full Council for review and feedback at the October 18, 2016 City Council meeting and return to Council for their approval at a subsequent meeting.

*Prepared by and Recommended by:* Dustin Claussen, Interim Director of Finance

Approved by:



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Kelly McAadoo, City Manager

Attachments:

Attachment II	Draft Proposed User Fee Schedule
Attachment III	Draft Proposed Building Division Fees
Attachment IV	Residential Rental Inspection Program Fees