BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	Planning & Development
Department No.:	053
For Agenda Of:	March 14, 2017
Placement:	Set Hearing for March 21, 2017 (first reading) and April 4, 2017 (second reading)
Estimated Time:	30 minutes on March 21, 2017
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM: Department Director(s): Glenn Russell, Ph.D., Director, Planning and Development (805) 568-2085
Contact Info: Steve Mason, Planning and Development (805) 568-2070

SUBJECT: **Proposed Fee Ordinance for Planning and Development Department**

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: Yes

Other Concurrence: N/A

Recommended Actions:

That the Board of Supervisors should consider the following actions:

On March 14, 2017:
Set a hearing to consider recommendations regarding a proposed Fee Ordinance for the Planning and Development Department, as follows:

On March 21, 2017:
a) Approve the introduction (first reading) of an Ordinance amending fees for Planning and Development Department services;
b) Read the title and waive further reading of the Ordinance; and
c) Continue the hearing to the administrative agenda of April 4, 2017 to consider recommendations, as follows:

On April 4, 2017:

i) Consider and approve the adoption (second reading) of an Ordinance amending fees for Planning and Development Department services (Attachment A) effective 60 days after adoption; and

ii) Find that the proposed action is an administrative activity of the County, which will not result in direct or indirect physical changes in the environment and is therefore not a "project" as defined for purposes of the California Environmental Quality Act (CEQA) under State CEQA Guidelines Section 15273(a)(1) and 15378(b)(5).

Summary Text:

The Planning and Development Department (P&D) is engaged in regulatory oversight of land development, construction, oil and gas development, and film permitting. These activities are authorized and governed by various County and State codes which prescribe P&D's responsibilities and represent the majority of P&D's work. Nearly 67% percent of P&D staff work directly in regulatory oversight, and are supported and managed by another 15% of department staff. The cost of these services is supported primarily by permit fees, followed by general funds and enforcement fines.

Fees should be reviewed and updated regularly to reflect the impact of inflation, other cost increases, and changes to service structure[1]. P&D fees have not been comprehensively studied in numerous years. P&D hired MGT of America, Inc., a consulting firm with expertise in local government fee analysis, to comprehensively study P&D's planning, building, film, and petroleum service fees. The goal of this fee study was to identify areas that could be streamlined, increase user friendliness, reduce the number of fees where possible, and analyze all costs to determine whether they are being appropriately recovered. The study found that P&D's current fees do not capture all overhead costs and, in the case of residential building construction, do not accurately reflect the time it takes to deliver services. Current cost recovery rates (the extent to which costs to provide services are offset by fees) are 72% for planning services, 72% for building services, 61% for film permits, and 61% for petroleum services.

As a result of this effort, P&D is recommending adoption of fee schedules with 100% cost recovery (with the exception of a few fee items discussed below). The proposed planning fee schedule has 25% fewer fee items by combining like categories and removing unnecessary fee categories. The proposed building fee schedule has been completely restructured to significantly reduce the number of fees and simplify the fee model.

The proposed fee increases would provide an additional $2.81 million in annual revenue assuming full staffing levels and workload levels consistent with recent activity. The proposed fee increases will include a new records management surcharge as well as a charge to recoup the unrecovered portion of building and grading code enforcement costs. These surcharges and additional costs account for $240,000 of the $2.81 million in increased annual revenue. Energy and Minerals Division fees were not evaluated as a part of this fee study because their costs are currently 100% recovered through a direct billing structure.

Background:

P&D, in accordance with State law and County policy, collects fees to defray the cost of providing required building, grading, planning, petroleum, and film permitting services. County policy states that

[1] Government Finance Officers Association, "Establishing Government Charges and Fees," accessed November 10, 2016, http://www.gfoa.org/establishing-government-charges-and-fees.

departments shall "ensure appropriate maximum reimbursement of…user fees that fully offset user costs…"[2] and "Departments are responsible for insuring that all legally allowed fees and charges are presented to the Board for adoption and for reviewing/adjusting as appropriate."[3]

The current P&D fee schedule, approved by the County Board of Supervisors, has approximately 450 fees for services. These 450 fees have not been comprehensively reviewed for a number of years. The planning hourly rate was last updated using actual costs in 2010, and building fees are based on a study completed in 2008. P&D has regularly adjusted fees through the application of a Consumer Price Index (CPI) adjustment, with periodic recalculation of hourly rates based on salaries and benefits. These fee adjustments have partially offset increased salary and benefit costs, but have not accounted for changes in permitting workflow to determine how services and needs have changed over the years. Over the last four years, P&D has been adding planning, building and other staff to support rising permit activity since the recession ended. Permit processing procedures and staffing have adapted to changing needs over the past decade, which does not mirror the staffing and service model that was used to calculate fees currently in place.

P&D hired a consulting firm with expertise in local government fee analysis to comprehensively study all P&D service fees. The goal of this fee study was to identify areas that could be streamlined, review all costs to ensure they are being appropriately recovered, increase user friendliness, and reduce the number of fees where appropriate. The fee study used the FY 2015/16 budget as the basis for analysis of costs and carefully analyzed changes to department structure and permit service delivery over the past ten years to capture all the costs built into today's Department and County structure and service model.

<u>Planning Fees</u>
The proposed planning fee schedule maintains the same general structure but reduces the number of fees by 25%, which was achieved by combining like categories and removing unnecessary fee categories. The proposed schedule includes a mix of fixed fees and variable fees. Fee categories that typically require a consistent level of effort are presented as fixed fees. To ensure fairness in the application of fees, those that can vary significantly based on project-specific factors are presented as variable fees. Variable fees are assessed an initial security deposit and then billed based on actual costs. Annual planning revenue from the proposed fees will increase by an estimated $1.12 million, or 32%. The hourly rate charged to permits will increase from the current rate of $192 to $226, reflecting increased costs and recovery levels offset by the shift of the General Plan Surcharge from planning to building fees.

There are two proposed changes regarding Williamson Act work conducted by the Department:

- P&D review of non-renewals is not required under the Williamson Act. P&D proposes to modify current procedures for the Non-renewal of Agricultural Preserve contract, and remove it as a fee category.
- P&D does not currently charge to recover costs for staff work required to bring projects before the Agricultural Preserve Advisory Committee (APAC). P&D proposes to establish a fee to recover these costs. The proposed fee for this activity is $383.

[2] Fiscal Years 2016-2018 Operating Plan Budget Development Policies, Policy Statement 3) Balanced Budget/Fiscal Stability.
[3] County of Santa Barbara, On-line Policies & Procedures Manual, Fees, Board Minute Order 3/8/82.

Building and Safety Fees

The proposed building fee schedule has been completely restructured to significantly reduce the number of fees and simplify the fee model. The current building fee schedule, adopted in 2009, has over 300 fees to address a wide variety of building types and construction practices. The proposed schedule has a few broad categories of building types. Variations to the base categories are accommodated by adding supplementary fee factors to the base fee. For example, the base fee for residential new construction covers a wood-framed single-story residence on a flat lot. Additional features such as multi-story, basements, structures on slopes or complex structural steel and concrete construction would be assessed additional fees for the time necessary to review these additional features. This menu approach simplifies the building fee schedule by reducing the number of total fees and providing flexibility to address unique project attributes, and will provide customers enhanced ability to predict costs. This approach is proposed for a number of construction types for both residential and non-residential projects.

P&D proposes to increase cost recovery to 100% with the exception of water heater and residential furnace permit fees, which will remain at near current levels to promote proper permitting as discussed in the fiscal section of this Board letter.

Pursuant to the authority of Health and Safety Code section 17951, unrecovered building code enforcement costs can be incorporated into building and safety fees. The portion of building code enforcement costs that is not recovered through administrative fines and reimbursement for staff labor costs is built into the indirect cost portion of building fees. This additional recovery of building enforcement costs will defray the cost of the code enforcement program. The impact of these changes will increase permit revenues by $1.40 million, or 38%, $200,000 of which reflects the shift of the General Plan Surcharge from planning to building fees. The fee study analyzed the level of work effort required for each permit fee category to ensure accurate fee levels. As a result of this analysis, residential construction is proposed to carry a larger share of newly calculated costs, while fees for commercial projects will decrease or remain consistent with current costs.

Fee Comparison with Neighboring Jurisdictions

As demonstrated by the comparison chart, fees vary significantly between local jurisdictions. The study was not able to determine the cost recovery policy for each jurisdiction; however, both Ventura County and City of Santa Barbara include surcharges for general plan maintenance and technology.

Fee Name	Current Santa Barbara County	Proposed Santa Barbara County	Ventura County	San Luis Obispo County	City of Santa Barbara	City of Santa Maria
2,000 SF Single Family Dwelling	4,051	6,834	8,228	3,926	11,592	6,750
SFD interior remodel (Type V)- 1,000sf	1,291	1,890	1,490	798	3,088	1,421
Type V Retail Tenant Improvement - 5,000sf	4,986	4,312	3,024	2,873	10,577	6,435
Residential Furnace	152	156	174	66	300	142
Water Heater	67	112	56	86	86	152

Note: Santa Barbara and Ventura Counties, and Santa Barbara City include general plan and technology surcharges; City of Goleta did not provide comparable data.

Film Permit Fees

The menu structure used for building fees is also proposed for film permits to provide flexibility for the variety of projects that are filmed in the County. A base fee covers one filming location, with additional fees for additional locations and special features, which fairly links the cost of a permit with the level of effort required to process the permit.

Petroleum Fees

The schedule of fees for P&D's petroleum unit, which oversees onshore oil and gas facilities, remains largely unchanged in structure with the exception of one fee category. The current fee schedule charges a single fee per well or tank inspection. The level of work required for a tank inspection is in fact much higher than that of a well inspection, and therefore this fee category is proposed to be separated into two fee levels. The review of petroleum fees showed that costs for overhead and indirect support services provided by the Department and County were not fully recovered under current fees, and the petroleum unit has been reliant on reserve funds to balance its budget. Petroleum fees have been recalculated to recover costs for County and Department services and, as proposed, will increase from 61% cost recovery to 100% cost recovery, with increased revenue of $240,000 per year. The fee for annual well inspections will increase from $122 to $179 per well. Had this fee category remained combined with annual tank inspections, the fee would have increased more significantly.

Petroleum fees are proposed to be increased to full cost recovery levels in accordance with the County's fund balance policy governing special revenue funds[4]. Because petroleum fee revenue is legally restricted to expenditure for petroleum operations, petroleum fund balances should support annual operations without General Fund contribution (other than reimbursement for costs incurred in the General Fund on behalf of petroleum operations).

Surcharges

It is common for local government agencies to assess surcharges on planning and building fees to ensure reliable and adequate funding for projects that support the permitting and service delivery processes. Current surcharges include a general plan maintenance surcharge applied to planning fees and a technology maintenance surcharge applied to both planning and building fees.

The technology maintenance surcharge is proposed to continue on both planning and building fees and be added to petroleum fees so that the Department can continue to maintain hardware and software necessary to support the permitting process.

In accordance with trends of California jurisdictions, the general plan maintenance surcharge has been shifted from planning fees to building fees in the proposed fee schedules. This surcharge is included in accordance with Government Code 66014(b), which allows recouping of costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and determinations.

A new records management surcharge is proposed to be added to both the planning and building fees. This surcharge was developed to fund the digitization and storage of the County's permit records for archival purposes, which enhances customer service by providing easy online access to records that previously required a trip to P&D offices and photocopying. Historical permit records are considered official records and must be retained permanently and in accordance with the "Local Government Records Management Guidelines" established by the California Secretary of State pursuant to Government Code section 12236.

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[4] Comprehensive Fund Balance Policy for the County of Santa Barbara, adopted 12/13/16.

Fiscal and Facilities Impacts:

Budgeted: If the proposed ordinance is adopted on April 4, 2017, the new fee structure will be effective 60 days hence, thereby nearly coinciding with the beginning of the new fiscal year. If the proposed fees are approved, the anticipated increased revenue levels will be included in the FY 2017/18 budget, and no service level reductions will be necessary. The Department will work with the CEO to prepare a budget revision to reduce GFC that will no longer subsidize permitting programs.

If the proposed fees are not adopted, the Department will make service level reductions in FY 2017/18 to meet the authorized budget allocation.

Fiscal Analysis:

P&D is recommending fees that move the department very close to full cost recovery for department services with an overall proposed recovery rate of 97%. Approval of the proposed fees will bring petroleum permitting to 100% cost recovery, planning to 95% cost recovery, and building and film permitting to 99% cost recovery. There is a $35,000 proposed General Fund Contribution (GFC) subsidy for water heaters and residential furnace replacements as well as a $240,000 proposed subsidy in planning appeals as discussed later in this section.

The analysis prepared by MGT of America, Inc., including time and motion analysis and actual billed time on projects, provided an accurate summary of the time spent by permitting and support staff in the delivery of permitting and code compliance services. In addition to the MGT analysis, P&D, in consultation with County Auditor-Controller staff, analyzed all indirect costs associated with the permit and code compliance functions as they are conducted today. Indirect costs include costs associated with support staff services and management, utilities, rent, office expense, and central countywide services such as human resources, information technology, and financial reporting. This analysis resulted in an updated Indirect Cost Rate Proposal (ICRP) for use in FY 2016/17, which is incorporated into the proposed fees to capture current indirect costs. Costs for County Counsel litigation allocated to the Department in the Cost Allocation Plan are not included in the indirect cost rates applied to the proposed fees. Inclusion of litigation costs in the overhead rate would be inequitable since only a small number of permits incur these costs. The conclusion of the indirect cost analysis found that P&D’s current fees do not capture all overhead costs and, in some cases, do not accurately reflect the time it takes to deliver services. Generally, current fees recover 71% of costs, with planning at 72%, building at 72%, film permits at 61%, and petroleum at 61% cost recovery.

Table 1 below shows the current and proposed cost recovery rates for fee services, as well as new revenue that would be realized with implementation of the recommended fee levels assuming full staffing levels and workload levels consistent with recent activity. The fee study identified $3.05 million of costs associated with the permit process that are not currently being recovered with permit fees, which includes the subsidies for water heater permits, residential furnace permits, and planning appeals. Petroleum fees, which are collected in a special revenue fund, are proposed at full cost recovery levels as discussed above.

GFC will continue to be used to subsidize several permit areas. In building, the actual cost of permitting a water heater or residential furnace would typically represent a large portion of total project costs. Because it is important to have proper installation and inspection of water heaters and FAUs for safety reasons, permit fees are subsidized by GFC to encourage proper permitting. All other building, grading and film permit fees are proposed at 100% cost recovery. Planning appeal fees are proposed to remain at the current GFC-subsidized levels in order to allow greater community access to the appeal process. Other planning fees are at 100% cost recovery in accordance with County fee policy.

Table 1: Fee Service Cost Recovery Rates and Revenues

Fee Service Area	Total Costs, User Fee Services	Current Revenue		Proposed Fee Revenue		Increased Revenue	Proposed GFC Subsidy
Petroleum	$ 620,000	$ 370,000	61%	$ 620,000	100%	$ 240,000	$ -
Planning	4,830,000	3,480,000	72%	4,590,000	95%	1,120,000	240,000
Building & Safety	5,090,000	3,680,000	72%	5,050,000	99%	1,400,000	35,000
Film Permits	130,000	80,000	61%	130,000	99%	50,000	-
Total	**$ 10,670,000**	**$ 7,610,000**	**71%**	**$ 10,390,000**	**97%**	**$ 2,810,000**	**$ 275,000**

Note: Revenues in the table above include surcharge amounts. Numbers may not sum due to rounding.

Proposed changes to surcharges and additional costs are summarized in Table 2 below. Revenue generated through surcharges funds general plan maintenance in the Long Range Planning division, technology maintenance and upgrades to support and improve the permit process, and records management services to finish developing and maintain a publicly accessible digital permit library. In addition, a portion of this revenue will be used to support building and grading code enforcement operations.

Table 2: Surcharges and Additional Costs

	Current Recovery	Actual Costs	New Revenue
Technology Management	$ 150,000	$ 190,000	$ 40,000
General Plan Maintenance	190,000	200,000	10,000
Records Management	-	20,000	20,000
Building and Grading Code Enforcement	-	170,000	170,000
Total	$ 340,000	$ 580,000	$ 240,000

General permit revenue will, in part, support programs that were reduced or eliminated during years of budget deficit to once again build them up, including staff training, professional development, and strategic planning. Because revenue estimates assume full staffing levels and permit workload consistent with prior years, actual permit revenue under the new fee structure may vary from the estimates provided depending on actual staffing and workload levels. Any significant differences in revenues will be evaluated in collaboration with the CEO's Office to determine if any budget action is necessary.

Special Instructions:

Direct the Clerk of the Board to return a fully executed copy of the adopted Ordinance and minute order to the Planning and Development Department, Attention: Rachel Lipman.

Planning and Development will provide adequate public notice of the hearing.

Attachments:

A. Ordinance and fee schedules
B. Fee Study Report
C. CEQA Notice of Exemption

Authored by:

Rachel Lipman, Planning and Development
Steve Mason, Planning and Development