TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: MARCH 5, 2002 CMR: 164:02

SUBJECT: DEVELOPMENT CENTER COST RECOVERY ANALYSIS AND RECOMMENDATIONS

RECOMMENDATION
Staff recommends that the Finance Committee recommend to the City Council the following actions with regards to the Development Center:

- raise the mandated cost recovery levels for Fire Department services from 75% to 100%;
- confirm current mandated cost recovery levels for other departments; and
- direct staff to submit adjusted fees with the 2002-03 budget to align each department more closely with its mandated cost recovery level.

BACKGROUND
In September 1998, staff presented City Council with a report (CMR:368:98) outlining the results of a space utilization study for a one-stop Development Center. The study recommended that Council approve a lease agreement and additional funding for new space to be used for a Development Center across the street from City Hall. The City Council approved the additional funding and directed staff to follow up with an analysis and recommendation for changes to fees to achieve full cost recovery for the Development Center.

In February 1999, staff reported on the findings (CMR:135:99), including a detailed analysis of costs and revenues associated with the Development Center; a discussion of the calculation of citywide overhead costs; an examination of previous levels of cost recovery mandated by the Council for services to be offered at the Development Center; and a review of how other communities were managing their development–related services. In addition, the report recommended that the City Council direct staff to:
1. Implement fee increases as an interim measure to minimize the support required by the General Fund to pay for the additional lease costs.
2. Undertake an update of a user fee study last performed in 1990 specifically for the fees charged at the Development Center, and return to Council with recommendations for revisions to cost recovery levels and fee adjustments.
3. Revisit the City’s cost recovery policies and return with revised cost recovery proposals, along with an improved methodology for calculating cost recovery for the Development Center.

In March 1999 (CMR:175:99) and April 1999 (CMR:199:99), staff recommended, and Council approved, revisions to the City’s Municipal Fee Schedule to fully cover ongoing costs associated with services provided at the Development Center. To ensure the City's compliance with state law mandating cost recovery levels for certain fees, the City contracted with a third party vendor, DMG Associates (now MAXIMUS), to do further cost/revenue analysis relative to services provided at the Development Center. The goal of the study was to determine whether the approved fee increases would result in enough revenue to both meet City policy regarding cost recovery levels and cover the increased costs associated with the lease agreement.

DISCUSSION
The Development Center is composed of staff from four departments in the City: Planning and Community Environment, Public Works, Fire, and Utilities. The Utilities staff is excluded from the analysis in this report because it is supported by utility rates rather than by the General Fund, and because the Utility Department pays its pro-rated share of rent, which has been accounted for in the analysis.

Current cost recovery levels were set by Council in 1990. That year, the Council adopted staff’s recommendations regarding appropriate cost recovery levels for various types of City services. These levels were developed after public hearings and committee meetings. The recovery levels recommended were based upon the type of service offered. Public services (providing general benefit to the public) were set at zero cost recovery; individual services (providing benefits that accrue to those who consume them) were set at 100 percent cost recovery; and merit services (providing benefits for both the individual user and the community at large) were set ranging from 1 to 99 percent cost recovery.

The current fee analysis of the fees, also performed by DMG-Maximus, was broken into four separate categories:

A. Activities occurring at the Development Center that are specifically related to Building Inspection and Plan Checking;
B. Other activities occurring at the Development Center;
C. Activities performed by off-site staff in support of Building Inspection and Plan Checking activities at the Development Center; and
D. Activities performed by off-site staff in support of other activities occurring at the Development Center.

It must be noted that all of category (A) activities above (Building Inspection and Plan Checking) have a mandated 100% cost recovery level. That is, fees generated are required to fully pay for the cost of these services. Similarly, all category (C) activities share that 100% mandated cost recovery level, since these personnel and overhead costs are part of the cost of Development Center services.

Some of the activities in category (B) have a mandated cost recovery level of 100% (e.g., Public Works' encroachment permits, street opening permits, and certificates of compliance), while others have a mandated cost recovery level of 0% (e.g., flood zone inquiries handled by Public Works, and code enforcement handled by Planning). Category (D) activities have the same mandated cost recovery levels as the specific Development Center activities they support.

The DMG-MAXIMUS analysis focused on the 1999-00 fiscal year. Staff decided to perform the analysis for the 2000-01 and 2001-02 fiscal years, to provide a multi-year perspective to Council. The 2000-01 and 2001-02 analyses replicated the methodology used in the MAXIMUS analysis, with the following exception: for 2001-02, staff used adjusted budget figures rather than actual full-year expenditures, since the latter were not available.

The main conclusions of the analysis are:

1. The Planning Department’s Building Inspection and Plan Checking activities, as well as its overall Development Center services, are generally at or above mandated cost recovery levels (at an average level of 95% compared to 90% mandated levels).
2. All the Public Works Department’s Development Center services are below mandated cost recovery levels (combined level of 22% versus 83% mandated levels); and
3. The Fire Department’s Development Center services are well above mandated cost recovery levels (132% compared to 75% mandated levels).
4. Overall cost recovery levels meet mandated levels (89% versus 88% combined mandated level).

The following summary sheet represents average recovery levels for the three fiscal years analyzed:
## Development Center Cost Analysis

### 3-YEAR AVERAGE

<table>
<thead>
<tr>
<th>Building Inspection &amp; Plan Checking</th>
<th>Mandated Cost Recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Planning</td>
<td>$3,508,429</td>
</tr>
<tr>
<td>Public Works - onsite</td>
<td>$113,693</td>
</tr>
<tr>
<td>Fire</td>
<td>$309,981</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,131,840</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Development Center Services</th>
<th>Mandated Cost Recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Planning</td>
<td>$3,908,706</td>
</tr>
<tr>
<td>Public Works</td>
<td>$566,854</td>
</tr>
<tr>
<td>Fire</td>
<td>$309,981</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,785,541</strong></td>
</tr>
</tbody>
</table>

### Public Works Department

The Public Works Department performs building permit plan checking activities in support of the Planning Department. This support was initially to ensure that plans complied with the former scope of the old grading and excavation ordinance. Public Works did not set a fee for these activities because staff time spent on these activities was initially minor. Over the last few years, however, the scope of Public Works’ building permit plan-checking activities has grown extensively due to the following regulations and development of major projects in the City:
• Compliance with the Federal Clean Water Act and the State Storm Water Pollution Prevention Program;
• Compliance with the City’s 1999 Grading and Excavation Ordinance;
• Revisions to the Special Flood Zone map and regulations;
• Redevelopment of the Stanford Research Park. Checking plans for the large and complex office structures occupying up to 10-15 acres of land has proven time consuming.

Public Works department fees need adjusting, to bring actual cost recovery levels closer to 100%. Staff will return with fee changes and new fees for the 2002-03 Municipal Fee Schedule. It is anticipated that these fees will be a percentage of the assessed building permit fee, modeled after the existing fee assessed by the Fire Department. In addition, fees for permits currently issued by the Public Works Department will be re-evaluated to bring their fees for other Development Center services closer to 100% cost recovery.

Staff anticipates that the overall impact of the relevant fee changes for 2002-03 will be a revenue increase of between $250,000 and $350,000.

Planning and Community Environment Department
Fiscal year 2000-01 saw an unusual spike in both Planning Department and Fire Department fee revenues. This was due to the unusually robust economic climate. In the current fiscal year (2001-02), Planning has experienced continued high levels of permitting activity and revenues, whereas the Fire Department has experienced a fall-off in activity. This seems to be due to the fact that the Fire Department’s activities consist primarily of reviewing plans for commercial and industrial occupancies -- which have tapered off due to the economic downturn. In contrast, the Planning Department's activities include both residential and a broad range of commercial projects. Building permit revenues through December 31, 2001 are 13% higher than the same period last year and 10% over budget.

Staff will be looking at lowering fees for Planning and Community Environment Department services where current cost recovery levels exceed mandated levels.

Fire Department
Staff recommends that Council raise the mandated cost recovery levels for Fire Department services from 75% to 100%. The 75% mandated recovery level seems to be an inadvertent carryover of Hazardous Materials Program cost recovery levels. The Hazardous Materials Program is an inspection and annual permitting program for facilities that use or store hazardous materials, whereas Development Center projects are one-time permits that generally do not involve hazardous materials. Hazardous Materials Program recovery levels were set in the 1990 cost recovery process and do not relate to Development Center services. The Fire Department's Development Center services fit well within the realm of
services benefiting individual entities, and therefore requiring full cost recovery. Since current cost recovery levels exceed 100%, the change would not involve raising fees.

Staff will be looking at lowering Fire Department fees for Development Center services where current cost recovery levels exceed 100%.

**RESOURCE IMPACT**
For fiscal year 2001-02, there is no anticipated resource impact to the City resulting from the recommendations in this report. For 2002-03, staff will present specific revenue impacts when presenting proposed fee changes for Development Center services.

**ENVIRONMENTAL IMPACT**
The scope of this staff report is not a project under CEQA.

**ATTACHMENTS**
Attachment A: Text of MAXIMUS report
Attachment B: Development Center Cost Analysis, 2000-02

**PREPARED BY:**
NANCY NAGEL
Senior Financial Analyst

**DEPARTMENT HEAD APPROVAL:**
CARL YEATS
Director, Administrative Services

**CITY MANAGER APPROVAL:**
EMILY HARRISON
Assistant City Manager