



STAFF REPORT

AGENDA ITEM NO: 10b

MEETING DATE: April 1, 2019

To: Honorable Mayor and City Council

Date: April 1, 2019

From: Carol Augustine, Finance Director – (650) 558-7222

Subject: Adoption of a Resolution of Intent to Amend the City of Burlingame Master Fee Schedule for the 2019-20 Fiscal Year; Set the Public Hearing for Such Amendment for May 6, 2019; and Approve Revision to the City's User Fee Cost Recovery Policy

RECOMMENDATION

Staff recommends that the City Council review and discuss staff recommendations for changes to the City's Master Fee Schedule for fiscal year 2019-20, and establish a Public Hearing for May 6, 2019 in connection with updates to the document. In addition, staff recommends that the City Council approve a minor revision to the City's Use Fee Cost Recovery Policy.

BACKGROUND

The City Council has traditionally approved a Master Fee Schedule as part of the budget process so as to reflect the annual increase in costs that is anticipated in the upcoming fiscal year. The fee adjustments are not automatic. They require an annual review and approval by the City Council. An annual review and update ensure that fees reflect current costs to provide services, allow the addition of fees when applicable for new City services, and provide for the elimination of fees for discontinued services.

A comprehensive cost allocation plan (CAP) and user fee study assists the City in determining the actual cost of providing City services, and helps the departments establish appropriate user fees. The most recent CAP and updated Cost of Services study assisted departments in determining the actual cost of providing City services/programs paid for by user fees, based on the FY 2015-16 operating budget. As is often the case, the Cost of Services study revealed dramatic differences between actual costs and the fees charged to recover those costs. In order to allow more gradual increases to the fees charged for City services, and to fully incorporate Council input and comments on the establishment of user fees, the Master Fee Schedule has been adjusted in recent years to better align fees *with a level of cost recovery appropriate for the various services being offered*. The City Council's direction allowed staff to develop the User Fee Cost Recovery Policy, which provides values-based and data-driven guidance for setting fees relative to the cost of the various services offered by the City. The policy was adopted in June of last year.

As noted in the Cost of Services study, to raise all fees to achieve 100% full cost recovery is not feasible or desirable. In recognition that City services are funded through a combination of user fees, taxes, grants, and donations, the User Fee Cost Recovery Policy distinguishes between services that provide a high level of community benefit, as opposed to those that provide benefit mostly to the individual receiving the service. Of course, many City services provide a blend of community and individual benefit, making it difficult to determine how each service should be funded. In establishing the appropriate level of cost recovery, the formal policy now helps guide departments in establishing fees for all City services.

City fees should therefore reflect varying rates of cost recovery amongst departments, and amongst programs within each department, due to the wide variety of services provided. For departments that provide social or public safety services, policy concerns and market factors (as opposed to actual costs) tend to influence fee levels more than for other types of services.

DISCUSSION

California law gives cities the ability to impose fees for governmental services when an individual's use of the City service is voluntary, and the fee charged is reasonable to the level of service and the cost of providing the service.

In general, the City's Master Fee Schedule reflects user fees that are intended to represent **100% cost recovery of fully burdened rates**, with the exception of user fees that are highly sensitive and promote citizen engagement. Fully burdened rates include the cost of direct labor (direct staff time spent on the service), indirect labor (administrative and supervisory time), and central services overhead (other budgetary support for the department providing the service). To reflect general cost increases, some fees were increased last year based on the Bay Area Consumer Price Index (CPI), which increased 3.6% from February 2017 to February 2018. The CPI increased 3.5% as of February 28, 2019 as compared to the prior year.

Because the User Fee Cost Recovery Policy documents an appropriate cost recovery level for all City services, the policy itself does not require an annual review. All fees in the Master Fee Schedule are reviewed annually to ensure that the cost factors associated with each service have not deviated significantly from the prior year. If significant changes have occurred, the departmental staff will reassess the cost factors and propose an adjusted fee in line with the appropriate cost recovery level. For all other services, an adjustment based on the current CPI (Consumer Price Index) should suffice to keep fees in line with the cost recovery level indicated in the policy. For this reason, staff recommends that the policy be revised to specify that the CPI-San Francisco Area for the month of February be referenced for this purpose. A red-line copy of the User Fee Cost Recovery Policy is attached to this staff report.

Pursuant to State law, certain fees to be charged by the Planning and Building Divisions, the Fire Department, and the Engineering Division of the Public Works Department cannot become effective until 60 days after adoption of the adjusted fees as delineated in the attached Master Fee Schedule. Staff is requesting that a Public Hearing for the update of the City of Burlingame's Master Fee Schedule be established for May 6, 2019. The intent is for the new

fees to become effective July 1, 2019, except for these development-related fees. These will be effective July 5, 2019.

Proposed changes to the Master Fee Schedule for the upcoming fiscal year are summarized below, by department.

Administration

Administrative Services primarily provides support to other City departments, and therefore the fees were not reviewed in the 2015 user fee study. Staff recommendations for changes are based on staff's analysis of the cost of the service or activity.

Although certain city-wide administrative fees and fees charged by Finance and the City Clerk's Office have been increased from time to time by CPI, certain fees that are established as a fixed dollar amount (such as *Filing of Nomination Papers*) cannot be increased. There are no fiscal year 2019-20 fee changes recommended for the City's administrative departments.

Building

As with many comparably-sized cities, Burlingame's building permit fees are largely based on a project's valuation, adjusted by criteria that define the scope of work. Specific services that are required beyond the actual permitting process are funded through "unit fees". For the most part, the Cost of Services Study in 2015 evaluated only the unit fees for services provided by the Building Division. Since the time of the study, staff has not proposed changes to those building permit fees based on total valuation, finding them to be consistent with other jurisdictions that use total valuation for setting these rates, and adequate in covering City costs. Note that all activities of the Building Division are accounted for in the City's Building Fund, a separate enterprise fund.

This year, staff's recommended changes focused largely on fees based on per-hour charges for inspections and plan checks. These unit fees are proposed to be increased by the 3.5% CPI.

Engineering

The Engineering Division charges fees for development-related services including Improvement Planning Application Reviews; Encroachment Permits; Construction, Demolition and Grading Permits; and Subdivision Maps. Many of the fees were increased over the past few years to provide greater cost recovery. This year, most of the fees charged for engineering services are proposed to be increased by a CPI of 3.5%. There are two exceptions to this general increase.

In addition to the base fee for encroachments for *sidewalk/driveways over 200 square feet*, the additional cost for the incremental square footage has increased from \$0.36 to \$1.00, as this cost had not been increased for many years. The City's costs do increase incrementally to inspect larger sidewalk pour, which often require additional inspections that are not accounted for in the current fee rate.

In examining current rates for deposits or bonds for encroachment work, it was determined that the amounts for *openings in the public right-of-way in the sidewalk* (not in the street) do not reflect the true cost of the construction in the event the permittee defaults and the City has to complete the work. The deposit was increased from \$10.00 per square foot in the sidewalk area to \$25.00 per square foot.

Library

The City of Burlingame's Library is a member of the Peninsula Library System (PLS). Service rates and fines are largely coordinated throughout the system by the PLS Administrative Council.

However, fees particular to the Burlingame Library were reviewed for purposes of the annual Master Fee Schedule update. Changes are proposed in the area of facilities rental. In each case of rental (whether it be for the Lane Community Room, the Tech Media Lab, or the Upper Level meeting room), the existing room fee plus the tech assistance fees were added to create a new room fee total. The new fees are consistent with user needs, as many groups who say they do not require technical assistance ask for such assistance after the fees have been paid, and the appropriate staff may not be immediately available. Therefore, staff recommends that the room rentals be "packaged", and technical assistance always be available.

Several fees were added to the proposed fiscal year 2018-19 Master Fee Schedule for the purchase of products made available to patrons as a library service. However, the demand for *USB flash drives, ear-bud headphones, and cloth shopping bags*, all priced at the City's cost, was not significant enough to warrant retaining an inventory of these items. As the Library will no longer be making these items available for sale, these fees should be removed from the City's Master Fee Schedule.

The only other change in Library Fees is from the passport service. For express mail service, the actual, current rate for USPS Priority Mail service will now be charged.

Parks and Recreation

Most fees related to Parks and Recreation services have been adjusted by the CPI to retain fees at the level of cost recovery provided in the User Fee Cost Recovery Policy. Two fees were added to reflect the availability of the *West End Picnic Area* for use by residents and non-residents (in addition to the fee for non-profit groups only, previously included). In addition, the distinction between the fee for a *Memorial Bench* in Washington Park and the same fee at Bayside Park has been removed. A fee of \$3,000 for a memorial bench at either location has been established, based on the cost of the bench, plus labor and installation costs.

Planning

For many of the permits and services provided by the Planning Division, full cost recovery is justified, as these development activities are driven by an applicant or property owner who will benefit from the service. Therefore, the fees for most Planning services are recommended to be increased by the CPI of 3.5% for fiscal year 2019-20. The fees for *Design Review*, *New Construction* services, however, needed to be restructured to provide a more accurate measure of cost, and consequently cost recovery, for larger projects. Additional staff time is required to process applications for multifamily residential units and larger commercial projects; providing tiers for design review services allows a better alignment of fees to the actual costs of these services.

Similarly, in the area of environmental fees for development projects, a handling fee has been added for services related to projects for which an Initial Study/Mitigated Negative Declaration (IS/MND) is sufficient (as opposed to requiring an EIR). EIRs require a 20% handling fee to cover staff time for processing, but the costs of processing IS/MNDs is not currently recouped. Staff is proposing a 10% handling fee to cover the cost of staff time involved in managing these planning processes.

Fees established by the California Department of Fish and Wildlife (collected and passed-through by the Planning Division) have been updated to reflect adjustments by that agency effective January 1, 2019.

Commercial Linkage Fees, adopted in June 2017, and *Residential Impact Fees*, scheduled for adoption on April 1, 2019, established to address the community's need for workforce housing, have been added to the Master Fee Schedule proposed for fiscal year 2019-20. Note that most other development impact fees have not been changed. Changes to the *Bayfront Development Fee* and *North Burlingame & Rollins Road Development Fee* are both based on the construction cost index published in the Engineering News Record (ENR) as of July 1st of each year, and are therefore reviewed/updated on a different schedule than other Planning Department fees in the Master Fee Schedule. The *Public Facilities Impact Fee* ordinance provides for no annual escalator/index. Only the *Burlingame Avenue Parking in Lieu Fees* (per parking space) are recommended to be adjusted by CPI as of February 28, 2019.

Police

The Cost of Services Study in 2015 revealed an overall cost-recovery rate of 17% for Police Department services. None of the fees had been set to recover the full cost of service, providing a significant subsidy to fee payers. This was a largely anticipated result in that police services are generally provided out of public funds for the benefit of the public at large. However, the User Fee Cost Recovery Policy does identify a limited range of activities where it is appropriate for the department to set charges to fully or partially recover costs. A CPI increase has been applied to most fees to retain the appropriate cost recovery in the policy.

One fee was added in the area of Live Entertainment Permits – a *Single Event Entertainment Permit* is provided for in the Municipal Code (§ 6.16.090), but was not previously included in the Master Fee Schedule.

Public Works - Sewer and Water Utilities

Water rates were amended effective January 1, 2017, with the adoption of an ordinance that established increases for three years. Based on a rate study by Bartle Wells Associates Consultants, the rates were designed to generate the equivalent of a 9% increase in rate revenues in calendar year 2017, and a 7.5% increase for each of the next two years. The rate increases were necessary to cover the wholesale cost of water to the City, as well as capital improvements to the system.

In the proposed Master Fee Schedule for fiscal year 2019-20, changes were made for water services to reflect the increases that were approved and implemented in compliance with Proposition 218, and effective January 1, 2019.

The only sewer utility services where increases are proposed are in *Sewer Connection Fees*. To keep up with the costs of these connections, the fees are adjusted to conform to the Engineering News Record Construction Cost Index for San Francisco each year (4.359% as of January 1, 2019).

Other Fees

Fees for Fire services are established by the Central County Fire Department (CCFD). As a separate JPA that is funded by the City of Burlingame, the Town of Hillsborough, and the City of Millbrae, CCFD fees are separately adopted by the CCFD Fire Board with the Department's operating budget. The City will amend the Master Fee Schedule once any adjustments to the CCFD fees have been approved by their board, and they will be effective July 1, 2019.

Animal Control fees are set by the County of San Mateo. As the structuring of these fees, as well as the timing of fee updates, is not under the City's control, these fees were removed from the City's Master Fee Schedule. However, a link to these fees, provided at the County's Animal Control website, has been included.

FISCAL IMPACT:

The recommendations presented by staff in this report ensure not only that charges keep pace with the costs of providing certain services, but that they are also competitive with comparable programs (where applicable) and are responsive to demands for the service within the community. The changes to the fee schedule should result in some additional revenue in the new fiscal year. However, the actual amounts are difficult to calculate because the use of some services is voluntary, and the volume of activity varies.

Exhibits:

- A Resolution of Intent of the City Council of the City of Burlingame to Amend the Master Fee Schedule for City Services
- City of Burlingame Proposed Master Fee Schedule for fiscal year 2019-20
- DOL Consumer Price Index, San Francisco Area — February 2019
- Revised User Fee Cost Recovery Policy