

City of Morgan Hill Development Services Fund 206 Analysis

August 7, 2024 DRAFT

(Revised to base comparison of fees with FY24-25 Fees, effective July 1, 2024)

Table of Contents

Executive Summary	3
Background	5
Land Use Permitting / Development Services	
Cost Recovery Model	
Best Practices	
Objectives	8
Methodology	9
Prior Fee Studies	
Budget Alignment	
Key Elements	10
Staff Team Composition	
Fully Burdened Hourly Rate	
Hours per Service	
Conclusions	20
Cost Recovery Revenue Projections	
Stakeholder Input	
City Comparisons	
Policy Considerations	

Executive Summary

Based on the analysis summarized in this report, the City of Morgan Hill is proposing to update the City’s fees for land development permits issued by Planning, Engineering Land Development (a part of the Public Services Department), and Building programs. Fees for service are determined based upon two primary variables:

- Fully Burdened Hourly Rate (FBHR)
- Number of hours to perform the service (Hours per Service)

This analysis indicates that both the FBHR and the Hours per Service should be increased to implement a 100% cost recovery fee program. The FBHR is proposed to be adjusted based on changes to the current staffing composition, employee pay rates, program administrative costs, and Citywide overhead rates. The Hours per Service for each permit have been reviewed by staff and adjusted in this study to align with the amount of time currently spent by staff in the review and issuance of these permits.

In summary:

- Proposed FBHR increases are 53% for Planning, 49% for Engineering Land Development and 9% for the Building programs. (The Building Program includes Fire code permits.)
- Average permit fees increase by various amounts, ranging from 8% for Electrical permits issued by the Building Department up to 119% for Planning permits.
- Based upon projected activity levels by permit type, fees collected are expected to increase on average by program from between 9% for Mechanical, Electrical and Plumbing permits to 131% for Planning permits.
- The proposed increases to the FBHR and permit fees correspond to a 100% cost recovery model as established in the following analysis.

Proposed Change to FBHR	2024 Current	2024 Proposed	% Increase
Planning	\$253	\$387	53%
Engineering Land Development	\$248	\$370	49%
Building / Fire	\$234	\$256	9%

Average Permit Fee Increase	Unweighted	Weighted by Volume
Planning	119%	131%
Engineering Land Development	62%	51%
Building Permits	27%	33%
Building Plan Check	110%	92%
Building - Mechanical	9%	9%
Building - Electrical	8%	9%
Building - Plumbing	9%	9%
Fire	40%	14%

*Revised based on FY24-25 Fees, effective July 1, 2024

Planning permit fees increase by the greatest margin due to the increased Planning program FBHR and a significant increase in Hours per Service for most planning permits. Planning staff carefully reviewed the Hours per Service used in the two prior Fee Studies and determined that they significantly underrepresented the actual amount of time spent by staff to process each permit.

Engineering Land Development fees also increase significantly, due in large part to the increased Engineering Land Development FBHR, along with more modest increases in the standard Hours per Service.

Building Permit fees have a less significant increase, correlating mostly with the modest increase in the Building program FBHR. However, plan check fees have increased more significantly, particularly for projects that include review by Engineering Land Development and Planning, due to increased FBHR for both programs and increased Hours per Service for Engineering Land Development. Fire reviews have also increased more significantly, due to increased Hours per Service.

(Information from mid-August stakeholder outreach will be added when available.)

Background

Land Use Permitting / Development Services

The City of Morgan Hill exercises regulative authority over land use activities within the City, including new construction, alterations to existing structures, and new land uses. This authority is implemented through the issuance of land use permits that ensure construction and land use activities conform to local, regional, and state policies and regulations. Permits are issued by different departments or discipline areas within the City, focused on planning (land use policy and zoning requirements), building (Building Code) and engineering (interface with public infrastructure). These three programs are referred to as Planning, Building and Engineering Land Development respectively. Collectively, they may be referred to as Development Services.

Per the City’s website, these three programs have the following purposes:

- The **Planning Division** performs a variety of services intended to protect, maintain and develop an attractive, safe, and healthy environment. The Planning Division is responsible for review/approval of Design Permits, Use Permits, Zoning changes, etc., including fulfillment of environmental review as required under the California Environmental Quality Act (CEQA). Many of these approvals are discretionary in nature and may require action to be taken by the City Council or Planning Commission.
- The **Building Division** serves the residents and developers within the City by answering general questions, providing plan review services, issuing grading and building permits, and much more. The Building Division is responsible for the issuance of Building Permits and Fire Permits and inspection of construction activities.
- **Engineering Land Development** provides development review/inspection services. It oversees all construction activities that pertain to the infrastructure constructed by developers within the City. Engineering Land Development is responsible for review/approval of Improvement Plans, Street Vacations, Final Subdivision Maps, etc. Engineering Land Development further reviews and inspects all onsite privately owned storm water treatment and detention/retention facilities in compliance with State mandates.

Cost Recovery Model

According to State law, local municipalities like the City of Morgan Hill, are allowed to establish fees for services such as the issuance of land use permits. The fee charged to an individual applicant should correspond to the general cost of delivering the corresponding service. For example, a Building Permit fee can be charged to pay for the work required to review and issue a Building Permit, including administrative activities for the permit, review of the proposed construction for consistency with the Building Code (plan check) and subsequent inspections by a Building Inspector to verify that construction is taking place consistent with the plans approved for the Permit.

Best Practices

In general, the City may choose to pass 100% of the costs for permitting services on to the applicants who are required to obtain a permit for a proposed land use. The costs for these services include front line staff costs (a proportional share of the salary and benefit costs for staff working directly on the issuance of permits), supplies and equipment (e.g., computers, stationary, vehicles, etc.), administrative staff costs (proportional share of management or support staff who enable the productivity of the front-line staff), and citywide overhead (e.g., building maintenance, IT, etc.). The City may elect to bear some of the costs of permitting through the use of other revenue sources, such as the City’s General Fund, which may consist of

monies collected from property, sales and hotel taxes. Attempting to fully fund permitting program costs through permit fees is referred to as a 100% cost recovery fee model.

To operate a 100% cost recovery fee program, the City must conduct periodic studies to quantify the exact cost of service delivery. These studies include an analysis of the Fully Burdened Hourly Rate (FBHR) as well as the typical number of hours (Hours per Service) required to process a permit. For the Hours per Service, it is permissible to utilize averages based on typical procedures in terms of hours spent in review, number of meetings or public hearings, number of inspections, etc. The FBHR is determined by calculating the true cost for an employee's hour of work. The Hours per Service are based on the experiences of City staff in processing recent permits. The product of the FBHR and Hours per Service is the standard fee for a particular permit. The permit fees are listed by type on a Fee Schedule so that applicants may know anticipated fees to process an application for a land use permit.

Like many cities, Morgan Hill typically increases fees annually using a generic inflationary rate. However, actual employee costs can change significantly independent of the general economy due to changes in staff team composition, salary rates, and other factors. Periodic review allows the fee levels to be set more accurately at the actual service cost.

Permit fees should not exceed the typical cost for the corresponding type of permit, or else they may be considered a form of taxation. On the other hand, if fees are less than 100% cost recovery, the cost of the permitting activity is being born (or subsidized) by some other funding source. A municipality may elect to charge a fee less than the amount required to fully cover the cost of the service (e.g., a cost recovery rate less than 100%), but should do so through a decision-making process that accounts for an alternative funding source to replace any fees not collected. If some fees are disproportionately high while others are low, the permittees paying the higher fees are subsidizing those paying the lower fees.

A 100% cost recovery program should generate a positive revenue balance for fee revenue when considered on an annual basis. In particular, the review and inspection of Building permit projects can take place over multiple fiscal years while fees are collected only at the beginning of either the plan check or building permit process. It is thus necessary for the City to maintain a positive balance across multiple fiscal years to cover the costs of work performed in a fiscal year subsequent to the fiscal year in which the corresponding revenue was collected. Planning and Engineering Land Development reviews may also cover multiple fiscal years, but to a lesser degree. Further, there may be fluctuations in the fund balance that are a result of the unpredictable increases and decreases in the demand for land use permits. Maintaining this slight buffer allows the City to retain experienced staff and overall productivity levels when construction activity and associated permit revenue drop.

While a time and materials fee could be the most precise means of tracking and collecting fees for full cost recovery, this approach creates significant administrative overhead. As a result, municipalities typically set fees based on the average cost of processing a type of permit, with time and materials fees only used for more unusual circumstances.

A 100% cost recovery approach may include limited exceptions for either legal or practical reasons. For example, if the City provides an appeal process for community members to challenge land use decisions, a substantial fee to file the appeal could be considered an undue burden on due process. As another example, the City may elect to subsidize a particular permit where a fee set at 100% cost recovery would discourage compliance with City regulations or unfavorably discourage land use activity. Typical examples

of Planning permits subsidized by cities include use permits for non-profit entities conducting a community event or a tree removal permit for a single-family homeowner.

Objectives

The City of Morgan Hill undertook this analysis to specifically review and propose updates to the permit fees for the City’s Development Services activities and to align with the requirements for a 100% cost recovery fee program. Previously the City contracted with a consulting firm to conduct fee studies in 2021 (Planning and Engineering Land Development) and 2017 (Planning, Building and Engineering Land Development).

Since 2021, Planning and Engineering Land Development fees were increased annually based on a standardized inflationary adjustment. While Building Permit fees were not adjusted in the same manner, this was offset by the use of project valuation as an input to the Building Permit Fee. Project valuation, an estimated cost of construction for the project, increases periodically based on data collected by the construction industry on actual construction costs. Because Building Permit fees are calculated as a percentage of the expected construction costs (referred to as project valuation), they automatically increase as construction prices increase.

In addition to a desire to follow the best practice of periodic permit fee updates, the City was motivated by a desire to improve the fiscal stability of the Development Services Fund programs by better aligning revenues with actual costs. Fund 206 is used in the City’s budget to track revenues and costs for Development Services, including Planning, Engineering Land Development and Building programs. Through the City’s 2024-2025 budget process, it was noted that Fund 206 was continuing to operate in a deficit situation such that the City was forced to use General Fund money to cover some portion of the cost of Development Services.

Furthermore, as a best practice, the City has the objective of addressing changes in staffing composition, overhead costs, and permit procedures that had been implemented since the most recent fee studies and which could affect the cost of the Development Services permit program. Changes to staffing and overhead costs occur through the biennial adoption of the City’s operating budget. Changes to permit procedures result from changes in State law as well as local land use regulations, and include the suspension of Morgan Hill’s Residential Development Control System (RDCS) and a new preliminary review process brought on by the adoption of SB 330.

Methodology

Prior Fee Studies

Cities routinely conduct Fee Studies to support cost recovery fee programs, often with the assistance of an outside consultant. The nature of these studies is fairly routine, although their structure can vary significantly in terms of approach and detail. This particular analysis directly relies upon the methodology established in the City's two most recent Development Services Fee Studies, both of which were prepared by the same consultant and used the same methodology to determine an aggregate Fully Burdened Hourly Rate (FBHR) for each of the three main programs (Planning, Engineering Land Development and Building) and then to apply that rate to an aggregate of the number of hours for each enumerated permit included on the City's Fee Schedule. The following report provides a more detailed description of each step in this process.

Budget Alignment

As noted above, the City is using an aggregate FBHR for each program within Fund 206. This approach aligns well with the structure of the City's budget, which assigns staff on a proportionate basis to each program. For example, a portion of the funding for several positions (e.g., City Manager, Development Services Director, Assistant City Attorney, Management Analyst, etc.) are assigned within the City's budget to each of these programs. These positions or portions of these positions then become an administrative cost within the overall staffing cost for each program, rather than a specifically enumerated cost that is considered when determining the Hours per Service. An alternative approach would be to separate out one or more of these positions, calculate a separate FBHR specific to the position, and then allocate time specifically to that position at the specific FBHR. This approach would add both complexity and specificity, and may be desirable for the latter reason, but would not align well with the structure of the City's budget which allocates costs for materials, supplies, overhead, etc., as well as staffing, as an aggregate for each program.

Materials and supplies are included in the City's budget as a line item specific for each program. The Citywide overhead may also include materials and supplies, but in a generalized fashion where each program pays a proportionate share of the City's total costs. Some of the increase in Citywide overhead and corresponding decrease in materials and supplies costs for each program between 2021 and 2024 is attributed to a shift of materials and supplies cost from individual programs to the Citywide overhead.

Key Elements

Staff Team Composition

The following analysis begins with a quantification of the staff resources for each of the three programs. The following tables present the City’s staffing for each of the three Fund 206 programs as set forth in the City’s budget.

The key pieces of information for the fee analysis are the total number of hours spent on each activity and the percentage of those hours spent on each activity for each program. The first table summarizes the distribution between administrative, public information and permit processing for each program. Administrative activities include staff meetings, training, and administrative work such as contract management and supervision. Public information includes time spent in communication with the general public and/or applicants and other stakeholders, either in person, by phone, email or other means. Permit processing time is time available to work directly on the review and issuance of a land use permit. Notably, the Planning program has the greatest share of public information activity, while Engineering Land Development and Building have more hours dedicated to permit processing.

Distribution of Hours	Administrative		Public Information		Permit Processing	
Planning	3,978	39%	2,261	22%	4,026	39%
Land Development	3,023	37%	525	6%	4,703	57%
Building	3,514	22%	564	3%	12,176	75%

The allocation of hours to these different activities are further broken down in the following table. The table identifies staffing by position title and the percentage of that position assigned in the budget to the referenced Fund 206 program (% FTE or % Full Time Equivalent). The percentage of FTE assigned to the program determines how many productive hours are available for the work of the program by the indicated individual. The productive hours for each position, (productive hours being the total number of work hours in a year after subtraction of vacation, sick leave and break time), have been distributed between administrative, public information (counter) and permit processing activities as an indication of how much time is spent by each individual on each.

City of Morgan Hill –Development Services: Fund 206 Analysis
August 7, 2024

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**City of Morgan Hill: Fund 206 Fee Study
FY 2024-2025**

Fund 206 Employee Time Resources

Fund 206 - Planning		Distribution of Work (%)			Distribution of Work (Hours)		
Position	FTE	Admin	Public Info	Permits	Admin	Public Info	Permits
City Manager	0.04	100%	-	-	64	-	-
Asst City Manager Development Services	0.30	64%	21%	15%	314	105	73
Development Services Director	0.30	54%	7%	39%	266	35	191
Senior Planner	1.00	22%	7%	71%	353	120	1,167
Associate Planner	0.80	25%	29%	46%	352	400	643
Assistant Planner	0.80	25%	28%	47%	354	400	673
Development Services Technician	0.05	6%	94%	-	5	81	-
Development Services Technician	0.90	13%	70%	17%	206	1,080	255
Part-Time / Temp	0.50	12%	3%	85%	123	25	852
Economic Development Coordinator	0.10	100%	-	-	168	-	-
Assistant City Attorney	0.17	33%	5%	62%	92	15	172
Business Assistant	0.10	100%	-	-	174	-	-
Municipal Service Assistant	0.80	100%	-	-	1,382	-	-
Management Analyst	0.07	100%	-	-	125	-	-
Total	5.93	39%	22%	39%	3,978	2,261	4,026

Fund 206 - Land Development		Distribution of Work (%)			Distribution of Work (Hours)		
Position	FTE	Admin	Public Info	Permits	Admin	Public Info	Permits
City Manager	0.02	100%	-	-	32	-	-
Public Services Director	0.03	33%	-	67%	16	-	33
Development Services Director	0.10	87%	-	13%	143	-	21
Deputy Director for Engineering	0.15	33%	-	67%	80	-	166
Senior Civil Engineer	0.75	43%	2%	55%	527	30	673
Supervising Civil Engineer	1.00	31%	7%	62%	503	120	1,017
Assistant Engineer	0.50	23%	17%	60%	206	150	540
Junior Engineer	0.75	23%	17%	60%	309	225	810
Senior Public Works Inspector	0.35	16%	-	84%	97	-	502
Senior Public Works Inspector	0.35	16%	-	84%	98	-	510
Environmental Programs Coordinator	0.45	56%	-	44%	453	-	353
Assistant City Attorney	0.07	32%	-	68%	37	-	78
Business Assistant	0.25	100%	-	-	436	-	-
Municipal Service Assistant	0.05	100%	-	-	86	-	-
Management Analyst	-	-	-	-	-	-	-
Total	4.82	37%	6%	57%	3,023	525	4,703

Fund 206 - Building		Distribution of Work (%)			Distribution of Work (Hours)		
Position	FTE	Admin	Public Info	Permits	Admin	Public Info	Permits
City Manager	0.02	100%	-	-	32	-	-
Asst City Manager Development Services	0.05	100%	-	-	82	-	-
Development Services Director	0.20	100%	-	-	328	-	-
Building Official	1.00	40%	2%	58%	663	25	952
Building Division Manager	1.00	24%	-	76%	393	-	1,247
Development Services Technician	0.75	13%	11%	76%	172	140	972
Development Services Technician	0.10	12%	40%	47%	21	69	81
Development Services Technician	1.00	12%	9%	79%	217	165	1,410
Development Services Technician	1.00	12%	10%	78%	212	165	1,335
Building Inspector II	1.00	12%	-	88%	214	-	1,522
Building Inspector II	1.00	12%	-	88%	214	-	1,530
Building Inspector II	1.00	12%	-	88%	217	-	1,575
Plan Check Engineer	1.00	12%	-	88%	216	-	1,552
Assistant City Attorney	0.16	100%	-	-	262	-	-
Business Assistant	0.10	100%	-	-	174	-	-
Municipal Service Assistant	0.05	100%	-	-	86	-	-
Management Analyst	0.07	100%	-	-	125	-	-
Total	9.50	22%	3%	75%	3,514	564	12,176

Notes

DPW Admin hours include floodplain and special projects

Fully Burdened Hourly Rate

The next step in the analysis process was to calculate a FBHR for each of the three programs based on staff team composition and the associated budget. The FBHR reflects the full cost, including all forms of overhead, for one hour of staff work on a permit. The FBHR is calculated by adding up all of the costs required to conduct the permit program, including salary, benefits, administration, public information, equipment and supplies and dividing the total costs by the total number of hours available. Based on this calculation, the analysis supports significant increases to the current FBHR for the Planning and Engineering Land Development programs, and a modest increase for the Building program as shown.

Proposed Change to FBHR	2024 Current	2024 Proposed	Increase	% Increase
Planning	\$253	\$387	\$134	53%
Engineering Land Development	\$248	\$370	\$122	49%
Building	\$234	\$256	\$22	9%

The calculation of the FBHR is the most complex part of this analysis and was carefully reviewed prior to making this recommendation as it will have a significant impact on the fees the City will be charging for new land use permits, and thus make new construction and land use activities more expensive.

The proposed increases reflect changes to:

- Cost of salary and benefits
- Proportion of staff time dedicated to administrative activities
- Availability of productive hours
- Equipment and supplies
- Citywide overhead
- Incorporation of public information costs within the permit program

The relative effect of each of these factors varies by program as discussed below.

Planning Program

The Planning Program FBHR is proposed to increase substantially from \$253 to \$387 per hour for the following reasons.

- 1) Public Information – the biggest factor increasing the FBHR for Planning is the allocation of 50% of the staff time spent on public information activities to the permit fee program. While it is not uncommon for a city to assume that the majority of public information time spent by Development Services staff (e.g., answering questions from potential applicants and/or community members during the workday at the counter, by email or by phone) is directly related to the issuance of permits, the previous two Studies assumed only 10% of this time would be allocated to the permit program based upon a rough estimation made by City staff. For this analysis, the City monitored public information over a two-week period and determined that 52% of the time spent on public information was in direct support of the conduct of the City’s land use permit program. To align with common practice, and with the support of the collected data, the City is proposing to increase the percentage of public information activities covered by permit fees from 10% to 50%. This adds administrative costs to the Planning fee program and thus increases the Planning FBHR.

- 2) Productive Hours – the second largest factor increasing the Planning FBHR is the loss of productive hours from the most recent Fee Study. Administrative costs and overhead are distributed over the total number of productive hours, so that when the number of productive hours is reduced, the FBHR is increased. The drop in productive hours is most notably the result of a reduction in staffing at the Senior Planner level. In the 2021 study the Planning program included two Senior Planner positions with a total of 3,288 productive hours. One position was removed and work duties reassigned so that in the current analysis, the remaining Senior Planner provides only 1,167 hours of productive time for permit processing. This reduction reflects increasing demand upon the Senior Planner to perform administrative tasks related to State Housing and Community Development requirements, the growing complexity of legal and procedural requirements placed upon local land use permitting, and other factors contributing to greater administrative workload.
- 3) Citywide Overhead – The third contributing factor to the increased Planning FBHR is an increase in Citywide overhead assigned to the Planning program. Increased administrative activity contributes as well. The potential increase in the Planning FBHR is somewhat offset by a decrease in the budget for supplies and equipment, but this decrease is also related to a shift in some of these expenses from a direct program specific line item in the budget to incorporation into the Citywide overhead.

Engineering Land Development

The Engineering Land Development Program FBHR is proposed to increase substantially from \$248 to \$370 per hour for the following reasons.

- 1) Citywide Overhead – The most significant factor increasing the Engineering Land Development FBHR is an increase in Citywide overhead for this program, due to a change in methodology for overhead allocation.
- 2) Productive Hours – The second factor for Engineering Land Development is a loss of productive hours. Due to changes in workload and revenue, Engineering Land Development staff were reassigned from Engineering Land Development to the City’s Capital Improvement Program, reducing the productive hours available within the Engineering Land Development program. As with Planning, this results in administrative and overhead costs being borne by a reduced number of productive hours, thereby resulting in a higher FBHR.
- 3) Public Information – The Engineering Land Development FBHR is also increased by a shift in public information hours to the fee program from 30% to 100%. Under current work assignments, all of the public information activities conducted by Engineering Land Development program staff are related to the permit program. This shift in public information has a lesser impact on Engineering Land Development than on the Planning program as the total number of hours for public information is considerably less (525 hours compared to 2,261 hours).
- 4) Labor Costs – The increase in the Engineering Land Development FBHR would be larger except that it is offset by reductions in the overall cost of labor and a reduction in administrative hours.

Building

By comparison to Planning and Engineering Land Development, the Building program has a modest proposed increase in FBHR from \$234 to \$256. While the Planning and Engineering Land Development programs were addressed in the 2021 Fee Study, the Building program was excluded and thus this analysis uses the 2017 Fee Study as a point of reference. This increase is a result of the following factors.

- 1) Labor Costs – The total labor cost for the Building program has increased substantially from the 2017 Study with the addition of new positions in the program.
- 2) Citywide Overhead – Citywide overhead has increased for the Building program and is the second largest factor increasing the Building FBHR.
- 3) Productive Hours – Factors causing increases to the FBHR are significantly offset by an increase in productive hours. The positions added within the program are focused on productive hours rather than administrative activities and thus have a much lesser effect on increasing the FBHR.
- 4) Public Information – Counter hour cost recovery is proposed to increase from 10% to 100% but this has a very minor impact on the FBHR as it is a small part of the Building program workload.

Calculation of FBHR

The following three tables present the calculation of the FBHR for each of the three programs. The FBHR is calculated by distributing program costs (salary, benefits, materials and supplies, and Citywide overhead) proportionately between work hours for administrative, public information, and permit processing activities.

The first category, Employee Services, includes the total cost of salary and benefits budgeted for each program. Overtime costs are subtracted from this total as any time spent as overtime should not be a factor in determining the FBHR for a regular work hour.

Non-Labor / Overhead includes the costs for supplies and materials and the general citywide overhead costs for each program as set in the budget.

The Total for Labor and Non-Labor is a calculation of the proportional cost for each of the three work activities including labor, supplies and materials and citywide overhead.

The fully burdened cost for administrative work hours is then distributed between the public information and permit processing time, so that each bears a proportional cost of the administrative activity.

50% of the public information hourly cost is added to 100% of the permit processing hourly cost to establish the Fully Burdened Hourly Rate (FBHR) for the Planning program. For Engineering Land Development and Building programs 100% of the public information costs are added to the FBHR.

City of Morgan Hill –Development Services: Fund 206 Analysis
August 7, 2024

DRAFT

Fund 206 - Planning	Budgeted Program Cost			Allocation to Activity			
	FY 24-25	Adjustment	24-25 Net Expenditures	Admin	General Public	Permits	Total
Allocation of Labor Factor				39%	22%	39%	100%
Labor Hours				3,978	2,261	4,026	10,265
Employee Services							
Salaries-General	\$ 805,205	-	\$ 805,205	\$ 312,041	\$ 177,357	\$ 315,807	
Salaries-Part-Time Temp	\$ 97,000	-	\$ 97,000	\$ 37,590	\$ 21,366	\$ 38,044	
Salaries-Earned leave	\$ 25,758	-	\$ 25,758	\$ 9,982	\$ 5,674	\$ 10,102	
Overtime-General	\$ 2,500	(2,500)	\$ -	\$ -	\$ -	\$ -	
Benefits (sum)	\$ 377,596	-	\$ 377,596	\$ 146,330	\$ 83,170	\$ 148,095	
Total Labor Cost	\$ 1,308,059	\$ (2,500)	\$ 1,305,559	\$ 505,944	\$ 287,566	\$ 512,049	\$1,305,559
Non-Labor / Overhead							
Supplies & Services Total	\$ 131,440	(8,600)	\$ 122,840	\$ 47,604	\$ 27,057	\$ 48,179	
Capital Outlay Total	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Internal Services Total	\$ 469,490	-	\$ 469,490	\$ 181,942	\$ 103,411	\$ 184,137	
Total Non-Labor / Overhead Cost	\$ 600,930	\$ (8,600)	\$ 592,330	\$ 229,546	\$ 130,468	\$ 232,316	\$ 592,330
Total Labor and Non-Labor	\$ 1,908,988	\$ (11,100)	\$ 1,897,888	\$ 735,490	\$ 418,035	\$ 744,364	\$1,897,888
Allocation of Administrative Costs							
Administrative				\$ 735,490			\$ 735,490
Productive					\$ 418,035	\$ 744,364	\$1,162,399
Productive (%)					36%	64%	
Proportional Admin					\$ 264,505	\$ 470,985	\$ 735,490
Productive + Proportional Admin					\$ 682,539	\$1,215,349	\$1,897,888
Calculation of Billing Rate							
Cost Recovery Target					50%	100%	
Targeted Fee Revenue					\$ 341,270	\$1,215,349	\$1,556,619
Funding from Alternative Source					\$ 341,270	\$ -	\$ 341,270
Productive Hours Available						4,026	
Productive Hour Cost (Billing Rate)					\$ 85	\$ 302	\$ 387

City of Morgan Hill –Development Services: Fund 206 Analysis
August 7, 2024
DRAFT

Fund 206 - Land Development	Budgeted Program Cost			Allocation to Activity			
	FY 24-25	Adjustment	24-25 Net Expenditures	Admin	General Public	Permits	Total
Allocation of Labor Factor				37%	6%	57%	100%
Labor Hours				3,023	525	4,703	8,251
Employee Services							
Salaries-General	\$ 761,819	\$ (11,819)	\$ 750,000	\$ 274,785	\$ 47,721	\$ 427,493	
Salaries-Part-Time Temp	\$ 15,300	-	\$ 15,300	\$ 5,606	\$ 974	\$ 8,721	
Salaries-Earned leave	\$ 44,265	-	\$ 44,265	\$ 16,218	\$ 2,817	\$ 25,231	
Overtime-General	\$ 2,500	(2,500)	\$ -	\$ -	\$ -	\$ -	
Benefits (sum)	\$ 344,090	-	\$ 344,090	\$ 126,067	\$ 21,894	\$ 196,128	
Total Labor Cost	\$ 1,167,974	\$ (14,319)	\$ 1,153,654	\$ 422,676	\$ 73,405	\$ 657,573	\$1,153,654
Non-Labor / Overhead							
Supplies & Services Total	\$ 253,295	(1,250)	\$ 252,045	\$ 92,344	\$ 16,037	\$ 143,664	
Capital Outlay Total	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Internal Services Total	\$ 336,235	-	\$ 336,235	\$ 123,190	\$ 21,394	\$ 191,651	
Total Non-Labor / Overhead Cost	\$ 589,530	\$ (1,250)	\$ 588,280	\$ 215,534	\$ 37,431	\$ 335,315	\$ 588,280
Total Labor and Non-Labor	\$ 1,757,504	\$ (15,569)	\$ 1,741,934	\$ 638,210	\$ 110,837	\$ 992,888	\$1,741,934
Allocation of Administrative Costs							
Administrative				\$ 638,210			\$ 638,210
Productive					\$ 110,837	\$ 992,888	\$1,103,725
Productive (%)					10%	90%	
Proportional Admin					\$ 64,090	\$ 574,120	\$ 638,210
Productive + Proportional Admin					\$ 174,926	\$1,567,008	\$1,741,934
Calculation of Billing Rate							
Cost Recovery Target					100%	100%	
Targeted Fee Revenue					\$ 174,926	\$1,567,008	\$1,741,934
Funding from Alternative Source					\$ -	\$ -	\$ -
Productive Hours Available						4,703	
Productive Hour Cost (Billing Rate)					\$ 37	\$ 333	\$ 370

City of Morgan Hill –Development Services: Fund 206 Analysis
August 7, 2024
DRAFT

Fund 206 - Building	Budgeted Program Cost			Allocation to Activity			
	FY 24-25	Adjustment	24-25 Net Expenditures	Admin	General Public	Permits	Total
Allocation of Labor Factor				22%	3%	75%	100%
Labor Hours				3,514	564	12,176	16,254
Employee Services							
Salaries-General	\$ 1,471,302	-	\$ 1,471,302	\$ 318,085	\$ 51,053	\$ 1,102,164	
Salaries-Part-Time Temp	\$ 15,300	-	\$ 15,300	\$ 3,308	\$ 531	\$ 11,461	
Salaries-Earned leave	\$ 58,569	-	\$ 58,569	\$ 12,662	\$ 2,032	\$ 43,875	
Overtime-General	\$ 5,000	(5,000)	\$ -	\$ -	\$ -	\$ -	
Benefits (sum)	\$ 728,805	-	\$ 728,805	\$ 157,562	\$ 25,289	\$ 545,953	
Total Labor Cost	\$ 2,278,976	\$ (5,000)	\$ 2,273,976	\$ 491,618	\$ 78,905	\$ 1,703,453	\$ 2,273,976
Non-Labor / Overhead							
Supplies & Services Total	\$ 334,440	(45,500)	\$ 288,940	\$ 62,467	\$ 10,026	\$ 216,447	
Capital Outlay Total	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Internal Services Total	\$ 552,546	-	\$ 552,546	\$ 119,457	\$ 19,173	\$ 413,917	
Total Non-Labor / Overhead Cost	\$ 886,986	\$ (45,500)	\$ 841,486	\$ 181,923	\$ 29,199	\$ 630,364	\$ 841,486
Total Labor and Non-Labor	\$ 3,165,962	\$ (50,500)	\$ 3,115,462	\$ 673,541	\$ 108,104	\$ 2,333,817	\$ 3,115,462
Allocation of Administrative Costs							
Administrative				\$ 673,541			\$ 673,541
Productive					\$ 108,104	\$ 2,333,817	\$ 2,441,921
Productive (%)					4%	96%	
Proportional Admin					\$ 29,818	\$ 643,723	\$ 673,541
Productive + Proportional Admin					\$ 137,922	\$ 2,977,540	\$ 3,115,462
Calculation of Billing Rate							
Cost Recovery Target					100%	100%	
Targeted Fee Revenue					\$ 137,922	\$ 2,977,540	\$ 3,115,462
Funding from Alternative Source					\$ -	\$ -	\$ -
Productive Hours Available						12,176	
Productive Hour Cost (Billing Rate)					\$ 11	\$ 245	\$ 256

Hours per Service

The second step in calculating individual permit fees is to determine the number of work hours needed for staff to process the permit. This number of work hours (referred to as Hours per Service) includes activities such as application intake, creation of permit records, review of application materials for consistency with applicable policies and regulations, communications between staff and applicants, conduct of public hearings, writing staff reports and creation of permit documents. This calculation is performed for each permit type the City issues. The Hours per Service for a particular permit is the average number of hours required for these activities to complete the City's processing and issuance of that permit type.

While some Fee Studies calculate the Hours per Service based on time spent for individual positions to process a permit (e.g., hours spent by a Permit Technician, Associate Planner, etc.), the City of Morgan Hill, in prior Fee Studies and this analysis, uses an aggregate approach where hours are grouped or aggregated for multiple positions within each program (Planning, Engineering Land Development and Building) as applicable. This total number of hours for each program is then multiplied by the FBHR for that program to determine the 100% cost recover amount for each program. The resulting numbers for each program are added together to determine the full cost for the City to process and issue the permit.

The City may elect to charge a fee equivalent to the full cost (100% cost recovery) or to charge less than the full cost consistent with other City goals. For any permit where the City decides to set a fee at less than 100% cost recovery, the City should budget alternative funding for the cost of work not being recovered by permit fees.

Hours per Service Tables

The attached tables present the calculations to determine the current full cost for issuance of permits within Planning, Engineering Land Development and Building programs. Building program permits are presented in multiple tables including Building Permits, Building Plan Check, Mechanical, Electrical, Plumbing and Fire. These tables indicate the updated Hours per Service for each permit, using the same methodology as used in the previous Fee Studies, with an updated FBHR and adjustments to the particular hours per service based on current staff experience. The Tables also indicate the proposed permit fee for each permit, in most cases based on 100% cost recovery.

Multi-Department Plan Check

One notable change was made to the Building program Plan Check fee for multi-department review. Previously, Building Plan Check was broken into two categories, Building-only review and multi-department review. In this approach, any permit that required referral to another department was charged the same fee regardless of whether it was referred to one, two or three other departments. For the current analysis, the multi-departmental referral fees have been calculated to provide separate cost-recovery fees for Planning, Engineering Land Development and Building-Fire Marshall. By identifying separate cost-recovery fees for each of these disciplines, the City will be able to assess fees more precisely, where an applicant will only pay for the cost of referrals relevant to their permit.

Summary

Other changes made to the Fee per Service analysis are minor in nature, reflecting changes in permit processes (e.g., the suspension of the Residential Development Control System or RDCS) or other procedural changes. In a few cases the fee has been dropped as no longer needed or replaced with an actual time and services fee given the unpredictability of the Hours per Service for that particular activity.

The resulting FBHR will then be applied for each permit activity (shown in the Fees per Service tables).

In summary, the increased FBHR and an average increase in the Hours per Service for each permit type result in significant increases to the proposed 100% cost-recovery fee for each permit type. The average increase for permit type by program is summarized in the following table. The “Unweighted” increase represents the average increase in the permit fee for all permits in the corresponding program. The “Weighted” increase is a calculation of the average increase in fees weighted according to the projected volume of permits by permit type. An increase in the fee for a commonly used permit type will thus have a greater impact on the weighted average than a permit type that is seldom used.

Average Permit Fee Increase	Unweighted	Weighted
Planning	119%	131%
Engineering Land Development	62%	51%
Building Permits	27%	33%
Building Plan Check	110%	92%
Building - Mechanical	9%	9%
Building - Electrical	8%	9%
Building - Plumbing	9%	9%
Fire	40%	14%

*Revised based on FY24-25 Fees, effective July 1, 2024

Planning permit fees increase by the greatest margin due to the increased Planning program FBHR and a significant increase in Hours per Service for most planning permits. Planning staff carefully reviewed the Hours per Service used in the two prior Fee Studies and determined that they significantly underrepresented the actual amount of time spent by staff to process each permit.

Engineering Land Development fees also increase significantly, due in large part to the increased Engineering Land Development FBHR, along with more modest increases in the standard Hours per Service.

Building Permit fees have a less significant increase, correlating mostly with the modest increase in the Building program FBHR. However, plan check fees have increased more significantly, particularly for projects that include review by Engineering Land Development and Planning, due to increased FBHR for both programs and increased Hours per Service for Engineering Land Development. Fire reviews have also increased more significantly, due to increased Hours per Service.

(Hours per Service tables attached as a separate document.)

Conclusions

Cost Recovery Revenue Projections

A key objective for this analysis is to provide an opportunity for the City of Morgan Hill to improve the performance of Fund 206 in alignment with a 100% cost recovery model. The City has consistently needed to use General Fund money to cover the costs of operating and is not meeting the best practice objective of carrying a positive balance from fiscal year to fiscal year. This analysis determined that the City is undercharging for land use permits and thus the current fees are not at a 100% cost recovery level.

As shown in the following table, the City's fees are currently set at a range between 45% of cost-recovery for Planning up to 88% cost recovery for Building-Mechanical and Building-Plumbing. When projected permit activity levels by permit type are taken into consideration, using the City's current fees, the Planning program would only collect 42% of the full cost of reviewing and issuing permits. Data for other programs is shown in the table below.

Current Cost Recovery	Unweighted	Weighted
Planning	47%	43%
Engineering Land Development	62%	66%
Building Permits	83%	75%
Building Plan Check	53%	52%
Building - Mechanical	92%	92%
Building - Electrical	82%	91%
Building - Plumbing	92%	92%
Fire	75%	86%

*Revised based on FY24-25 Fees, effective July 1, 2024

With the proposed update to 100% cost recovery (with limited exceptions in the Planning program), the projected revenue for Fund 206 more closely aligns with the City's budget projections as shown in the following table. Forecast revenue depends on the level of permit activity. With the proposed fee increases and anticipated number of permits for each type, Fund 206 would slightly exceed the Fund 206 revenue forecast (\$ 5.9M) included within the City's adopted Operating Budget for FY 2024-25. Actual revenues could be more or less depending upon actual activity levels. Without the proposed fee change, revenues are projected to fall significantly short of the Budget forecast.

Revenue Projections	Current Fee	Proposed Fee
Planning	\$ 823,180	\$ 1,899,989
Engineering Land Development	846,681	1,281,824
Building Permits	1,455,674	1,940,175
Building Plan Check	447,495	858,628
Building - Mechanical	41,543	45,210
Building - Electrical	218,147	238,502
Building - Plumbing	49,156	53,517
Fire	199,338	232,768
Fund 206 Total	\$ 4,081,214	\$ 6,550,614

*Revised based on FY24-25 Fees, effective July 1, 2024

Implementing the proposed fee increases will thus improve the condition of Fund 206 to reduce the need for General Fund subsidy and allow the Fund to carry a positive balance from fiscal year to fiscal year, in keeping with 100% cost recovery model best practices.

Stakeholder Input

The City will conduct outreach on the proposed fee increases to a stakeholder group in mid-August, 2024. The City will use an established contact list of development industry representatives (developers, architects, engineers, consultants, etc.) that the City typically uses to invite stakeholders to this type of meeting. This list includes representatives of the Building Industry Association (BIA) and trade unions, as well as local developers and builders.

(Summary of Stakeholder input to be added following mid-August outreach.)

City Comparisons

To provide context for this analysis, a survey was conducted of five neighboring cities (Gilroy, San Jose, Santa Clara, Sunnyvale, and Palo Alto) to compare the proposed permit fees with those charged by other cities. Such comparisons are complicated by the varying approaches taken by different jurisdictions in how to regulate land development, organize City departments and conduct permitting activities. The comparison was limited to the types of permits included in the analysis (Planning, Engineering Land Development and Building) and did not take into account impact fees or other costs of development that could affect future development activity. Results from the survey will be provided, along with stakeholder input, when these fees are brought forward for potential adoption.

Policy Considerations

This analysis is being provided as the basis for the City to implement a 100% cost recovery model for services provided through the City's Fund 206 land use permitting programs (Planning, Engineering Land Development and Building). The City may elect to adopt new fees in accordance with the 100% cost recovery fees identified in this analysis.

Alternatives to 100% Cost Recovery

Alternatively, the City may elect to set some fees at less than 100% cost recovery fee levels. In this case the City should identify an alternative source of funding for the staff time required to process the subject permit.

The analysis assumes that the fee for four permits will not be at 100% cost recovery. The first two are appeals:

- Commission/Board Decision - Public Appeal
- Staff Decision - Public Appeal

Setting the fee for an appeal by a member of the public at 100% cost-recovery would contradict City objectives in that it could create an undue burden upon the intended due process. Other appeals, made by an applicant, can be set at 100% cost recovery and accounted for as a cost of development.

In addition, the following two permits were also considered at less than 100% cost recovery, based on well-established practice in Morgan Hill:

- Tree Removal Permit
- Temporary Use Permit (Non-Profit)

In the case of a Tree Removal Permit, a full cost recovery fee would discourage compliance as these permits are for homeowners who would find a full cost recovery fee too expensive. The Temporary Use Permit for Non-Profits are typically issued for special events hosted by community groups, typically funded through donations or community fund raising and a full cost recovery fee would exceed the practical ability of these types of organizations to pay for services.

Based on projected permit volumes, collectively, to subsidize these four permit types will require approximately \$47,000 annually of alternative revenue.

Public Information

If the City implements the proposed FBHR and resulting fees as identified in this analysis, a greater percentage of public information activities will be funded through the permit program. The analysis is based on 50% cost-recovery for Planning public information activity and 100% for Engineering Land Development and Building. Because of the significantly greater amount of time spent by Planning on public information, this increase most significantly affects the Planning FBHR. The City could alternatively utilize the General Fund to pay for a greater share of the public information work and thereby reduce the Planning FBHR and planning permit fees.

Phased Implementation

Because the proposed permit fee increases are substantial, the City may consider implementing them in a delayed manner with a portion of the increase effective in the near-term and additional increases scheduled over a period of time until they reach 100% cost recovery. For example, 50% of the proposed fee increase could take effect upon adoption, with an additional 25% increase at the end of the next two fiscal years.