

Local Fees, Local Subsidies

Fees and subsidies cause local pain

SUMMARY

Nobody likes paying government fees, especially regulatory ones like permits for home renovations. But frustration can turn to anger when these fees suddenly increase dramatically without warning or alternatives.

That's exactly what happened in the summer of 2024 when a fee for reviewing home modifications in Santa Rosa's historic districts jumped from \$1,700 to \$17,000. The fee was meant to cover the cost of reviewing major renovation projects in historic areas. Although the City of Santa Rosa followed the legal process for increasing fees, the Cultural Heritage Board (CHB) which had been responsible for reviewing projects wasn't informed of the public hearings until after the fees had already been approved. While such notification was not required by law, CHB members considered the increase excessive and likely to discourage major renovations in historic districts. Several resigned in protest.

To its credit, the Santa Rosa City Council acknowledged that the historic district fee increase was not what it intended. The increase was buried in a broader fee study undertaken to adjust hundreds of fees that hadn't changed since 2014. There was nothing to signal the unusual size of the increase or the fact that the fee had been subsidized in the past. The resulting uproar led to an eight-month review process that streamlined service delivery and simplified regulations. Despite these improvements, it left many Santa Rosa residents angry and wondering how such an outrageous increase was ever proposed.

This incident prompted the Grand Jury to investigate how fees are set and controlled in Santa Rosa and other cities. By state law, a fee is a charge for a service or product provided directly to those who pay it. Unlike a tax, a fee may not exceed the actual cost of providing a specific service. The Grand Jury examined fee-setting practices in Santa Rosa, Rohnert Park, and Petaluma—the three largest cities in Sonoma County. The study reviewed the legal requirements for raising fees and explored ways local governments could prevent excessive increases from being approved without proper consideration and oversight.

BACKGROUND

Over the past 50 years, California voters dramatically changed how local governments are funded. A brief recap of these changes may be instructive to understanding local government finance.

- Proposition 13 (1978). This state-wide proposition limited property taxes to 1% of the assessed value of real property set at the last sale price. It allowed property assessment values to increase no more than 2% per year until a property was sold again. At sale, the property's assessed value would be changed to the sale price or market value. The law further required that any property tax increase would need to be approved by a 2/3 vote of the electorate.
- Proposition 218 (1996). This proposition was called the Right to Vote on Taxes Act. In the uncoded Section 2 it stated:

Findings and Declarations. The people of the State of California hereby find and declare that Proposition 13 was intended to provide effective tax relief and to require voter approval of tax increases. However, local governments have subjected taxpayers to excessive tax, assessment, fee and charge increases that not only frustrate the purposes of voter approval of tax increases, but also threaten the economic security of all Californians and the California economy itself. This measure protects taxpayers by limiting the methods by which local governments exact revenue from taxpayers without their consent.

- Proposition 26 (2010). Proposition 26 amended State Constitution Article XIII to add new definitions of state and local “taxes,” defining all revenue measures imposed by the government as “taxes” unless within one of seven express exemptions for local government or five express exemptions for state government.

The takeaway from all these actions is that local governments are under strict mandates to ensure that their revenue raising activities follow requirements imposed by the voters of California. To not be a tax, fees must comply with an exemption process. Specifically, Proposition 26 stated:

e. As used in this Article "tax" means any levy, charge, or exaction of any kind imposed by a local government, except the following:

2. A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

Another six exemptions are discussed in Proposition 26 but are not relevant to this investigation. The main point of Proposition 26 is that fees may not exceed the cost of providing the service or product.

Cities often outsource cost-of-service fee studies and rely on these assessments to set fees that cover, but don't exceed, the actual cost of providing each service.

Sometimes, governing bodies decide it's in the public interest to charge less than the full cost for certain services. For example, local governments often use General Fund subsidies to reduce fees for youth recreational programs to encourage more participation. In contrast, adult recreational programs are usually expected to cover their full costs. Similarly, building permit fees may be reduced for projects that benefit the public, such as daycare centers. These policy decisions are up to the governing body.

A challenge with fee subsidies is that if the governing body or staff doesn't closely monitor changes, a previously subsidized fee can shift to a full-cost fee, causing steep increases. In the Santa Rosa example, a fee increased tenfold without being flagged when presented to the governing body. The increase was approved without council members recognizing the magnitude of the increase. This led to public outrage. While the increase was legal, it caused significant disruption and led to heartfelt apologies by City Council Members.

METHODOLOGY

The Grand Jury performed Internet searches of public information, reviewed documents posted by the cities under investigation, reviewed video recordings of public meetings and interviewed personnel familiar with the fee setting and approval process.

DISCUSSION

The Grand Jury limited its investigation to the three largest cities in Sonoma County: Santa Rosa, Petaluma, and Rohnert Park. The Grand Jury expected to find the following in each city's fee-setting process:

1. A study justifying the fees.
2. A staff report discussing the fees.
3. When appropriate, a discussion of which fees would be subsidized or no longer subsidized.
4. A discussion about how much the proposed fees would change from current fees.
5. A public hearing when adopting the fees.

Santa Rosa

The City of Santa Rosa presented proposed Planning and Building Department fees at a study session on January 30, 2024. The fees had not been updated since 2014. The fee study was conducted by MNG Consultants. In March 2024, the Council approved the new fee structure, which took effect on July 1, 2024.

While the Council discussed subsidizing certain fees, it did not review which fees were losing previously approved subsidies. Ultimately, the Council approved the staff's recommendations, including one fee increase of more than \$15,000.

After the new fees were approved, a member of the Cultural Heritage Board (CHB) discovered that certain fees affecting historic districts had jumped from \$1,700 to \$17,000. Outraged by the drastic increase, CHB members resigned in protest.

Following the resignations, the City of Santa Rosa re-evaluated its permit requirements and determined that many projects subject to the increased fees did not require full CHB review. Instead, they could be handled through a director-level review, eliminating the need for costly permit fees.

Santa Rosa also simplified its design review process by merging the CHB with the existing Design Review Board, creating a single Design Review and Preservation Board. However, the city did not adjust the new fees to reflect the streamlined process. Instead, it approved a 92% subsidy that substantially reduced permit costs for homeowners. Commercial and non-profit property owners in historic districts will not receive the subsidy but will benefit from the streamlined process and reduced review requirements.

At the adoption meeting for the revised process on February 4, 2025, several homeowners testified that the fee hikes had been excessive. Many were frustrated that it had taken eight months to address the issue. Ten individuals spoke about the historic district fees during a 25-minute public comment period. Some of the comments included:

- *"I've always had a problem paying these crazy permit fees. I didn't know what the fees were before, but to remodel my backyard, the fee went from \$409 to \$8,300 — and you voted for it."*
- *"I'm thrilled that the city is dropping fees by 92%."*
- *"It was insane to discover fees increasing by over \$1,000. Tonight, we're undoing what was done — it feels like smoke and mirrors."*
- *"We weren't told about the permit fee increases — it's ridiculous."*
- *"I am glad Santa Rosa is streamlining its approval process."*
- *"I did \$60,000 of work on my home. If I'd had to pay another \$10,000 in permit fees, I couldn't have afforded it."*
- *"The fees would have been comical if they hadn't had real impacts on people. They only look reasonable compared to the enacted fees. If fees must exist, they should be as low as possible."*

Council members acknowledged their responsibility to approve reasonable fees and expressed regret for allowing the previous increases. The Grand Jury noted that if Santa Rosa's process had clearly flagged the substantial fee increases nearly a year earlier, the public outcry and subsequent Council remorse might have been avoided.

Petaluma

The City of Petaluma hired the Willdan consulting firm to prepare a cost-of-service fee study. The report on city fees was presented to the City Council on April 8, 2024, and adopted on May 6, 2024. It justified the full cost of fees and outlined the changes from current fees. However, this information was among numerous line items in a lengthy report printed in small type.

Smaller Fee Increases More Frequently vs Large Fee Increases Infrequently

In our review, Petaluma decided to revise fees annually by the Consumer Price Index (CPI). Such a practice allows for smaller fee increases instead of larger fee increases when a fee study is conducted after multiple years. It also increases revenue as costs increase, resulting in higher net revenue. Consider the example below in which City A has a CPI increase each year and City B only increased fees after 7 years. Table I. Hypothetical City Fees, shows the annual change in the fee and revenue generated per fee paid.

Table I
Hypothetical City Fees

Year	CPI	City A		City B	
		Fee	Fees paid, one per year	Fee	Fees paid, one per year
2025		1,000	1,000	1,000	1,000
2026	3%	1,030	1,030	1,000	1,000
2027	4%	1,071	1,071	1,000	1,000
2028	2%	1,093	1,093	1,000	1,000
2029	5%	1,147	1,147	1,000	1,000
2030	3%	1,182	1,182	1,000	1,000
2031	3%	1,217	1,217	1,000	1,000
2032	3%	1,254	1,254	1,254	1,254
		Total	8,994	Total	8,254
		Inc. over 8	9%		

In the example, City A experiences more frequent but smaller fee increases over time, the largest being \$54. Fee increases keep pace with estimated cost increases. In contrast, City B has fee stability for 7 years and then experiences an increase of \$254 or 25%. Each City decides how it wishes to run its business.

The last comprehensive fee review took place in the 2015–2016 fiscal year, eight years earlier. Since then, the city had adjusted fees annually based on the Consumer Price Index (CPI).

Although not legally required, the report did not identify which previously subsidized fees were no longer recommended for subsidy. The Council approved the staff recommendations. The largest increase for existing fees was under \$1,000.

One reason Petaluma's fee increases were smaller than those in other cities may be its practice of adjusting designated fees annually based on the San Francisco-Oakland-San Jose CPI. While not perfect, this method tends to prevent large, sudden fee hikes. It also provides increased revenue as costs increase with inflation.

Rohnert Park

As part of its municipal code, Rohnert Park has certain requirements that go beyond California State Law. One municipal requirement found in [Chapter 3.32](#) asks for an annual report which shows:

1. The services for which cost recovery fees are charged;
2. The amount of the cost recovery fee charged for each service;
3. The percentage of actual costs recovered by each cost recovery fee;
4. Whether or not the fee includes an annual escalator;
5. The year in which the fee was last comprehensively reviewed; and
6. Recommendations for modifications to the services for which cost recovery fees are charged, the amounts of cost recovery fees or the percentage of costs recovered in order to assure that the cost recovery fees continue to recover the reasonable and proportional share of costs from applicants requesting services.

Upon review of Rohnert Park Council actions, the Grand Jury found no record of the required report. When asked about compliance with the municipal code, the city admitted it was not currently compliant.

The Grand Jury did find that some departments, such as the Police and Parks & Recreation Departments, had presented fee resolutions to the City Council and held public hearings. However, these reports lacked the detail required by the municipal code. Additionally, Police Department fees had not been adjusted since 2004. Instead, the department compared its fees to those of other agencies to determine appropriate rates. This comparison of fees among local governments tends to keep fees from increasing dramatically but may not meet the legal requirement of showing how a local governments fees are not greater than the cost to provide the service or product.

Even if the city had followed its municipal code, the Grand Jury would still have concerns about the lack of clarity regarding previously subsidized fees. Without this information, it is difficult to assess changes in subsidies and their impact on residents.

Fee Comparisons to other Local Governments

Rohnert Park's fee comparison to other local governments has the benefit helping a local governing body avoid approving a fee at great odds to what is being done in the local area. Its main defect may be that the fee is not supported by some methodology showing that the fee is not more than the cost to produce the service or product, as required by State Law.

Here is an example of a fee comparison from Rohnert Park.

Included	Optional	Title	Description	Proposed	CPD	HPD	PPD	SCSO	SPD	SRPD
	X	Firearm Storage	When individuals prohibited from possessing firearms choose to turn their guns in to RPDPS for temporary storage instead of to a firearms dealer, a flat fee plus time-based fee (not prorated) should be collected.	\$140 ea + \$125 / mo	\$192 / 5 + \$192 / mo	\$216 ea	\$85 ea	\$144 ea	\$63 / 5 + \$5 / day	

Source: City Council Meeting of Rohnert Park, April 23, 2024, Item 9D, Public Safety Fee Increase Proposal

CONCLUSION

California state law requires certain procedures to ensure that fees do not exceed the cost of providing a service. However, the law does not specify how often a fee study must be conducted or require escalation clauses for gradual increases. The two cities that conducted studies had last done so 8 and 10 years earlier.

The law also does not require local governments to clearly state previous fees when proposing new ones. When fee increases are large and abrupt — such as when a previously subsidized fee is no longer subsidized, as happened in Santa Rosa — residents may see the new fees as excessive and punitive.

By reviewing all fees with significant increases, governing bodies can better assess what level of fee increases are justified.

FINDINGS

The Sonoma County Civil Grand Jury determined that:

- F1. Long intervals between fee studies can result in large fee increases that are unacceptable to the public.
- F2. Without some mechanism for fee increases to keep pace with inflation, governments are unable to recover increased costs and the public is confronted, periodically, with large increases.
- F3. Because the fee studies examined did not routinely discuss prior subsidies, Santa Rosa City Council Members were disadvantaged in recognizing excessively large changes.

- F4. Staff's failure to complete an annual fee report was noncompliant with the requirements of the Rohnert Park Municipal Code and resulted in Council Members lacking information needed to evaluate and adjust the fee schedule to cover, without exceeding, actual costs.

RECOMMENDATIONS

The Sonoma County Civil Grand Jury recommends that:

- R1. By December 31, 2025, the City Councils of Petaluma, Rohnert Park, and Santa Rosa direct staff to include a section in all future fee proposals that identifies any fee changes that will exceed a council-specified threshold and any fees with past or proposed subsidies.
- R2. By December 31, 2025, the City Councils of Rohnert Park and Santa Rosa will adopt a policy to avoid abrupt fee increases.
- R3. By December 31, 2025, the City of Rohnert Park will either direct staff to submit a fee report in the 2025–2026 fiscal year that complies with Rohnert Park Municipal Code Chapter 3.32 or revise that code section to align with state law.

REQUIRED RESPONSES

Pursuant to Penal Code §§ 933 and 933.05, the grand jury requires responses as follows:

- The City Council of Petaluma to respond to R1 and F1 by September 30, 2025.
- The City Council of Santa Rosa to respond to R1, R2 and F1-F3 by September 30, 2025.
- The City Council of Rohnert Park to respond to R1- R3 and F1-F4 by September 30, 2025.

The governing bodies indicated above should be aware that their comments and responses must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

Responses must be submitted to the presiding judge of the Sonoma County Superior Court in accordance with the provisions of the Penal Code section 933.05. Responses must include the information required by section 933.05.

BIBLIOGRAPHY

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- Press Democrat, "Santa Rosa board quits over hiked development fees for historic properties." August 28, 2024.
- February 4, 2025, Santa Rosa City Council Minutes; also, YouTube Video, "City of Santa Rosa Meeting February 4, 2025", Time: 04:55:00.
- Press Democrat, "Santa Rosa Overhauls Permits, Fees." February 7, 2025.
- City Council Meeting of Santa Rosa, March 13, 2024, Item 16.1, Exhibit A, Santa Rosa Fee Study
- City Council Meeting of Petaluma, May 6, 2024, Item 11, Exhibit B- Comprehensive User Fee Study Report

- Rohnert Park Municipal, Chapter 3.32.
- City Council Meeting of Rohnert Park, April 23, 2024, Item 9D, Public Safety Fee Increase Proposal

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.