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**To: Steve S. Charelian, Finance Director**  
**From: Courtney Ramos, Vice President, Matrix Consulting Group**

**SUBJECT: CONVERSION OF VALUATION TO SQ. FT. BASED FEES**

The City of Manhattan Beach contracted with the Matrix Consulting Group to perform a cost of services (user fee) study for the entire City, including the fees charged by the Building Division for plan check and building permits. The primary purpose of these types of studies is to ensure that the City and the Division is appropriately charging for its services and that the resulting fees are defensible and in compliance with state laws.

Through this study, the project team worked with staff to convert its current structure of charging Building plan check and permits (inspection) based upon the valuation of a project to be based upon the size of the project (sq. ft.) and the type of the project (occupancy). Recently valuation-based fees and tables have come under scrutiny, as this methodology does not always appropriately translate to staff effort and time. Additionally, there have been several concerns and issues identified with valuation as noted below:

- **Level of Effort / Nexus:** In discussions with staff it became difficult to develop time estimates for valuation categories as the effort associated with inspection and plan check was not dependent upon the construction value of the project but rather the size (square footage) and type of the project (i.e. tenant improvements, new construction, shell building, etc.). For example, a project valued at \$100,000 could be a new accessory dwelling unit of 500 sq. ft. or it could be a 1,500 sq. ft. commercial tenant improvement of a Bank. Those two types of projects are inherently different; yet under a valuation-based methodology they would be charged the same fee, because they are valued the same. Therefore, valuation-based fees result in a weaker nexus based upon the cost of service and the level of effort provided.
- **Project Valuation:** Valuation-based fees require a jurisdiction to have a methodology for determining or confirming the project valuation provided by the applicant. This can be controversial, as there are a variety of methods utilized. Some jurisdictions will simply accept the contractor or applicant valuation always. Other jurisdictions will calculate the valuation based upon the International Code Council (ICC) valuation table, and other jurisdictions will take whichever valuation is higher. The valuation calculation by ICC is updated bi-annually (2x a year), but is reflective of a national average. Currently, Manhattan Beach utilizes the ICC valuation calculation; however, as it is a national average it does not take into account the regional cost factor associated with building projects in Southern California. For example, Manhattan Beach currently values a new single family home based off of the ICC table at \$116 per sq. ft.; whereas the average cost

per sq. ft. valuation in southern California is \$300 per sq. ft. There is however, no standardized regional factor that the City can utilize, as such it results in valuation becoming a subjective calculation rather than an objective calculation.

- **Outdated Valuation Tables:** The Uniform Administrative Code (UAC), which generated the original valuation-based table, transitioned to the Uniform Building Code (UBC), which has served as the basis for the City's valuation-based fee schedule. However, in 1997, the UBC was incorporated into the International Code Council (ICC), and at that point the UBC stopped updating the valuation-based table. It was determined that jurisdictions around the nation would be responsible for setting their fees based upon the service provided, rather than a national fee being applied to all building projects.
- **Cost Recovery:** In order for the City to achieve cost recovery based upon valuation, projects have to be valued appropriately. As discussed in the project valuation section, if the City is not appropriately valuing projects to account for regional factors, it is unable to accurately charge the correct fee associated with the project valuation. The lack of ability to charge the proper fee, results in the City not accurately recovering for the service it is providing.

The state requires that the fee for service cannot exceed the cost of providing that service. All of the above points illustrate the weakness of utilizing a valuation-based methodology. The square footage methodology and type of project ensures that fees are directly correlated with the services being provided. Additionally, in order for the City to calculate its current project valuation it must already collect the square footage and occupancy type information, the utilization of square footage as a fee schedule mitigates the need for the additional step of a valuation calculation.

The utilization of a square footage methodology not only ensures the City is better able to recover its costs, but it also brings the City in alignment with defensible methodologies for charging Building plan check and inspection fees. It is considered a best practice to develop plan check and permit fees based upon a square footage methodology as it most closely correlates to the service being provided, as the amount of time it takes to plan check and inspect a project is directly dependent upon the size of the project and the type of the project.