A Hefty Toll: How San Francisco’s Broken Fee System Affects Businesses and Residents
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Executive Summary
San Francisco’s Fee System is Broken

San Francisco businesses and residents pay hundreds of millions of dollars annually in fees that the City imposes on a wide range of activities, from fees associated with serving coffee at sidewalk cafes to dialing for help in an emergency. The fee revenue is significant, accounting for about 12 percent of the City’s total revenue in fiscal year (FY) 2003–04. Increasingly, the City has aggressively pursued new and higher fees as a fast, easy source of revenue to support its operations in the face of persistent budget deficits.

Data and anecdotal evidence indicate, however, that the City’s fee system is arbitrary, costly and in some cases subject to legal challenge. The City’s method for managing its fees lacks almost any rigorous internal controls and accountability, and fails to clearly communicate them to the public. Ultimately, it does a disservice to residents and businesses that bear the costs directly through higher fees and indirectly through higher prices.

According to state law, the fees a city imposes must reflect the cost of the service or activity for which they are being imposed. Good management practices also dictate that a city know the fees it charges, can provide an accounting of them and can communicate a complete list of its fees to the public. The tenets of responsible government also suggest that a city's fees should match its broader policy goals. Finally, a city should be concerned that its fee system does not expose it to risk of costly legal action because of its failure to meet some or any of these standards.

However, San Francisco’s management and administration of its fee system falls well short of meeting these standards. Simply put, the City’s system for managing its fees is broken. More specifically, the City has:

- no precise financial cost-of-service justification for most fees;
- no uniform, rational connection between fees—individually, departmentally and citywide—and broader public policy goals and objectives;
- no rigorous internal controls and accountability in regularly inventorying and reviewing all City fees; and
- no complete master schedule of all fees and no method for effectively and consistently communicating fees to the public.
San Francisco is not alone in relying on fees to support its budget. Like most California cities, San Francisco began actively chasing new and increased fees following the passage of Proposition 13 in 1978, which among other things required voter approval for new taxes. Since then, the fee system has evolved with little or no structure and discipline. It was only last year that Mayor Newsom ordered the City to compile its first Master Fee Schedule; however, that document is full of gaps and represents less than half of the City’s departments/agencies. Moreover, individual departments/agencies often don’t know themselves the fees they charge or the amount. In addition, the public doesn’t have convenient access to a complete and accurate list of all fees.

The City must acknowledge the gravity of the problem and take immediate and substantive steps to repair its fee system. The following recommended reforms, while not exhaustive, would begin to address these problems and significantly improve the City’s fee system.
Reform Recommendations

- Complete the Master Fee Schedule, with firm, enforceable mandates that require individual City departments and agencies to provide a full accounting of the fees they charge. If the fee is not listed, it cannot be collected.

- Develop and implement a system to clearly communicate the Master Fee Schedule (print, online, etc.) to the public and show the connection between individual fees and the City policies to which they apply.

- Conduct an immediate audit and review of all individual fees, eliminating duplicative and obsolete fees. Institute a system that allows for some form of regular (annual or every other year), ongoing review of fees.

- Review fees, taking appropriate and timely administrative or legislative action to ensure that they are either consistent with or align directly with broader public policy goals.

- Develop and implement a process for creating new fees and altering existing fees that uses—individually or in combination—precise cost-of-service measures and benchmarking to ensure fees are reasonable and accurate. New fees cannot be created or existing fees increased if the department seeking a new fee or fee increase has failed to comply with audit recommendations.

- Create an online fee payment system that will serve as an easy, efficient, one-stop method for paying fees across departments.
Fee Fever
A History of City Fees

While San Francisco's rate of spending has caused almost perennial budget deficits (the city currently is in the fourth consecutive year of a budget deficit with three more years of potential deficits looming), elected officials have increasingly turned to an extensive and growing system of fees to shore up the City's revenue stream.

For the purposes of this study, a fee is defined as a charge imposed on an individual, business or other organization for a government service. Local governments charge fees for a range of services, from bus fares to processing building plans; however, according to California state law, the fee amount may not exceed the government’s cost of providing the service. This premise is important and will be revisited later.

San Francisco is not alone in its increasing reliance on fees. The passage of Proposition 13 in 1978 removed the power of state and local governments to raise or levy property taxes without voter approval. Stripped of an important revenue-generation tool and unwilling to seek voter approval for unpopular tax increases, elected officials began imposing a wide array of fees. The practice flourished. To counter this trend, California voters passed Proposition 218, which was intended to curb governments' abuse of property-related fees as a way to fund general government functions rather than as the intended cost-recovery mechanism.

In addition, the issue of how municipalities and government agencies justify the existence and level of all fees has become hotly contested. The California Supreme Court ruled in 1997 in the case of Sinclair Paint Company vs. State Board of Equalization that a fee “should not exceed the reasonable cost of providing the services necessary to the activity for which the fee is charged, and which is not levied for unrelated revenue-raising purposes.” This legal precedent now governs municipal fee systems and is important to recognize as a core tenet of any fee system.
San Francisco’s Fee System
The City’s reliance on fee revenue creates growing burden for residents, businesses

Fees are a major revenue source for San Francisco, according to the “charges for services” line items in the City’s 2004 Comprehensive Annual Financial Report (CAFR). In FY 2003–04, San Francisco generated fee income of $342.95 million for a wide range of governmental activities, which are generally defined as traditional government services including permit processing and mandatory building inspections. The City also generated $1.6 billion in fee revenue from business-type activities, which are generally defined as enterprise activities in which government provides a “business-like” service such as operating MUNI or the San Francisco International Airport. These two sources combined accounted for almost 40% of the City’s total revenue stream in FY 2003–04.

This report focuses on governmental activities, the $342.95 million in fees the City and County generated last year accounting for nearly 12% of the City’s total revenue in FY 2003–04 (Fig. 1). This figure is comprised of fees, permits and other charges for services.
Of that $342.95 million, about $130 million was deposited directly into the General Fund (Fig. 2), the City's chief operating account. The difference in these two figures is explained by the fact that some City departments—like the Department of Building Inspection—do not receive General Fund support and, therefore, keep a majority of their fee revenue.

San Francisco has enjoyed a generally steady increase in fee revenue from FY 1997–98 to FY 2003–04 (Fig. 3). It is important to note, too, that fee revenue has risen despite the fact that San Francisco has suffered a migration of businesses and residents away from the City. In fact, San Francisco's population is down by 32,435, or 4.2%, since 2000, and the population slide continues. The San Francisco Examiner recently reported that, “San Francisco, which had 7,678 fewer residents in July 2004 than it had a year earlier, again led the state both in the size and rate of its population decline.”

Thus, even in an unstable economy, a steep five-year climb in fee revenue from FY 1998-1999 to FY 2003–04 suggests that residents and businesses were paying more or higher fees at a time when they could little afford them. Stories in the San Francisco Chronicle entitled: “Groom-to-Tomb Fees Up” (May 9, 2002) and “Boost in Fees, Fines Shock S.F. Residents,” (July 21, 2003) attest to the hardship that the rise in fees have imposed on many San Franciscans.
The impact of the increasing amount and expanding number of fees is even more burdensome for residents and businesses living, working and operating in a city already considered one of the most expensive in the nation (Fig. 4).8

We should note that the dearth of current and historical data that the City has available about its fees makes it difficult to arrive at authoritative cause-and-effect conclusions about fees, their relationship with the City’s broader financial picture and their impact on residents and businesses. However, what information is available does provide some useful evidence in making legitimate correlations between fees, the forces driving them and their financial impacts.

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**FIG. 3**

**FIG. 4**
Comparing San Francisco to Other Municipalities

The City’s fees far outpace those of comparable cities

Comparing San Francisco’s fees with two other cities helps put them in perspective. In the City of San Jose, fees related to governmental activities generated $199.76 million of revenue—about $143 million less than San Francisco (Fig. 5).\textsuperscript{10} San Francisco’s fee revenue is higher despite the fact that the City’s population of 744,230 is considerably less than San Jose’s population of 898,349.\textsuperscript{11} Per capita, San Francisco’s fee revenue of $461 was over twice that of San Jose’s per capita fee revenue of $222.\textsuperscript{12}

Stark differences also appear in a comparison with Honolulu which, like San Francisco, combines city and county government. With a population estimated at 899,593 and fee revenue

\begin{center}
\begin{tabular}{lrr}
San Francisco & $342.9 & \textsuperscript{12} \\
San Jose & $199.8 & \\
Honolulu & $140.5 \\
\end{tabular}
\end{center}

\textsuperscript{12} REVENUE FROM FEE, PERMIT, AND OTHER CHARGES FOR SERVICES

FIG. 5
of $140.47 million from governmental services, the City and County of Honolulu last year received $156 per capita in fees—San Franciscans paid three times that amount (Fig. 6).

According to a study by Kosmont and Associates, a nationally recognized economic development firm which looked specifically at tax and fee burdens across the country, San Francisco is the most expensive metropolitan city in California in which to operate a business.”

Thus, it seems San Francisco’s fee system is clearly a considerable revenue generator and is demonstrably more burdensome than other municipalities.
How San Francisco Falls Short in Managing Its Fees
Few internal controls, poor accountability make for a confusing system

Although the fee system is an integral part of San Francisco’s revenue stream, the City does a poor job of managing and tracking its fees. In fact, it was only last year at the direction of the Newsom administration that the City began for the first time compiling a Master Fee Schedule. Given that fees generate hundreds of millions of dollars a year in revenue, it is quite surprising that this was the City’s first attempt—particularly since cataloging fees is a common practice among other municipal governments.

A review of the 100-plus page Master Fee Schedule, which includes more than 1,000 fees, revealed gaping holes in the inventory. A majority of City departments/agencies did not even submit fee schedules, though they collect millions of dollars in fees. In fact, the Master Fee Schedule included fee schedules for less than 50% of the City’s departments/agencies.\(^\text{15}\)

In addition, many of the fee schedules that were submitted were incomplete. The Police Department’s fee schedule, for example, did not include the controversial burglar alarm registration fee or the related false alarm fee.

Another important question that arises when studying the fee schedule is the necessity or justification for at least some of the fees. For example, the City levies fees for discharging cannons and for holding a Wild West Show. Some other potentially questionable fees include:

From the Master Fee Schedule

<table>
<thead>
<tr>
<th>Item</th>
<th>Permit Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ball or Ring Throwing Games</td>
<td>$504.03</td>
</tr>
<tr>
<td>Junk Dealer</td>
<td>$998.59</td>
</tr>
<tr>
<td>Discharge of Cannon</td>
<td>$422.16</td>
</tr>
<tr>
<td>Closing-Out Sale</td>
<td>$580.38</td>
</tr>
<tr>
<td>Bingo Games</td>
<td>$125.13</td>
</tr>
<tr>
<td>Wild West Show</td>
<td>$702.65</td>
</tr>
</tbody>
</table>

The existence of these types of obscure fees certainly illustrates the extent to which San Francisco’s elected leaders and administrators have manipulated the fee system to serve as a driver of revenue. The practice creates a financial burden for residents and businesses struggling to survive in an already expensive city. In fact, an upcoming study by the
Golden Gate Restaurant Association will show that despite full dining rooms and healthy sales, the City’s restaurants are barely, if at all, clearing a profit. Restaurant owners point to excessive City regulation and fees as a primary culprit.

In an attempt to account for the plethora of fees, the Controller’s Office simply asks departments to report their fee schedules. However, there are no formal consequences if they do not report or if they submit incomplete lists.

The lack of a thorough accounting of fees hurts the City’s residents, businesses and others whose only other source of information about fees is the San Francisco Municipal Code. It is hardly reasonable to expect San Franciscans to sift through thousands of pages of legal jargon to determine which fees might apply to them and when those fees might apply. Without convenient access to complete fee information, residents and businesses typically only learn about them after they receive a bill or a summons. This makes financial planning and budgeting extremely difficult. A centralized management system that helps residents and businesses easily determine what charges they might incur is a necessity.

Moreover, without a full accounting of the fees levied by the City, it is unlikely that elected officials can make effective and informed decisions regarding fee rates since they lack a “big picture” view of the fee system and its components. For example, when considering a single fee increase, the fee may not seem egregious if looked at individually. But taken in the broader perspective of the entire fee system, a fee increase may not be advisable. To ignore the fact that fees are interrelated, which can result in multiple and/or duplicative fees, is not only myopic but also a disservice to the thousands of San Franciscans who must bear the financial burden of the fee system.

Fortunately, it seems the Newsom administration recognizes the benefits of compiling a master fee schedule. Although the first attempt was far from complete, the administration’s pledge “to increasingly inform the public policy deliberation process regarding existing fee levels” is a positive sign that the City now realizes the importance of such a schedule in determining fee policy. But much more work remains to be done.
“Sea of Fees”
Two case studies illustrate the impact of San Francisco’s ailing fee system

Much of elected officials’ focus has revolved around creating new fees and augmenting old ones. To see how unrestrained the fee system has become, we consider a very common fee that is paid by almost every San Francisco resident and business: the emergency telephone system fee (a.k.a. the 911 fee).

The 911 Fee
The 911 fee was initiated in 1993 by the City and County of San Francisco in order to pay for the costs associated with its new emergency response system. The monthly fees imposed include a line fee, a trunk line fee and a high-capacity trunk line fee. The line fee applies primarily to residential individual telephone lines while the latter two fees are levied on lines used in commercial buildings to service businesses.

The original intent of the fee ordinance was to pay for “the total projected cost of approximately $47.7 million” to upgrade hardware, software and network-related infrastructure. In fact, a Budget Analyst report to the Board of Supervisors in 1993 estimated that given fee rates established at that time—originally $0.50 per line and now a whopping $2.75 per line—“the fee would terminate on July 31, 2003.”

However, San Francisco amended the ordinance in 2002 to allow fee revenue to pay for 911 operating costs. With this amendment, the City clearly digressed from the initial intent of the ordinance by using fee revenue to fund activities other than paying for the cost of upgrading the 911 network. Furthermore, with the sheer volume of revenue—more than $33 million last year alone—there is reasonable concern that this fee doesn’t strictly serve as a cost-recovery mechanism for a local 911 network, even considering operating costs.

Many constituents in other municipalities facing the same fee are in an uproar over the fee’s legality; they question the need and use of such a
significant fee to pay for what many consider to be a basic public safety function. Under state law, however, revenue from the 911 fee must go to sustaining or improving the 911 network specifically and not to other departmental or related costs such as police response costs. If municipalities wish to use revenue from 911 line charges to pay for such related costs, the California Constitution requires that voters give their approval.

Under threat of legal challenge over whether this “fee” is in reality a “tax,” jurisdictions like San Francisco are taking risks in levying this monthly charge. Other cities have stayed away from the fee altogether while further clarification is forthcoming. Yet despite the widespread controversy, San Francisco has been aggressive in boosting the 911 fee and now uses that revenue to pay for operating costs (Chart 2).

In this particular case we find that:
1. The “fee” is legally ambiguous and is being debated at the state level.
2. The fee is widely applied since most residents and businesses have phone lines.
3. The fee’s original purpose was to pay for upgrades to the local 911 network, not operating costs.
4. This fee alone now accounts for over 25% of a basic phone bill.21
5. Since its inception, the 911 line fee has increased 450%.
6. Since its inception, the 911 trunk line fee has increased nearly 725%.
7. Overall, 911 line fees have increased 175% in the last three years.

<table>
<thead>
<tr>
<th>Date</th>
<th>Line</th>
<th>Trunk</th>
<th>High Capacity</th>
<th>% Increase Line</th>
<th>% Increase Trunk</th>
<th>% Increase High Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-93</td>
<td>$0.50</td>
<td>$2.50</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dec-97</td>
<td>$1.00</td>
<td>$5.00</td>
<td>-</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Aug-02</td>
<td>$1.00</td>
<td>$7.50</td>
<td>$135.50</td>
<td>0.0%</td>
<td>50.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Dec-02</td>
<td>$1.25</td>
<td>$9.38</td>
<td>$168.75</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Nov-03</td>
<td>$1.75</td>
<td>$13.13</td>
<td>$236.25</td>
<td>40.0%</td>
<td>40.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Nov-04</td>
<td>$2.75</td>
<td>$20.62</td>
<td>$371.15</td>
<td>57.0%</td>
<td>57.0%</td>
<td>57.0%</td>
</tr>
</tbody>
</table>
Unfortunately, the 911 fee is not an isolated example of continually increasing fees (Chart 3).

San Francisco residents and businesses are paying—either directly or indirectly—for the City’s “fee fever,” whether it is the common 911 fee or the plethora of other fees that seem to touch almost every aspect of living, working and operating a business in San Francisco.

<table>
<thead>
<tr>
<th>Fee</th>
<th>Current Rate</th>
<th>Previous Rate</th>
<th>Year of Last Increase</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bail/Ring Throwing Games permit</td>
<td>$504.03</td>
<td>$313.00</td>
<td>2002</td>
<td>61.03%</td>
</tr>
<tr>
<td>Junk Dealer permit</td>
<td>$998.59</td>
<td>$763.00</td>
<td>2002</td>
<td>30.88%</td>
</tr>
<tr>
<td>Discharge of Cannon fee</td>
<td>$422.16</td>
<td>$390.00</td>
<td>2002</td>
<td>8.25%</td>
</tr>
<tr>
<td>Closing-Out Sale fee</td>
<td>$580.36</td>
<td>$251.00</td>
<td>2002</td>
<td>131.23%</td>
</tr>
</tbody>
</table>
Finally, in order to assess how fees affect San Franciscans on an individual level, this study takes a financial look at a common activity in the City: enjoying a cup of coffee outdoors at a local café.

The following case study traces various government costs that the café incurs and passes onto customers just to serve a cup of coffee on the streets of San Francisco.

As one first gets settled at an outdoor table, the fee system’s impact takes hold. Businesses must pay an annual $107.80 processing fee for outdoor seating. They must also pay an annual fee of $3.16 for every square foot of outdoor space they use, which brings the cost a small business owner must bear for a typical 10-square-foot table to $31.60. These costs are passed along to patrons in the form of higher prices. **Even if the café had only one table, it would cost the small business owner $140.42 in fees**, including a $1.02 processing fee.

The outdoor table fee is just one of many that cafes and restaurants must pay. To most accurately determine the impact of fees and taxes on residents’ daily lives, this study used real tax and fee data from a local café in San Francisco to determine what costs are being passed onto the consumer. After considering only the most common fees and standard local taxes, it turns out that a **$2 cup of coffee** at such a local outdoor café includes **$0.64 (32%)** worth of taxes and fees.\(^{24}\) Indeed, residents bear much of the financial burden associated with governmental charges.

The cost of your leisurely cup of coffee includes a swarm of charges that the owner must pass on in order to maintain a profit and stay in business. (Chart 4). The aforementioned fees and local taxes are certainly not an exhaustive list, but rather a sampling of very common governmental fees and taxes that businesses pay directly and that customers and residents pay indirectly. These fees and taxes come on top of a host of other financial obligations businesses have, including employee salaries, insurance and rent, among many others.
Taxes and fees comprise one-third of the price of a cup of coffee in San Francisco.
## Common Fees and Taxes
**Businesses Must Pay**

<table>
<thead>
<tr>
<th>Fee or Tax</th>
<th>Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business registration fee</td>
<td>Ranging from $50 to $500 annually.</td>
<td>Not the business tax, but rather a fee imposed on businesses annually in order to simply open their doors in San Francisco.</td>
</tr>
<tr>
<td>Business license fee</td>
<td>$675 annually for restaurants up to 2,000 square feet.</td>
<td>This is yet another fee for simply operating a café in San Francisco.</td>
</tr>
<tr>
<td>Café table fee</td>
<td>1 café table costs roughly $140 annually.</td>
<td>As described, an annual fee based on square footage for having outdoor tables or chairs.</td>
</tr>
<tr>
<td>Burglar alarm fee</td>
<td>$40 residential and $60 commercial annual fee.</td>
<td>A fee for having a burglar alarm in San Francisco.</td>
</tr>
<tr>
<td>False alarm fee</td>
<td>The 1st false alarm is free; 2nd is $100; 3rd is $150; 4th is $200; 5th or more is $250 for each incident.</td>
<td>The City imposes a fee in cases when a response proves unnecessary.</td>
</tr>
<tr>
<td>911 fee</td>
<td>$2.75 per month for individual phone lines and from $20 to $370 a month for commercial trunk lines.</td>
<td>A monthly “fee” on all phone lines for use of the 911 system.</td>
</tr>
<tr>
<td>Special reserve surcharge</td>
<td>A 1.3% surcharge fee on residential and commercial garbage bills.</td>
<td>The revenue is reserved for future costs associated with finding an alternative dump site once the current location is filled.</td>
</tr>
<tr>
<td>Fee or Tax</td>
<td>Rate</td>
<td>Description</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Utility users tax</td>
<td>A 7.5% local tax on businesses (and that local café) for the use of water, electricity and natural gas.</td>
<td>Though levied in San Francisco, more than two-thirds of all cities in California do not have a utility users tax.</td>
</tr>
<tr>
<td>Payroll tax</td>
<td>The City requires all businesses to pay a 1.5% payroll tax, given that their computed tax is above $2,500.</td>
<td>In visiting a taxed café, not only is your server’s salary factored into the price of your coffee, but so is the tax on the server’s salary.</td>
</tr>
<tr>
<td>Property tax</td>
<td>The California statewide base tax is 1%; San Francisco’s current rate is 1.144%.</td>
<td>Even if the café owner does not own the building, the rent paid by the café incorporates property tax costs to the landlord.</td>
</tr>
<tr>
<td>Sales tax</td>
<td>San Francisco’s sales tax rate is 8.5%.</td>
<td>An added cost on business-to-business transactions when they purchase supplies—like your coffee cup. Additionally, sales taxes figure into the cost of each cup of coffee.</td>
</tr>
</tbody>
</table>
San Francisco’s fee system is broken and must be fixed. This study discovered serious problems with the management of the fee system—a disservice to residents and businesses that also leaves the City vulnerable to legal challenge. The problems include, but are not limited to:

- No precise financial cost-of-service justification for most fees
- No uniform, rational connection between fees—individually, departmentally and citywide—and broader public policy goals and objectives
- No internal controls for regularly inventorying and reviewing all City fees
- No complete master schedule of all fees and no method for effectively and consistently communicating fees to the public

The result is a fee system that is arbitrary, costly and subject to legal challenge. The City must acknowledge the gravity of the problem and take immediate and substantive steps to repair its fee system. The following recommended reforms, while not exhaustive, would go a long way in addressing these problems and significantly improving the City’s fee system.
Reform Recommendations

- Complete the Master Fee Schedule, with firm, enforceable mandates that require individual City departments and agencies to provide a full accounting of the fees they charge. If the fee is not listed, it cannot be collected.

- Develop and implement a system to clearly communicate the Master Fee Schedule (print, online, etc.) to the public and show the connection between individual fees and the City policies to which they apply.

- Conduct an immediate audit and review of all individual fees, eliminating duplicative and obsolete fees. Institute a system that allows for some form of regular (annual or every other year), ongoing review of fees.

- Review fees, taking appropriate and timely administrative or legislative action to ensure that they are either consistent with or align directly with broader public policy goals.

- Develop and implement a process for creating new fees and altering existing fees that uses—individually or in combination—precise cost-of-service measures and benchmarking to ensure fees are reasonable and accurate. New fees cannot be created or existing fees increased if the department seeking a new fee or fee increase has failed to comply with audit recommendations.

- Create an online fee payment system that will serve as an easy, efficient, one-stop method for paying all fees across departments.
Fee Fact Sheet

Legislative History of Fees

- California’s Proposition 13 (1978) requires voter approval of tax increases, which limits elected officials’ control over an important revenue source. In turn, this has prompted them to pursue fees and other forms of revenue over which they do have control.

- California’s Proposition 218 (1996) restricted the use of property related fees to only cost recovery rather than as a way to fund general government functions.

- A subsequent California Supreme Court decision in 1997, Sinclair Paint Company vs. State Board of Equalization, held that all fees “should not exceed the reasonable cost of providing the services necessary to the activity for which the fee is charged, and which is not levied for unrelated revenue-raising purposes.”

San Francisco’s Reliance on Fees

- The City levies over 1,000 fees covering a wide range of services and activities, including fees for the discharge of cannon, a Wild West show and bingo games.

- In terms of total revenue, fees characterized as governmental (i.e. building permits) and business-type activities (i.e. MUNI fares) made up almost 40% of the City’s total revenue stream in FY 2003-04.

- Fee revenue for governmental activities netted $342.95 million in FY 2003-04, making up 12% of the City’s total revenue.

San Franciscans Charged More

- San Franciscans pay $461 per capita annually in fees, while residents of neighboring San Jose and the City and County of Honolulu pay $222 and $156, respectively.

- A $2 cup of coffee at a local outdoor café includes $0.64 worth of fees and taxes.
San Franciscans Charged More (continued)

- The financial burden the fee system places on San Francisco residents and businesses adds to already sky-high expenses—San Francisco has both one of the highest cost of living and one of the highest tax and fee burdens in the country.

How Well Does the City Manage this Revenue Source?

- Last year, for the first time in the City and County of San Francisco, the City decided to actually compile all its fees in one document, the “Master Fee Schedule.”

- The incomplete Master Fee Schedule includes fee schedules for less than 50% of City agencies and departments.

- Departments are simply asked by the Controller’s Office to report their fee schedules but face no significant repercussions for not reporting or submitting incomplete lists.

- The City follows no precise method for justifying or arriving at its fees on the basis of cost-of-service or other measures.

- The City provides no clear channel or method for communicating its Master Fee Schedule publicly and does not provide a one-stop method for paying fees across department or agency lines.
Acknowledgements

Special thanks to Baha Hariri of the Committee on Jobs; the San Francisco Office of the Controller; the members and leadership of the San Francisco Chamber of Commerce, the Golden Gate Restaurant Association, and the San Francisco Building Owners and Managers Association for their critical contributions to this study.

Endnotes

4. Ibid.
5. San Francisco Examiner “As population falls” 4/20/05
6. San Francisco Examiner “Bay Area reverses population slide” 4/14/05
8. ACCRA Cost of Living Index, First Quarter 2003
9. Ibid.
10. San Jose Comprehensive Annual Financial Report 2004
11. Census Bureau population estimates 2003-2004
12. San Francisco, San Jose, & Honolulu Comprehensive Annual Financial Reports 2004
13. Silicon Valley Business Journal “Study: Not all of California is costly for business,” 2/17/03
14. Ibid.
15. San Francisco Master Fee Schedule 2004
16. Ibid.
18. Ibid.
19. CCSF Board of Supervisors; Full Board Meeting, 5/6/02
20. CCSF Consolidated Budget & Annual Appropriation Ordinance FY 2004–05
21. Assuming a standard $10.69 basic phone bill
22. San Francisco Municipal Code
23. San Francisco Master Fee Schedule 2004
24. Data provided by a medium-sized, independent local café in San Francisco; basic assumptions made for modeling purposes.
This report is also available at the following Websites:

http://www.sfvotewatch.com
http://www.ggra.org
http://www.bomasf.org
http://www.sfchamber.com