



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: June 9, 2009

REPORT NO. 09-090

ATTENTION: Committee on Land Use & Housing
Docket of June 17, 2009

SUBJECT: Development Services Department Fee Proposal

REQUESTED ACTION:

Recommend City Council approve development review user fees in order to provide full cost recovery to all mandatory regulatory review and inspection services; and to meet established and measurable service level standards.

STAFF RECOMMENDATION:

Approve the revised fees.

ENVIRONMENTAL IMPACT:

This activity is not a "project" and is therefore not subject to CEQA pursuant to State CEQA Guidelines Section 15060(c)(3).

BACKGROUND:

The City's development review and inspection services are operated without general fund subsidy as an Enterprise Fund. Development Service's customers pay for the department's operating costs similar to most businesses. The level of service the department is able to provide is directly related to the fees charged. In addition, State law requires that the fees charged "shall not exceed the estimated reasonable cost of providing the service" (California Government Code).

The Building Inspection Enterprise Fund¹ was created in 1985. All development and building inspection related activities have been included in the fund since the Council approved the department's last fee study in 2003.

As noted at the time of the fiscal year 2008 budget hearings, a comprehensive review of the Department's fees was planned to reevaluate them in light of changes in operating costs, changes

¹ Now the "Development Services Enterprise Fund."

in regulations, and improvements made to department processes. This report contains fees based on the results of the fee study performed by the City's consultant firm, Wohlford Consulting, Sacramento California (Attachment No. 1).

The fees are proposed to support service levels for high quality and timely plan check and building inspection, to support services that meet state and local law mandates, and to fully recover Department operating costs.

Customer service standards have been established since the inception of the Enterprise Fund (Attachment No. 2). These measures follow the development review and building inspection schedules that can affect a customer's development costs many times more than the cost of the review and inspection process itself. Reduction in the Department's level of service can increase time-sensitive financing, lead to costly construction delays, or increased land carrying costs. The department has continued to work with rate payers to refine these measures to meet their needs. Proposed fees support these specific review and inspection service levels expected by building owners and the industry. In addition, proposed fees support the appropriate staffing, resources, and training costs to meet the Department's mission to protect the public safety, health, and welfare.

DISCUSSION

The last fee analysis for the Department was performed in fiscal year 2003 and resulted in a 27% fee increase. Over the past 6 years, the Department used this fee increase to implement computer system improvements such as our geographic information system mapping, project tracking system, interactive voice response inspection scheduling system, and handheld inspection data entry. The past increase also allowed the department to increase staff training, carry out customer service initiatives, establish a small business liaison, and return the department's reserves to an established goal of 7% of the Enterprise Fund's annual expenses.

Following is a description of the Department's current condition, adjustments the Department has made to reduce costs and to operate more efficiently, and a description of the proposed fees to maintain the level of service that department customers expect.

Current Condition

Since the fiscal year 2003 fee adjustment, the Department's work load, as represented by the value of construction (valuation), increased from \$2.01 billion in FY 2003 to 2.2 billion in FY05. Since then, overall valuation has declined to an estimated \$750 million in FY 2009 as a result of the economic downturn. Staffing has followed this same pattern going from 435 filled positions in FY03 to 525 filled positions in FY 05. Filled positions, through two reductions in force and normal attrition, will be reduced to an estimated 305 filled positions at the end of FY09.

During this time, the Department has been able to achieve and maintain its key performance measures including review and inspection schedules and customer service standards. It was also

recognized by the University of North Carolina benchmarking study² as one of the top 3 development service departments in the country.

During this same timeframe the department has been required to absorb increases in expenditures which were not automatically captured through fee increases. Examples include a 4% salary increase in July 2007; annual charges for General Government Service Billing resulting in an increase of 211% (over \$2 million) from FY 2004 through FY 2010; fringe related costs such as Other Post Employment Benefits (OPEB), Unfunded Accrued Actuarial Liability (UAAL), retiree health contribution, City Employee Retirement System retirement contribution; and ERP Cost Allocation associated with the new citywide financial system. In addition, new regulations and standards have required additional staff time for plan review and inspections as part of the permitting process. The department has controlled overall expenses by not filling positions that became vacant, by drawing down the Department's fee stabilization reserves, and by implementing various cost controls and efficiency measures.

The Department projects a zero fund balance for the end of FY 2009. Without the proposed fee increase in FY10 to support these increased expenses, additional staff positions will need to be cut to balance the fund.

Cost Controls and Efficiency Measures

Data from the project tracking system fully implemented during FY03 show a steady increase in productivity by staff since the last fee increase. Annual reviews performed per staff person have grown from 107 per employee in FY04 to an estimated 189 per employee in FY09. Annual inspections performed per staff member over this same period have also grown from 191 per person to an estimated 416 per person in FY09.

Improvements were made to help facilitate these efficiencies. Completion of the automated tracking system helped the department's employees and project customers to better manage their workloads and their projects. It also improved the department's accountability in meeting established performance standards for our core services. Using standard cell phone technology, the department has also provided inspectors with direct access to the tracking system to enter real time inspection results. We are expanding this capability into Field Engineering (in the Engineering and Capital Projects Department) and Neighborhood Code Compliance Division. This has allowed the department to eliminate data entry positions and provide more flexibility to customers on inspection scheduling. We have added additional E-Permitting options (over 4,300) issued annually and provide a full range of information and forms on our website (over 45,000 web visits per month). This helps reduce customer contacts and saves project applicants from having to drive downtown or to our Ridgehaven office to obtain these services. In addition to offering better and smarter services, these new automated systems have allowed the department to eliminate old "legacy" systems.

Other improvements made over the past few years include increased over the counter services, consolidated reviews, self certification, and municipal code changes that have reduced permit

² Development Review in Local Government: Benchmarking Best Practices, published 4/24/09 as a joint venture of the University Of North Carolina School Of Government and the Alliance for Innovation.

process levels and complexity for certain project types. Many of these changes resulted from ideas and input from our LU&H Technical Advisory Committee (TAC), our employees, and from the Business Process Reengineering (BPR) effort. These improvements combined with our automation enhancements have allowed us to continue meeting service levels, maintaining quality standards, and satisfying customer.

Fee Proposal

Department workload and operating costs were reviewed by Wohlford Consulting, to determine the department's level of cost-recoverability. In order to develop a fee proposal, the fee consultant and the department did extensive analysis of performance data, operating costs, workload, and staffing to develop a fee proposal that would meet performance standards and reflect the cost of that service. Based upon this analysis, both fee increases and decreases are being proposed. A comparison of prototype buildings following the model established by the Building Industry Association for their annual fee survey provides an overview of the changes (Attachment No. 3).

One objective of the fee analysis was to simplify and reduce the number of fees currently used. DSD currently has 1,414 fees (Attachment No. 4) and has consolidated the number of fees in the new fee schedule to 494 (Attachment No. 1). As an example, uses such as offices, medical offices, public building office, banks, etc. were collapsed into one fee category - Business. Fees were also created to correspond with construction practices such as the new Foundation and Frame category. This methodology is comparable with industry assessment of construction activities nationwide.

Similar to the department's last fee study, a square footage model using hourly charges and staff time spent on each project type was followed. A comprehensive analysis was done by assessing and developing time estimates for each activity performed by the department and using volume counts (e.g., how many fees are charged in a year) for each of those activities to determine total costs associated with performing that activity. Efficiencies implemented over the past 6 years (project tracking system, web based permitting, increased over the counter services, and handheld devices for inspection entry) were also factored in. The analysis was done using calendar year 2008 workload data. The recommended fees presented in the study reflect the full cost of providing the individual services.

By using the same annual activity volumes and multiplying them by the current fees, the fee consultant was able to establish the potential revenue from current fees and compare them to the proposed. The difference between the two figures is the actual cost to current fee "gap." The following table shows this analysis between the current fees and the proposed new fees.

FEE SERVICE AREA		POTENTIAL REVENUES		
Fee Area	Potential Revenue Current Fees	Potential Revenue Proposed Fees	Potential Revenue Growth / (Decline)	Percent Change
New Construction	\$ 20,264,054	\$ 22,038,871	\$ 1,774,817	9%
Miscellaneous Items	\$ 1,547,527	\$ 2,040,328	\$ 492,801	32%
Fire & Other Items	\$ 2,910,659	\$ 3,082,441	\$ 171,781	6%
Mechanical, Plumbing and Electrical	\$ 2,545,668	\$ 3,819,560	\$ 1,273,892	50%
TOTALS:	\$ 27,267,908	\$ 30,981,199	\$ 3,713,291	14%

The cost analysis revealed that the current fee structure recovers approximately 86% of the cost to provide the fee-related services. The recommended fees presented in the study reflect the full cost of providing the individual services and bringing department reserves to 7% of expenditures – consistent with the City’s Reserve Policy – over a 5 year timeframe. At the recommended fees, the cost recovery rate would increase to 99.9%. The analysis also revealed that some of the current fees for New Construction (plan check and inspection combined) are less than the full cost of providing the services, while other fees are currently higher than full cost. Adopting the proposed fee schedule would result in bringing the fee for each service into better balance with actual costs.

Because this proposed increase in fees is a result of increased costs that have occurred since the last fee study, the Department is recommending that this fee proposal also include an annual cost inflator that would increase or decrease based on changes in staff costs (salary and fringe) and overhead rate (as determined by the Office of the City Comptroller). By including this automatic inflator, future changes in fees would occur gradually, thereby avoiding significant changes in future years. The proposed change would occur at the beginning of each Fiscal Year.

If approved by Council, the effective date for new fees will be no sooner than sixty days after the Council action according to California State Code.

FISCAL CONSIDERATIONS:

Because of increased operating costs and increased complexity of building regulations Development Services Department administers, costs of providing the same level of service in plan check and inspection activities have increased. Without an increase in department fees, continued reductions in force will have to be done to bring the enterprise fund into balance. This would also necessitate increases in review cycle schedules, inspection performance turnaround times, and service area wait times.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

As part of the City’s FY 10 budget deliberations, the Office of the Independent Budget Analyst and City Council Budget and Finance Committee recommended that the Development Services Department fee study be completed as quickly as possible and brought forward for full Council consideration.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Drafts of the proposed fee study were provided to stakeholder and public interest groups (Attachment No. 5) on May 22, 2009 for review and comment. The study is scheduled for discussion at the Technical Advisory Committee (created by Land Use & Housing Committee) meeting on June 10, 2009. Any recommendation by the Technical Advisory Committee will be reported verbally at the LU&H Committee Meeting on June 17, 2009.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

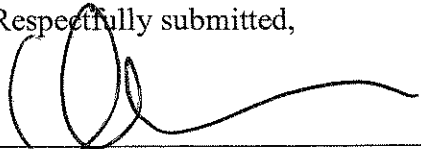
Key stakeholders are the individuals and organizations that rely on the department for project review, permitting, and inspection services for development projects. Approval of this recommendation will allow the department to maintain performance levels for the core services offered by the department. It will allow the department to increase training to established performance goals and continue to enhance customer service initiatives.

CONCLUSION

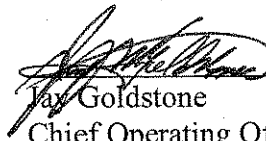
In conclusion, the last fee study and approved increase for these fees was completed in fiscal year 2003. Since that time, the Department's labor costs and overhead have increased significantly. While workload is down, the department had matched this decline by eliminating more than 37% of its staffing. The Department has met its key performance measures during this time while increasing staff productivity.

The fees proposed are necessary to maintain the quality of review and inspection; maintain department's performance and service levels; and enhance the fiscal health of the enterprise fund. Alternatively, the Council may choose not to adopt some or all of the proposed fees or to direct that changes to regulatory requirements be made to provide additional staff capacity. If a no change alternative is adopted, the Department will need to cut its services, reduce its existing workforce, and control expenditures accordingly.

Respectfully submitted,



Kelly Broughton
Development Services Director



Jay Goldstone
Chief Operating Officer

KGB

Attachments:

1. Proposed Fee Schedule
2. Customer Service Review Standards
3. Fee Change Comparison
4. Existing Fee Schedule
5. Organizations Notified