



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: May 16, 2016 REPORT NO: 16-057

ATTENTION: Honorable Council President Sherri Lightner and Members of the City Council

SUBJECT: Development Services Fee Proposal

REQUESTED ACTION:

1. Approve the Development Services Department (DSD's) proposed user fee adjustments to provide full cost recovery for mandatory regulatory review and inspection services, and to meet service level standards.
2. Approve one of the following adjustments to the General Plan Maintenance Fee (GPMF):
 - a. An 8.6% GPMF surcharge rate (if Council has adopted DSD's proposed user fee adjustments) or a 9.1% GPMF surcharge rate (if Council has not adopted DSD's proposed user fee adjustments) and reduce the number of permit types subject to the GPMF as reflected in Attachment 1; or,
 - b. Maintain the current GPMF fee methodology, but reduce the number of permit types subject to the GPMF as reflected in Attachment 1.
3. Authorize the Mayor or designee to take all necessary actions required to appropriate expenditures and revenues, to expend funds, to amend the General Fund user fee schedule, and to redirect GPMF revenues from the General Fund to the new special fund for the GPMF entitled, "General Plan Maintenance Fund".

STAFF RECOMMENDATION:

Adopt the resolution approving DSD's user fee adjustments, approving the Planning Department's GPMF adjustments as described in 2.a above, and authorizing GPMF revenues to be posted and expensed from the new special fund for the GPMF.

SUMMARY:

Development Services

The City's development review and inspection services of the Development Services Department (DSD) are operated as an Enterprise Fund, which means it is separate from the City's General Fund and operates on fees charged in exchange for services without General Fund subsidy. DSD customers, therefore, pay for the Department's operating costs by payment of fees and charges. The level of services the Department is able to provide is

directly related to the fees charged. In addition, state law requires that fees charged “shall not exceed the estimated reasonable cost of providing the service” (California Government Code § 66005).

The DSD Enterprise Fund was created in 1985. A comprehensive review of department fees is performed approximately every 5 years. The department reevaluates user fees based on changes in operating costs, changes in regulation, and improvements made to department processes.

This report contains fees based on the results of the fee update performed by the City’s consultant, MGT America Inc., Sacramento, CA (Attachment 2 – A copy of the entire Fee Proposal is available for viewing in the Office of the City Clerk).

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 fully recover department operating costs.

The department has continued to work with rate payers to establish policies and procedures to meet their needs. Reduction in the department's level of service can increase time-sensitive financing, lead to costly construction delays, and increase land carrying costs. Within the last fiscal year we have seen an increase in construction. The proposed fees support the appropriate staffing, resources, and training costs to meet the department's goals.

Planning Department

The General Plan Maintenance Fee (GPMF) was originally adopted in 1991 as a long-range planning cost recovery mechanism. The funds collected are used to support expenditure appropriations to update/amend land use planning policy documents including city initiated general plan amendments, community plan updates, mobility plans, city initiated specific plans, environmental policies and park plans.

The GPMF is currently set as a flat fee of \$275. This flat fee gets applied to building and development permits, irrespective of the project size or scope. For example, currently, a property owner wishing to remodel a kitchen pays the same \$275 GPMF as a developer who wishes to construct a 30,000 square foot office complex. Developers arguably create more need for updates to the City’s long-term planning documents and receive more benefit from them than individual property owners so the surcharge allows them to pay a higher GPMF and cover more of the City’s Planning costs.

Staff is proposing to change the fee methodology to be more equitable to customers, without increasing total revenue above the recent three year average. A report with the proposed fee results was performed in consultation with the City’s consultant, MGT America Inc. (Attachment 3). A synopsis of the benefits associated with this change in methodology is provided in the “Discussion” section below.

DISCUSSION:

Development Services Background

The last fee study was implemented in October 2009, and resulted in a fee increase of \$2,750,000 (10%). It allowed the department to implement technology improvements such as:

- OpenDSD was developed which allows project applicants to view their project status online, online permitting, and online inspection scheduling.
- The department constructed a module to automate Code Enforcement cases into the Project Tracking System.
- Enhancement of billing statements in FY 2010

Over the past 6 years, the department has gone through several restructures to improve efficiency in permit processing.

- New construction fire plan check and inspection responsibilities were transferred to DSD in FY 2013.
- Public utilities review was transferred to DSD in FY 2014.
- Department reorganization took place in FY 2015 to enhance management control and combine similar review disciplines.

Since the implementation of the FY 2010 fee study, the State has adopted two sets of California Code of Regulations (2010 and 2013). The department has been enforcing the additional regulations without any adjustments to the building plan review and inspection fees.

The fee study commenced with three goals in mind; 1) to simplify the permit process, 2) to consolidate fees wherever possible, and 3) to maintain the department's ability to be cost recovery. This fee update proposes solutions to meet all three goals.

First, the update proposes a flat fee structure for grading and public right of way plan check, mapping projects, and some discretionary approvals. Currently these types of projects are processed through a deposit account. This simplification will improve project review times and add certainty to the permitting cost. Second, the fee update proposes to consolidate fee type to reduce the overall number of fees.

Third, the fee update includes both technology and building upgrades to improve customer service. The current Project Tracking System is being replaced by an Accela System. Operations are also being expanded to promote additional online permitting, improve record storage and digitization. The fee update also includes funding to relocate DSD permit services from the City Operations Building to another venue. The building move provides an opportunity to design a new permit center that will improve customer flow, efficiency of counter operations, and provide an adequate amount of space for the additional staff needed to keep up with increasing demand.

Since the FY 2010 fee update, the department work load (as represented by the value of construction valuation) has increased from approximately \$780 million to \$2.5 billion in FY 2015. Consequently, staffing levels have increased from 266 filled positions in FY 2010 to 393 filled positions in FY 2016. Additional hiring is necessary to meet the industry expected performance goals.

During the same time period the department has been required to absorb increases in expenditures which were not automatically captured through fee increases.

- Effective FY 2012, all Enterprise Fund departments are required to develop a mandatory reserve up to 15% of department expenses by FY 2022
- Initial cost of replacing Project Tracking system with Accela
- New regulations and standards have required additional staff time for plan review and inspection as part of the permitting process
- Retiree Health Contribution (\$1.4 million, 165%)
- City Employee Retirement System general retirement contribution (\$3.5 million, 103%)
- Flexible Benefits Plan (\$1.1 million, 69%)
- City Services Billed (\$1 million, 204%)

Cost Controls and Efficiency Measures

Data from the project tracking system shows a steady increase in productivity by staff since the last fee increase. Annual reviews performed per staff person have grown from 374 per employee in FY10 to a projected 509 per employee in FY16. Annual inspections per staff member over this same period have grown from 847 per person to a projected 2,066 per person in FY16.

The department has also been able to achieve and maintain its key performance measures including review and inspection schedules and customer service standards. Project review times are met more than 80% of the time and inspection staff are meeting their next day inspection performance goals 92% of the time.

There have also been various operational improvements developed and implemented since the last fee update.

- Professional Certification for Solar PV- residential roof top
- Exceed State mandates for solar PV streamlined process.
- Development project management through ministerial process
- San Diego was the second jurisdiction in number of solar PV installations in 2013
- Conceptual review
- On-line permitting

Fee Update Proposal

MGT America, Inc. reviewed DSD's workload and operating costs to determine the department's level of cost recoverability. In order to develop a fee proposal, the consultant analyzed operating costs, workload, and staffing to develop a fee proposal that would meet performance standards and reflect the costs of that service. Based upon this analysis, both fee increases and decreases are being proposed.

As stated above, one objective of the fee analysis was to simplify and reduce the number of fees currently used. DSD currently has 538 fees and has consolidated the number of fees in the new fee schedule to 313. As an example, plumbing permit fees were converted from a per fixture count to per room or dwelling unit.

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 each year) for each activity to determine total costs associated with performing that activity. Efficiencies implemented over the past 6 years were factored in. The analysis was done using Fiscal Year 2015 data. The recommended fees presented in this proposal reflect the full cost of providing individual services.

By using the annual activity volumes and multiplying them by the current fees, the consultant was able to establish the potential revenue from current fees and compare them to the proposed. The following table shows this analysis between the current and proposed fees.

Fee Area	Current Revenue	Costs of Fee Services (Proposed Revenue)	Cost Recovery (Revenue +/-)
Building	\$15,511,020	\$16,491,247	\$980,227
Miscellaneous/Signs/Water/Sewer/Other	\$12,510,876	\$16,764,855	\$4,253,979
Electrical/Mechanical/Plumbing	\$4,450,303	\$4,006,631	(\$443,672)
Fire Alarm and Sprinkler	\$1,746,280	\$2,245,508	\$499,228
Total Building Fees	\$34,218,479	\$39,508,421	\$5,289,762

The cost analysis revealed that the current fee structure recovers approximately 87% of the cost to provide the fee related services, leaving 13% to be funded through other sources. The recommended fees recover approximately 100% of the cost of providing the individual services and bring the department reserves to 15% of expenditures by Fiscal Year 2022, which is consistent with the City's Reserve Policy. The proposal includes a corresponding 6.3% projected revenue increase from building permit and plan check fees. The analysis also revealed that some of the current fees are less than the full costs 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 the 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 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 the new fees will be no sooner than sixty (60) days after Council action (California Government Code § 66017(a)).

Planning Department Background

General Plan Maintenance Fee (GPMF)

As mentioned above, the GPMF is currently set as a flat fee of \$275. This flat fee is applied to building and development permits, irrespective of the project size or scope. In order to make the fee more equitable, staff proposes to transition away from a flat fee to a 9.1% surcharge that will be applied to the total cost of building permit and plan check fees. Several other large jurisdictions apply a surcharge against their permits such as Riverside, Los Angeles and Sacramento. Should the City Council approve DSD's fee proposal, and in that situation, the City will have an anticipated 6.3% increase in building permit and plan check fee revenue, the GPMF surcharge is recommended to be reduced to 8.6% in order to maintain annual revenues consistent with the recent three year average.

It should be noted that the change in methodology will result in a fee reduction for smaller, less expensive permits (i.e., residential additions and alternations) and an increase for the more complex, more expensive permits (i.e., office, retail and industrial construction).

However, as reflected in the chart below, the surcharge methodology will remain revenue neutral.

GPMF FLAT FEE/SURCHARGE FEE COMPARISON

TOPIC	FY2013	FY2014	FY2015
GPMF revenue (flat fee) ¹	\$2,026,479	\$2,605,447	\$2,705,044
Plan check/building permit fee revenue ²	\$22,758,138	\$27,053,606	\$29,094,198
GPMF revenue (surcharge) ³	\$2,070,991	\$2,461,878	\$2,647,572

¹ Actual annual revenue received from \$275 GPMF flat fee. (Source: SAP)

² Average (FY13-15) total revenue generated from building permit and plan check fees. (Source SAP & DSD)

³ Applies a 9.1% surcharge to the total annual plan check and building permit fee revenues.

Other factors included with this methodology change are highlighted below.

- 75% Recovery.**
The fee will cover 75% of the Department's costs associated with certain long-range planning services. This is consistent with the Department's current recovery rate experienced over the past three fiscal years. The 75% recovery rate (as opposed to 100%) is also a recognition that while members of the general public may not participate or benefit directly from a plan update process, they do see value when the plans are updated and implemented (i.e., parks, fire safety, and mobility improvements).
- Fee Applicability.**
The GPMF is currently subject to 31 different permit types ranging from building and grading permits to easement dedications and Lot Line Adjustments. During the analysis, the Department found that over 95% of the GPMF revenues come from only seven permit types. As such, staff is recommending that the GPMF be amended to only apply to those seven permit types as reflected in Attachment 3; a 77% reduction

from the current fee application. Staff does not find that this adjustment would result in a significant reduction in overall revenues.

- Improved Efficiencies.

As part of the GPMF update a new 'special fund' (General Plan Maintenance Fund) will be created for GPMF revenue. This will improve overall transparency and accountability and simplify revenue tracking and program reporting. The fund also helps align funding dollars with the Department's Work Program.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 1: Provide high quality public service.

Objective # 1: Provide plan review and inspection services within identified performance measures.

Goal #2: Work in partnership with all of our communities to achieve safe and livable neighborhoods.

Objective #2: Ensure all building construction in the City of San Diego meets state building codes to create safe communities.

FISCAL CONSIDERATIONS:

Development Services

Because of increased operating costs and the increased complexity of building regulations administered by the Development Services Department (DSD), the costs of provide the same level of service in plan check and inspection activities has increased. Adoption of the proposed fees would result in approximately \$5,290,000 (13%) in increased revenues for the department.

Planning Department

Approval of this action will redirect GPMF revenue and work program expenditures from a General Fund line item to the new special fund titled "General Plan Maintenance Fund". No impact to the General Fund is anticipated.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

As part of the City's FY 2015 budget deliberations, the Office of the Independent Budget Analyst and City Council Budget Committee recommended the Development Services Department complete a department fee study to be brought forward to Council for consideration.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

Drafts of the proposed fees were presented to stakeholders and public interest groups for review and comment. It was discussed at the following organizations:

- Building Industry Association – February 19, 2016
- Chamber of Commerce – March 15, 2016
- NAIOP-Commercial Real Estate Development Association – April 7, 2016
- Building Owners and Managers Association – April 11, 2016
- Technical Advisory Committee (TAC) – March 9, 2016; April 13, 2016; & May 11, 2016
 - The Committee made the following motions at the May 11, 2016 meeting.
 - Recommend approval of DSD’s Proposed fee adjustments.
 - Vote of 11-0-0
 - Recommend no change to current GPMF methodology and consider as part of next year’s budget process increasing the General Fund contributions from 75% GPMF / 25% General Fund to 50% GPMF / 50% General Fund.
 - Vote of 10-1-0

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Development Services

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.

Planning Department

Key stakeholders are the individuals and organizations that rely on the department to update land use policy documents such as the General Plan, Community Plans, CEQA Significance Thresholds and Mobility Plans, just to name a few. As previously described, the proposed change in methodology will make the fee more equitable considering who most benefits from the code and policy updates.

CONCLUSION

Development Services

In conclusion, the last fee update and approved increase for these fees was completed in Fiscal Year 2010. Since that time, the department’s personnel costs and overhead have increased significantly. During the time, productivity levels have increased and the department has met its key performance measures.

The updated fees are necessary to maintain the quality of review and inspection and enhance the fiscal health of the enterprise fund. If no change is adopted, the department will not be able to maintain increased production levels and meet key performance measures.

Planning Department

Generally speaking, larger development projects arguably benefit more from long-range plan and policy updates than individual homeowners. The proposal adjustment being considered is limited to changing the methodology for how the current General Plan Maintenance Fee (GPMF) is calculated to make it more equitable to customers, while remaining revenue neutral.


Respectfully submitted,



Robert A. Vacchi
Development Services Director



Jeff Murphy
Planning Director



David Graham
Deputy Chief Operating Officer

- Attachments:
1. GPMF Permit Type Adjustment
 2. MGT of America: City of San Diego, Analysis and Findings for General Plan Maintenance Fee; Dated: March 26, 2016.
 3. MGT of America: San Diego Development Services Department, Report on User Fee Study Findings; Dated: February 19, 2016.