



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** November 30, 2012

**IBA Report Number:** 12-52

**City Council Docket Date:** December 4, 2012

**Item Number:** 330

---

# Fiscal Impact of Permits & Licensing Municipal Code Amendments

## OVERVIEW

In accordance with Council Policy 100-05, the Financial Management Department coordinated a comprehensive fee review process in FY 2012 to ensure that cost recovery user fees are in-line with service costs, where applicable. Along with this effort, the Police Department reviewed 43 of its police regulated permit fees. As a result of this review, 18 fees were reduced, 16 increased, and 7 fees were eliminated or consolidated with other fees. Burglar alarm permit fees were not included in this review due to an ongoing separate study. The proposed user fee changes were adopted by City Council on June 11, 2012.

On December 4, 2012, the City Council will be requested to adopt proposed changes to Chapter 3, Article 3 of the Municipal Code relating to police permits and licensing to remove certain permit exemptions for promoters, entertainment events, solicitors, and alarm holders to maintain compliance with Proposition 26. Other requested changes pertain to aligning the Municipal Code with California State law, and to clarify current practices. The fiscal considerations for many of these changes were incorporated into the FY 2013 Budget as a part of the Council adopted user fee changes.

This item was presented at the July 18, 2012 Public Safety and Neighborhood Services (PS&NS) Committee meeting. At the meeting the Committee voted to forward the item to full Council with a request for a review of the fiscal impacts of the Municipal Code amendments by the Independent Budget Analyst. This report serves to provide additional information relating to the fiscal impacts of the proposed Municipal Code amendments.

## FISCAL/POLICY DISCUSSION

The proposed amendments to the Police permits & licensing sections of the Municipal include the following:

- Clarifications regarding secondhand dealers, pawnbrokers, and junk yards to align with California State law, and define regulated activities and permit requirements;
- Designation of the Fire-Rescue Chief to hear appeals related to fire-harmful gas alarm system revocations and penalties;
- Removal of non-profit permit exemptions for promoters, solicitors, single-event entertainment permits, and burglar alarm permits;
- The removal of burglar alarm permit exemptions for banks and savings & loans;
- The alignment of massage permits with State and County regulatory changes;
- Modifications to holistic health practitioner regulations.

Of the proposed amendments, the removal of non-profit exemptions, burglar alarm permit exemptions for banks and savings & loans, and the alignment of massage permits with State regulatory changes have potential fiscal impacts.

Where applicable, the impact of the proposed amendments to the Police permits & licensing sections of the Municipal Code were accounted for in determining appropriate fees for the respective permits during the FY 2013 Budget process. The cost recovery fees were calculated using department estimates of hours per permit, multiplied by total staff direct and indirect costs, and the estimated number of permits to be issued. Any change in the number of permits relating to the amendments resulted in a modification in the calculated fee. None of the proposed amendments impacted the staffing and resource costs assigned to regulate these industries, and therefore, did not impact the total overall cost recovery revenue.

The sections that follow provide more information related to the potential fiscal impacts of the proposed Municipal Code amendments relating to the removal of non-profit exemptions, burglar alarm permit exemptions for banks and savings & loans, and the alignment of massage permits with State regulatory changes.

#### Fiscal Impact of the Elimination of Non-profit Organization Exemptions

Among the requested Municipal Code amendments, the Police Department has identified that eliminating non-profit organization exemptions for permits will increase permitting activity for promoters, single-event entertainment, and alarms. Due to the limited information available relating to the number of non-profit organizations that will now apply for these permits, it is difficult to estimate of the impact of removing this exemption. The Department has, however, incorporated initial estimates of a potential increase in permitting activity in its most recent fee study. The following chart summarizes the potential increase in fee revenue relating to non-profit permitting activity, noting the possible increase in permits from FY 2012 to FY 2013. The estimated fiscal impact is approximately \$76,000.

Estimated Fiscal Impact of Removal of Non-Profit Exemption					
Permit	# Permits FY 2012	Est. # Permits FY 2013	Permit Increase	Current Fee	Related Increase
Promoter	18	29	11	\$ 310	\$ 3,410
Single Event Entertainment	19	78	59	\$ 175	\$ 10,325
Alarms-Commercial*	5374	5734	360	\$ 173.25	\$ 62,370
					\$ 76,105

*\*The estimated number of commercial alarm permits for FY 2013 does not include estimated additional permits related to the removal of the banks and savings & loan exemption.*

Removing the exemption for non-profit solicitors may not have a fiscal impact given that most non-profit solicitors will fall under other exemptions within the Municipal Code for religious, civic, charitable, and political organizations.

#### Fiscal Impact of the Elimination of the Banks and Savings & Loan Exemption

Currently the Police Department anticipates that 257 banks and savings & loans will now be required to attain a burglar alarm permit. With the current fee at \$173.25, and known potential permit holders, increased revenues are estimated to be \$45,000.

Estimated Fiscal Impact of Removal of Banks and Savings & Loan Exemption					
Permit	# Permits FY 2012	Est. # Permits FY 2013	Permit Increase	Current Fee	Related Increase
Alarms-Commercial*	5374	5631	257	\$ 173.25	\$ 44,525
					\$ 44,525

*\*The estimated number of commercial alarm permits for FY 2013 does not include estimated additional permits related to the removal of the non-profit exemption.*

Banks and savings & loans will also be subject to penalty fees associated with false alarms, which the City was previously not able to recover from these businesses. As of the issuance of this report, the Police Department was unable to provide information relating to previous years' false alarm activity for banks and savings & loans to inform an estimate of an increase in penalty revenue that could be associated with the removal of the banks and savings & loan exemption. The table below details the fee structure currently associated with false alarm occurrence for burglar alarms.

Burglar Alarm Penalties	Amount
1st Revocation	\$110
2nd Revocation	\$220
3rd Revocation	\$440
4th Revocation	\$2,200
Penalty for No Permit	\$146.75

The impact of changes for alarm permits were not accounted for in the FY 2013 Budget. This is due to ongoing efforts by the department to modify the burglar alarm permit program. Once this effort is complete, and the changes to the program are known, the department will be able to identify an appropriate permit cost for the alarm permit. The impact of the increase in the permits associated with removal of the non-profit and bank exemptions will be accounted for along with the impacts of additional changes to the Municipal Code relating to alarm permits. This proposal will be presented to the City Council for approval at a future date. With the anticipated changes

to the alarm permit program, the impact of the removal of the exemptions beyond FY 2014 is unknown, given that the alarm permit fee will most likely change.

Massage Permit Amendments

Proposed massage permit changes are due to the implementation of a volunteer state certification program for massage practitioners and therapists that preempts City massage permit requirements. A large number of practitioners have opted to attain a state permit in lieu of a City permit, with some practitioners still opting to attain a City permit. According to the staff report, the Police Department has seen a reduction of 986 massage permits, representing a 79% reduction in permit activity since FY 2009, and a loss of \$340,000 in cost recovery fee revenue. This is of particular concern given that there is still a need to regulate entities with a State permit for illegal activities such as prostitution and human trafficking, although the City will no longer fully recover the costs associated with law enforcement within this industry. The estimated FY 2013 revenue associated with massage permits is \$220,000. The chart below details the current massage permit fees.

Massage Permits	Fee Amount
Massage Business	\$ 2,042
Massage Business-Off Premise	\$ 693
Massage Therapist	\$ 193

Budgetary Impacts of Proposed Amendments

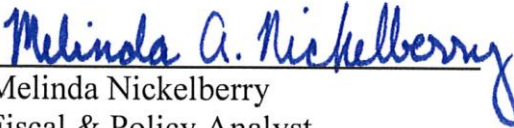
The proposed Municipal Code amendments will have no budgetary impact for FY 2013 since the Police Department’s budgeted revenue for FY 2013 is overstated. Over the past few fiscal years, the department’s total permits and licensing budget has been inflated in relation to the department’s actuals. Permit fee adjustments increased revenue estimates, bringing potential revenue performance closer to budget, but did not increase the FY 2013 Budget. The FY 2013 Budget for permits and licensing activities was actually reduced by approximately \$500,000 from FY 2012 to more closely align with actual permit revenue trends, with FY 2012 performing \$1.9 million under budget. Even with this adjustment, the FY 2013 budgeted revenue remains inflated and FY 2013 actuals are projected to come in under budget. The Department plans to make further adjustments to the permits and licensing budget during the FY 2014 budget process to fully align it with actual performance.

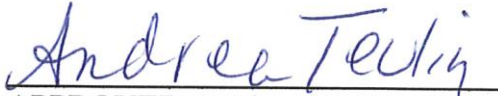
**CONCLUSION**

In response to a PS&NS Committee request, this report serves to provide additional information relating to the fiscal impacts of the proposed amendments to the Municipal Code pertaining to Police regulated businesses. Of the proposed amendments, potential fiscal impacts relating to the removal of non-profit exemptions and burglar alarm permit exemptions for banks and savings & loans could total approximately \$121,000. The alignment of massage permits with State regulatory changes has led to a reduction in cost recovery fee revenue of approximately \$340,000 since FY 2009. It is important to note that although these changes will have fiscal impacts, they will not impact the department’s budget for these permit fees in FY 2013 given

that revenues are overstated and need to be further reduced to line up with projected performance.

The actual fiscal impacts of the proposed Municipal Code amendments will not be known until after a full year of implementation, given limited information on the true number of impacted potential permit holders. After a period of time for implementation, more information will be available for use in informing future budgets and in determining appropriate fee levels.

  
Melinda Nickelberry  
Fiscal & Policy Analyst

  
APPROVED: Andrea Tevlin  
Independent Budget Analyst