



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 151

Fire-Rescue Alarm Permit Fee Proposal

OVERVIEW

The FY 2012 Adopted Budget includes \$910,000 in budgeted revenue for the implementation of the Fire-Rescue Fire-Harmful Gas Alarm Permit Fee. Separate action is required by Council to adopt the resolution and ordinance to formally approve the revised Fee Schedule and modified Municipal Code associated with the implementation of this new fee. A request for the implementation of a Fire-Rescue Alarm Permit Fee in FY 2012 was included in the City Council's April 11, 2011 Budget Resolution. Such a fee had been explored for implementation by the City in the past to implement in conjunction with the existing Police Burglar Alarm Permit Fee to recover the costs incurred by the Fire-Rescue Department in responding to false calls for service, but was not implemented.

This item was presented at the June 29, 2011 Budget & Finance Committee meeting. The Committee recommended approval of the new Alarm Permit Fee and forwarded it to Council for consideration, with additional information requests pertaining to 1) what cost recovery assumptions are included in the current Police Department Alarm Permit fee, 2) the occurrence of excessive Fire-Rescue false alarms, 3) consideration of a name change for the fees, 4) how false alarm incidence will be counted with combination burglary and fire-harmful gas alarm systems, and 5) the use of average as compared to actual false alarm response costs in imposing a false alarm cost recovery penalty. In the staff report accompanying this item, the Fire-Rescue Department has provided additional information to address these questions raised at the Budget and Finance Committee meeting.

The IBA has reviewed the methodology used by Fire-Rescue to determine the appropriate fee for cost recovery for the proposed Fire-Rescue Alarm Permit Fees and the associated revenue. This report examines the proposed methodology, the fiscal impacts of the fee, and provides additional information regarding the current Police Alarm Permit program that the Fire-Rescue Permit Program will be consolidated with.

FISCAL/POLICY DISCUSSION

The approved FY 2012 Budget includes \$910,000 in budgeted revenue for permit and penalty revenue for the new Fire-Rescue Alarm Permit program. With the program, residential and commercial alarm owners will be required to attain an \$18 biannual Alarm Permit for their monitored fire-harmful gas alarm. If the alarm owner has a combination police and fire-harmful gas alarm system, which is typically the case, the additional \$18 will be paid in conjunction with the fees charged for a Police Alarm Permit, which is \$100.25 for a residential alarm and \$173.25 for a commercial alarm permit. A combined permit will cost \$118.25 for residential alarm owners and \$191.25 for commercial alarm owners.

With the Fire-Rescue Alarm Permit, the permit holder is allowed to have two false alarms annually. Permit revocation penalties are then assessed with subsequent occurrences. An unpermitted false alarm is charged an \$85.00 cost recovery penalty for the cost of responding to the false alarm, in addition to a the revocation penalty associated with the occurrence.

Fees and Penalties	Proposed Rate
Fire Alarm Only Permit - Residential and Commercial	\$18
Combination Alarm Permit - Residential	\$118.25
Combination Alarm Permit - Commercial	\$191.25
1 st Permit Revocation Penalty	\$110
2 nd Permit Revocation Penalty	\$220
3 rd Permit Revocation Penalty	\$440
4 th and Subsequent Revocation Penalty	\$2,200
Unpermitted Fire/Harmful Gas Alarm Penalty	\$85

The proposed fee is intended to be fully cost recoverable. The projected revenue in the FY 2012 Adopted Budget was based on a December 1, 2011 start date for the implementation of the program. The current proposal before Council reflects an earlier start date of November 1, 2011. With an earlier start date, the revenue for the FY 2012 is projected at \$1,084,008 to reflect 8 months of collection, representing an additional \$174,008 above the original budget of \$910,000. Of the \$1,084,008 in projected revenue, \$236,960 (21.9%) is related to revenue generated from actual permit fee collections, with \$837,048 (77.2%) being related to revocation and cost recovery penalties. The Department estimates annualized revenue of \$1,626,008, with \$370,440 (22.8%) relating to permit revenue, and \$1,255,568 (77.2%) to penalties.

It is important to note that the Fire-Rescue Department anticipates that revocation penalties and cost recovery revenue will decrease over the next few years as permit holders come into compliance with the new permit fee and there is an overall decline of false alarm incidence due to corrective action taken by alarm owners who have experienced penalties for false alarm occurrences. The Department is unable to estimate the actual impact that this will have on revenue collections in future fiscal years at this time. After two years of actual revenue data from the implementation of the Fire-Rescue Alarm Permit Program, the Department plans to revise budgeted revenue in accordance to observed trends. Per information attained by the Department from the Security Industry Alarm Coalition, this revenue reduction has ranged from 35% to 50% in other municipalities that have implemented false alarm penalty schedules.

The projected amount for the revocation penalties and cost recovery is based on actual data regarding the occurrence of more than two false alarms for addresses in the 2008, 2009, and 2010 calendar years. Using this data, the Department calculated the penalty and cost recovery revenue that would have been generated using the proposed revocation penalty structure. In determining the appropriate penalty structure, the Department reviewed the penalty structures of other municipalities within San Diego County and within a sampling of major cities in the U.S.. From this review the Department determined that the current structure utilized by the Police Department would be appropriate and is in the range of penalties imposed by other cities for false alarms. Penalty fees are exempt from the limitations of Proposition 26.

Fee & Revenue Calculation Methodology

The proposed \$18 permit fee is based on assumed annual costs for operations, data systems, and the administration associated with the program. These annual costs were then doubled to create the cost for a biannual permit. An annual operational expense for false alarm was calculated using data relating to the average number of 1st and 2nd false alarm responses over a three year period (2008-2010 calendar years) to specific addresses and the average time spent for the alarm responses. This information was then used to calculate the average annual hours spent on false alarms. This average was then multiplied by an hourly cost for a fully staffed engine company, including direct and indirect costs. This calculation determined an annual operations cost of \$274,271. In addition to operation expenses, the staffing cost for a fulltime Accounting Clerk that will assist with the administration of the program was calculated at \$74,693. Data system costs of \$29,036 for maintaining records and tracking false alarms and infractions are also captured within the program costs. The total annual cost of the program is \$378,000, with two years totaling \$756,000. This total cost was divided by an estimated number of 24 month alarm permits of 42,000, resulting in an \$18 permit fee. The Department assumes that all activated alarm permits within the City that have a fire alarm component and will be brought into compliance within a year.

The 42,000 estimate for the number of activated alarm permits within in the City that is used to calculate the \$18 permit fee was provided by the Police Department earlier in the year. It differs from information attained by the office of the IBA from the Police Department most recently of approximately 64,000 activated alarm permits. This is significant to note given that an increase in the estimated number of activated alarm permits would reduce the amount of the alarm permit, and a decrease in the estimated number of permits, an increase in the fee amount. The Fire-Rescue Department is currently working with the alarm industry to attain information on fire-harmful gas permit holders to assist with notifying alarm holders of the new Fire-Harmful Gas Permit Program. Until the Department has this data available to them, the number of fire-harmful gas alarm systems within the City is unknown. After a full year of data relating to the implementation of the Alarm Permit Program, the Department plans to modify the fee to reflect actual data relating to the number of permit holders and program costs.

The unpermitted false alarm response penalty is intended to recover the average false alarm response cost reflecting 0.31 hours of response time at a rate of \$274 per hour for an engine, or \$85 per response.

In our Office's review of the proposed Alarm Permit Fee cost recovery calculation, we have noticed a discrepancy between the average cost of false alarms cited in the Fire-Rescue staff report of \$541,679 and the proposed cost recovery from the Alarm Permit Fee and cost recovery penalties. Per information provided in the staff report, the estimated annual expense for false alarm response operations, based on a three year average of incidence data, is \$274,271. Per information supplied by the Department, the budgeted unpermitted cost recovery penalty for alarm owners having more than two false alarms is \$96,540 (out of the \$1,255,568 budgeted for revocation penalties and cost recovery). This totals \$370,811 in budgeted cost recovery as compared to the annual average cost of false alarm response of \$541,679, a difference of \$170,868. Part of the reason for this discrepancy is the use of an average annual expense to calculate the cost of false alarm response operations, but the use of actual occurrence data from the 2010 calendar year to calculate the projected cost recovery penalty for the budget.

In discussing this discrepancy with Fire-Rescue, they have communicated that while the average cost of false alarm responses over a three year period averaged \$541,879, the actual number of responses varies from year to year. In order to ensure that the proposed program is cost recoverable, the fee includes the cost of up to two false alarm responses per year, and additional costs to administer the program. Alarm owners with false alarm responses above two in a year will be invoiced. The Department states that this cost recovery methodology will account for any variability in the number of actual responses each year and ensures that permits holders are not bearing the expense for the unpermitted or permit holders in violation. The Department will be able to evaluate the Alarm Permit Program after one year of actual data relating to false alarm occurrence and permit compliance. At that time, they will have actual data to use in order to make any adjustments to the calculated cost recovery fee and related revenue projections. We recommend that any proposed changes to the program and any necessary modifications to the fee amount based upon this review should be brought to Council for approval.

Use of Cost Recovery Revenue

At the Budget & Finance Committee meeting, some Councilmembers expressed a desire to set aside the revenue generated by the Fire-Harmful Gas Alarm Permit Program for other specified purposes within the General Fund. However, we would like to note that the revenue is intended to offset the annual General Fund false alarm expense that is experienced by the Department. In essence, the revenue generated is intended to support the program. The Fire and Harmful Gas Alarm Permit fees, penalties, and cost recovery revenue is budgeted within the Fire-Rescue Department as General Fund revenue.

Existing Police Alarm Permit Fee Structure

The Police Department will administer the Fire-Rescue Alarm Permit Program along with its current Burglar Alarm Permit Program. This will include the issuance of permits, revenue collection, false alarm investigations, and program correspondence. Fire-Rescue opted to partner with the Police Department for the administration of their Alarm Permit Program in order to benefit from common administration, systems, procedures, and false alarm tracking.

The existing Police Alarm Permit Fee structure was last reviewed and approved by the City Council in FY 2009. The fee and penalties structure, as was then proposed, was intended to achieve 79% cost recovery for the program with the assumption that increased collection efforts

and reduced false alarms would largely mitigate the recovery shortfall. The commercial permit fee was proposed at a larger cost given that commercial burglar alarms comprised approximately 70% of all alarm calls, though residential permits comprise approximately 70% of all alarm permits. The chart below summarizes the cost and revenue assumptions for the Police Alarm Permit Program. The data used in the cost of service calculation was from FY 2008 cost data.

Police Alarm Permit Fee Program Expense and Revenue Assumptions	
False Alarm Calls Responded to Per Year	36,475
Average Officer Hours Per Call	1.24 hours
Hourly Cost Recovery Rate for 1.00 Police Officer II	\$83.15
Average Cost Per Call	\$103.20
Total Response/Enforcement Cost Per Year	\$3,764,222
Alarm Permit Program Direct Administration Expense	\$261,518
Total Alarm Permit Program Expense	\$4,025,740
Estimated Residential Revenue at \$100.25 Fee	\$1,563,599
Estimated Commercial Revenue at \$173.25 Fee	\$1,157,310
Estimated Revocation/Penalty Revenue	\$ 423,926
Total Estimated Revenue with Fees	\$3,144,836
Difference (Revenue - Expense)	\$ (880,903)

Given that the current Police Alarm Permit fee structure is based on FY 08 cost data, it is anticipated that the Police Alarm Permit Fee will be reviewed in the near future, especially in light of any modifications to the program based on pending performance audit findings and recommendations that are referenced below.

County Grand Jury Report and Pending Performance Audit Release

There are a number of issues relating to the current Police Alarm Permit Program that were raised recently in the County Grand Jury Report “No „Cost’ for Alarm?”. Also, currently, the City Auditor’s Office (CAO) is concluding a performance audit of the San Diego Police Department Permits and Licensing Unit for release at the end of September 2011. The audit will contain specific findings and recommendations pertaining to the Alarm Permit Program. The findings from the audit will be heard at a future Audit Committee meeting in the fall. Any findings and recommendations pertaining to the Police Alarm Permit Program will be relevant to the current proposed Fire-Rescue Alarm Permit Program.

Some of the issues within the County Grand Jury Report and the CAO audit pertain to permit compliance, program monitoring, and accountability. The Fire-Rescue Department plans to address these issues in the future based of the findings and recommendations in the audit report. In the interim, the Department will use the existing system in order to begin the implementation of the program as budgeted for FY 2012.

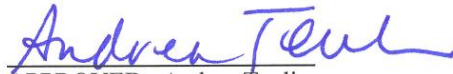
CONCLUSION

The IBA has reviewed the methodology used by Fire-Rescue to determine the appropriate fee for cost recovery for the proposed Fire-Rescue Alarm Permit Fee and the associated revenue. This report examines the proposed methodology, the fiscal impacts of the fee, and provides additional information regarding the current Police Alarm Permit Program that the Fire-Rescue Alarm

Permit Program will be consolidated with. With the pending release of the CAO performance audit of the Police Department Permits and Licensing Unit, any findings and recommendations pertaining to the Police Alarm Permit Program will be relevant to the current proposed Fire-Rescue Alarm Permit Program. With this, and other cost recovery considerations, it is recommended that the Fire-Rescue Alarm Permit Program is reviewed after one year of actual data relating to false alarm occurrence and permit compliance. Any proposed changes to the program and any necessary modifications to the fee amount based upon this review should be brought to Council for consideration.



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