



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: May 20, 2009

TO: Technical Advisory Committee

FROM: Kelly Broughton, Director, Development Services

SUBJECT: Development Services Department Fee Proposal

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The Development Services Department (DSD) has completed a comprehensive fee study to evaluate the department's flat fee services and the costs to provide those services. Wohlford Consulting of Sacramento California was hired by the department to conduct an objective and comprehensive analysis that capture's the full costs for our services.

DSD's last fee study was conducted in FY 2003. Since that time, 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.

One objective of the fee analysis was to simplify and reduce the number of fees currently used. DSD currently has 1,414 fees and has consolidated the number of fees to 502. 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.

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, we are able to establish the potential revenue from current fees. The difference between the two figures is the actual cost-current fee “gap.” The following table shows this analysis between the current fees and the proposed new fees.

<i>Fee Service Areas</i>	<i>Potential Revenues</i>			
<b>Fee Area</b>	<b>Potential Revenue Current Fees</b>	<b>Potential Revenue Proposed Fees</b>	<b>Potential Revenue Growth / (Decline)</b>	<b>Percent Change</b>
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%
<b>TOTALS:</b>	<b>\$ 27,267,908</b>	<b>\$ 30,981,199</b>	<b>\$ 3,713,291</b>	<b>14%</b>

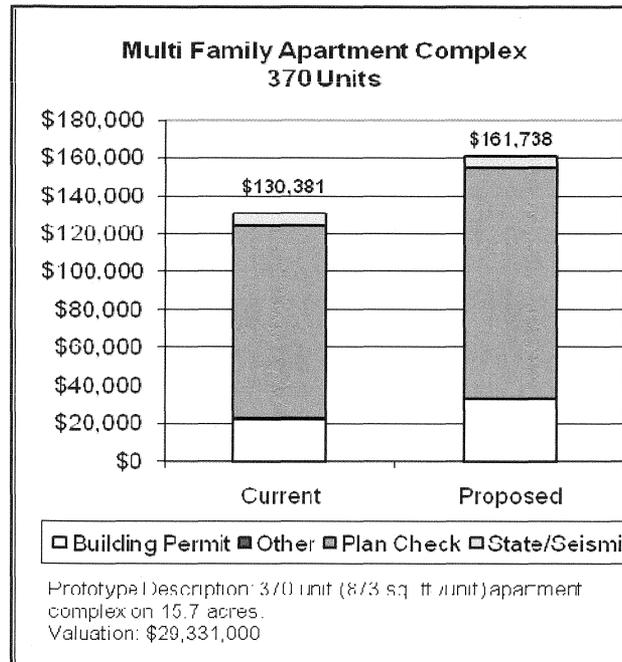
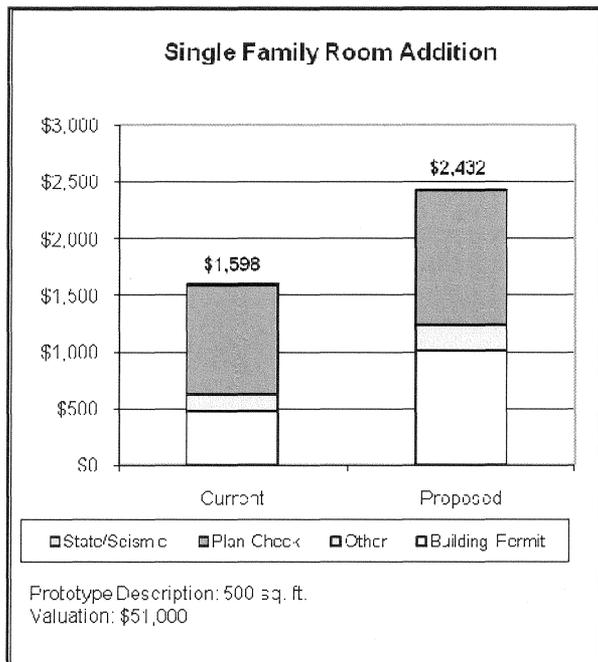
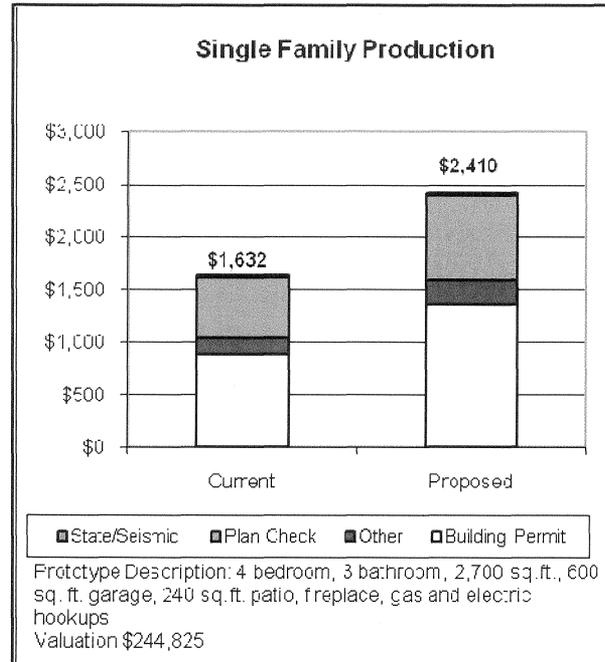
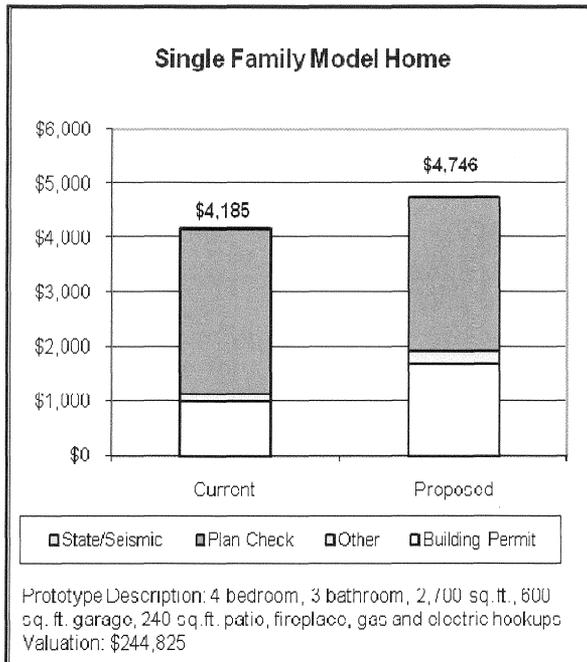
The cost analysis revealed that the current fee structure recovers approximately 86% of the cost to provide the fee-related services. The recommended fees presented in the study reflect the full cost of providing the individual services and to bring department reserves to Council established levels over a 5 year period. 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 this fee study would result in bringing the fee for each service into better balance with actual costs.

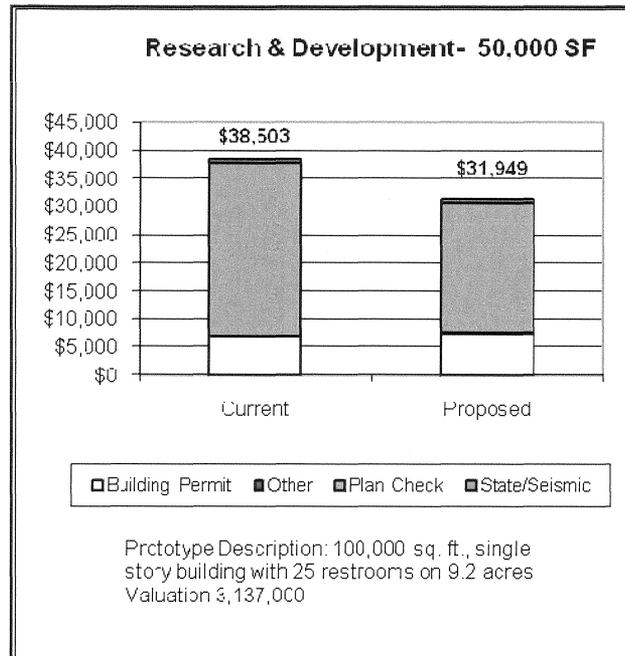
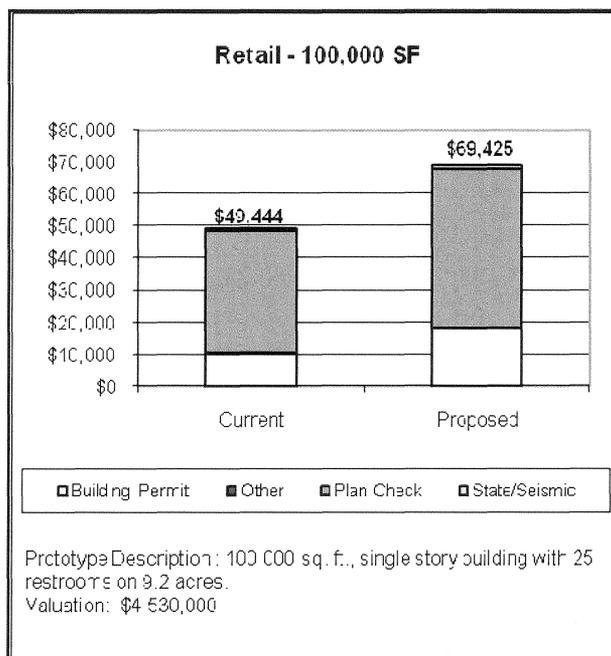
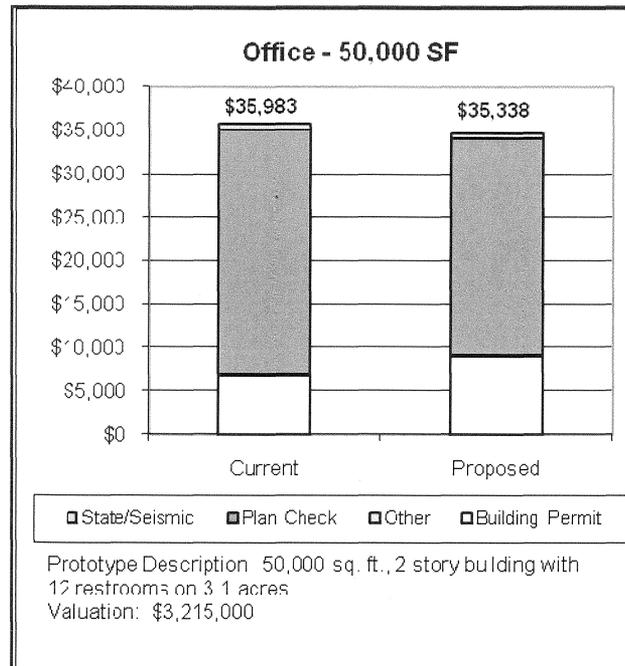
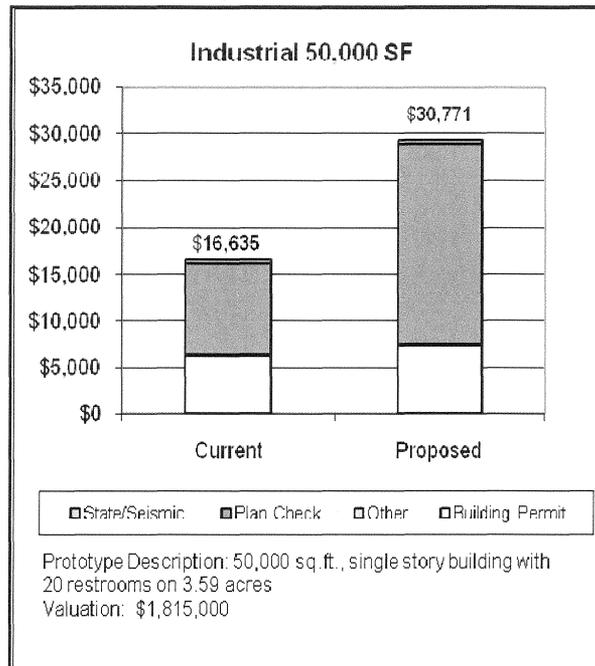
Because this proposed increase in fees is a result of increased costs that have occurred since the last fee study, the Department is recommending that this fee proposal also include annual cost inflator that would increase or decrease based on changes in staff costs and overhead. By including this automatic inflator, future changes in fees would occur gradually, thereby avoiding significant changes in future years.

The following are examples of typical projects<sup>1</sup> with a comparison of the current and proposed fees. Because the proposed fees are based on a square foot model and estimates of hourly review time, some overall fees have decreased while others have gone up. In addition, the proportion of fees attributed to plan check services versus inspection services have also changed to reflect the estimates for each service.

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<sup>1</sup> The prototype projects utilized to illustrate costs in this report are based on the models used in an industry survey of fees, referenced in the “San Diego County Building Industry Association (BIA) 2007-2008 Fee Survey.”





- Current "Other" fees include Mapping, General Plan Maintenance, and Permit Issuance with Plans.
- Proposed "Other" fees include Mapping, and General Plan Maintenance Fee.
- Current Plan Check fees include Landscape, Stormwater, Water/Sewer, Fire, building plan check, and all other reviewing disciplines.
- Proposed Plan Check includes building plan check (which incorporates Landscape, Stormwater, Fire and all other reviewing disciplines) and Water/Sewer plan check.

The last fee study and approved increase for Development Services fees was completed in Fiscal Year 2003. Since that time, the Department's annual labor and overhead costs have increased significantly. To respond to these increased costs and the past 3 years of economic decline, the department has controlled costs by implementing efficiencies, reductions in staffing through attrition and layoff, use of reserves, and by limiting discretionary expenses. The department has so far been successful in meeting or exceeding the industry established performance measures for project review and inspection.

The proposed fees are now needed to maintain the quality of review and the fiscal health of the enterprise fund. If the proposed fee increase is not approved, the department will need to propose significant workforce reductions that will negatively affect the department's performance and limit the services that are available to project applicants.

DSD anticipates introducing the proposed fees at the June 17<sup>th</sup> meeting of City Council's Land Use and Housing Committee and to full City Council for consideration in July. If the fees are approved, they would become effective in September 2009.

The department would welcome your comments on the fee proposal. Please direct them to my attention at 1222 First Avenue, San Diego, CA 92101. If your organization would like to request a presentation of the proposed fees, please contact my assistant, Lysanda Bostic at (619) 687-5978.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a long, horizontal flourish.

Kelly Broughton  
Development Services Director

- Attachments:
1. Proposed Fee Schedule
  2. Current Fee Schedule
  3. Organizations Notified

cc: Honorable Mayor and City Council