



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: May 29, 2020

TO: Honorable Council President Georgette Gómez and Honorable Council Members

FROM: Elyse Lowe, Director, Development Service Department
via Erik Caldwell, Deputy Chief Operating Officer, Smart & Sustainable
Communities

SUBJECT: Fiscal Year (FY) 2021 Development Services Enterprise Fund Analysis

The Development Services Department (DSD) provides review, permit, inspection, and code enforcement services for private and public development projects throughout the City of San Diego to ensure healthy, safe, and livable neighborhoods. The Department's major functions include entitlements, building construction and safety, engineering mapping, current planning, and code enforcement which are organized to efficiently plan and manage the development process for the complete lifecycle of development in the City.

DSD operates as an Enterprise Fund responsible for managing the land development review process from concept to completion. Such reviews include, but are not limited to, processing permits ranging from plumbing and electrical work for residential properties to solar panel installations and for plan approvals for large-scale commercial developments. The operating fund is separate from the City's General Fund, charging fees in exchange for services. User fees are developed to recover costs incurred in providing goods and services for a specific benefit, government service conferred, or privilege granted, directly to the payor or recipient of that specific benefit.

On June 18, 2018, City Council passed Resolution 311816¹ which supported the recommended increases to the DSD User Fees based on presenting the need to increase revenues approximately \$8.4 million annually in order to sustain current customer service levels. This was primarily based upon increased operational costs such as higher labor expenditures, lease payment obligations, and the storm water civil penalties fine. To mitigate the fiscal impact on DSD customers, a three-year phasing of the fee increase² established a fee adjustment increase of 6.0% in FY 2019, 4.5% in FY 2020, and 3.5% in FY 2021. Included in the passage of the resolution was a condition that DSD submit a memorandum to the City Council outlining the revenue and expenditure analysis used to determine the actual fee increase proposed for FY 2020 and FY 2021 for the City Council Budget Review Committee's review of the proposed budget.

¹ City Council Resolution 311816: https://docs.sandiego.gov/council_reso_ordinance/rao2018/R-311816.pdf

² In addition to the current authority to adjust fees by the Consumer Price Index (CPI)

Fiscal Year 2021 Revenue and Expenditure Analysis

The FY 2021 Proposed Budget for the DSD Enterprise Fund includes \$85.4 million in revenues and \$85.2 million in expenditures as displayed in Table 1. The FY 2020 Year-End Projection includes a reduction to the starting negative cash operating balance by \$1.9 million due to increased permit activity experienced in the first half of the fiscal year and by also reducing expenditures without impacting services levels in an effort to bring the negative balance down.

Table 1: Development Services Department Revenues and Expenditures

DSD User Fee Adjustments	FY 2020	FY 2021
User Fee Increases (R-311816)	4.50%	3.50%
Consumer Price Index Rate Increase	3.70%	2.70%
BEGINNING OPERATING FUND BALANCE	(\$2.8)	(\$0.9)
Development Services Enterprise Fund	Year-End Projections³	Proposed/May Revise Budget
REVENUES	\$78.9	\$85.4
Personnel Expenditures	\$35.8	\$37.7
Non-Personnel Expenditures	41.2	47.5
EXPENDITURES	\$77.0	\$85.2
Revenues (Less)/Greater than Expenditures	\$1.9	\$0.2
ENDING OPERATING FUND BALANCE	(\$0.9)	(\$0.7)

Revenues

Revenues in the months of March and April 2020 dropped approximately 22% in comparison from the same time in the prior year. The cursory review of revenues for the current month-to-date indicates a continued decline in revenues, however, permit activity not restricted under the current public health orders is demonstrating a full operational workload. This indicates that revenues are experiencing a lagging effect on the fund due to impacts related to recent necessary operational changes to meet COVID-19 virus transmission prevention safety protocols in the work place. Changes include modifying operations that prohibit the public from entering the permit centers such as adjusting plan reviews to a virtual environment, quarantining customer document submittals, installing a touchless payment drop-off service, creating a submittal self-service station, accelerating the launch of online submittals, and handling a significant increase in email, virtual, and phone communications with customers. The necessary operational changes has hindered permit processing service levels which also delays receipt of revenues which are mostly collected at the permit issuance phase of a project. Without additional action, DSD projects that it will continue to use more of its operating reserves to support current service levels.

The FY 2021 proposed revenues includes the allowable Consumer Price Index assumption increase to user fees. Also included is the 3.5% approved (R-311816) increase to User Fees which was not included in the Proposed Budget since at the time of budget development in

³ Additional detail of the FY20 Year-End Projections are reflected in the [Fiscal Year 2020 Third Quarter Budget Monitoring Report](#), page 25.

December 2019, the fund was performing well with permit activity up by 10% from the year prior. The revised proposed revenue allocation of \$85.4 million was also adjusted to reflect the recent economic impact experienced with the outbreak of the COVID-19 virus outbreak public health orders.

Expenditures

The FY 2020 Adopted Budget for the DSD Enterprise Fund included an \$81.7 million appropriation to support the operations of the fund, including 498.00 full-time positions. The largest operational cost to the fund is Personnel Expenditures budgeted at \$61.3 million, including \$23.4 million in fringe expenditures. Currently, the fund is maintaining 429 filled full-time positions. Of the 73 vacant positions, 61 (84%) became vacant within the last nine months. DSD continues to fill critical positions to increase permit processing efforts. Seven positions have been recently filled to support 5G Wireless Cell Site installation permits to meet performance goals.

The FY 2021 proposed non-personnel expenditures are presented in Table 2. The Contracts allocation includes \$8.5 million in non-discretionary expenditures such as rent and security guard services. \$3.0 million is for centralized services received from the General Fund and approximately \$1.0 million is allocated for scanning of records services. The \$6.4 million Information Technology allocation largely includes fixed costs of citywide support services such as network support and cyber security resources. \$1.3 million is intended for maintenance and license support of current operating systems.

Table 2: FY 2021 DSD Enterprise Fund Proposed Non-Personnel Expenditures

Non-Personnel Expenditures (excluding fringe)	Proposed Allocation
Supplies	\$ 1,224,435
Contracts	12,708,748
Information Technology	6,412,478
Energy & Utilities	697,536
Transfers/Other	1,127,898
Debt	1,984,944
Total Non-Personnel Expenditures	\$ 24,156,039

Reserves

Council Policy 100-20 “Reserve Policy” sets the City’s operating reserve target levels.⁴ The target reserve level for DSD’s operating reserve is 7% - 15% of operating expenses, or a target of 60 days of operating reserves once the 15% is obtained. The FY 2020 reserve target of \$7.5 million is currently not on target due to the recent decline in revenues that occurred with the outbreak of the COVID-19 virus economic impact and expenses associated with relocations. As a result of DSD’s commitment to maintain service levels, the fund does not currently anticipate being able to achieve the reserve target level of 15% of operating budget expenditures by Fiscal Year 2025. As the economic situation continues to evolve, the fund will periodically be reevaluated to determine ability to enhance the reserves. Without additional action, DSD projects that it will continue to use more of its operating reserves to support reserve target levels.

⁴ City Council Resolution 311817, revised [Council Policy 100-20](#) to modify the operating reserve target level for the Development Services Enterprise Fund to be reached by Fiscal Year 2025 in place of Fiscal Year 2022.

Conclusion

The DSD Enterprise Fund net operating fund balance is projected to increase \$200,000 during FY 2021, reducing the beginning negative operating balance to \$700,000. DSD will not be able to sustain cost recoverability without the final 3.5% adjustment to User Fees. DSD's current fee adjustments approved by City Council in June 2018 did not include the subsequent impacts of special salary adjustments of DSD positions (i.e. engineers, planners, etc.) estimated to cost approximately \$1.6 million annually.

The fund is being closely monitored and focus will be given to mitigating the remaining negative balance and gain towards reserve funding goals without a need for User Fee adjustments⁵ in the near future. Mitigating efforts include slowing down spending on non-essential supplies and contracts, restricting overtime to only maintaining critical service levels, consideration to suspend entire or partial reserve contribution or revise contribution rate to achieve 15% beyond FY2025, and leveraging of SAP online payment services scheduled to go live in July for sooner receipt of revenues.

The City Council's continued support of the Development Services Department operational goals in serving local land use initiatives and on-going efforts which has a positive impact on the local economy is valued and appreciated. For any additional questions, I can be contacted via email at ELowe@sanidiego.gov.

Respectfully,



ELYSE W. LOWE

EL/rkv

cc: Honorable City Attorney Mara Elliott
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⁵ Consumer Price Index rate increase assumptions may still be applicable.