

City of San José Development Services Process Improvement and Cost Recovery Workshop

November 10, 2016
1:00 – 3:30 p.m.



Workshop Purpose and Agenda

Purpose: Build understanding around the context, methodology and potential outcomes of the City's cost recovery study

Agenda

- Setting the context
- What is cost recovery?
- Achieving cost recovery
- Service delivery impacts
- Questions/comments

Development Services in San José Today

Challenges

- Keeping pace with development activity
- Predictable and timely turnaround of projects
- Complex, outdated fee structure
- Competing in today's labor market

Opportunities

- Simplify and modernize the fee structure
- Provide faster service, address predictability and timeliness
- Addressing cost recovery

Setting the Context

This project couples process improvement with addressing cost recovery

Purpose: Improve *service delivery model* and *cost recovery* for Development Services Partners

- Planning Division
- Building Division
- Public Works Development Services Division
- Bureau of Fire Prevention

Management Partners and NBS
partnered on the study

Management Partners

- Founded in 1994
- Serves cities, counties and special districts
- Offices in Cincinnati, OH, San Jose and Costa Mesa CA
- Has assisted hundreds of local government clients in 41 states
- Extensive work in organizational assessment / process improvement and the development services environment
- Focused on providing solutions for implementation

Background on NBS

- Over 20 years serving local government
- Specialized in user fee studies for California agencies
- Wealth of experience in development review fee analysis/development review processes
- Many similar recent studies
 - Counties
 - Santa Clara County
 - Stanislaus County
 - Contra Costa County
 - Cities
 - Los Angeles
 - Richmond
 - Sunnyvale

Six Process Improvement Principles

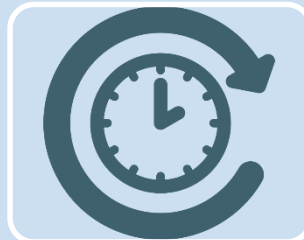


Comprehensive Feedback

Provide comprehensive, quality feedback early in process

- Fewer resubmittals
- Fewer policy/submital reinterpretations

Impacts cost recovery



Efficient Service Delivery

Minimize cycle times (and processing times) to control costs and provide efficient service

- Shorter cycle times
- Controlled costs



Coordinated Service

Coordinate review of applications and plans across departments and develop seamless processes across departments

- Consolidated/coordinated comments
- Save time for customer
- Consistent use of technology across departments

Six Process Improvement Principles



Predictable and Dependable Process

Build predictability into the process and provide consistent service that customers can rely on



- Transparent process with target dates and clear expectations
- Inspection and Permit Center wait times aligned with industry standards



Customer Service Orientation

Collaborate with applicants to design projects that are aligned with policy and in compliance with code



- Accessible staff
- Collaborative relationship with customers

Impacts cost recovery



Understandable Fee Structure

Build competitive, simplified fee structure to ensure transparency and minimize confusion



- Fee transparency
- More efficient use of staff (less time explaining fee structure)

Service Improvements Already Implemented

- Several improvements made to positively impact timeliness and predictability of service
 - Counter hours expanded
 - Expansion of over-the-counter permits
 - Expanded combination inspections

Additional Examples of Service Improvements

- Additional improvements being evaluated through pilot programs
 - Enhanced project coordination
 - Further expansion of counter hours
 - Improving timely routing of plans
 - Expand over-the-counter permits for Public Works
 - Implement mobile inspection technology
 - Revise tree removal permits to an administrative process

Questions on Process Improvements?

City's Cost Recovery Policy

- Development Services is to function as a full cost-recovery operation
- Cost-recovery is evaluated based on permitting fees associated with providing development services
- Development permitting fees are meant to cover all costs associated with the entitlement, plan check and inspection processes

User Fee Guidance

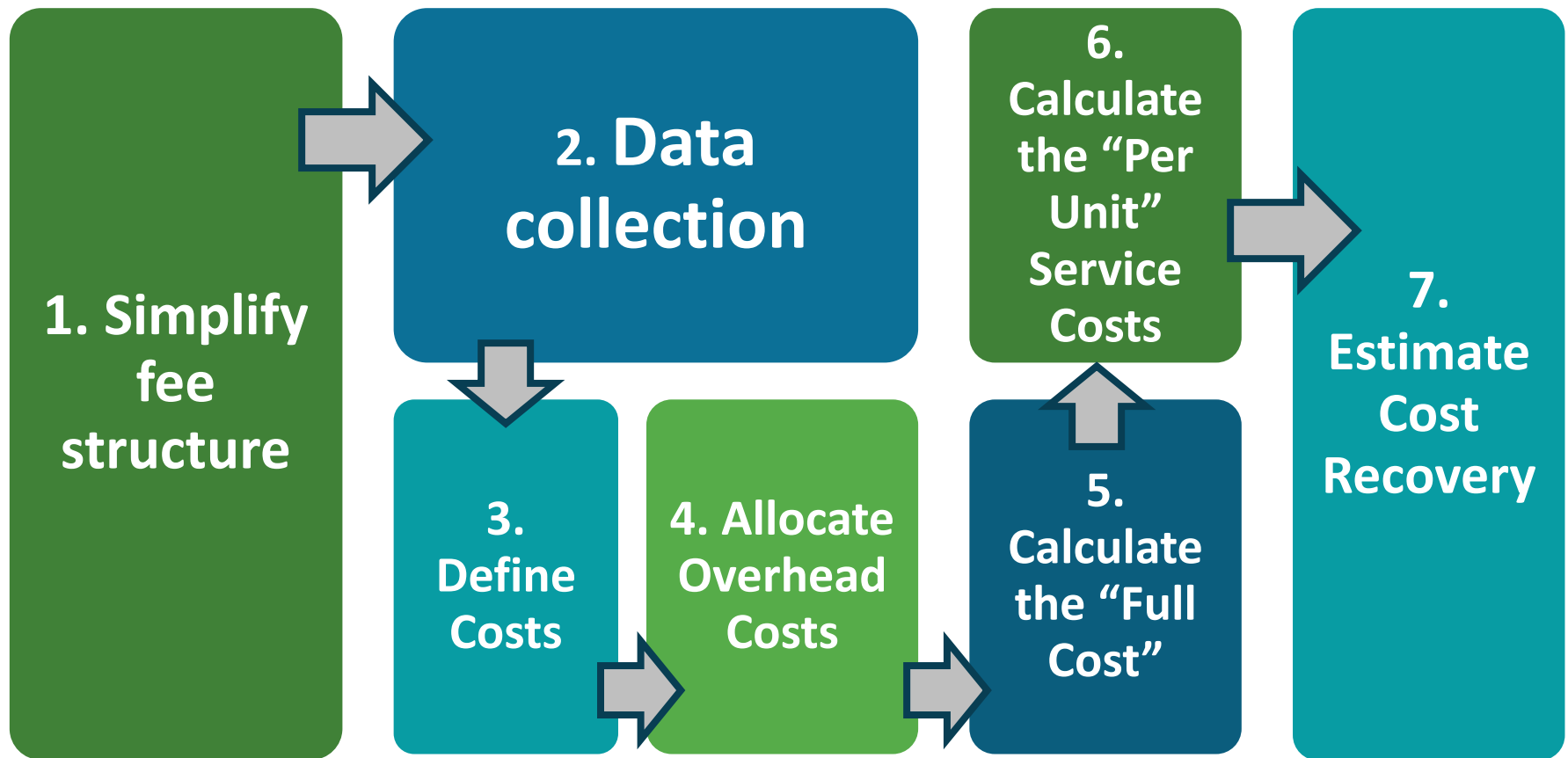
Proposition 26

- Article XII C § 1(e)(3) Inspections and Regulatory Permit are exempt, however...
- Limited to local government's reasonable costs

CA Government Code § 66014(a)

- “Fees may not exceed the estimated reasonable cost of providing the service for which the fee is charged”
- Focus on “estimated reasonable cost”

Cost Recovery Analysis



Simplify Fee Structure

Review current fee structure

- Flat fee vs. time/materials
- Cost valuation vs. per unit
- Fees vs. deposits

Identify service delivery models

- Understand how services are delivered
- Identify the key services required by community

Identify best practices based on experience

- Review fee structures of benchmark agencies
- Consider experience with other California agencies

Recommend changes in fee structure

- Identify opportunities for streamlined, simplified fee structures
- Develop draft fee structure

Fee Structure Improvements

- Planning
 - Implement a “base fee” plus an additional fee based on the type of policy review required for all permit types
 - Implement a deposit-based approach for environmental review fees based on standard hourly rates
 - Eliminate duplicate fee names and categories
 - Eliminate unused fee categories
- Building
 - Revise complex fee formulae and modifiers from the fee structure
 - Change focus from “per-piece” fee categories (e.g., number of electrical outlets) to categories based on occupancy type and square footage of the project
 - Implement greater consistency and easier interpretation of fee categories and calculations

Fee Structure Improvements

- Fire
 - Revise structure to enhance fairness and equitability between smaller and larger projects
 - Modernize fee categories based on current development standards and experience
- Public Works
 - Updated certain entitlement fees to match Planning's new "base fee" methodology
 - Modernized certain fee categories based on current practices
 - No overall major changes made as department had overhauled fee categories in 2008

Data Collection

Time estimate data

- Average hours used to process each fee item
- Time-tracking makes data more reliable
- Direct service delivery time separated from non direct service delivery

Labor costs

- Salary and benefits
- Vacation and sick leave

Non-Labor costs

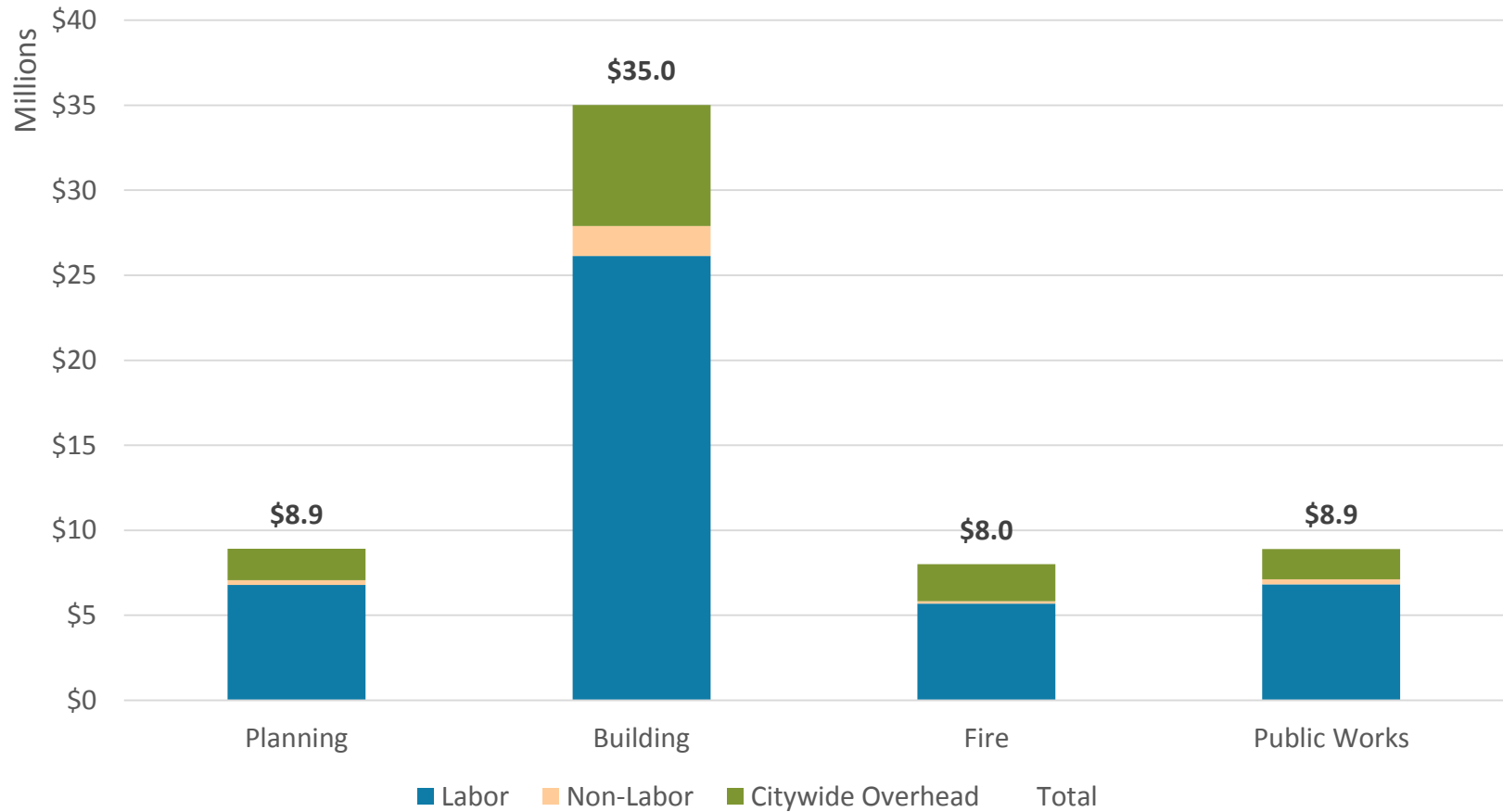
- Office supplies, postage, postage and printing
- Consulting services, temporary staffing
- Technology, vehicles, and other equipment costs
- Citywide overhead costs

Revenues

- Actual permit revenue by fee item

Calculate the Full Cost

Annual Cost of Service by Partner – FY 2016-17



Calculate the Full Cost

Development Services Partners - Total Recoverable Costs by Function

FY 2016-17

	Recoverable Costs			
	Entitlement / Permit Issuance	Plan Check	Inspection	Total
Planning	\$ 8,237,517	\$ -	\$ -	\$ 8,237,517
Building	\$ 4,060,181	\$ 10,482,561	\$ 20,477,177	\$ 35,019,919
Fire	\$ -	\$ 4,060,502	\$ 2,738,718	\$ 6,799,220
Public Works	\$ -	\$ 5,260,328	\$ 3,477,294	\$ 8,737,622
Total	\$ 12,297,698	\$ 19,803,391	\$ 26,693,189	\$ 58,794,278

Note: costs related to public information and general government services have been excluded from the costs summarized above.

Calculate the Per Unit Service Cost

Time Data or Estimates

- Review historical service data (where available) by service
- Develop time estimates by service

Volume Statistics

- Review volume statistics for each type of service
- Identify number of transactions and revenue generated (where available)

Fee Structures

- Incorporate time estimates and burdened hourly rate for each fee item to calculate service cost

Evaluate Cost Recovery

Existing Recovery

- Determine cost recovery for each fee based on current fees compared to updated costs based on fully-burdened hourly rates

Cost Recovery Objectives

- Evaluate Council policy for cost recovery
- Identify opportunities to meet cost recovery objectives

Targeted Recovery from Fees

- Determine level of cost recovery necessary from fees compared to other sources/opportunities

Develop Recommended Fee (Prices)

- Set fees at recommended levels, considering cost recovery objectives

Cost Recovery Results

Baseline Cost Recovery Results – FY 2016-17

Service Area	Estimated Annual Current Fee Revenue	Eligible Cost Recovery from User / Regulatory Fee Revenue	Annual Cost Recovery Gap	Current Cost Recovery Percentage
Planning	\$ 6,233,759	\$ 8,236,419	\$ (2,002,660)	76%
Building	29,007,278	34,776,886	(5,769,608)	83%
Fire	6,360,571	7,551,309	(1,190,738)	84%
Public Works	7,284,758	9,608,301	(2,323,543)	76%
Total	\$ 48,886,367	\$ 60,172,915	\$ (11,286,548)	81%

Overall, the City is recovering **81%** of its eligible costs.

Observations About Cost Recovery

Observations in Other California cities

- Planning and Fire Prevention cost recovery typically operate below 100% with many cities subsidizing with General Fund for economic development purposes
- Building and Public Works typically operate at or near 100% cost recovery

Observations regarding San Jose

- Fees have not been significantly updated or adjusted since 2008
- As costs have risen and fees have remained primarily the same, development services reserves have been used to fund operations

Observations About Cost Recovery

- The 81% aggregate cost recovery masks an important issue – the variation in individual cost recovery by service type
- In NBS' experience, this result in any type of cost recovery analysis is typical
- Purpose is to recalibrate fees to be consistent with the City's cost recovery policy

Observations About Cost Recovery

- The conundrum: how does the City deliver \$60 million of work for \$49 million when development services is expected to be self-supporting?
 - Use of reserves
 - Staff vacancies
 - Stretched turn-around times
 - Lower than desired quality level
- This is not a desirable nor sustainable position

Cost Recovery Options

- Possible options for reducing cost recovery gap
 1. Subsidy from General Fund
 2. Process improvements/streamlining operations
 3. Greater use of technology and implementation of enhanced software solution
 4. Adjust fees to eligible cost recovery model
 5. Deregulation of certain permits (e.g., tree removal)
- One or more options may be used
- What is the appropriate use of these options to close the gap?
- Decision must ultimately be made by City Council in accordance with State law

Cost Recovery Impacts – Project Examples

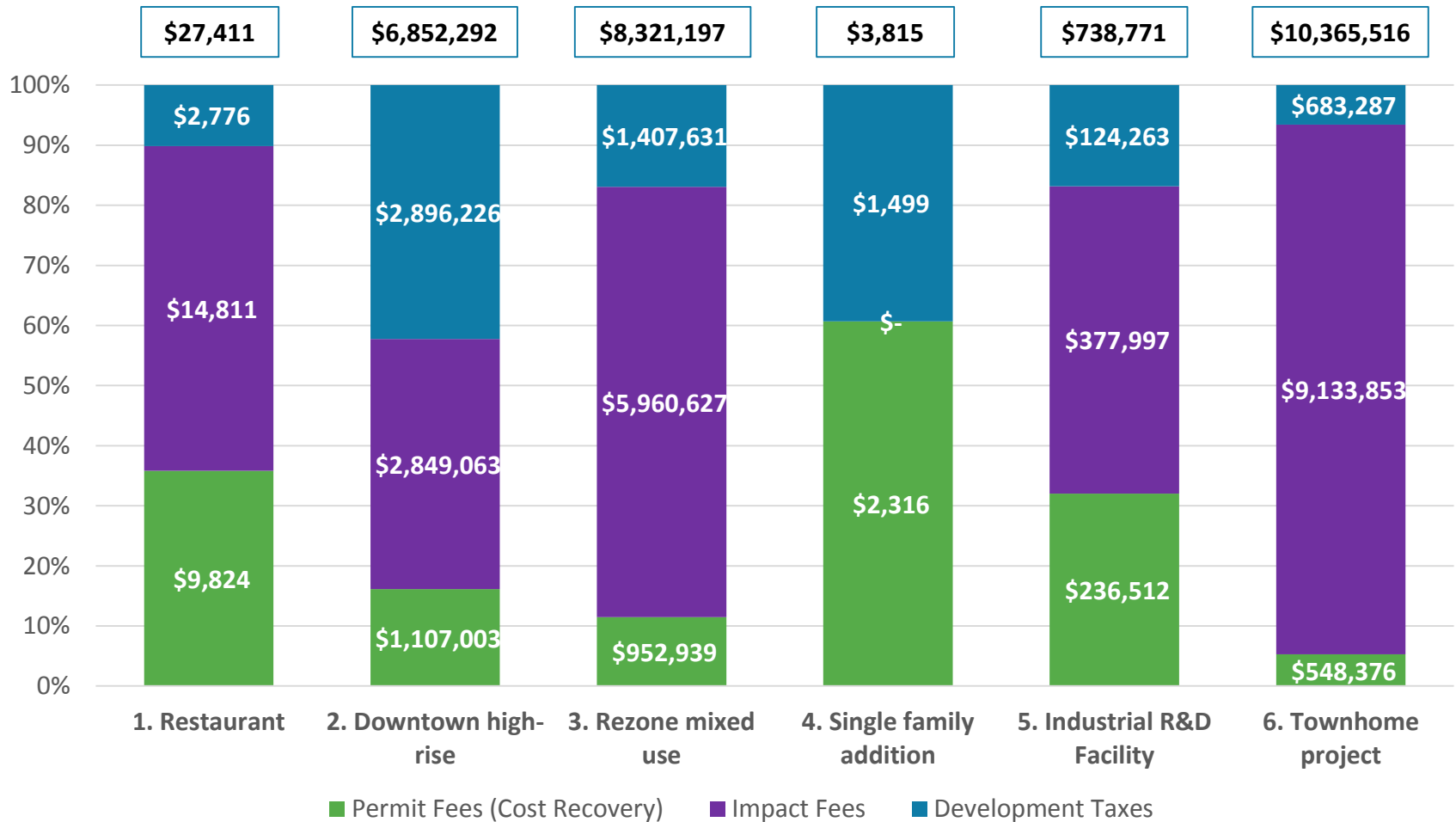
- Cost recovery on individual fees varies
- Six sample projects selected to review impacts
 1. Restaurant in existing space – 2,320 sq. ft. restaurant, conditional use permit existing space
 2. Downtown residential high-rise – 22 story, 330 residential units, 8,000 sq. ft. street-level commercial
 3. Rezoning mixed-use residential above retail – 218 unit apartment building with retail (22,600 sq. ft) and parking garage on 3.6 acre site
 4. Residential addition/alteration – 500 sq. ft addition with kitchen/bathroom remodel
 5. Industrial R&D building – 100,000 sq. ft. 3-story R&D facility on 4.5 acre lot
 6. Single-family residential development – 96 townhomes, 16 buildings, ranging from 1,250 to 1,750 sq. ft. living space each, plus 500 sq. ft. garage

Cost Recovery Impacts on Six Project Examples

Service Area	Estimated Current Fee Revenue	Eligible Cost Recovery from User / Regulatory Fee Revenue	Estimated Cost Recovery Surplus (Deficit)	Current Estimated Cost Recovery Percentage	Impact/Capacity Fees(1)	Development Taxes	Total Cost of Development Based on Proposed Fee Model
1. Conditional use permit (restaurant)	\$ 8,542	\$ 9,824	\$ (1,282)	87%	\$ 14,811	\$ 2,776	\$ 27,411
2. Downtown 22-story Highrise, 330 units, 8k sq. ft. commercial	1,100,636	1,107,003	(6,367)	99%	2,849,063	2,896,226	6,852,292
3. Rezoning mixed use residential above retail	781,640	952,939	(171,299)	82%	5,960,627	1,407,631	8,321,197
4. Single family addition	3,574	2,316	1,258	154%	-	1,499	3,815
5. Industrial R&D facility	216,314	236,512	(20,198)	92%	377,997	124,263	738,771
6. SFR development (96 townhome units)	443,094	548,376	(105,282)	81%	9,133,853	683,287	10,365,516

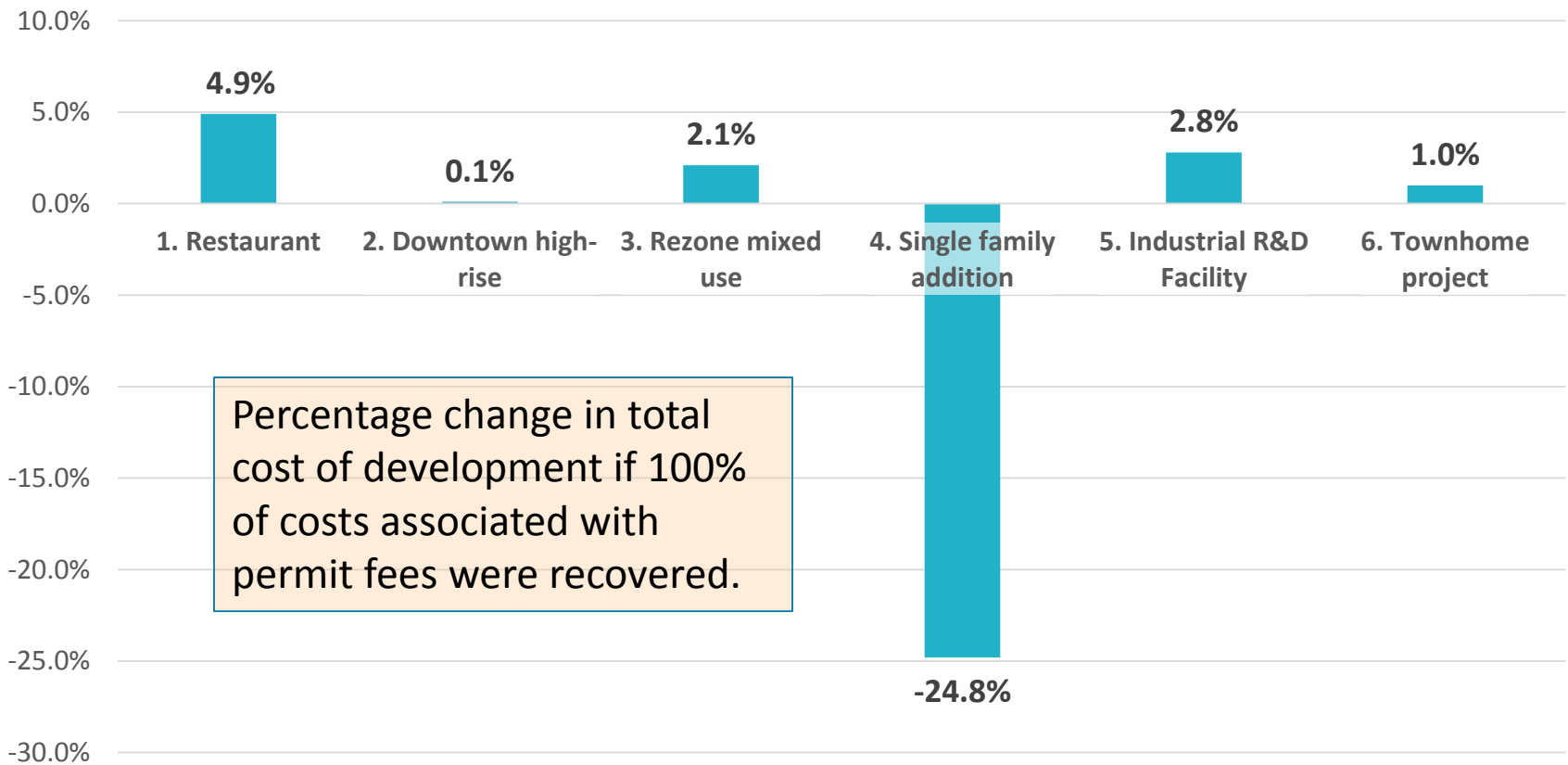
(1) – Impact/capacity fees include such items as habitat conservation plan (HCP), parks impact, storm and sanitary, housing and municipal water impact fees.

Total Cost of Development



Change in Cost of Development

Percentage Change in Total Cost of Development for Six Project Types



The Impacts of Process Improvements

Process improvement choices and tradeoffs

Make the process
more **efficient** and
cost effective



Lowers the cost of doing
business by enabling staff
to do more with the same
amount of resources

Improve the
quality of
customer service



May increase the cost of doing
business by offering enhanced
services (such as proactive
project coordination or next-
day inspections)

Next Steps

- Conduct a Study Session with City Council on December 12 to discuss report and obtain feedback
- Request that City Council accept report (December 12 or 13)
- Identify proper mix of cost recovery options
- Present recommendations to City Council (date TBD)
- Update fee schedule to incorporate City Council direction (date TBD)

Questions?



Contact Information

Andy Belknap | abelknap@managementpartners.com

Nicole Kissam | NKissam@nbsgov.com