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# MEMORANDUM

**To:** Dave Ramsay, City Manager

**From:** Tom Phillips, Building Services Manager

**Date:** September 29, 2008

**Subject:** Issue Paper – Building Division Staffing and Use of Reserves

The purpose of this paper is to address how building division staffing levels should react to fluctuations in the construction market and how to use the development services reserves. Although it is our goal to retain a core of qualified and experienced staff, there will be times when it will need to be decreased or increased. Two issues must be addressed: when to increase or decrease core staffing levels, and how to make the core staffing level as steady as possible.

The core staffing level could be kept relatively steady by utilizing multiple staffing methods. The primary method would be the core staff. These are regular employees (FTEs) that would do all permit processing, plan review and field inspections. A second staffing method would be the use of overtime. A certain amount of overtime should be budgeted each year to accommodate unexpected spikes in workload without hiring additional staff. A third method would be the hiring of temporary staff to help out during longer spikes of increased workload or for specific projects, such as the Evergreen Hospital. The fourth method would be the use of professional consultants. This would most likely be to assist in our review of building and electrical plans but could conceivably be used for permit processing and field inspections. The use of these alternate staffing methods will allow the core staffing level to remain steady for long periods of time.

**Establishing the core staffing level.** The core staffing level is that level which, under typical circumstances provides for the processing of permits, the review of plans and the field inspection in a timely manner, consistent with other cities and the expectations of our customers. This level can be established by comparing historical permit activity with historical staffing levels and customer service levels. Other considerations should include;

- Sufficient workload to support the number of FTEs.
- Sufficient FTEs to provide the City's desired level of customer service.
- Sufficient permit revenue.

In 2005/2006, staffing levels were increased (mostly by converting temporary positions into regular positions) to meet the higher permit activity of 2004 and the years building up to 2004. In 2006 the building staff stabilized at 19.53 employees. This does not include a temporary inspector used for the Evergreen Hospital project. In addition to this staff, the building division used 2 FTEs worth of third party plan reviewers, approximately 1,500 hours of overtime and spent $25,000 on structural and electrical consultant fees. Since these are equal to three FTE's, the number of building staff in 2006 was equivalent to approximately 22.5 FTE.

Our current staff consists of 20.78 employees, which includes 1.5 temporary employees that are scheduled to be terminated by the end of the year. After the temporary positions are terminated the total staffing for the division will equal 19.28 employees. We believe the staffing levels approved in 2005/06 are still appropriate today and propose to base our core staffing level on permit activity in 2004. This level will need to be reviewed periodically so adjustments can be made for long term permitting levels. We propose to set 19.28 as our core staffing level to correspond with the current workload.

There will still be consulting and overtime costs budgeted each year but they are not factored into the FTE equivalent because they will be treated as contingency funds. No consulting services will be used unless the work activity increases and there is additional revenue to offset the consulting fees. No overtime is planned unless it is also associated with additional, offsetting revenue.

**Adjusting the core staffing level.** Adjustments to the core staffing level should be made when there is a sustained change in permit activity or if there is a desire to change our customer service level. The simplest indicator of permit activity is the number of permits issued. In 2004 we issued 3,796 permits. Using the staffing level established in 2005/2006 of 22.5 FTE that would be approximately 170 permits per FTE. With a core staff of 19.28 we should be processing at least 3,278 permits (170 x 19.28). We are projecting to process 3,400 permits in 2008 and 2009. If we fall below 3,108 permits (170 x 18.28) for a sustained period we should reduce our staffing level by one FTE. This linear calculation will not work for significant changes to our staffing levels because we assume our efficiency increases with the more permits we issue.

**What is a sustained period?** We propose to define a sustained period as six months. In 2008 we are projecting to process 3,399 permits, which is just above the cut line. If we were to fall below the cut line (in this case 3,108 permits) for more than six months we would need to reduce our FTEs. On the other hand, if the permit activity increases to more than 3,448 (170 x 20.28) we would consider the use of overtime, consultants or on-calls if our service levels are dropping. If the permit activity is sustained for six months we should consider hiring a temporary employee. If the levels are sustained for 24 to 36 months we should consider converting the temporary position to a regular position.

**Cost recovery ratio.** So what is an appropriate cost recovery ratio? We are proposing to set our target recovery ratio at approximately 1.3 times building costs. This ratio should be sufficient to provide the appropriate revenue for the other departments that process building permits. Based on the 2007 fee study, the allocation of costs to be recovered by building revenues for development services functions is: Building 76%, Fire Protection 1%, Planning 20%, and Public Works 3%.

**Revenue.** Another indicator of permit activity is permit revenue. This must also be reviewed to confirm that the staffing level established above makes good fiscal sense. If the proposed staffing level cannot be supported by the appropriate revenue then our service level must be reduced (decrease the number of employees) or the permit fees increased.

The recovery analysis in the table on the following page compares permit revenue against permit expenditures since 2004, taking into account additions to and recommended uses of the development services reserve. The table shows permit revenue and the cost recovery ratio falling since 2005. The drop in revenue is directly related to the drop in new single family (SFR) permit applications. While the revenue drop significantly affects the cost recovery ratio, the cost recovery ratio was also impacted by the elimination of the third party program. The third party program provided customers with an option to expedite the review process and helped staff manage workload. The third party program allowed most of our new SFRs to be reviewed by a third party at no incremental cost to the city. The elimination of the third party program is being done to maintain our qualified and experienced staff and still provide a review time equal to the third party process and will lower the cost recovery rate to a more realistic ratio.

## Cost Recovery Study 2004-2008

| | Number of Issued Permits | Building Only Expenditures* | Revenues from Permit Fees** | Cash Flow from Reserves - use of/(addition to) | Cost Recovery without use of/ (addition to) Reserves | Cost Recovery Ratio with Reserve |
|---|---|---|---|---|---|---|
| projected 2010 | 3400 | $ 2,244,530 | $ 2,403,500 | $ - | 1.07 | 1.07 |
| projected 2009 | 3400 | $ 2,183,513 | $ 2,403,500 | $ 425,000 | 1.10 | 1.30 |
| projected 2008 | 3389 | $ 2,224,825 | $ 2,416,697 | $ 400,000 | 1.09 | 1.27 |
| 2007 | 3899 | $ 2,195,842 | $ 3,034,150 | $ - | 1.38 | 1.38 |
| 2006 | 4072 | $ 1,997,601 | $ 3,248,885 | $ (530,000) | 1.63 | 1.36 |
| 2005 | 4212 | $ 1,874,020 | $ 3,806,092 | $ (920,000) | 2.03 | 1.54 |
| 2004 | 3796 | $ 1,578,444 | $ 2,908,462 | $ - | 1.84 | 1.84 |

* Expenditures include 3rd party fees through 2008. 3rd Party program is discontinued in 2009

** Revenues from permit fees apply to the full cost of processing those fees, which includes Building (76%), Fire Prevention (1%), Planning (20%) and Public Works (3%)

| Basis of 2009/2010 Expediture Amounts | | | |
|---|---|---|---|
| | 2009 | 2010 | |
| Basic Budget | $ 2,504,645 | $ 2,574,540 | Basic Budget including 3rd party review |
| Cost Reduction Measures: | | | |
| 3rd Party Review | $ 75,424 | $ 75,424 | Elimination of 3rd party review |
| 2 Unfilled PE II's | $ 180,206 | $ 189,084 | Elimination of 3rd party review |
| Overtime | $ 20,000 | $ 20,000 | Assumed 09-10 reductions |
| Operating Supplies | $ 1,500 | $ 1,500 | Assumed 09-10 reductions |
| Computer Hrdwr | $ 1,000 | $ 1,000 | Assumed 09-10 reductions |
| Hourly Wages | $ 17,502 | $ 17,502 | Assumed 09-10 reductions |
| Training | $ 3,750 | $ 3,750 | Assumed 09-10 reductions |
| Professional Consult | $ 21,750 | $ 21,750 | Assumed 09-10 reductions |
| Total Cost Reduction | $ 321,132 | $ 330,010 | |
| | **$ 2,183,513** | **$ 2,244,530** | Budget shown above |

**Use of reserve funds.** The reserve is intended to recognize the workload liability for permits paid for in one year, but the work will take place in a subsequent year. It also provides a mechanism to support core staffing during times of workload decline. The required balance of the reserve fund should be calculated at the end of each year. If the actual fund balance is larger than the calculated size, then that difference should be distributed to achieve a cost recovery ratio of 1.3. If the actual fund balance is smaller than the calculated amount, the difference should be paid into the reserve as a reduction in revenue.

The Annual Distribution of Building Permit Fee Reserves shows a current permit fee liability estimate of $438 409. It also shows that $852,422 could be transferred from the reserve into the general fund to backfill shortfalls in permit revenue. Staff recommends that $400,000 be used to backfill the net shortfall in building revenues in 2008 and an additional $425,000 in 2009.

**Annual Distribution of Building Permit Fee Reserves for 2008 and 2009**

9/22/2008

| | | |
|---|---|---|
| New Single Family Residence Building Permit Fee Liability Estimate: | $ | 201,862 |
| Permit Fee Liability for Commercial Projects: | $ | 236,547 |
| Total Building Permit Fee Liability: | **$** | **438,409** |
| | | |
| Total Amount in Reserves: | $ | 1,290,831 |
| Total Building Permit Fee Liability: | $ | 438,409 |
| Available Reserves: | **$** | **852,422** |
| | | |
| Reserves used in 2008 to achieve a Cost Recovery Ratio of 1.30: | $ | 400,000 |
| Reserves used in 2009 to achieve a Cost Recovery Ratio of 1.30: | $ | 425,000 |
| | | |
| **Total Remaining Reserves after Distribution:** | **$** | **465,831** |

Staff will make quarterly reviews to measure workload and revenue to recommend appropriate adjustments to staffing levels, permit fees and replenishment of reserves.

**Permit fees.** With the establishment of a workload indicator and a cost recovery ratio, permit fees should be adjusted to ensure we reach our cost recovery goals. The permit fee schedule has not been increased since 1997 while our labor and benefit costs have risen substantially. We have reviewed the permit fee tables every 3 years and chose to make changes in the valuations for projects to increase revenues rather than increasing the fees themselves.  Valuation changes allowed for an increase in revenues, generally consistent with inflation, but do not necessarily reflect changes in workload.  In our previous fee studies, our analysis showed permit fees were generating sufficient revenues.  With the changes in requirements and the elimination of 3rd party review, the fees should be revisited during the next update.In addition, our cost recovery ratio should be monitored, with the potential of a  permit fee increaseto ensure a cost recovery ratio of 1.3.  During 2009, staff plans to update the development fee analysis to determine is fees should increase and to assess the workload and revenue anticipated for 2010.  The preliminary budget assumes workload will be flat between 2009 -2010 and that there will be no additional reserve available for use in 2010.  The budget may need to be adjusted at the mid-biennium to reflect changes in the development climate.

**Conclusion.** This document provides a framework for establishing optimum staffing levels and an appropriate cost recovery ratio. It also provides a guideline for using the permit revenue reserves.  These recommendations are intended to provide planning and direction for this budget session.  Their effects must be monitored and validated against unexpected economic trends. Because they are based on general indicators they should be better refined over the next year through detailed analysis.