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CITY MANAGER'S OFFICE
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Budget and Finance Committee
Sacramento, CA

Honorable Members in Session:

SUBJECT: Report Back Comparing Revenues and Expenditures
Associated with Building Permit Fees

SUMMARY

This report reviews the relationships between building permit revenues and expenditures in the Department of Planning and Development's Building Inspection Division. As a whole, the Division is expected to recoup revenues in excess of expenses in periods of high building activity. Conversely, in periods of low construction activity it is anticipated that expenditures will out pace revenues. The Department will continue to monitor the revenues and expenditures associated with building fees so that the equilibrium between boom and bust years will not become distorted.

BACKGROUND

At the request of the Budget and Finance Committee, staff reviewed the revenues received for building inspection and plan checking fees. These revenues were then compared to actual and budgeted expenditures. An in depth fee analysis was completed in January of 1984. This study was conducted under the guidelines of a public/private committee. The current rates are a result of this analysis. The fee structure was established with the intent of recovering the City's costs. The analysis in 1984 projected that with the high level of building activity experienced at that time, revenues would exceed expenditures by 11.4% in a year.

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Building activity level is an important factor in determining revenue offsets from the rates. Such activity has a tendency to rise and fall depending on both national and local economic factors. This causes peaks and valleys in the building industry which in turn affects the ratio of offsets from the fees charged.

When building activity is high, more permits are issued, increasing revenue. This creates a high backlog for the field inspectors and increases overtime costs. However, with high activity the Department can obtain certain economies of scale such as full inspection routes and shorter driving distances. These economies are not obtained in periods of low activity. In fact, when activity goes down revenues will decrease but the Department must maintain a minimum staffing level. In times of high activity the Building Inspections Division revenue should exceed expenditures and in times of low activity the Division's expenditures should exceed revenue. With this in mind, it is the City's intention to recover all costs associated with the program over a period of time.

Exhibit I graphically illustrates revenues versus expenditures from 1978-79 to 1985-86 for the Inspection Division. The graph shows that when the building industry slowed down in 1980-81, expenditures for the Division exceeded revenue. Then when building activity increased in 1982-83 revenue exceeded expenditures. It should also be noted that the rate structure was adjusted in 1984. The affect of the change can be seen in 1984-85 and 1985-86 with the revenues and expenditures coming closer together.

ANALYSIS

The Inspection Division can divide the revenue it collects for services into two major categories: Field Inspections and Plan Checking. This report will look at both of these areas to determine if the offsets from the fees collected are in line with the expenditures. Revenue and expenditures for each of these areas were not separately recorded prior to 1985, so individual trends can not be shown.

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Field Inspections

For building permits that require an inspection, fees are based on valuation. Valuations are calculated using the International Conference of Building Officials (ICBO) standards. Valuations are adjusted annually with the May/June ICBO index and are then applied to a fee schedule. The schedule is at deescalating rate with projects of \$500 valuations charged 4.00% to projects of \$100,000 valuations charged 0.433%. Valuations under \$500 are charged a minimum rate of \$20 and valuations over \$100,000 are charged \$3.00 for every \$1,000 in excess of \$100,000.

Expenditures related to the City's cost in providing field inspection services are budgeted and recorded in three organizations: Building and Housing; Electrical; and Plumbing and Mechanical. In addition to these direct costs, there are indirect costs related to departmental overhead and city wide support to these organizations. Departmental support is calculated by prorating Departmental and Inspection Division administrative expenditures to line operating organizations. The City wide support is calculated by an Indirect Cost Plan that the City adopts each year in conjunction with the Budget. The City can not distinguish costs between residential and commercial for Field Inspections. The computer based information system goals of the Department will eventually enable them to do this.

The FY 1986-87 expenditure budget for Field Inspections is \$1,485,000. Adding on departmental and City indirect costs would bring the budget to around \$2,000,000. The revenues have been budgeted at \$2,416,000 (see Exhibit II). This has revenues budgeted over expenditures by 20%.

The budget however, is only the Division's plan regarding revenues versus expenditures. Actual revenues over expenditures have been determined to be 11.04% for FY 1985-86 (see Exhibit III). For the first six months of FY 1986-87 the revenues exceed expenditures by 12.20%. This difference of \$230,000 a year is in line with the projected amount from the 1984 rates, given the high level of building activity.

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Plan Checking

Plan checking fees are based on valuation of the project. The fee is calculated at 80% of the building permit fees for commercial and at 40% for residential (see Field Inspections).

The City has set up separate organizations to budget and record costs associated with plan checking. The expenditure budget for FY 1986-87 is \$792,000. Adding on departmental and city wide indirect costs would bring the budget to around \$1,173,000. The revenues have been budgeted at \$1,211,000 (see Exhibit II). This has revenues budgeted over expenditures by 3%.

In looking at actual expenditures versus revenues it has been determined that in FY 1985-86 revenues offset 99.26% of expenditures (see Exhibit III). For the first six months of FY 1986-87, revenues exceeded expenditures by 5.00%. This shows that in peak construction periods, the fees cover plan checking costs.

CONCLUSIONS

It appears that the rates set in 1984 for building permits are offsetting expenses as anticipated in peak building periods. The 12% additional offset in field inspections should help cover some of the anticipated shortfalls if a downward change in building activity were to occur. As the Department moves towards automation, the ability to track revenues and expenditures is increasing. With better information available to compare revenues and expenditures, the Department should be able to track these comparisons against the levels of building activity. If the building industry were to take a downward trend towards lower activity, then the Department would be able to examine the revenue offsets in low building periods. At this point the rates should be analyzed to determine the equitably over a period of years with both peaks and valleys.

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RECOMMENDATION

This report is for Budget and Finance Committee information only.

Respectfully submitted,

Brad Wasson

Brad Wasson
Management Analyst

Attachment

APPROVED FOR COMMITTEE INFORMATION:

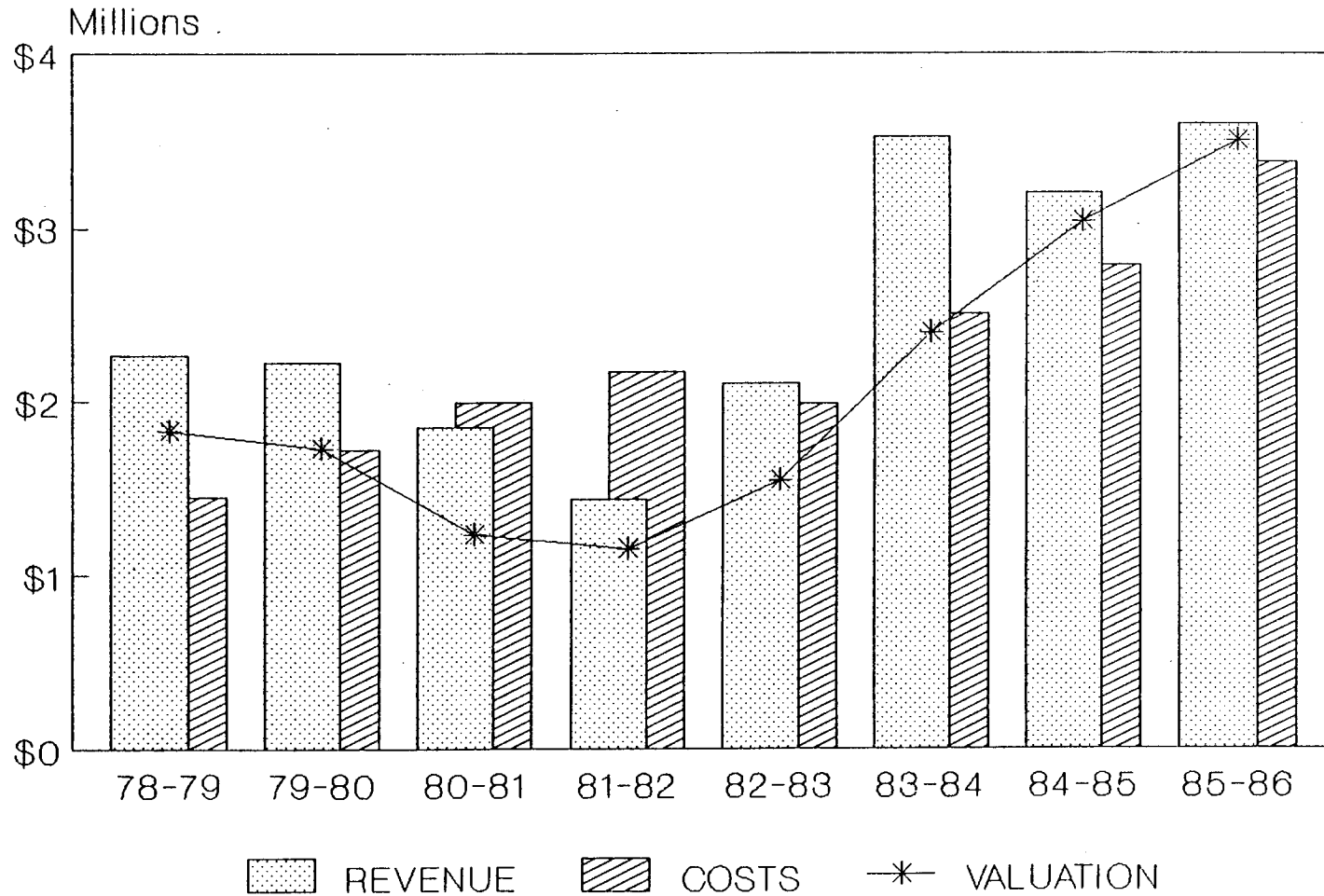
Jack R. Crist

Jack R. Crist
Deputy City Manager

All Districts

EXHIBIT I

INSPECTIONS DIVISION MULTI-YEAR FISCAL TRENDS



VALUATION IS ADJUSTED TO FIT GRAPH

EXHIBIT II

INSPECTION'S DIVISION
1986/87 EXPENDITURE & REVENUE BUDGET
(in 000's)

ORGANIZATION	EXPENDITURE	REVENUE
Administration	\$384	\$0
Field Inspections:		
Building & Housing	568	
Electrical	460	
Plumbing & Mechanical	457	
sub total	1,485	2,416
Commercial Plan Checking	667	
Residential Plan Checking	125	
sub total	792	1,211
Housing & Dangerous Bld. Insp.	311	4
Total	\$2,972	\$3,631

DETAIL OF REVENUE BUDGET

Building Permits	\$2,282
Sign Permits	27
Energy Audit	6
House Moves	5
Demolition Permits	16
SHRA Transfer	80
Plan Checking Fees	1,211
Wrecking Permits	4
Total	\$3,631

NOTES:

The FY 86/87 Approved Budget has a total of \$3,667 offsets. \$36 of these should have been included in the Planning Divisions's Budget.

This schedule includes the \$80 transfer from SHRA.

Expenditures do not include Departmental or City wide indirect costs.

EXHIBIT III

INSPECTION'S DIVISION EXPENDITURES & REVENUES

ACTUAL FOR FY 1985/86

FUNCTION :	COSTS				REVENUES			REVENUE	%
	DIRECT EXPENDITURES	DEPARTMENTAL INDIRECT	CITY-WIDE INDIRECT	TOTAL COSTS	FEES & CHARGES	GRANTS & OTHER	TOTAL REVENUE	OVER/(UNDER) COSTS	OF COSTS OFFSRT
ADMINISTRATION	\$345,583	(\$345,583)	\$0	\$0	\$0	\$2,154	\$2,154	\$2,154	
FIELD INSPECTIONS	\$1,599,605	\$307,770	\$237,541	\$2,144,916	\$2,370,106	\$11,519	\$2,381,625	\$236,709	111.04%
PLAN CHECKING	\$895,062	\$172,213	\$168,092	\$1,235,367	\$1,226,243	\$0	\$1,226,243	(\$9,124)	99.26%
DANGEROUS BUILDINGS	\$280,095	\$53,891	\$82,152	\$416,138	\$0	\$13,875	\$13,875	(\$402,263)	3.33%
TOTAL	\$3,120,345	\$188,291	\$487,785	\$3,796,421	\$3,596,349	\$27,548	\$3,623,897	(\$172,524)	95.46%

ACTUAL FOR FIRST SIX MONTHS OF FY 1986/87 (7/01/86 - 12/31/86)

FUNCTION :	COSTS				REVENUES			REVENUE	%
	DIRECT EXPENDITURES	DEPARTMENTAL INDIRECT	CITY-WIDE INDIRECT	TOTAL COSTS	FEES & CHARGES	GRANTS & OTHER	TOTAL REVENUE	OVER/(UNDER) COSTS	OF COSTS OFFSRT
ADMINISTRATION	\$185,106	(\$185,106)	\$0	\$0	\$0	\$0	\$0	\$0	
FIELD INSPECTIONS	\$763,821	\$141,049	\$113,427	\$1,018,297	\$1,120,381	\$22,118	\$1,142,499	\$124,202	112.20%
PLAN CHECKING	\$376,893	\$69,598	\$70,781	\$517,272	\$543,155	\$0	\$543,155	\$25,883	105.00%
DANGEROUS BUILDINGS	\$180,595	\$33,349	\$26,890	\$240,834	\$0	\$0	\$0	(\$240,834)	
TOTAL	\$1,506,415	\$58,890	\$211,098	\$1,776,403	\$1,663,536	\$22,118	\$1,685,654	(\$90,749)	94.89%