

Memorandum

TO: Tom Harmer, Town Manager

FROM: Allen Parsons, AICP
Director, Planning, Zoning and Building Department

DATE: May 20, 2019

SUBJECT: Building and Fire Permitting Fee Resolution 2019-03

Recommended Action

Adopt Resolution 2019-03.

Background

The Town of Longboat Key's (Town's) Planning, Zoning, and Building Department and Fire Marshal are responsible for overseeing the effective, efficient, fair, and safe enforcement of the Town's Building, Housing, Plumbing, Electrical, Mechanical, and Life/Safety Codes. The permitting and inspection processes provide assurance that buildings and structures have been reviewed and inspected for compliance with the applicable building and life/safety Codes, the Town's ordinances, environmental and flood protection requirements. The Town's building permitting program helps to ensure that all structures and buildings within the Town are safe, and sound for residents and visitors. The application of construction standards, gives building occupants the best chance to avoid fire, structural failure or something as simple as a child getting their head caught between stair posts. A building permit is required for new construction, renovations, the installation of heating and cooling systems, or any plumbing or electrical work.

The permitting and inspection work is primarily performed by the Building Division, which operates as an "Enterprise Fund"¹ The Town conducts periodic examinations of the various user and regulatory fees it collects. Routinely examining the costs of providing fee related services and making deliberate decisions about the recovery of costs and fee modifications helps the Town maintain its fiscal sustainability and respond to the changing needs of citizens, changes in regulations, and changes in the local, regional and National economies.

The Town has engaged the services of BerryDunn (via RFP# 17-036) to assist with analyzing the Town's costs of providing building and fire permit fee related services. The outcomes and recommendations of their study are intended to comply with applicable State and Town laws including providing confirmation that any fees are an equitable and legally defensible level of cost recovery to allow the Building Division to generally operate without a subsidy from the General Fund. The Town last analyzed its building and fire permit fees in 2010 and last updated fee amounts in 2011 (Resolution 2011-27).

¹ An Enterprise Fund is one that is established by a governmental entity to account for operations of an enterprise activity. Enterprise funds generally are segregated as to purpose and use from other funds and accounts of the governmental entity with the intent that revenues generated by the enterprise activity and deposited to the enterprise fund will be devoted principally to funding all operations of the enterprise activity.

The Scope of Services the Town directed the consultant team to perform is summarized below:

- Provide a review and analysis of all identifiable direct costs² for Building and Fire permits and inspections, with an analysis of cost recovery levels up to 100%.
- Provide a review and analysis of amortized capital costs and costs incurred by other Town departments providing support to Building Division, including recommendation of an indirect cost allocation charged to the Building Enterprise Fund.
- Development of a comprehensive user fee schedule accurately reflecting costs of services rendered in an electronic model in Excel, which will be used to monitor performance and adequacy of fees in future years.
- Provide an identification of any existing or new services that the Town is currently not charging or recovering costs for and proposing a recovery rate.
- Provide in the study a comparative fee analysis of comparable jurisdictions (Cities of Sarasota, Sanibel Island & Venice).
- Provide recommendations of amended fees; including development of an electronic model in Excel, which will be used to monitor performance & adequacy of fees.

Beginning in November 2018, staff worked with the consultant to analyze each of the Building and Fire permit and inspection activities and associated fees for service generally involving the following steps:

- Staff Interviews: The consultant team interviewed staff regarding their needs for clarification to the structure of existing fee items, or for addition of new fee items.
- Data Collection: Data was collected for each permit activity and item, including time estimates and volume of activity. In addition, all budgeted costs and staffing levels for Fiscal Year 2019 (FY19) were entered into the consultant's analytical software model.
- Cost Analysis: The full cost of providing each service included in the analysis was established in accordance with generally accepted accounting principles.
- Review and Recommendations by Department Staff: Staff reviewed and approved the documented results and provided proposed fee recommendations based on the principles below.

The following guiding principles were used by the staff in providing recommendations:

- Principle 1: Generally aim for full cost recovery levels. (Direct labor, other dept. support, allocation of non-personnel expense, indirect cost, capital costs)

² Direct costs were calculated based on the level of staff effort, annual demand, and hourly rates determined through budget appropriations. The methodology employed in establishing the full cost of providing services is a widely known and accepted "bottom up" approach to cost analysis, where time spent per unit of fee activity is determined for each position within a department. Once time spent for a fee activity is determined, all applicable costs are then considered in the calculation of the full cost of providing each service.

- Principle 2: Review fees in comparison to peer jurisdictions.
- Principle 3: Maintain sensitivity to cost recoveries for lower cost construction items (e.g. shed permit) in order to avoid incentivizing unpermitted work.

The results of this analysis are provided in the consultant's report in an Excel model that may be used as a tool for understanding current service levels, the cost and demand for those services, and what fees for service could be to achieve full cost recovery along with staff's recommendations (Note: The Excel Fee Study Model is available for review upon request. Preparing the Fee Study Model to meet applicable Americans with Disabilities Act (ADA) requirements for posting on the Town's website was not able to be achieved prior to the Commission meeting.)

The overall analysis indicates that the Town's construction permits recovery rate³ is 74% with 26% being absorbed primarily by existing fund balance. The FY19 budget anticipates \$1,191,358 in revenue and \$1,608,798 in operating and capital costs, resulting in a potential \$417,440 loss, which would be anticipated to be covered by the Town's \$1,200,984 reserve balance. Maintaining such a cost recovery approach is unsustainable in the long term.

The Fee Study provides an analysis and recommendations with regard to the 128 building and fire permit and inspection service categories. The consultant concurs with the following:

- 75 service category increases;
- 3 service category decreases; and
- 50 service categories remaining the same.

The staff recommended fee updates would result in an estimated overall recovery rate of 96% and would generally maintain the existing fund balance. Staff is working with the Town Manager to establish fund balance guidelines that will be utilized going forward to assist with overall fiscal management of the Building Enterprise fund to be self-sustaining and resilient in the face of various uncertainties.

The Town Commission reviewed the proposed methodology at its May 20, 2019 Regular Workshop including a draft updated Fee Schedule (Resolution 2019-03). The Town Commission provided feedback and direction to revise three components of the Resolution:

1. The first has to do with an initial staff recommendation to eliminate a non-refundable 25% partial-application fee that is paid upfront for new construction/renovation building permit applications. This partial fee has not been able to be assessed since the advent of the Town's conversion to the BS&A enterprise system in March 2017. The software firm had consistently indicated such a deposit approach could not be accommodated in their system. Staff, however, is confident that other approaches or alternatives can be utilized to maintain the requirement to pay the partial application fee upfront in order to provide protection to the Town for plan review and intake work that is required upon application submittal, if an applicant were to walk away from an application

³ Recovery rate is the amount of revenue received compared to the cost for providing services.

submittal. This prior recommendation has therefore been withdrawn and is not incorporated into Resolution 2019-03.

2. The second involves the introduction of a new charge per \$1,000 cost of improvements, over and above base construction values for certain permits, providing for a cost recovery mechanism that allows for additional cost recovery for projects that entail additional staff work at larger scales (e.g. seawalls, window replacements). Staff had initially recommended a value of \$10 per \$1,000 cost of improvements, where the consultant's modeling indicated a staff cost of \$12 per \$1,000 represented the cost of service. Staff had initially recommended the \$10 valuation, as this graduated valuation method was being newly introduced to the Fee Resolution and staff was aiming to assess its usage with a somewhat conservative amount below the fully derived cost. In recognition of the Enterprise Fund responsibility to be as fully self-supporting of costs as possible, this valuation method has been updated in Resolution 2019-03 to capture the fully derived cost of \$12 per \$1,000 cost of improvements, over and above base construction values for certain permits.
3. The third is related to maintaining appropriate updates to fees annually without having to conduct a full user fee study. Resolution 2019-03 incorporated annually considering indexing the Town's permit and inspection fees to Consumer Price Index (CPI) for inflation. The Commission also sought to have an additional option which would allow consideration of updating fees based on the annual percentage change in the operating expenses in the Building Enterprise Fund. In this case, a calculation of the change in budget cost as a percentage increase (or decrease) from the previous year can be applied across the board to all department user fees. The Town Commission will be provided the opportunity to consider updating the user fees on an annual basis.

Resolution 2019-03 has therefore been updated to incorporate these changes and to:

1. Generally incorporate the estimated fully burdened cost of staff completing a building permitting/inspection task based on the BerryDunn analysis.
2. Maintain a \$3.00 per square foot fee for new construction/renovation permit.
3. Introduce a new \$12 per \$1,000 cost of improvements, over and above base construction values for certain permits, providing for a cost recovery mechanism that allows for additional cost recovery for projects that entail additional staff work at larger scales (e.g. seawalls, window replacements).
4. Update flat fees for the majority of different types of jobs and independent permits. As recognized by staff, the Commission, and the contractors, there are many types of projects for which the estimated fully burdened cost of performing the plan review and inspections services would be too high. In an effort to keep the fees reasonable and not deter individuals from obtaining the necessary building permit, flat fees which may be considerably lower than the cost of performing the work are included in the recommended fee schedule. Because the safety of the owners and occupants are the utmost concern, the permitting and inspection for many of these types of jobs is imperative. As such, keeping the cost of permitting for the independent permits reasonable is essential. There are also jobs for which a flat

permit fee makes more sense as they are typically very standard jobs that have little deviation. In most cases, the cost of performing these plan review and inspection services would be recuperated.

5. Establish reasonable fees for services that are currently either not directly identified in the Fee Resolution, such as right-of-way vacation applications, or are provided at no charge such as a Zoning Exception and Preliminary Plan Review meeting, that may be assessed following multiple no-cost review meetings and at which an applicant seeks to have detailed review of preliminary plans. These types of tasks are often time consuming for staff.
6. Establish updated hourly rates for staff members based on the fully burdened rates, as applicable for Building and Fire services.
7. Establish that the Town's permit and inspection fees are indexed to the Consumer Price Index (CPI) or based on the annual percentage change in the operating expenses in the Building Enterprise Fund to avoid periodic jumps in fees as charges are reassessed in approximate five year increments. Such increases would be brought to the Commission annually for consideration.
8. Be implemented on October 1, 2019, to allow for contractor notification and preparation of applicable programming changes to the Town's enterprise permit application and issuance system.

In addition, staff will be incorporating an Indirect Cost Rate of 28.3%, per a method authorized by Federal Rules (2 CFR Part 200) of the total payroll of the departments providing direct support to the Planning, Zoning and Building Department, including Town Manager, Town Clerk, Finance, Information Technology, Support Services (Human Resources/Purchasing), and Public Works (Facilities) Departments, into the Town's annual budget.

Staff has shared notice of the Fee Study and its consideration at the Town Commission June 3, 2019 Regular Meeting with almost 4,700 contractors that have done business with the Town both past and present. In addition, staff held an overview and feedback session with the contractors who do the most repeat business with the Town, in various disciplines, on April 11, 2019, to inform and seek their feedback on proposed changes.

Staff Recommendation

Adopt Resolution 2019-03.

Attachments

- A. BerryDunn Draft Comprehensive Fee Study Report (Available in Town Clerk's Office)
- B. BerryDunn Supplemental Memorandum Dated May 21, 2019 (Available in Town Clerk's Office) (Available in Town Clerk's Office)
- C. Updated Fee Resolution # 2019-03 (Available in Town Clerk's Office)
- D. June 3, 2019 Regular Workshop Agenda Item PowerPoint Presentation (Available in Town Clerk's Office)

End of Agenda Item