The Village of ESTERO

Preliminary Building Department Budget Review and Recommendations

August 2016

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Introduction

Calvin, Giordano & Associates, Inc. (CGA) is a multi-disciplinary professional services and consulting firm that has been providing Building Department services to the Village of Estero for seven months. To continue to improve the Village of Estero Building Department, a review of the past seven months is necessary to project operating expenses and revenues for the upcoming FY 2016-2017. The review should include staff quality, staff quantity, positions, expenses and existing revenue (fee schedule). This report is for the purpose of estimating the 2016-2017 budget and will focus workload, operating expenses and revenues.

Overview and Summary

The Village of Estero is a mix of residential single-family homes, residential multifamily buildings and commercial development. The Building Department should expect a continued increase in development in the next couple of years with alterations, additions, new single-family homes, new multi-family residential buildings and the continued expansion and renovation of plazas and the malls. This review will measure the projected workload and the associated estimated cost of providing building permit services and provide the data to reconcile the estimated required fees to pay for those services. The cost of providing building permit services will include building service contract (salaries, overhead/benefits, vehicles, fuel oil gas), operating expenses, information technology, office space, utilities, file retention ect.

A review of the existing revenue must include a note that the data utilized is for a very short period of time and that the transition period with the County is still ongoing. The transition period will see a steady shift from the County to the Village as all County permits are completed and closed out Due to this short duration of the Village data, this review will be based on some assumptions and extrapolations. In order to minimize the immediate changes to the existing customers, the existing permit fee schedule was adopted from Lee County's ordinances. The theory was to minimize changes and if the fee schedule was working for the County, it would be a close fit for the Village. These fees have in fact been just that, a good starting point which minimized front end changes to the existing system. The fee schedule should be evaluated on several key points, transparency/ease of use for clients, level of service (expenses), and revenue.

- Transparency - Contractors and home owners must be able to understand and calculate the proposed fees for a project. Although the Lee County schedule worked to minimize up front changes, it does not lend itself to be the most client friendly schedule in the industry. The existing schedule consists of six pages of fees and can be complicated for a first time customer.
- Level of Service/Expenses – The fee schedule analysis will start with a review of the Level of Service (LOS) expected. As with any industry a significant increase in LOS comes with an increased operating expense. The Village of Estero has a vision to exceed expectations and the standards set by the County and other surrounding municipalities. The LOS must be defined for the Building Department as this could result in a modified staffing level.
- Revenue – Although, the existing fee schedule does cover all building service contract costs, it does not currently collect the revenue required to pay for the

annual operating expenses of the Building Department.

Projected Workload

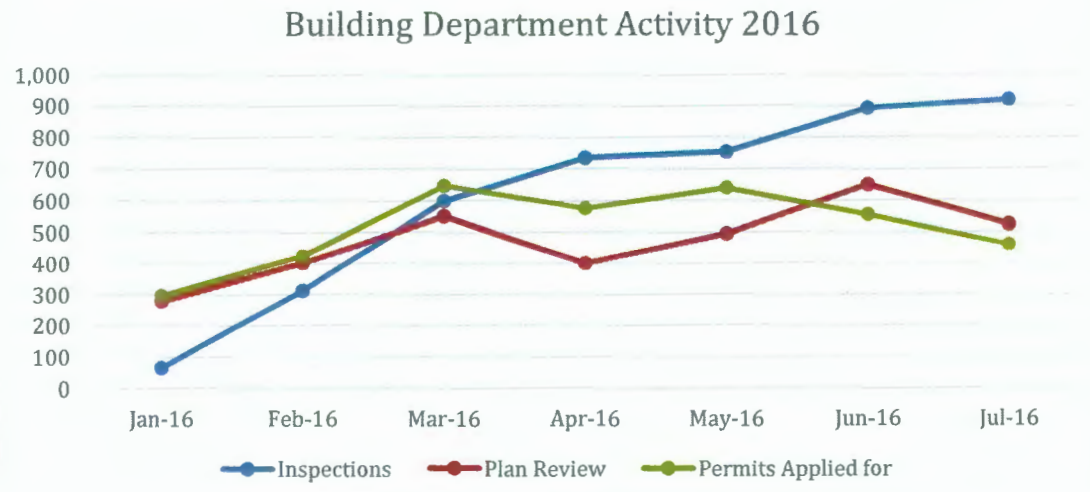
It is important to note that our in-house workload data could be slightly skewed for the following reasons:

1. Not enough historical data
    a. We have only operated the Building Department for 7 months. This short of a period does not allow us to accurately identify the anomalies or the seasonal fluctuations in building activity.
2. County still closing out permits
    a. The transition plan included the County continuing on any permit that was originally opened with the County (prior to June 1). As these "grandfathered" permits close out, the workload at the Village will steadily increase.

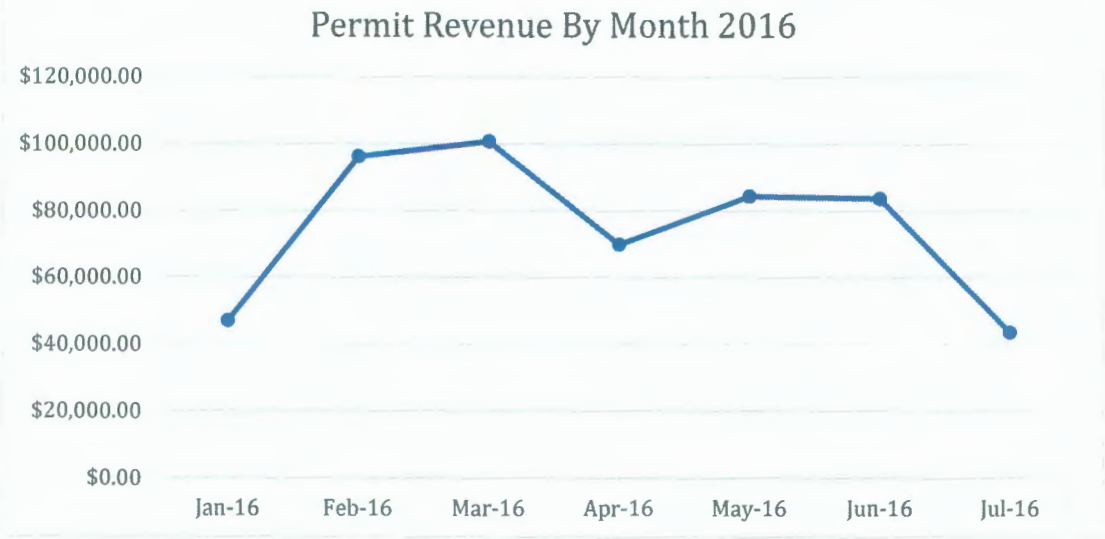
We have included three graphs below depicting the Building Department revenue and activity fluctuations over the last seven months. Graph 1 depicts the number of Inspections, Plan Review and Permits Applied for, Graph 2 depicts the Villages permit revenue by month and Graph 3 depicts the value of construction for permits applied for by month. For the following analysis we will remove January 2016 as it was the "start-up" month and should not be utilized when analyzing the data.

- Inspections have seen an increase of 192% for the period February to July 2016.
- Plan Reviews have seen an increase of 30% for the period February to July 2016.
- Permits Applied for have seen an increase of 8% for the period February to July 2016.
- Total Activities have seen an increase of 67% for the period February to July 2016.

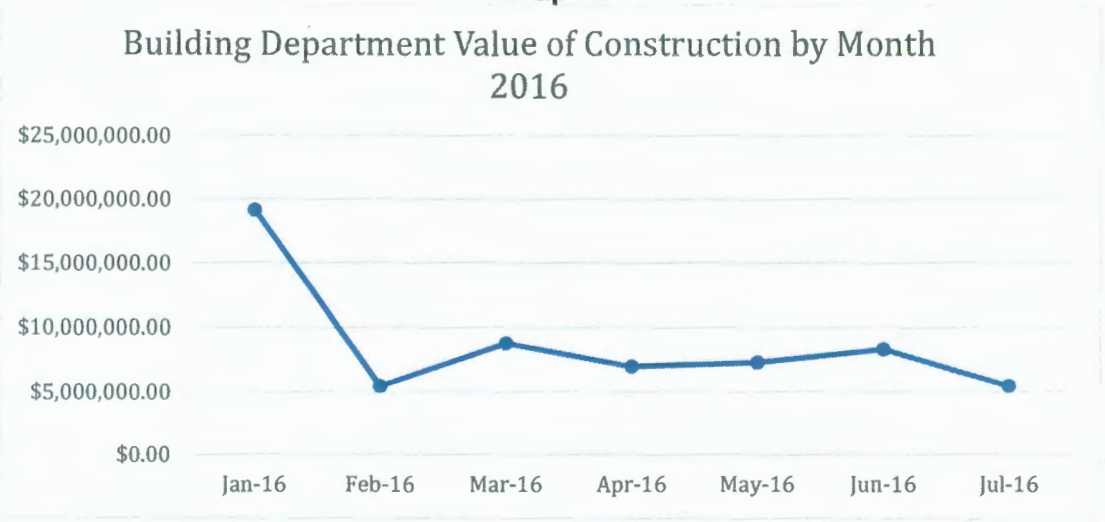
Graph 1



Graph 2



Graph 3



With the current market conditions across the United States and especially in Florida, we anticipate the construction boom to continue through FY 2016-2017. It is our opinion that the increased workload will continue to climb and remain increased throughout the next fiscal year. This increase workload coupled with the Village's mission to provide above industry standard customer service, has led to the request for additional staff positions.

Furthermore, Table 1 below identifies projects that have been submitted to the Village's Planning Department. These projects have a very high probability of coming into the Building Department during FY 2016-2017 for permit applications, plan review and inspections.

Table 1

Project Number	Project Name	Type of Review
16-8717	Coconut Point Tract 1-A	Minor PD Amendment
16-8337	Genova	Development Order
16-8701	The Reef DC12016E-01	Minor PD Amendment
16-8638	The Reef CPA	Comprehensive Plan Text Amendment
16-8556	Tidewater Phase 2 Replat	Preliminary - Plat
16-8516	Dunkin Donuts	Development Order
15-8296	Park Avenue	Right of Way Vacation
15-8297	City Mattress	Development Order
15-8144.1	United Methodist Church	Major PD Amendment
15-8144.2	Springs at Gulf Coast Apt.	Large DO
15-8144.3	Estero Grande	Large DO

Cost Recovery

The projects listed above in Table 1 were reviewed by the Village through Cost Recovery. The purpose of cost recovery is to perform development review services including planning, landscaping, survey, environmental, engineering and traffic engineering, where the applicants pay a fee to cover the actual cost to perform the review. Therefore, tax dollars are not used to cover the costs of site plan review. Cost recovery is specific to a project and covers fees associated with that project. There is an administrative fee provided to the Village. That fee is to cover additional associated costs, such as staff time to set up the project or direct phone calls relating to the project.

Review

The review of the building permit fee schedule includes utilizing in-house data as well as data from other communities. This adjacent data review is always necessary, but in the case of the Village, where only seven months of data is available, it is an essential piece. This data will help us provide an evaluation of the method(s) used to calculate the fees as well as confirm that the proposed rates and expenses are appropriate for the local area.

Five municipalities were initially reviewed to determine suitable comparisons. The five communities were evaluated based on proximity, size, demographics and the availability of their fee schedule. Of the five communities evaluated three were chosen to compare with the Village's building permit fees schedule.

The Village of Estero is unique as to size and demographics. Communities similar in demographics were found to not be similar in size and communities similar in size were

found to not be similar in demographics. This resulted in the selection of two communities that met only two of the three criteria and one community that met only one of the criteria.

Each of the communities chosen will allows us to compare the method of calculating the fees and the rates at which those fees are calculated.

Analysis

The current projected budget, as shown in the Figure below, shows the utilizing the current fee schedule, the department finishes the FY 2016-2017 at a $27,600 deficit.

The following assumptions, extrapolations and estimations were made as part of this estimated budget:

- Revenue
  - The projects located within Table 1 come to fruition.
  - No major developments other than those listed in Table 1 submit permit applications during FY 2016-2017.
  - Current building trends continue to be above average.
- Operating Expenses
  - Building Personnel is increased by one plans examiner/inspector
  - Building Personnel is increased by one part time permit clerk.
  - A 4% increase to the Building Services Contract is awarded to grant the employees covered by the contract a salary increase.
  - Allocations of the INKforce software are equal to 33% of the total cost.
    - INKforce provides 3 modules; BPT, CET and PZ
  - Allocations of the Laserfische software are equal to 29% of the total cost.
    - Including the increased staffing levels, the Building Department accounts for 5.5 of the 19 employees, which equates to 29%.
  - Allocations of the IT Service Contract are equal to 29% of the total cost.
    - Including the increased staffing levels, the Building Department accounts for 5.5 of the 19 employees, which equates to 29%.

Utilizing the above referenced assumptions and allocations, the net operating budget for the Building Services Department results in a deficit of $27,600.00. In order to address this deficit we have reviewed both our operating expenses as well as the permit fee schedule. These two items are the only items which we can control that would affect the net operating budget.

When reviewing the operating costs it is noted that salaries and the associated costs with the salaries equates to 95% of the operating budget. To review the salaries we must review the International Code Council (ICC) report, *"The Future of Code Officials, Results and Recommendations from a Demographic Survey"* as well as review our real world experiences with the current market conditions.

First we will utilize the ICC report and the excerpted Figure 9 as shown below. It is also important to note that this graph was created in August 2014, and is not adjusted for 2016 inflation. This figure shows that one fifth of the respondents earned between $75,000-$99,999 per year. This analysis has shown that the benefits provided are commensurate with the current market and will allow us to remain competitive and retain our staff as desired.

Figure 9: Respondent Salaries

Next, we will utilize our real world experience during our hiring process for the Village project. During our contract start-up and in the recruitment of additional staff, we have encountered a very competitive market. In fact, many times we have been out-bid or out offered before successfully recruiting staff in which meet or exceed the Villages standards. This indicator states that the packages we are offering are within the acceptable range and not over inflated. After reviewing the first adjustable factor, the operating costs, we then moved onto the second adjustable factor, the fee schedule.

The existing fee schedule for The Village of Estero utilizes a fee per SF formula coupled with various other fees. This fee schedule currently results in a permit fee equivalent to 2.5% of the cost of construction for most residential development and 3.0% for most commercial development. There is an existing plan review fee which varies for each development type. This current fee is less than half of the three communities chosen for comparison.

In general, there are three different ways that permit fees are assessed by various municipalities. They are:

1. As a percentage of construction cost.
2. At a per SF rate plus other various fees.
3. Service provided method; where each opening or light switch is counted and a unit fee per item is assessed.

Each of the communities chosen as a comparison use the method of calculating the fee based on the value of construction. This is the preferred method as the other methods of calculating fees lead to lengthy fee sheets and confusion which can lead to inaccurate cost estimates or permit fees charged.

The square foot method does not compensate for changes in the cost of construction and requires annual maintenance to the fee schedule to keep it up to date with increases and decrease in the cost of construction calculated per square foot.

The service provided method or menu method becomes very cumbersome. This method provides a value to each item. For example; each electrical switch is assigned a cost for permitting. The plan reviewer counts the number of electrical switches and adds that fee. Most communities have moved away from these methods to simplify the fee schedule and provide a simple to understand process for calculating fees. It is for these reasons that we recommend revising the current method of calculating the fees and begin utilizing a percentage of value of construction.

Preliminary Recommendations

The Village of Estero Building Department and the Village Manager strive to provide exceptional service at the most reasonable cost. The existing permit fee schedule does not provide sufficient funding to operate this service without being subsidized by the general fund. In reviewing the operating cost of the Village of Estero Building Department and the level of service that the Village expects we recommend the following changes to the Building Permit Fee Schedule

- Adjust the method of permit fee collection to a value of construction cost method.
- Increase the current fee to 3.5% of the cost of construction.
- Require a submittal fee that is applied toward the permit fee of $100 for residential work and 1% the cost of construction for non-residential projects.
- Incorporate a Records Retention (Archive) Fee, a rate of $3.00 per plan page and $.42 per 11" x 17" or smaller.
- Incorporate a Technology Fee at the rate of 0.03% of the value of the construction.

These fees are common in the industry and can be added to any fee system or format desired to balance costs and to dedicate funding for specific purposes. Any system adopted should contain an automatic adjustment clause that would modify the rates according to a given standard such as the CPI (Consumer Price Index) based on the Florida West Coast area, which would occur on an annual basis.