



Office of the City Manager

## **SUPPLEMENTAL AGENDA MATERIAL for Supplemental Packet 1**

**Meeting Date:** March 9, 2021

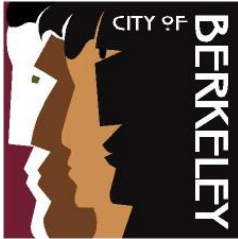
**Item Number:** 5

**Item Description:** Referral Response: Deferral of Remaining Permit, Inspection, Connection, and Impact Fees for 2009 Addison Street and Referral to the City Manager to Develop a Limited-Term Citywide Fee Deferral Program

**Submitted by:** Eleanor Hollander, Acting Manager, Office of Economic Development

In evaluating the fee deferral request, city staff updated its short and long-term projections for the Permit Service Center Fund. At the Budget and Finance Policy Committee on February 25, 2021 (which occurred after this council item was submitted), city staff provided an update on the financial condition of the Permit Service Center Fund, along with an initial outline of potential revenue-generating and cost containment measures should the City experience a slowdown in construction activity. Materials provided to the Budget and Finance Policy Committee by the Planning and Development department are submitted to City Council in this Supplemental Report in the two attached documents:

1. Permit Service Center (PSC) Fund Status Update (February 25, 2021)
2. Permit Service Center Fund Update and Projection (February 25, 2021)



Planning Department

Date: February 25, 2021  
To: Budget & Finance Policy Committee  
From: Jordan Klein, Interim Director, Planning & Development Department  
Pankti Clerk, Administrative & Fiscal Services Manager  
Subject: Permit Service Center (PSC) Fund Status Update

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This memo provides an update on the Permit Service Center Fund, including projections for fund revenues over the next five years and strategies for maintaining a balanced fund and stable reserve into the future.

### **Background**

The Permit Service Center (PSC) Fund is an enterprise fund administered by the Planning & Development Department (Department) to collect revenues and expend funds for services related to the review and issuance of a variety of permits, including building permits, zoning permits, fire permits, and public works permits. The fund is established based on state laws that authorize municipalities to assess permit fees, and fund expenses are limited to activities related to construction permits and land use entitlements.

PSC Fund revenues comprise approximately 75% of the Department's total budget, and contributes funding for approximately 90% of the Department's employees, including all 43 employees in the Building & Safety Division. The fund also covers expenses for 9 employees in other departments (Public Works, Fire, and Human Resources).

### **Fund Balance**

The PSC Fund maintains a fund balance that primarily consists of fees received for outstanding services to be provided (including application review, plan checks and inspections). As the Fund builds a reserve over time, the Department relies on it to make investments in essential infrastructure upgrades, such as a recent overhaul of the Permit Service Center and a planned upgrade to the City's digital permitting software. A healthy fund balance also enables the Department to continue the steady provision of services during periods of economic contraction. An independent auditor recently recommended that the Department maintain a fund balance equal to one year of expenses. The FY20 year end fund balance was \$14.8M; FY20 expenses were \$17.8M.

### **Fund Projections**

Historically, the development and construction industry has experienced 7- to 10-year activity cycles. During periods of economic contraction, the industry's activity slows, resulting in a lag in corresponding reductions in municipal revenues related to

development. The last down period occurred roughly a decade ago, and therefore it would be prudent to plan for an upcoming downturn in PSC Fund revenues. An additional complicating factor is the COVID-19 pandemic, whose impacts on the industry are difficult to forecast. While building permit activity has held steady during the pandemic, staff have observed a decline in zoning permit applications that may signal an upcoming decline in building activity.

Planning & Development Department staff developed fund projections to guide the development of the Department's budget and planned expenditures for FY22 and beyond. To inform these projections, staff evaluated past performance of the Fund, including the period during and following the last downturn; analyzed the current development pipeline and projected revenues associated with those anticipated projects; consulted with staff in other municipalities that are also developing forecasts; and consulted with clients and members of Berkeley's development community.

### *Revenues*

Given the uncertainty inherent to these projections, staff developed three potential revenue scenarios (see Attachment 1 PSC Fund Scenarios):

- A conservative scenario that projects a 20% decline through FY22 and slow recovery;
- A mid-range scenario that projects a less dramatic decline and quicker recovery to pre-pandemic average revenue levels; and
- An optimistic scenario that projects a 10% decline through FY22 and a rapid recovery (by 2023) to pre-pandemic average revenue levels.

### *Expenses*

Personnel costs are anticipated to rise by 3% annually. Non-personnel expenses are anticipated to rise by 2% annually. The projections do not include expenses related to new digital permitting software, increases in inter-departmental transfers, or any projections for fee deferrals under consideration for the Berkeley Repertory Theater's project at 2009 Addison (or for any other projects).

### *Fund Balance*

Each of the three scenarios will require the use of reserve funds to sustain operations. In the conservative and mid-range scenarios, the fund balance is projected to fall to zero within the next 3 to 5 years, absent a reduction in expenditures.

### **Fund Balancing Strategies**

These forecasts imply that the PSC Fund faces structural challenges that will require a multi-faceted strategy to balance the fund. Possible measures include:

- Reduce non-personnel expenditures.
  - As permit application volume declines, reduce expenditures on contract services for permit review.
  - Defer investment in new digital permitting software (approximately \$4M) until it is clear that the PSC Fund can support the expense.
  - Avoid any new major capital expenditures.

- Ensure fee waivers and long-term deferrals are back-filled by other funding sources.
- As permit application volume declines, leverage natural attrition to temporarily hold positions vacant until permit activity rebounds.
- Conduct a fee analysis and update the department's fee schedule. The last update was completed in 2017.

### **Next Steps**

Staff will continue to analyze revenues and update projections on a monthly and quarterly basis. The Planning & Development Department will present its FY22 budget proposal to the Budget & Finance Committee in April.

### **Attachments:**

#### 1. PSC Fund Scenarios

Cc: Dee Williams-Ridley, City Manager  
Paul Buddenhagen, Deputy City Manager  
David White, Deputy City Manager  
Teresa Berkeley-Simmons, Budget Manager  
Rama Murty, Senior Management Analyst

**Permit Service Center Fund Projection: Mid-Range Scenario**

	FY 2016 Actuals	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY2021 Projected	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected
<b>Beginning Balance</b>	12.62 M	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	13.26 M	8.75 M	4.46 M	.42 M
<b>Revenues</b>	<b>14.90 M</b>	<b>17.61 M</b>	<b>16.86 M</b>	<b>15.74 M</b>	<b>20.50 M</b>	<b>16.88 M</b>	<b>14.35 M</b>	<b>15.07 M</b>	<b>15.82 M</b>	<b>17.01 M</b>
<i>Comparison to Prior Year</i>		118%	96%	93%	130%	82%	85%	105%	105%	108%
<b>Expenditures</b>	16.28 M	17.35 M	15.69 M	16.40 M	17.74 M	<b>18.37 M</b>	<b>18.85 M</b>	<b>19.36 M</b>	<b>19.86 M</b>	<b>20.39 M</b>
<i>Personnel</i>	9.32 M	9.95 M	11.22 M	11.11 M	12.21 M	11.52 M	11.87 M	12.22 M	12.59 M	12.97 M
<i>Non-Personnel</i>	6.96 M	7.38 M	4.38 M	4.78 M	5.51 M	6.80 M	6.94 M	7.07 M	7.22 M	7.36 M
<i>Transfers</i>		.03 M	.10 M	.51 M	.03 M	.05 M	.05 M	.06 M	.06 M	.06 M
<b>Annual Surplus/Shortfall</b>	-1.38 M	.25 M	1.16 M	-.66 M	2.76 M	-1.49 M	-4.50 M	-4.29 M	-4.05 M	-3.38 M
<b>Ending Balance</b>	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	13.26 M	8.75 M	4.46 M	.42 M	-2.96 M

**Notes & Assumptions:**

1. FY21 revenue projection is equal to budgeted amount.
2. Revenue projections for FY23-FY25 based on mixed performance from FY16-FY20.
3. Personnel expenditures are projected based on FY21 budgeted payroll expenditures with 3% annual increase.
4. Non-personnel expenditure based on FY21 budgeted expenditures with 2% annual increase.

**Permit Service Center Fund Projection: Conservative Scenario**

	FY 2016 Actuals	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY2021 Projected	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected
<b>Beginning Balance</b>	12.62 M	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	12.38 M	6.33 M	- .23 M	-6.01 M
<b>Revenues</b>	<b>14.90 M</b>	<b>17.61 M</b>	<b>16.86 M</b>	<b>15.74 M</b>	<b>20.50 M</b>	<b>16.0 M</b>	<b>12.80 M</b>	<b>12.80 M</b>	<b>14.08 M</b>	<b>15.49 M</b>
<i>Comparison to Prior Year</i>		118%	96%	93%	130%	78%	80%	100%	110%	110%
<b>Expenditures</b>	16.28 M	17.35 M	15.69 M	16.40 M	17.74 M	<b>18.37 M</b>	<b>18.85 M</b>	<b>19.36 M</b>	<b>19.86 M</b>	<b>20.39 M</b>
<i>Personnel</i>	9.32 M	9.95 M	11.22 M	11.11 M	12.21 M	11.52 M	11.87 M	12.22 M	12.59 M	12.97 M
<i>Non-Personnel</i>	6.96 M	7.38 M	4.38 M	4.78 M	5.51 M	6.80 M	6.94 M	7.07 M	7.22 M	7.36 M
<i>Transfers</i>		.03 M	.10 M	.51 M	.03 M	.05 M	.05 M	.06 M	.06 M	.06 M
<b>Annual Surplus/Shortfall</b>	-1.38 M	.25 M	1.16 M	-.66 M	2.76 M	-2.37 M	-6.05 M	-6.56 M	-5.78 M	-4.90 M
<b>Ending Balance</b>	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	12.38 M	6.33 M	-.23 M	-6.01 M	-10.91 M

**Notes & Assumptions:**

1. FY21 revenue projection equals approximately 95% of budgeted.
2. Revenue projections for FY22-FY25 based on performance during FY09-FY12 downturn period.
3. Personnel expenditures are projected based on FY21 budgeted payroll expenditures with 3% annual increase.
4. Non-personnel expenditure based on FY21 budgeted expenditures with 2% annual increase.

**Permit Service Center Fund Projection: Optimistic Scenario**

	FY 2016 Actuals	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY2021 Projected	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected
<b>Beginning Balance</b>	12.62 M	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	14.38 M	11.73 M	9.38 M	7.80 M
<b>Revenues</b>	<b>14.90 M</b>	<b>17.61 M</b>	<b>16.86 M</b>	<b>15.74 M</b>	<b>20.50 M</b>	<b>18.0 M</b>	<b>16.20 M</b>	<b>17.01 M</b>	<b>18.29 M</b>	<b>19.66 M</b>
<i>Comparison to Prior Year</i>		118%	96%	93%	130%	88%	90%	105%	108%	108%
<b>Expenditures</b>	16.28 M	17.35 M	15.69 M	16.40 M	17.74 M	<b>18.37 M</b>	<b>18.85 M</b>	<b>19.36 M</b>	<b>19.86 M</b>	<b>20.39 M</b>
<i>Personnel</i>	9.32 M	9.95 M	11.22 M	11.11 M	12.21 M	11.52 M	11.87 M	12.22 M	12.59 M	12.97 M
<i>Non-Personnel</i>	6.96 M	7.38 M	4.38 M	4.78 M	5.51 M	6.80 M	6.94 M	7.07 M	7.22 M	7.36 M
<i>Transfers</i>		.03 M	.10 M	.51 M	.03 M	.05 M	.05 M	.06 M	.06 M	.06 M
<b>Annual Surplus/Shortfall</b>	-1.38 M	.25 M	1.16 M	-.66 M	2.76 M	-.37 M	-2.65 M	-2.35 M	-1.58 M	-.73 M
<b>Ending Balance</b>	11.23 M	11.49 M	12.65 M	11.99 M	14.75 M	14.38 M	11.73 M	9.38 M	7.80 M	7.07 M

**Notes & Assumptions:**

1. FY21 revenue projection is based on actuals through 1.26.21.
2. Revenue projections for FY23-FY25 based on strong economic recovery period during FY13-FY15.
3. Personnel expenditures are projected based on FY21 budgeted payroll expenditures with 3% annual increase.
4. Non-personnel expenditure based on FY21 budgeted expenditures with 2% annual increase.

# Permit Service Center Fund Update & Projection

Jordan Klein & Pankti Clerk

Planning & Development Department

February 25, 2021



# Permit Service Center (PSC) Fund Overview

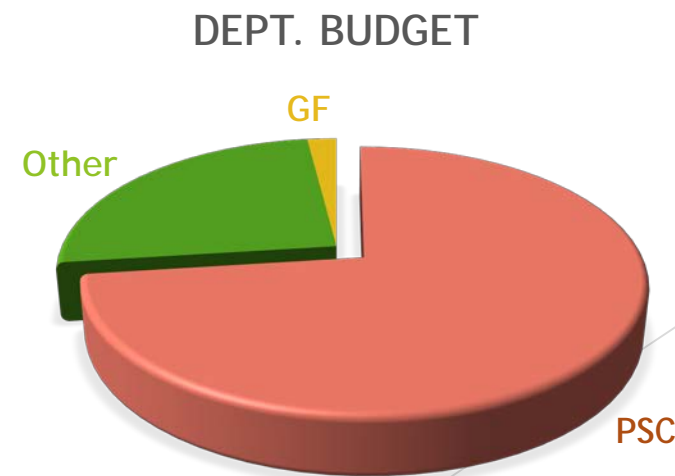
- ▶ Enterprise Fund created in 1997
- ▶ Planning Department's Building & Safety Division
- ▶ State laws authorize permit fees for services
- ▶ Spending is restricted to a limited set of expenditures related to construction permits and land use entitlements

# PSC Services

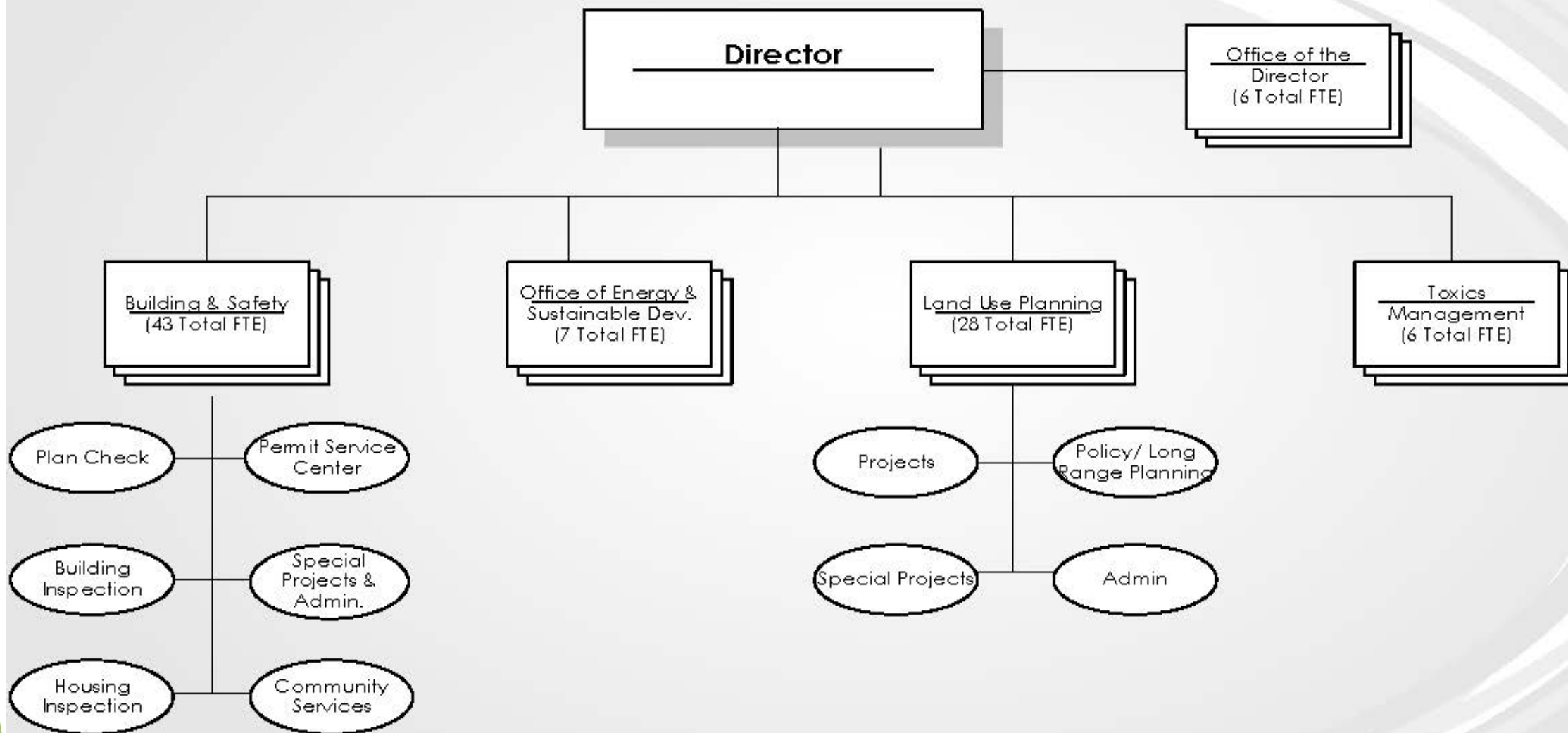
- ▶ One-stop-shop for issuing:
  - Building permits
  - Zoning permits
  - Fire permits
  - Public works permits and more
- ▶ Multi disciplinary team to deliver services
- ▶ Ensure safe development and construction

# PSC Fund Overview

- ▶ Approx. 70-75% of the Planning Department budget
- ▶ Provides funding for approx. 90% of FTEs in the Dept.; 43 FTEs B&S Div.
- ▶ Approx. 9 FTEs non-Planning Dept.  
(PW:5; Fire:3; HR:1)
- ▶ FY20 Revenue: \$20.5M
- ▶ FY20 Expenses: \$17.8M



**Planning and Development Department**  
ALL DIVISIONS  
(90 Total Career FTE)



# Fund Balance

- ▶ Much of our fund balance consists of fees for outstanding services to be provided
- ▶ Healthy reserve is essential to department operations
- ▶ Zucker Report (2017) recommended PSC Fund maintain reserves equal to 1 year of expenses
- ▶ FY20 Expenditures: \$17.8M
- ▶ FY08-FY20 (13yr Average) Expenditures: \$12M
- ▶ FY20 Ending Fund Balance: \$14.8M
- ▶ Goal: \$15M

# Methodology & Forecasting

- ▶ Analyzing past & present performance, performance during the 2009-11 downturn
- ▶ Analyzing how COVID-19 is impacting us / the development economy now
  - ❖ Significant drop in Land Use Permit applications
- ▶ Communicating w/ clients and partners
- ▶ Communicating w/ other municipalities



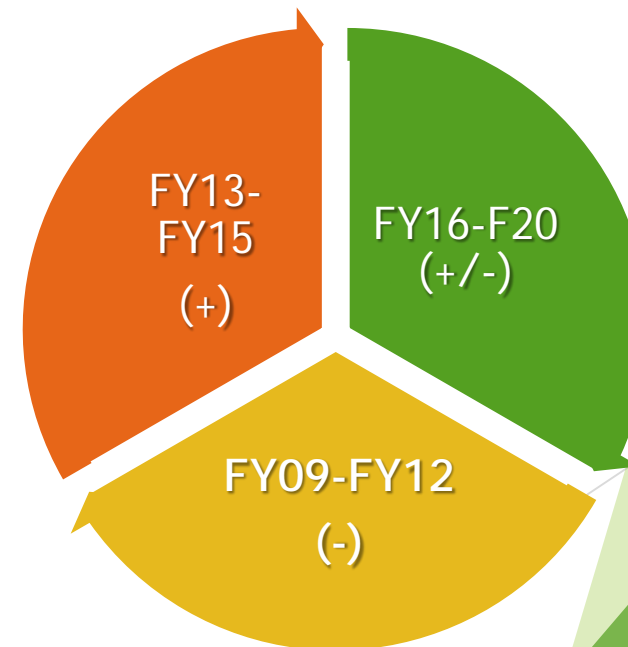
# Regional Projections (FY22)

- ✓ Oakland/Alameda area
- ✓ Walnut Creek
- San Jose
- Santa Clara
- Palo Alto
- ✓ Hayward



# PSC Fund Historical Performance

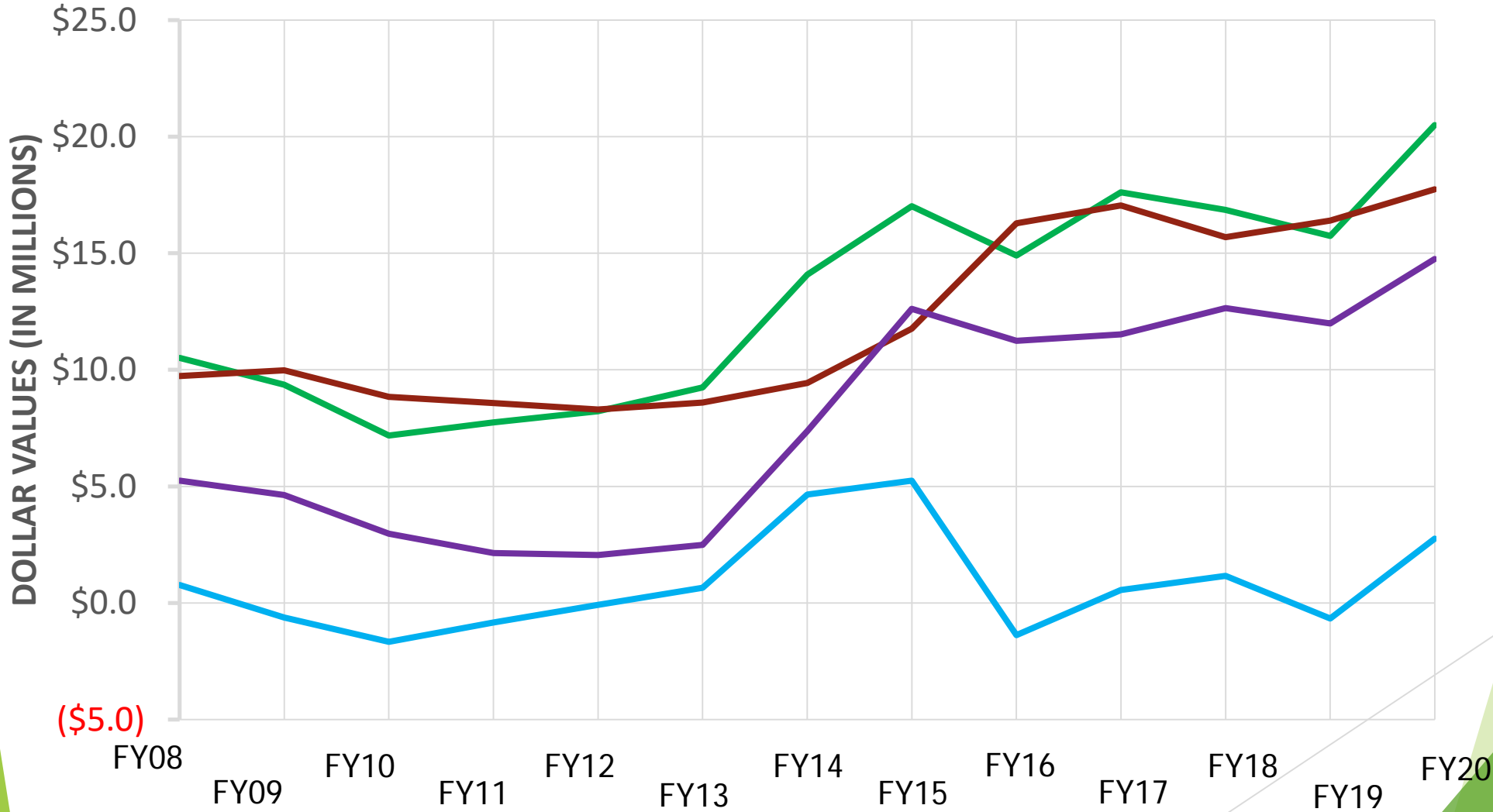
- ▶ Development and Construction Industry: historically experiences 7- to 10-year activity cycles
- ▶ FY09-FY12: Last economic downturn (Annually: Shortfalls)
- ▶ FY13-FY15: Upswing (Annually: Surplus)
- ▶ FY16-FY20: Mixed recovery (Annually: Mix of surplus & shortfalls)





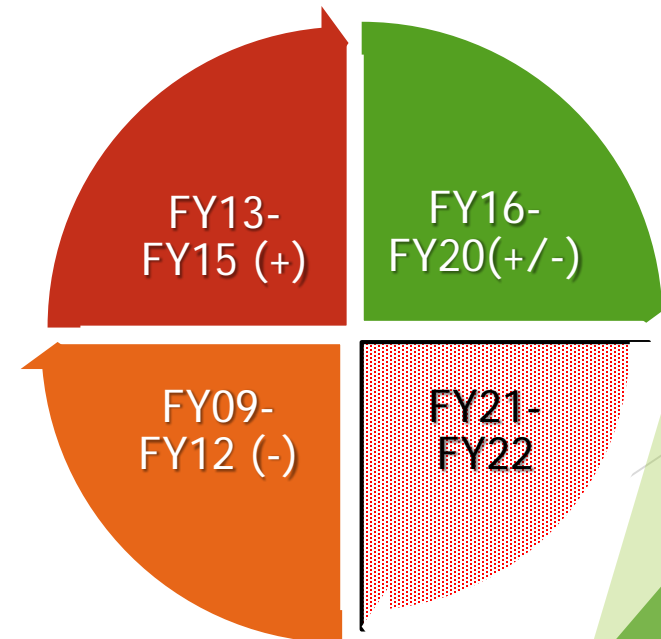
# PSC FUND (FY08-FY20)

Revenue Expenses Annual (+/-) Fund Balance



# PSC Fund Historical Performance

- ▶ Development and Construction Industry: historically experiences 7-10 yr. activity cycles
- ▶ FY09-FY12: Last economic downturn (Annual: Shortfalls)
- ▶ FY13-FY15: Upswing (Annual: Surplus)
- ▶ FY16-FY20: Soft revenues (Annual: Mixed)
- ▶ FY21-FY22: Now?



# PSC Fund, Five-Year Projections

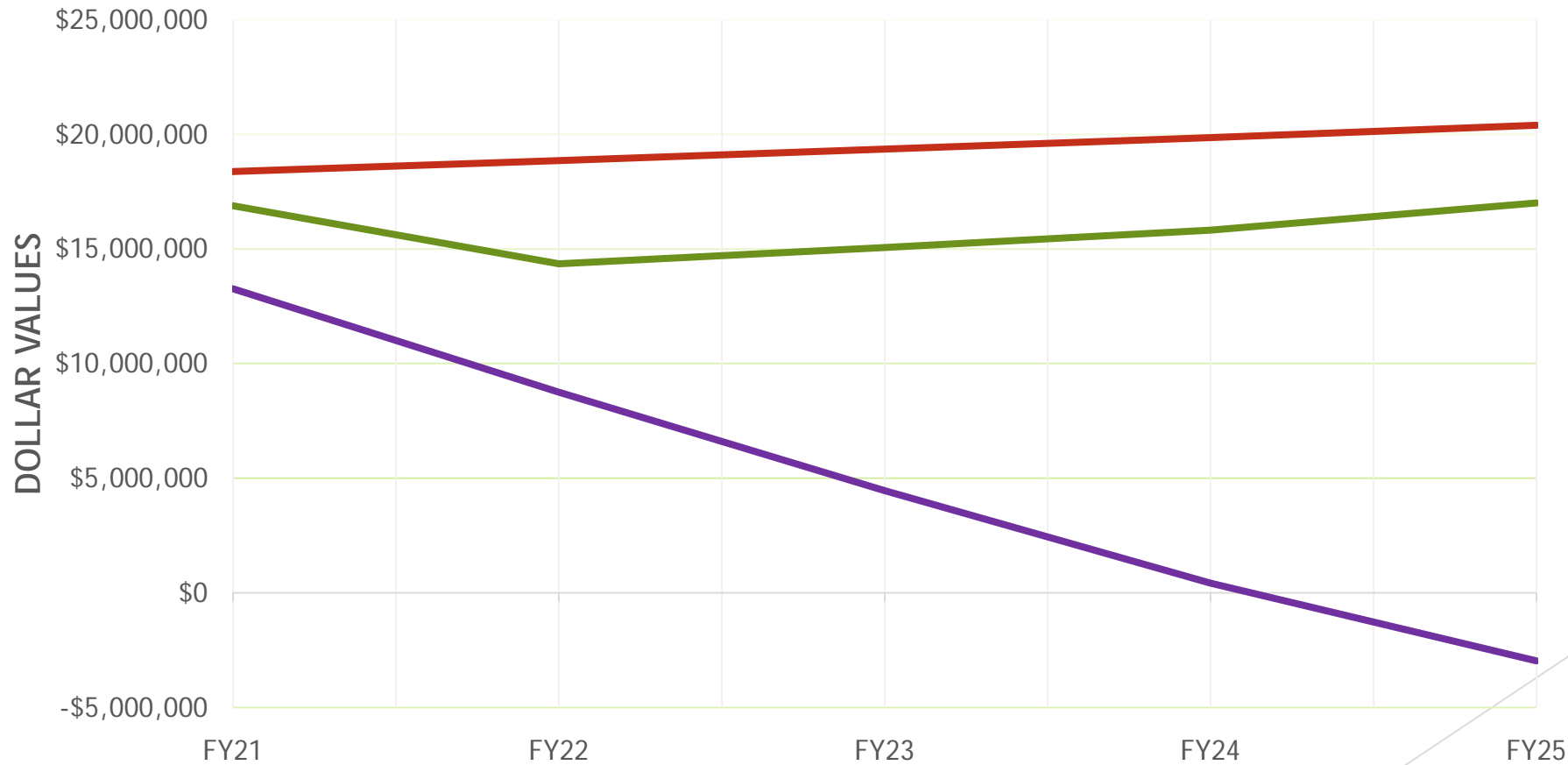
- ▶ Three Scenarios for What the Future Holds
  - ▶ Mid-Range
  - ▶ Conservative
  - ▶ Optimistic



# Projections: Scenario 1 (Mid-Range)

## PSC FUND PROJECTIONS (FY21-FY25)

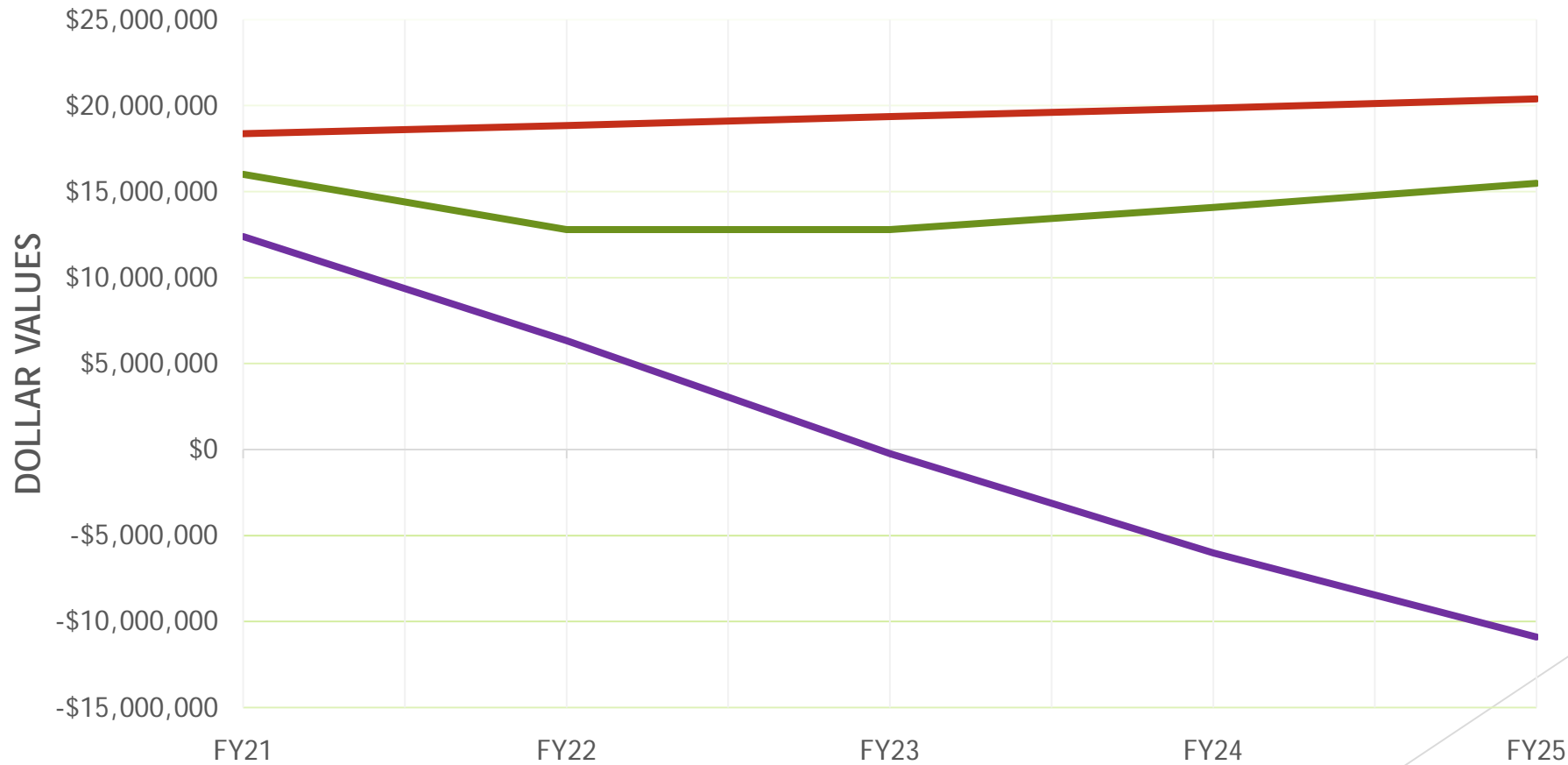
Revenue Expenses Fund Balance



# Projections: Scenario 2 (Conservative)

## PSC FUND PROJECTIONS (FY21-FY25)

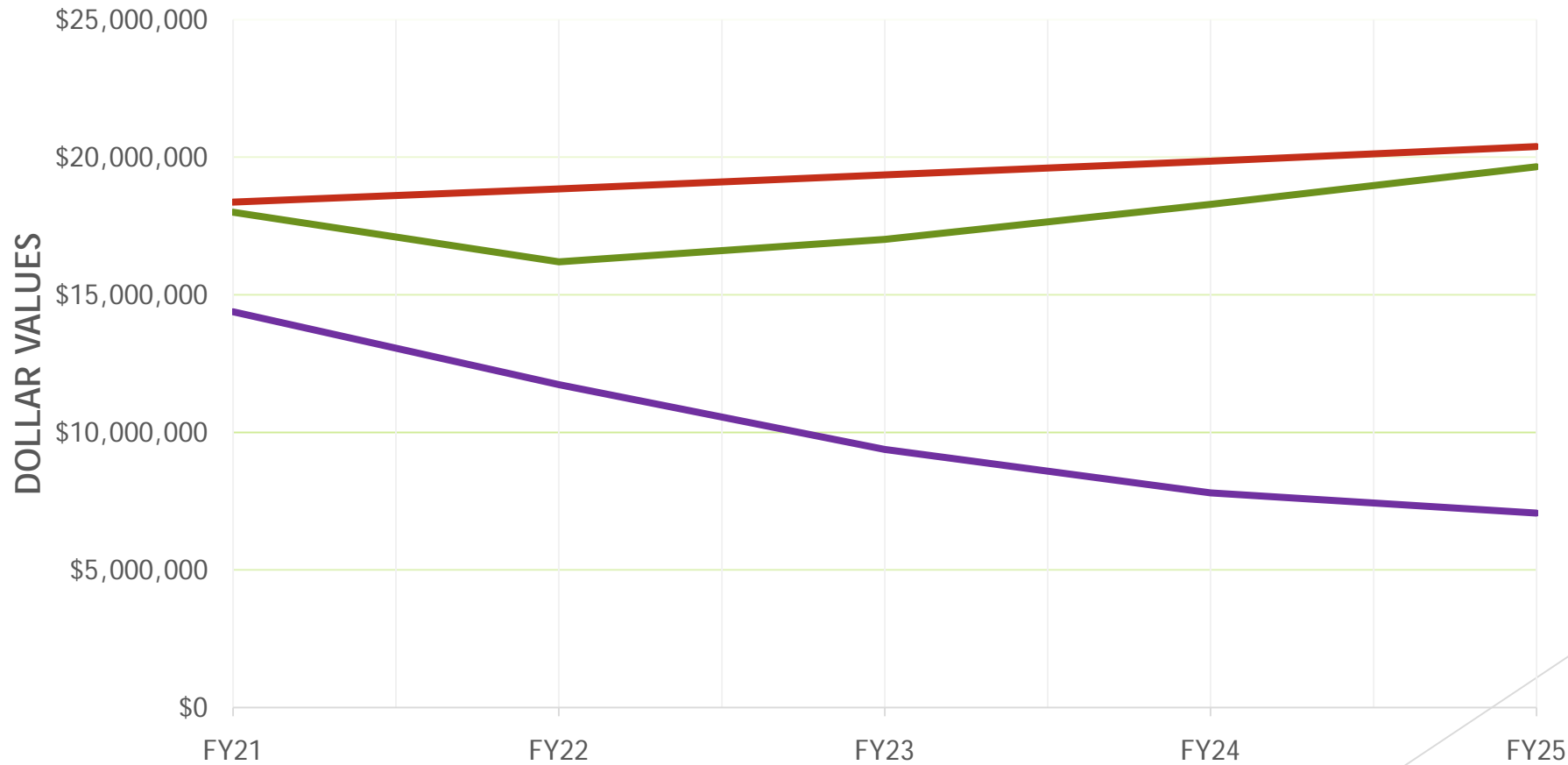
Revenue Expenses Fund Balance



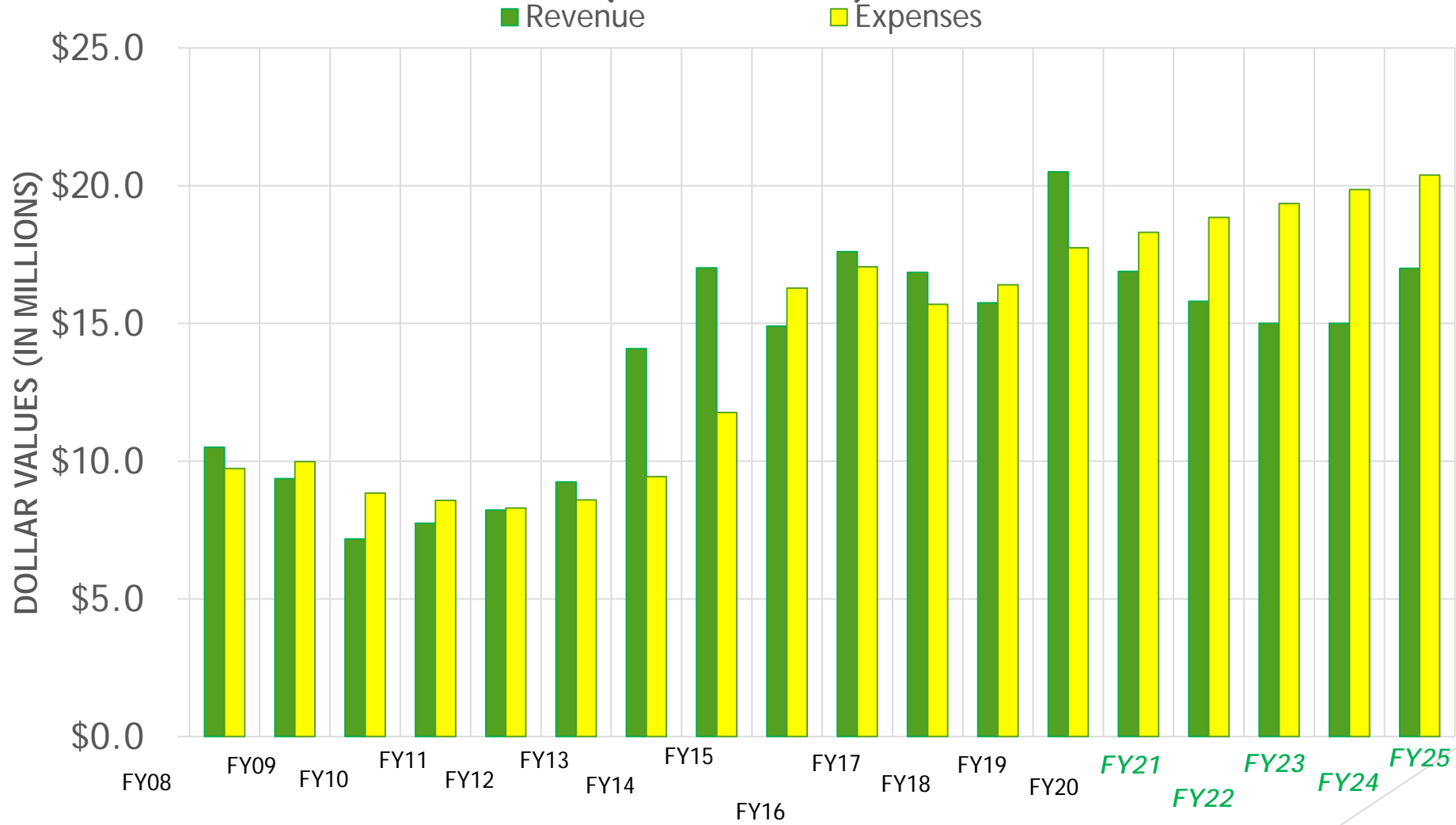
# Projections: Scenario 3 (Optimistic)

## PSC FUND PROJECTIONS (FY21-FY25)

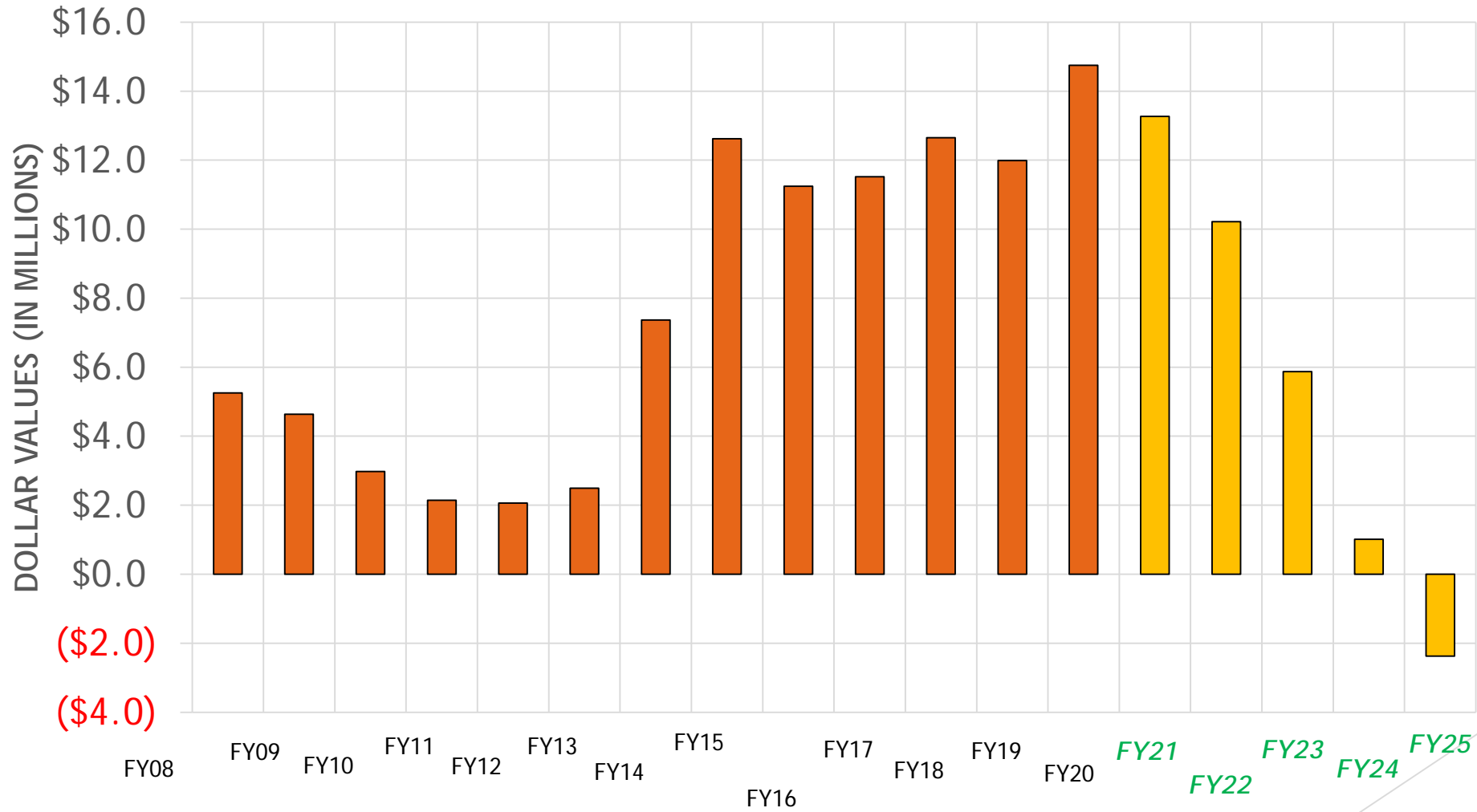
Revenue Expenses Fund Balance



# PSC FUND (REVENUE & EXPENSE) W/MID RANGE PROJECTIONS (FY08-FY25)



# PSC FUND (FUND BALANCE): W/MID RANGE PROJECTIONS (FY08-FY25)





# Summary of Scenarios

- ▶ Reserves help balance the fund in difficult economic times
- ▶ Reserves would hit \$0 balance within the next 5 years  
(in 2 of the 3 scenarios)
- ▶ Revenues dependent on rate of incoming sizeable projects

# Balancing Strategy

- ▶ Reduce expenditures to minimize use of reserves
- ▶ Reduce contract services for permit review
- ▶ Defer Digital Permitting Software (~\$4M)
- ▶ Avoid new capital expenditures
- ▶ Ensure fee waivers and long-term deferrals are back-filled by other sources
- ▶ Leverage natural attrition as application volume declines to temporarily hold positions vacant
- ▶ Conduct fee analysis & update fee schedule

# Next Steps

- ▶ Regularly update projections with newer information regarding pipeline projects and status of pandemic, to inform planned expenditures
- ▶ FY22 Budget Presentation in April

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, leaving a large white central area. The shapes are layered, creating a sense of depth and movement.

Q & A