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# MEMORANDUM

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Date: May 22, 2013

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Two Percent Annual Fee Adjustment in Development Services**

Development Services Fee Ordinance 1997-46 contains a provision that fees will be adjusted automatically by two percent each year on July 1. To assist the real estate and homebuilding industries, the County suspended the two percent annual fee increase for the last two years.

The Development Services Fund was set up as an enterprise fund as the result of a class action lawsuit, *Arena v. Pima County*, sponsored by the homebuilding industry. The Development Services Budgeted Fund balance has been as high as \$14.6 million in Fiscal Year (FY) 2006/07, but it was depleted during the Great Recession to maintain a base level of functionality for the department. Also, during this time period, the department significantly decreased staffing and funding, transitioning from a department with a fulltime equivalent employee base of 180 full-time equivalents (FTEs) during FY 2006/07 to 60 FTEs in FY 2013/14.

At the same time, the County General Fund has provided over \$6 million in subsidies to the Development Services Fund, with an additional contribution of \$500,000 included for FY 2013/14. It is important that the two percent annual fee adjustment be resumed now that the real estate and homebuilding industries are beginning to recover. Hopefully, the \$500,000 General Fund contribution for FY 2013/14 will be adequate to cover the department's operating and maintenance costs, as increasing development activity should increase fee revenues.

Attached is a May 15, 2013 memorandum from the Development Services Director providing more details regarding this matter, but this memorandum provides the Board of Supervisors with notice that the fee increase as scheduled by Development Services Fee Ordinance 1997-46 will be adjusted by increasing fees by two percent on July 1, 2013.

CHH/dph

Attachment

c: Martin Willett, Chief Deputy County Administrator  
John Bernal, Deputy County Administrator for Public Works  
Tom Burke, Director, Finance and Risk Management  
Carmine DeBonis, Jr., Director, Development Services  
Robert Johnson, Budget Manager, Finance and Risk Management



## Development Services



**Carmine DeBonis Jr.**  
Director

Office: 520.740.6506  
fax: 520.740.6878

**DATE:** May 15, 2013

**To:** C. H. Huckelberry, County Administrator

**From:** Carmine DeBonis Jr. Development Services Director CD

**RE:** Summary of 2% Annual Fee Adjustment and Impact on Revenue

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### General Fund Support

Due to the decline annual revenues that began in 2005-2006, General Fund support has been provided to offset department operating expenses and maintain fund stability. Board approved contributions from the General Fund to Development Services began in fiscal year 2009-2010, after several years of reliance on the department fund balance had reduced it to an undesirable level.

The amount of approved support to Development Services by fiscal year has been \$2.0 million in 2009-2010; \$1.5 million in 2010-2011; \$1.5 million in 2011-2012 (a portion of which was directed to the permit and land management system upgrade); \$1.0 million in 2012-2013 which was dedicated to cover expenses related to the permit and land management system upgrade.

An additional contribution of \$500,000 has been included in your recommended budget for 2013-2014. Most of this amount will be applied to cover the remaining Development Services' contribution to the permit and land management system upgrade.

### Summary of Development Services' Fees & Revenue

Development Services Fee Ordinance 1997-46 contains a provision that fees will be adjusted by 2% each year on July 1. The ordinance was amended to increase overall fees in May 2010 to offset declines in permit activity and to close the gap with the fees of other jurisdictions. The fee increase was implemented in two phases with half the increase applied beginning July 1, 2010, and the remainder taking effect January 1, 2011. Revenue generated during fiscal year 2010-2011 from the services affected by the fee increase, shown in the below table as "charges for services", included these increases.

Fee Ordinance 2011-25 reduced certain fees based on stakeholder input and suspended the 2% annual fee adjustment for the period of July 1, 2011 to June 30, 2012. The annual fee adjustment was suspended again by Ordinance 2012-23 for the period of July 1, 2012 to June 30, 2013.

Revenue from charges for services shown in the table for fiscal year 2011-2012 and forecasted revenue for 2012-2013 reflects the suspension of the 2% annual fee adjustment.

C. H. Huckelberry, County Administrator  
**Summary of 2% Annual Fee Adjustment and Impact on Revenue**  
 May 15, 2013  
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<b>DSP Revenue, Expenses &amp; Change in Assets</b>					
	2010-2011 (Audited)		2011-2012 (Audited)		2012-13 (Forecast based on March 2013)
<b>Operating Revenues</b>					
Charges for Services	\$5,687,999		\$6,073,036		\$5,948,000
Other	\$231,177		\$39,232		\$36,000
<b>Total Operating Revenues</b>	<b>\$5,919,176</b>		<b>\$6,112,268</b>		<b>\$5,984,000</b>
<b>Operating Expenses</b>					
	(\$7,016,789)		(\$6,964,193)		(\$7,000,327)
<b>Non-operating Revenues</b>					
	\$181,791		\$120,558		\$16,000
<b>Loss before Transfers</b>					
	(\$915,822)		(\$731,367)		(\$1,000,327)
<b>Transfers</b>					
Transfers In	\$694,000		\$1,000,000		\$1,000,000
Transfers (Out)	(\$114,728)		(\$14,676)		(\$1,124,789)
<b>Change in Net Assets</b>					
	(\$336,550)		\$253,957		(\$1,125,116)

Impact of 2% Annual Fee Adjustment on Collected Revenue

Based on 2011-2012 revenue collected for services, the lost revenue related to the suspension of the annual fee adjustment was \$121,462. Using the 2012-2013 forecasted revenue for services, lost revenue related to suspension of the adjustment is \$118,960. For the combined two-year period, the total amount of lost revenue is estimated to be \$240,421.

<b>Lost Revenue due to Suspension of the 2% Adjustment 2011-2012 and 2012-2013</b>			
	2011-2012	2012-2013 (Forecasted)	Total
Charges for Services	\$6,073,036	\$5,948,000	
Amount Fees Suspended	\$121,461	\$118,960	\$240,421

As with recent prior fiscal years, the 2013-2014 requested budget projects an operating loss. The 2013-2014 requested budget operating expenses are \$6,743,858, compared to total projected revenues of \$5,836,700 without the annual 2% fee adjustment (estimated during budget preparation based on 2012-2013 actual revenue through December 2013); which results in a projected operating loss of (\$907,158) before transfers.

Of the total 2013-2014 projected revenue, \$5,803,000 is related to charges for services that would be subject to the 2% annual fee adjustment. This amount conservatively assumes that activity remains relatively flat compared to the current fiscal year.

If the 2% annual fee adjustment is applied to the requested budget revenue, \$116,060 of additional revenue would be collected raising the 2013-2014 projected revenue to \$5,952,760.

Impact of Annual 2% Fee Adjustment for 2013-2014	
	2013-2014 (Projected)
Charges for Services	\$5,803,000
Amount of 2% Fee Increase	\$116,060

Given the reduction in General Fund support to help offset the operating loss from \$1 million to \$500,000, it is appropriate to apply the annual 2% fee adjustment effective July 1, 2013.

It is anticipated that changes to service delivery, designed to shorten project approval time frames, will have a positive impact to customers far outweighing the fee adjustment.

A more detailed evaluation of the financial benefits of the new process offering will be forthcoming, along with a summary of how the 2% adjustment would affect typical residential and commercial projects.

c: John M. Bernal, Deputy County Administrator – Public Works

*I agree that 2% annual fee adjustment should be implemented on July 1, 2013.*

*JS  
5/15/13*