DSEC AGENDA: 5-24-04
ITEM: b.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: DRIVING A STRONG ECONOMY COMMITTEE

FROM: Stephen M. Haase
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SUBJECT: **RESULTS OF DEVELOPMENT PROCESS IMPROVEMENTS**

DATE: May 7, 2004

Approved Date

BACKGROUND

At the beginning of the 2003-04 budget process, the City's development service fee programs - Planning, Building, Fire, and Public Works – were facing a combined $8.8 million base revenue to cost shortfall. Despite the initiation of a three-year phased fee increase plan in 2002-03, a stretch of 8 years without fee increases during the development boom resulted in the City's development fees recovering only 78% of costs. Without larger fee increases than originally programmed, the development services partners were facing service level reductions and major staff cuts. Rather than move the development fee programs all the way to full cost recovery, the 2003-04 budget balancing package included resource reductions, fee increases, new fees for service, and use of reserve funds. This approach adopted by the City Council and endorsed by the Home Builder's Association and the Chamber of Commerce did not promise faster service, but was intended to prevent service from deteriorating to less than acceptable levels.

At the same time, the improved internal collaboration of the City's development service partners and the establishment of a regular dialog with the development community beginning in the 2003-04 budget process is providing the foundation for achieving the City's long-term goals for the development process:

1. Make San Jose the best place in America to do business;
2. Continuous improvement through an on-going dialog and partnership with customers;
3. Fiscal stability for the development fee programs;
4. Provision of enhanced service options; and
5. A consistent, predictable, and timely development process.

A number of factors, including the aforementioned three-phase fee increase package, the Getting Families Back to Work Study Sessions, and the adopted Economic Development Strategy, have focused attention on the City's development process and the performance of the development services partners. This report to the Driving a Strong Economy Committee will review development process performance through the first three quarters of 2003-04, process improvement initiatives, and the impacts of those initiatives.

In addition, this report will look at anticipated performance for 2004-05 in light of the proposed revenue and resource changes in the 2004-05 Proposed Operating Budget and Fees and Charges Report. A South Bay Area Cost of Development Survey, currently being prepared under the auspices of the Home Builder's Association of Northern California, will provide additional perspective. The survey is anticipated to be available in advance of the DSE Committee Meeting on May 24, 2004. The attached Development Process Report (Attachment A) summarizes activity and performance through the first 3 quarters of the 2003-04 fiscal year.

The City's aim to "make San Jose the best place in America to do business" requires achievement of the other 4 long-term goals listed above. A discussion of the efforts related to each of those goals follows:

DIALOG AND PARTNERSHIP WITH CUSTOMERS

A crucial element in the effort to improve the development process and make San Jose the best place in America to do business is the creation of an ongoing dialog and partnership with development customers. This partnership initiated in late 2002, continues in the current fiscal year. The San Jose Silicon Valley Chamber of Commerce's Development Committee has served as an advisory panel for the City's development service partners. In addition to meetings with the Chamber, outreach on fee and resource proposals for the 2004-05 budget has taken place over the past 3 months with the Home Builders Association of Northern California (HBA), the American Institute of Architects Santa Clara Valley (AIA), the National Association of the Remodeling Industry (NARI), and the National Association of Office and Industrial Properties (NAIOP).

In addition to providing these groups with information about cost recovery, fee proposals, activity, and performance, City staff has sought feedback about what is working well and what isn't in the development process. In the past, there has been some reluctance for regular customers to be specific about issues they've had or problems they perceive. One of the most important goals of this outreach is to build a level of trust with customers that will allow the kind of honest and specific feedback the development partners need to continue to make improvements in the process.

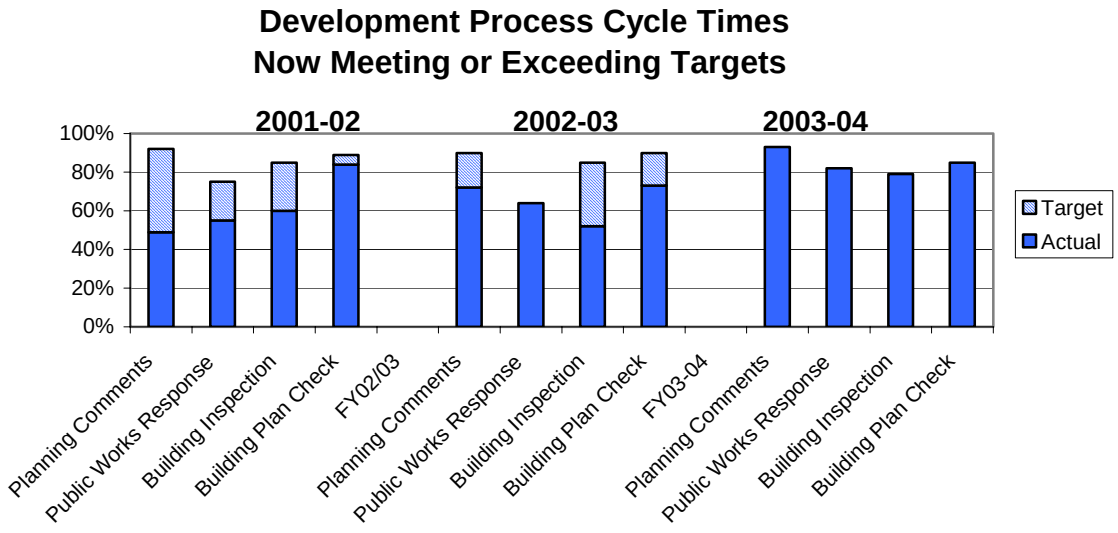
Another key concept under discussion is an improvement in information and outreach that will educate customers on ways to navigate the development process as quickly and inexpensively as possible. Support material is being prepared to help customers submit complete applications and to help construction crews prepare jobsites for faster inspections.

ONGOING FISCAL STABILITY AND PERFORMANCE

Through three quarters of the 2003-04 fiscal year, the City's development fee revenue is on target to meet the budgeted 98% cost recovery level. Thanks to the activity of a very strong 1st quarter, Public Works revenue was already at 85% of the year's estimate by the end of March. To address the service demand, 3 FTE were redeployed to Public Works' Development Services

Division from Capital projects. Building Division revenue is also tracking above par for the first three quarters at 83.5% of the 2003-04 estimate. Fire Department development revenue is below the anticipated level largely because Fire does not review and inspect most residential projects - the sector with the most activity. To address the anticipated cost recovery gap for Fire development services, the elimination of 0.90 FTE and the use of $99,828 from the Fire Fee Reserve were approved at mid-year. The Planning Fee Program revenue was also tracking below the norm through March, but is expected to meet its revenue estimate due to a very strong April. It should be noted that the City's development fee programs were budgeted at a 98% cost recovery level for 2003-04 and included the use of $765,000 of reserve funds to balance the budget. Approval of the planned third-phase fee increase is necessary to close the remaining gap and prevent either reducing staff below the level necessary to meet current demands, or further depleting the fee reserves that are already down to approximately one third of the optimum level.

Because of the fee increases approved in the last two years, the City's development service providers are more financially stable and have, so far, been able to maintain their core staffing through the economic downturn. This, in turn, has enabled staff to improve performance and maintain the ability to be competitive in providing service as activity increases. Through March 2004, 14 of the 19 development process performance measures are at or above the year's targets, including all of the cycle time measures (see below). Seventeen of the 19 performance measures show improvement over 2003-04. While there is clearly still considerable room for improvement, the performance gains indicate that staff's efforts have initiated significant movement in the right direction. To continue this momentum, the development service partners continue to look for efficiencies and collaborate on process improvement



ENHANCED SERVICE OPTIONS

At the beginning of this fiscal year, Building and Fire began offering enhanced service options on larger projects to customers willing to pay more for faster service. The enhanced service

options have proved to be very popular. Currently, 60% of Building customers are choosing one of the faster service options. The "Express Plan Review" and "Intermediate Plan Review" options have allowed a wider range of projects to be processed with same-day over-the-counter service. For these options, as well as for "Coordinated Plan Review" (for larger projects), Building assesses a service fee premium on the normal hourly rate to offset the cost of providing the guaranteed availability of staffing for expedited review processing. This premium fee also includes an increment that provides additional resources to ensure that projects on the normal review track are not delayed by the dedication of staff to expedited processing. Despite the higher per hour cost, "Expedited Plan Review" is actually more efficient due to the integration of the process. When the applicant has a complete submittal, the time savings can result in an overall cost to the customer which is lower than the fee assessed for the regular review process.

CONSISTENT, PREDICTABLE, AND TIMELY DEVELOPMENT PROCESS

Two of the most crucial factors for customers with development projects are the timeliness and predictability of the development review process. To address the timeliness issue and the Getting Families Back to Work recommendation to "eliminate delays in the development process", the performance targets for all development process cycle time targets except inspection will be moved to 100%. The next day inspection target will be raised to 85% to account for the fact that inspection demand is cyclical and it is not cost effective to staff for peak demand. A combination of overtime and contract-retirees will continue to be used to address peak demand periods in an attempt to meet 100% of requests within 48 hours.

In response to the City Council's Getting Families Back to Work Study Sessions, the adopted Economic Development Strategy, and recommendations from development industry groups, the City's development service partners are making great strides in the effort to provide seamless, predictable, and timely service to development customers. With a new emphasis on facilitating rather than simply regulating, Planning, Building, Fire, and Public Works managers now meet regularly in an effort to ensure that the development process speaks to customers with one voice.

Another important factor in building timeliness, consistency, and predictability into the development process is getting "buy-in" from all levels of the organization on being responsive to customers. With this in mind a Customer Service Policy is being developed with input from staff and the development community. The Policy, which will be completed by the end of July, will document the expectations of providing excellent customer service.

Building, Planning, Fire and Public Works have been working together in a effort to offer complete one stop permit processing in Room 200 of City Hall. The objective is to provide internal coordination of all City processing requirements rather than outsourcing coordination to the applicant. Ten Building Plan Check Engineers have been moved to Room 300 to make room for other Divisions to co-locate staff in Room 200 to facilitate direct customer interaction. Currently Fire has a complete complement of staff to provide all directly overlapping permit processing. Planning has relocated one additional planner and a supervisor to Building and progress is being made on providing all related planning processing functions for building permit issuance in Room 200. This month, Public Works will relocate two staff members to Room 200 to facilitate Building customer interaction with Public Works. In the near future a truly

integrated one stop center will exist in City Hall which will allow the development services partners to work out logistical processing issues prior to the move to the new City Hall.

While Council policy and the funding realities facing local government require the City to pass on service cost increases to development customers through higher fees, San Jose's development service providers recognize our obligation to limit costs, seek operational efficiencies, and continuously improve the service provided so that applicants receive good value for their money. A list of customer service and cost containment improvements that are already implemented or underway are included in Attachment B

SUMMARY

Performance measures for the development fee programs show across-the-board improvement from 2002-03 and 14 of the 19 measures are at or above the current year target. Higher than anticipated activity in some areas has caused some service deterioration, but has also provided higher than projected revenue in two of the four fee programs. A number of important service commitments to the development community have been accomplished and others are well under way. Processing times and process predictability have improved, the fee programs are closer to financial stability, and customers are frequently choosing the new enhanced service options.

While the financial stability of the development services programs are greatly improved, the third-phase increases of the three-year fee increase plan are needed to reach full cost recovery and prevent service reductions. Staff is exploring and implementing numerous process improvement and streamlining initiatives in an effort to improve efficiency and limit costs. Through process changes and service challenges, the City's development service partners will continue to work with development community representatives toward making San Jose the best place in America to do business.

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