

Memorandum



CITY OF DALLAS

DATE December 8, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **Economic Development Committee: Agenda Item C- Development Services Fee Update - Stakeholder Concerns and Request**

On December 4, 2023, the Development Services Department briefed the Economic Development Committee on the proposed Fee Study. Prior to, and during the meeting, several questions were asked by stakeholders and the Committee that required additional staff research and follow-up. As staff has completed the research of the outstanding questions, the purpose of this memorandum is to provide the requested follow-up to all questions.

Below are the responses to questions from the prior activities relating to this item:

Texas Real Estate Council (TREC)

1. Why are fee increases being considered outside of the normal budget cycle? How will this affect your FY24 budget?

Response: The budget cycle is performed annually while the code and fee cycle are triennial. The fee study initially commenced in 2019 but the completion was delayed until late 2023. We planned for the item to be considered during the budget process, but due to the complexity of the study and further requests of the Development Services Department (DSD) to address fees for business areas that have not met their cost recovery model, this caused the item not to be considered as part of the FY 2023-24 budget process. The City has the option to bring the fee as necessary to sustain DSD's operations for the FY2023-24 and ensure the General Fund is not subsidizing the Enterprise Fund.

2. How has the Development Services Department been subsidized or supported budget-wise without assessing fees at the full-cost recovery rate? Was additional money coming from the General Fund or the Enterprise Fund reserves to support the department?

Response: The Development Services Enterprise Fund Reserves have been utilized to support operating expenses that exceeded revenues generated by fees and charges. DSD has not been subsidized by the General Fund. However, at the current revenue and expenditure models, the Enterprise Fund Reserves will be depleted in 2025, and current services will have to be reduced to meet the available revenues.

- 3. Were the inputs used to calculate the shortfall hard costs that the department expended to provide the service, or did it include budgeted but unrealized costs, like carrying vacant positions for a year?**

Response: This report details the full cost of services for time-based DSD activities and presents proposed fees and projected revenues based on 100% cost recovery. This study is comprised of two basic elements: hourly rates of staff providing the service and time spent providing the service, all at the full cost recovery rate.

- 4. What happened to the Enterprise Fund surplus from 2015 (when the study was last done)? At the time, I think the surplus was approximately \$35M.**

Response: The Department has utilized the Enterprise Fund for strategic expenditures such as the purchase of the new Development Services Center at 7800 N. Stemmons, the DallasNow project replacing outdated land use software, hiring and onboarding 54 new DSD positions to keep up with the increased demands, among other key needs to allow the DSD to function fully. The Enterprise Fund is forecasted to be depleted in 2025 if fees are not increased.

- 5. Will the fee increases be phased in over time (i.e., over three years) or increased immediately?**

Response: Proposed fee increases will be effective on February 1, 2024, and will not be phased as there is already a major gap between fees collected and the corresponding expenditure for DSD.

- 6. Why are fee increases being considered outside of the normal budget cycle? How will this affect the department's FY24 budget?**

Response: The budget cycle is performed annually while the codes and fees cycle are typically staggered over multiple years, and do not necessarily follow the budget timelines. The fee increases will allow DSD to sustain the FY2023-24 budget improvements committed in the prior year such as purchasing and maintain the Development Services Center at 7800 N. Stemmons, the POSSE replacement system, equitable pay and compensation for DSD employees in line with other organizations and private companies, and the continuous operational enhancements to add and support resources necessary for successful service delivery by DSD.

- 7. How has the Development Services Department been subsidized or supported budget-wise without assessing fees at the full-cost recovery rate? Was additional money coming from the General Fund or the Enterprise Fund reserves to support the department?**

Response: The Development Services Enterprise Fund Reserves have been utilized to support operating expenses that exceeded revenues generated by fees and charges. DSD has not been subsidized by the General Fund.

- 8. How is the assumed cost affected by certain inefficiencies in the department? Does the cost reflect that it takes longer to review permits when the department has been understaffed? Or that it may still take more staff time to review permits with new, relatively inexperienced staff?**

Response: This report details the full cost of services for time-based DSD activities and presents proposed fees and projected revenues based on 100% cost recovery. This study is comprised of two basic elements: hourly rates of staff providing the service and time spent providing the service.

The study compares services among several cities and accounts for a typical process regardless of staff experience levels. Service delivery challenges can be attributed to many factors including technology issues, permitting review processes, incomplete and inadequate plan submittals by applicants, zoning inconsistencies, and staff turnover due to private sector salaries outpacing City salaries and compensation in the current employment market.

- 9. Does staff anticipate that going to full cost recovery fees will result in an improvement in service times? How so?**

Response: Indirectly yes, as revenue from fee increases will be utilized to train, hire, retain, incentivize, and recruit staff. In addition, ongoing software system upgrades and maintenance will ensure the Department is utilizing resources to timely update its systems that support the permitting processes.

- 10. What happened to the Enterprise Fund surplus from 2015 (when the study was last done)? Was that money used to purchase or refinish the new building?**

Response: The Department has utilized the Enterprise Fund for strategic expenditures such as the purchase of the new Development Services Center at 7800 N. Stemmons, the DallasNow project replacing outdated land use software, hiring and onboarding 54 new DSD positions to keep up with the increased demands, among other key needs. The Department spent approximately \$21 million to acquire and renovate 7800 N. Stemmons.

Dallas Builders Association

- 1. How is the assumed cost for full recovery affected by inefficiencies in the department's process? Has there been full consideration to the issue of permits**

taking longer to be reviewed due to process error? When permits are delayed and certain steps in the process must be resubmitted due to department error or confusion, that adds to department costs.

Response: This report details the full cost of services for time-based DSD activities and presents proposed fees and projected revenues based on 100% cost recovery. This study is comprised of two basic elements: hourly rates of staff providing the service and time spent providing the service.

The study compares services among several cities and accounts for a typical process regardless of staff experience levels. Service delivery challenges can be attributed to many factors including technology issues, permitting review processes, incomplete and inadequate plan submittals by applicants, zoning inconsistencies, and staff turnover due to private sector salaries outpacing City salaries and compensation in the current employment market.

- 2. The department's enterprise fund has traditionally been running a surplus. Has there been a recent evaluation of the state of the enterprise fund and any surplus?**

Response: Yes, through the annual budget process, a comprehensive review of all Funds, including DSD's Enterprise Fund Reserves, is conducted. The most recent review showed that in 2025, the DSD Enterprise Fund reserves will be depleted and the Fund will be in the negative. In addition, the City Auditor conducts frequent audits of the department and its Funds to ensure compliance with regulations, with the latest audit being conducted Spring of 2023.

- 3. Will the proposed fees guarantee that permitting review and service times will improve?**

Response: No. This study was developed to evaluate the cost of services rendered. However, the DSD is committed to providing continuous improvement in permitting times and quality reviews.

- 4. Will the proposed fee increases be implemented over time or be enforced immediately?**

Response: Proposed fee increases will be effective on February 1, 2024 and will not be phased as there is already a major gap between fees collected and the corresponding expenditure for DSD.

5. What are the registration fees that will be proposed for contractor registration? This can greatly impact project costs or even the availability of contractors needed for projects.

Response: Contractor registration fees are not being increased.

6. Has there been any economic analysis regarding what this will do to housing affordability?

Response: This report details the full cost of services for time-based DSD activities and presents proposed fees and projected revenues based on 100% cost recovery. Housing prices have continued to increase despite the City not increasing its fees since 2015. This has been in large part due to increased property prices, increased material costs, and increased consultant fees, none of which is attributed to City operations or services.

Mayor Pro Tem Tennell Atkins

1. Identify which stakeholders you met with in person, by email, and by phone? Give a list of this items.

- Dallas Home Builders Association – Aug 3rd & Oct 17th (In Person)
- Development Advisory Committee – Aug 25th & Oct 20th (In Person)
- Texas Real Estate Council – Oct 5th (In Person)
- Third Party Plan Review Vendors- Oct 23rd (Virtual)
- Construction Contractors Association - Oct 25th (In Person)
- Dallas Independent School District – Nov 1st (Virtual)
- Rescom Fire Contractors – Nov 3rd (In Person)
- Building Owners and Managers Association – Nov 9th (In Person)
- Fire Contractors Association - Nov 13th (In Person)
- Professional Engineering Community – Nov 16th (Virtual)
- Professional Surveying Community – Nov 16th (In Person)
- National Fire Sprinkler Association – Nov 28th (In Person)

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PAGE **6 of 6**

Should you have any questions please contact Andrew Espinoza, Director/Chief Building Official of Development Services at (214) 542-1227 or andres.espinoza@dallas.gov



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Assistant City Manager

c: T.C. Broadnax, City Manager
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Deputy City Manager
Jon Fortune, Deputy City Manager

M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Jack Ireland, Chief Financial Officer
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors