EL DORADO COUNTY CALIFORNIA

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Chief Administrative Office

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BOARD OF SUPERVISORS
EL DORADO COUNTY

September 22, 2006

Memo To: Board of Supervisors

From: Laura S. Gill, Chief Administrative Officer *Laura S. Gill*

Subject: FY 2006-07 Budget Adjustments Development Services

At the September 19, 2006 Board of Supervisor's meeting I was asked to provide an analysis of the impacts of the housing slowdown with respect to the Development Services FY 2006-07 budget. In the budget process that started nearly six months ago, the Department had anticipated $8.2 million in building fees. Recent experience in the housing market suggests that this projection was optimistic and that $5.4 million is a more realistic estimate. While closing the gap is not achievable through budget reductions alone, the analysis that follows demonstrates that the Department should be able to bridge this $2.8 million gap and end the year with no additional impact to the General Fund by:

1. Reducing fee revenues in the Department by $1.6 million and offsetting this reduction from projected growth in Department 15 revenue, and

2. Directing the Department to continue a selective vacancy hiring to generate $1.2 million in salary savings and to achieve a 2% reduction in non-salary operating expenses for the current fiscal year.

The effects of the two actions are illustrated in the table below:

Budgeted FY 2006-07 Revenues	$8.2
Revised Revenue Estimate	5.4
Remaining Gap	**$2.8**
Department 15 Revenues	$1.6
Salary/Operational Savings	1.2
Total Reduction	**$2.8**

Historical Trends and Revised Revenue Projection:

The housing slowdown was initially felt by Building Services in the final two quarters of last fiscal year. Revenues for the first quarter of FY 2006-07 are increasing and exceed levels for the same quarter in prior years; however this is due in large part to the increase in building fees approved by the Board of Supervisors in the spring and due to an unusual influx of applications in response to the DOT fee increase in August. I do not expect 2nd quarter revenues to continue at this level. For purposes of projecting the next three quarters

I am projecting well below the three year average on a quarterly basis for an estimated $5.4 million annual total.

Quarterly Revenues

Fiscal Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003-04	1.4	1.5	1.5	1.9	6.3
2004-05	1.7	1.4	1.3	1.8	6.2
2005-06	1.5	1.4	1.0	1.4	5.3
Qtr Avg.	1.5	1.4	1.3	1.7	5.9
Estimated	**1.8***	**1.2**	**1.0**	**1.4**	**5.4**

* *1st quarter reflects actual receipts through 9/18/2006.*

The data shows that revenues began to decline significantly after the TIM fee increase (2nd quarter FY 2005-06) and that this decline continued through the 3rd quarter FY 2005-06 during the winter and unusually wet rainy season. In the following spring, (4th quarter FY 2005-06) revenues turned around as we would expect but did not rebound to the levels seen in prior years. As a result, the Department completed the building fee increase approved by your Board in the spring (adopted February 28, 2006, effective May 1, 2006) and began various cost reduction efforts. The effects of the fee increase and cost reduction efforts will become more evident in the coming months. Last year, the Department realized nearly $1.4 million in salary savings with selective vacancy hiring to adjust for the slowdown. In addition, the Department is not certain yet if the increased building fees that went into effect a few months ago and the other miscellaneous cost reductions detailed below will be sufficient to offset reduced revenues due to slower activity. I will be providing you with our updated projections for costs/revenues for the remainder of the year and contingency plans for further cost reductions and revenue enhancements at the mid-year report.

Activity Levels:

While Building Services' permit activity is down, overall activity remains substantial. Total residential permits (new construction, additions, remodels) issued year to date is 3,909 compared with 4,425 for the same period last year. Total building inspection stops through July of this year are 16,620 compared to 19,664 for the same period last year. The total walk-in customer count for the Placerville permit center is 13,054 through July compared to 13,914 for the same period last year. Code enforcement investigation requests are received at the rate of 30 to 40 per month.

It is also important to note that Planning Services' activity continues to increase rapidly. Discretionary applications received for calendar year 2006 through August already exceed the number of new discretionary applications received all year in 2005. This will eventually translate into new construction activity in the next 24+ months as projects complete the review process. The fiscal impact of the increase in Planning fees implemented in May and greater emphasis on time/materials billing should become clearer in the next six months.

The Department is in the process of completing a detailed analysis of its total inventory of active permits as well as the total number of subdivision projects in various stages of the review process. Once this data is available, I will forward it to you for your consideration.

Salary Savings Calculation:

It is anticipated that the Department as a whole will generate at least $1.2 million in salary savings in the current fiscal year. In Building Services, the Department essentially implemented a selective vacancy hiring process months ago. New hires are limited to mission critical positions such as engineers and plan checkers (necessary to maintain service levels and reduce contract expenditures), finance/technology staff (necessary to implement new billing and automation processes), replacement hires to fill unanticipated vacancies (such as if a key specialty inspector leaves the organization) or hires needed to assume new functions (e.g. commercial grading). No new hires are made without the Development Services Director's review and approval. The Department has also implemented significant reductions in overtime and will be reviewing all non-mission critical extra help positions. Salary savings continue to be substantial due to the large number of positions vacant within the Department at this time.

Building Services Salary Savings Estimate

	1st Qtr	2nd Qtr	3Qtr	4th Qtr	Totals
Current Vacancies	17	18	19	20	
Essential Positions*	3	3	2	1	
Remain Vacant	14	15	17	19	
Avg. Qtr. Salary and Benefits	17,875	17,875	17,875	17,875	
Total Vacancy Savings	250,250	268,125	303,875	339,455	1,161,875
Overtime Reductions	10,000	10,000	10,000	10,000	40,000
Total Savings					**$1,201,875**

* *Essential positions include 2 remaining vacant Senior Civil Engineer positions and one vacant Plans Examiner position.*

Summary of Cost Reductions and Revenue Enhancements currently being implemented for FY 2006-007:

- Reduce Overtime (Target 50 to 75% Reduction).
- Review All Extra Help Positions at the end of the first quarter of FY 2006-07. During this calendar year, the Department has experienced an unusually high number of long term employee absences due to health reasons (10 building staff are/have been out due to accidents/illnesses for extended periods of time this calendar year) so extra help has also been used in some instances to provided temporary support during these absences.

- Selective Vacancy Hiring. Since the 3rd quarter FY 2005-06 the Department has only filled mission critical vacancies in Building Services and therefore accrued additional salary savings.
- Miscellaneous non-salary operating expenditure reductions. The Department's goal is to achieve a 2% reduction in budgeted expenditures for Building Services through miscellaneous savings in non-salary operating expenditures.
- Building permit fees were increased in May 2006.

The Department has also prepared a contingency plan for additional cost reductions and revenue enhancements should they be necessary based on review of future revenue and activity trends. The plan would further reduce operating costs in two phases if reduced construction activity persists over the next 12 to 18 months. I would propose implementing the first phase of this plan for reductions of approximately $500,000 if necessary as part of the FY 2007-08 budget.

The plan also includes a proposal to implement a new fee to recover the costs of General Plan implementation. This fee could off-set general fund contributions to the Planning Services budget, thereby further reducing the Department's overall subsidy from the general fund. The Department is preparing a scope of work for Board review to implement this fee next year.

Staff from the Development Services Department and I are available to answer any questions you may have.

COUNTY OF EL DORADO
DEPARTMENT OF TRANSPORTATION

INTEROFFICE MEMORANDUM

Date: September 25, 2006

To: Laura Gill, Chief Administrative Officer

From: Richard Shepard, Director of Transportation

Subject: No Fee Activity Scenario – FY 06-07

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2006 SEP 26 AM

You requested that we consider consequences for DOT if there was no developer activity for the balance of the fiscal year. The areas of the Department that would be impacted include the capital program and fees for service, both billed on a time and materials basis where labor costs are fully recovered to include the appropriately applied overhead.

In order to respond quickly, we assessed these developer supported areas with a broad-brush approach with the understanding that the Department will continue to refine projections over the next weeks to include projections beyond fiscal year end. Based on this broad-brush approach it was determined that no immediate changes would be required in the capital program in terms of staffing needs. The impacts to the capital program as a result of a downturn are delayed due to existing cash balances.

Unlike the capital program with large cash balances, fees for service are more vulnerable to a downturn in development. The Department collects deposits for all time and materials billings and currently has $1 million on deposit to be applied to plan checking and field inspection. It is assumed that developers would not withdraw their deposits for plan checking but would instead complete the review process before halting progress on their project. With the assumption that there is no new development, which is unlikely but the worst case scenario, the Department would be unable to fund 17 positions after January 1, 2007. This program currently has 22 vacant positions. Attached is a worksheet showing the brief analysis performed related to staffing directed to time and material billing work.

The Department has begun a comprehensive review of possible development activity in the future. We are in the process of contacting numerous developers to determine what level of activity they are anticipating near term and into the next year. Also, we are researching historical trends to determine the duration of the last downturn and rate of recovery as a possible indicator of what may occur with the current softening of the housing market. We realize that each event has its own characteristics but felt that the duration of the last downturn may be useful. With this information we intend to project receipts to the various fee program funds and will adjust the capital program accordingly. The results are then fed into our financial model to determine the shift, if any, to both variable and fixed overhead costs.

In summary:

- ✓ the Department currently has 42 vacant positions
- ✓ of these 42, 17 are a part of the 24 new positions approved by the Board in July
- ✓ of the 42 vacancies, 22 are in the divisions supported in part with fees for service (time and material billings)
- ✓ of these 22, it appears that 17 would not be funded after January if no new development occurred

The attached schedule shows the distribution of these vacancies by Division. This analysis related to a downturn in development has focused primarily on two divisions: Transportation Planning and Construction as these are the two functional areas most dependent in the near term on developer paid fees received. While the capital program is also dependent on developer paid TIM fees, the impact to staffing is somewhat delayed due to significant cash balances held by the County. Also, the County has recently received $5 million in new grant funding for our capital program from HES and HBRR that will help offset some of the likely decline in impact fee revenue in the near term.

Given that this analysis was limited to the current fiscal year only, the results show that staffing for the capital program would not change. As we complete our five-year projection with reduced impact fee collection and increased grant funding, project delivery will undoubtedly change as well as staffing needs to support that change. All of these variables will be considered and fed into our financial model. We expect to complete this comprehensive analysis within three weeks.

Please feel free to call me or Diana Buckley if we can provide any additional information.

El Dorado County - DOT
Vacancy Status
9/25/2006

Division	Allocation Positions	Vacant			Vacant Rate		
		Original	New *	Total	Original	New	Total
Director	2	0	0	0	0%	0%	0%
Administration	23	1	2	3	4%	9%	13%
Transportation Planning	26	6	4	10	23%	15%	38%
Maintenance	103	5	0	5	5%	0%	5%
Foothill Engineering	9	2	0	2	22%	0%	22%
West Slope Engineering	31	4	0	4	13%	0%	13%
Tahoe Engineering	24	6	0	6	25%	0%	25%
Construction	35	1	11	12	3%	31%	34%
Total	253	25	17	42	10%	7%	17%

* Approved July 06	24
hired	7
vacant	17

Note: New positions budgeted for 9 months assuming hire date of October 1, 2006

El Dorado County - DOT
Vacancy Status
9/25/2006

Division	Allocation Positions	Vacant Original	Vacant New *	Vacant Total	Avg Annual	OH	County Engineer Total
Director	2	0	0	0			
Administration	23	1	2	3			
Transportation Planning	**26**	**6**	**4**	**10**	**125,000**	**75%**	**1.40**
Maintenance	103	5	0	5			
Foothill Engineering	9	2	0	2			
West Slope Engineering	31	4	0	4			
Tahoe Engineering	24	6	0	6			
Construction	**35**	**1**	**11**	**12**	**107,000**	**50%**	**1.70**
Total	253	25	17	42	232,000	60%	3.10
				Annual	116,000		
				with oh	185,600		
Assume 50% based on actual to date and $1M on deposit							-1.55
Assume balance unfunded - no activity							1.55
				vacant 22			
FTEs annualized							8.33
for half a year (x 2)							16.67