

**Council Meeting: August 14, 2012**

SUBJECT: Approval of Budget Modification No. 7 to Increase Construction Permitting Revenue by \$933,760 and Appropriate it to Manage the Increased Construction Activity

BACKGROUND

Construction activity in Sunnyvale has been increasing significantly since January 2011. FY 2011/12 was a record-setting year for construction permitting, with revenue hitting an all-time high of \$14 million (including Construction Tax). Based on the large number of projects in the early phases of construction and in pre-building permit review, construction activity is anticipated to remain at a high level for at least the next two fiscal years.

Staff is requesting approval of Budget Modification No. 7 to project additional construction permitting revenue of \$933,760 and to appropriate it to two new projects, a Building Permitting project and a Fire Prevention Construction-related Permitting project, in the amounts of \$343,000 and \$590,760, respectively. The project budgets would primarily be used to hire contract/casual staff to assist with the additional workload that cannot be managed with the current Building and Fire staffing levels.

DISCUSSION

The high level of construction activity in FY 2011/12 set new records for the Building Division. Construction permit revenue (including Construction Tax) totaled \$14 million, which was \$1.5 million above the revised FY 2011/12 revenue amount included in the FY 2012/13 Adopted Budget. In addition to the large number of projects currently under construction, activity is expected to remain at a high level based on the number of projects under construction and in the pre-application stages. Following is a summary of the building permitting activity for FY 2011/12 compared with the previous fiscal year and the average of the past five years:

Item	FY 2011/12	FY 2010/11	5-Year Average
Construction Permit Revenue (including Construction Tax)	\$14 million	\$7.3 million	\$9.2 million
Construction Valuation			
Residential	\$136.5 million	\$96.3 million	\$99.8 million
Non-Residential	\$475.1 million	\$182.8 million	\$300.3 million
Total	\$611.6 million	\$279.1 million	\$400.1 million
Permits Issued	5,229	4,219	4,441
Building Inspection Stops	19,453	17,876	19,528
Fire Inspection Stops	3,075	2,690	2,701

The above information indicates that FY 2011/12 construction valuation of both residential and non-residential projects is much higher than the past 5-year average. Historically, during periods of high construction activity, either the residential sector or the non-residential sector would peak. However, currently both sectors are at very high levels at the same time. Construction valuation in FY 2011/12 is more than double that of the previous year, indicating a major turnaround in construction activity. While this recovery is being experienced throughout Silicon Valley, it has been most pronounced in Sunnyvale.

The number of building inspections has not yet peaked since this is a lagging indicator of construction activity (i.e. valuation is tabulated based on date of building permit issuance). Many construction projects are in the early phases, which typically do not require as frequent inspections as the later phases. With the high number of projects under construction, the inspection activity is expected to continue to increase in FY 2012/13. Additionally, based on the number of projects in the building plan check process and under review with the Planning Division, the level of overall construction activity is expected to remain high for the next two years if these projects are approved and start construction.

Having adequate resources during highly active years is important in order to maintain our international reputation for a streamlined development permit process and excellent customer service. Historically, the Building and Fire Prevention Divisions have been able to review more than 90% of all building permits at the counter the same day the customer submits the plans. Typically, only plans for new buildings and second story additions – less than 10% of all permits issued – are taken in for review and are reviewed within 21 days. The One-Stop Permit Center, and the streamlined development process that it has created, has served as a key economic development advantage for the City by allowing customers to start their development projects as quickly as possible. In addition to the One-Stop Permit Center, the prompt inspection scheduling is a great benefit and highly popular with our customers because it eliminates construction delays that are very costly. Sunnyvale is well recognized for its responsive plan checking and construction inspection services. Most recently, Sunnyvale's development review process was highlighted by the San Jose Chamber of Commerce as a model for other cities.

The City's performance measures for timely plan checking and construction inspection have recently suffered due to the tremendous influx of construction activity. The budget appropriation will primarily be used to obtain contract help to maintain the City's long established performance measures and to assist with the workload that cannot be managed with the current Building and Fire staffing levels. Construction activity is cyclical and is closely monitored so that

the City can respond effectively to customer needs. The option of using contract assistance during the next two years of high activity period will allow the City to promptly adjust staffing based on the immediate need.

FISCAL IMPACT

Based on current construction activity, actual FY 2012/13 building permitting revenue is expected to be higher than the amount incorporated into the FY 2012/13 Adopted Budget. Updated projections will not be ready until mid-year; however, using year-to-date remittances as an indicator, an additional \$933,760 in revenue can be projected and appropriated to two new projects without having a negative impact to the General Fund.

Budget Modification No. 7 has been prepared to project additional construction permitting revenue of \$933,760 and to appropriate it to two new projects, a Building Permitting project and a Fire Prevention Construction-related Permitting project, in the amounts of \$343,000 and \$590,760, respectively, to manage the increased construction activity.

**BUDGET MODIFICATION NO. 7
 FISCAL YEAR 2012/13**

General Fund	Current	Increase (Decrease)	Revised
<u>Revenues:</u>			
Construction Permitting Revenue (including Construction Tax)	\$9,000,000	\$933,760	\$9,933,760
<u>Expenditures:</u>			
New Project – Building Permitting	\$0	\$343,000	\$343,000
New Project - Fire Prevention Construction-related Permitting	\$0	\$590,760	\$590,760

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Approve Budget Modification No. 7 to project additional construction permitting revenue of \$933,760 and to appropriate it to two new projects, a Building Permitting project and a Fire Prevention Construction-related Permitting project, in the amounts of \$343,000 and \$590,760, respectively, to manage the increased construction activity.
2. Approve Budget Modification No. 7 with a modified amount.
3. Do not approve Budget Modification No. 7

RECOMMENDATION

Staff recommends Alternative #1: Approve Budget Modification No. 7 to project additional construction permitting revenue of \$933,760 and to appropriate it to two new projects, a Building Permitting project and a Fire Prevention Construction-related Permitting project, in the amounts of \$343,000 and \$590,760, respectively, to manage the increased construction activity.

Reviewed by:

Hanson Hom, Director, Community Development
Reviewed By: Ali Fatapour, Chief Building Official
Prepared by: Diana Perkins, Permit Center Coordinator

Reviewed by:

Frank Grgurina, Chief, Public Safety

Reviewed by:

Grace K. Leung
Director of Finance

Approved by:

Gary M. Luebbers
City Manager