

MEMORANDUM

February 26, 2009

TO: Planning, Housing, and Economic Development Committee

FROM: Marlene L. Michaelson,  Senior Legislative Analyst

SUBJECT: Fiscal Update for Planning Department

The Planning, Housing, and Economic Development (PHED) Committee has requested that the Planning Department of the Maryland-National Capital Park and Planning Commission (M-NCPPC) provide quarterly fiscal updates focusing on the costs and revenues associated with the Development Review Special Revenue Fund. Their report is attached on © 1 to 7.

The report indicates that the fund is continuing to bring in slightly more revenues from Development Review activities than projected for the first 7 months of the fiscal year (but **significantly less** than would be needed for the fund to be self-sustaining). This is positive news in light of the current market conditions and construction trends, which led the Planning Department to be concerned about a significant decrease in revenues. It is quite possible that the data could change over the remainder of the fiscal year. Fluctuations from month to month are likely in the best of economic conditions, but are probably exacerbated by current conditions.

The Department has expressed concern about conversations with Executive branch staff during which they indicated that the Executive may still expect the Special Revenue Fund to be self-supporting for the FY10 budget. The Council discussed this last year at length and concurred with staff that the only way for the fund to be self-sustaining at this time would be to raise revenues so high as to provide a disincentive for redevelopment, or to fire skilled staff who would be needed as soon as the construction market rebounds. Neither option is advisable. The Council concluded that in years in which development activity is slow, there needs to be an Administration Fund contribution to the Development Review program. This issue will be revisited when the Council reviews the FY10 budget.



MONTGOMERY COUNTY PLANNING DEPARTMENT
 THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

March 2, 2009

TO: Planning, Housing, and Economic Development Committee
 Marlene Michaelson, Senior Legislative Analyst

FROM: Rollin Stanley, Planning Director

SUBJECT: Development Application Activity and Fee Report as of January 31, 2009

Pursuant to the Planning, Housing and Economic Development Committee’s direction, the following reports on the performance of the Development Review Special Revenue Fund for the first seven months of FY2009.

Major Findings

- Revenue for the Development Review Special Revenue Fund consists of fees projected at \$1.8 million and a transfer from the Administration Fund of \$1,773,000.
- In the fall the Planning Board raised certain fees with the expectation of increasing revenue by approximately \$200,000.
- As of January 31, 2009 projected revenues for FY09 are \$2,014,800 which is \$204,800 or approximately 11% above the budgeted revenues. The fee revenue is based on a straight line projection method. **However, without the transfer from the Administration Fund, there would be a deficit of \$1,643,000.**
- For the first seven months of FY09, the number of applications is approximately 16% below the same period for the past fiscal year.
- Using a straight line projection, the number of applications for FY09 is estimated at 305. This is 16% below FY08.
- Comparing the fund’s performance in FY08 and FY09, the correlation between the number of applications and amount of fee revenue does not track.
- As reported in the past, there is continued volatility from month to month.
- Reliability on projections is hampered by the unknowns of the current economic climate.
- Estimates are based on a straight line projection. A trend analysis is not valid at this time since the fund only has two viable fiscal years of experience.
- It is expected that the development community will be relying on projects that have been approved but not yet built until economic conditions show improvement. A review of two noteworthy indicators in the chart below shows this to be true:

| Type | Inventory |
|-----------------|------------------------|
| Non-Residential | 32,555,694 square feet |
| Residential | 29,984 units |

Source: Pipeline of Approved Commercial Development and Residential Development, Research & Development Center as of February 9, 2009

- A further indication is the 31% drop in record plat applications which indicates that builders are not proceeding with existing projects leading to the strengthening of the assumption that fee revenue may plummet at any time.
- These are reliable indicators that further drops in fee revenues for the Development Review Special Revenue Fund must be expected.

Recommendation

For FY10, the Department has proposed a transfer from the Administration Fund into the Development Review Special Revenue Fund based on the following:

- Public policy requires a fair and equitable distribution of development review costs to both public and private sectors.
- These activities require a stable source of funds.
- Funding for review staff must not be so volatile as to require periodic reduction in staff to stay within funding levels.
- In recognition of the above points, the Department’s approved FY09 budget includes a transfer of \$1.77 million from the Administration Fund to the Special Revenue Fund.

At an initial budget meeting with the Office of Management and Budget, the OMB director voiced his position that this fund should be self sustaining. The PHED committee will recall that the County Executive’s recommendation for FY09 budget contained the position of self sustainment and it was unworkable. The Council agreed that the Special Revenue Funds were not intended to be fully self-supporting. The chart below shows the suitability of the transfer.

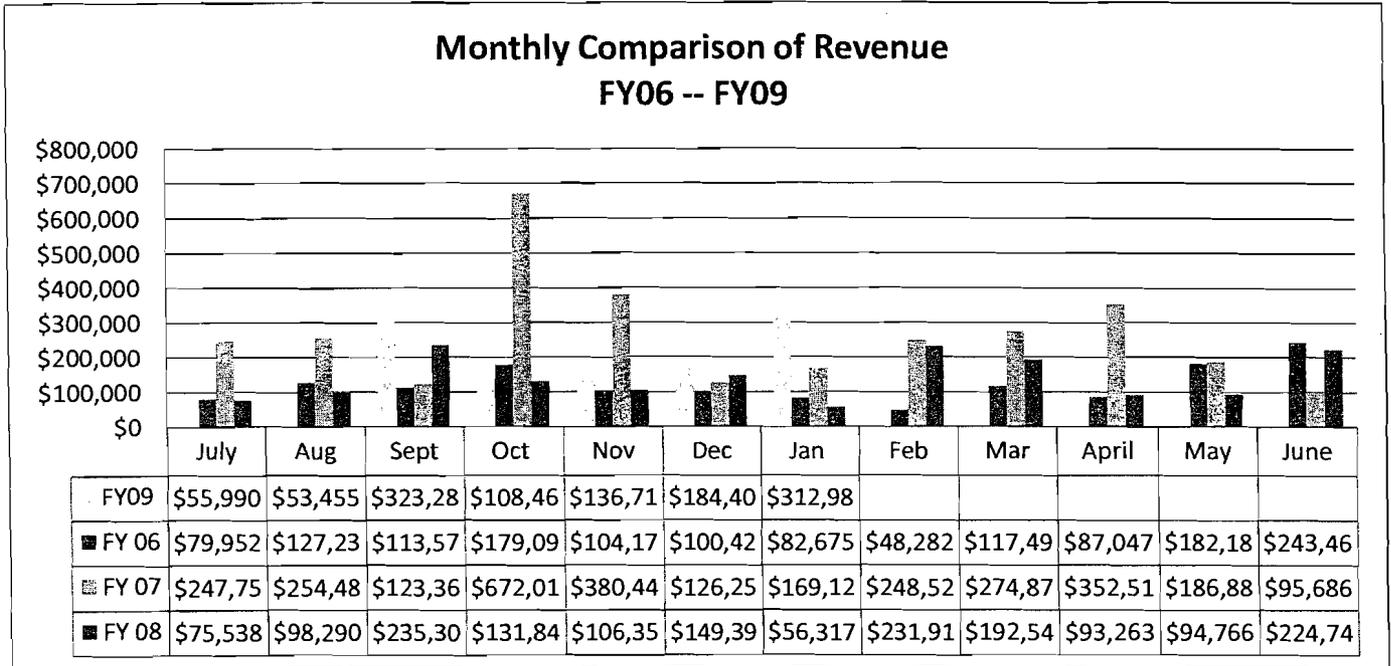
| Correlation of Number of Applications to Fee Revenue | | |
|---|-------------|---------------|
| | <u>FY08</u> | <u>FY09</u> |
| No. of Applications | 378 | 305 |
| Δ Amount | (6.00) | (73.00) |
| Δ Percent | (0.02) | (0.19) |
| Fee Revenue | \$1,690,270 | \$2,014,800 |
| Transfer (FY09) | | \$1,773,000 |
| Approved Expenditure | \$3,457,377 | \$3,691,500 |
| Revenue to Fee -- | | |
| Δ Amount | (1,441,650) | (\$1,643,000) |
| Δ Percent | -46% | 3% |

In keeping with this premise, a request for a transfer from the Administration Fund to the Special Revenue Fund is included in the FY10 Proposed Budget.

The Department will continue to monitor and report on the fund's performance. Attached are two appendices which give the details of the fund's performance both in the current and past fiscal years and the background of the Development Review Special Revenue.

Details of the Fund's Performance

The estimates for the performance of this fund continue to be based on a straight line projection method because there are not sufficient data points to calculate a trend analysis or regression analysis.



| DEVELOPMENT REVIEW SPECIAL REVENUE FUND | | | |
|--|--------------------|--------------------|--|
| FY09 Budget to Projected Revenues | | | |
| | FY09 Budget | FY09 Projected | Budget to Projected \$ % |
| Total | \$1,810,000 | \$2,014,806 | \$204,806 11% |

| DEVELOPMENT REVIEW SPECIAL REVENUE FUND | | | | | | |
|--|------------|------------|------------|------------|--------------|---------------|
| Development Applicatons | | | | | | |
| FY09 Projected to Prior Years' Actuals | | | | | | |
| | FY06 | FY07 | FY08 | FY09 | FY09 to FY08 | |
| | Actual | Actual | Actual | Projected | # | % |
| Total | 513 | 384 | 378 | 305 | -73 | -19.3% |

| DEVELOPMENT REVIEW SPECIAL REVENUE FUND | | | | | | |
|--|-------------|-------------|-------------|-------------|---------------------|-------------|
| Development Applications by Type | | | | | | |
| Four Year Comparison | | | | | | |
| For the period ending on January 31, 2009 | | | | | | |
| Application Type | FY06 | FY07 | FY08 | FY09 | FY09 to FY08 | |
| | | | | | # | % |
| Subdivision Reg. Waivers | 1 | 2 | 4 | 1 | -3 | -75% |
| Project Plans | 9 | 15 | 2 | 3 | 1 | 50% |
| Preliminary Plans | 92 | 81 | 32 | 44 | 12 | 38% |
| Site Plans | 64 | 44 | 49 | 44 | -5 | -10% |
| Record Plats | 160 | 104 | 125 | 86 | -39 | -31% |
| Total | 326 | 246 | 212 | 178 | -34 | -16% |

| DEVELOPMENT REVIEW SPECIAL REVENUE FUND | | | | | | |
|---|------------------|--------------------|------------------|--------------------|---------------------|------------|
| Fee Revenue | | | | | | |
| Four Year Comparison of Revenue by Plan Type | | | | | | |
| Through January 31, 2009 | | | | | | |
| Application Type | FY06 | FY07 | FY08 | FY09 | FY09 to FY08 | |
| | | | | | # | % |
| Subdiv Reg Waivers | \$925 | \$1,390 | \$4,170 | \$2,390 | (\$1,780) | -43% |
| Project Plans | \$63,988 | \$439,091 | \$34,149 | \$124,119 | \$89,970 | 263% |
| Preliminary Plans | \$315,237 | \$925,620 | \$226,491 | \$368,955 | \$142,463 | 63% |
| Site Plans | \$298,973 | \$427,514 | \$364,355 | \$522,700 | \$158,344 | 43% |
| Record Plats | \$108,000 | \$179,830 | \$223,870 | \$157,140 | (\$66,730) | -30% |
| Total Revenues | \$787,123 | \$1,973,445 | \$853,036 | \$1,175,303 | \$322,268 | 38% |
| Total No. of Applications | 326 | 246 | 212 | 178 | (34) | -16% |
| Avg Revenue/Applicatio | \$2,414 | \$8,022 | \$4,024 | \$6,603 | \$2,579 | 64% |

Appendix B

Background

In response to the violations uncovered in Clarksburg, at the end of 2006 a Development Review Special Revenue Fund was established to fund an increase in the number of staff doing regulatory review of development applications. The intent was to better define the costs of development application reviews to include not only reviewer staff hours but also other relevant costs, including time spent by others in support of application reviews (e.g. research, technology, administrative and technical support, and legal) as well as a portion of the overhead. At that time the data was estimated and costs projected. In concert with these actions, the fee schedule for development applications was studied. Fees were increased an average of 300%.

Although the costs and workyears associated with development review were estimated in 2006, by FY08, a refinement of appropriate costs including workyears was enabled by the advent of the program budgeting. The revenues assigned to the Development Review Special Revenue Fund include:

1. Subdivision Regulation Waivers Fees (SRW)
2. Project Plans Fees
3. Preliminary Plans Fees
4. Site Plans Fees
5. Record Plats Application Fees

The costs identified with these applications are found in program elements.

For FY08, the Planning Board recommended that the Special Revenue Fund be melded back into the Administration Fund. The Council did not agree. The FY08 Adopted Budget for the Development Review Special Revenue Fund contained an estimated revenue income of \$3.2 million, which was a decrease of nearly 10% from FY07. Early in FY08, the Department became concerned over the dropping trends in revenue associated with the economic climate. By mid-year, it was obvious that a supplemental appropriation was needed to support the fund. For FY08, the actual fees collected equaled nearly \$1.7 million. The funding gap was filled by a special appropriation of \$749,000 from the Administration fund balance to the Special Revenue Fund on April 8, 2008 and exhaustion of the Special Revenue Fund balance.

The Planning Board recommendation for the FY09 Proposed Budget included a transfer recommended at \$2.2 million from the Administration Fund to the Development Revenue Special Revenue Fund to shore up the fund and provide stability for the approximately 34 associated workyears. The County Executive recommended no funding for the Development Review Special Revenue Fund and instead suggested that costs be cut and fees be generated for the fund. OMB suggested the fund should operate analogous to the Department of Permitting Services. The Board and Department pointed out that there are major differences which include:

- The fund was set up as a Special Revenue Fund and not an Enterprise Fund. The Special Revenue Fund assumes that the Administration Fund would carry the difference should there be a shortfall.

- It is extremely important to have a sustained capacity to analyze development proposals, to collaborate effectively with other agencies, to work well with community representatives and to add value to proposals. These are all in the public interest.
- The Special Revenue Fund was not provided with “seed” money to weather economic downturns as was done for the Department of Permitting services.

From its inception in late FY06 to FY09, the budgeted revenue from fees has decreased over 51%. Per Council’s guidance, the Department reduced the chargeback to the Development Review Special Revenue Fund. Additionally, the Planning Board approved an increase in fees this fall seeking to raise fee revenue by approximately \$200,000. However, even with the reduction in chargebacks and the fee increase, revenue shortfalls are expected.