



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

FILE 150559
BOS-11 (COB, B+F) Clerk
Ben Rosenfield
Controller BOS-
Todd Rydstrom Legis
Deputy Controller ledm

July 20, 2015

The Honorable Board of Supervisors
City and County of San Francisco
Room 244, City Hall

Angela Calvillo
Clerk of the Board of Supervisors
Room 244, City Hall

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OFFICE OF THE CONTROLLER
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Re: Office of Economic Analysis Impact Report for File Number 150559

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file number 150559, "Reduction of Building Code Fees: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan
Chief Economist

City and County of San Francisco

Office of the Controller – Office of Economic Analysis

Reduction of Building Code Fees: Economic Impact Report

Office of Economic Analysis

Item # 150559

July 20, 2015



Introduction

- On June 2, 2015 Mayor Lee introduced legislation to reduce most of the current Department of Building Inspection (DBI) fees.
- This report was prepared because the Office of Economic Analysis (OEA) determined that the legislation introduced could have a material economic impact on the city. It is based on the initial legislation, which was amended during the legislative process. Based on a review of the amendments, we believe the general conclusions of the report remain valid.
- DBI charges fees for different types of services provided to building owners and managers. The proposed legislation will lower most DBI fees by 7%.
- In addition to the fee reductions, a technology surcharge (currently set at 2% of permit cost) for permit application processing will be eliminated.
- Currently, the existing building permit fees for projects \$5M and above are included in a single tier. The new fee schedule adds four new valuation tiers for projects greater than \$5 million in valuation.
- The legislation states that no existing permittee who paid a fee under the schedules in effect at the time the fee was paid is entitled for a refund, or subject to a fee reassessment, based upon the new fee schedule.



Addition of Four New Valuation Tiers for Building Permit Fees

- The current fee schedule for plan review and permit issuance, for both new construction and alterations, for any project \$5M and above are based on a fixed schedule.
- The proposed fee schedule adds the following four valuation tiers: \$5M to \$50M, \$50M to \$100M, \$100M to \$200M, and \$200 and above.
- Although fees for plan review and permit issuance will be reduced by 7% for projects up to \$5M, the fee reduction can be substantial for large projects above \$5M under the newly proposed tiered structure.
- The reduction percentages will vary and depend upon the tier the project total construction valuation belongs.
- As a percent of the total cost of a project, these fees can range anywhere from 1.3% for smaller projects to 0.7% for larger projects. Even though the percentage fee reduction for large projects is greater, as a percentage of the total project cost, it is lower.

DBI Fees for Sample New Construction Projects: Current and Proposed Structure

Valuation (\$M)	Current	Proposed	Diff	% Reduction	Current as % of Project Value
\$0.5	\$6,629	\$6,120	-\$509	-7.6%	1.3%
\$1.0	\$10,901	\$10,070	-\$831	-7.6%	1.1%
\$5.0	\$41,593	\$38,440	-\$3,153	-7.6%	0.8%
\$5.5	\$46,950	\$41,564	-\$5,386	-11.5%	0.9%
\$49.0	\$361,896	\$175,573	-\$186,323	-51.5%	0.7%
\$209.0	\$1,495,960	\$510,141	-\$985,819	-65.9%	0.7%
\$280.0	\$2,014,302	\$804,491	-\$1,209,811	-60.1%	0.7%

Total DBI fees for new construction include plan review, permit issuance, plumbing and electrical permit issuance fees. The proposed fees take into account the elimination of "Technology Surcharge" of 2% of permit cost, resulting in "effective" reduction of most DBI fees by 7.6% for projects up to \$5 million in construction valuation. The OEA estimates are based upon an average unit size of 1,000 sq. ft. and cost of construction of \$500,000 per unit.



Economic Impact Factors

- The proposed legislation is likely to affect the economy in two ways:
 1. A reduction in fees will increase the financial feasibility of construction projects, increasing construction spending and generating multiplier effects in the local economy.
 2. New construction projects made feasible by the fee reduction will increase the city's housing supply and impact prices.
- In general, a revenue reduction to the City can be expected to also have a negative economic impact in the future, associated with reduced public sector spending and, potentially, reduced public services.
- However, DBI's fees may not legally exceed the cost of providing the service for which they are charged. Since DBI has determined that the fee reduction will not result in reduced service, this report does not consider any reduction in DBI spending.
- In addition, our estimate of the construction benefits will be conservative because we will only estimate spending associated with new construction. We do not have sufficient data on the alteration of existing structures, and how many of alteration projects will become feasible owing to the fee reduction.

Average Fee Reduction

- As shown on the next page, the OEA estimates that projects valued up to \$5 million will see a reduction of DBI fees by 7.6%, which takes into account the elimination of the technology surcharge as well.
- However, the savings in total DBI fees can be substantial for larger projects, and will vary depending upon the size of total valuation of a project and can range anywhere from 11.5% to 66%.
- According to the latest planning department pipeline report (2014 Q4) about 78% of projects in the current pipeline are of size less than 10 units whereas the remaining 22% are more than 10 units.
- The average (weighted) fee reduction for all the units currently in the development pipeline is about 16%.

Fee Reduction, Housing Prices, and Construction Spending

- Currently, there are 50,519 housing units in the development pipeline, according to the Planning department.
- We estimate cost saving based on the proposed fee reduction is \$89.4 million.
- This fee reduction translates into 0.35% reduction of total project cost, based on project costs reported by applicants.
- This reduction in cost can be expected to have a proportionate stimulus on construction.
- We estimate the 0.35% reduction in development cost caused by the legislation would lead to a 0.042% reduction in housing prices and rents across the city.
- It will also lead to additional residential and non-residential construction activity of about \$55 million per year. This only includes spending associated with new construction, not alterations of existing structures.

Economic Impact Assessment and Conclusions

- The proposed reduction in DBI fees is projected to expand the city's economy (output) by \$76.7 million annually, on average.
- Similarly, the city's economy is projected to add total of 444 jobs annually (on average) to the local economy over the forecast horizon.
- Out of the total jobs added in the local economy, 263 jobs (or 59%) will be in the construction industry and the rest spread across various sectors of the local economy.

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