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County unit hit by housing slump

Yet Development Services added \$1M in staff in face of potential multimillion-dollar deficit

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Pima County's Development Services Department added \$1 million in new staff costs over the last six months, despite running a projected deficit of up to \$5 million.

The department, which must cover its own costs through permit fees and rezoning charges, has seen its revenues plummet along with new housing starts and now is struggling to find ways to cut expenses.

But that didn't stop the department from hiring 17 new employees and promoting another 11 employees since April. Seven of those employees moved into positions that didn't exist before.

Collectively, their salaries and benefits will cost the department \$1 million this fiscal year.

Development Services Director Carmine DeBonis said he did not anticipate the severity of the slowdown or how long it was likely to last when he was making hiring decisions earlier this year.

"Hindsight always is 20/20," he said. "Looking back, if I had known the revenue and activity were going to decline to this point, I would have looked for opportunities to consolidate functions."

To meet its \$15 million budget, the department needs to earn \$1.3 million a month through permits, inspections, plan reviews, zoning and comprehensive plan changes and subdivision fees.

But the county processed just 8,500 residential building permits last year, the lowest level since 2002, and permits may not break 5,000 this year. In September, the department processed just 105 residential permits.

Monthly revenue has dropped to less than \$900,000, and if trends continue, the department will be \$4 million to \$5 million in the red by the end of the year.

The department already cut its budget by \$1.8 million from last year in anticipation of the slowdown, but DeBonis said local analysts predicted it would last just 12 to 18 months.

The department has an \$11.6 million reserve built up from the flush years of 2004, 2005 and 2006 that will cover the deficit for now.

DeBonis said he had no way of knowing earlier in the year the situation would be so serious. So he kept hiring — permit technicians, civil engineers, building trades plan technicians, zoning inspectors and administrative staff.

He also created several new project manager positions, including one to oversee the development of a long-planned "green" building program and another to coordinate planning activities.

All those positions were part of the department's 2007 budget. Planning for the budget started in fall 2006, but it wasn't finalized until June.

"At the time we came up with the budget, no one anticipated the drop-off in the residential market that occurred," DeBonis said.

Some builders and real estate experts questioned how the department could not have foreseen the decline.

Duane LeGate, president of HouseBuyerNetwork.com, said he realized the downturn was coming in June 2006 when his company saw a huge increase in the number of distressed properties for sale, and it was apparent to most observers by January 2007.

And with so many houses on the market, "housing starts would have to drop off," he said.

The slowdown was clear by January or February, said Tom Doucette, owner of local builder Doucette Communities.

"I'd have to be awfully skeptical to criticize that decision (to hire), but it seems they ignored the signs of what was happening," Doucette said. "They hear the development community say things are bad, and they think we just don't want to pay more fees."

If the department saw continued activity through the first half of 2007, Doucette said, some of it may have been national builders continuing to request permits in the hopes the slowdown would be temporary. But local builders already had scaled back their activities.

The city's Development Services Department is filling vacancies but hasn't added any new positions. That department also is expected to cover its costs. And while residential activity has dropped off, commercial activity has remained steady enough that the department is not running a deficit.

Commercial activity makes up a smaller percentage of permits in the county.

DeBonis said some of the positions would have been filled anyway because they are not directly related to new growth, like the green building program and zoning inspections. However, he now has stopped hiring and has 35 open positions.

"We certainly will take advantage of opportunities to redirect employees," he said.

In a memo to top county officials, DeBonis proposed several ways to cut costs, including holding vacant positions open and reducing fees other county departments charge Development Services for administrative expenses. He also raised the possibility of increasing fees or adding new fees.

County Administrator Chuck Huckelberry said he would not support cutting interdepartmental fees charged to Development Services because it would mean the general fund was supporting the department.

Nor would he support significant fee increases during an economic downturn.

"You can't squeeze blood out of a turnip," he said. "With permits where they are, it's not a good idea."

Instead, he said, the department needs to live within its budget and reserve fund. Whether the recent hires were good decisions depends on how long the downturn lasts, he said. If it lasts through 2010, as some analysts predict, the department will have no reserve left and layoffs may be necessary.

"That will be what plays out in any planned reduction or how they bring themselves into budget alignment," he said. "Once you eat through the reserve, there's nothing else."

Doucette said he, like many builders, already has laid off employees and may have to lay off more.

"They're having to do what we have to do, and that's adjust our staff and adjust our appetites," he said.

He questioned why the department would consider raising fees instead of letting staff go.

"What are these people going to sit around doing when nobody is applying for permits?" he asked.

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