

CITY COUNCIL AGENDA TOPIC

Budget Update – Development Services Permit Fees and Issaquah and Renton School District Impact Fee Schedule

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EXECUTIVE SUMMARY

INFORMATION ONLY

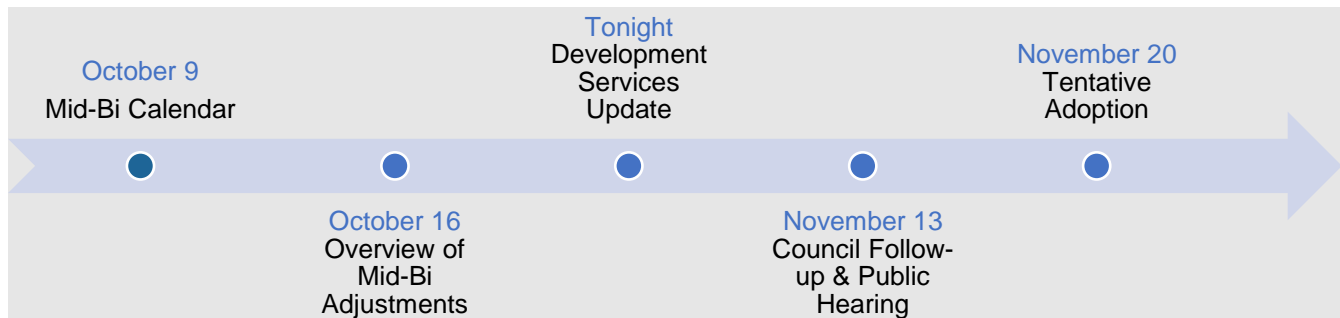
Staff is seeking feedback regarding Development Services proposed 2024 fees and rates following completion of an annual cost of service study. Staff will also present information regarding updates to the Issaquah and Renton school impact fee schedule in Bellevue City Code (BCC) Chapter 22.18.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS

This is the fourth of several meetings with the City Council to discuss, consider, and provide direction for the adoption of the 2023-2024 Mid-Biennium Operating Budget and 2023-2029 Capital Investment Program (CIP) Plan.



Please note that these dates are tentative and should not be considered final.

Development Services Background

The ongoing success of the Development Services line of business requires quick responses to shifts in workload, performance, or revenues generated from permit fees as Bellevue travels through development cycles. When business activity is increasing, it is critical to respond quickly by adding staff and consultants to maintain timelines that ensure developers are not hindered in their ability to secure financing and move projects forward. When business activity decreases, it is also important to make measured reductions in costs and staffing to protect the financial health of the development services function. At all times it is vital to retain a basic level of skills, qualifications, and capacity needed to

respond to all aspects of development services.

The current development cycle peaked at a nine-year high plateau and although demand for services continues, economic conditions indicate that permit activity may taper somewhat in the coming year as projects move through the development pipeline. Permit applications have slowed for major office, retail and housing projects, including projects in the planning stages. Activity for single-family addition and remodel permits remains strong and is anticipated to continue through the next year.

Development Services is a line of city business that must adjust to development cycles and operate within a revenue stream primarily generated by permit fees. Each year an internal cost of service study is initiated using tools that assess service levels, financial performance, and forecast changes in development activity. The internal analysis and resulting fee adjustments are essential to sustaining service levels, maintaining revenues that are adequate to support the operation, and ensure fees are competitive in our region.

The Development Services Fund reserve was established to provide the revenue and policy basis for making changes in staffing and resource levels (both up and down) and to insulate the General Fund from dramatic resource demand swings associated with development cycles. The reserve also allows all functions to respond in advance of forecast workload changes to continue to meet performance targets.

The financial management guiding principles previously endorsed by the City Council for Development Services include:

- Fees should be regionally competitive and provide timely, high-quality services.
- Applicants should pay for the services they receive.
- Fiscal management should be performed on an overall development services basis.
- Funding structure should support the management of development services as a line of business through economic cycles and fluctuations in workload.

Proposed Hourly Rates and Fee Adjustments

The proposed fee changes reflect the results of the cost of services study. A summary of proposed changes is in Attachment A – 2024 Summary of Proposed Changes to the Development Services Fees. Rates are adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycles.

Permit fees collected to support development services follow two primary approaches; hourly rates based on the staff time needed to complete permit review and inspections, and fees based on the calculated value of the permitted work. The hourly rate adjustments for land use, fire, transportation, and utilities plan review and inspection reflect the total cost such as staffing, city-wide overhead, facilities, technology services, and administrative services. The proposed adjustments to the Development Services fees and rates would result in permitting cost increases consistent with inflation.

The annual fee update analyzes costs associated with delivering development review and inspection services and maintaining alignment with fees charged for those services and the established cost recovery policies. Hourly rates are charged for land use, transportation, utilities, and fire review and inspection services. Building permit fees supporting building review and inspection services are based

on the estimated project value. The proposed adjustments to hourly and building permit fees are provided below.

Function	2023 Rate	2024 Rate	Proposed Revenue Increase	% change in rate
Land Use review	\$264	\$272	\$158,000	3.03%
Transportation review & inspection	\$217	\$225	\$213,000	3.69%
Fire review & inspection	\$193	\$200	\$72,000	3.63%
Utilities review & inspection	\$180	\$187	\$93,000	3.89%
Estimated Revenue Increase			\$536,000	

Permit fees supporting building review and inspection services are based on the estimated construction value. The following adjustments are proposed for building permit fees:

- Adopt the updated building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2022 to August 2023. *Values derived from the BVD tables are used to determine building permit fees.*
- No change to the BVD table using the Washington State modifier of 1.13, from July 2022 to July 2023 as published by Marshall and Swift to align with Washington State construction costs.
- Adjust building review and inspection fees, including permits for electrical, mechanical, and plumbing systems, by CPI-W (4.51%).

Flat Fees

In addition to the adjustments in fees as part of the annual fee analysis process, staff review the consolidated fee ordinance and make adjustments to ensure there is alignment with changes in business practices that can increase or decrease the fees charged for specific permit types. The proposed fee adjustments also reflect the results of the fee analysis for permits where a flat fee is charged based on the average number of review and inspection hours needed to complete the permit.

The examples below illustrate the results of the proposed fee changes on two permits subject to hourly rates and reflect the change in overall cost associated with the proposed adjustments.

Single Family Addition - Utilities Review	Hourly Rate	Review Hours	Flat Fee
2023	\$180	1.3	\$234
2024 Proposed	\$187	1.5	\$281
Proposed Change in Fee			\$47

Tenant Improvement – Fire Inspection	Hourly Rate	Review Hours	Flat Fee
2022	\$184	2.2	\$405
2023 Proposed	\$193	2.2	\$425

<i>Proposed Change in Fee</i>

\$20

Valuation-Based Fees

The use of construction value to set building permit fees has been the industry standard of practice for many years and has generated revenue adequate to support plan review and inspection services for these permits. The BVD, published and updated by the International Code Council (ICC) and modified by the Marshall & Swift construction value modifier for Washington, is used to establish the building value which is then used to calculate building permit fees; the ICC BVD table and the Washington State modifier are updated annually to ensure alignment with the general cost of construction. Valuation-based fees for building review and inspection services are based on two variables: (1) the estimated value of the proposed building, and (2) application of a fee applied to that value from the permit fee table.

The examples below illustrate the change in valuation-based construction fees on single-family addition and tenant improvement.

Single Family Addition \$85,000 valuation, 500 sq. ft.	Total Fees
<i>2023</i>	<i>\$3,974</i>
<i>2024 Proposed</i>	<i>\$4,157</i>
<i>Proposed Change in Fee</i>	<i>\$183</i>

Tenant Improvement \$100,000 valuation	Total Fees
<i>2023</i>	<i>\$4,060</i>
<i>2024 Proposed</i>	<i>\$4,229</i>
<i>Proposed Change in Fee</i>	<i>\$169</i>

Mid-Bi Adjustments

On July 17, 2023, Council adopted Ordinance 6747 establishing the Affordable Housing Permit Review and Inspection Fee Reduction Program. This program was part of a larger suite of housing initiatives related to the “Next Right Work”, which is intended to further increase housing production, affordable housing production, and housing diversity within the City. The program will be funded by an annual contribution from the general fund to a new Capital Investment Program (CIP) project. The proposed mid-biennium budget includes the new project for this program as well as increasing the General CIP Fund appropriation by \$310,000.

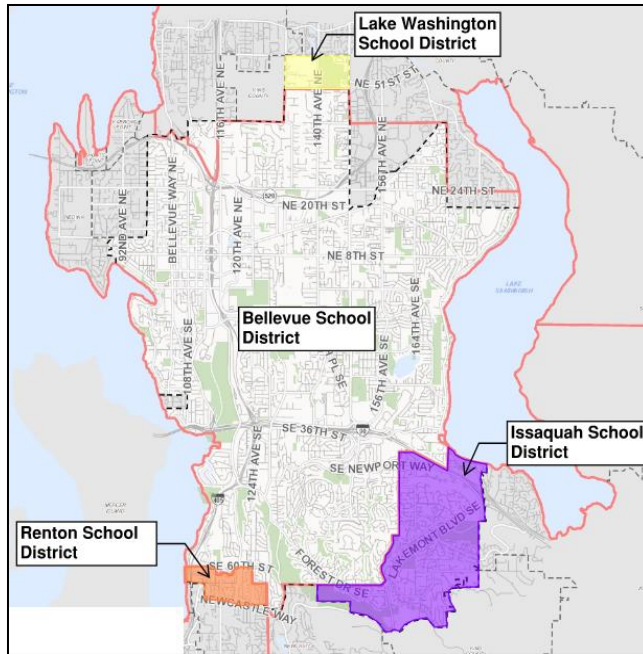
School Impact Fees

Under the Growth Management Act, the City is authorized to assess and collect impact fees on behalf of the school districts to supplement the funding of additional facilities necessitated by enrollment growth from new housing. Properties in Bellevue are within four school districts: Bellevue, Lake Washington, Issaquah, and Renton (see Figure 1). The Issaquah School District (ISD) and the Renton School District (RSD) rely on school impact fees to fund portions of the planned district facilities identified in the Capital Facilities Plan (CFP). Districts also rely on state funding, local bonds and capital levies to fund public facilities.

Chapter 22.18 of the Bellevue City Code (BCC) is the chapter controlling the City’s assessment of school impact fees for the Issaquah and Renton school districts, including the impact fee formula used by the City. The formula requires that school districts establish “student generation factors” to estimate the number of students generated by each new single or multi-family unit constructed and costs, tax credits, and state funding assistance unique to the district. Chapter 22.18 BCC also establishes development types that are exempt from the application of impact fees, including affordable housing, certain senior housing, remodels, and rehabilitations of residential units.

BCC 22.18.110 requires the school impact fee schedule to be updated by Council on an annual basis after Council’s receipt of each school district’s CFP. Both the ISD and RSD adopt a CFP and determine impact fees according to the established impact fee formula and based on district-wide needs. Impact fees may fluctuate from year to year based on several factors, including changes to student enrollment, district growth plans, new residential growth, changes to bond interest rates, changes to construction costs of planned capital facilities, and changes in state reimbursement levels. Changes to impact fees for ISD and RSD are as follows:

Figure 1. School District Boundaries



District	Housing Type	2023	2024	Change	Reason(s)
ISD	Single Family	\$11,377	\$15,510	\$4,133	Impact fees will be used towards construction cost of additional facilities necessitated by new development, including the construction of a new elementary and high school.
	Multifamily	\$4,718	\$3,514	(\$1,204)	
RSD	Single Family	\$2,911	\$2,161	(\$750)	Impact fees will be used to offset costs related to a recently opened elementary school constructed to address growth in the district.
	Multifamily	\$3,697	\$4,257	\$560	

POLICY & FISCAL IMPACTS

Policy Impact

RCW 19.27.100

State law allows cities to charge fees for development services provided by the City.

Council Policy Direction

The City Council has set cost recovery objectives for development services. Setting cost recovery objectives based on the type of service being delivered provides a more understandable and consistent approach for setting fees, with common objectives across departments and functions. The cost recovery targets established by the Council are as follows:

Type of Service	Cost Recovery Target	Funding Source
Policy Development & Public Information	0%	100% General Fund/Utilities Fund supported
Land Use Discretionary Review	100%	100% fee supported
Engineering Review & Inspection	100%	100% fee supported
Technical/Administrative Support	100%	100% fee supported

Chapter 22.18 BCC

The impact fee schedule for ISD and RSD in BCC 22.18.100 is required to be reviewed and updated by Council on an annual basis for consistency with each district's CFP and data.

Fiscal Impact

The proposed fees reflect the results of the annual fee analysis which sets the hourly rates and flat fees based on the average number of review and inspection hours to complete the permit. The proposed changes would generate an estimated total increase in Development Services fee revenue of \$1.2M in 2024, which is included in the 2024 budget.

For ISD and RSD school impact fees, the City collects the fees on behalf of these school districts and does not retain the fees or charge the school districts for this pass-through transaction. Accordingly, the City incurs minor fiscal impacts to administer the impact fee program for these school districts. The ongoing costs to administer this program will not change as a result of the proposed annual fee adjustments.

OPTIONS

N/A

ATTACHMENTS

A. 2024 Summary of Proposed Changes to the Development Services Fees

AVAILABLE IN COUNCIL LIBRARY

N/A