

CITY COUNCIL STUDY SESSION

Council initiation of a Next Right Work proposal to reduce permit review and inspection fees for qualifying affordable housing projects.

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DIRECTION NEEDED FROM COUNCIL

DIRECTION

Initiate work on a proposal to reduce permit review and inspection fees for qualifying affordable housing projects.

RECOMMENDATION

Move to initiate work on a proposal to reduce permit review and inspection fees for qualifying affordable housing projects.

BACKGROUND & ANALYSIS

Next Right Work Background

Since the adoption of the Affordable Housing Strategy (AHS) in June 2017, the City has made significant progress towards achieving the target of 2,500 affordable housing units over 10 years. On July 5, in building upon the AHS, Council prioritized three “Next Right Work” actions to further increase housing production and affordable housing opportunities in the City. The three actions are:

- Remove barriers to micro-apartments (Council initiated on October 10)
- Allow higher FAR or density for certain residential uses to incentivize residential over commercial developments
- Reduce permit fees for affordable housing projects

This agenda item focuses on the third action to reduce permit review and inspection fees for qualifying affordable housing projects with staff conducting a review of options and potential impacts in service of that action. The second action is covered separately with its own memo.

Objectives of this Action

Permit review and inspection fees can make up a substantial part of a project’s development cost. The objective of reducing permit review and inspection fees is to further incentive affordable housing production in the City.

Development Services operates under a full cost recovery financial model, and fees match the cost of providing services. Permit and inspection fees are charged based on the staff time needed to complete permit review and inspections and on the estimated construction value of the permitted work. Bellevue’s fees are regionally competitive, though permitting fees remain an increasingly important cost

of development for affordable housing projects, permanent supportive housing, emergency housing, and homeless services uses projects.

The amount of permit and inspection fees collected by the City can vary based on the size of the project and whether a project is subject to land use entitlements (e.g., design review, conditional use, critical areas). For example, \$226,820 was collected for King County Housing Authority's project "Highland Village." This project included design review, environmental review, and numerous building permits in order to renovate 10 of the existing 12 two-story buildings, demolish a two-story building and construct a three-story building with 36 new affordable units. The total permit and inspection fees for a 95-unit permanent supportive housing project in Eastgate not subject to land use entitlements was \$156,656. A 354-unit affordable housing project in Eastgate was charged \$918,868 and included subdividing the lot and critical areas permit review.

The City has included fee waiver programs since as early as 1989 with the adoption of a transportation impact fee waiver for qualifying affordable housing projects, and beginning in 1995, the City implemented a school impact fee waiver for qualifying affordable housing projects. This proposal would expand the city's fee waiver program beyond impact fees, to include permit review and inspection fees, to help mitigate the cost of development for affordable housing projects.

Proposed Permit Fee Reduction Scope

Eligibility

To reduce the cost of developing affordable housing that meet affordability objectives, this fee reduction is proposed to be available for the following projects:

- Affordable housing projects when 100 percent of the units in a building are affordable to residents who have annual incomes that do not exceed 80 percent of the Area Median Income
- Permanent supportive housing projects
- Emergency housing projects
- Homeless services uses (e.g., emergency shelter, emergency housing – transient, permanent overnight shelter, day services center)

Amount of reduction

Qualifying projects are proposed to be eligible for a permit review and inspection fee waiver for the total amount of fees charged for Development Services staff review and inspection services.

Anticipated funding mechanism

Development Services operates on a cost recovery financial model, so the funding gap will have to be filled from other sources. As part of this proposal, staff will analyze the potential fiscal impacts, the appropriate funding amount for operating the program, whether an annual upper limit should be set, the appropriate funding source and, the fiscal sustainability of such a program.

Proposed Process and Timeline

After receiving Council direction to initiate this work, staff will begin public outreach with the development community, including affordable housing providers, and examine fee waiver programs in neighbor and peer cities. It is anticipated that this review and inspection fee waiver program can be enacted without requiring a Land Use Code Amendment; thus, the Council is expected to review recommendations related to this action. Staff plans to return to Council for a study session in the

second quarter of 2023 with recommendations for the components of this action for Council consideration.

POLICY & FISCAL IMPACTS

Policy Impact

This work will include options to advance AHS, Action C-5. *Reduce costs of building affordable housing (e.g. code amendments, lower fees, reduced parking, city-funded street improvements).*

Additionally, the following are relevant Comprehensive Plan policies:

- **HO-7.** Encourage the development of affordable housing through incentives and other tools consistent with state enabling legislation.
- **HO-23.** Encourage the development of affordable housing through incentives and other tools consistent with state enabling legislation.
- **HO-26.** Provide incentives and work in partnership with not-for-profit and for-profit developers and agencies to build permanent low- and moderate-income housing.
- **HO-29.** Explore financial incentives to encourage affordable housing, such as partial exemptions from city permit fees, the state property tax exemption program and other state enabled programs.

Fiscal Impact

This action will reduce permit review and inspection fee revenue generated by affordable housing projects built in the City and will require the use of alternate funding to replace waived fees. Information about fiscal impact, including relevant funding sources resulting from this action, will be provided at a future study session.

OPTIONS

1. Initiate work on a proposal to reduce permit review and inspection fees for qualifying affordable housing projects.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

N/A