

CITY COUNCIL STUDY SESSION

Budget Update - Development Services Permit Fees and Issaquah and Renton School Districts' Impact Fee Schedule Update

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DIRECTION NEEDED FROM COUNCIL

INFORMATION ONLY

Staff is seeking feedback regarding Development Services proposed 2023 fees and hourly rates. Staff will also present information regarding updates to the Issaquah and Renton School Districts' impact fee schedule in Bellevue City Code (BCC) Chapter 22.18. This is one of three agenda items tonight regarding the 2023-2024 budget. The other two items under separate agenda memo cover are Human Services Funding allocations and overall budget update which includes Environmental Stewardship and Diversity, Equity, and Inclusion.

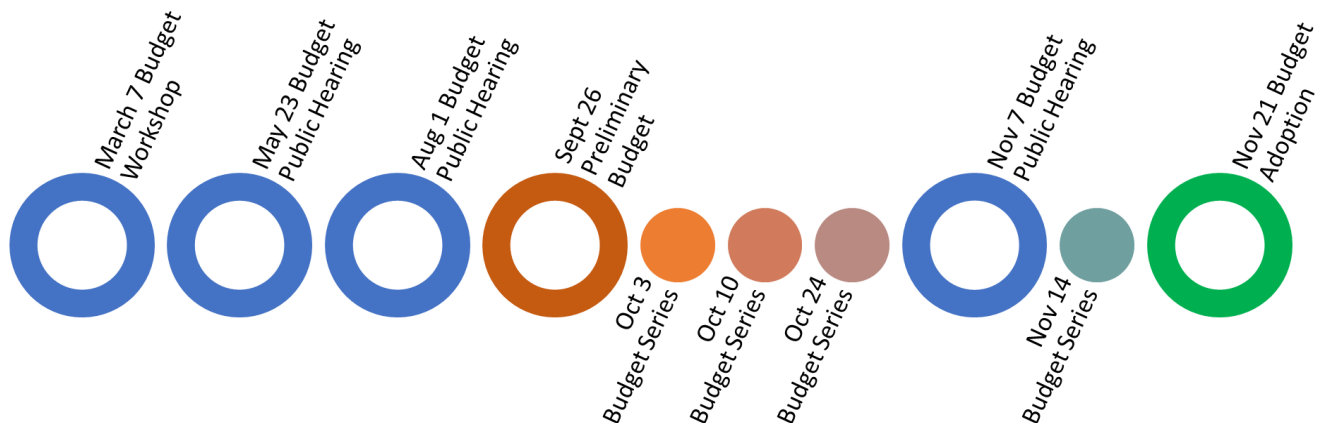
RECOMMENDATION

N/A

BACKGROUND & ANALYSIS

Background

On September 26, the City Manager and staff provided an overview of the 2023-2024 Preliminary



Operating Budget and the 2023-2029 (CIP) Plan. Tonight, staff will present the results of the Development Services annual cost of service study and the recommended fee adjustments to maintain service levels across the multi-department line of business.

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.

Bellevue development continued throughout the COVID-19 pandemic with new permit applications for major office, retail, and housing projects, and additional projects in the planning stages. There was also a substantial increase in the number of single-family addition/remodel permits for projects undertaken during the pandemic. With projects under construction in all growth areas of the City, there is a high demand for both review and inspection services.

The current development cycle is at a nine-year high plateau and is anticipated to remain at this level through the next few years as projects move through the development pipeline. 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 for 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 Land Use Cost Recovery Adjustment

Development Services operates under a full cost recovery financial model endorsed by the City Council. The current Land Use discretionary review cost recovery is 50 percent fee supported and 50 percent general fund supported. Staff are proposing to adjust the Land Use discretionary review cost recovery objective to be 100 percent fee supported and eliminate the 50 percent support from the general fund. The change aligns the Land Use discretionary review cost recovery objective with Building, Transportation, Utilities and Fire review services.

Aligning the Land Use review cost recovery objective with other service lines allows the opportunity to add Land Use staff to maintain predictable service delivery without impacting the general fund. The adjustment moves costs to customers who are seeking services from Development Services and reduces the general fund subsidy by approximately \$1.14 million annually, thereby insulating the general fund from fluctuating costs associated with development cycles and staffing level changes. This results in a Land Use review hourly rate adjustment from \$187 to \$264 per hour. The proposed hourly rate also includes adjustments in overhead costs across the rate model resulting in an overall 41.2 percent Land Use review rate increase.

Proposed Fee Adjustments

The proposed fee changes reflect the results of the cost of services study. A summary of proposed changes is in Attachment A – 2023 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 rates, including the Land Use review cost recovery change, would result in permitting cost increases consistent with inflation for most permit types.

Hourly Rates

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	2022 Rate	2023 Rate	Proposed Revenue Increase	% change in rate
Land Use review (100% fee supported)	\$187	\$264	\$1,254,000	41.2%
Transportation review & inspection	\$206	\$217	\$292,000	5.3%
Fire review & inspection	\$184	\$193	\$93,000	4.9%
Utilities review & inspection	\$170	\$180	\$133,000	5.9%
Estimated Revenue Increase			\$1,772,000	

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 2021 to August 2022. *Values derived from the BVD tables are used to determine building permit fees.*

- Adjust the BVD table using the Washington State modifier from 1.14 to 1.13, from July 2021 to July 2022 as published by Marshall and Swift to align with Washington State construction costs.

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.

Side Sewer Connection – Utilities review	Hourly Rate	Review Hours	Flat Fee
2022	\$170	2.0	\$340
2023 Proposed	\$180	2.0	\$360
<i>Proposed Change in Fee</i>			\$20

Tenant Improvement – Fire Inspection	Hourly Rate	Review Hours	Flat Fee
2022	\$184	2.0	\$368
2023 Proposed	\$193	2.2	\$425
<i>Proposed Change in Fee</i>			\$57

Below are two examples of flat fees for Land Use and reflect the proposed Land Use cost recovery change and the results of the fee analysis for permits where the fee is charged based on the average number of review hours needed to complete the permit.

Tenant Improvement- Land Use Review	Hourly Rate	Review Hours	Flat Fee
2022	\$187	1.2	\$224
2023 Proposed	\$264	1.2	\$317
<i>Proposed Change in Fee</i>			\$92

Permanent Sign – Land Use Review	Hourly Rate	Review Hours	Flat Fee
2022	\$187	3.5	\$655
2023 Proposed	\$264	1.5	\$396
<i>Proposed Change in Fee</i>			(\$259)

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 ICC and modified by the Marshall & Swift construction value modifier for Washington, is used to establish the building value which is used to calculate building permit fees. The ICC BVD table and the Washington State modifier are then 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 improvements.

Single Family Addition– \$85,000 valuation, 500 sq. ft.	Total Fees
<i>2022</i>	<i>\$3,636</i>
<i>2023 Proposed</i>	<i>\$3,974</i>
<i>Proposed Change in Fee</i>	<i>\$338</i>

Tenant Improvement– \$100,000 valuation	Total Fees
<i>2022</i>	<i>\$3,881</i>
<i>2023 Proposed</i>	<i>\$4,060</i>
<i>Proposed Change in Fee</i>	<i>\$179</i>

School Impact Fees

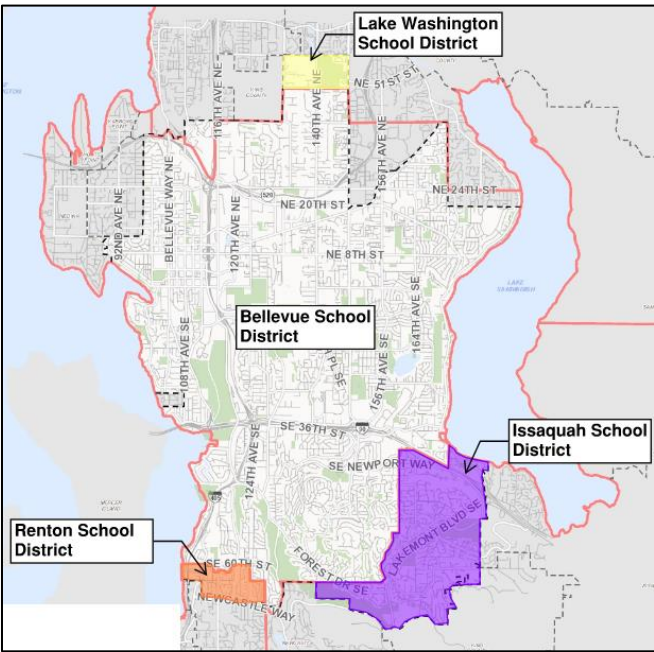
Under the Growth Management Act, chapter 36.70A RCW, the City is authorized to assess and collect impact fees on behalf of the school districts to supplement the funding of additional facilities

necessitated by enrollment growth from 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 ISD and RSD, 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, and changes in state reimbursement levels. Changes to impact fees for ISD and RSD are as follows:

Figure 1. School District Boundaries new



District	Housing Type	2022	2023	Change	Reason(s)
ISD	Single Family	\$20,291	\$11,377	(\$8,914)	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	\$8,353	\$4,718	(\$3,635)	
RSD	Single Family	\$2,659	\$2,911	\$252	Impact fees will be used to address facility capacity deficits, related to enrollment growth and program needs
	Multifamily	\$4,737	\$3,697	(\$1,040)	

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 current and proposed cost recovery targets are as follows:

Current Cost Recovery Objectives Established by the Council

Type of Service	Cost Recovery Target	Funding Source
Policy Development & Public Information	0%	100% General Fund/Utilites Fund supported
Land Use Discretionary Review	50%	50% General Fund supported/50% fee supported
Engineering Review & Inspection	100%	100% fee supported
Technical/Administrative Support	100%	100% fee supported

Proposed Cost Recovery Objectives Requiring Council Action

Type of Service	Cost Recovery Target	Funding Source
Policy Development & Public Information	0%	100% General Fund/Utilites 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 total proposed changes would generate an estimated total increase in Development Services fee revenue of \$2.08 million in 2023, which is included in the 2023-2024 preliminary budget.

The proposed change to adjust the Land Use discretionary review cost recovery objective from 50 percent to 100 percent fee supported would generate an estimated total annual general fund savings of \$1.14 million, which is also included in the 2023-2024 preliminary 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. 2023 Summary of Proposed Changes to the Development Services Fees
- B. Development Services Financial Forecast

AVAILABLE IN COUNCIL LIBRARY

N/A