

CITY COUNCIL STUDY SESSION

Council Study Session on the Next Right Work item to reduce permit review and inspection fees for qualifying affordable housing projects.

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DIRECTION NEEDED FROM COUNCIL

DIRECTION

This study session will provide Council with additional details for the proposed Permit Review and Inspection Fee Reduction Program and responses to questions asked when Council initiated this item on December 12, 2022.

Following discussion, staff is seeking Council direction to prepare the Permit Review and Inspection Fee Reduction Program Ordinance for final action at a future meeting.

RECOMMENDATION

Direct staff to prepare the Permit Review and Inspection Fee Reduction Program Ordinance for final action at a future meeting.

BACKGROUND & ANALYSIS

Background

Next Right Work

On July 5, 2022, in building upon the Affordable Housing Strategy, Council prioritized a set of “Next Right Work” actions to further increase housing production, affordable housing production, and housing diversity within the City. Council directed staff to begin work on the following items:

1. Remove barriers to micro-apartments (adopted June 5)
2. Allow higher Floor Area Ratio for residential
 - Phase 1: Downtown IOC (adopted May 8)
 - Phase 2: Mixed Use Land Use Districts Citywide
3. Reduce permit review and inspection fees for affordable housing projects
4. Encourage detached ADUs, attached ADUs, and duplex, triplex, quadplexes, including mechanism for separate ownership
 - Phase 1: ADU Reform LUCA
 - Phase 2: Detached ADUs, duplex, triplex, and quadplex LUCA
5. Simplify the permitting process and expedite permitting for affordable housing

This agenda item focuses on the third item to reduce permit review and inspection fees for qualifying

affordable housing projects.

Council Initiation

This item was initiated by Council on December 12, 2022. At initiation, Council requested staff return with more information on four questions:

- Should the program be limited to non-profits only?
- What is the anticipated cost to operate this program?
- What funding options may be available to support this program?
- Should permit expediting for affordable housing projects be integrated into this program?

Council's questions are addressed in the "December 12 Council Questions" section below.

Context

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 incentivize affordable housing production in the City.

Development Services (DS) operates under an enterprise fund, meaning a full cost recovery financial model, where services are fully supported by permit application and inspection fees. Permit and inspection fees are charged based on the staff time needed to complete permit reviews 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). This proposal to reduce permit review and inspection fees considered variations in project size and complexity to estimate the program's annual cost.

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 Review and Inspection Fee Reduction Program

Eligibility and amount of fee reduction

This permit review and inspection fee reduction program is proposed to be available for the following projects that submit applications after the adoption of the program:

- Affordable housing projects when 100 percent of the units in a building are affordable to residents who have annual incomes less than 80 percent of the Area Median Income
- Permanent supportive housing projects
- Homeless services uses (e.g., emergency shelter, emergency housing—transient, permanent overnight shelter, day services center)

For projects to qualify for the program, they must be one of the project types listed above and must record an agreement requiring the project type and use to remain for the life of the project. This agreement will run with the land, binding on assigns, heirs, and successors of the applicant.

Qualifying projects are proposed to be eligible for a permit review and inspection fee reduction for the total amount of review and inspection fees charged for DS staff review and inspection services. The proposed program would also limit the amount of fee reductions given through a pre-development services application to ensure project readiness and efficient use of staff time.

December 12 Council Questions

Should the program be limited to non-profits only?

The proposed program is recommended to target projects that meet the City's affordability objectives, and be available to for-profit and non-profit entities. As all applicants must guarantee the affordability and use of the project for the life of the project, staff has no concern with entities abusing the fee reduction and believes that the provision of affordable housing should be encouraged regardless of the applicant's for-profit or non-profit status.

What is the anticipated cost to operate this program?

City staff has projected the potential cost of the fee reduction at about \$310,000 annually based on an average of the last six years of qualifying affordable housing projects within the City of Bellevue, including both new construction and ongoing maintenance permitting.

What funding options may be available to support this program?

Because DS operates through an enterprise fund, review and inspection fees are not waived. Instead, money must be transferred from other funding sources to cover the revenue loss. As such, staff recommends amending the 2023-2029 Capital Investment Program (CIP) Plan to include a new project for this program as well as increasing the General CIP Fund appropriation by \$310,000 to execute the program during the 2023-2024 biennium. This initial appropriation will be contributed by the General Fund. The Finance and Asset Management Department (FAM) recommends that the budget allocation be completed during the 2023-2024 mid-biennium budget process if directed by Council. As the program is slated to begin prior to this date, any funds required prior to the update will be directly transferred from the general fund to DS to pay for this program. The annual \$310,000 transfer from the CIP to the general fund is a preliminary recommendation, and demand for the program is expected to fluctuate. The amount will remain in the CIP if the annual transfer is unused.

During each biennial budget cycle, the potential cost of the fee reduction will be re-evaluated, and Council will have the opportunity to review the program. As the projected funding requirement is a six-year average, staff recommend that the anticipated annual \$310,000 amount be adjusted for inflation for each year to keep pace with the cost of changes in permit fees. A mechanism will be included in the application process to ensure that the CIP project is not overdrawn and that projects expecting to receive the fee reduction can have confidence that funding will be available.

As recommended by Council at launch on December 12, 2022, staff evaluated additional funding sources for the program, including the potential use of funds from the Housing Stability Program (formerly HB 1590). Based on staff analysis, funding sources such as grants and the Housing Stability Program were generally deemed not appropriate for ongoing funding needs such as this program as

they are set up to be responsive to single projects meeting narrowly tailored criteria rather than annual funding for a variety of project types. Utilizing a CIP gives staff and potential applicants to the program certainty of the amount of funding available. This approach also allows the program to be created while allowing staff to continually seek grant funding opportunities and utilize grants if any were to be awarded.

Should permit expediting for affordable housing projects be integrated into this program?

After the initiation of the permit review and inspection fee reduction program, Council requested that staff explore whether permit expediting for affordable housing projects, initiated by Council on January 17, should be combined with this item to reduce permit review and inspection fees for affordable housing projects. Expediting permit review and reducing the fees associated with obtaining development approvals will help increase the City's affordable housing supply. Both projects are underway and expected to be completed as a part of the Next Right Work. As the fee reduction is prepared to move to adoption at this time, staff recommends that Council move forward with both projects having distinct timelines and processes for efficient processing.

No restriction on utilizing both programs has been proposed in the fee reduction program. Allowing qualifying projects to reduce permit and inspection fees and expedite permitting further encourages affordable and supportive housing production within the City, consistent with the stated goals of Council and the Comprehensive Plan. Staff does not anticipate any negative impacts on DS operations or permit processing through the implementation of the programs. Evaluation of the impacts and costs of both programs can be completed through the budgeting process, and changes can be made if determined to be necessary.

Proposed Process and Timeline

The timeline identifies the review process for this Next Right Work item. Council will consider this item during the July 10 Study Session, with final action at a future meeting. If directed by Council, adoption of the program will be completed through an update to the fee schedule ordinance and appropriation of funding to the CIP will be completed during the mid-biennium budget process. Internal application processes and documentation will be created prior to adoption of the program to ensure potential applicants can utilize the program immediately.



POLICY & FISCAL IMPACTS

Policy Impact

This Next Right Work item will advance Affordable Housing Strategy (AHS) Action C-5. *Reduce costs of building affordable housing (e.g. code amendments, lower fees, reduced parking, city-funded street improvements).*

Additionally, the ordinance will advance the following 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 and inspection revenue generated by affordable housing projects built in the City and will require the use of alternate funding to replace waived fees. The estimated average minimum ongoing cost of the program is \$310,000 and may increase with inflation for the life of the program.

OPTIONS

1. Direct staff to prepare the Permit Review and Inspection Fee Reduction Program Ordinance for final action at a future meeting.
2. Provide alternate direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

N/A