

November 14, 2016

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Discussion of Development Services fee update and 2017-2018 budget adjustments responding to continued high levels of development, and code policy work responding to economic development priorities.

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POLICY ISSUES

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 principles for development services (see Attachment A). The proposed changes to the City's fee ordinance reflect the existing cost recovery and financial management policy direction.

Section 2 of the consolidated fee ordinance (Ordinance No. 6263) establishes that fees may be adjusted to reflect the current published annual change in the Seattle Consumer Price Index for Wage Earners and Clerical Workers as needed in order to maintain the cost recovery objectives established by the City Council. The proposed changes to the City's fee ordinance reflect the existing cost recovery and financial management policy direction.

DIRECTION NEEDED FROM COUNCIL

ACTION



DIRECTION



INFORMATION ONLY



Staff will be presenting proposed Development Services fees adjustments, and seeks feedback and direction on specific budget elements and/or requests for additional information that might be needed for deliberation to be included in the 2017-2018 Budget adoption on December 5, 2016. The Development Services budget maintains current operations, allows for responsiveness to continued development growth, and direction for code and policy work to support economic development priorities.

BACKGROUND/ANALYSIS

Development Fee Adjustments

The success for the Development Services line of business is based in the ability to respond quickly to shifts in performance, workload, or permit fee revenues 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 forward with projects. When business activity is decreasing, it is important to make measured

reductions in costs and staffing to protect the financial health of the function. At all times it is vital to retain a basic level of skills, qualifications, and expertise to support all aspects of development services.

The Development Services Fund maintains reserves to assure that core staffing levels are balanced with cyclical needs which mitigate the effects of downturns or rapid increases in development activity. The 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.

Each year a Cost of Service Study is initiated using tools that assess service levels, financial performance, and forecast changes in development activity. The Cost of Service Study and resulting fee adjustments are essential to sustaining service levels, maintaining revenues that are adequate to support the operation, and keeping fees competitive in our region. When significant changes in workload and permit fee revenues are forecast, changes in staffing and other resources are made to ensure the appropriate alignment between performance, revenue, and expenditures is maintained. The proposed fee changes reflect the results of the annual Cost of Service Study.

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 impacts for variable and fixed costs such as City-wide overhead, facilities, technology services, and administrative services.

The Cost of Service Study analyzes costs associated with delivering development review and inspection services, and maintaining alignment with fees charged for those services and 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	Proposed Hourly Rate Adjustments			
	2016 Rate	2017 Proposed	Revenue Increase	% Change in Rate
Land Use review	\$162	\$167	\$66,000	3.1%
Transportation review & inspection	169	175	101,000	3.6%
Fire review & inspection	148	153	46,000	3.4%
Utilities review and inspection	141	147	102,000	4.3%
	Revenue Increase		\$315,000	

The following adjustments are proposed to **building permit fees** that are based on the value of construction:

- Adopt the updated the building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2015 to August 2016. *Values derived from the BVD tables are used to determine building permit fees for new buildings.*
- Adjust the BVD table using the Washington State modifier of 1.14, which remained constant from July 2015 to July 2016 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 (2.0%).

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 the current provisions are still applicable and that changes in business practices are reflected. Several fees are proposed to be adjusted to reflect the results of the annual fee analysis which sets the flat fees based on the average number of review /inspection hours to complete the permit. Please refer to Attachment B – Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6263 for a summary of proposed adjustments. In total the proposed changes would generate an estimated increase in Development Services of \$455,000 in 2017.

In 2016, Development Services embarked on a full cost of service study to evaluate the current financial policies, models and fee structure. This is an effort to support continuous improvement and ensure we are meeting our principles of using financially sound business practices, our rate structure remains equitable and understandable to customers. This work will inform the 2018 rates and will be part of the rate adjustment presentation.

Budget Resource Requests

The current development cycle continues to show strength as permit volumes remain at a high and sustained level. Valuation for issued permits, considered a key barometer of development activity, hit a record high for Bellevue in 2015, and continues to show strength for 2016 and 2017. The key drivers include the increase in the number of new major projects, and a strong interest in new single family construction, single family alterations, and tenant improvements. The number and valuation of major projects, an important measure of revenue and workload, is expected to continue at high levels in the early years of the forecast with a decrease expected in the later years.

The timing of permit applications and construction for major projects drives the significant changes in staffing levels needed to deliver the services that keep these projects on track. Staffing levels for review, inspection, and support services were increased in prior budgets to meet workload forecasts and respond to anticipated East Link construction demands. During the 2013-2014 budget period 24 FTE positions were added in Development Services in response to forecast development activity, an additional 16 FTE positions were added in the 2015-2016 budget. The existing staffing level is anticipated to continue through the 2017-2018 budget period, and Development Services is requesting budget authority for an additional 7.15 fee supported FTE's that will be filled if demand for development review and inspection services continues to increase. If workload and revenue to support these positions does not materialize, the positions will be held vacant.

Additionally, one general funded position (1.0 FTE) is requested to meet the growing demand for code and policy work and to respond to Council's desire for increased agility and flexibility to support economic development priorities. There has been significant progress made on the current Council initiated planning and code development work program including completion of Downtown Livability Early Wins, East Link OMF permit streamlining, Critical Area Ordinance Update, high-rise sign code amendment, Low Impact Development (NPDES), and construction code updates to name a few. However, significant additional staff work and community engagement is needed to advance work program items for the Eastgate/I-90 Land Use and Transportation Project, Downtown Livability, light rail station area planning, the Wilburton Special Opportunity Area/Grand Connection, housing strategy development, Shoreline Master Program, and other important initiatives listed in the work program. Completing projects included in the work program adopted by Council in the fall of 2015, together with the addition work initiated to respond to emerging opportunities or unique needs like ICBC, Park Place Motors, and the Kemper Development DA, exceeded staff's ability to provide timely and quality project delivery.

Earlier this year the City Council also provided direction to staff to explore changes in the code that would allow the City to become more agile and responsive to emerging economic development opportunities and to meet other stated priorities. Over the past few months staff have explored options responding to Council's direction including but not limited to expanding flexibility in allowed uses with "grandfathering" in rezoned areas in transition, expanding the use of Development Agreements to facilitate Comprehensive Plan direction where the code does yet exist to regulate a project proposal, and Implementing Director's Rules under the Land Use Code to improve flexibility and understanding in the application and administration of the code.

The new FTE position requested would add capacity needed to keep pace with evolving community interests implemented through changes in the Land Use Code and development regulations, and to provide the resources needed to implement and administer regulatory changes that position the City to more quickly respond to economic development opportunities. Staff is planning to return to Council early in 2017 to explore the recommended changes in more detail and discuss the updated PCD/DSD planning and code development work plan that will define the work and priorities for 2017 and 2018.

ALTERNATIVES

1. Direct staff to prepare an ordinance for Council consideration that amends permit fees and rates as proposed.
2. Provide alternative direction to staff.

RECOMMENDATION

Direct staff to prepare an ordinance for Council consideration that amends permit fees and rates as proposed.

ATTACHMENTS

A – Development Services Fees Financial Policy

B – 2016 Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6263

AVAILABLE IN COUNCIL DOCUMENT LIBRARY

N/A