

CITY COUNCIL STUDY SESSION**Development Services Fees Update**

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Development Services Department

DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Staff is seeking direction on the adoption of proposed amendments to development permit fees and rates following completion of an annual cost of service study and to the Renton and Issaquah school impact fee schedule in Bellevue City Code (BCC) Chapter 22.18.

RECOMMENDATION

Direct staff to prepare Ordinances for Council consideration that amend 2019 permit fees and rates and school impact fee schedule as proposed.

BACKGROUND & ANALYSIS**Development Services Fee Update**

The ongoing success of the Development Services line of business requires quick responses to shifts in workload, performance, 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 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 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 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 Development Services conducts an internal cost of service study 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 keeping fees competitive in our region. In 2017, Development Services conducted a more comprehensive cost of services study retaining Financial Consulting Services (FCS) Group, a local firm with extensive experience in public administration and finance, to assist with that effort. FCS reviewed existing policies related to cost recovery, financial planning and forecasting, and financial reserve management to ensure the approach continues to align

with industry best practices. Development Services conducted the 2019 internal cost of service study and fee update using the new financial management tool and results from the FCS study for the evaluation of rates and resource needs.

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 Fee Adjustments

The proposed fee changes reflect the results of the cost of services 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 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	Proposed Hourly Rate Adjustments			
	2018 Rate	2019 Rate	Proposed Revenue Increase	% Change in Rate
Land Use review	\$173	\$179	\$80,000	3.5%
Transportation review & inspection	183	188	113,000	2.7%
Fire review & inspection	164	169	51,000	3.0%
Utilities review & inspection	157	161	58,000	2.5%
Proposed Revenue Increase			\$302,000	

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 July 2017 to July 2018. *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 from 1.15 to 1.16, from July 2017 to July 2018 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 (3.6%).

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 or processes that may have occurred over the past year. 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.

As part of the Paperless Permitting Initiative that started in 2017, staff propose to streamline and simplify the fee structure for Utility permits. Side sewer and storm connection permits will be consolidated from seven to three categories. A new fee category is proposed for small repair work side sewer permits, and the review and inspection categories will be reduced from three to one for Developer Extension Agreements. Water Meter Installation permit fees will be adjusted to reflect full cost recovery, and fees for water pipe sizes that are no longer used will be eliminated.

Please refer to Attachment A – Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6387 for a summary of proposed adjustments. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$715,000 in 2019.

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 adjustment for inflation.

Commercial Mechanical Work - Land Use Review

	Hourly <u>Rate</u>	Review <u>Hours</u>	Flat Fee <u>(rounded)</u>
2018	\$173	1.6	\$273
2019 Proposed	\$179	1.6	<u>\$282</u>
Proposed Change in Fee			\$9

Right-of-Way Street Use - ROW Review

	<u>Hourly Rate</u>	<u>Review Hours</u>	<u>Flat Fee (rounded)</u>
2018	\$183	1.2	\$220
2019 Proposed	\$188	1.2	<u>\$226</u>
Proposed Change in Fee			\$6

Building Review and Inspection 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, are used to establish the building value which is 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 as a result of the inflation adjustment on single family additions, new single-family homes and tenant improvement.

Single Family Addition

\$65,000 valuation, 500 Sq Ft addition

	<u>Total Fees</u>
2018	\$2,850
2019 Proposed	<u>\$3,007</u>
Proposed Change in Fee	\$157

Tenant Improvement

\$150,000 valuation

	<u>Total Fees</u>
2018	\$3,525
2019 Proposed	<u>\$3,648</u>
Proposed Change in Fee	\$123

School Impact Fees

Properties in Bellevue are within four school districts: Bellevue, Lake Washington, Issaquah, and Renton. The Issaquah School District (ISD) and the Renton School District (RSD) levy school impact

fees. School impact fees are assessed on new residential development that is located within the districts' boundaries. For these Bellevue properties, the City collects and passes school impact fees through to the school districts.

BCC 22.18.110 requires the school impact fee schedule be updated by Council on an annual basis after Council's receipt of school districts' Capital Facilities Plans (CFPs). Both the ISD and RSD adopt CFPs and determine impact fees based on district-wide need. Although each individual new or expanded facility may or may not directly impact students residing in Bellevue, a district-wide analysis is necessary to ensure that the needs of each district as a whole are met. The impact fee for single-family and multi-family development is consistent district-wide irrespective of where the development is proposed. For instance, a development in Bellevue is assessed the same impact fee as a development in Issaquah for ISD impact fee, or a development in Renton for RSD impact fee.

The ISD CFP includes a change in both the single-family and multi-family impact fees. The fee for single-family units is changed from \$8,762 to \$15,276 per unit, an increase of \$6,514; the fee for multi-family units is changed from \$3,461 to \$4,399, an increase of \$938.

The RSD CFP also includes a change in both single-family and multi-family impact fees. The fee for single-family units is changed from \$7,772 to \$6,877, a decrease of \$895; the fee for multi-family units is changed from \$1,570 to \$2,455, an increase of \$885.

Budget Follow up

On October 15, City Manager Miyake presented his 2019-2020 preliminary operating budget and 2019-2025 CIP plan to the City Council. This is the second in a series of presentations related to the 2019-2020 budget. The Preliminary Budget may be found at <https://www.bellevuewa.gov/budgets>. The following table provides an overview of the tentative Council budget process calendar dates:

	Date
City Manager's Preliminary Budget Presentation <ul style="list-style-type: none">• Overview of Total Budget• General Fund and CIP	Completed
Study Session: <ul style="list-style-type: none">• Development Services Rate Review and Impact Fees• General Follow up from Prior Week	Tonight
Study Session: <ul style="list-style-type: none">• Human Services Update• Council Follow up if needed	November 5
Study Session: <ul style="list-style-type: none">• Utilities Rates• CIP – Transportation, Parks, Community Development	November 13

<ul style="list-style-type: none"> Operating - Public Safety Council Follow up if needed 	
Study Session: <ul style="list-style-type: none"> Council Follow up if needed 	November 19
Regular Session: Third Budget Public Hearing	November 19
Study Session: <ul style="list-style-type: none"> Council Direction for Adoption 	November 26
Budget Adoption	December 3 (tentative)

POLICY & FISCAL IMPACTS

Policy Impacts

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. 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	50%	50% General Fund supported/50% fee supported
Engineering Review & Inspection	100%	100% fee supported
Technical/Administrative Support	100%	100% fee supported

Section 2 of the consolidated fee Ordinance (Ordinance No. 6387) 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.

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 Impacts

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 /inspection hours to complete the permit. Staff propose modifications to the Utility Permits to streamline the process. To accomplish this, a new fee for small

repair will be added for inspection only. Proposed Water Meter Installation Permit will be adjusted for full cost recovery and to eliminate fees for water pipe sizes that are no longer used. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$715,000 in 2019 which is included in the 2019 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

1. Direct staff to prepare Ordinances for Council consideration that amend 2019 permit fees and rates and school impact fee schedule as proposed.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. 2019 Summary of Proposed Changes to the Development Services Fee Ordinance No. 6387
- B. Proposed Ordinance

AVAILABLE IN COUNCIL LIBRARY

2018 Issaquah School District Capital Facilities Plan
2018 Renton School District Capital Facilities Plan