

November 6, 2017

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Discussion of Development Services fee update as part of the 2017-18 mid-biennium budget.

STAFF CONTACTS

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Development Services Department

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. The proposed changes to the City's fee ordinance reflect the existing cost recovery and financial management policy direction which was re-confirmed through the cost of service study.

Section 2 of the consolidated fee ordinance (Ordinance No. 6328) 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.

School Impact Fees:

Should the City amend Chapter 22.18 of the Bellevue City Code (BCC) to update the Issaquah School District (ISD) Impact Fee Schedule and the Renton School District (RSD) Impact Fee Schedule based on information in each district's 2017 Capital Facilities Plan?

DIRECTION NEEDED FROM COUNCIL

ACTION



DIRECTION



INFORMATION ONLY



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. In addition, staff will review proposed amendments to Chapter 22.18 of the Bellevue City Code, modifying the school impact fee schedule as requested by the Issaquah School District and the Renton School District.

BACKGROUND/ANALYSIS

This is the second of several Study Sessions, with Council action tentatively scheduled for November 27, 2018. The mid-biennium budget update provides an opportunity for modifications to the amended 2017-2018 operating budget and 2017-2023 Capital Investment Program (CIP) plan.

Mid-Biennium Proposed Calendar

The proposed timetable for the mid-biennium budget update is as follows:

- | | |
|---|-------------|
| • Mid-Bi Calendar and Process | Completed |
| • Development Services rates | Tonight |
| • General Fund forecast, operating and capital funds, and any Council Follow-up requested information from prior study sessions | November 13 |
| • Council Follow-up (if needed) | November 20 |
| • Mid-Bi Public Hearing (Regular Session) | November 20 |
| • Proposed Mid-Bi Budget Adoption | November 27 |

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 forward with projects. When business activity decreases, it is also important to make measured reductions in costs and staffing to protect the financial health of the business. At all times, it is vital to retain a basic level of skills, qualifications, and the capacity needed to respond to the needs of Bellevue residents, businesses, and the development community.

Each year, an internal cost of service study is initiated to 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 addition to the annual cost of service study, Development Services elected to conduct a more comprehensive study in 2017 retaining Financial Consulting Services (FCS) Group, a local firm with extensive experience in public administration and finance management, to assist with that effort. The purpose of the more comprehensive look at Development Services financial methodologies was to review existing policies related to cost recovery, financial planning and forecasting, and financial reserve management ensuring the approach continues to align with industry best practices. FCS Group also created a new financial modeling tool for Development Services that would add new sophistication in the evaluation of rates and resource needs as the City moves through development cycles.

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.

Within these guidelines, FCS Group analyzed the current financial policies, reserve allocation strategies, fee structures, and hourly rates including overhead administration. Based on their review, FCS Group found the previous policies were still appropriate, but could use improved documentation to guide administrative practices and implementation.

To consistently capture costs for all functions, align administrative practices, and improve financial modeling capabilities, staff worked with FCS Group to develop a new financial modeling tool. While Development Services has an existing financial modeling tool, the FCS Group tool utilizes updated analysis methods to provide efficiency and accuracy in the forecast of revenues and expenditures. As a result, the tool will improve development services financial management capabilities in response to changes in development activity.

In review of cost of service and fiscal management, FCS Group also found that:

- Cost Recovery Objectives set by City Council in 2002 remain in line with best practices and recommended the continuance of this policy. 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. This is consistent with the “One-City” philosophy of the Development Services Improvement effort. The cost recovery targets established by the Council are as follows:

Type of Service	Cost Recovery Target	Comment
Policy Development & Public Information	0%	100% General Fund/Utilities supported
Land Use Discretionary Review	50%	50% General Fund supported/50% fee supported
Technical Review & Inspection	100%	100% Fee supported
Administrative Support	100%	100% Fee supported
Code Compliance	0%	100% General Fund supported

- Financial planning and forecasting methods are sound and repeatable practices. The use of the more robust financial modeling tool will allow evaluation of various scenarios, improving overall forecasting abilities and management decisions.
- Ongoing maintenance of financial reserves will minimize major fee changes, maintain predictable and stable rates, and insulate the General Fund from unanticipated expenses. FCS Group recommended that financial reserves respond to the following three major funding areas:
 - (1) Pre-paid liability – funds paid for in advance by permit applicants for future work. This should be designated as a restricted funding portion of the reserve.
 - (2) Technology and facilities – support for technology advancements, maintain and replace existing equipment and software, and provide needed space and facilities for staff.
 - (3) Core staffing – maintain a consistent level of service, needed skills, and the ability to deliver the full range of services “on-demand” during slow development periods.

Core staffing also provides support for expanded process and service improvement initiatives during off peak development periods.

Historically, Development Services has included reserves in rates. Although Development Services maintains sufficient financial reserves for pre-paid development work and future technology needs, FCS Group recommends building additional reserves to support core-staffing needs. In response to this recommendation, the hourly rates proposed for 2018 represent a 2 percent increase above the forecast costs. The 2 percent increase would generate an estimated \$231,000 in additional revenue.

Proposed Fee Adjustments

The proposed fee changes reflect the recommendations from the consultant cost of service study as well as the results of Development Service annual cost of study analysis. 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 exercise analyzes costs associated with delivering development review and inspection services, along with maintaining alignment between the fees charged for services and established cost recovery policies. Land Use, Transportation, Utilities, and Fire review and inspection services charge hourly rates. The proposed adjustments to hourly rates are provided below.

Function	Proposed Hourly Rate Adjustments			
	2017 Rate	2018	Revenue Increase	% Change in Rate
Land Use review	\$167	\$173	\$80,000	3.6%
Transportation review & inspection	175	183	160,000	4.6%
Fire review & inspection	153	164	96,000	6.9%
Utilities review & inspection	147	157	153,000	6.8%
Proposed Revenue Increase			\$489,000	

In turn, permit fees supporting building review and inspection services are based on the estimated project value. The following adjustments to **building permit fees** are based on the value of construction:

- Adopt the updated Building Valuation Data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2016 to August 2017. *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 1.15, from July 2016 to July 2017 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 (3.0 percent).

For the summary of proposed adjustments to Development Services fees, refer to Attachment A – Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6328. In total, the proposed changes would generate an estimated increase in Development Services of \$814,000 in 2018 based on anticipated development permit activity. See Attachment B for the updated Development Services Fund 2017 Mid-Bi Financial Forecast.

The examples below illustrate the results of the Cost of Service Study on two permits subject to hourly rates and reflect the change in overall cost associated with the proposed adjustment.

Mechanical Work - Commercial - Land Use Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2017	\$167	1.6	\$264
2018 Proposed	\$173	1.6	\$273
Proposed Change in Fee			\$9

Right-of-Way Street Use - ROW Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2017	\$175	1.2	\$210
2018 Proposed	\$183	1.2	\$220
Proposed Change in Fee			\$10

Building Review and Inspection Fees

Valuation-based fees for building review and inspection services are based on two variables: (1) the estimated value of the proposed building, and (2) the fee applied to that value from the permit fee table. Using 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. For Bellevue, the method to establish the building project value is established in Ordinance No. 6328 (section 6.2) – building value will be calculated using building valuation data published by a nationally recognized code organization or other valuation criteria approved by the appropriate Director.

The BVD published and updated by the ICC, as modified by the Marshall & Swift construction value modifier for Washington, are used to establish the building value used to calculate building permit fees. The ICC BVD table and the Washington State modifier are updated on an annual basis to ensure project values remain in alignment with the general cost of construction.

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 permit types.

Single Family Addition
\$85,000 valuation, 500 Sq Ft addition

	Total Fees
2017	\$2,973
2018 Proposed	\$3,081
Proposed Change in Fee	\$109

New Single Family Home
4,000 Sq Ft

	Total Fees
2017	\$12,625
2018 Proposed	\$13,097
Proposed Change in Fee	\$472

Tenant Improvement
\$150,000 valuation

	Total Fees
2017	\$3,773
2018 Proposed	\$3,909
Proposed Change in Fee	\$136

Issaquah and Renton School Districts Impact Fee Update for 2018

Properties in Bellevue lie within four school districts: Bellevue, Lake Washington, Issaquah, and Renton. Most properties in Bellevue lie within the Bellevue School District, which does not levy school impact fees. Lake Washington School District also does not levy school impact fees. On the other hand, the Issaquah School District and the Renton School District do levy school impact fees.

Because school districts do not have development review or permitting authority, they have no direct mechanism for collecting impact fees on new development. Therefore, school districts can request that local jurisdictions collect impact fees on their behalf and pass those fees to the school districts. These are not City-levied fees; the City merely serves as a conduit for the collection and pass-through of the fees.

School districts set their fees based on a formula that considers enrollment levels, existing facilities, temporary facilities, and needed new facilities. The districts then use the collected fees, in combination with bond revenue and state matching funds where available, to construct new capital facilities.

In October 1995, Council adopted Ordinance No. 4801, establishing Chapter 22.18 of the Bellevue City Code. This Chapter authorizes the City to collect school impact fees for the Issaquah School District

(ISD) for residential development on properties located in Bellevue but within ISD boundaries. The City and ISD have entered into an Interlocal Agreement identifying the responsibilities of both parties with respect to the levying and collection of impact fees.

In November 2014, Council adopted Ordinance No. 6194, amending Chapter 22.18 of the Bellevue City Code. This Ordinance authorized the City to collect school impact fees for the Renton School District (RSD) for residential development on properties located in Bellevue but within RSD boundaries. The City and RSD have entered into an Interlocal Agreement identifying the responsibilities of both parties with respect to the levying and collection of fees. The City started collecting impact fees for RSD in 2015.

Each year, ISD and RSD present the City with an updated Capital Facilities Plan (CFP) and a proposed single-family and multi-family fee schedule for the coming calendar year. BCC 22.18.110 requires that Council review and update the fee schedule on an annual basis after receipt of the school districts' CFPs and data.

Issaquah School District:

ISD requests a change in both the single-family and multi-family impact fees. Specifically, ISD requests that the single-family fee be increased from \$7,921 to \$8,762 per unit, an increase of \$841. For multi-family units, ISD requests that the fee be increased from \$2,386 to \$3,461, an increase of \$1,075.

Renton School District:

RSD requests a change in both the single-family and multi-family impact fees. Specifically, RSD requests that the single-family fee be increased from \$6,432 to \$7,772, a change of \$1,340. For multi-family units, RSD requests that the fee be increased from \$1,448 to \$1,570, an increase of \$122.

OPTIONS

1. Direct staff to prepare an ordinance for Council consideration that amends permit fees and rates as proposed, and to prepare an ordinance that amends Bellevue City Code Chapter 22.18 to reflect changes to the Impact Fee Schedule for the Issaquah and Renton School Districts.
2. Provide alternative direction to staff.

RECOMMENDATION

Option 1

ATTACHMENTS

- A. 2018 Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6328
- B. Development Services Fund 2017 Mid-Bi Financial Forecast

AVAILABLE IN COUNCIL DOCUMENT LIBRARY

N/A