

November 27, 2017

CITY COUNCIL AGENDA MEMORANDUM

SUBJECT

Ordinance regarding development services under the Bellevue City Code; fees for applications requiring construction, land use, fire, survey, sign, transportation, utility, and clearing & grading review and inspection services; repealing Ordinance No. 6328.

FISCAL IMPACT

The proposed changes to the Consolidated Fee Ordinance for all development services functions include updates to building, land use, fire, transportation, and utilities plan review and inspection with an effective date of January 1, 2018. The fee changes reflect the results of the annual Cost of Service Study and maintain an appropriate alignment between workload, permit revenues, staffing costs and service levels. The Consolidated Fee Ordinance is included with this memorandum as Attachment A. The proposed adjustments to hourly and building permit fees are provided below.

<u>Proposed Hourly Rate Adjustments</u>				
<u>Function</u>	<u>2017 Rate</u>	<u>2018</u>	<u>Revenue Increase</u>	<u>% Change in Rate</u>
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	7.2%
Utilities review & inspection	147	157	153,000	6.8%
Proposed Revenue Increase			\$489,000	

The following adjustments are proposed to **building permit fees** that 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).

The proposed fee adjustments 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. In addition to the fee adjustments, annual review of the Consolidated Fee Ordinance considers changes in business practices in order to ensure the current provisions of the Ordinance are still applicable. In total, the proposed changes to the City's Fee Ordinance would generate an estimated \$814,000 increase in development services revenue in 2018.

STAFF CONTACTS

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POLICY CONSIDERATION

City policy: The City Council has set cost recovery principles for development services. The proposed changes to the City's Fee Ordinance achieve alignment between the cost to deliver services and fees charged, guided by cost recovery and financial management policy direction.

State Law: RCW 19.27.100 allows cities to charge fees for development services provided by the City.

BACKGROUND/ANALYSIS

On November 6, staff presented to Council the results of the annual internal cost of service study 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 and retained Financial Consulting Services (FCS) Group, a local firm with extensive experience in public administration and finance management, to assist with that effort. FCS Group provided a comprehensive look at Development Services financial methodologies related to cost recovery, financial planning and forecasting, and financial reserve management to ensure the City's approach continues to align with industry best practices. FCS Group also reviewed and created a new financial modeling tool for Development Services that would deliver increased 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 did recommend improved documentation to guide administrative practices and implementation.

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

- Cost Recovery Objectives set by the City Council in 2002 remain in line with best practices, and FCS Group recommended 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 three major funding areas:

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.

Technology and facilities – support for technology advancements, to maintain and replace existing equipment and software, and provide needed space and facilities for staff.

Core staffing – to 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.

While Development Services maintains sufficient financial reserves for pre-paid development work and future technology needs, FCS Group recommended adding a rate increment above costs for hourly rates to build additional reserves to support core-staffing needs. In response to this recommendation the hourly rates proposed for 2018 represent an increase that is 2 percent above the forecast costs. The 2 percent increase would generate an estimated \$231,000 in additional revenue.

The proposed fee changes reflect the recommendations from the consultant cost of service study, as well as the results of Development Services annual cost of study analysis. The fee adjustments also maintain alignment with cost recovery targets and are responsive to established Financial Management Guiding Principles.

During the Study Session on November 6, Councilmember Robinson asked if reduced permit fees to support construction of affordable housing were included in the proposal. Reduced fees are not included in the recommended fee changes presented to Council under this proposal but will be considered as an element of the Affordable Housing Work Plan adopted earlier this year by the City Council. The work plan includes consideration of code amendments that could reduce the cost of building affordable housing through lower fees, reduced parking, and city-funded street improvements. The specific timing of this work has not been established. Staff will keep the Council informed as details of specific elements of the Affordable Housing Work Plan advance.

EFFECTIVE DATE

If approved, this Ordinance becomes effective on January 1, 2018.

OPTIONS

1. Adopt the Ordinance regarding development services under the Bellevue City Code; fees for applications requiring construction, land use, fire, survey, sign, transportation, utility, and clearing & grading review and inspection services; repealing Ordinance No. 6328.
2. Do not adopt the Ordinance and provide alternative direction to staff.

RECOMMENDATION

Option 1

MOTION

Adopt Ordinance No. 6387 regarding development services under the Bellevue City Code; fees for applications requiring construction, land use, fire, survey, sign, transportation, utility, and clearing & grading review and inspection services; repealing Ordinance No. 6328.

ATTACHMENT

Proposed Ordinance No. 6387

AVAILABLE IN THE COUNCIL DOCUMENT LIBRARY

N/A