

CITY COUNCIL STUDY SESSION

Development Services Fees Update

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Development Services Department

DIRECTION NEEDED FROM COUNCIL

DIRECTION

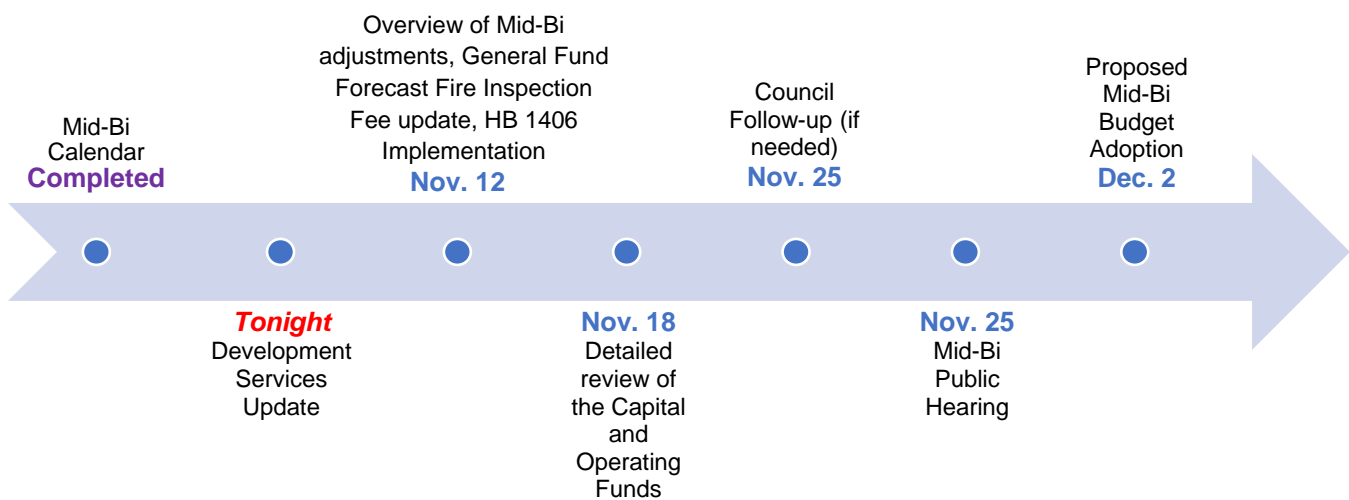
Staff is seeking direction on the adoption of proposed amendments to development permit fees and rates following completion of an annual cost of service study. Staff is also seeking direction to add 6.0 FTE in 2020 to address Development Services permit workload.

RECOMMENDATION

Direct staff to prepare an Ordinance for Council consideration that amends 2019 permit fees and rates and school impact fee schedule as proposed, and amends the 2020 budget for 6.0 new FTE.

BACKGROUND & ANALYSIS

This is the second of several meetings with the City Council to discuss, consider, and provide direction for the adoption of the 2019-2020 Mid-Biennium Operating Budget and the 2019-2025 Capital Investment Program (CIP) Plan.



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.

Each year an internal cost of service study is initiated 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. The proposed fee changes reflect the cost of services study.

The current development cycle is at a five-year high plateau and indicates that demand for review and inspection services will continue to grow through the next few years as projects move through the development cycle. Because Development Services is a line of city business that must adjust to development cycles and operate within a revenue stream primarily generated by permit fees, customer demand for development review and inspections services is managed by adjusting staffing levels and use of consultants. In the downturns, staffing levels have been reduced and in the upturns staffing levels have been increased.

Development Services is now experiencing a gap between available FTE positions and the staffing level needed to meet the current and forecast demand for services. In response to the ongoing high level of development activity, staff is proposing the addition of 6.0 FTE positions in 2020 to keep pace with demand for services. At this time, we are not anticipating the need for additional positions beyond those currently authorized and proposed; however, we will continue to monitor economic trends and changes in development activity and make recommendations to increase or decrease staffing to maintain alignment between service and demand.

Strong economic growth continues in Bellevue as permit applications are anticipated for several new major projects. As projects are submitted, revenue and expenditure projections are revised to show the increased revenue and reflect the cost increases for additional staff necessary to meet the workload demand. The additional costs are anticipated to be offset by the increase in permit fees. Attachment B – forecast update provides additional information on development activity.

Proposed Fee Adjustments

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. The proposed fee changes reflect the results of the cost of services study. Permit fees collected to support development services follow two primary approaches: (1) hourly rates based on the staff time needed to complete permit review and inspections, and (2) 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 such as staffing, city-wide overhead, facilities, technology services, and administrative services. 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			
	2019 Rate	2020 Rate	Proposed Revenue Increase	% Change in Rate
Land Use review	\$179	\$184	\$65,000	2.8%
Transportation review & inspection	188	193	114,000	2.7%
Fire review & inspection	169	173	35,000	2.4%
Utilities review & inspection	161	165	62,000	2.5%
Estimated Revenue Increase			\$276,000	

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 August 2018 to August 2019. *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 1.16 to 1.15, from July 2018 to July 2019, 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 (1.7%).

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 that can increase or decrease the fees charged for specific permit types. 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 ongoing fee analysis, proposed changes to flat fees are for Fire and Utility review for Single Family permits, Fire mechanical permit review, and Fire inspection for tenant improvement permits. Water Meter Installation permit fees are adjusted by CPI-W. Please refer to Attachment A – Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance No. 6439 for a summary of proposed adjustments. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$471,000 in 2020.

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 adjustments.

Commercial Mechanical Work - Land Use Review

	<u>Hourly Rate</u>	<u>Review Hours</u>	<u>Flat Fee (rounded)</u>
2019	\$179	1.6	\$282
2020 Proposed	\$184	1.6	<u>\$290</u>
Proposed Change in Fee			\$8

Right-of-Way Street Use - ROW Review

	<u>Hourly Rate</u>	<u>Review Hours</u>	<u>Flat Fee (rounded)</u>
2019	\$188	1.2	\$226
2020 Proposed	\$193	1.2	<u>\$232</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 Table 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>
2019	\$3,007
2020 Proposed	<u>\$2,997</u>
Proposed Change in Fee	(\$10)

Minor Commercial Project

\$250,000 valuation

	<u>Total Fees</u>
2019	\$6,114
2020 Proposed	<u>\$6,227</u>
Proposed Change in Fee	\$113

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 located within the districts' boundaries. For these Bellevue properties, the City collects and passes school impact fees through to the school districts.

Bellevue City Code 22.18.110 requires the school impact fee schedule to 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 the ISD impact fee, or a development in Renton for the 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 has changed from \$15,276 to \$14,501 per unit, a decrease of \$775; the fee for multi-family units has changed from \$4,399 to \$9,583, an increase of \$5,184. The significant fee change for multi-family units relates to an increase in the student generation rate (number of students per housing unit) and a higher percentage of the total cost (local share) of the improvements covered by impact fees.

The RSD CFP also includes a change in both single-family and multi-family impact fees. The fee for single-family units has changed from \$6,877 to \$6,862, a decrease of \$15; the fee for multi-family units has changed from \$2,455 to \$3,582, an increase of \$1,127. The increased multi-family impact fee results from an increase in the student generation rate (number of students per housing unit) for multi-family development and construction costs.

POLICY & FISCAL IMPACTS

Policy Impact

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

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.

Section 2 of the consolidated fee Ordinance (Ordinance No. 6439) 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.

Bellevue City Code

BCC Chapter 22.18 - 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 Impact

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. Proposed Water Meter Installation Permit will be adjusted by CPI-W. In total the proposed changes would generate an estimated increase in Development Services fee revenue of \$471,000 in 2020 which is included in the 2019-2020 budget. The proposed additional 6.0 FTE budget impact is \$704,892, offset by additional permit fee revenue.

OPTIONS

1. Direct staff to prepare an Ordinance for Council consideration that amends 2019 permit fees and rates and school impact fee schedule as proposed, and amends the 2020 budget for 6.0 new FTE.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. 2020 Summary of Proposed Changes to the Development Services Fee Ordinance No. 6439
- B. Development Services Fund Forecast

AVAILABLE IN COUNCIL LIBRARY

N/A