

CITY COUNCIL STUDY SESSION

Budget Update - Development Services Permit Fees and Issaquah and Renton School Impact Fee Schedule Update

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DIRECTION NEEDED FROM COUNCIL

DIRECTION

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

RECOMMENDATION

Move to direct staff to prepare Ordinances that amend 2021 permit fees and rates and school impact fees for adoption on December 7 as part of the budget adoption package.

BACKGROUND & ANALYSIS

Background

The City Manager transmitted his Preliminary 2021-2022 Operating Budget and the 2021-2027 Capital Investment Program (CIP) Plan on October 19. This is the second in a series of several discussions to review the budget prior to tentative budget adoption on December 7. A tracking of Council requests and responses can be found in Attachment E.

The 2021-2022 preliminary operating budget and 2021-2027 capital investment program (CIP) plan include resources needed to provide quality operating services to Bellevue residents and sets forth a strategy for the ongoing progress of the City's long-term infrastructure needs.

The 2021-2022 biennial budget totals \$1.7 billion. This total includes \$1.1 billion in operating budget (\$474 million in General Fund, \$212 million in internal service and other operating funds, \$457 million in Enterprise Funds), \$74 million in special purpose expenditures (such as grants, donations and debt, among others), and \$523 million for the 2021-2022 portion of the General and Utilities CIP.

Further information regarding the overall preliminary budget can be found in the Executive Summary located at https://bellevuewa.gov/sites/default/files/media/pdf_document/2020/21-22%20Prelim%20Budget%20Book.pdf.

Development Services Background

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 development services 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 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 results of the cost of services study.

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.

Despite the COVID-19 pandemic and continuing limitations in economic activities, the City continues to receive new permit applications for major office, retail, and housing projects, with additional projects in the planning stages. There are also a substantial number of projects under construction in all growth areas of the City. These activities generate a high demand for both review and inspection services.

Proposed Fee Adjustments

The proposed fee changes reflect the results of the cost of services study. A summary of proposed changes is in Attachment A – 2021 Summary of Proposed Changes to the Development Services Fees. In total, the proposed changes would generate an estimated increase in Development Services fee revenue of \$414,000 in 2021.

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 such as staffing, City-wide overhead, facilities, technology services, and administrative services.

Hourly Rates

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			
	2020 Rate	2021 Rate	Proposed Revenue Increase	% Change in Rate
Land Use review	\$184	\$187	\$38,000	1.6%
Transportation review & inspection	193	198	116,000	2.6%
Fire review & inspection	173	180	69,000	4.0%
Utilities review & inspection	165	170	75,000	3.0%
Estimated Revenue Increase			\$298,000	

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 2019 to August 2020. *Values derived from the BVD tables are used to determine building permit fees.*
- No change to the BVD table using the Washington State modifier of 1.15, from July 2019 to July 2020, 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 (1.0 percent).

Flat Fees

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 single family, clearing and grading, and side sewer connections. Note that the Water Meter Installation permit fees will be adjusted by CPI-W. 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.

Right-of-Way Street Use - ROW Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2020	\$193	1.2	\$232
2021 Proposed	\$198	1.2	\$238

Proposed Change in Fee \$6

Minor Clearing & Grading - Land Use Review

	Hourly Rate	Review Hours	Flat Fee (rounded)
2020	\$184	1.5	\$277
2021 Proposed	\$187	2.0	\$374

Proposed Change in Fee \$97

Valuation-Based 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 International Code Council (ICC) and modified by the Marshall & Swift construction value modifier for Washington, is 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) 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.

Tenant Improvement

\$100,000 valuation

	Total Fees
2020	\$3,440
2021 Proposed	\$3,493

Proposed Change in Fee \$53

Minor Commercial Project
\$250,000 valuation

	<u>Total Fees</u>
2020	\$6,227
2021 Proposed	<u>\$6,314</u>
Proposed Change in Fee	\$87

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.

BCC 22.18.110 requires the school impact fee schedule to be updated by Council on an annual basis after Council's receipt of each school district's Capital Facilities Plan (CFP). Both the ISD and RSD adopt a CFP and determine impact fees based on district-wide needs. Although each new or expanded facility may or may not directly impact students residing in Bellevue, a district-wide analysis is necessary to ensure that each district's needs 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.

Changes to impact fees for ISD and RSD are as follows:

District	Housing Type	2020	2021	Change	Reason(s)
ISD	Single Family	\$14,501	\$18,213	+ \$3,712	Impact fees will be used towards construction cost of additional elementary, middle school, and high school capacities to meet needs
	Multifamily	\$9,583	\$12,043	+ \$2,460	
RSD	Single Family	\$6,862	\$7,681	+ \$819	Impact fees will be used to address existing and projected facility capacity deficits, related to enrollment growth and program needs
	Multifamily	\$3,582	\$4,989	+ \$1,407	

Overall Council Calendar

Jun. 22	Budget Workshop
Jul. 27	Initial Public Hearing
Sep. 21	Second Public Hearing
Oct. 19	City Manager's Preliminary Budget



Tonight	Development Services, upcoming process
Nov. 2	Human Services; Follow up on CIP Balancing
Nov. 9	Utility Rates, Council Interests
Nov. 16	Fire Inspection, Council Interests
Nov. 23	Public Hearing, Council Direction for Adoption
Dec. 7	Tentative Budget Adoption

Council held a budget workshop on June 22 where staff briefed Council on the process and milestones of developing the budget, provided scenarios regarding the impact of COVID-19-related events in the near term (2021-2022) and over the general fund forecast six-year period (2021-2026) and seven-year (2021-2027) CIP. Council provided feedback in order to assist the City Manager in developing his preliminary budget. The packet information is available here:

<https://bellevue.legistar.com/LegislationDetail.aspx?ID=4576307&GUID=73EC1B4A-FA96-48A3-B417-399955664CEA>.

Council held public hearings on July 27 and September 21. Thus far, Council has received 58 public comments (verbal and written submissions) on numerous issues. The preliminary budget document provides a summary listing of all public comment.

On October 19, City Manager Miyake presented his \$1.7 billion 2021-2022 Preliminary Budget and 2021-2027 CIP plan to the City Council. The packet information is available here:


<https://bellevue.legistar.com/LegislationDetail.aspx?ID=4671513&GUID=129403E5-D01A-46BA-9167-6713969122E3>.

The third and final public hearing is scheduled for November 23. Those wishing to provide testimony to the Council regarding the budget at the public hearing may sign up to speak during that evening's Regular Session, or submit comments in writing to the City's Budget Manager (ephillips@bellevuewa.gov) or City Clerk (carredondo@bellevuewa.gov) by 3 p.m. on November 23. Feedback is also welcome at other meetings during Oral Communications.

Preliminary Budget Council Required Actions

There are several items that will be required to adopt the 2021-2022 budget:

Ordinance Title	Brief Explanation
Human Services Commission Recommendation Ordinance:	Adopt funding recommendations for allocations to human services agencies
2021-2022 Fire Inspection Fee Ordinance:	Adopt Fire Inspection Fee schedule
Basic Life Support Transport Fee Ordinance:	Adopt BLS transport Fee increase



Community Development Block Grant Recommendation Ordinance:	Adopt recommended spending plan for Community Development Block Grant funds
2021 Development Services Fee Ordinance:	Set Development Services 2021 rates
2021-2022 Utilities Rates Ordinances:	Set the Utilities 2021-2022 rates
2021 Property Tax Banked Capacity Resolution:	Preserve the full levy amount available to the City
2021 Substantial Need Ordinance:	To allow property tax increase or to bank the capacity of the 1% maximum as allowed by statute (RCW 84.55.0101)
2021 Property Tax Levy Ordinance:	Adopt 2021 property tax levies (RCW 35A.34.230 and RCW 84.55.092)
2021-2022 Budget Ordinance:	Adopt “umbrella” budget ordinance which includes appropriation approval by Fund, 2021 pay plans, and summarizations of grants and donations accepted that are less than \$90,000

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

Section 2 of the consolidated fee ordinance 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.

RCW 35A.34 – Biennial Budgets: State law specifies requirements that must be followed in budgeting each of the City's funds. Key areas covered include:

- Preparation and filing of a preliminary budget by the Chief Administrative Officer, i.e., City Manager;
- A "budget message" from the Chief Administrative Officer explaining the content, financial policies and major proposed changes;
- A public hearing on the proposed preliminary budget conducted before adoption of a final budget, which shall be held on or before the first Monday in December;
- Balanced expenditure and revenue estimates for each of the City's funds;
- Council adoption of the budget prior to the beginning of the ensuing fiscal biennium, i.e., January 1, 2021.

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. The proposed changes would generate an estimated total increase in Development Services fee revenue of \$414,000 in 2021, which is included in the 2021-2022 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 that amend the Development Services Permit Fees and Issaquah and Renton School Impact Fee Schedule for Council consideration and adoption.
2. Provide alternative direction to staff.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. 2021 Summary of Proposed Changes to the Development Services Fees
- B. City Manager's Transmittal Letter
- C. 2021-2022 Preliminary Budget Executive Summary
- D. 2021-2022 Fund Appropriation List
- E. Council Questions and Responses (Memory Bank)

AVAILABLE IN COUNCIL LIBRARY

N/A