

## CITY COUNCIL STUDY SESSION

Development Services Fees Update, including permit fees and school impact fee schedule.

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## DIRECTION NEEDED FROM COUNCIL

### DIRECTION

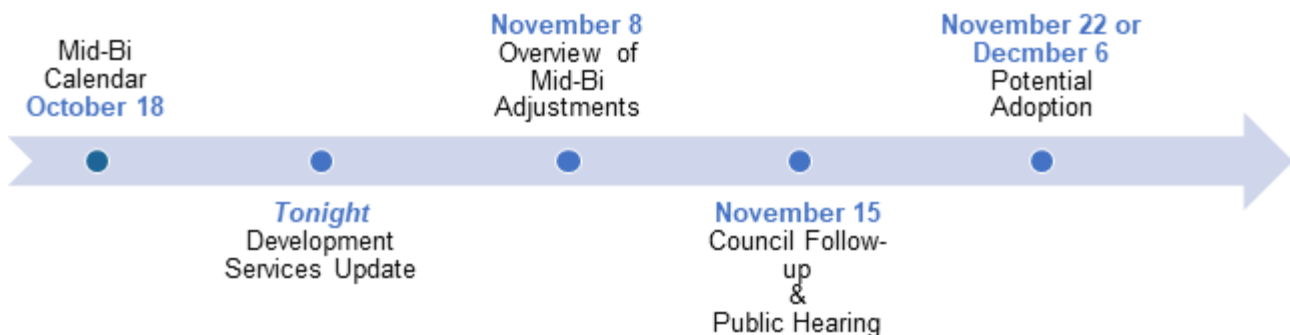
Staff is seeking direction on the adoption of proposed amendments to development permit fees and rates following completion of an annual cost of service study. Staff is also seeking direction to update the Issaquah and Renton school impact fee schedule in Bellevue City Code (BCC) Chapter 22.18.

## RECOMMENDATION

Direct staff to prepare Ordinances that amend 2022 permit fees and rates, and the school impact fee schedule as proposed for Council consideration and adoption.

## BACKGROUND & ANALYSIS

This is the second of several meetings with the City Council to discuss, consider, and provide direction for the adoption of the 2021-2022 Mid-Biennium Operating Budget and 2021-2027 Capital Investment Program (CIP) Plan.



### Background

The ongoing success of the Development Services line of business requires quick responses to shifts in workload, performance, or revenues generated from permit fees 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.

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

The current development cycle is at a seven-year high plateau and indicates that demand for services will continue through the next few years as projects move through the development pipeline. 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.

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 ensure fees are competitive in our region.

The Development Services Fund 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.

In 2017, Development Services contracted with a consultant to conduct a comprehensive cost of service study that included the evaluation of financial reserve needs to ensure alignment with industry best practices and the long-term financial health of Development Services. The cost of service study delivered a set of recommendations that addressed maintenance of sufficient financial reserves to support pre-paid development work, future technology needs, and to support core staffing through development cycles. The study concluded there was a need to build additional core staffing reserves to align with best practices and for this purpose, the City Council adopted hourly rates beginning in 2018 that included a 2 percent surcharge to hourly rates for the purpose of increasing core staffing reserves. Development Services reserves have increased sufficiently to support core staffing and the proposed 2022 hourly rates eliminate the 2 percent surcharge.

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. A summary of proposed changes is in Attachment A – 2022 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 \$475,000 in 2022.

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	2021 Rate	2022 Rate	Proposed Revenue Increase	% change in rate
Land Use review	\$187	\$187	\$0	0.0%
Transportation review & inspection	\$198	\$206	\$176,000	4.0%
Fire review & inspection	\$180	\$184	\$41,000	2.2%
Utilities review & inspection	\$170	\$170	\$0	0.0%
Estimated Revenue Increase			\$217,000	

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 the building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2020 to August 2021. *Values derived from the BVD tables are used to determine building permit fees.*
- Adjust the BVD table using the Washington State modifier from 1.15 to 1.14, from July 2020 to July 2021 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 (6.3 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 adjustment 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, tenant improvement, commercial projects, and water services. 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.

<b>ROW Street Use Review</b>	<b>Hourly Rate</b>	<b>Review Hours</b>	<b>Flat Fee</b>
2021	\$198	1.2	\$238
2022 Proposed	\$206	1.5	\$308
Proposed Change in Fee			\$71

<b>Tenant Improvement – Fire Inspection</b>	<b>Hourly Rate</b>	<b>Review Hours</b>	<b>Flat Fee</b>
2021	\$180	1.5	\$271
2022 Proposed	\$184	2.0	\$368
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) 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 improvements.

<b>Single Family Addition– \$85,000 valuation, 500 sq. ft.</b>	<b>Total Fees</b>
2021	\$3,438
2022 Proposed	\$3,636
Proposed Change in Fee	\$198

<b>Tenant Improvement– \$100,000 valuation</b>	<b>Total Fees</b>
2021	\$3,592
2022 Proposed	\$3,881
Proposed Change in Fee	\$289

### **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.

School impact fees may fluctuate from year to year based on several factors, including changes to student enrollment, district growth plans, new residential growth, changes to bond interest rates, and changes in state reimbursement levels.

The ISD CFP includes a change in both single-family and multi-family impact fees. The fee for single-family units has changed from \$18,213 to \$20,291 per unit, an increase of \$2,078; the fee for multifamily units has changed from \$12,043 to \$8,353, a decrease of \$3,690. The fee change for single-family units relates to student enrollment projections and an increase in student generation rate (number of students per housing unit). The decreased multi-family impact fees results from a lower student generation rate.

The RSD CFP includes a reduction in both single-family and multi-family impact fees. The fee for single-family units has changed from \$7,681 to \$2,659, a decrease of \$5,022; the fee for multi-family units has changed from \$4,989 to \$4,737, a decrease of \$252. The decreased impact fees results from a notable decrease in the student generation rate and continued low Bond interest rates.

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

District	Housing Type	2021	2022	Change	Reason(s)
ISD	Single Family	\$18,213	\$20,291	\$2,078	Impact fees will be used towards construction cost of additional elementary, middle school, and high school capacities to meet needs
	Multifamily	\$12,043	\$8,353	(\$3,690)	
RSD	Single Family	\$7,681	\$2,659	(\$5,022)	Impact fees will be used to address existing and projected facility capacity deficits, related to enrollment growth and program needs
	Multifamily	\$4,989	\$4,737	(\$252)	

## 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 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 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 and inspection hours to complete the permit. The proposed changes would generate an estimated total increase in Development Services fee revenue of \$475,000 in 2022, 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 2022 permit fees and rates, and the school impact fee schedule as proposed for Council consideration and adoption.
2. Provide alternative direction to staff.

#### **ATTACHMENTS & AVAILABLE DOCUMENTS**

- A. 2022 Summary of Proposed Changes to the Development Services Fees
- B. Development Services Financial Forecast

#### **AVAILABLE IN COUNCIL LIBRARY**

N/A