



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 5781
November 17, 2020
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 5781: Adjusting Development & Construction Permit Fees - Resolution No. 1593	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
RECOMMENDED ACTION:	Adopt Resolution No. 1593 updating the Development and Construction Permit Fees	

DEPARTMENT:	Community Planning and Development
STAFF:	Jeff Thomas, Director and Alison Van Gorp, Deputy Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Resolution No. 1593 including: Attachment A: Updated Fee Schedule Attachment B: Building Valuation Table Attachment C: Building Permit Calculation Table 2. 2018 FCS Group Fee Study
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

SUMMARY

The purpose of this agenda bill is to update the City’s Development and Construction Permit Fee Schedule (“Permit Fee Schedule”), which is included in Resolution No. 1593 (Exhibit 1) and will take effect January 1, 2021. The development and construction permit fees are proposed to increase by 2.3% in 2021. Cost recovery targets will remain consistent with those adopted in 2020. Additionally, changes are proposed to the basis for determining fees for planning services and to the valuation factors for building permits, further explained in the narrative below.

ANNUAL COST OF SERVICES INCREASE

For 2021, the cost of providing development review services is proposed to increase by 2.3%, due to increasing salary and benefit costs. The proposed increase was calculated based on the budgeted salaries and benefits of current staff for 2021. This increase has been applied across all development and construction fees as well as the building permit calculation table (Exhibit 1, Attachments A and C).

Hourly Rate

The revisions to the Permit Fee Schedule include establishing a single hourly rate for all permit and inspection services that are charged on an hourly basis. Currently, there are a range of hourly rates established in the fee schedule, including the following:

- Planning Review - \$141.72/hr.
- Building and Fire Review - \$139.05/hr.
- Engineering Review - \$223.51/hr.

The proposed base hourly rate is \$145.23 for 2021 and represents a slight increase for Planning, Building, and Fire Marshall services and a reduction in the hourly rate for Engineering services. The hourly permit rate is an approach that is used by many cities in the area. Of the area jurisdictions that are using an hourly rate, the average and median rate is approximately \$150/hour.

The proposed hourly rate was developed based on the rate calculation for planning services provided in the 2018 FCS Group Fee Study (Exhibit 2). The FCS Group compiled the cost of salaries, benefits, direct non-labor costs, indirect costs, and overhead to calculate a “fully loaded” hourly rate. This rate was then discounted by 10% to reflect the 90% cost recovery target, which is further explained in the narrative below. A 3% technology fee was also included in the final rate. Annual increases of 4% in 2019, 0% in 2020, and 2.3% for 2021 were applied to the base rate established in 2018 to reflect the increase in salaries and benefits since the FCS Study was performed.

Establishing a single hourly rate greatly simplifies the Permit Fee Schedule for both customers and staff.

Cost Recovery Targets

Since 2016, the City has studied and attempted to align cost recovery targets for development permits and services with desired policy and budgetary objectives. The following cost recovery targets were established in 2020:

- Building permits and services 95%;
- Planning permits and services 90%; and
- Engineering permits and services 90%.

The City has continued to study and adjust the fees for development and construction permits to align with these cost recovery targets, particularly for Planning permits and services, for which there have been a series of incremental fee increases over the last few years. The last fee adjustment went into effect in January 2020 with approval of [Resolution No. 1567](#).

City staff have not been able to full evaluate the impact of the 2020 fee adjustments on cost recovery, although it is anticipated that cost recovery targets are not being met.

Time Tracking and Hourly Billing

The COVID-19 Pandemic (“Pandemic”) and the resulting 2020 budget reductions, highlighted that the total amount of permit revenue being collected was insufficient to support the cost of providing the services at the established and subsequently adjusted levels of service. In the past, General Fund contributions to the Community Planning and Development Department (“CPD”) budget have covered costs for non-permit related activities such as updating plans and regulations, as well as for permit-related costs that are not covered by fees. While non-permit related activities must remain General Fund supported, the Pandemic has

emphasized the need to make development and construction permitting and inspection services self-supporting to reduce CPD's reliance on the General Fund.

An updated permit fee study will need to be conducted to measure cost recovery performance but is not recommended at this time given the absence of project and permit-specific time tracking data. CPD's permit tracking database (TRAKiT) has an existing tool that staff are currently "beta testing." In January 2021, staff will begin project- or permit-specific time tracking for all permits and services by recording the time spent on each individual project or permit (rounded down to the nearest ¼ hour). For planning services and site development permits, this data will be used to generate hourly fees, as described below. For other permit types, this data will be tracked to inform an analysis of the cost of providing the permit or service as well as cost recovery.

This new approach will allow the City to make immediate positive adjustments in the fees collected for planning permits and services, while populating a database that tracks actual time spent on each permit or service. Second and third quarter evaluations and summary reports in 2021 will be provided to the City Council to inform a possible change in methodology for 2022.

Planning Permits and Services Fees

For many years, the City has used a deposit and hourly billing method as the basis for site development permit fees. This method accurately tracks the time needed for the permit review and inspections and applies fees accordingly. This alternative approach will now be applied to Planning services fees as well, basing the fees on the actual time required to process and provide the services.

This approach will require a fee deposit to be collected at the time of application submittal. The deposit amounts have been determined based on a projected average number of hours required for each permit or service. At the time of permit issuance (once it has been approved), TRAKiT will calculate the actual fee for a project by multiplying the total number of hours spent on the permit or service by the hourly rate. The actual fee will be compared to the fee deposit that was paid at application submittal, to determine the amount of fee either underpaid or overpaid from the deposit. If there is a balance owing by the applicant, the remaining amount will be due to the City at permit issuance. Alternatively, if the deposit was not fully expended, the applicant will receive a refund at permit issuance.

The proposed deposit for each Planning permit or service listed in the 2021 Permit Fee Schedule is based on the 2020 approved fee. Exceptions include specific cases where significant discrepancies between the 2020 approved fee and actual time required are suspected, and therefore the proposed deposit was increased measurably over the 2020 approved fee. These exceptions include fees for appeals and accessory dwelling units (ADUs).

Residential Building Valuation Factors

Building permit fees are calculated based on the estimated cost to construct the proposed project. Permit applicants provide an estimate of the project "valuation" at application submittal. The City compares this valuation with the per square foot valuation factors contained in the Valuation Table (Exhibit 1, Attachment B). When a permit applicant significantly undervalues their project, the City instead applies the appropriate valuation factor to calculate a new estimated valuation for the purposes of determining the building permit fees.

Historically, the City has used two classifications of residential building valuation factors – average and good - which refer to the quality of the construction and finishes. These residential building valuation factors have

been adjusted annually for inflation. In 2020, these classification values are approximately \$139 for average and \$177 for good.

Proposed changes to residential building valuation factors for 2021 include:

- Elimination of the “average” classification;
- Adjustment of the “good” classification to \$180;
- Addition of the “very good” classification at \$230;
- Addition of the “very good – custom” classification at \$280; and
- Addition of the “luxury – custom” classification at \$380.

In reviewing residential building valuation factors of other Eastside jurisdictions and discussing with building professionals, the City appears to be using significantly outdated information that is formally included in the Uniform Building Code. While the number of classifications utilized varies by jurisdiction, the above proposed values are representative of those being used in nearby Eastside jurisdictions.

The majority of new residential building permits are expected to be classified as “very good” or “very good – custom.” In some cases, a new residence permitted using 2020 residential building valuation factors may see up to a 50% increase in building permit fees using the 2021 proposed classifications. While this increase may seem high, the City provides a much higher level of service related to building plan reviews and inspections for residential building permits, than in other cities. For example, the 2020 building permit fee currently provides for three (3) plan review cycles and two (2) inspection cycles. There is no requirement to provide more than one (1) review cycle in each area, and many cities do enforce a limit of one or two reviews and one inspection, with additional fees being charged thereafter.

The proposed changes to residential building valuation will allow the City to align fees with current levels of service and come closer to meeting cost recovery goals for these services.

NEXT STEPS

The City Council will be asked to approve Resolution No. 1593 adopting the 2021 Permit Fee Schedule at the November 17, 2020 City Council meeting. The new fees will take effect on January 1, 2021. Staff will analyze data from Q2-Q3 2021 and report back to the City Council on the results, particularly in relation to cost recovery. Additional changes may be proposed for the 2022 Permit Fee Schedule.

RECOMMENDATION

Approve Resolution No. 1593 adopting new development and construction permit fees effective January 1, 2021.