

City of Spokane  
Development Services  
User Fee Study

**Draft Final Summary Report**

May 2008

*Prepared by*

FCS Group, Inc.

In June 2007, the City of Spokane contracted with FCS GROUP to conduct a cost-of-service and fee study evaluating development services provided principally by Building Services, Planning Services, Engineering Services, Fire Prevention, Sewer Maintenance, and other departments of the City. The primary purposes of this study were to identify the full cost of service associated with development services and the cost recovery levels achieved in 2006, and to use this baseline cost recovery information to formulate fee adjustments consistent with cost recovery policies to be set by the City.

## **Cost of Service Findings**

The cost of service analysis seeks to answer the following key questions:

- What is the total cost of development permitting services provided by the City?
- What is the cost incurred by each department and fund?
- What is the cost to provide individual services or permits?

To answer these questions the study began by inventorying the types of development permitting services provided by departments throughout the City. The study then estimated the amount of staff and other resources devoted by each department to the various types of development services and permits that it provided in 2006. To estimate the cost of service the consultant compiled and analyzed staff payroll and timekeeping records, interviewed City staff, and reviewed financial reports.

The approximate total cost of development permitting services city-wide in 2006 was \$7.5 million. Significant and atypical capital outlays related to the implementation of the new permit tracking system were excluded from the total shown in Exhibit 1 so as not to misrepresent the ordinary operating cost of providing development services. The baseline costs estimated for 2006 also reflect some annualization of staff positions hired mid-year and other minor adjustments in staffing assignments and costs. The purpose of these adjustments was to reflect the normal or trend-line cost of service. The results are shown in Exhibit 1.

**Exhibit 1: Development Permitting Costs by Department**

Building Services (4700)	\$3,811,997
Planning Services (0650)	639,081
Fire Prevention (0440)	429,213
Engineering Services (0370)	1,762,950
Sewer Maintenance (4310)	152,934
Parks (1400)	7,089
Historic Preservation (0470)	147,023
Development Incentives	60,539
Code Enforcement	151,495
Economic Development Division Overhead	353,078
<b>Total</b>	<b>\$7,515,400</b>

For Planning Services, Fire Prevention, and Engineering Services, development permitting represents the majority or a significant share of their overall departmental costs. These departments also provide services unrelated to permitting, some of which are summarized below:

- Planning Services: long-range, comprehensive planning and the shoreline master program.
- Fire Prevention: arson investigation, public education and outreach, special use and event permitting.
- Engineering Services: city infrastructure project design and construction.

The costs of these services and other services unrelated to development permitting were excluded from the analysis of cost recovery, and are not part of the total shown in Exhibit 1. In addition to the departments listed in Exhibit 1, the involvement of the City Attorney's Office, Treasurer, Police, and Library in development permitting was also studied, but the involvement of these departments was determined to be insignificant.

The study also analyzed the cost of development services by class of permit or service. Many permits require review by more than one City department. For example, building permits will often be reviewed by staff in Planning Services, Fire Prevention, and Engineering Services, in addition to Building Services staff. Land use applications will likewise often be reviewed by staff in both Planning and Engineering Services. This pattern of inter-departmental involvement was captured in the analysis and factored into the total cost of service for each broad class of permit or service.

In addition to the departmental costs of permitting, the study also identified and allocated the overhead costs incurred by the Economic Development Division. These costs include the labor of clerical, accounting and management positions, professional services, and other non-labor expenditures made in support of all the departments that provide development services. Division overhead costs were allocated to each class of permit in proportion to its share of total permitting

costs. The total permitting cost analyzed by class of permit or service is summarized in Exhibit 2.

**Exhibit 2: Development Permitting Costs by Class of Permit**

Building Code Permits	\$5,041,075
Zoning & Land Use Code Approvals	515,826
Fire Code Permits	283,002
Engineering Approvals	632,555
Sewer Code Permits	152,934
Private Construction Approval	661,211
Historic Preservation Approvals	160,439
Development Incentives	68,358
<b>Total</b>	<b>\$7,515,400</b>

**Cost Recovery Findings**

Based on the cost of service findings, total permitting costs were compared to total permit fee revenues to determine the level of cost recovery in 2006. City-wide, development permitting fees recovered over 80% of permitting costs in 2006. Exhibit 3 summarizes the results by broad class of permit.

**Exhibit 3: Cost Recovery Results by Class of Permit**

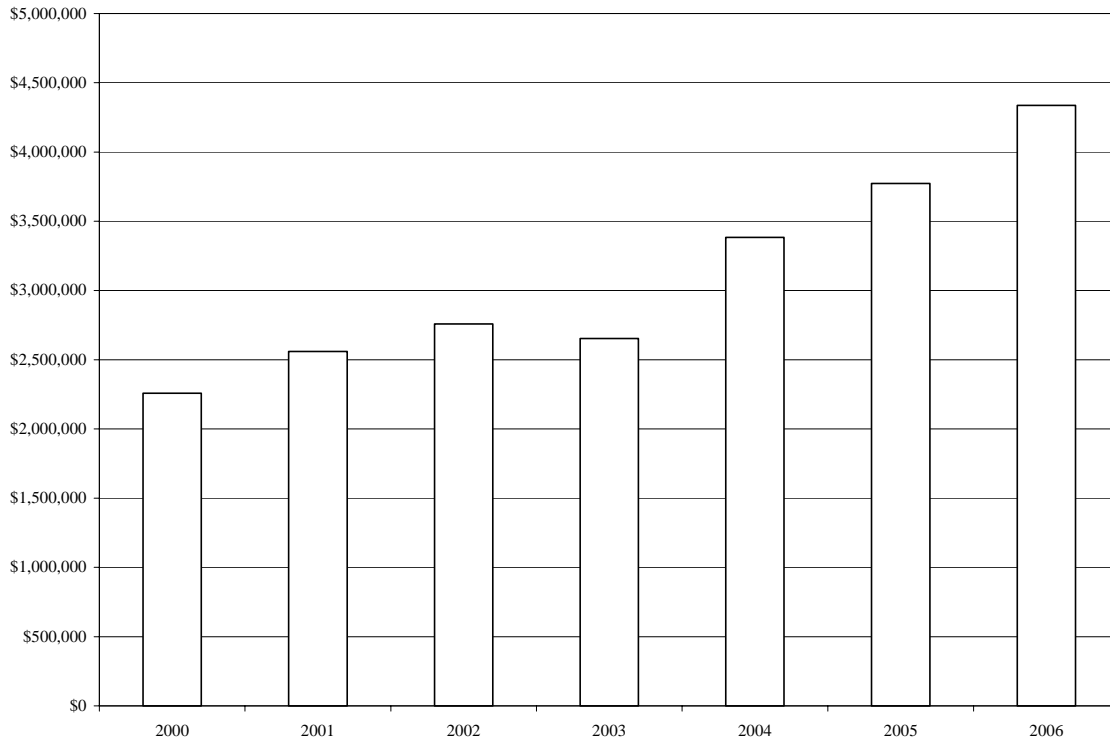
	2006 Cost	2006 Revenue	Over (Under) Recovery	Recovery %
Building Code Permits	\$5,041,075	\$4,332,233	(\$708,842)	86%
Zoning & Land Use Code Approvals	515,826	268,640	(247,186)	52%
Fire Code Permits	283,002	246,048	(36,954)	87%
Engineering Approvals	632,555	493,937	(138,618)	78%
Sewer Code Permits	152,934	62,290	(90,644)	41%
Private Construction Approval	661,211	661,211	0	100%
Historic Preservation Approvals	160,439	31,298	(129,142)	20%
Development Incentives	68,358	9,450	(58,908)	14%
<b>Total</b>	<b>\$7,515,400</b>	<b>\$6,105,106</b>	<b>(\$1,410,294)</b>	<b>81%</b>

The results shown in Exhibit 3 likely overstate the cost recovery result achieved for building code permits somewhat. This could be the case to the extent that some fee receipts in 2006 should be set aside to offset the future costs of performing inspections on multi-year construction projects. The City’s pre-paid liability related to construction inspections may be routinely measured based on project status reporting from the City’s permit tracking system. An effort is underway as a result of this study to develop this reporting capacity.

The cost recovery result calculated for building code plan review and permits in 2006 (86%) may also represent the upper-bound of what is obtainable under current permit fees for another reason: Construction activity over the last six years appears to have been robust and increasing,

as indicated by the annual building permit revenues shown in Exhibit 4. High volumes of development activity typically translate into strong cost recovery. Normal levels of construction activity could likely result in lower levels of cost recovery at the current permit fees.

**Exhibit 4: Recent Trend in Annual Building Permit Fee Revenue**



In light of the above qualifications, it is especially noteworthy that all of the permit fees charged by the City recover less than the full cost of service. As is typical of most jurisdictions we have studied, building code permit fees come closest to recovering the full cost of service—about 86% for the City of Spokane. The cost recovery for land use and engineering approvals is somewhat lower for the City, as is also typical in many jurisdictions.

It should be noted again that the total cost of each permit class includes costs incurred by several departments involved in the development permitting process. For example, of the \$5 million of cost to administer building code permits (as shown in Exhibit 3), only \$3.8 million was incurred by Building Services. The other costs, which amount to \$1.2 million, were incurred by Fire Prevention, Planning and Engineering Services, and Code Enforcement, and also include an allocation of Economic Development Division overhead.

Another useful outcome of the study was determining the amounts of inter-fund cost re-allocation necessary to align permit fee revenues with permitting costs. Exhibit 5 summarizes the cost recovery results for Building, Planning, and Engineering Services and Fire Prevention, before and after re-allocating costs between funds.

**Exhibit 5: Cost Recovery Results by Fund/Department**

	Building Services	Planning Services	Fire Prevention	Engineering Services	All Other Departments	Total All Funds
<b>Development Permitting Costs</b>						
Non-Allocable	\$ 3,811,997	\$ 355,982	\$ 283,002	\$ 1,282,121	\$ 360,496	\$ 6,093,598
Allocable to Other Funds/Departments	-	283,099	146,211	480,830	511,662	1,421,802
Total Cost	3,811,997	639,081	429,213	1,762,950	872,159	7,515,400
<b>Development Permit Fee Revenue</b>	4,332,233	268,640	246,048	1,155,148	103,037	6,105,106
<b>Over (Under) Recovery w/o I/F Transfers</b>	520,236	(370,441)	(183,165)	(607,802)	(769,121)	(1,410,294)
Interfund Revenue Transfer In	-	282,717	146,211	480,447	360,167	1,269,542
Interfund Revenue Transfer Out	(1,077,583)	(159,461)	-	(11,263)	(21,235)	(1,269,542)
						-
<b>Over (Under) Recovery with I/F Transfers</b>	\$ (557,347)	\$ (247,186)	\$ (36,954)	\$ (138,618)	\$ (430,189)	\$ (1,410,294)

Aside from some exceptions such as Fire Prevention, in 2006 the City did not re-allocate development permitting costs between funds/departments as illustrated in Exhibit 5.<sup>1</sup> Without the inter-fund cost re-allocation from other City departments, only Building Services fully recovered its permitting costs. All other departments did not fully recover their costs. When the calculated inter-fund cost re-allocations are factored in, as shown in Exhibit 5, none of the departments, including Building Services, fully recovered its costs.

The financial impact of achieving full cost recovery would vary widely by department because the interdepartmental distribution of permit fee revenues has not in the past been proportionate to the costs incurred by all departments. Most funds would see a positive change in net revenues as a result of both increasing fees and fully re-allocating costs between funds. Building Services, in contrast, would see a negative change in net revenue (despite increased fees) because interdepartmental cost re-allocation would increase costs to the Building Fund by more than \$1 million. Exhibit 6 shows the total revenue impact for each department assuming fees were adjusted to full-cost recovery and costs were fully re-allocated between departments.

<sup>1</sup> The costs incurred by the Fire Protection Engineer reviewing building permits was direct billed to Building Services by Fire Prevention.

**Exhibit 6: Interdepartmental Re-Allocation Calculated at Full Cost Reimbursement**

	Re-allocation	Fee Increase	Total Impact
Building Services (4700)	(\$1,077,583)	\$708,842	(\$368,741)
Planning Services (0650)	123,255	247,186	370,441
Fire Prevention (0440)	146,211	36,954	183,165
Engineering Services (0370)	469,185	138,618	607,802
Sewer Maintenance (4310)	0	90,644	90,644
Parks (1400)	7,089	0	7,089
Historic Preservation (0470)	(13,416)	129,142	115,726
Development Incentives	(7,819)	58,908	51,089
Economic Development Division	353,078	0	353,078
<b>Total</b>	<b>\$0</b>	<b>\$1,410,294</b>	<b>\$1,410,294</b>

**Cost Recovery Targets**

The cost recovery analysis indicates that all development permit fees currently charged by the City are below their full-cost level. An inter-departmental team of City staff has proposed a set of cost recovery targets be established as a basis for adjusting permit fees. Exhibit 7 compares the cost recovery percentage achieved in 2006 to the cost recovery target proposed by staff for each class of permit.

**Exhibit 7: Actual and Target Cost Recovery by Class of Permit**

	2006 <u>Actual</u>	Proposed <u>Target</u>
Building Code Permits	86%	100%
Zoning & Land Use Code Approvals	52%	85%
Fire Code Permits	87%	100%
Engineering Approvals	78%	84%
Sewer Code Permits	41%	100%
Private Construction Approval	100%	100%
Historic Preservation Approvals	20%	34%
Development Incentives	14%	34%
<b>All Permits</b>	<b>81%</b>	<b>96%</b>

City staff has estimated that setting fees to achieve the proposed targets would increase annual permit fee revenues by about \$1.1 million to a total of \$7.2 million, at the level of development permitting activity seen in 2006. This would result in about 96% cost recovery for all development permitting services.

To put these actual and proposed cost recovery levels in perspective, the following cost recovery observations have been made for other jurisdictions in the state of Washington:

- Jurisdictions commonly aim to recover close to 100% of the costs of building permits.
- In jurisdictions where planning services is part of an enterprise fund, cost recovery objectives are typically closer to 100% than in jurisdictions where planning services are budgeted in the general fund.
- Cost recovery objectives for land use approvals have been 60-70% in Bellevue, around 40% in Vancouver, and close to 100% in Seattle.

## Fee Adjustments

Exhibit 8 lists the percentage fee revenue increases needed to achieve the target cost recovery proposed by City staff.

### Exhibit 8: Fee Revenue Increases Needed to Achieve Proposed Target Cost Recovery

	<u>Cost Recovery</u>		Required Revenue Increase
	2006 <u>Actual</u>	Proposed <u>Target</u>	
	Building Code Permits	86%	100%
Zoning & Land Use Code Approvals	52%	85%	63%
Fire Code Permits	87%	100%	15%
Engineering Approvals	78%	84%	9%
Sewer Code Permits	41%	100%	146%
Private Construction Approval	100%	100%	0%
Historic Preservation Approvals	20%	34%	74%
Development Incentives	14%	34%	146%
All Permits	81%	96%	23%

The required revenue increases can be calculated by dividing the proposed target cost recovery percentage into the 2006 actual cost recovery percentage. Since the completion of the cost of service analysis based on 2006 actual financial data, City staff has re-evaluated the City's costs and service levels and determined that an average fee increase to building permits of 21% would be needed to achieve the proposed cost recovery target, instead of the 16% shown in Exhibit 8.

To achieve the fee revenue increases shown in Exhibit 8, City staff has developed two fee-adjustment options.

#### *Option A*

Option A is an across-the-board, percentage increase uniformly applied to all fees in each broad class of permit, according to the schedule shown in Exhibit 8. While this is a common, valid method of adjusting fees to the cost recovery target, it does not recalibrate fees to reflect changes in the relative cost of processing individual permit types.

*Option B*

Option B achieves the target cost recovery by recalibrating individual fees based on the estimated cost of processing the respective individual permit types. To recalibrate individual permit fees, City staff estimated the proportional labor requirements and costs associated with individual permit types. This method has produced a schedule of diverse fee adjustments, some more and some less than the average required fee revenue increase. Under the Option B schedule of fees, the 16% surcharge on building permits is discontinued. This surcharge was originally intended to pay for plan review of building permits by Planning or Engineering Services. The fees for planning and engineering approvals proposed under Option B have been calibrated to recover the costs of this review, instead of relying on the surcharge.

The two fee schedules are too lengthy to include in this summary, but will be presented to the City Council for deliberation. Because fee recalibration brings individual fees closer to the cost of processing individual permits, City staff recommends adoption of Option B.

*Hourly Rates*

The fee study also calculated full-cost hourly billing rates for use by Building Services, Planning Services, and Fire Prevention. The current hourly billing rates, full-cost hourly rates, and target recovery rates are summarized in Exhibit 9. Note that the full-cost hourly billing rates are derived from the billable services provided by technical review or inspection staff. Services such as appeal transcript preparation, if principally provided by non-technical staff, should be billed at an hourly rate that reflects the salary and benefit costs of any non-technical personnel who are involved.

**Exhibit 9: Hourly Billing Rates**

	<u>Current</u>	<u>Full-Cost</u>	<u>Target</u>
Building Services	\$60	\$91	\$91
Planning Services	\$50	\$88	\$75
Fire Prevention	NA	\$84	\$84

*Other Proposed Fee Adjustments*

In addition to adjusting current fees, City staff has proposed some new fees be created for permits and services formerly without fees attached:

- Building Services review fee for new SFR/duplex
- Planning Services review fees for garages, decks, swimming pools, and other residential alterations and additions
- Fences

- Development services review fee for sign permits, manufactured homes, relocation determination,
- Electrical ground work
- Propane tanks
- Street address change
- Dumpster or temporary storage unit in street
- Traffic impact analysis review fee
- Traffic control plan review fee
- Hydraulic analysis review

### *Future Fee Adjustments*

Fees proposed by City staff under Options A and B do not reflect requirements to fund future upgrades and major replacements of permitting technology. The City's on-going implementation of the new permit tracking system and related technologies has been and will continue to be funded by the use of fund balance in the Building Services Fund. A long-term funding source is needed for recurring investment. The funding requirements for future technology needs have not been determined at this time. One option discussed with City staff is a technology fee or surcharge on all permits to be adopted when the initial implementation of the new permit tracking system has been completed in all permitting departments.

To maintain the adequacy of fees until their next comprehensive review and update, fees should be adjusted annually for anticipated cost inflation. The choice of cost-inflation factor should reflect increases in the unique mix of salary, benefit, and non-labor costs anticipated by the City and incorporated into its budget. Reliance on a regional CPI factor for annual fee adjustments may not accurately reflect trends affecting the City, and could lead to under-recovery of costs.

## **Comparison of Permitting Fees**

The study effort compared the City's current, full-cost, and proposed permit fees to the permit fees charged by other jurisdictions. The jurisdictions chosen for comparison are either neighbors or comparable in size to the City of Spokane. Two common project types were selected as the bases for comparison: a new five-acre subdivision with single family homes on twenty lots, and a new commercial warehouse of 37,000 square feet.

Exhibits 10 and 11 illustrate the total of planning, building, and fire fees charged by each jurisdiction in the survey. The results are presented as ratios of the full cost of permitting by the City of Spokane, which equals 100%. The development permit fees *currently* charged by the City of Spokane for these two types of development projects are *less* than the fees charged by *all* the neighboring and comparable jurisdictions surveyed. The *fees proposed* for the City of

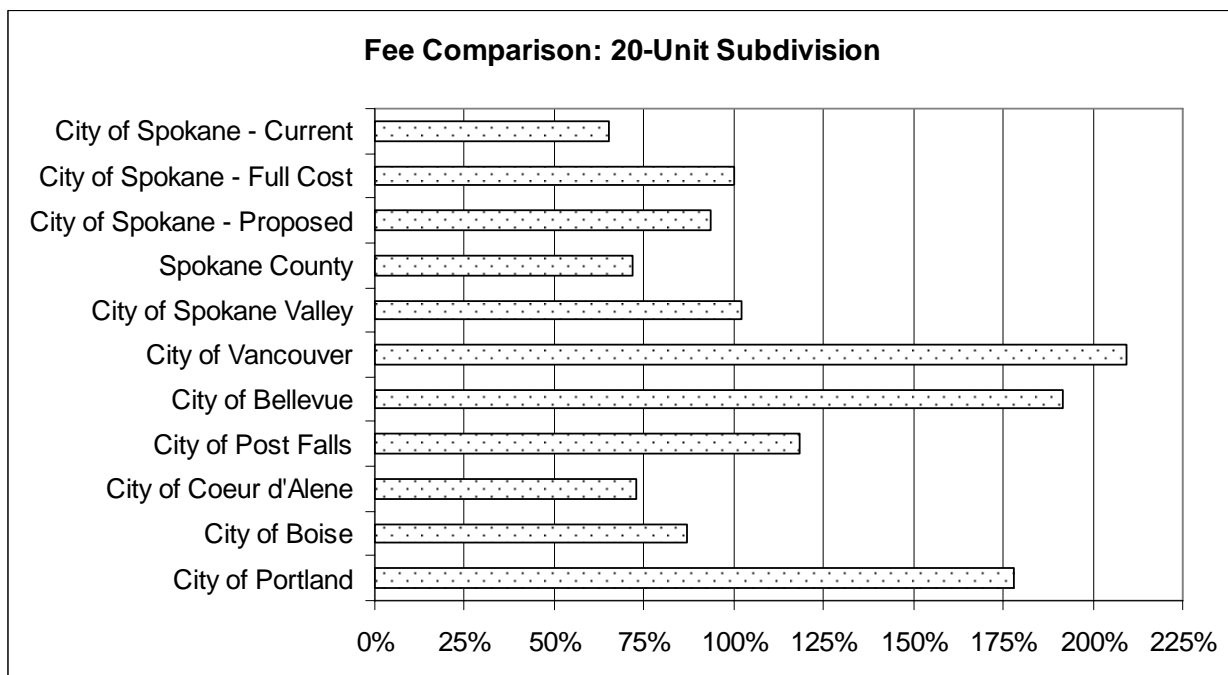
Spokane are also less than the full-cost because of the 85% cost recovery target for planning fees and 84% cost recovery target for engineering fees.

For the 20-unit subdivision, the *fees proposed* for the City of Spokane appear to exceed the fees charged by Spokane County, Coeur d’Alene, and Boise, but are still *substantially less* than the fees charged by comparable jurisdictions such as Portland, Vancouver, and Seattle, and very close to the fees charged by the City of Spokane Valley. For the warehouse, the *fees proposed* for the City of Spokane appear to be *less* than the fees charged by *all* other jurisdictions in the survey.

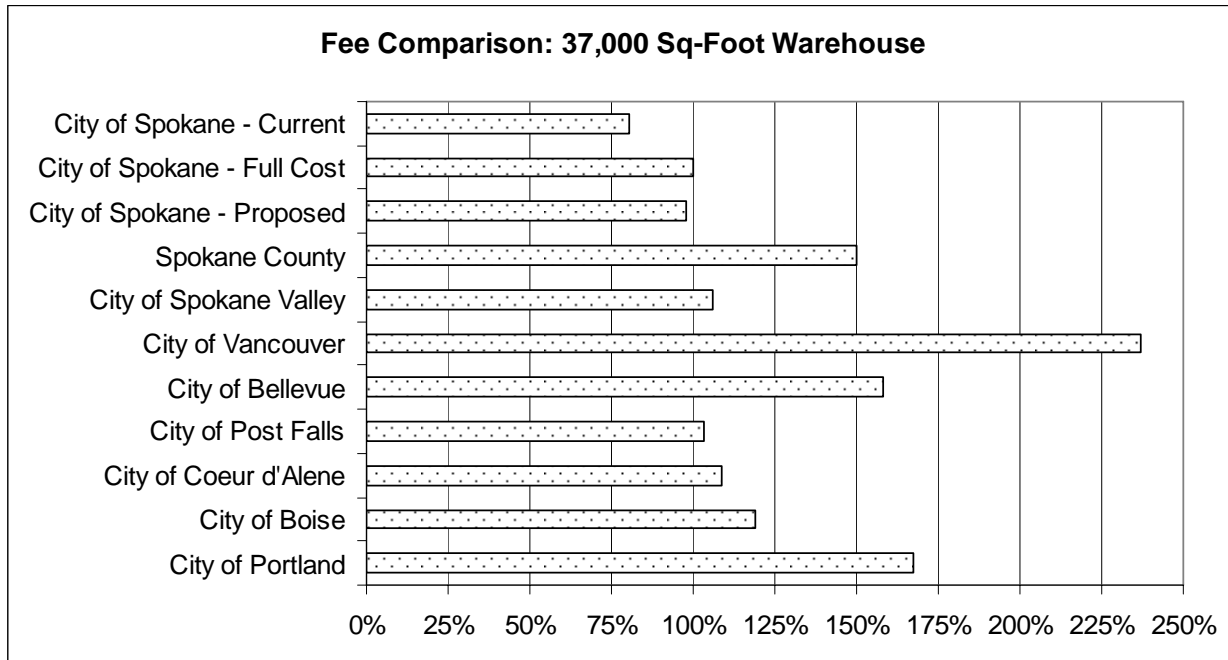
Note that the cost recovery target for Bellevue planning fees is less than 100%, and that the cost recovery targets adopted by the other jurisdictions have not been identified by the survey and might be less than full cost.

*Generally, it appears that the current fees charged by the City occupy the low-end of the spectrum, and the City’s proposed fees would be low- to mid-range relative to its neighboring and comparable jurisdictions.* It is also important to note that the total of building and planning fees charged by the City amount to a very small fraction of the cost of development. For example, the permit fees in Spokane would amount less than 1% of the cost of a new \$350,000 single family home.

**Exhibit 10: Subdivision**



**Exhibit 11: Warehouse**



**Inter-fund Cost and Revenue Alignment**

This study estimated for 2006 the resources expended across fund lines as part of inter-departmental development permitting processes. The City has recognized the need to align permitting costs and revenues across funds to avoid unintended subsidies in some funds at the expense of other funds. Three options for doing so are discussed below.

*Option 1*

Allocate the actual costs incurred by one department in support of another. This method involves a substantial time lag as the actual cost and workload data required to calculate the cost allocation would not be available until after year-end. The cost allocation amount would not then be budgeted to the recipient fund until the second year after the actual costs were incurred by the source department. This lag also hinders the timely assessment of cost recovery results for both the source and recipient departments/funds. The City of Vancouver uses this approach—it budgets staff within its Development Review Services organization to multiple funds, and so requires a complex cost allocation system.

*Option 2*

Source departments direct bill recipient funds for the actual costs of services provided on a routine basis. Spokane already does this for fire prevention review services provided to Building Services. Advantages include current period cost recovery. Requirements include an effective

billing system and interdepartmental oversight capability. The City of Bellevue uses this approach in conjunction with a city-wide Development Services Fund.

### *Option 3*

Allocate permit revenues upon receipt to departments based on previously agreed reimbursement rates. Advantages include symmetry of fiscal responsibility—in effect each department sets its own fees and must manage its own costs to its own hard revenue constraint. Thurston County began using this approach following its cost of service study in 2006.

At this juncture, the most suitable method for the City would likely be increased direct billing (Option 2). Unless a Vancouver-style inter-fund cost allocation model (Option 1) is required for some reason, its complexity makes it unadvisable. A revenue-sharing approach akin to Option 3 would be feasible after the City has developed reliable permit-costing data at a greater level of detail than presently available.

## **Fund Liability**

In recent years, the Building Fund has accumulated a balance of several million dollars. This was in part due to a healthy level of development activity. A benchmarking analysis conducted by the study indicated that about \$2 million of the Building Fund balance is the cash offset for a pre-paid liability to complete building inspections for issued permits.

## **Summary**

The City's annual cost of development permitting is about \$7.5 million, not including significant investments in new permitting technology. With current fees, the City recovers about 80% of that cost. These findings are based on costs and revenues from 2006, when development activity in Spokane was at a cyclical peak. Future cost recovery with current fees would likely be less than 80%. The City also needs to make provisions for funding future investment in permitting technology that will follow initial implementation of the new permit tracking system.

City staff has proposed permit fee adjustments to increase cost recovery to about 96%, or \$7.2 million—an increase in permit fee revenues of about \$1.1 million annually. The City's current fees are the lowest among its neighboring and comparable jurisdictions. The proposed fees would be low- to mid-range among these same jurisdictions.

The Building Fund, in particular, does not appear to be over-funded at the present time. Much its current cash balance is required to pay for on-going and future inspections of issued permits, and to fund the remaining work and expenses to implement the new permit tracking system in all departments that support development permitting.