



# MONROE CITY COUNCIL

## Agenda Bill No. 20-047

<b>SUBJECT:</b>	<b>Discussion: Land Use Fee Cost of Service Study</b>
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<b>DATE:</b>	<b>DEPT:</b>	<b>CONTACT:</b>	<b>PRESENTER:</b>	<b>ITEM:</b>
03/17/2020	Community Development	Ben Swanson	Ben Swanson Becky Hasart Scott Peterson	<b>Discussion Items #1</b>

**Discussion:** F/HR Committee: 09/17/2019, 12/17/2019, 01/21/2020, 02/18/2020, 02/20/2020; City Council: 02/04/2020

- Attachments:**
1. Cost of Service PowerPoint
  2. Cost Recovery and Fee Survey
  3. Fee Recovery Examples

**REQUESTED ACTION:** Provide policy direction to the Mayor and City Staff regarding the proposed cost recovery levels (Tier 1-3) associated with the revisions to the City’s development fees. After receiving policy direction from the City Council, FCS will finalize the report and return to City Council for action.

### POLICY CONSIDERATIONS

*RCW 82.02.020 allows cities to collect fees “...from an applicant for a permit or other governmental approval to cover the cost...of processing applications, inspecting and reviewing plans, or preparing detailed statements...” The policy decision which will eventually come before the Council is at what level the Council wants to recover the costs associated with these services.*

### DESCRIPTION

The purpose of this meeting is to provide City staff with policy direction regarding the appropriate cost recovery percentage for land use permits. The Finance and Human Resources Committee recommended the following cost recovery:

- Tier 1 Permits: 10 percent;
- Tier 2 Permits: 20 percent; and
- Tier 3 Permits: between 40-70 percent.

If the Council generally agrees with the Tier 1 and Tier 2 cost recovery levels, City Staff recommends focusing on determining the appropriate Tier 3 cost recovery levels. The majority of the permits are currently classified as Tier 3 due to the private benefit associated with these types of permits (e.g. subdivisions). However, the Committee did acknowledge potential adverse impacts from a disproportionate fee increase. The following table identifies the Tier 3 cost recovery rates from a range of 40-70 percent:

Tier 3 Rates	Overall Recover Rate	Actual Collected	Overall Cost of Service	General Fund Subsidy	Difference From Existing Rates
<b>Existing Rates</b>	9%	\$3,913	\$465,775	\$421,862	\$ -
<b>40%</b>	23%	\$107,623	\$465,775	\$358,152	\$ 63,710
<b>50%</b>	28%	\$132,673	\$465,775	\$333,102	\$88,760
<b>60%</b>	34%	\$157,827	\$465,775	\$307,948	\$113,914
<b>70%</b>	39%	\$182,777	\$465,775	\$282,998	\$138,864

## BACKGROUND

The City of Monroe Community Development and Public Works Departments administer the City's development regulations for zoning, subdivisions, shoreline management, environmental review, and other land use development related actions. The Departments initiated a cost-of-service study to determine the full cost to provide related planning fee services and potentially adjust the current fees charged for these services to improve the program's cost recovery.

The goal of the review was to:

- Understand the City's cost to issue a permit related to land use development;
- Research potential remedies to discourage low quality permit submittals; and
- Develop policies that best reflect the City's cost recovery goals.

Current City fees are established by City Council and adopted by resolution in the City's "Fees Resolution." Within the Fees Resolution, the City establishes fees for land use development services. On average, the City recovers 13 percent of planning and 51 percent of public works permit review costs. However, City staff reviewed all development fees issued in 2018 and determined a cost recovery rate of 9 percent. The 2018 review only included the actual permits issues apposed the average cost recovery rates that account for all development permit type the City could issue. Any costs not recovered through fees are paid for from revenue General Fund (e.g., property tax and sales tax).

The City's Finance and Human Resources Committee reviewed the City's current fee structure, to include the history leading to the existing fees, statutory guidance on how fees can be set, how those fees relate to neighboring jurisdictions, and various policy options to consider for future cost recovery. Based on this discussion the Committee determined the following general principles for future cost recovery:

- Not seeking to recover full cost of service;
- Fees should be competitive with neighboring jurisdictions; and
- Cost recovery targets should be tiered, increasing with private benefit.

Using these general principles Committed develop the following draft cost recover policy:

- "The City establishes fees for development services recognizing that a portion of the cost of providing these services benefits the entire community and should be borne by the City's General Fund. Fees for these services are evaluated based on several factors, including:
  - The cost of issue the permit;
  - The public benefit versus private gains of the permit;
  - Fees for similar services in comparable cities
- Generally, the City seeks to recover more eligible costs on those permits that have an overwhelming private benefit and seeks to recover less than all eligible costs on those permits that have a mix of private and public benefits.
- The City's land use planning fees are categorized into three cost recovery tiers based on the factors described above."

Based on these discussions, the committee and staff have narrowed down the potential policy regarding cost recovery to utilize a three tiered system based on whether the development service provided would have a more public versus private benefit.

Using a tiered system, the City's land use planning fees were categorized into three cost recovery tiers based on the factors described below:

Tier	Rationale	Example Permits
Tier 1 (lower cost recovery)	The cost of service exceeds the benefit received by the permittee; or where the cost of service is higher than fees in comparable cities for similar services.	Reasonable Use Permits and Pre-Application Meetings
Tier 2	Permits that serve a public good or where the City wants to ensure that the fee does not discourage applicants from the permitting process.	Boundary Line Adjustments
Tier 3 (Higher cost recovery)	Individuals or businesses are the primary financial beneficiaries of the permit.	Subdivisions and Final Plats

Using this system the Committee focused on the cost recovery levels for the applicable tiers. It was generally determined by the Committee the City should fall at a mid or mid-high range of cost recovery compared to surrounding jurisdictions.

**FISCAL IMPACTS**

The salary of City Staff who review permit submittals are paid from the general fund; therefore, the fiscal impacts of fee recovery are directly tied to the general fund. Those cost of service not covered by the land use fees are subsidized by the general fund.

Conversely, full cost recovery of land use fees may deter developers from building within the City. However, using the data from two recent subdivisions it was determined a fee increase to a full cost recovery level would add 0.5 percent to the overall sales price of a single family residence (see Attachment 3).

**TIME CONSTRAINTS**

None.

**ALTERNATIVES**

Maintain existing cost recovery as established in the City’s adopted Fees Resolution.

# Key Study Steps

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## Cost of Service Analysis

*What does it cost the City to provide planning fee services?*



## Cost Recovery Analysis and Policy

*How does the cost compare to the current fee and cost recovery policy?*



## Fee Design

*How can the City structure the fees for these services?*



## Fee Survey

*How do current and proposed fees compare to comparable jurisdictions?*



# Summary of Results

- 10 50 fees reviewed
- 10 13% overall cost recovery

Land Use  
Planning



- 10 40 fees reviewed
- 10 51% overall cost recovery

Development  
Engineering





## Finance Committee Discussion (Dec 17)



Not seeking to recover full cost of service



Fees should be competitive with neighboring jurisdictions



Cost recovery targets should be tiered, increasing with private good



# Draft Cost Recovery Policy

Tier	Cost Recovery Target	Rationale	Example Permits
Tier 1	10% of Cost	The cost of service exceeds the good received by the permittee; or where the cost of service is higher than fees in comparable cities for similar services.	Reasonable Use Permits and Pre-Application Meetings
Tier 2	20% of Cost	Permits that have a public good or where the City wants to ensure that the fee does not discourage applicants from the permitting process.	Boundary Line Adjustments
Tier 3	40-70% of Cost	Individuals or businesses are the primary financial beneficiaries of the permit.	Subdivisions and Final Plats



# Discussion

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- ◆ Cost recovery rates for tiers
  - Tier 1: 10%
  - Tier 2: 20%
  - Tier 3: 40-70%





