



EVALUATION & RESTRUCTURING OF DEVELOPMENT FEES

In CY 2007, the County created a self-sustaining Development Fund to support the needs of the development community and restructure permitting fees to be self-supporting and not require local net tax support. Over the years, building activity in the County and the services provided have changed. Costs to support the operations of the Development Fund continue to escalate for both personnel and non-personnel (e.g., technology) expenditures. Over the last two years, the County, working with a consultant, has studied the revenues, expenses, and current fee structures for the Development Fund along with a portion of fees charged by the Departments of Environmental Services (DES) and Community Planning, Housing, and Development (CPHD) within the General Fund.

The following summary will provide background on the Development Fund, discuss development activity and its related fiscal impacts, and provide an overview of the proposed fee changes for CPHD and DES as the result of the fee study.

Creation of the Development Fund

In the FY 2008 adopted budget, the Inspection Services Division (ISD) and the Zoning section within the Planning Division of CPHD shifted to an enterprise fund. Enterprise funds are used to account for the financing of services to the public where the operating expenses involved are usually recovered in the form of charges to users. With the establishment of an enterprise fund, along with fee increases in both ISD and Zoning, the revenues generated were dedicated to these specific Development Services operations with the goal of achieving a higher level of customer service. The increased, and now dedicated, revenue was used to make further enhancements in technology, staffing, and infrastructure associated with delivering quality customer service.

To track the Fund's progress, five key performance measures were instituted at the creation of the Development Fund to allow for monitoring of the County's progress towards improved services. The five metrics and the progress achieved towards these metrics are listed below.

1. Customer Experience:

- Goal: Improve customer satisfaction with the quality, professionalism, timeliness, and expertise of permitting technicians as measured by customer satisfaction surveys.
- Progress: Completion of the multi-phase Permit Arlington system project, which was initiated in FY 2019, allows customers to apply for all permits, submit plans, request inspections, and pay virtually 24/7. In

addition, CPHD opened a one-stop Customer Service Center on the 10th floor in 2009. In March of 2023, the Center moved to the Bozman lobby. Effective July 1, 2024, the Permit Arlington Center will be open to support walk-in customers four days per week.

2. Permitting and Plan Review of Commercial Interior Alterations:

- Goal: Reduce permitting and plan review of interior alterations of existing commercial buildings, which at the time of the creation of the Fund was over 90 days, to same day service (or the next day for complex projects).
- Progress: In FY 2009, ISD created an in-person fast-track process for interior alterations of existing commercial buildings for a single floor and residential building and small additional alterations. The current electronic fast-track process provides an expedited electronic plan review within two business days.

3. Timeliness of ISD Inspections:

- Goal: Complete 100 percent of inspections within 24 hours of being scheduled; at the time of the creation of the Fund, 85% to 95% of inspections were completed within 24 hours.
- Progress: Currently, inspections are completed either 99% or 100% of the time within 24 hours of being scheduled.

4. New Residential Total ISD Plan Review Time from Application to Permit Issuance:

- Goal: Issue all new residential permits within four weeks, at the time of the creation of the Fund, wait times were eight to ten weeks.
- Progress: While a variety of factors affect the time to issue a permit; currently, building permits for new residential houses consistently have a 10-business day plan review time frame for each review cycle. Most new houses require multiple review cycles.

5. New Commercial Total ISD Plan Review Time from Application to Permit Issuance:

- Goal: Complete initial reviews of new commercial projects within 10 weeks and issue permits within six months. At the time of the fund's

creation, wait times for initial reviews were six months and permits were 18-24 months.

- Progress: Currently, building permits for new commercial buildings have a 15-business day plan review time frame for each review cycle. Almost all commercial buildings require multiple review cycles.

Fiscal Impact of Development Activity

While development activity has always fluctuated, Arlington experienced a significant expansion of development activity related to the arrival of Amazon's HQ2, followed quickly by the changing macro-economic environment post-COVID and the related challenges with the commercial office market in a period of higher interest rates. As development activity slowed and costs continued to rise, the Development Fund has taken various steps to reduce expenses including holding positions vacant and reducing other non-personnel costs where feasible. Even after these cost saving measures, the Development Fund receipts declined, and reserve funds were used to offset these lower revenue receipts. During the close-out process of FY 2023, the County Board allocated \$2.0 million in funding from the General Fund to assist with an anticipated decrease in revenue in the Development Fund in FY 2024. CPHD continues to monitor revenues and expenses and currently anticipates a shortfall in the Fund at the end of FY 2024. For FY 2025, the development activity – and the resulting revenue in the Development Fund – is uncertain. However, as interest rates have stabilized and may decline, the outlook for increased activity is improving.

Study of Development Services Fees

A significant amount of work has been done over the last 18 months among staff in CPHD and DES to calibrate cost recovery related to permitting activity costs. With the help of a consultant, staff reviewed time and effort spent evaluating and processing permits for zoning and construction. This fee-by-fee cost analysis was comprised of two key elements: hourly rates of staff providing the services and time spent providing the services. Additionally, annual volume statistics were gathered to develop total annual workload information. Costs were then calculated by multiplying the per-unit time estimates by the fully burdened hourly labor rates. The results from the study for CPHD Planning, Zoning, and Inspection Services, along with DES showed a wide variation of the current fee cost recovery levels.

During this fee review process, staff within CPHD and DES spent a significant amount of time identifying and refining their estimated time spent on each of the user fee activities. In some cases, staff had to estimate time/cost based on similar development-related work or make good faith estimates due to inadequate tracking data. Staff will be working over the next several years to gather more precise information necessary to refine the estimates for appropriate cost recovery. The recommended fee changes, informed by the fee study, are proposed to be adjusted

gradually over multiple years (based on the type of fee and target cost recovery level) to achieve full cost recovery.

Approach to Fee Adjustments

The realignments of fees will need to occur over a multi-year period as the County continues to assess various workloads of permitting activity and, where appropriate, support for permitting activities that may not be able to fully recover costs for various reasons.

For FY 2025 fee changes, the recommendations include various adjustments to both CPHD and DES fees such as increasing or decreasing fees to align with target cost recovery levels, adding or removing fees to align with current work processes/staff time, or holding fees constant as staff refines or gathers additional information necessary to develop an appropriate cost recovery level. For all fees, the degree of adjustment varies depending on current cost recovery, target cost recovery, fee type, and anticipated impact to the development community. While many new fees, fee eliminations, or fee decreases will happen immediately, fee increases are recommended over multiple years.

By adjusting fees over multiple years this will ease the impact on development services customers and will allow time for cost recovery to be monitored while a more stable development environment can be assessed. The goal of these fee adjustments is to align the price of the services with the actual cost of the service and re-establish financial stability in the dynamic development environment. With this multi-year approach, the Development Fund will continue to be under fiscal stress and may require continued staffing constraints and possibly additional General Fund support.

Target Cost Recovery and Fee Adjustments

Development Fund

As noted above, unlike CPHD Planning and DES Development Services, ISD and Zoning Divisions are within an enterprise fund which is a self-supporting fund that does not use local net tax support; therefore, these divisions must recover 100% of their operating costs. Below is a summary of the fee recommendations and approaches used for CPHD Zoning and ISD:

- Target cost recovery for the Development Fund is 100%
- Zoning Services consists of 106 fees in five categories. These fees are recommended to be adjusted over a three-year period.
 - Current fees under 70% cost recovery would increase 30% in FY 2025
 - Current fees between 71% and 100% cost recovery would be adjusted to full cost recovery in FY 2025
- Inspection Services consists of 144 fees in seventeen categories. These fees are recommended be adjusted over a two-year period.

- Current fees under 25% cost recovery would increase by 35% to 50% in FY 2025
- Current fees between 25% and 50% cost recovery would increase 30% in FY 2025
- Current fees recovering greater than 50% but less than 100% would increase 25% or to full cost recovery in FY 2025
- For both Zoning and ISD, select fees that require additional analysis - no change

General Fund

- Target cost recovery for Development Services activities in the General Fund is between 75% and 100%
- CPHD Planning consists of 94 fees in seven categories. These fees are recommended to be adjusted over several years.
 - Target cost recovery level is 75% to account for the 25% of staff time spent on items outside of the applicants control, including requests from the County Board and Planning Commissioners and atypical volumes of resident outreach and engagement.
 - Proposed fee adjustments would not exceed a 30% increase in any one year
 - Select fees that require additional analysis – no change
- DES Development Services consists of over 170 fees in four categories. These fees are recommended to be adjusted over a three-year period.
 - Target cost recovery level is 100%
 - Proposed fee adjustments to reach full cost recovery that are under \$100 and under 100% will be adjusted in FY 2025 and fee adjustments that are over this threshold will be increased gradually over a three-year period.

For both CPHD and DES, any fee decreases, fee eliminations, or new fees will be implemented in the first year.

Customer Impacts of Fee Changes

The sample projects on the following page show the impact a customer may see from the proposed fee recommendations in FY 2025. These projects are summarized to show the total impact on the customer and may include a variety of fees.

CPHD Zoning and ISD				
Project Type	Project Description	FY24 Fees	FY25 Fees	Impact to Customer
One & two family detached dwellings and townhouses	New 4533 Sq. Ft. Single Family Dwelling	\$7,794	\$9,531	\$1,737
Multifamily, hotel and motel	New construction of an 11-story apartment building	276,160	346,150	69,990
Multifamily, hotel and motel	Installation of new 600 sq. ft. pool on Roof Deck	680	887	207
Mechanical Commercial	16 heating & 16 cooling equipment, ductwork and piping	28,662	35,827	7,165
Electrical Commercial	11 floors of low voltage, electrical subpanels, circuits, fix/switch/receps, hard fixed apps, hard wired com cooking apps, 1 generator over 50KW	97,440	121,799	24,360
Electrical Residential		298	372	74
Fire Commercial	Sprinkler heads, 12 floors of standpipes, 1 fire pump	\$27,294	\$34,117	\$6,823

CPHD Planning				
Project Type	Project Description	FY24 Fees	FY25 Fees	Impact to Customer
Special Exception Site Plan	Site Plan application for semi-detached dwelling - two residential units	\$4,143	\$5,282	\$1,140
Special Exception Site Plan	Rezoning and site plan application for entitlement; 31k sqft; 128 CAFs and 3k sqft child care center	42,079	48,018	5,940
Rezoning		18,668	19,583	915
Landscape Plan Change	Residential R2-7 zoning district; side-by-side duplex	\$193	\$289	\$96

Department of Environmental Services (DES)				
Project Type	Project Description	FY24 Fees	FY25 Fees	Impact to Customer
Multi-family / Commercial	20 story mixed use building with 3 levels of parking garage (218 parking spaces); 423 units and 17,000 sq. ft of retail space	\$358,444	\$370,498	\$12,054
Multi-family / Commercial	16 story mixed use building with 2 levels of parking garage (75 parking spaces); 231 units and 3,500 sq. ft of retail space	194,123	205,735	11,612
Townhouses	By-right Subdivision project of 4 townhouses	54,671	66,321	11,650
LDA Single Family Home	Single Family Infill, Disturbed Area = 13,619 SF	8,054	6,548	(1,506)
LDA Single Family Home	Smaller Home Addition, Disturbed Area = 4,765 sf	\$6,285	\$4,702	(\$1,583)