



King County

Metropolitan King County Council Committee of the Whole

STAFF REPORT

Agenda Item No.:	7	Date:	28 April 2010
Proposed Motion No.:	2010-0267	Prepared by:	Nick Wagner

SUMMARY

Proposed Motion 2010-0267 (pp. 5-8 of these materials) would accept a report from the Executive regarding the Department of Development and Environmental Services and would request a further report regarding the department.

BACKGROUND

Ordinance 16717, which adopted the 2010 Annual Budget, appropriated \$21,893,985 and allocated 147.50 full-time equivalent positions (“FTEs”) to the Department of Development and Environmental Services (“DDES”). Section 84 of the ordinance contained a proviso P1 (referred to here as “the DDES Budget Proviso”), which read:

Of this appropriation, \$1,500,000 in expenditures and fifteen FTEs from the land use, building or fire marshal divisions shall not be expended or encumbered after March 1, 2010, unless a permit fee increase for the department of development and environmental services is enacted by ordinance before that date.

The effect of the proviso, as explained in a staff report on subsequent legislation (*see* pp. 33-35 of these materials), was to require DDES to submit for Council approval a new permit fee schedule that could provide a revenue base to allow DDES to keep the 15 FTEs, which were in jeopardy because of declining fee revenues due to the downturn in the economy. The deadline contained in the proviso was later extended by Ordinance 16761 (pp. 29-31 of these materials) to June 1, 2010.

The Executive’s Report

On 15 April 2010 the Executive transmitted to the Council a report (included at pp. 9-22 of these materials) that responded to questions raised by councilmembers during consideration of Ordinance 16761 in the Council’s Budget and Fiscal Management

Committee. The report described DDES's current operations¹ and its financial health, which the report describes as "extremely challenged" (p. 12 of these materials). The report observed that "[t]he DDES 2010 adopted financial plan currently estimates a 2010 target fund balance deficit of \$1.9 million . . . assuming no change in the 2010 fee structure," which will grow to "nearly \$3.8 million by the end of 2011 under the current fee structure and employing current processes" (p. 12 of these materials).

Instead of increasing the DDES hourly rate for processing permits, the Executive reported, DDES staffing will have been reduced from 147.5 FTEs at the beginning of this year to 134.5 FTEs by May 31. *See* p. 14 of these materials. In addition, work within the department has been reorganized, as shown by the organizational charts that are included on the last page of the report (p. 22 of these materials).

The Executive's Transmittal Letter

In his transmittal letter (pp. 23-27 of these materials), the Executive informed the Council, "I will not be proposing a fee increase at this time, but I am pleased to introduce for your consideration my strategy for developing a sustainable fee structure and reorganization plan for DDES."

A. Three-part Proposal

The Executive presented a three-part proposal:

1. "Maintain Current Fee Structure and Hourly Rates on Short-term Basis."

The reasons given for this part of the proposal are: (a) the persistence of the economic downturn; (b) the need to assist the region's employers and industries so they can rebound; and (c) the need for reconsideration of the current rate model, rather than simply increasing the hourly rate. Consistent with this approach, layoff notices have been issued to 15 DDES employees, effective May 31. *See* p. 24 of these materials.

2. "Shift From Hourly Rates to More Fixed Fees for Many DDES Services."

This part of the proposal is designed to "provide greater predictability and transparency to customers, because the applicant would know the total charges before submitting the permit." In setting fixed fees DDES will rely on "a significant amount of historical data on staff hours spent on each permit type," which DDES has collected. These data will be

¹ Including its responsibilities under the county code, the permitting process, the customers whom DDES serves, the recent changes in DDES's permit workload, and the ratio of permit applications to FTEs. *See* pp. 9-11 of these materials.

considered “in light of new, improved processes and industry standards.” *See* p. 25 of these materials.

The Executive’s goal is “to implement the new fee structure in 2011.” Toward that end, he has “directed DDES to work aggressively on the new model so that the revised financial projections can be folded into the development of the 2011 budget.” *See* p. 26 of these materials.

3. “Create a Rural Land Use and Permitting Unit.”

This part of the proposal recognizes that as the urban unincorporated areas of the county continue to be annexed, “[o]ver time, the unincorporated rural area will become the primary customer base for building and land use permitting in King County.” The Executive proposes “to begin now to create a unit within DDES focused exclusively on rural land use and building services,” though “[a]t the same time, the department will continue to refine its processes and improve services in the remaining unincorporated urban areas until they become part of cities.” *See* pp. 25-26 of these materials.

B. Utilization of Reserves

The Executive proposes “to prudently utilize [DDES] reserves to meet a portion of 2010 expenses,” though he has “directed the Department to identify further reductions in 2010 expenses to minimize use of reserves.” In addition, “DDES will evaluate its current level of reserves to ensure that they are at the most appropriate levels considering the economy and the fund’s current situation.” *See* p. 26 of these materials.

C. Federal Grant Funding for Energy Efficiency and Sustainability

DDES has been awarded about \$200,000 to fund programs for energy efficiency and sustainability. These funds will support two FTEs through the end of 2010 to undertake the adopted work plan, which includes “promoting Built Green buildings, LEED-certified projects, implementing the new State energy code, and partnering with utility providers on the Energy-Star conservation program.” *See* pp. 26-27 of these materials.

D. Summary of Executive’s Proposal

The Executive’s transmittal letter summarizes his response to the DDES Budget Proviso as follows (*see* p. 27 of these materials):

- To keep DDES’ hourly rate at the current level in the near term;
- To begin work now to develop a proposal for increased use of fixed fees beginning in 2011;
- To begin organizing a new unit within DDES to address permitting, development services, and land stewardship in the rural area;

- To partner with cities to address permitting in the remaining urban unincorporated areas;
- To accept the reductions contemplated in the budget ordinance proviso, with the understanding that two of the 15 FTEs would remain because they would be working on grant-funded activities through the end of 2010.

PROPOSED MOTION 2010-0267

Since the Executive is not proposing to meet the terms of the DDES Budget Proviso, he has not transmitted legislation with his report and proposal. Proposed Motion 2010-0267 (pp. 5-8 of these materials) has originated within the Council. The motion would accept the Executive’s report, but would not release the funds or FTEs that are subject to the DDES Budget Proviso. The motion requests a further report from the Executive by August 31 of this year containing:

1. “A detailed plan ‘to create a unit within DDES focused exclusively on rural land use and building services’ that is ‘properly sized, responsive to specific issues in the rural area, and appropriately staffed to provide efficient and high quality customer service to the rural area,’ as described in the executive's transmittal letter”;
2. “A list of the key outcomes expected to flow from the training to be conducted by the Evans School fellows and the appropriate performance measures”; and
3. “The proposed new DDES rate structure that is referred to in the executive's transmittal letter”.

INVITEES

1. John Starbard, Director Designee,
Department of Development and Environmental Services

ATTACHMENTS

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KING COUNTY
Signature Report

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

April 27, 2010

Motion

Proposed No. 2010-0267.1

Sponsors Hague

1 A MOTION accepting the executive's report on the
2 department of development and environmental services,
3 and requesting an additional report regarding the
4 department.

5 WHEREAS, the 2010 Budget Ordinance, Ordinance 16717, as amended by
6 Ordinance 16761, contains in Section 84 a Proviso P1 that reads, "Of this appropriation
7 [to the department of development and environmental services ("DDES")], \$1,500,000 in
8 expenditures and fifteen full-time equivalent positions ["FTEs"] from the land use,
9 building or fire marshal divisions shall not be expended or encumbered after June 1,
10 2010, unless a permit fee increase for the department of development and environmental
11 services is enacted by ordinance before that date" ("the DDES budget proviso"), and

12 WHEREAS, in response to the DDES budget proviso the executive has provided
13 a report and transmittal letter, which are Attachments A and B to this motion, that do not
14 propose a fee increase for DDES services in order to make those services self-sustaining,
15 but instead proposes several alternative strategies, including the following, as described
16 by the executive in the executive's transmittal letter:

- 17 1. To keep DDES's hourly rate at the current level in the near term;
18 2. To begin work now to develop a proposal for increased use of fixed fees
19 beginning in 2011;

20 3. To begin organizing a new unit within DDES to address permitting,
21 development services, and land stewardship in the rural area;

22 4. To partner with cities to address permitting in the remaining urban
23 unincorporated areas; and

24 5. To accept the reductions contemplated in the budget ordinance proviso, with
25 the understanding that two of the 15 FTEs would remain because they would be working
26 on grant-funded activities through the end of 2010, and

27 WHEREAS, the executive has subsequently informed the council that in lieu of
28 retaining two of the 15 FTEs that are subject to the DDES budget proviso, the executive
29 will be requesting, by proposing new legislation, funding and approval of two new term-
30 limited temporary ("TLT") positions to work on the "grant-funded activities" referred to
31 in the executive's transmittal letter, and

32 WHEREAS, the council applauds the executive's efforts to enlist the services of
33 fellows from the Evans School of Public Affairs at the University of Washington to train
34 DDES employees in management and customer service;

35 NOW, THEREFORE, BE IT MOVED by the Council of King County:

36 A. The council accepts the executive's report and transmittal letter that are
37 Attachments A and B to this motion. This acceptance is not intended to affect the DDES
38 budget proviso.

39 B. The council hereby asks the executive to provide to the council, no later than
40 August 31, 2010, a report containing the following:

41 1. A detailed plan "to create a unit within DDES focused exclusively on rural
42 land use and building services" that is "properly sized, responsive to specific issues in the

43 rural area, and appropriately staffed to provide efficient and high quality customer service
44 to the rural area," as described in the executive's transmittal letter;

45 2. A list of the key outcomes expected to flow from the training to be conducted
46 by the Evans School fellows and the appropriate performance measures; and

47 3. The proposed new DDES rate structure that is referred to in the executive's
48 transmittal letter.

49 C. The report requested by this motion should be filed in the form of a paper
50 original and an electronic copy with the clerk of the council, who shall retain the original

51 and provide an electronic copy to all councilmembers, to the council's chief of staff and
52 to lead staff of the council's committee of the whole or its successor.
53

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Robert W. Ferguson, Chair

ATTEST:

Anne Noris, Clerk of the Council

APPROVED this ____ day of _____, _____.

Dow Constantine, County Executive

Attachments: A. Response to Previous Council Questions Regarding the Department of Development and Environmental Services, B. Transmittal Leter Dated April 14, 2010

Response to Previous Council Questions Regarding the Department of Development and Environmental Services

On February 2, 2010, at the Budget and Fiscal Management Committee meeting, council staff presented an amendment to the 2010 budget ordinance for the Department of Development and Environmental Services. At that time, council members asked a number of questions related to the department. This document is provided to answer those questions and provide context and background about the department.

Current DDES Operations

DDES Responsibilities

The department's annual responsibilities include permitting, code enforcement and updating the King County Comprehensive Plan and building and land use codes. Annually, DDES investigates nearly 2,000 new code enforcement complaints each year. The department processes 5,000 to 7,000 permit per year, including:

- single-family home new construction and remodels,
- large custom homes
- subdivisions
- commercial developments, and
- small clearing and grading projects to large surface mines

Permit activity is highly volatile and dependent on the local economic climate, especially the health of the local construction industry. Due to a dire economy and a stagnant local construction sector, DDES processed 4,166 permits in 2009. Local economists suggest an uptick in the local construction sector in 2010, but to date the department has not seen a significant difference in permitting volume compared to 2009.

Permitting Process and Subprocesses

DDES produces permits for building (including fire-related), land use and code enforcement. Currently, there are about 120 different permit types, each of which requires a different process. The permitting processes are made up of a number of steps including application intake, application reviews, assuring conformance with adopted regulations and policies, inspection, quality assurance, and financial guarantee for

performance and maintenance. Often the process involve steps taken by another county agency including Water Land Resources Division (WLRD), Road Services Division, Public Health Department, and Real Estate Services.

For example:

- Public Health reviews permits for drain field, sewer, and well placement;
- WLRD reviews for storm water adjustment process;
- Road Services Division reviews for potential variances; and
- The Department of Executive Services' Real Estate Services deals with archeological and historic preservation issues.

However, the customer primarily deals with DDES staff.

Appendix A describes the workflow and tasks required for the single-family dwelling permit process. Other types of permit require a different set of processes and reviews. Pre-application meetings are encouraged, and required for some permit types, to assist customers in properly submitting required documents and plans. Still, the department could do a better job of communicating its processes and steps in advance of application.

DDES Customers

The customers of DDES consist of permit applicants: typically residents of unincorporated King County, land developers, and builders. First and foremost, the department is responsible for implementation and enforcement of adopted land use and development policies. In accordance, the department is also responsible for timely and reasonable permit decisions for permit applicants.

Currently, the majority of DDES customers are one-time permit applicants. Due to the economy and further annexations, DDES' customer base will comprise less of large subdivision developers. The DDES focus for the future will be on single-family remodel permit applicants, followed by grading and boundary land adjustment permit applicants.

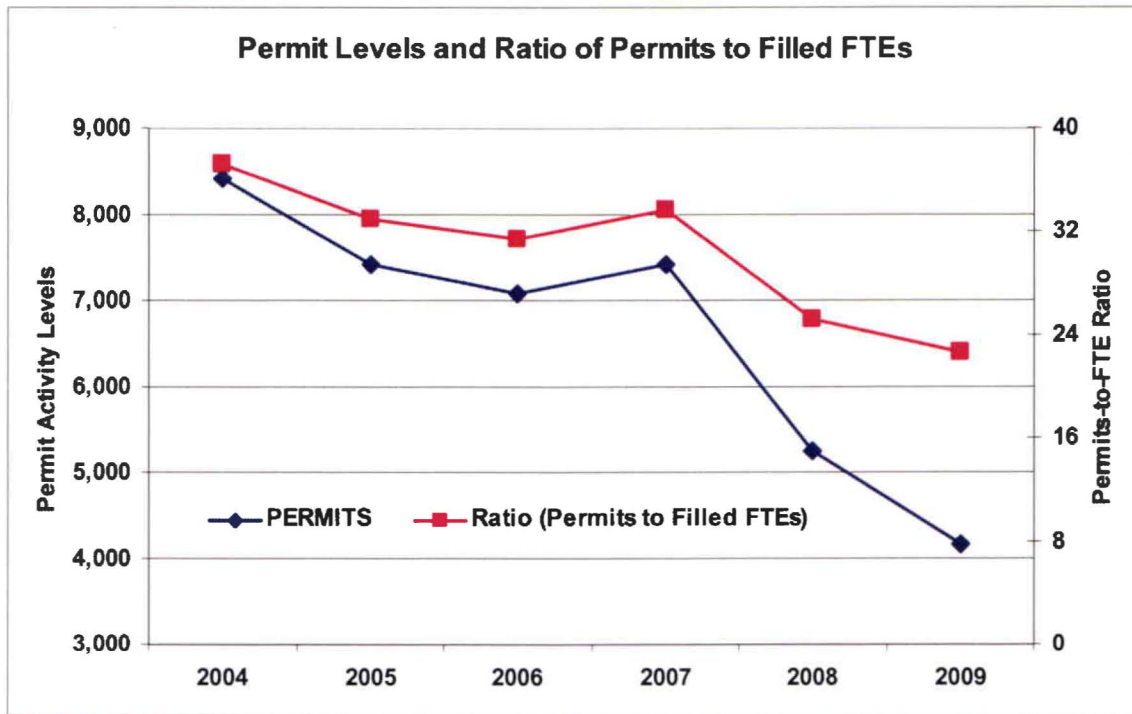
However, DDES continues to work with land developers. The needs and wants of these customers sometimes differs depending on the health of the economy. During healthy economic times, the developer prefers fast and predictable service, with less emphasis on cost. In economic downturns, the emphasis on timeliness is lessened with a relatively increased need for cost-conserving customer service.

Permits and FTE Workload

Average annual permit levels have decreased dramatically since 2004, with a drop in average number of annual permits from 8,420 permits in 2004 to 4,166 permits in 2009. The graph below describes the downward trend of aggregate permits and the ratio of annual average permits to filled FTEs, irrespective of permit type. The complexity of

review differs by the type of permit. The ratio of permit applications to FTEs filled has decreased over time, from 37 permits per FTE in 2004 to 23 in 2009. However, the mix of permit applications has changed over time and different permit types require longer to process than others.

**Graph I:
Filled FTEs, Permit Volume, and Ratio of Employees to Permits**



DDES Financial Health

Financial Crisis

DDES is intended to be a fee-for-service, self-sustaining enterprise fund. Unlike other jurisdictions, such as Pierce County, Snohomish County, and many cities, King County does not subsidize permit review activity through its General Fund. Appendix B displays permit fees of other local jurisdictions. King County does provide General Fund support for code enforcement (11 FTEs) and a rural services initiative (1.5 FTEs).

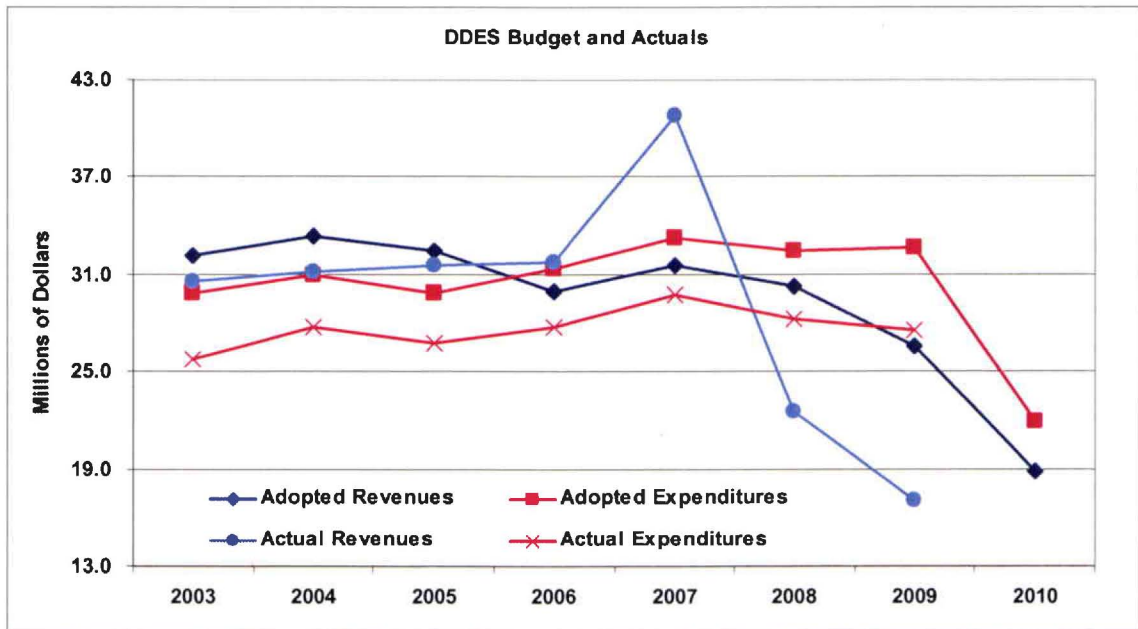
Within the enterprise fund, in its undesignated fund balance, DDES sets aside certain reserve amounts for the replacement of technology, for waivers and unanticipated costs,

and to provide resources to stabilize the department's budget in times of decreasing or fluctuating revenues. There is a court-recommended target fund balance of 12.5-percent of the fund's total appropriated expenditures.

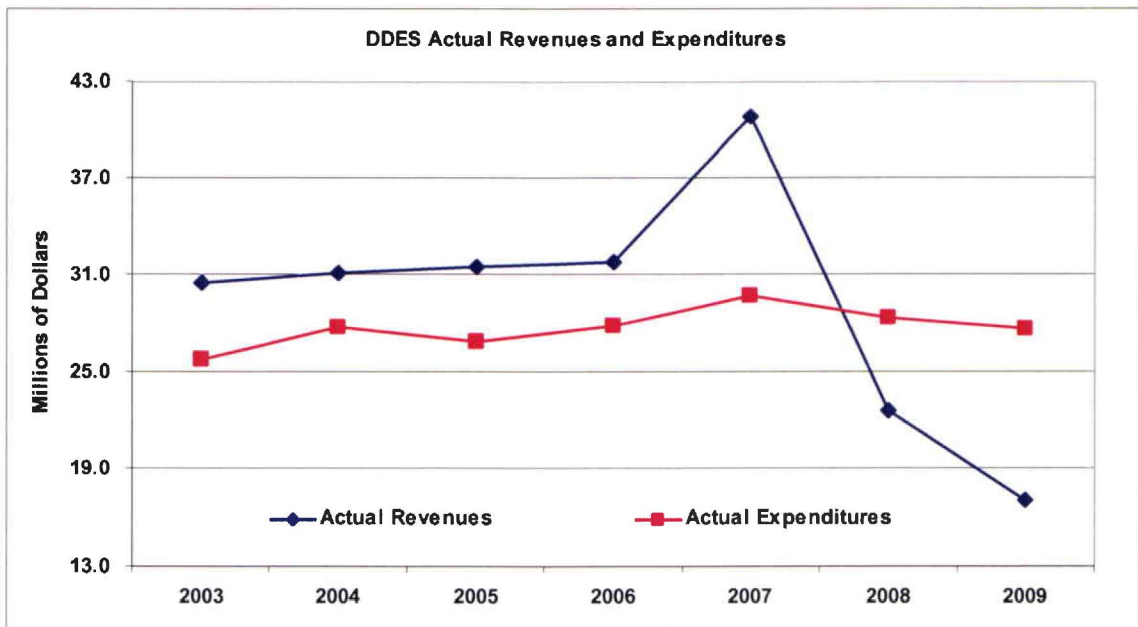
The financial health of the enterprise fund depends on a reasonably accurate forecast of permit activity, relative adjustment of staffing levels based on those forecasts, and fees that fully cover the cost of permit review. However, permit activity is difficult to forecast accurately. Consequently, with respect to the current economic downturn, staffing levels did not decrease as quickly as revenues did.

By most measures, the current financial health of the DDES fund is extremely challenged. The current hourly fee of \$140 was set in 2004. The revenue generated by the 2005 to 2007 permit activity and \$140 hourly fee allowed DDES to build fund balance. In fact, in 2007 revenues increased 28 percent over 2006, and following meager year-over-year increases of one to two percent since 2004. However, the recent and devastating drop in the local construction sector and in DDES' permit activity caused revenues to plummet by 45 percent, year over year, in 2008 and an additional 24 percent in 2009. The following two graphs show expenditures and revenues over time. The department's hourly rate has not covered the hourly cost of permit review since 2007. The DDES 2010 adopted financial plan currently estimates a 2010 target fund balance deficit of \$1.9 million, as indicated in the 2010 financial plan (Appendix D), assuming no change in the 2010 fee structure. This shortfall to target fund balance grows to nearly \$3.8 million by the end of 2011 under the current fee structure and employing current processes.

**Graph II:
DDES Budgeted and Actual Revenues and Expenses—2003 to 2010**



**Graph III:
DDES Actual Revenues and Expenses—2003 to 2009**

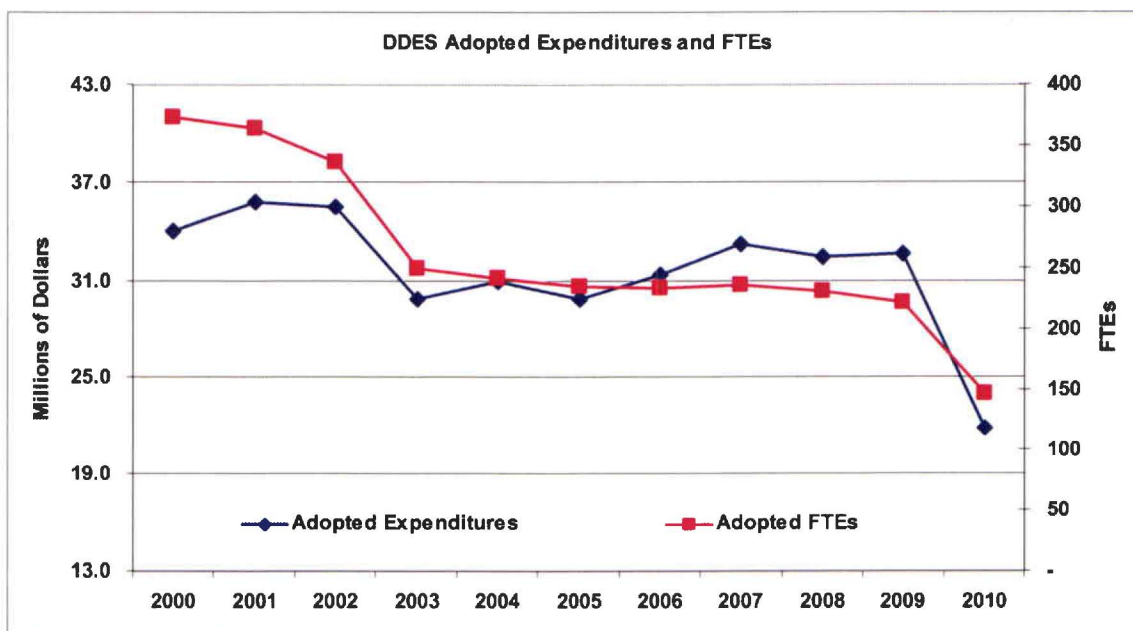


Response to Revenue Reductions

In response to these dramatic and unpredictable revenue decreases, the department has made substantial cuts to expenditures. DDES has eliminated 90 FTEs since 2007, including 50.5 FTEs in March and 25 FTEs in December of the past year, from 237.5 total FTEs in 2007. The 2010 adopted budget cut expenditures by one-third over 2009, to \$21.9 million. See graph below.

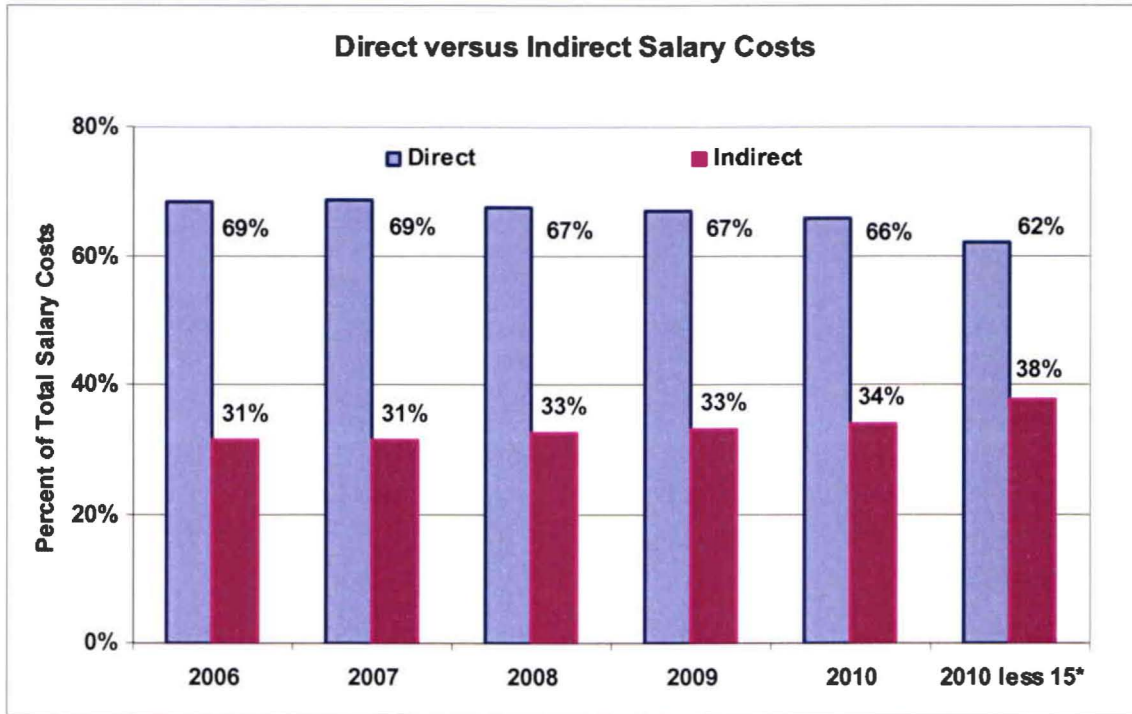
At the beginning of 2010, the department's authorized staffing totaled 147.5 FTEs. By not seeking an increase to the hourly rate at this time, staffing will be further reduced on May 31 to 134.5 FTEs.

**Graph IV:
Adopted Expenditures and FTEs—2000 to January 1, 2010**



These FTE cuts consisted of both direct and indirect staff, although direct staffing has decreased as a percent of total salary costs from 69 percent in 2007 to 66 percent in 2010. The additional cut of 13 direct DDES staff (May 31, 2010) would drop the portion of direct staffing costs to about 62 percent. See graph below.

**Graph V:
Direct Versus Indirect Salary Costs—2006 to Projected June 1, 2010**



In coordination with the cuts in expenditures and FTEs in 2009, DDES has restructured its organization for 2010. Several work units within the department have been combined, so now there are two primary divisions—building services and land use services—under the supervision of the director. Appendix D to this document provides organizational charts that can be used to compare the former to the present staffing arrangements.

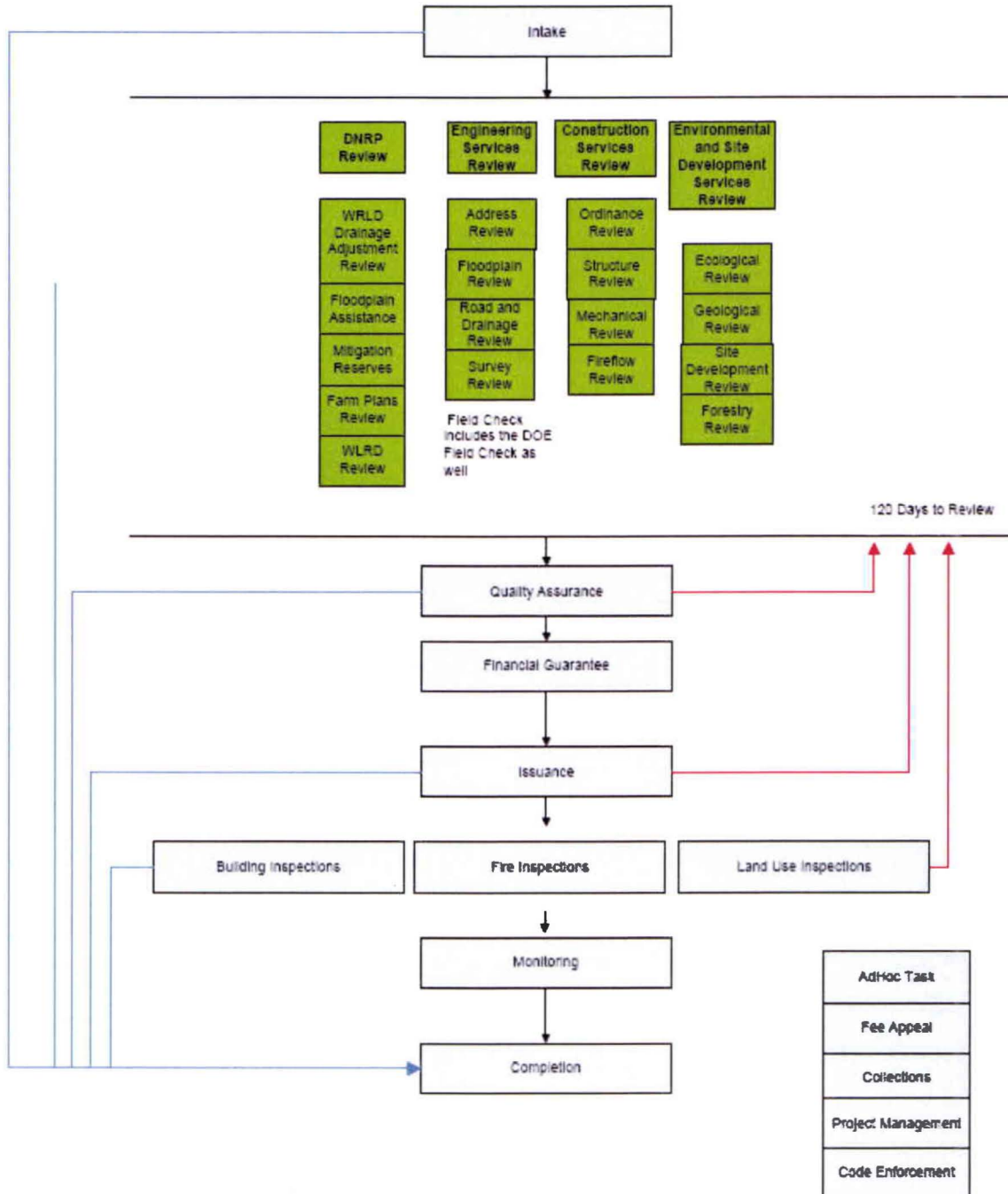
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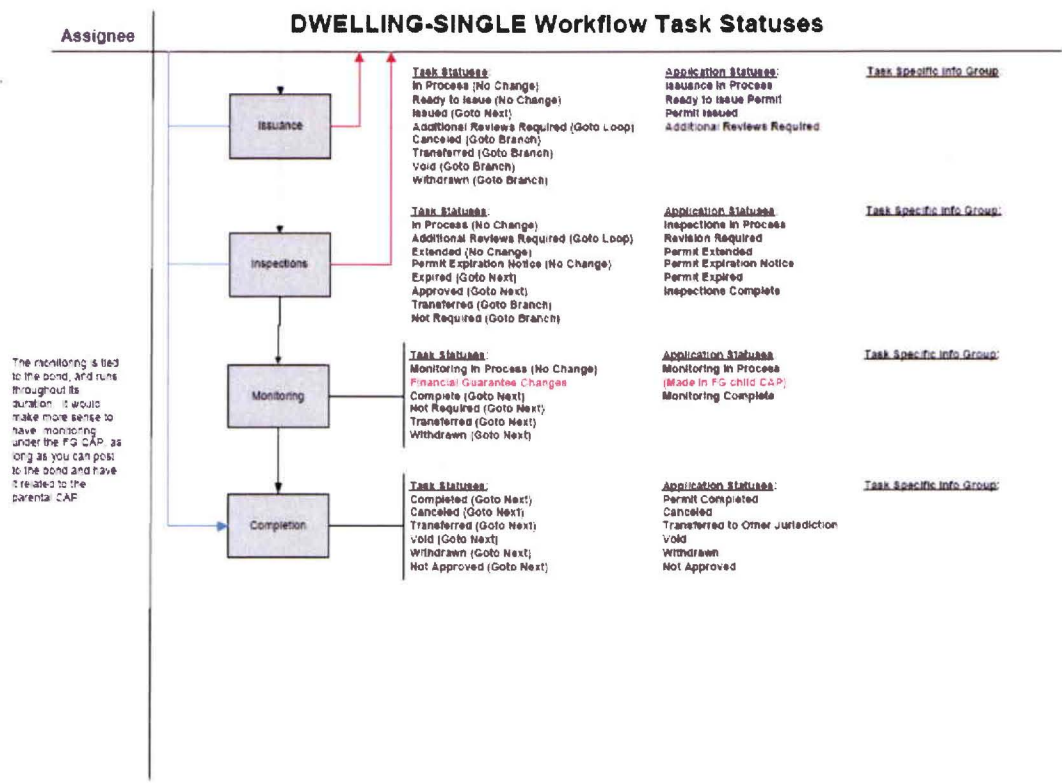
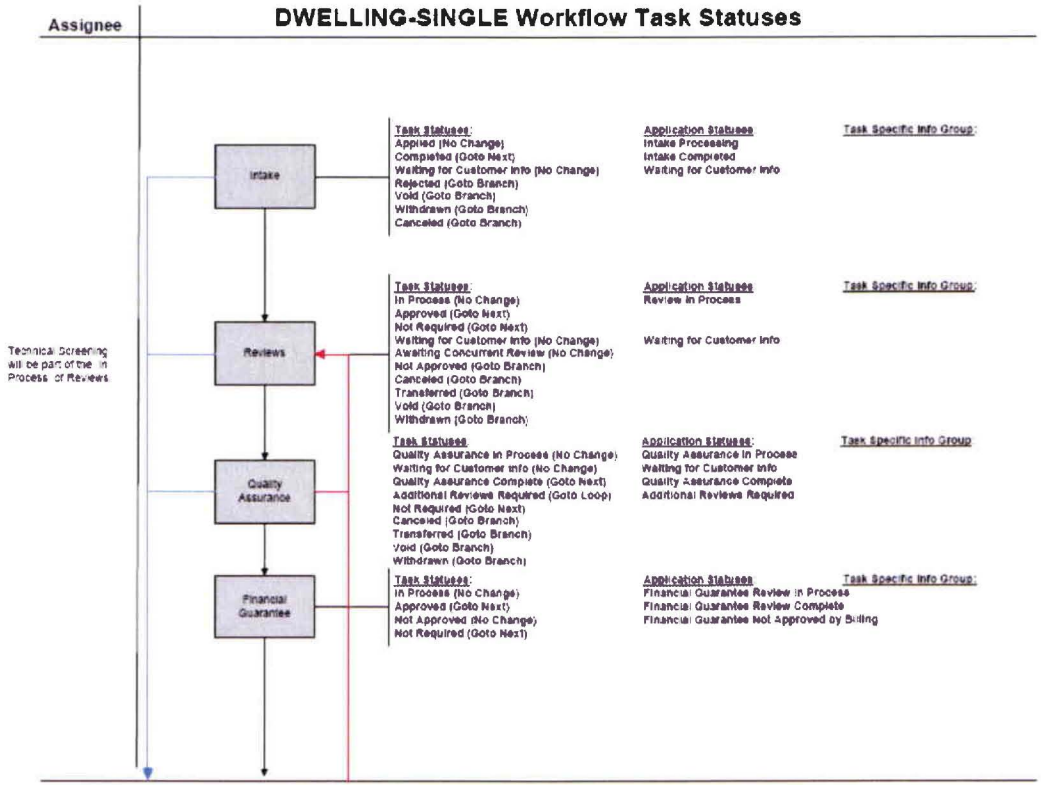
- A. Workflow: Residential Building Permit
- B. Permit Fee Analysis for Other Jurisdictions
- C. DDES Financial Plan
- D. DDES Organizational Charts—2009 and Current

Appendix A: Workflow—Residential Building Permit

Residential Building Permit (CAP Type)

Workflow - DWELLING-SINGLE, ADU, MODULAR, MOBILE, ADDIMPRV- RESI, BASIC (Subtypes)





Appendix B: Permit Fee Analysis for Other Jurisdictions

The 2008 Fee Study reviewed by the Permit Technical Advisory Committee included a survey of the building departments from peer jurisdictions. The jurisdictions included in the survey were the counties of Kitsap, Pierce and Snohomish, and the cities of Bellevue, Redmond and Seattle. The survey asked questions on:

- Financial support of the building department – general fund or enterprise/fee-for-service
- The current fee structure of the building department.

Survey results are summarized below:

- All jurisdictions used a variety of fees – building permit fees are based on the valuation table.
- Other fees were fixed, base fee + hourly thereafter, and hourly

Fee Comparisons				
Jurisdiction	Valuation Fees as a % of ICC Fee		Hourly Rate \$ / hour	Does the building dept. receive a significant subsidy?
	Plan Review	Inspection		
King County	82.5	82.5	140	No
Seattle	100	100	150 - 250	No
Snohomish County	85 – commercial 65 - residential	100	60 -80	Yes
Bellevue	65	100	112 - 135	Yes

Jurisdictions receiving little-to-no General Fund support:

- King County is an enterprise/fee-for-service organization. (The only exceptions are code enforcement and a rural services initiative that funds three positions.) The hourly rate is \$140 per hour for all professional staff and the fee is capped by the project-managed estimate/budget.
- The City of Seattle's operations section receives a small amount from the general fund for code development, and for long-range planning and growth management. The City of Seattle's rate on land use permits is \$250 per hour for the planner (this rate covers all others working on the permit). For other permit types, having hourly fees, the rate is \$150 per hour.

Jurisdictions receiving General Fund support:

- Kitsap and Snohomish Counties, and the City of Bellevue are special revenue funds. All of them receive general funding or subsidies from other funding sources.
 1. Kitsap County bills at different rates for different sections with the amounts varying from \$78-\$82 per hour.

2. Snohomish County has some hourly fees and these fees are billed at \$60 or \$80 per hour.
 3. The City of Bellevue bills separately for each discipline from \$112 - \$135 per hour. They do not differentiate between reviewers and inspectors in the same group.
- The City of Redmond also receives general funding with the city council determining the recovery rate. The City of Redmond has some hourly fees for work performed after permit issuance such as revisions and it charges \$146.94 per hour with a two-hour minimum. Inspections outside of normal hours are \$167.63 per hour.
 - Pierce County receives general funding. Pierce County has no hourly fees.

Appendix C: DDES Financial Plan

Appendix C: Financial Plan

Department of Development and Environmental Services
Financial Plan

	2008 Actual ¹	2009 Adopted	2009 Actuals ²	2010 Adopted ³	2010 Estimated ³	2011 Projected ³	2012 Projected ³
Beginning Fund Balance	\$ 25,369,035	\$ 20,632,416	\$ 19,640,429	\$ 10,214,559	\$ 10,214,559	\$ 6,462,199	\$ 3,315,290
Revenues							
Permit Fee Revenue	17,895,424	22,073,174	14,522,690	15,877,639	14,813,144	15,850,064	16,959,569
Other Revenue	1,246,237	973,566	1,110,710	857,162	857,162	891,448	927,106
Investment Interest	971,187	732,980	695,660	300,000	300,000	300,000	300,000
Operating Contingency	-	970,608	-	-	-	-	-
GF Transfers	2,467,405	1,889,462	1,889,462	1,784,872	1,784,872	1,606,385	1,445,746
Total Revenues	22,580,253	26,639,790	18,218,522	18,819,673	17,755,178	18,647,897	19,632,421
Expenditures							
Salaries and Benefits	(22,482,316)	(24,652,692)	(19,585,017)	(15,929,743)	(15,929,743)	(17,044,825)	(18,237,963)
Supplies and Contracts	(1,075,067)	(1,936,685)	(1,182,963)	(1,091,187)	(1,091,187)	(1,091,187)	(1,091,187)
Intragovernmental Services	(4,424,202)	(4,034,654)	(3,947,224)	(3,345,908)	(3,345,908)	(3,513,203)	(3,688,864)
Capital and Other	(327,275)	(1,077,820)	(2,929,188)	(1,331,022)	(1,331,022)	(981,022)	(451,022)
Operating Contingency	-	(975,000)	-	-	-	-	-
Reorganization Salary Savings	-	-	-	(196,125)	(196,125)	-	-
May 31st 2010 FTE reduction ⁶	-	-	-	-	750,750	803,303	859,534
Energy Grant-funded Work ⁷	-	-	-	-	(400,000)	-	-
Encumbrance Carryover	-	-	-	-	-	-	-
Total Expenditures	(28,308,859)	(32,676,851)	(27,644,392)	(21,893,985)	(21,543,235)	(21,826,935)	(22,609,502)
Estimated Underexpenditures	-	37,789	-	35,697	35,697	32,128	28,915
Other Fund Transactions	-	-	-	-	-	-	-
Total Other Fund Transactions	-	-	-	-	-	-	-
Ending Fund Balance	19,640,429	14,633,144	10,214,559	7,175,944	6,462,199	3,315,290	367,124
Reserves & Designations⁵							
Reserve for Staff Reduction	(456,272)	(900,000)	(900,000)	(900,000)	(900,000)	(400,000)	(400,000)
Reserve for Revenue Shortfall	(1,626,200)	(1,800,000)	-	(1,800,000)	(1,800,000)	(2,000,000)	(2,000,000)
Reserve for Technology Replacements	(1,914,595)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(1,000,000)	(1,000,000)
Reserve for Waivers & Unanticipated Costs	(1,083,338)	(1,200,000)	(1,200,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Reserve for Fee Stabilization	(4,300,000)	(5,000,000)	(2,500,000)	-	-	-	-
Total Reserves & Designations	(9,380,405)	(10,900,000)	(6,600,000)	(5,700,000)	(5,700,000)	(4,400,000)	(4,400,000)
Ending Undesignated Fund Balance	\$ 10,260,024	\$ 3,733,144	\$ 3,614,559	\$ 1,475,944	\$ 762,199	\$ (1,084,710)	\$ (4,032,876)
Target Fund Balance ⁴	\$ 3,538,608	\$ 4,084,606	\$ 3,455,549	\$ 2,736,748	\$ 2,692,904	\$ 2,728,367	\$ 2,826,188

	2010 Adopted	2010 Revised	2011	2012
Deficit to target fund balance	\$ 1,260,804	\$ 1,930,705	\$ 3,813,077	\$ 6,859,064
Delta of Revenues to Expenditures	(3,074,312)	(3,788,057)	(3,179,038)	(2,977,080)

Financial Plan Notes:

This financial plan assumes the Burien annexation but no other anticipated annexations.

¹ 2008 Actuals are from the 2008 CAFR or 14th Month ARMS/IBIS.

² 2009 Estimated is based on 4th quarter 2009 financial results s/l projected to 12/31/2009

³ 2010, 2011 & 2012 Projected based on:
 2010 Permit Fees based on hourly fee of \$140/hr, 0% fee increase of fixed fees; and removal of contingency
 2010 Adopted Permit Fees based on 9% increase. 2010 Estimated Permit Fees based on 2% increase.
 2011 Permit Fees and Other Revenues based on 7% increase of Estimated; GF transfer to decrease by 10%.
 2012 Permit Fees and Other Revenues based on 7% increase of Estimated; GF transfer to decrease by 10%.
 2010 Expenditures reflect reductions of 25 FTEs, 10 percent salary reductions, and removal of contingency
 2011 Expenditures reflect a 7% increase in salaries and benefits
 Intragovernmental increase of 5% , decrease support to PI by \$350,000
 2012 Expenditures reflect a 7% increase in salaries and benefits.
 Intragovernmental increase of 5%, decrease support to PI by \$530,000

⁴ Target fund balance is based on 1/8 of total appropriated expenditures

⁵ 2009 Reserves and Designations adjusted to cover reduction of revenues throughout the year

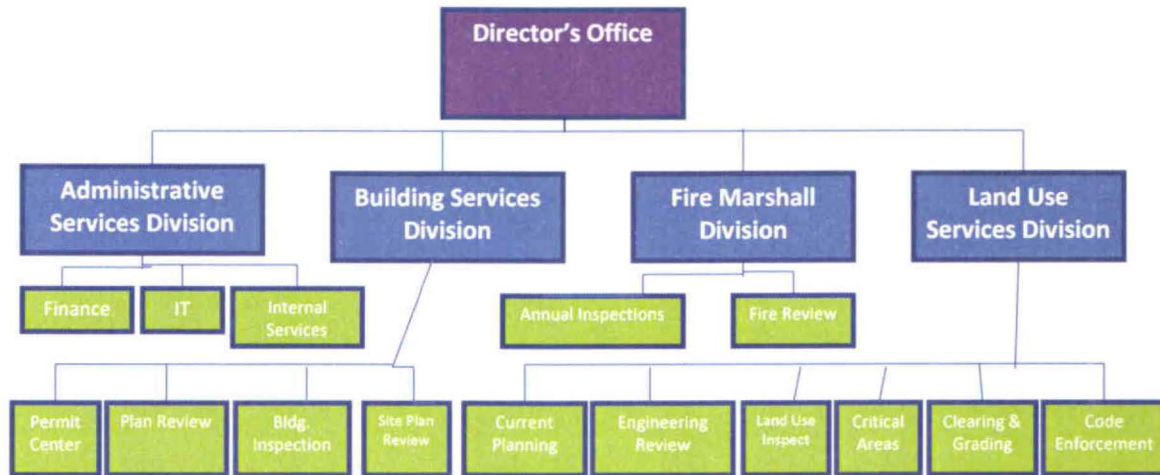
2010 Reserves and Designations adjusted as needed.

⁶ DDES will eliminate 13 FTEs on May 31st 2010 due to not receiving a fee increase. That cost savings is assumed to increase by 7% in 2011 and 2012.

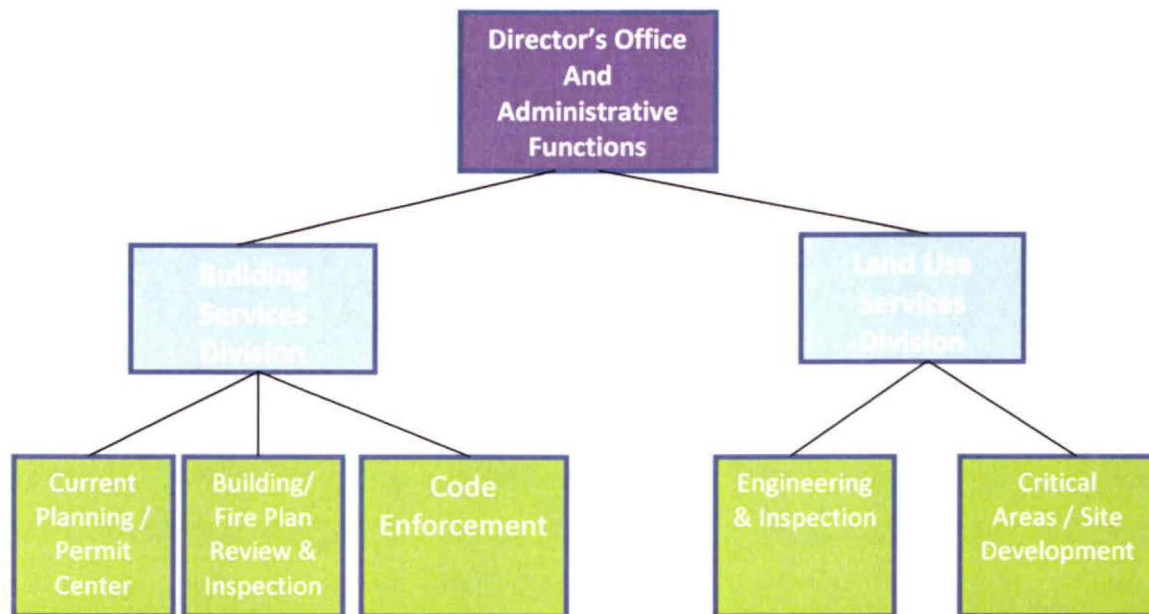
⁷ The revenues associated with this grant-backed work are included in the 2010 beginning fund balance.

Appendix D: DDES Organizational Charts—2009 and Current

DDES Organization: JANUARY 2009



DDES Organization: April 2010



April 14, 2010

The Honorable Bob Ferguson
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Ferguson:

The 2010 Budget Ordinance (Ord. 16717) included the following Department of Development and Environmental Services (DDES) proviso (Section 84, P1) as amended by Ordinance 16761:

Of this appropriation, \$1,500,000 in expenditures and fifteen FTEs from the land use, building or fire marshal divisions shall not be expended or encumbered after ((~~March~~)) June 1, 2010, unless a permit fee increase for the department of development and environmental services is enacted by ordinance before that date.

In response to the proviso, I will not be proposing a fee increase at this time, but I am pleased to introduce for your consideration my strategy for developing a sustainable fee structure and reorganization plan for DDES.

In 1999, DDES was directed to function as a self-supporting entity funded in largest part from charges collected for processing building and land use permits. For 2010, DDES' total projected revenue is \$17.8 million. Ninety percent of this amount is forecasted to be derived from charges collected from permit review and inspection. The remaining ten percent of the department's projected revenue comes from the General Fund, to support code enforcement and rural services programs.

With the recent downturn in the economy, fewer customers are submitting building and land use applications to the department. DDES' revenue associated with permit charges has fallen precipitously. Accordingly, the department has responded by downsizing its staff in line with the lower volume of permit activity. DDES staffing decreased from nearly 400 FTEs in 2000 to 147.5 FTEs at the beginning of 2010.

The department's permit charges, established by King County Code Title 27, are determined in three ways: 1) **Valuation** charges are typically associated with the structural review and inspection of building permits and are based on the calculated value of the new construction; 2) **Fixed Fee** charges are typically associated with smaller and routine permit activities such as the inspection of fire sprinkler systems; and 3) **Hourly** charges are typically associated with the review and inspection of larger land use permits. The hourly rate is typically applied to DDES activities not otherwise based upon a valuation or fixed fee¹. The current hourly rate is \$140 per hour. DDES fees established through King County Code Title 27 have not changed since 2004.

I have evaluated the current financial position of the department and considered how its fees can be restructured to provide a sustainable revenue source for the future. Accordingly, instead of requesting a fee increase at this time, I have a three-part proposal:

1. Maintain Current Fee Structure and Hourly Rates on Short-term Basis

I do not believe an increase to DDES fees can be justified at this time for several reasons. First, though the economy may be recovering, the region is still amid a devastating downturn. Second, the region's employers and industries need assistance so they can rebound. Third, calculating a new hourly rate for DDES using the current rate model at this time is not consistent with the fundamental issue that the current rate model needs reconsideration. Heavy reliance on an hourly rate structure can create uncertainty for customers and undermine DDES employee efforts to provide responsive customer service. Asking for a higher hourly rate at this time without re-evaluating the hourly rate model would exacerbate these concerns.

As a result, layoff notices were issued to fifteen employees. Several of these employees have found other employment or exercised other options to leave DDES. Without an increase in permit fees, those employees who have not found an alternative by May 31, 2010 will be laid off.

2. Shift From Hourly Rates to More Fixed Fees for Many DDES Services

DDES implemented an hourly rate approach in 2004, and over time some unwanted characteristics have developed.

Many of DDES' customers voice concern that they are unable to control expenses on their applications. In addition, they feel it is inappropriate to charge for simple services (such as gaining clarification on a complex code requirement) that other jurisdictions provide for much less money or without any charge. On the other side of the counter,

¹ Agricultural land use and other permits are charged one-half the hourly rate, and in some cases only a maximum fee of \$422 is charged.

DDES staff voice frustration about their need to achieve billable hour targets at the expense of providing patient and thorough customer service.

My goal is to establish a new rate structure in DDES based on fixed fees to the greatest extent practicable. Presently, DDES processes approximately 120 different chargeable permit activities. I am recommending that we review each of those activities and make a determination whether a shift from hourly to fixed fees would be appropriate while ensuring that we accomplish cost recovery. My intent is to shift to a greater reliance on fixed-fee permits, which would provide greater predictability and transparency to customers, because the applicant would know the total charges before submitting the permit.

Fortunately, DDES has collected a significant amount of historical data on staff hours spent on each permit type. With this data the department can readily review how long on average it has taken to process a particular type of permit, then evaluate that result in light of new, improved processes and industry standards.

I recognize that average processing times will not apply to especially complex projects or sites, so a rate structure that adequately recovers DDES' actual costs will have to be developed carefully, taking into account historical data. Additionally, there will be some permit types that logically cannot be based on a fixed fee because they can take years to process and have many unpredictable elements. However, I believe the core business can move to fixed fees.

DDES will remain a self-supporting entity under this new fee structure.

3. Create a Rural Land Use and Permitting Unit

In the last twenty years King County has seen the incorporation of ten new cities and the annexation of thousands of acres of formerly urban unincorporated areas. These incorporations and annexations have greatly reduced DDES' business. To its credit, DDES consistently reduced staff as its workload decreased. But even still, for some permit types, sixty-percent of the department's workload comes from unincorporated urban areas located within potential annexation areas². The Growth Management Act encourages the annexation (or incorporation) of unincorporated urban areas, and many cities intend to annex these urban areas in the coming years. Thus, DDES' current workload relies heavily upon an urban customer base that is gradually going away.

Over time, the unincorporated rural area will become the primary customer base for building and land use permitting in King County. We need to be proactive about identifying and designing the services that will be provided to a rural service area. My proposal is to begin now to create a unit within DDES focused exclusively on rural land

² By contrast, about 70-percent of the department's clearing and grading permits come from the rural area.

use and building services. Using the considerable historical data DDES has on rural permits, my goal is to create a rural permitting and land use unit that is properly sized, responsive to specific issues in the rural area, and appropriately staffed to provide efficient and high quality customer service to the rural area.

At the same time, the department will continue to refine its processes and improve services in the remaining unincorporated urban areas until they become part of cities. To do this effectively, I will be in frequent and close dialogue with the development community, the cities with potential annexation areas, and DDES staff.

I have directed DDES to begin the analysis process to develop a proposed rate structure with increased focus on fixed fees. In developing this rate structure, DDES will collaborate with the Department of Natural Resources and Parks, which is also in the process of developing a new rate model focused on full cost recovery and long-term sustainability. My goal is to implement the new fee structure in 2011, and I have directed DDES to work aggressively on the new model so that the revised financial projections can be folded into the development of the 2011 budget. This model will be transparent to the County Council and the public at large. It will show clearly all the costs related to process each permit type, assumptions made on average time per activity, and costs the department otherwise incurs (e.g. rent, insurance, etc.). In the end, DDES will produce a simplified rate sheet listing permit types and the set prices associated with them.³

These changes will be implemented in concert with the department's bedrock need to advance to a heightened level of personal, professional, and reliable service delivery. DDES is on a course to rebalance its resources with its actual workload requirements, reengineering many of its current processes so that they are more efficient, and faster, and to increasingly foster a culture of service excellence and mutual respect with our customers—both external and internal. By making improvements within the department and by working collaboratively cross-departmentally, our customers will experience better service in the future.

Since I am not proposing to raise the hourly rate in 2010, DDES will need to prudently utilize reserves to meet a portion of 2010 expenses. I've directed the Department to identify further reductions in 2010 expenses to minimize use of reserves. Additionally, DDES will evaluate its current levels of reserves to ensure that they are at the most appropriate levels considering the economy and the fund's current situation. I am mindful of the risk to not make a near-term decision that has a long-term financial detriment.

A separate but related issue is that DDES applied for a grant from the federal government to fund programs for energy efficiency and sustainability. The amount awarded was about \$200,000, and DDES was given permission by the federal agency to begin expending grant proceeds beginning January 1, 2010. The work plan for this grant includes promoting Built

³ Again, we presume from the outset that we will need to continue to have an hourly rate for certain kinds of permits.

The Honorable Bob Fergusson

April 14, 2010

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Green buildings, LEED-certified projects, implementing the new State energy code, and partnering with utility providers on the Energy-Star conservation program. The grant funds two FTEs through the end of 2010 to undertake the adopted work plan.

In Summary, my response to the budget proviso established through Ordinance 16717 is:

- To keep DDES' hourly rate at the current level in the near term;
- To begin work now to develop a proposal for increased use of fixed fees beginning in 2011;
- To begin organizing a new unit within DDES to address permitting, development services, and land stewardship in the rural area;
- To partner with cities to address permitting in the remaining urban unincorporated areas;
- To accept the reductions contemplated in the budget ordinance proviso, with the understanding that two of the 15 FTEs would remain because they would be working on grant-funded activities through the end of 2010.

If you have any questions about these matters, please contact John Starbard, Acting Director, Department of Development and Environmental Services, at 206-296-6700, or via e-mail at john.starbard@kingcounty.gov .

Sincerely,

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Tom Bristow, Chief of Staff
Anne Noris, Clerk of the Council
John Starbard, Acting Director, Department of Development and Environmental Services
Bob Burns, Interim Director, Department of Natural Resources and Parks
Dwight Dively, Director, Office of Management and Budget

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KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

April 27, 2010

Ordinance 16761

Proposed No. 2010-0056.1

Sponsors Hague, Ferguson and Phillips

1 AN ORDINANCE amending the 2010 Budget Ordinance
2 relating to the department of development and
3 environmental services; and amending the 2010 Budget
4 Ordinance, Ordinance 16717, Section 84, as amended and
5 declaring an emergency.

6 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

7 SECTION 1 Findings:

8 A. Ordinance 16717, Section 84, P1 provides that unless, by March 1, 2010, a
9 permit fee increase for the department of development and environmental services is
10 enacted by ordinance, fifteen FTEs must be eliminated. In order to effectuate this
11 directive, the department must issue lay-off notices by February 1, 2010.

12 B. The executive is working collaboratively with the council to develop a
13 proposed permit fee ordinance but that proposed ordinance will not be ready for action
14 before the March 1, 2010 deadline contained in the above referenced budget proviso.

15 C. In order to ensure that the citizens of King County are provided with the
16 current level of permitting services during which a proposed permit fee ordinance is
17 being developed, the council has determined that extending the date by which the permit
18 fee ordinance must be enacted is necessary to preserve the public peace, health or safety
19 or for the support of county government and its existing public institutions.

20 D. In order for this ordinance to be effective prior to February 1, 2010, when lay-
21 off notices otherwise would be required to be issued by the department, it is necessary to
22 enact this ordinance as an emergency.

23 SECTION 2. Ordinance 16717, Section 84, as amended, is hereby amended by
24 adding thereto and inserting therein the following:

25 DEVELOPMENT AND ENVIRONMENTAL SERVICES - From the
26 development and environmental services fund there is hereby appropriated to:

27 Development and environmental services \$0

28 P1 PROVIDED THAT:

29 Of this appropriation, \$1,500,000 in expenditures and fifteen FTEs from the land
30 use, building or fire marshal divisions shall not be expended or encumbered after
31 ~~((March))~~ June 1, 2010, unless a permit fee increase for the department of development
32 and environmental services is enacted by ordinance before that date.

33 SECTION 3. The county council finds as a fact and declares that an emergency
34 exists and that this ordinance is necessary for the immediate preservation of public peace,

35 health or safety or for the support of county government and its existing public
36 institutions.
37

Ordinance 16761 was introduced on 1/25/2010 and passed by the Metropolitan King County Council on 2/16/2010, by the following vote:

Yes: 6 - Ms. Drago, Mr. von Reichbauer, Mr. Gossett, Ms. Lambert,
Mr. Ferguson and Mr. Dunn
No: 0
Excused: 3 - Mr. Phillips, Ms. Hague and Ms. Patterson

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Robert W. Ferguson, Chair

ATTEST:

Anne Noris, Clerk of the Council

APPROVED this ____ day of _____, _____.

Dow Constantine, County Executive

Attachments: None

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King County

King County Council

Staff Report

Agenda Item No.: 27
Proposed Ordinance: 2010-0056

Name: Rick Bautista
Date: January 25, 2010

SUBJECT

An ordinance amending the 2010 Budget Ordinance for the Department of Development and Environmental Services and declaring an emergency.

BACKGROUND

The Executive-proposed 2010 budget for the Department of Development and Environmental Services ("DDES") was accompanied by Proposed Ordinance 2009-0574, which would have increased permit review fees. The increased fees were anticipated to generate an estimated \$3.75 million of additional revenue. During budget deliberations, including consideration of the proposed fees increase, the Council determined that the Executive proposal was not acceptable and requested that DDES develop potential alternatives.

In response, the Executive stated that if the proposed fee increase were not approved, DDES would immediately reduce staff levels by 40 FTEs because:

- (1) The current fees did not fully recover costs, and
- (2) DDES did not wish to utilize (a) its reserve funds, which have a carryover balance into 2010 of \$5.1 million, or (b) its undesignated fund balance of \$3.1 million¹, as indicated in DDES' financial plan.

However, seeking to forestall potentially premature staff reductions, the Council-approved budget reduced the DDES-proposed staff level cut to 25 FTEs. The remaining 15 FTEs were to be retained in accordance with the following DDES budget proviso:

Of this appropriation, \$1,500,000 in expenditures and fifteen FTEs from the land use, building or fire marshal divisions shall not be expended or encumbered after March 1, 2010, unless a permit fee increase for the department of development and environmental services is enacted by ordinance before that date.

The effect of the budget proviso is to require DDES to submit for Council approval a new permit fee schedule that could provide a revenue base to allow DDES to keep these 15

¹ This amount is \$600,000 less than DDES' target fund balance in its financial plan. Therefore, any further use of the fund balance would increase the discrepancy between the actual fund balance and DDES' fund balance target of \$3.72 million.

FTEs. However, to prevent such lay-offs, Council approval of a new fee ordinance has to occur by March 1, 2010; failing that, in order to be compliance with labor agreements, DDES is to issue lay-off notices by February 1, 2010.

Since the adoption of its 2010 budget, DDES has been working to develop a new permit fee ordinance proposal for Council consideration. However, Council review and action on that new fee ordinance proposal will not be completed by March 1, 2010.

SUMMARY

- The proposed ordinance contains findings that:
 - (1) It is beneficial for unincorporated area residents to continue to have access to the current level of permitting services until Council action on a new permit fee ordinance, and
 - (2) Extending the March 1, 2010 date by is necessary to allow DDES to continue providing the current level of permitting services.
- The proposed ordinance would extend the deadline for the required layoff of 15 FTEs from March 1, 2010 to June 1, 2010.

ANALYSIS

- In order for this ordinance to be effective prior to issuance of the February 1, 2010 layoff notices, it must be enacted as an emergency.
- Extending the layoff deadline to June 1, 2010 will allow DDES to retain the 15 FTEs beyond the March 1, 2010 even if DDES fees are not increased by the Council by that date.

Simply extending the deadline to June 1, 2010 does not eliminate the potential that DDES may have to issue lay-offs before a new permit fee ordinance could be considered. The following scenarios may demand DDES to issue lay-offs notice before a fee increase could be enacted:

- Lack of sufficient permit activity,
- Lack of sufficient incoming revenue, or
- Lack of willingness to utilize their reserve funds or to further reduce DDES' undesignated fund balance to cover revenue shortfalls.

To reiterate, during the 2010 budget deliberations, DDES projected that if the proposed fee increase ordinance (Proposed Ordinance 2009-0574) were not adopted, 40 FTEs would need to be eliminated in order to bring their spending in line with anticipated revenues (i.e. not create a budget deficit). The adopted budget cut 25 FTEs, which means that DDES is facing a deficit² carrying these 15 positions through June 1, 2010, unless (1) a new permit fee ordinance is passed that accounts for these additional costs, or (2) reserves or fund balance are used to pay for these positions. Absent a fee increase, the longer the retention period of

² A rough estimate of a monthly deficit could be developed by prorating the annual carrying cost of the 15 FTEs (\$1,500,000) over 12 months = \$125,000 per month.

the 15 FTEs, the greater negative discrepancy between DDES' 2010 budget and its likely revenues.

- *NOTE: The larger deficit could increase pressure to adopt higher fees to cover the deficit.*

ATTACHMENTS

1. Proposed Ordinance 2010-0056