

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.

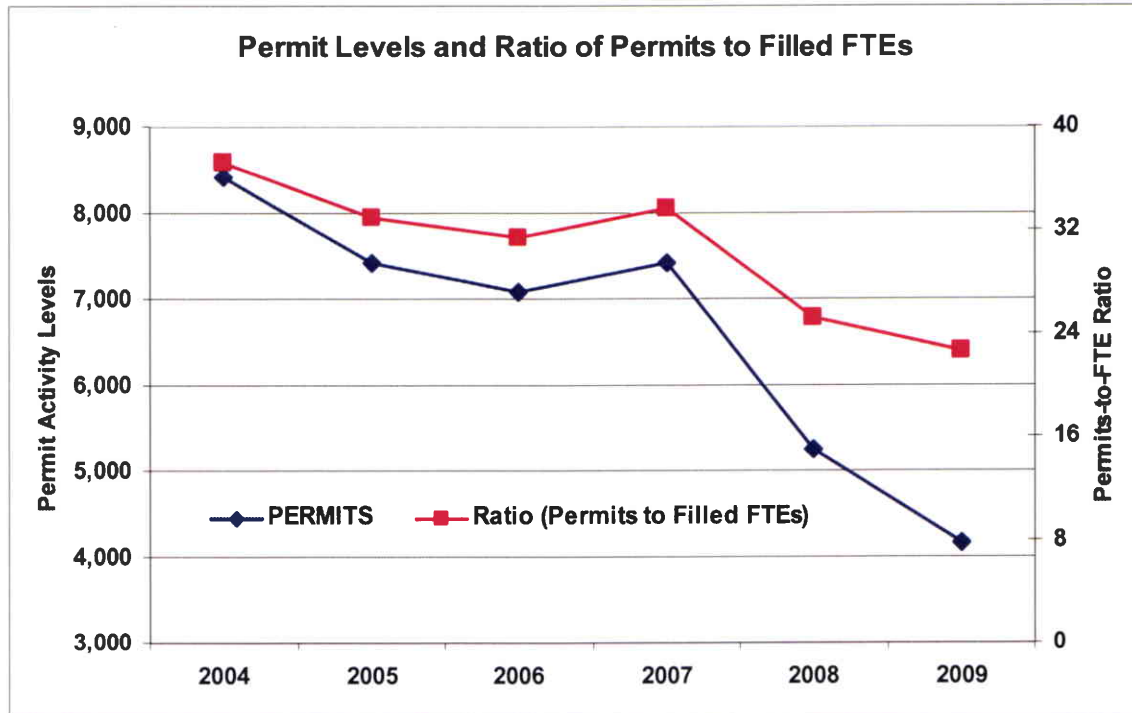
However, DDES continues to work with land developers. The needs and wants of these customers sometimes differs depending on the health of the economy. During healthy economic times, the developer prefers fast and predictable service, with less emphasis on cost. In economic downturns, the emphasis on 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).

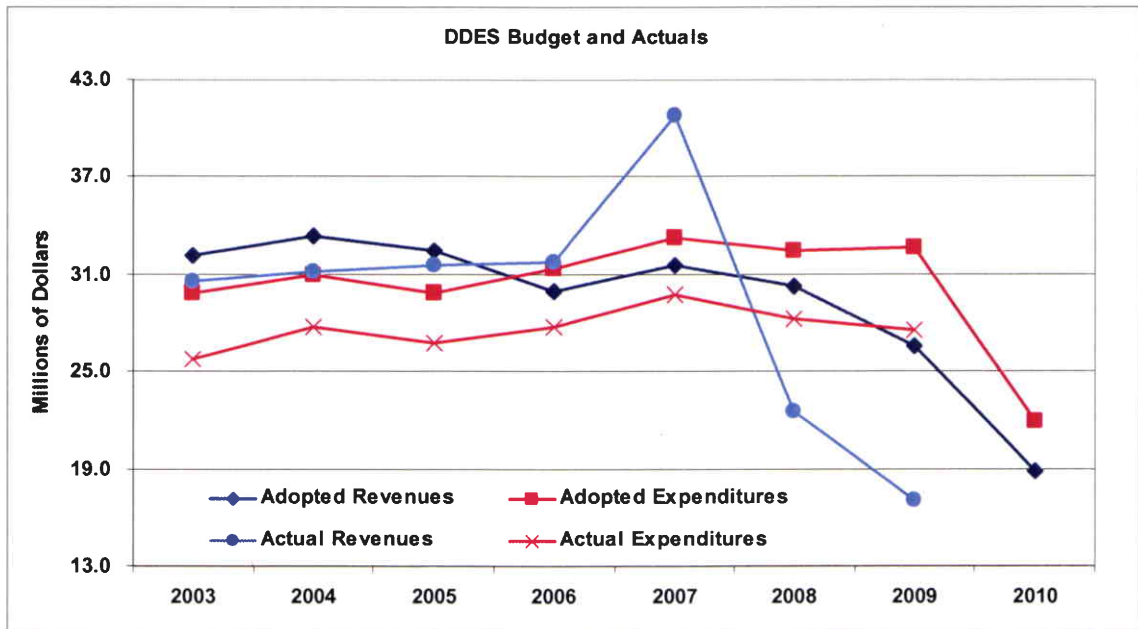
Within the enterprise fund, in its undesignated fund balance, DDES sets aside certain reserve amounts for the replacement of technology, for waivers and unanticipated costs,

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.

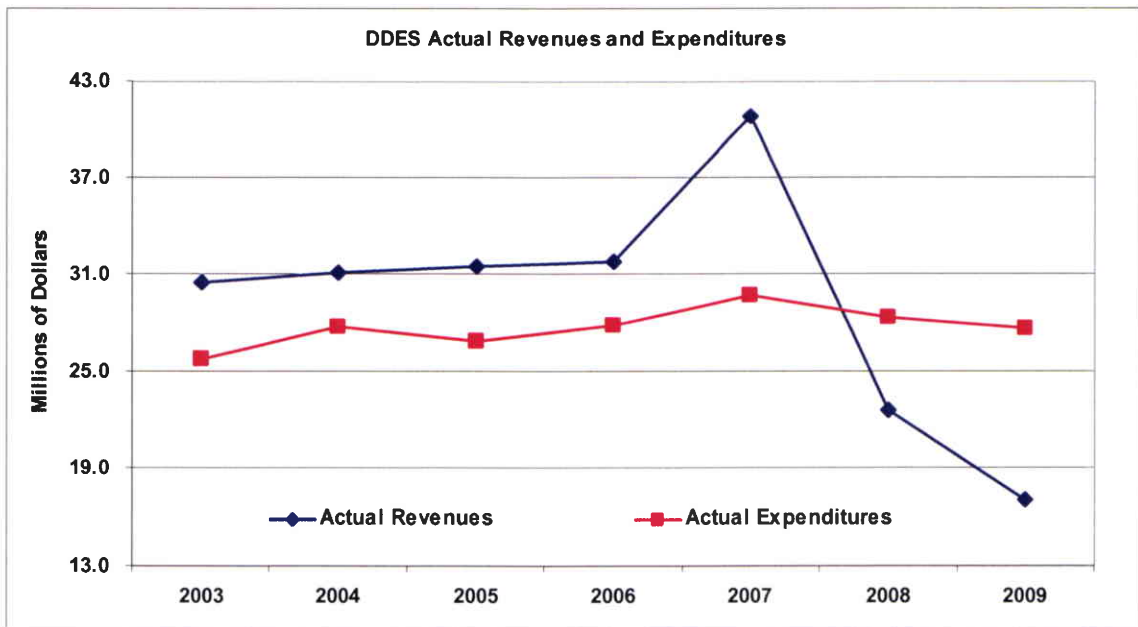
The financial health of the enterprise fund depends on a reasonably accurate forecast of permit activity, relative adjustment of staffing levels based on those forecasts, and fees that fully cover the cost of permit review. However, permit activity is difficult to forecast accurately. Consequently, with 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**

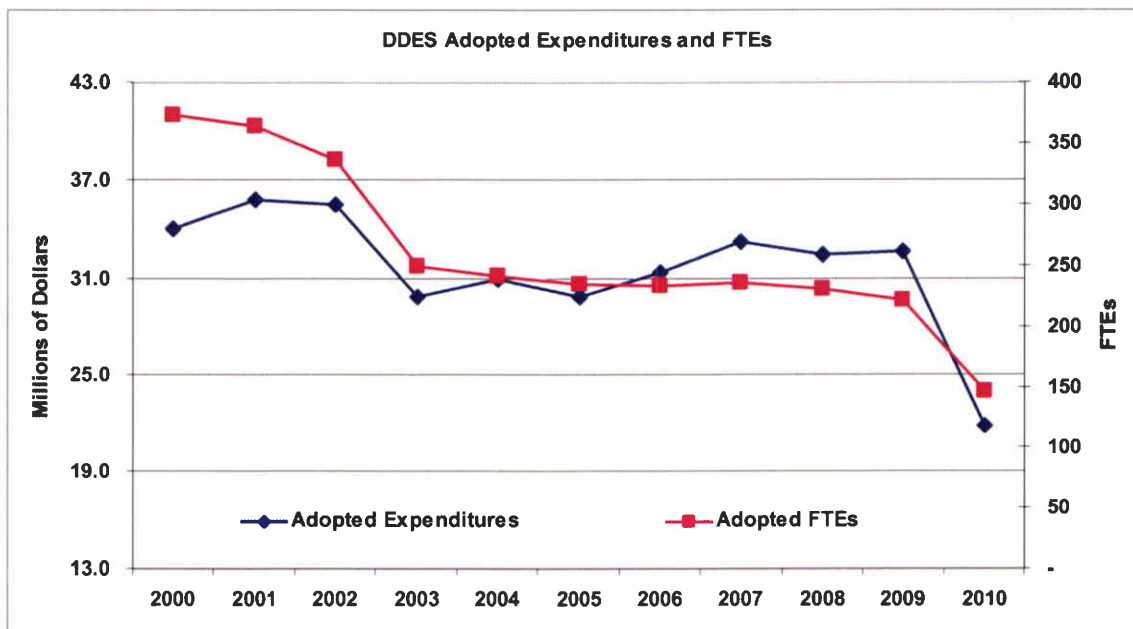


Response to Revenue Reductions

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.

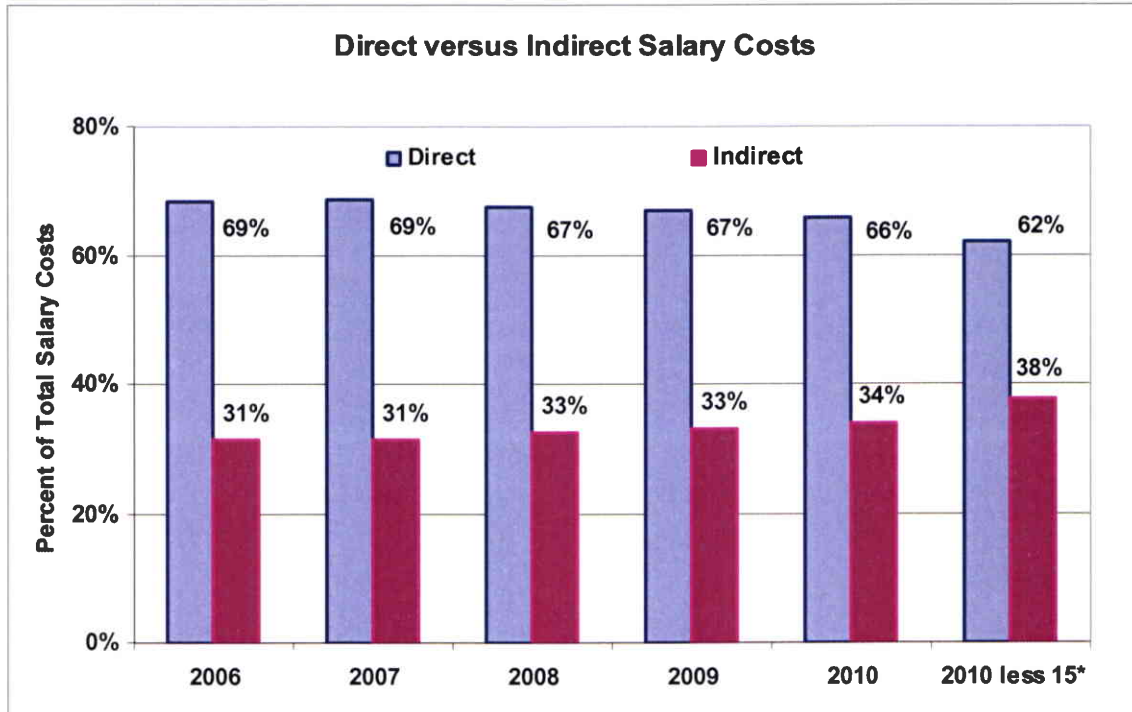
At the beginning of 2010, the department's authorized staffing totaled 147.5 FTEs. By not seeking an increase to the hourly rate at this time, staffing will be further reduced on May 31 to 134.5 FTEs.

**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.

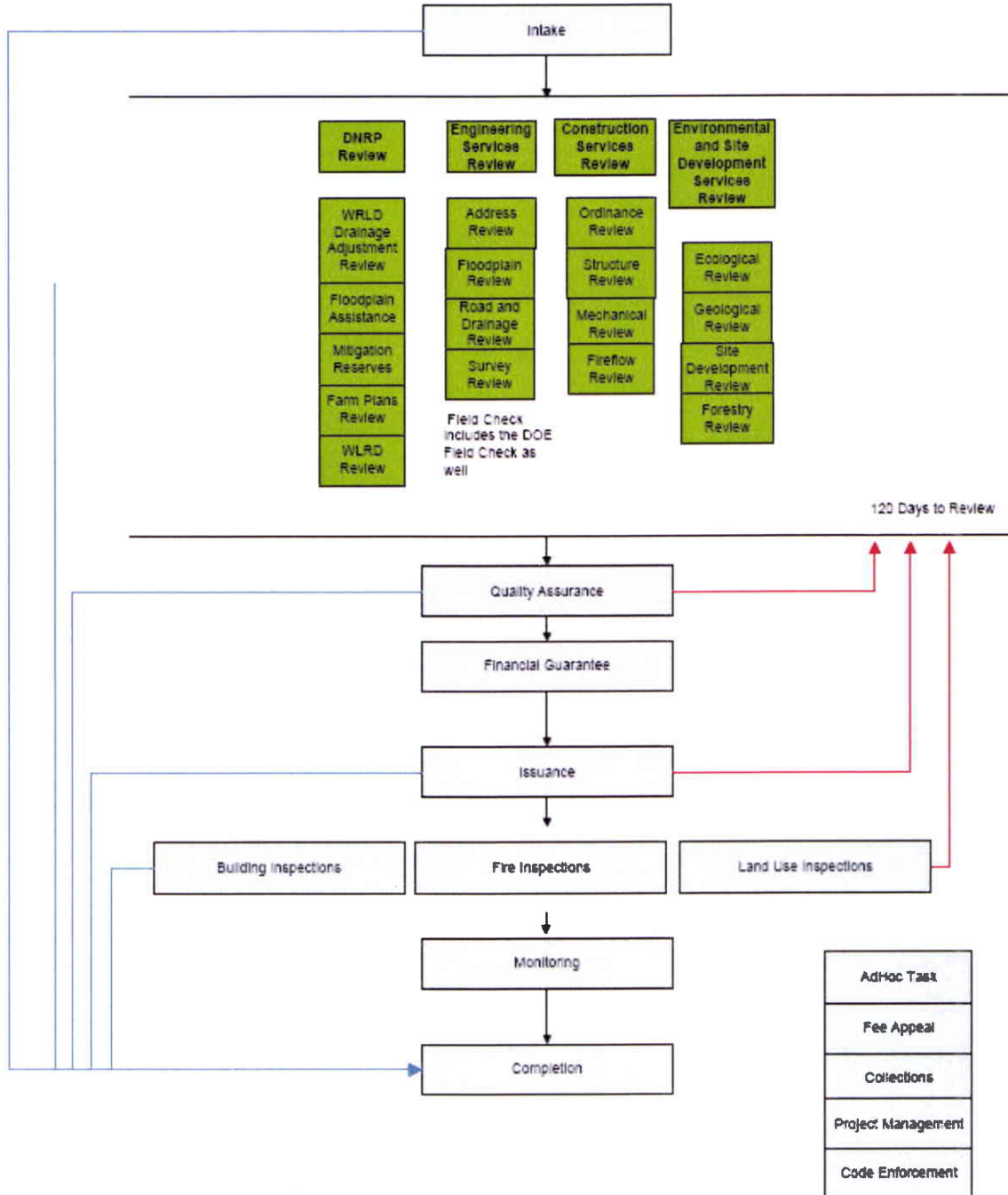
Appendix

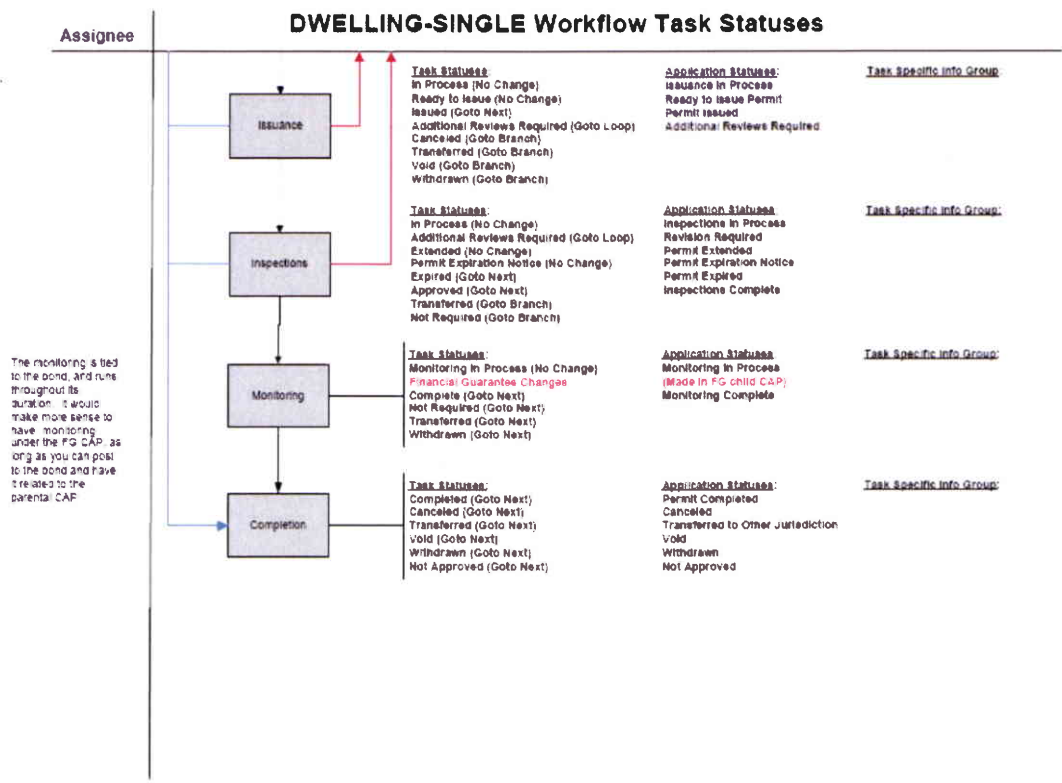
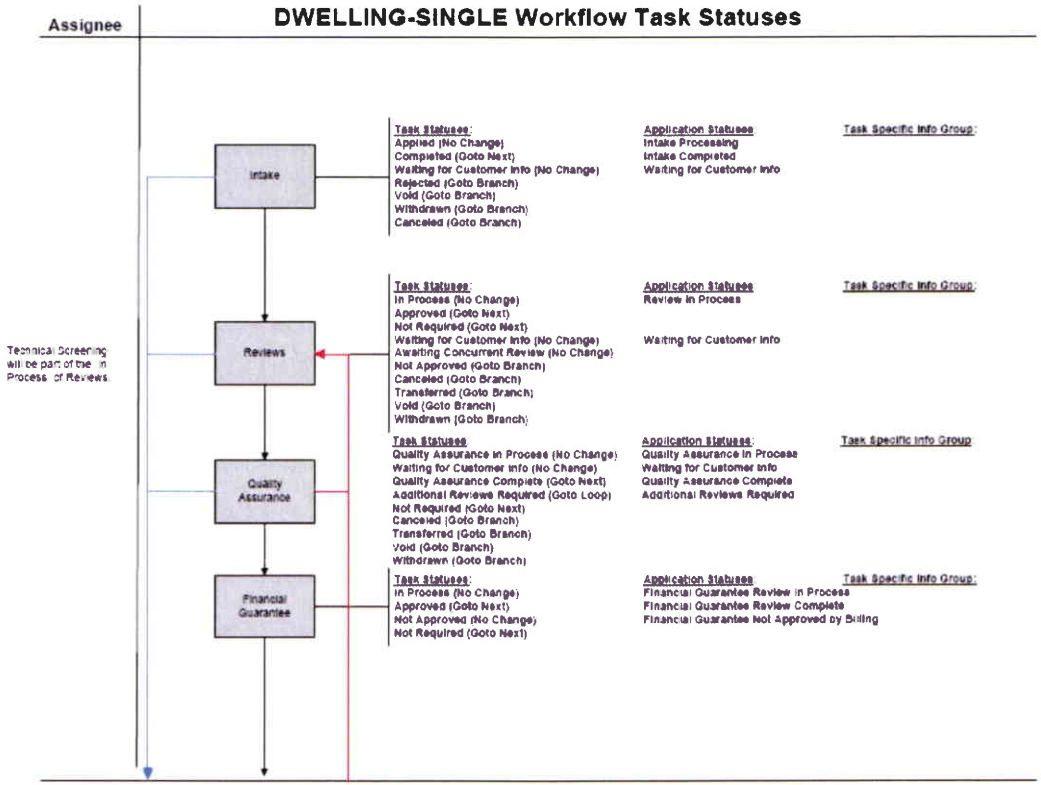
- A. Workflow: Residential Building Permit
- B. Permit Fee Analysis for Other Jurisdictions
- C. DDES Financial Plan
- D. DDES Organizational Charts—2009 and Current

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 Balance⁴	\$ 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

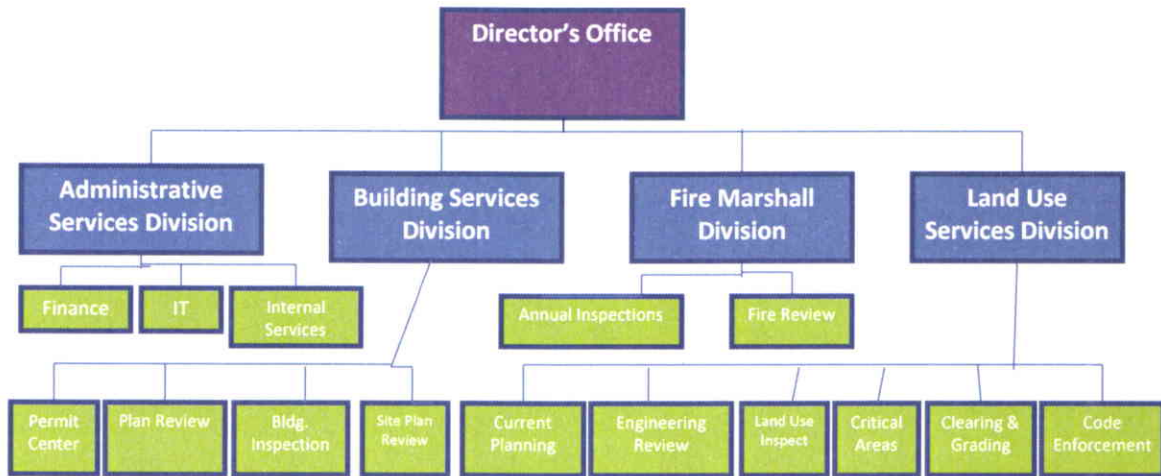
2010 Reserves and Designations adjusted as needed.

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

