



Performance Audit of County Building Permit and Inspection Fees

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Results



Results

The Counties

Washington counties currently subject construction projects to building codes and zoning ordinances. These codes and ordinances provide minimum standards to safeguard health, property and public welfare by regulating and controlling design, construction, and the quality of materials. Codes published by the International Code Council (ICC) which include the *International Building Code (IBC)*, and the *International Residential Code (IRC)* are commonly used.

Typically, specific codes and ordinances are enacted to regulate residential, commercial, industrial, and agricultural development within a county. The codes impose certain regulations such as:

- Placement on property
- Size of building
- Setbacks from easements and property lines
- Maximum lot coverage requirements
- Height limitations
- Permitted uses

Building permits are required prior to construction for all building, plumbing, mechanical, and electrical work. Although the eight counties reviewed have some variations in the building permitting process, each:

- receive permit application
- review for completeness
 - code compliance
 - site plan (plumbing, mechanical)
 - drawings
- enter into a permit tracking system
- calculate fee amount
- notify applicant of approval
- receive fee payment from applicant
- issue permit

The state allows reasonable fees to be established and collected from applicants for a permit to cover the cost of processing applications, inspecting and reviewing plans, and preparing detailed statements.



Counties have developed fee schedules based on a variety of factors, from surveying other counties in Washington State and setting rates based on averages, to charging a specific percentage of direct department costs to using industry benchmarks.

Each of the eight counties reviewed for this performance audit have created building divisions responsible for issuing permits and ensuring construction projects are in compliance with building codes. Half of the counties we examined (four) have established the division in their Community Development Departments while others are located in Public Works, Public Services Department, Planning and Development Services, and Building Inspection Department.

Division staffing is reflective of the size of the county and building activity. Building Division personnel range from less than three full-time equivalents' in County #4 and County #8 to almost 40 in County #1. Recently, economic conditions have forced many counties to downsize building division staff. In 2009, seven of the counties reduced their workforce.

County Revenue and Expense Analysis

Are counties' agriculture, residential, and commercial building permitting, inspections, and plan review fees limited to what is necessary to cover those direct and indirect costs associated with the permitting process?

Are the counties' indirect costs paid for with permitting and plan review fees and are limited to what is reasonable and necessary to those permitting, inspection, and plan review activities?

Senate Bill 5120¹ requires permit fees to not exceed the direct and indirect costs associated with reviewing permit applications, conducting inspections, and preparing specific environmental documents. To determine how the eight counties identify and allocate costs, a review of actual revenues and expenses for the years 2006 - 2008 and 2009², was conducted.

Although revenue and expense information was readily available in each county, most generally combined the information with the department the building function resides in, making it difficult to

¹ Effective July 26, 2009

² Partial year as information was available



isolate actual permitting process costs. Non-building permit activities - planning, nuisance abatement, fire marshal services, etc. - are also often included in the department's revenue/expense reports.

To determine only the costs of building/plan review and on-site inspections, each county's detailed expense reports were analyzed. The following identifies costs included for each county for each year reviewed:

Salaries/Wages and Benefits

Six of the eight counties do not formally track employees' time although each person records hours but not the activity associated with each hour. In most counties, certain individuals devote 100% of their time to building activities and all costs are directly attributable. For these counties that had individuals "split" time amongst functions, allocations of actual time spent on allowable building division activities were either based on discussions with division personnel or through an allocation of time based on FTE. For example, if a department consists of 15 employees and five are dedicated to building activities, 33% of time of those individuals working in multiple areas would be allocated to the building division. These percentages varied in each year as staffing levels changed.

Supplies and Materials

Six of the eight counties also do not specifically identify all supplies and materials that correspond to applicable permitting process activities. These costs include:

- Office Supplies
- Communication
- Travel
- Rentals
- Training
- Software
- Memberships
- Vehicles
- Tools
- Repairs
- Equipment
- Fuel
- Misc.



For those costs that could be directly identified, 100% were included. Using FTE as a basis, others costs were allocated for our analysis.

Indirect Costs

Four of the eight counties reviewed do not have a formal county-wide cost allocation plan. In some counties, a basic percentage is identified and allocated. However, that allocation was not typically inclusive – costs such as facilities, maintenance, utilities, Human Resources, etc. were not incorporated.

Counties with current cost allocation plans are allocating indirect costs that are reasonable and necessary to cover direct and indirect costs associated with the permitting process. Services paid for by the building divisions are applicable to day-to-day operations.

For those counties that did not have an inclusive county-wide indirect cost allocation, 25% of wages and salaries was used. This number was based on:

- the average allocation of the reviewed counties with an allocation plan
- The average, reasonable percentage used by other organizations

Applying this methodology, we were able to identify, by county, by year, whether revenues received for building permits were greater/less than expenses. If greater, building permits generated more revenue than necessary to cover all direct and indirect costs. If less, other county sources were required to help pay for permitting services. The following summarizes this analysis - highlighted numbers indicate revenues were greater than expenses:

	2006	2007	2008	2009	
County #1	\$815,002	\$89,427	\$517,974	\$658,545	(10/31/09)
County #6	\$598	\$35,939	\$48,299	\$5,291	(6/30/09)
County #2	\$169,713	\$30,550	\$40,472	\$35,225	(10/31/09)
County #8	\$45,159	\$14,052	\$2,032	\$37,302	(6/30/09)
County #4	\$78,393	\$18,617	\$20,541	\$49,264	(6/30/09)



County #5	\$146,945	\$187,665	\$6,588	\$44,005	(10/31/09)
County #3	\$457,286	\$244,666	\$57,650	\$4,891	(6/30/09)
County #7	\$278,088	\$296,631	\$403,092	\$97,399	(8/31/09)

Source: Compiled by TKW from county information

As indicated by the above analysis, some counties have generated a “surplus” through building permit fees. These funds have been used to support other services such as planning, enforcement, fire inspections, environmental health, and public works activities or to establish account reserves. Because of an extensive decrease in building permit revenues, most of these counties will be relying on their general funds to supplement funding for building permit processing in 2009.

Permit Fee Development

Identify the methods used by each of the eight counties to calculate agriculture, residential, and commercial structure permitting, inspection, and plan review fees against the direction provided by state law (RCW 82.02.020 and RCW 19.27.015).

Assess whether these methods ensure that fees are no greater than what is necessary to pay for direct and indirect costs to execute the planning and permitting process.

Counties provide many basic services and are funded through a variety of sources. Taxes, fines, and grants fund many of the services available to all county residents - animal control, law enforcement, corrections, health care, parks, etc. Other services only benefit certain individuals or groups and are funded primarily through user fees. Building permitting falls into this category being defined as a service fee collected from those individuals receiving the services.

Building functions have traditionally developed fee schedules based on the concept that the valuation of a project is related to the amount of work required to review plans, inspect activities, and administer the process. Many governments though, are attempting to set fee amounts to actually recover the cost of providing the service. However, to recover costs that are in direct proportion to the services provided, all costs need to be identified. As stated previously, this is not the case in many of the counties’ reviewed. Because most counties’ building division expenses are combined with other functions and are not budgeted separately, actual costs of the building permitting process have not historically been identified. Most counties have not established fees with the intent to recover actual costs and ensuring that fees are



no greater than what is necessary to pay for direct and indirect costs to execute the planning and permitting process. Fees do not necessarily have a direct relationship to those costs.

Although the permit fee development process varied among counties reviewed, all use a base methodology (or some variation) as established by the International Code Council. This method uses the following “formula”:

$$\text{Total Permit Fee} = \text{Total Valuation} * \text{Fee}$$

$$\text{Total Valuation} = (\text{Building Square Footage}(1) * \text{Valuation Rate}(2))$$

(1) By Type of Building

(2) Rate established by ICC and updated every six months

Fee = Amount established by ICC and applied per \$1,000

Example:

3000 square foot residence

Valuation Rate: \$65.00

Fees: \$785.00 for first \$100,000 plus
\$4.30 for each additional \$1,000

Fee Calculation

Total Valuation: 3000sq ft * \$65.00 = \$195,000

Fees: \$ 785.00

\$4.30*95 = \$ 408.50

Total Permit Fee: \$1,193.50

Variations to this methodology among counties include:

County #1

Community Development relies primarily on application fees to fund three of its programs: Development Services, Building Safety, and the Permit Center. The fees cover cases for preliminary review, environmental review, engineering, development inspection, and building. During 2008 a cost of service analysis was conducted to support a full cost-recovery fee proposal. The comprehensive study took into account comparable community permit fees, time spent on permits and actual cost. At the close of 2008 the Board of County Commissioners delayed adoption of a new fee proposal. In 2009 the Board adopted the new fee proposal which self funds 85% of permit expenses, the residual is funded by the General Fund. The new fee structure took effect July 15, 2009.



County #6

Building permit fees were set by ordinance in 2001. County #6 used a valuation method that, based on data provided by the International Code Council (ICC) through its *Building Safety Journal*,³ established the basis for fee development. While the ICC updates these valuation numbers every six months, the county is currently using 2004 valuations. Through a survey of other counties in Washington, fees were identified and set at the low end based on an eastside average. Fees were tied to the 1991 Uniform Building Code and modified by a factor of 1.25. The County has not increased building permit fees since 2001.

County #2

County #2 uses the base ICC methodology but modifies its building permit fees using information obtained from other counties, building industry information, and the expertise of its current building inspectors who each have private sector experience. The Department also considers the cost of doing business and what they perceive the public can pay.

County #8

Between 1999 and 2004, County #8 determined permit fees based on the Uniform Building Code. The methodology for residential structures was changed in 2005 from square footage to base cost. The rates were established to assure that 80% of direct department costs were covered by department-generated revenues.

County #4

The County has established its building permit fees using the Building Safety Journal's⁴ suggested amounts in 1994. These amounts have not been updated to current values.

County #5

³ Published every six months

⁴ International Building Code



County #5 has established its building permit fees using 80% of the *Building Safety Journal's* suggested amounts.

County #3

The County obtains the amount charged for building permit fees from five comparable jurisdictions, including the City of Bellingham, and calculates the median to use as its base. It then determines what fees are being charged by other County departments, such as the Health Department to determine what the rate should be for services that are based on an hourly rate.

County #7

Prior to 1995, County #7 established its building permit fees based on the International Conference of Building Officials Model Code Fee Schedule using valuation data from the *Building Safety Journal*. In December 1995, the County began increasing fees by the Consumer Price Index (CPI) for Seattle Washington every January 1. Valuation is calculated using the most recent data from the *Building Safety Journal*.

What Does This All Mean?

Among the eight counties surveyed, there were varying approaches to the determination of building permit fees. Most of these approaches focused on setting the rates at a reasonable level in relation to an established benchmark. These new restrictions will require the counties to set permit fees at a level sufficient to recover only the costs of administering the program. Achieving this objective will require counties adopt a cost recovery methodology to fee setting.

Cost Determination

The implementation of Senate Bill 5120 will require many counties to modifying their approach to building permit fee establishment. To comply with the Bill, all Washington counties will have to develop an approach that bases building permitting fees on the actual cost of services rather than only construction value. This methodology will have to contain specific costs that will require the identification of actual costs of services rendered. Actual costs include more than direct labor associated with the permitting process. Calculations must include:



- Direct Costs (labor, materials and supplies)
- Indirect
 - Internal (department)
 - External (county)

The difficulty for some counties will occur with the identification of indirect costs. Many building entities' costs are combined in departments providing other services. Non-building permit activities are not separately recorded. Direct labor, supplies, and materials are not necessarily individually tracked to the service they are associated with.

Many counties also do not currently have an inclusive cost allocation plan that allocates various county-wide services. These costs include:

- Building space
- Custodial services
- City administrative services (attorney, commissioners, auditor, chief administrative officer, human resources, etc.)
- Utilities
- IT services
- Vehicles

Building Permitting Process Determination

Senate Bill 5120 also establishes a general definition of allowable services as they relate to permitting - reviewing permit applications, conducting inspections, and preparing specific environmental documents. Services previously associated with or paid for by building permit fees, can no longer be included.

A recent lawsuit filed in Clark County also reinforces this. A complaint was filed in 2002 alleging that the County was charging excessive building permit fees because state law only allowed fees for the cost of reviewing permit applications, conducting inspections, and preparing documents under the State Environmental Policy Act. In 2009, the Court ruled that the County cannot lawfully include in building permit fees the expense of code enforcement activities that occur prior to the filing of a permit application. It further stated that pre-application code enforcement activities are not part of "processing applications" under RCW 82.02.020, but instead are



fundamentally law enforcement activities that cannot be funded through the building permit fees authorized by RCW 82.02.020.

Implications of Senate Bill 5120

Ability to Provide Services

Some counties have generated additional revenue through building permit fees and used those dollars to support other services such as planning, enforcement, fire inspections, environmental health, and public works activities. In 2006 and 2007, six of the eight counties reviewed generated surplus funds.

Prior to Senate Bill 5120, fees received as a result of the building permitting process were available for general use. These dollars are now restricted to only those activities directly related to the process. To compensate, counties will have to either:

- Fund current services with general fund dollars. However, given the nature of government financing, those dollars would potentially decrease funding for other public good activities (law enforcement, health care, parks, etc.),
- Increase fees for those services that are being supplemented by the permitting process, or
- Eliminate some services.

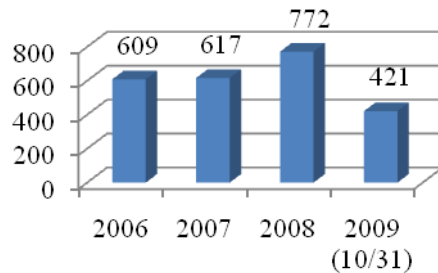
Unanswered Questions

Funding Variations

Senate Bill 5120 does not necessarily allow for a stable level of funding. Because projections are difficult, extensive fluctuations in permit applications and accompanying fees could occur. The Bill (or any administrative rules) does not provide guidance regarding the development of a surplus (up to some level), funding uncertainty could occur annually. Staffing levels and resource allocations would be subject to projections and could result in difficulty in determining potential revenues. As shown by the following illustration, permits issued for one of the reviewed counties annually fluctuate resulting in varying receipts.



Permits Issued



experience could be difficult to find. Customer service could be negatively impacted.

Variations in revenue could result in counties reducing staffing levels in one year and re-hiring or increasing staffing levels in another. In some counties, this could result in the loss of experienced staff that would be difficult to replace in better years. Available staff with knowledge and

Conversely, the Bill offers no direction regarding what to do with surplus revenue. In the event revenues are higher than projected, it is unclear as to what to do with the additional revenue or how adjustments should be made.

Building Activity Determination

Senate Bill 5120 states requires that “*permitting and plan review fees only cover the costs to counties, cities, towns, and other municipal corporations of processing applications, inspecting and reviewing plans, preparing detailed statements, and performing necessary inspections.*” The Bill however, does not specifically define what activities these identified areas include. This lack of definition makes it difficult for counties to determine what constitutes processing applications, inspecting and reviewing plans, preparing detailed statements, and performing necessary inspections. Questions as to whether activities such as services provided to the general public (process/application details, general information, reporting, etc.) should be “county” costs and paid by the general fund or included as a component of building fees.

Without definitive guidance, counties will have to make their own determination of appropriate activates potentially resulting in decisions that do not meet legislative intent or are inconsistent with other counties.

Recommendation No. 1



The state should develop specific rules:

- establishing guidelines regarding surplus building permit process receipts,
- defining building permit processing activities and identifying allowable expenses.

Guidance

As a result of the second objective, identify uniform guidance to help counties determine allowable costs and provide uniform methodologies for allocation of these costs to specific projects.

Allowable Cost Determination

Under the provisions of SB 5120, a county may only cover the costs of processing applications, inspecting and reviewing plans, preparing detailed statements required by chapter 17 43.21C RCW, and performing necessary inspections under this chapter. Two factors determine if a cost is allowable. First, whether the activity is allowable under the provisions of SB 1520 and second, if the cost is allowable. The Bill is specific as to the allowable areas but necessarily allowable activities. For clarification, these can be defined as any activity necessary to process a building permit from the point the applicant makes contact with the county to when the certificate of occupancy is issued. Activities not associated with a specific building permit would not be considered an allowable activity. As such, code enforcement activities would be excluded and should be funded from non-building permit sources.

The second factor to consider is the allowability of the cost itself. While the Bill does not provide any specific guidance in this area, there are established standards determining allowability of costs for government entities.

Fee Determination

Setting the appropriate amount of user fees requires identifying the actual costs of services rendered. Actual costs include more than direct labor associated with the permitting process. Calculations must include:

- Direct Costs (labor, materials and supplies)
- Indirect
 - Internal (department)
 - External (county)



Before a county is able to calculate appropriate user fees for building permits, they must first have systems in place to determine and track the direct and indirect costs associated with these activities. Systems should allow the county to track actual employee time for allowable building permit activities as well as time that cannot be charged against building permit revenues. Unallowable activities will need to be funded from sources other than building permit revenues. Activities within the building division should be reviewed to determine classification as direct or indirect. Indirect costs, both internal and external, should be tracked separately and allocated using a reasonable methodology.

There are many variations on cost recovery. After reviewing several of the established approaches to plan check and inspection fee cost recovery, it is recommended that the counties adopt the Modified Cost/Revenue Allocation Methodology as described by the International Code Council in *Establishing Building Permit Fees*, 2nd Edition. This approach allows counties to demonstrate cost recovery as required under SB 5120 without placing an excessive burden on staff. Under the Modified Cost/Revenue Allocation Methodology, plan-check and inspection fees are based upon prior year activity. Adjustments are made for any anticipated changes in building permit activity. Building permit fees under this methodology are calculated on square footage rather than building valuation. The Modified Cost/Revenue Allocation Methodology is summarized in the following steps:

- Step 1.** Determine the total revenues collected for allowable building permit activities. This would include revenues from plan-check and inspection fees collected during the prior fiscal year. All revenues should be net of refunds.
- Step 2.** Evaluate the prior year service level to determine if adjustments are necessary. Service level adjustments may be necessary if current staffing levels are insufficient to complete a building permit within the required time. Adjustments may also be necessary for anticipated changes in permit activity.
- Step 3.** Determine the total allowable expenditures associated with building permit activities. Allowable expenditures should include both the direct and indirect costs associated with administering the building permit program. Compare total plan-check and inspection revenues to total expenditures from the prior year. If prior year activity resulted in a



revenue surplus or deficit, and there are no service level adjustments made in step 2, fees should be adjusted accordingly.

- Step 4.** Determine total square footage for building permits issued in the prior year by permit type. At a minimum, square footage should be tracked by the following categories:
- New Commercial/Industrial
 - Commercial/Industrial Additions and Alterations
 - New Residential
 - Residential Additions and Alterations
- Step 5.** Allocate plan-check and inspection fee revenues from step 1 proportional to square footage from step 4 to determine total revenue for each permit type. For example, if plan-check square footage from the previous year totaled 200,000 square feet, and 50,000 of this was for new residential construction, 25% of the plan check revenue would be allocated to new residential.
- Step 6.** Calculate hourly rates for plan-check and building inspection. Hourly rates should include direct charges for salary and benefits and both internal and external overhead charges.

Internal overhead charges, and the portion of the countywide overhead allocated to the building permit function, should be allocated to the plan-check and inspection functions using a reasonable allocation basis.

An authoritative reference to assist counties in identifying a methodology for allocating indirect costs is the Office of Management and Budget's (OMB) Circular A-87. This circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. Basic guidelines are defined by the circular that focus on factors affecting allowability of costs:

- Be necessary and reasonable
A cost is considered reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost
- authorized or not prohibited under State or local laws or regulations
- be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit
- be accorded consistent treatment
- be determined in accordance with generally accepted accounting principles
- be adequately documented

Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved. Indirect costs apply to costs



originating in the department (internal) as well as those incurred by other departments (external) in supplying goods, services, and facilities.

Once the total plan-check and inspection costs have been determined, they are divided by the total productive hours to determine the hourly rate for each function. Adjustments to the total hours are made for vacations, sick leave, holidays, training, and administrative time to arrive at total productive hours. Hourly rates are calculated for both plan-check and inspection.

Step 7. Allocate total inspection and plan-check costs to the various permit types. Total inspection and plan-check costs for each permit type are determined by multiplying the total square footage by permit type (step 4) by the average per-square-foot inspection and plan-check time by the hourly rates determined in step 6. Per-square-foot inspection and plan-check times can be obtained either from county data or industry data obtained from surveying other jurisdictions. Average inspection and plan-check times are included in the publication *Establishing Building Permit Fees, 2nd Edition*. These average times were determined through a survey of jurisdictions in California.

Step 8. Compare total projected revenues and expenses to determine if adjustments are necessary.