

**ROSEVILLE**  
**REQUEST FOR COUNCIL ACTION**

Date: October 7, 2019  
Item No.: 7.e

Department Approval

*Janice Gundlach*

City Manager Approval

*Sam Trueman*

Item Description: Discussion Regarding Building Permit Fees

**BACKGROUND**

On August 20, 2019, the Housing Affordability Institute released a report claiming cities are overcharging building permit fees, which drives up the cost of a new home and partially contributes to the housing affordability crisis. Just prior to release of this report, the City Council asked for a discussion on building permit fees and how Roseville's fees compare to other communities. In an effort to provide context and clarity surrounding the broader topic of building permit fees, staff has provided information related to a building permit fee analysis, the Housing Affordability Institute study, and Roseville's use of the Community Development Fund for review by Council.

Building Permit Fee Analysis

Building permit fees are based either by valuation of the project (as determined by the permit applicant) or by flat fee. In accordance with the State Building Code, the State of Minnesota establishes a baseline valuation calculator in Statute (326B.153), setting base permit fees depending on the total cost to complete the work (including labor and materials). The valuation calculator is based on the State's level of service to process a permit. The State Building Code also provides for certain permit types to be charged based on a flat fee in lieu of the valuation calculator. Flat fee permit costs are determined based upon actual staff hours needed to process the permit, including administration, overhead, plan review, and inspections. A few points worth noting as it relates to valuation-based fees verses flat fees:

- The valuation calculator established in Statute is based on what the State spends to process a permit. The State only processes permits for public facilities and State licensed facilities (schools, nursing homes, & hospitals). The State does not incur any expenses related to planning, zoning, development, code compliance, or engineering, which are expenses cities typically incur that need to be recovered (at least partially) by building permit fees.
- The State Building Code allows for cities to adopt a valuation calculator that defers from the one provided in State Statute, as long as the City can demonstrate the revenue collected under the State calculator is insufficient to cover expenses. In 2011, the City of Roseville raised the valuation calculator based on analysis that fees were not wholly covering expenses. Factoring in Roseville's increase in 2011, and reduction by the State in 2018, on average Roseville's valuation calculator is 35% higher than the State's.
- Community Development staff annually examines our fees to ensure they are aligned with the actual cost to provide the permit service. Through this exercise, Roseville has moved roof

33 and siding permits to flat fee permits verses valuation. For 2020, staff is proposing to move  
34 windows and doors to flat fees from the current valuation fee. Flat fee permits generally  
35 result in a permit fee reduction as these permits are more routine in nature. Additionally, with  
36 Accela and online permit submittal, processing, and payment, more efficiencies are obtained,  
37 reducing overhead costs. Annual examination of fees has also has reaffirmed the valuation  
38 calculator has not required adjustment since its 2011 revision.

39 Keeping these general context points in mind, building inspections staff conducted a fee analysis to  
40 examine how Roseville's fees compare to other communities. While comparing our fees to other  
41 communities should not be considered a legally defensible method for setting fees, it does help  
42 reaffirm whether or not staff is calculating costs in a manner that is in line with the industry standards.  
43 Attachment A provides the data obtained by the analysis, which examined the following common  
44 permit types:

- 45 • A new residential home valued at \$371,500
- 46 • A residential remodel valued at \$14,452
- 47 • A new commercial project valued at \$12,309,922
- 48 • A commercial remodel valued at \$190,310
- 49 • A residential siding project valued at \$15,000
- 50 • A residential reroof project valued at \$15,000
- 51 • A residential window replacement valued at \$10,000

52 The permit types outlined above represent the most frequently processed permit types. The valuations  
53 used for the analysis represent an average valuation. This exercise revealed that Roseville's permit  
54 fees range from 1%-7.5% above the median permit fee examined of the 15 cities in the study. The  
55 one exception is the permit fee for water heaters, which is 29% above the median (only Minneapolis  
56 & St. Paul are more expensive). Staff will examine this permit fee again and bring forward any  
57 revisions at a later date, if necessary, to ensure the fee is appropriate to cover staff time. Based on  
58 Roseville's population size and the volume of commercial uses within the community, it is reasonable  
59 that our permit fees would fall slightly above the median based on the amount of staff time that is  
60 expended to meet the permit demand.

### 61 62 Housing Affordability Institute Study

63 The Housing Affordability Study titled "Building Permit Fees: Boosting the Bottom Line for  
64 Minnesota Cities" suggests cities are profiting on the backs of development and contributing to the  
65 housing affordability crisis. This study lacks context and only examined the last five years of activity.  
66 Staff provided a letter to our legislators (Attachment B) offering greater context in regards to how fees  
67 are collected and why this study does not provide constructive information on how to tackle housing  
68 affordability obstacles. This study, however, did prompt City staff to examine all the fees that are  
69 collected on a per home basis. This includes building permit fees, development phase fees (such as  
70 platting & tree preservation), engineering fees, and deposits and escrows. Attachment C illustrates  
71 that Roseville collects fees that account for approximately 3.6% of the cost of a new \$375,000 home.  
72 Staff would offer the following points regarding this analysis:

- 73 • To ensure this exercise was transparent in regards to the wide spectrum of fees that exist, staff  
74 had to assume a plat of at least one acre, which would equate to four single family lots.

- 75 • Not every new home will incur a park dedication fee, as that fee is only collected on plats  
76 larger than one acre and when land cannot otherwise be dedicated.
- 77 • The engineering and development phase fees were split up evenly across the four lots (for  
78 example, the Open House fee is \$1,100 in total, so  $\$1,100 / 4 = \$275$  per lot).
- 79 • Public improvement costs were estimated based on the typical improvements that would be  
80 implemented (for example, sidewalk, storm water pond, sewer & water utilities). For the  
81 purposes of this example, staff used the costs expected for the four-lot single family  
82 subdivision at the armory site on North McCarrons Boulevard.
- 83 • This analysis represents the highest-cost scenario as a subdivision of less than an acre (and less  
84 than four lots) wouldn't trigger park dedication. On a scenario of greater than four lots, the  
85 development phase and engineering fees generally get distributed over a greater number of  
86 lots, reducing the overall cost per home.
- 87 • There are several escrows or deposits that are collected for every new home. These were not  
88 calculated into the 3.6% as that money is returned, assuming performance. These monies are  
89 held as security to ensure the developer/builder performs to City standards.
- 90 • There are fees that are collected at the City, but passed through to other agencies. These costs  
91 are also not included in the 3.6%.

92 Land costs, coupled with labor and materials costs for new construction make it nearly impossible to  
93 build a new, “affordably-priced” home in Roseville. The \$375,000-valued home example represents  
94 what Roseville has typically seen under new single family home construction. However, this doesn't  
95 mean there aren't affordably-priced homes in Roseville. For new construction, most affordable units  
96 are multi-family and are being attained using public finance tools to cover gaps and ensure  
97 affordability. Lastly, new construction can also provide for move-up housing, freeing up existing,  
98 older single family homes that are more affordable to first-time homebuyers.

99

100 Community Development Fund

101 In an effort to provide a full picture, staff examined Community Development revenues and expenses  
102 going back to 1999, and compared that to the balance history in the Community Development Fund.  
103 As Council is aware, Roseville keeps all building permit revenue in the Community Development  
104 Fund, ensuring revenues collected solely fund Community Development operations. This isn't  
105 necessarily the standard across all cities, and certainly not the cities that were scrutinized in the  
106 Housing Affordability Institute study. Staff provided graphs depicting years 1999-2009 and 2009-  
107 2019. Staff would offer the following information in regards to these graphs:

- 108 • Between years 1999-2009, expenses grew 30% and revenues grew 13%.
- 109 • Between years 2009-2019, expenses grew 47% and revenues grew by 70%.
- 110 • Between 1999-2019, expenses grew 91% and revenues grew by 93%.
- 111 • In years when revenues out-grow expenses, that excess revenue is placed in the Community  
112 Development Fund.
- 113 • In years when expenses exceed revenues, the shortfall can be accounted for with Community  
114 Development reserve funds and not general fund levy dollars.

- 115 • The City does not control when and where projects occur, rather the local market and broader  
116 economy has the greater impact. Projecting for expenses and revenues year-to-year is  
117 unrealistic, especially when considering staffing needs and workforce challenges.
- 118 • Expense and revenue peaks and valleys within the graph usually represent a staffing shortage  
119 and/or a large commercial project. For example, in 2016, expenses are low as there was a  
120 period of time when the Community Development Director and Building Official positions  
121 were not being funded. Additionally, a peak in revenue represents several new commercial  
122 projects (Von Maur, Rosedale’s parking ramp, Cherrywood, Applewood, Calyxt).

123 This analysis demonstrates that Community Development’s fees are appropriate when analyzing  
124 expenses against revenues over a longer period of time. Further, keeping building permit revenues in  
125 the Community Development Fund provides for the most conservative accounting to ensure  
126 Community Development can self-sustain in years when permit revenue is not sufficient to cover  
127 expenses.

128 **POLICY OBJECTIVE**

129 Fees for service are intended to be reviewed periodically to ensure they are sufficient to cover  
130 expenses.

131 **BUDGET IMPLICATIONS**

132 Building permit fees are the primary source of funding for the Community Development Department.

133 **STAFF RECOMMENDATION**

134 Review the information contained in this RCA and forward any questions or concerns to staff.

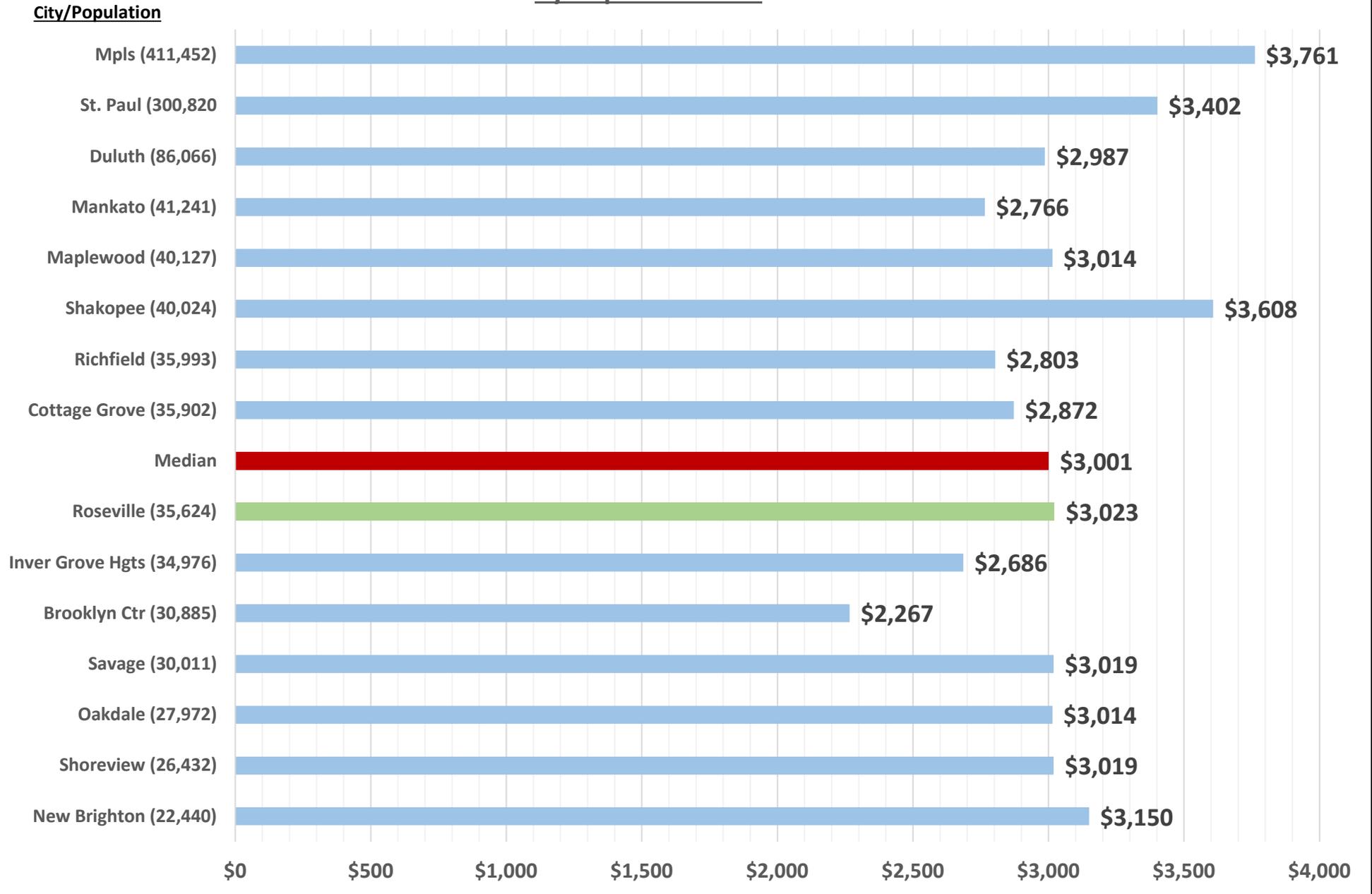
135 **REQUESTED COUNCIL ACTION**

136 None at this time.

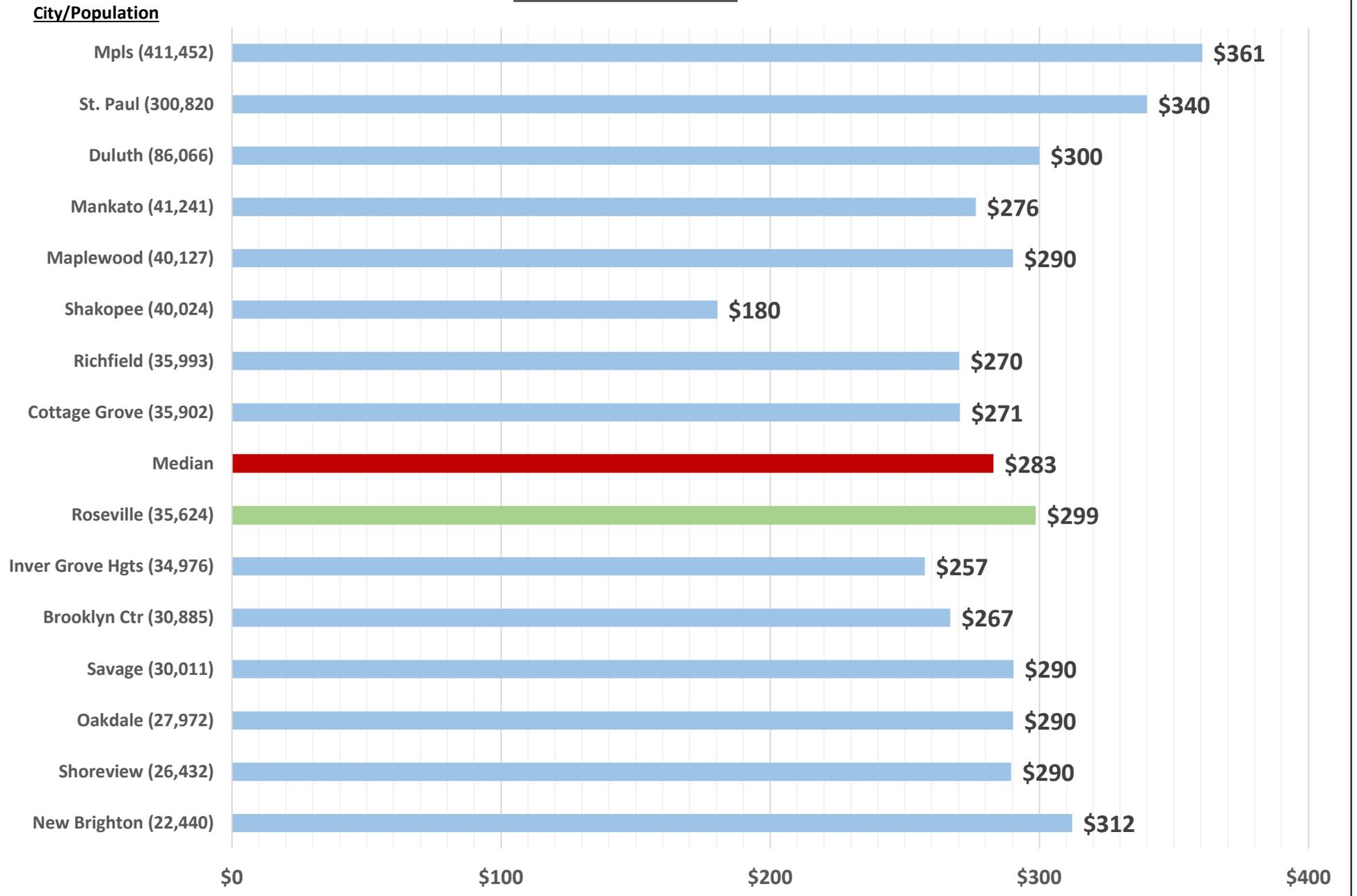
Prepared by: Janice Gundlach, Community Development Director  
David Englund, Building Official

Attachments: A: Building Permit Fee Comparisons  
B: September 26, 2019 Letter RE Building Permit Fees  
C: Estimated Fees for a \$375,000 New Home  
D. Revenues, Expenses, Fund Balance Graph

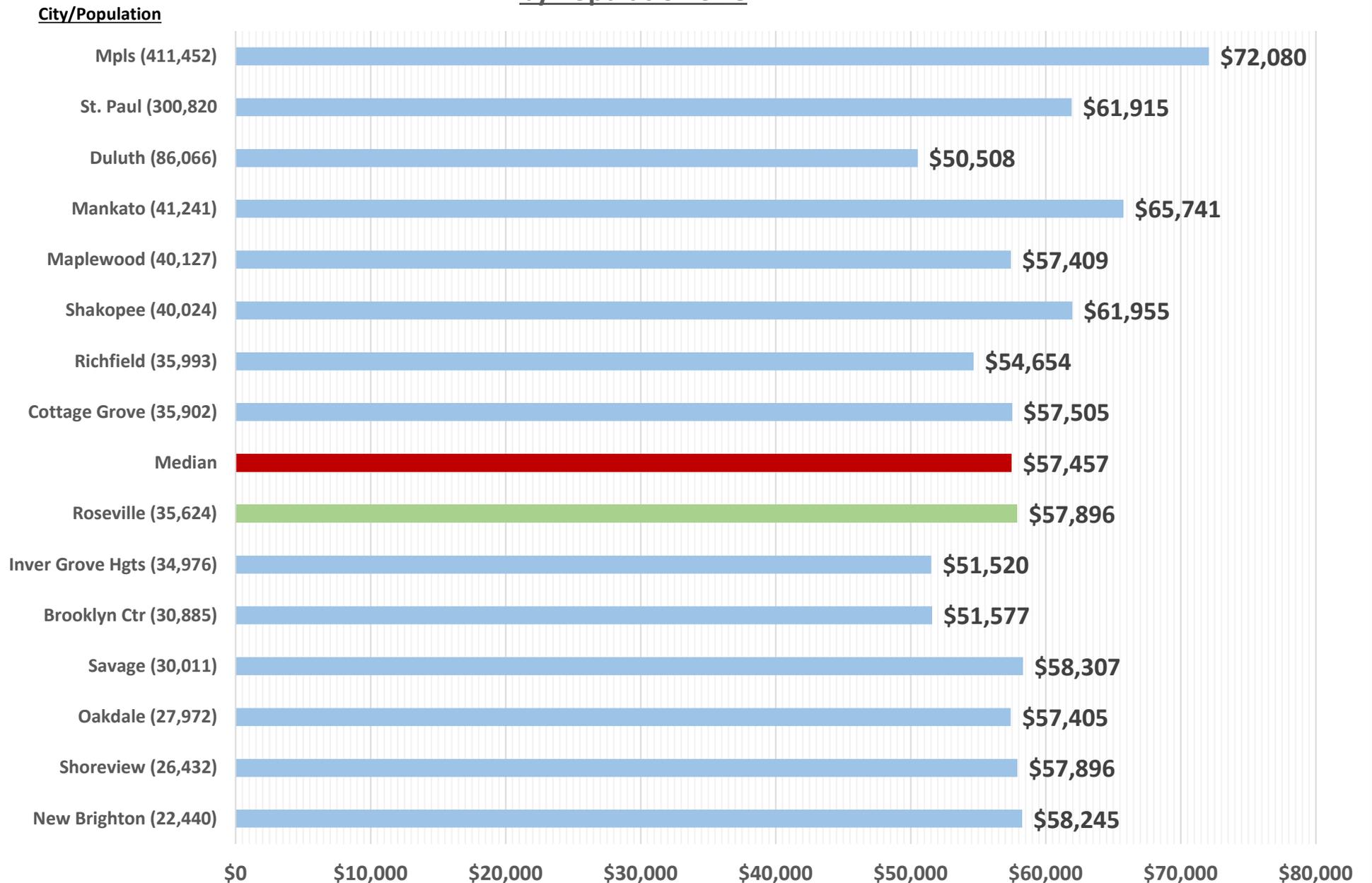
## Building Permit Fee for New Residential Home Project Value of \$371,500 by Population Size



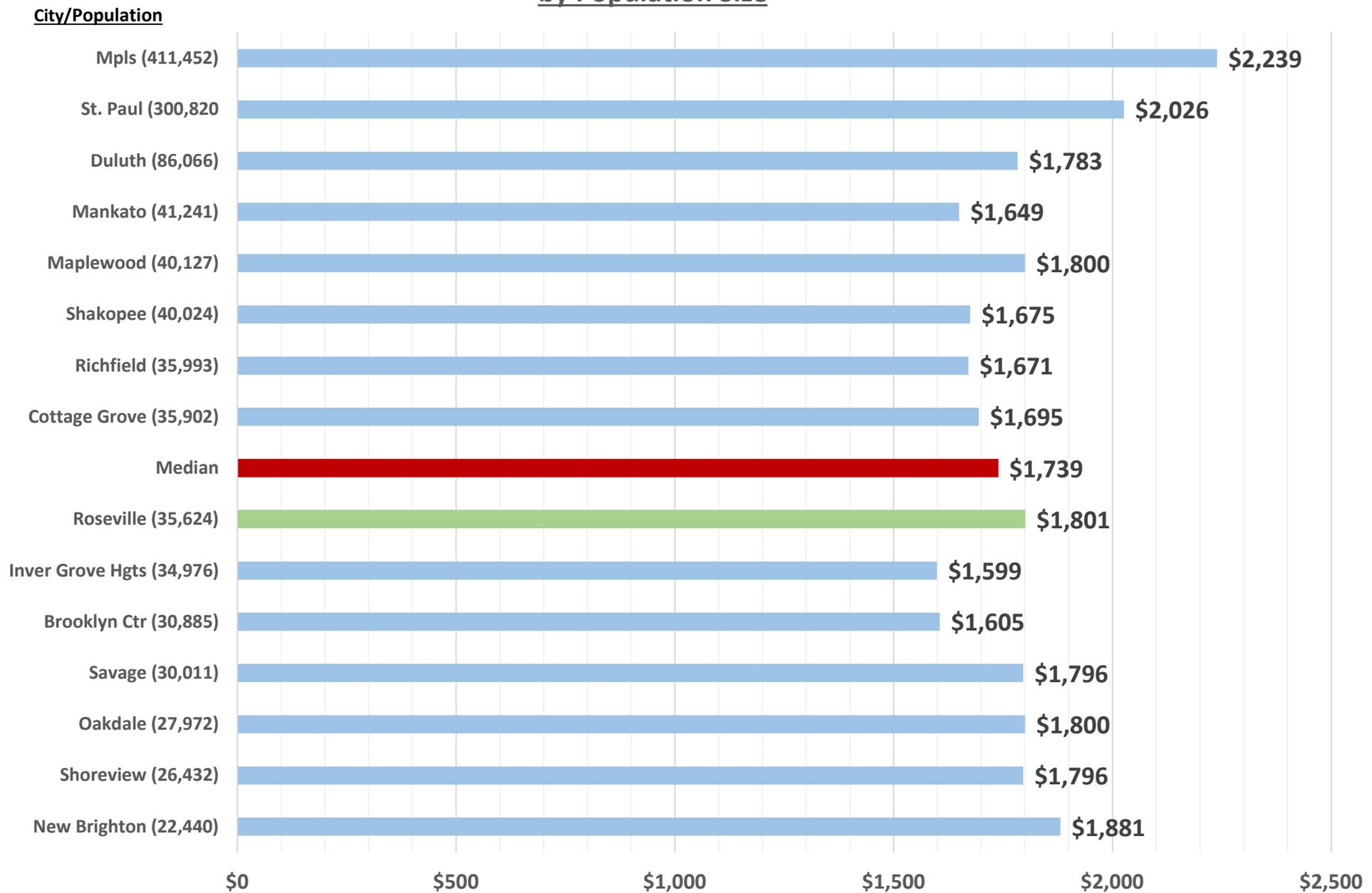
## Building Permit Fee for Residential Alteration Project Value of \$14,452 by Population Size



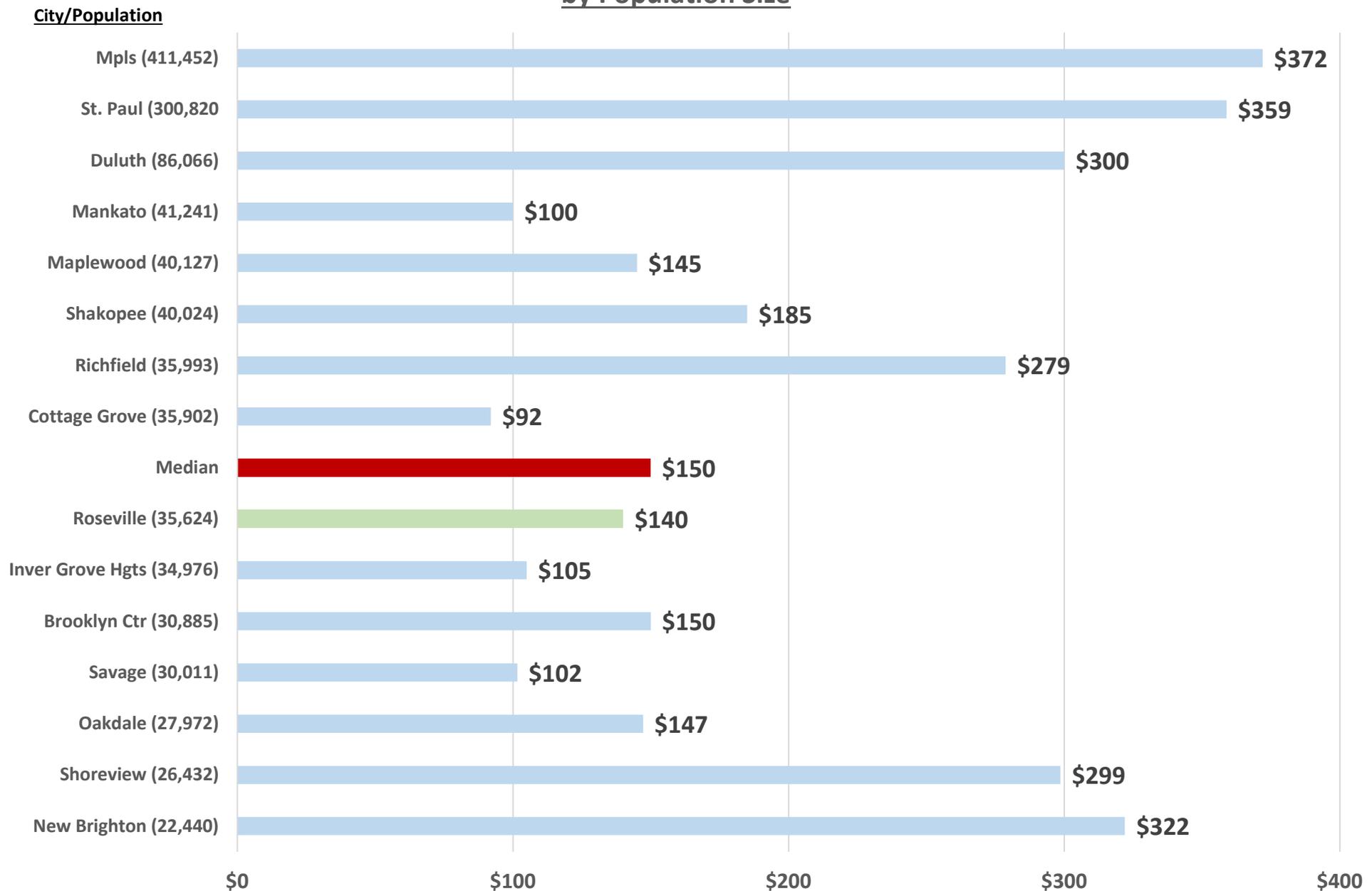
**Building Permit Fee for New Commercial Project Value of \$12,309,922**  
**by Population Size**



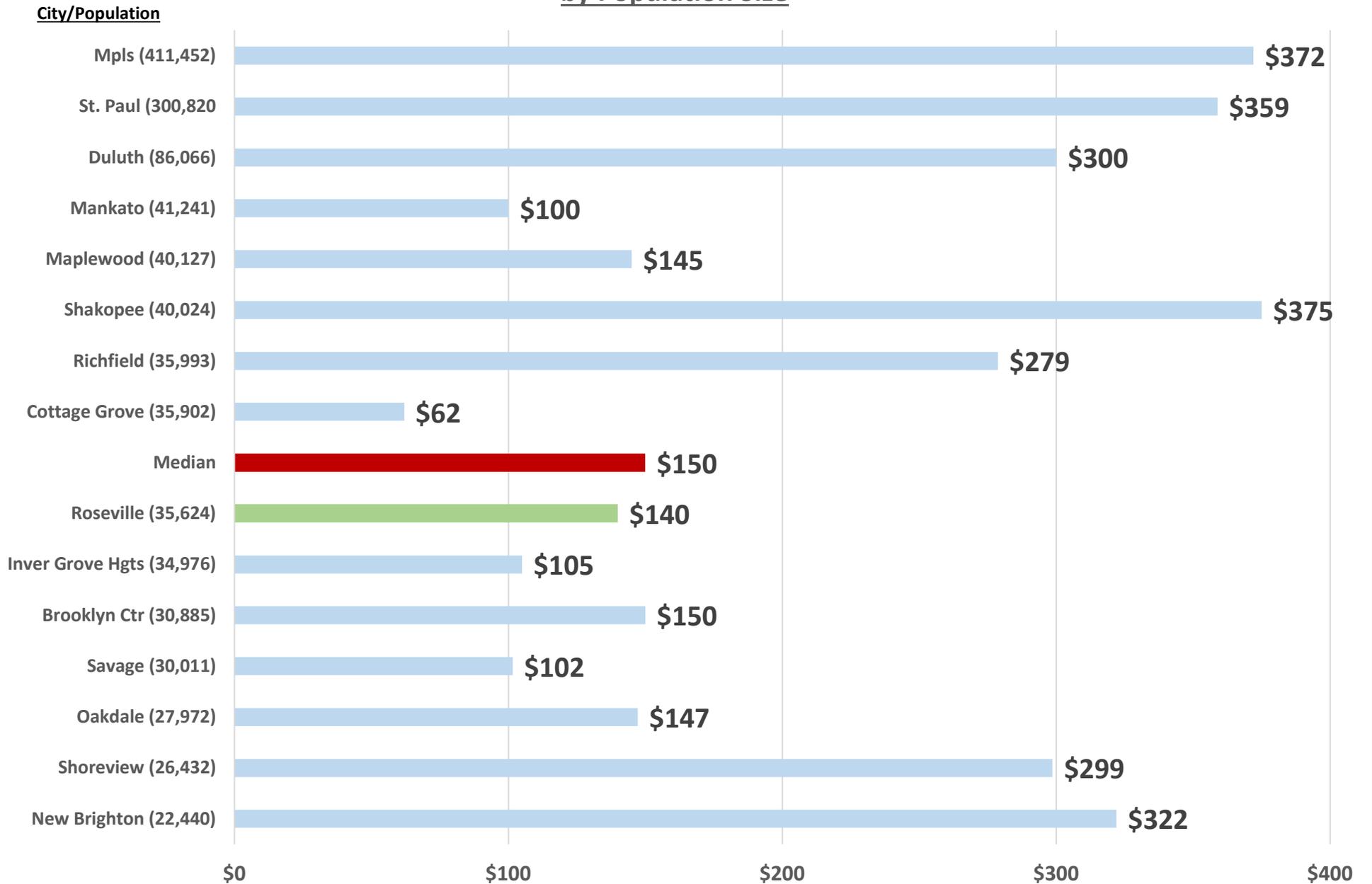
## Building Permit Fee for Commercial Alteration Project Value of \$190,310 by Population Size



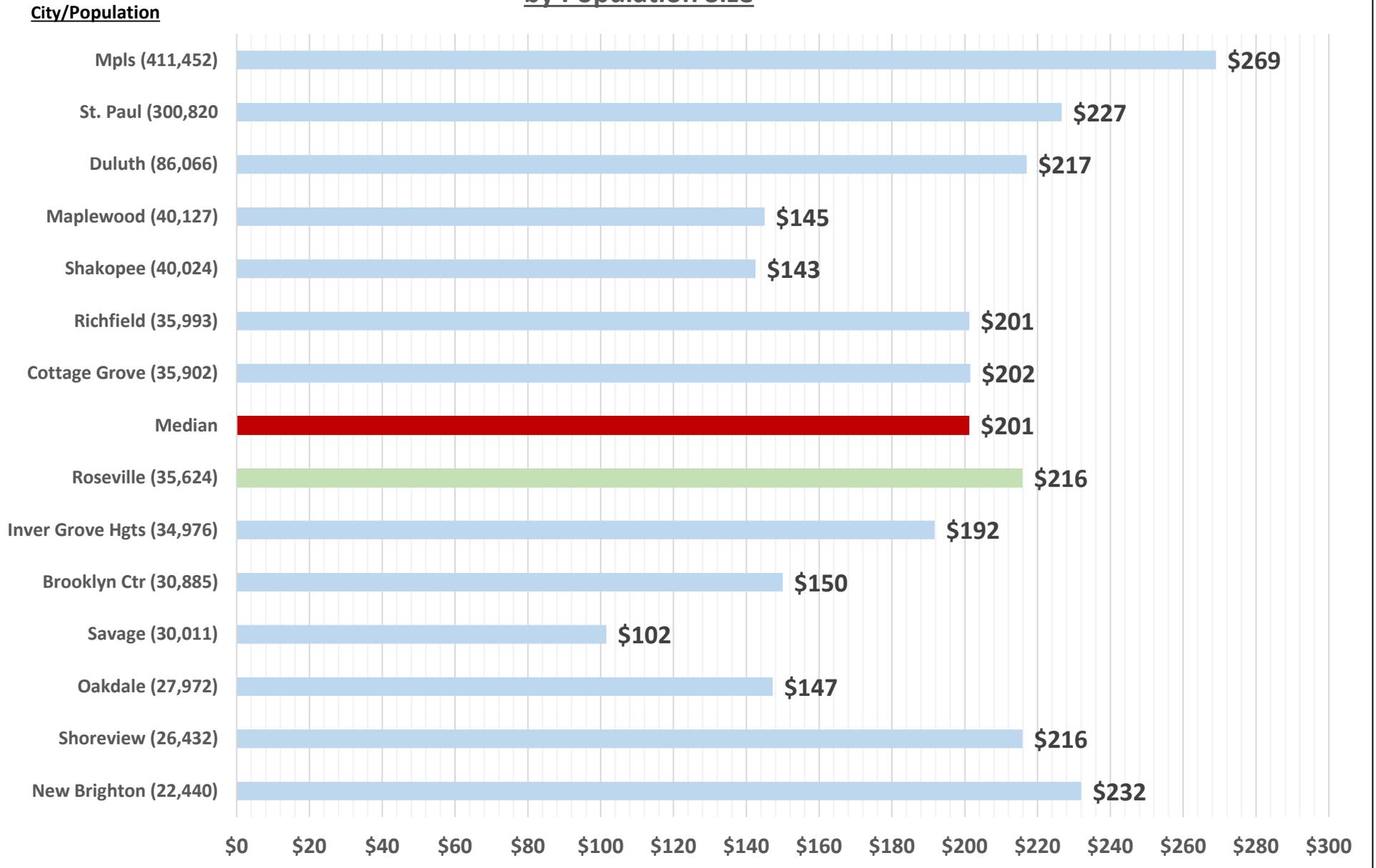
**Building Permit Fee for Residential Siding Project Value of \$15,000**  
**by Population Size**



**Building Permit Fee for Residential Reroof Project Value of \$15,000**  
**by Population Size**

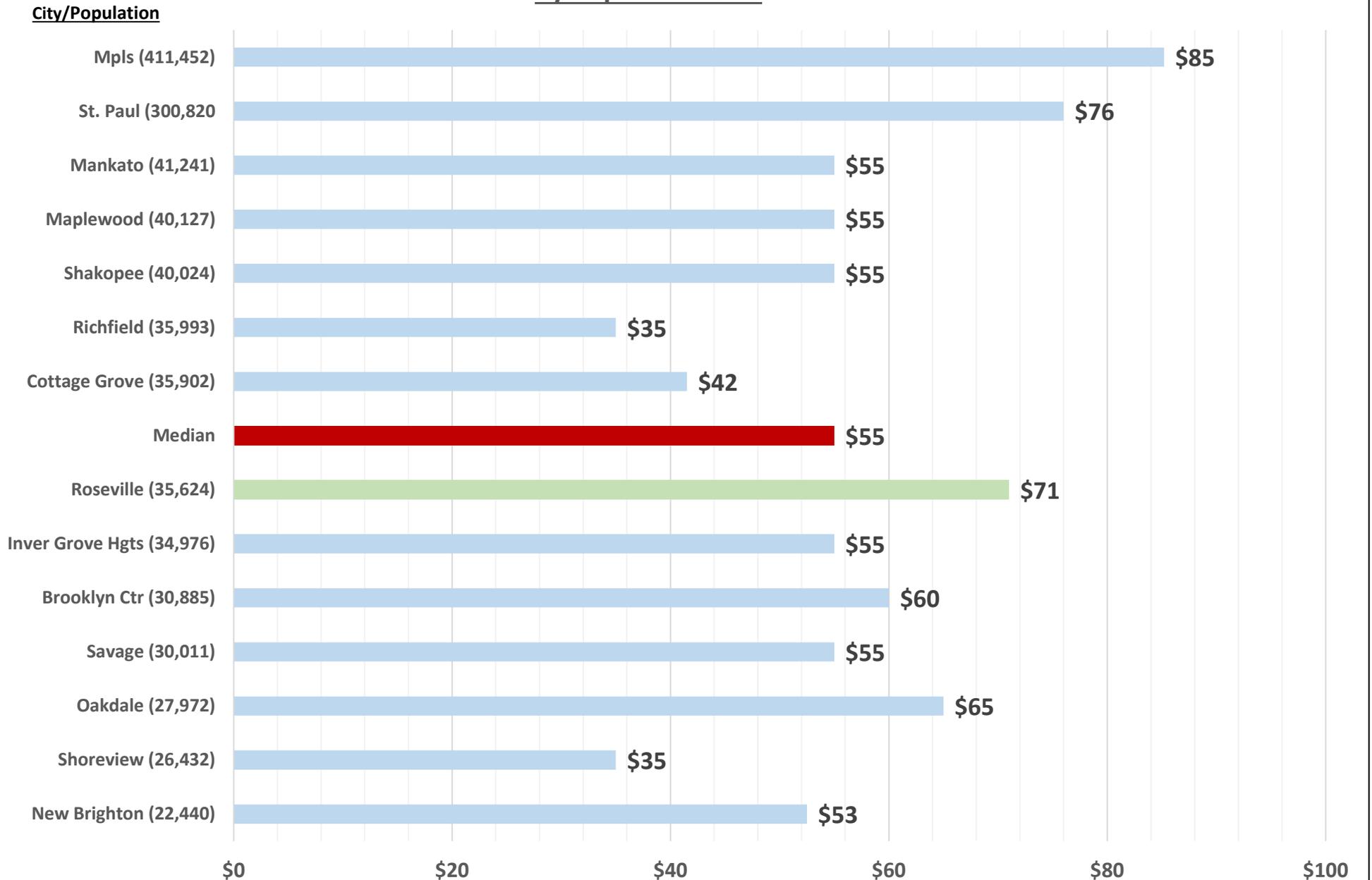


## Building Permit Fee for Residential Window Replacement Value of \$10,000 by Population Size

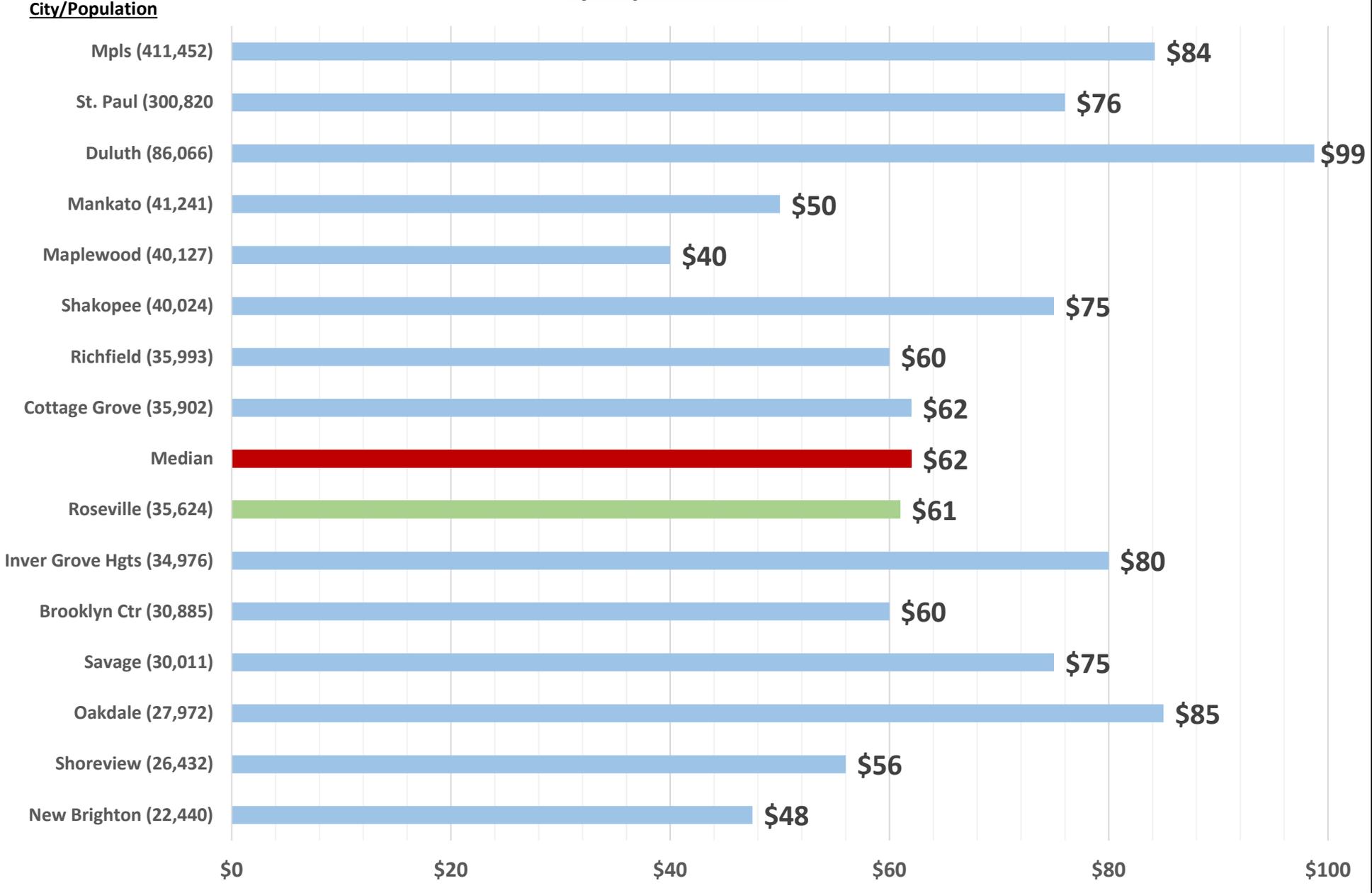


**NOTE: ROSEVILLE PROPOSES A FLAT FEE PERMIT COST OF \$140.00 BEGINNING IN 2020**

## Building Permit Fee for Residential Water Heater Replacement by Population Size



### Building Permit Fee for Residential Furnace Replacement by Population Size





September 26, 2019

Jamie Becker-Finn  
559 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Blvd  
Saint Paul, MN 55155

Alice Hausman  
453 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Blvd  
Saint Paul, MN 55155

**RE: Housing Affordability Institute Report on City Building Permit Fees**

Dear Representatives Becker-Finn & Hausman:

On behalf of the City of Roseville, we are writing to express our concerns regarding the report recently released by the Housing Affordability Institute titled "Building Permit Fees: Boosting the Bottom Line for Minnesota Cities". This report lacks the complete picture and doesn't reflect what is happening locally in Roseville. The purpose of our letter is to provide some general information that supports our belief the report lacks necessary context, but also to share information specific to Roseville. Our hope is you will consider these points as this conversation continues at the legislature and support future forums that offer a more balanced discussion.

To our point, we offer the following information:

- The report only examined years 2014-2018, which were strong economic growth years. If the report examined the five years prior to 2014, the data will tell a very different story where building permit revenue was not sufficient to support City expenses related to development. We would advocate to examine ten years of data, which would include both an economic slump and surge and likely show cities are not profiting on the backs of development as this report suggests.
- The data collected for the report did not fairly account for all City costs related to development. This includes administrative, engineering, planning, and zoning expenses. To ensure fair and accurate data collection, we would advocate the reporting forms for the Department of Labor and Industry be revised to ensure cities are accurately reporting all costs they incur related to development.
- State laws provide that building permit fees are based on valuation, including labor and materials, and builders and developers are the ones setting those valuations during the permitting process. Although this report focuses on City fees, a complete picture should include the fact that the largest variable for building a home is labor and materials at 48-55% of the total cost, followed second by land costs (noted in the report). Further, the value of a home varies greatly from community to community.
- This report is suggesting City fees are contributing to an inability to create enough affordable housing. However, the report uses examples of homes with an average price of nearly \$400,000, includes fees for improvements that are elected by the builder (such as a pool), and excludes



September 26, 2019

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readily available data on development-related expenses. This is a disingenuous attempt to inflate the cause for which their organization supposedly is advocating.

Beyond the lack of context, the City of Roseville prescribes to the notion that growth pays for growth and is very studious in regards to our accounting practices to ensure other City services are not funded on the backs of fees paid by builders and developers. To support this statement, be advised that:

- Roseville strives to maintain transparency in regards to development-related fees. Larger-scale developments result in Public Improvement Contracts that are negotiated with the developer. This process ensures the developer pays for improvements (streets, sidewalks, sewer, water, storm water, etc.) that support their development so that taxpayers in Roseville are not unfairly burdened by the cost of growth.
- Financially, Roseville allocates all development costs separately from the general fund, including building permit revenue. Roseville can demonstrate that year-after-year staff involved in review, approval, and inspection of development are being funded by the revenue their services generate.
- Any excess revenue collected over a given year is not allocated to the City's general fund to support other un-related City services. Instead, it resides in the City's Community Development fund and supplements years where revenues are insufficient to fund Community Development's operations.
- The City of Roseville annually examines our Fee Schedule to ensure the fees we're charging are fair and reasonable, and relate to the actual costs incurred to review, analyze, administer and inspect development.

The City of Roseville is very concerned about the lack of affordable housing and is using available public finance assistance tools (tax credits, tax increment, fee waivers) to help overcome the reality that new construction simply isn't affordable. While we applaud the Housing Affordability Institute's efforts to find solutions to the housing affordability crisis, we would advocate for a more balanced discussion that would be far more constructive to advancing change.

We would be happy to discuss any of the information contained herein, or address any questions or concerns you may have surrounding this issue. Thank you for your attention to this letter!

Sincerely,  
City of Roseville

A handwritten signature in blue ink that reads "Pat Trudgeon".

Pat Trudgeon  
City Manager

A handwritten signature in black ink that reads "Janice Gundlach".

Janice Gundlach  
Community Development Director

cc. Mayor Roe  
City Council members

# Estimated City Fees On New \$375,000 House



<b>Building Fees</b>	
Building Permit	\$ 3,159
Plan Review (Building Permit)	\$ 1,978
Plumbing Permit	\$ 304
Mechanical Permit	\$ 321
Electrical Permit	\$ 180
Sewer/Water Permits	\$ 199
<b>Estimated Building Fees</b>	<b>\$ 6,141</b>

<b>Engineering Fees</b>	
Plan Review (Building Permit)	\$ 125
Plan Review (Sewer, Water Permits)	\$ 50
Erosion Control Permit	\$ 625
Stormwater Review	\$ 75
Public Improvement Engineering Fee*	\$ 950
Grading	\$ 200
<b>Estimated Engineering Fees</b>	<b>\$ 2,025</b>

\*Varies depending on scope - 4% of improvement costs

<b>Development Phase Fees**</b>	
Open House for Plat	\$ 275
Platting	\$ 472
Plat Escrow***	\$ 625
Tree Preservation	\$ 77
Tree Preservation Escrow***	\$ 125
Park Dedication	\$ 4,000
<b>Estimated Development Phase Fees</b>	<b>\$ 5,574</b>

\*\*Assumes at least four lots and one acre of land

\*\*\*Balance not spent on 3<sup>rd</sup> party costs returned to applicant

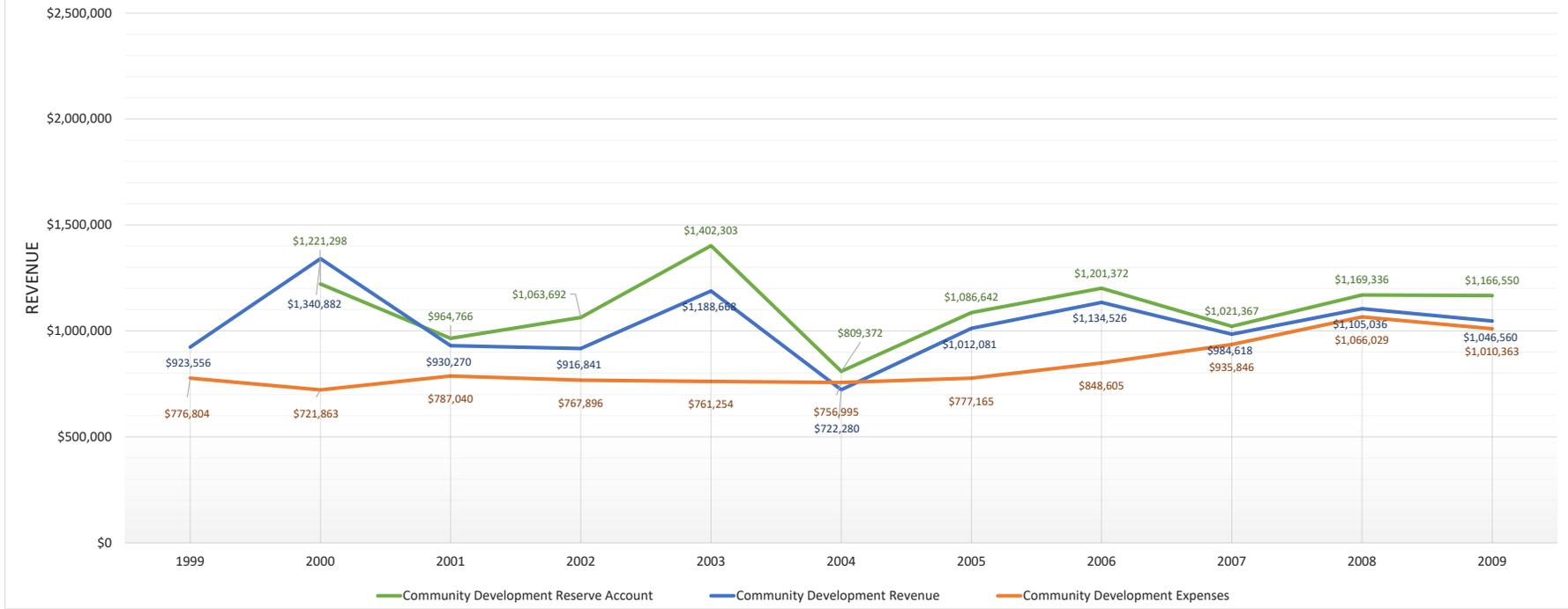
<b>Other Fees Collected by City (Passed Through to Outside Agencies)</b>	
State Surcharge	\$ 202
Metropolitan Council - SAC Unit	\$ 2,521
<b>Estimated Passed Through Outside Agencies Fees</b>	<b>\$ 2,723</b>

<b>Other Escrows/Deposits (Returned to Applicant Upon Completion)</b>	
Construction Deposit	\$ 1,000
Erosion Control Escrow	\$ 3,000
Grading Escrow	\$ 3,000
Public Improvement Escrow (Based on total cost of public improvements)	125%
Water Meter Deposit	\$ 215
<b>Estimated Escrows/Deposit Refund Fees****</b>	<b>\$ 7,215</b>

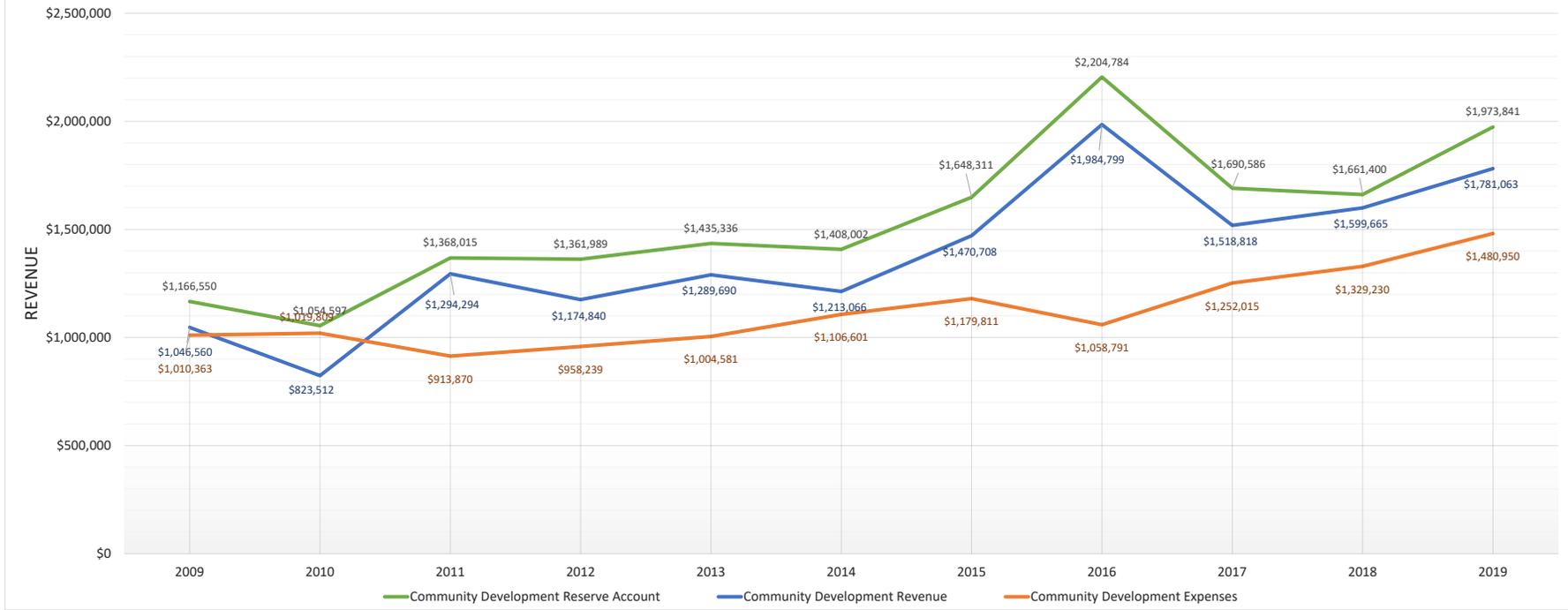
<b>Estimated Total Fees at Permit Issuance****</b>	<b>\$ 23,678</b>
Subtract Outside Agencies and Estimated Escrows/Deposit Refund Fees****	- \$ 9,938
<b>Estimated Total City Fees Retained****</b>	<b>\$ 13,740</b>

\*\*\*\*Does not include 125% Public Improvement Escrow

10 Year Comparison (1999-2009)  
Community Development Reserve Vs Revenue Vs Expenses



10 Year Comparison (2009-2019)  
Community Development Reserve Vs Revenue Vs Expenses



### 20 Year Comparison (1999-2019) Community Development Reserve Vs Revenue Vs Expenses

