



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3101
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Kyle Butler, Budget Analyst

Date: September 25, 2014

Subject: DEVELOPMENT FEE UPDATE – PRELIMINARY FEE RECOMMENDATIONS

RECOMMENDATION:

City Council reviews the preliminary development fee recommendations and provide further direction to staff.

BACKGROUND DISCUSSION:

A brief history of the City's past development fee studies was provided at the August 6, 2014 Council meeting and the preliminary cost of service results were reviewed at the September 2, 2014 Council meeting. This memo summarizes the preliminary fee recommendations from the most recent development fee update.

As discussed in the prior staff report, target recovery levels (expressed as percentages) were established by Council, most recently in 2007. At the September 2 meeting, Council requested more information on how the target recovery levels were originally set. Attachment A contains excerpts from the 1998 and 2004 studies discussing how the levels were originally set (1998) and revised (2004). Council provided direction to focus on adjusting fees in Planning and Fire Prevention to move closer to the target cost recovery and defer consideration of moving toward full cost fees until a future update.

The cost recovery targets by cost layer were applied to each department based on the time spent in each activity in 2013, resulting in the following cost recovery targets.

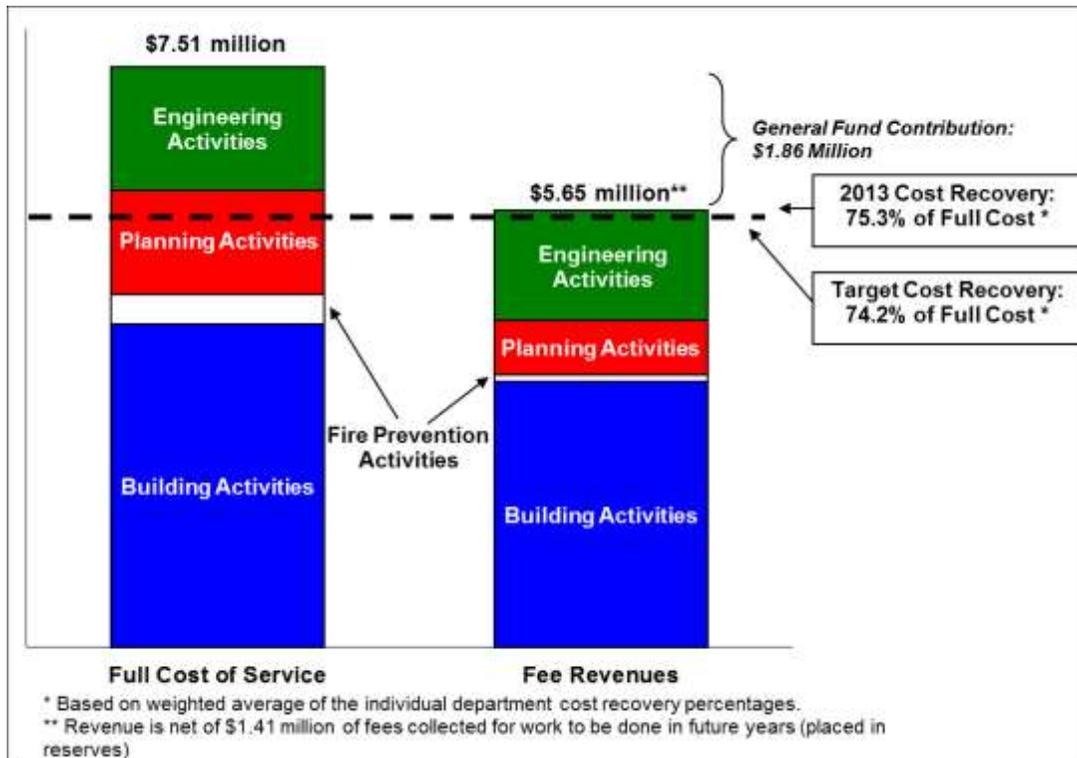
Service Cost Layer	Building Services	Fire Prevention	Planning*	Engineering	Overall
Direct Services	100%	100%	80%	80%	90%
Code Enforcement	0%	0%	0%	0%	0%
Public Information	50%	50%	20%	50%	36%
Policy Development	20%	20%	20%	20%	20%
Department & City Overhead	as others	as others	as others	as others	as others
2013 Updated Target Recovery	83%	84%	55%	77%	74%

* Costs exclude long-range planning activities.

As summarized in the September 2 staff report, the 2013 cost of service update applies the same methodology used in previous updates whereby current costs were determined, the current targets were applied and a comparison against actual revenue was made. In finalizing the preliminary results as presented at the September 2 meeting, staff determined that the 2013 revenue figures were incomplete for Planning and Public Works

activities. Updating these figures improved the cost recovery picture, particularly for Planning activities. The revised figures are reflected in the information that follows.

The revised full cost of development services in 2013 was \$7.51 million, of which \$5.65 million was recovered from fees. Overall, estimated fees for development activities recovered 75% of full cost, which is about \$39,000 above the target recovery in 2013 of 74%. This means that 75% of the total cost of providing these services is paid from fees, with the remaining \$1.86 million not covered by fees paid by General Fund tax revenues. It is important to recognize that this evaluation looks at a snapshot in time (calendar year 2013), while the development process can span years. The fee revenue shown is net of revenues set aside to pay for work that will occur in future years. Evaluating the target recovery is not a precise exercise, rather it is intended as an indicator that fees are reasonably in-line with Council policy. The chart below compares the full cost of development services actual revenues in 2013.



Council direction at the September 2 meeting was consistent with the staff recommendation, as follows:

- Rather than adjusting the cost recovery targets, focus on moving fire prevention and planning activities closer to the current target by increasing fire prevention fees, the Process I planning fee and potentially other under-recovering activities. *Based on the revised figures, staff is no longer recommending an adjustment to the Process I planning fee.*
- Defer consideration of phasing in full cost recovery to a future fee update.
- Process housekeeping adjustments to other selected fees to recognize current practices or modify applicant behavior.
- Increase the current MBP.com surcharge to cover costs and fund other market-driven technology improvements.

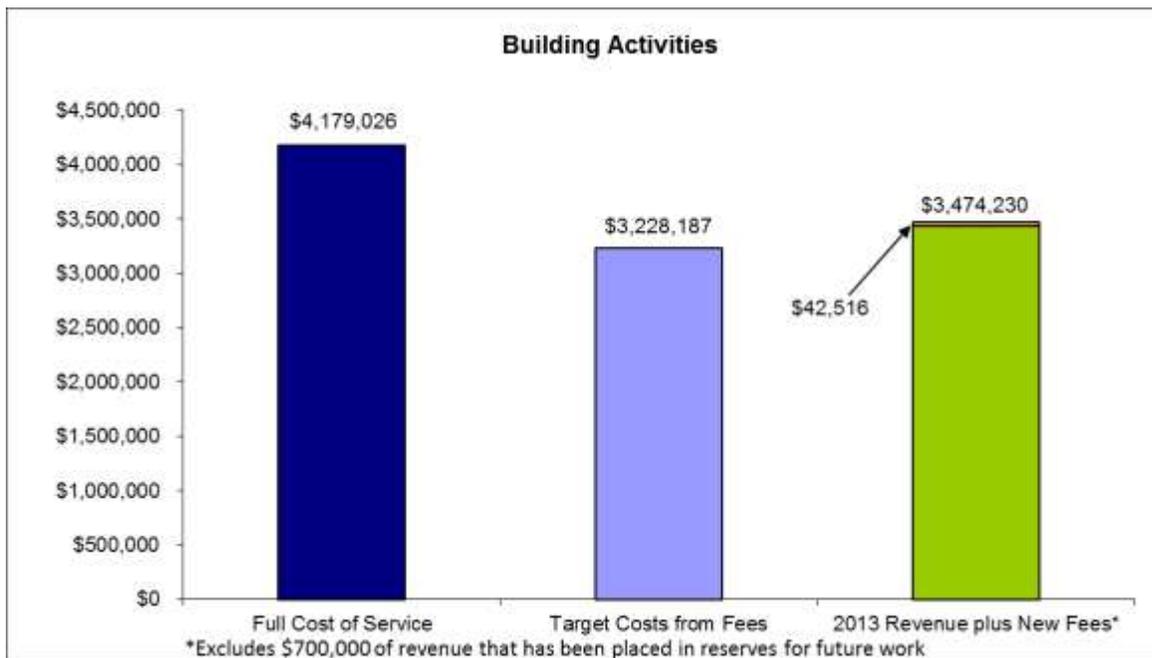
The specific fee recommendations are described below. The charts following each activity compare the full cost, target cost, revised 2013 revenues (net of reserves for future work) and what those revenues would have been with the proposed new fees for building services. The estimated new revenue from fees is identified by the orange portion of the bar labeled: "2013 Revenue plus New Fees".

Building services are slightly over their target cost recovery. While the building services are slightly over-recovering compared to target, they are in fact still recovering substantially less than the total cost of providing these services.

No major fee changes are recommended, since the fee structure for building activities is recovering the identified target costs because the annual update of the valuation tables helps keep pace with inflation. Several minor fee changes and housekeeping adjustments are proposed; the most significant changes include:

- Establish a minimum fee for Stop Work Orders at \$200; and
- Increase the fee for Demolition permits from \$26 to \$250 as these permits are currently recovering only one tenth of the work's cost.

New fees in building have also been proposed that are administrative in nature or designed to create customer convenience, such as the innovative "annual electrical permit" for institutional customers like hospitals. The new annual electrical permit will allow institutions that have an electrician on staff to apply for one master permit per year and have pre-paid monthly inspections, saving them and the city time processing electrical permits. The other recommended changes are housekeeping in nature; all of the recommended changes in building fees are summarized in Attachment B. The new fees are expected to generate a \$42,000 increase in revenue, with \$37,000 of that coming from the increased demolition permit fee.



Fire Prevention activities are below their target recovery. The fees for fire prevention-related development activities are generating 29% of the target costs to be recovered. In the past, the Fire Prevention Division has raised the issue that the City's fees are substantially lower than those in surrounding jurisdictions. In order to reach the target recovery level, fire prevention fees need to increase 240%.

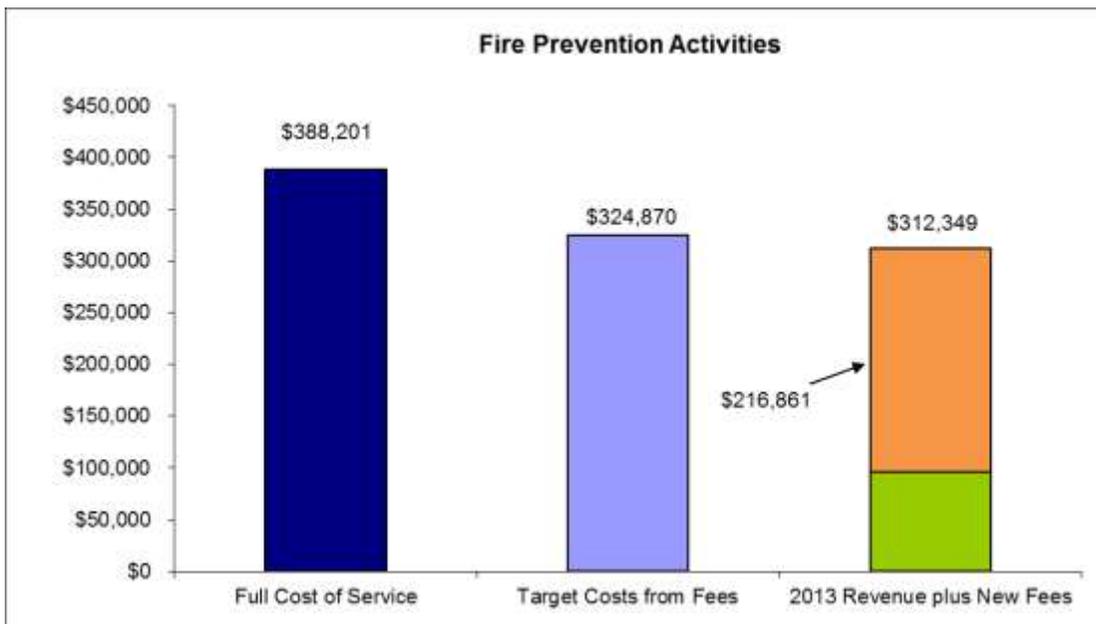
Fire Prevention fees have been identified by staff as a candidate for a complete fee overhaul, with a new fee structure and new rates being proposed. The new structure is designed to bring Fire Prevention fees closer to cost recovery targets and make fees simpler to administer. The changes that are proposed are focused on simplifying the fee structure for fire plan review, sprinkler systems, fire detection systems and creating a list of standard fees for common International Fire Code (IFC) permits. The new fee structure has been built with the intent of simplifying and standardizing the fees across construction types, while also eliminating most hourly billing in favor of valuation based fees and fixed fees. All of the new fees have been adjusted based on the hourly rate of \$141 per hour generated from this fee update and the estimated number of hours needed to

complete each unit of work. Attachment C contains a full listing of the proposed revisions to the fees for Fire Prevention activities. The projected cost recovery for each major category is summarized in the table below.

Fire Prevention Costs, Revenue Allocations and Recovery						
	Full Cost	Target Cost	2013 Revenue	Target Cost Recovery at Current Fees	2013 Revenue with fee changes	Target Cost Recovery with new fees
Fire Prevention Activities**						
Fire Systems Permits	\$ 227,885	\$ 190,682	\$ 62,879	33%	\$ 190,340	100%
Fire Plan Review	\$ 132,233	\$ 110,660	\$ 30,643	28%	\$ 110,250	100%
UFC Permits	\$ 28,113	\$ 23,527	\$ 1,967	8%	\$ 11,760	50%
Total Fire Prevention	\$ 388,231	\$ 324,869	\$ 95,488	29%	\$ 312,350	96%

These new fees are expected to generate \$217,000 in new revenues and bring the cost recovery to 96% of target. The additional revenue would fund the fire plan review performed by the Deputy Fire Marshal and the potential addition of resources to handle the workload. Additional resources should provide added capacity for fire inspectors to carry out more non-fee generating inspections, consistent with the recommendations of the Fire Strategic Plan. While the size of the increase seems very large, Kirkland’s fees are much lower than those charged by other jurisdictions. The table below compares the fees under the current and proposed rates for sample projects with those of nearby jurisdictions. The proposed changes still place Kirkland’s fees at the low end of the comparables. As better data is collected to assess workload needs, further refinements to the fees may be recommended in the future.

Fire Protection Fees for Fire Plan Review, Sprinkler and Fire Detection Systems (combined)					
New Construction Type	Kirkland (Current)	Kirkland (Proposed)	Redmond	Bellevue	Bothell
Large Office Building	\$ 2,381	\$ 7,162	\$ 9,234	\$ 13,185	\$ 20,943
Type of new construction	\$ 1,799	\$ 2,269	\$ 6,050	\$ 5,239	\$ 6,383
Big Box Retail	\$ 1,799	\$ 2,269	\$ 6,342	\$ 5,950	\$ 7,922
Strip Retail	\$ 1,328	\$ 1,560	\$ 5,539	\$ 3,930	\$ 3,690
Mixed Use Development	\$ 1,900	\$ 2,269	\$ 6,681	\$ 5,833	\$ 9,461
Single Family Home	\$ 416	\$ 425	\$ 1,036	\$ 1,173	\$ 387
Multi-Family (50 Units)	\$ 2,046	\$ 2,269	\$ 6,681	\$ 5,581	\$ 9,461



The Planning development activities are recovering 84% of the target level recovery. For these activities to recover the target cost of 55%, an overall fee increase of 20 percent would be required. *This result is significantly closer to the target recovery than the preliminary data presented on September 2 due to the addition of revenues that had been inadvertently excluded.* The primary drivers of the under-recovery and related recommendations are:

- The costs of pre-submittal meetings far exceeds the revenues generated by the \$518 fee, as shown in the table below. Previous City Councils made the explicit decision to subsidize these fees and the September 2 Council meeting, the Council directed that this level of subsidy continue to keep this important part of the process affordable. To some extent, the unrecovered costs of this activity are recovered through the other Planning activity fees.

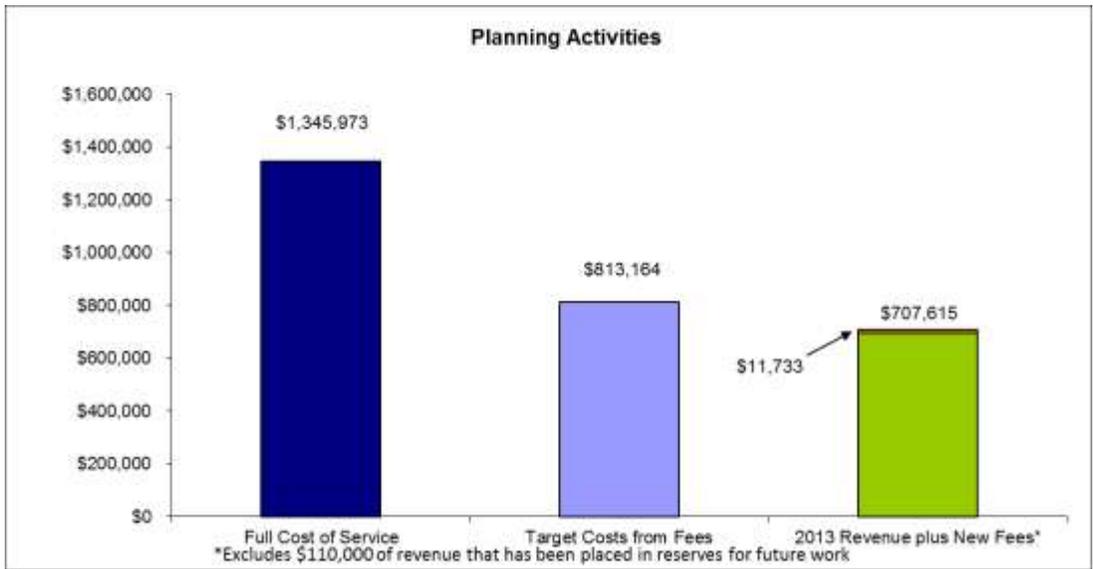
Pre Submittal Meetings	Building	Fire Prevention	Planning	Public Works	Total
Full Cost	\$23,230	\$67,429	\$253,219	\$146,340	\$490,217
Current Target Recovery	83%	84%	55%	77%	74%
Target Cost	\$19,243	\$56,429	\$139,387	\$112,151	\$327,210
Current Revenue					\$82,356
Actual Recovery					17%

A change in the pre-submittal meetings refund/credit policy is proposed. Currently, a request can be made to refund the fee if a permit is applied for (effectively crediting it against the permit fee), but very few applicants request this credit (8 out of 169) and processing the refund is administratively cumbersome. Given the heavy subsidy of this activity, staff recommends eliminating the refund policy.

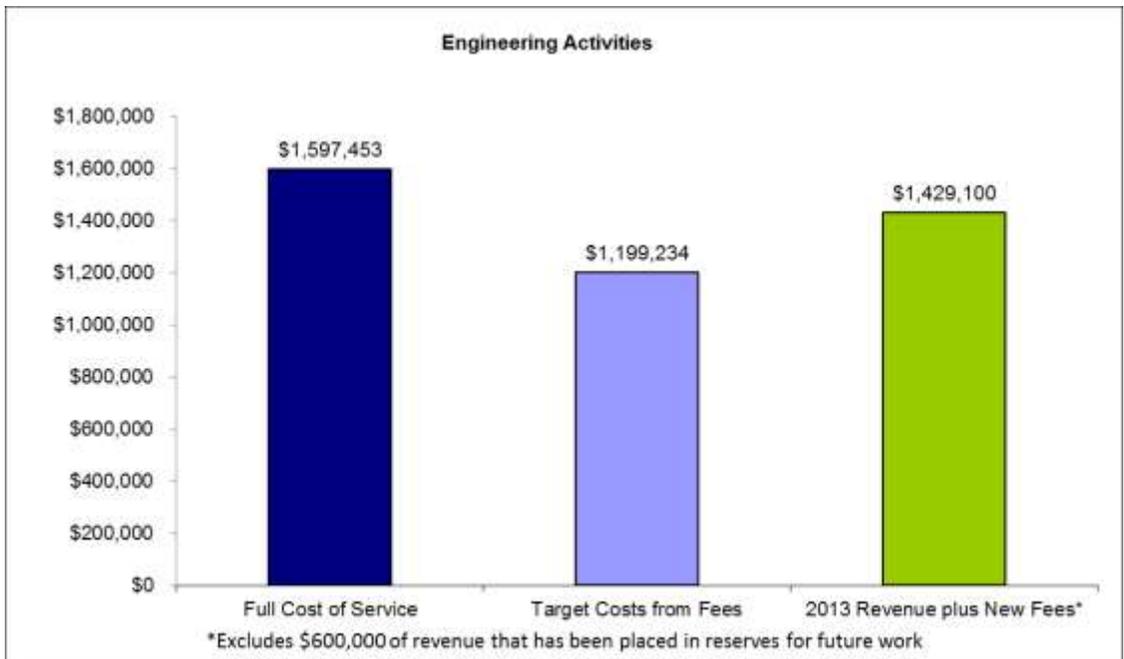
- Environmental Review (SEPA) fees are only recovering 15% of the target cost recovery for that service. Staff recommends that the base fee be increased from \$567 to \$927, which is expected to generate \$5,000 in new revenues.
- Staff recommends reinstating the charge for Zoning Verification Letters. These are discreet requests from developers, realtors, and consultants for technical information for specific properties. While zoning information is available on-line to potential developers, lenders often require written documentation of the zoning from the City to secure financing. The research and preparation of these letters takes approximately 2.5 hours and a fee of \$205 is recommended. This fee is expected to generate \$3,000 in new revenue.
- The earlier memo indicated that the Process I review fee were significantly lower than the costs to provide the service; the revised revenues no longer indicate a shortfall, so no changes to the Process I fees are recommended.*

The proposed changes are shown in Attachment D. These fee proposals would generate approximately \$11,733 in new revenues in total. The table below compares these changes to the fees charged by neighboring jurisdictions.

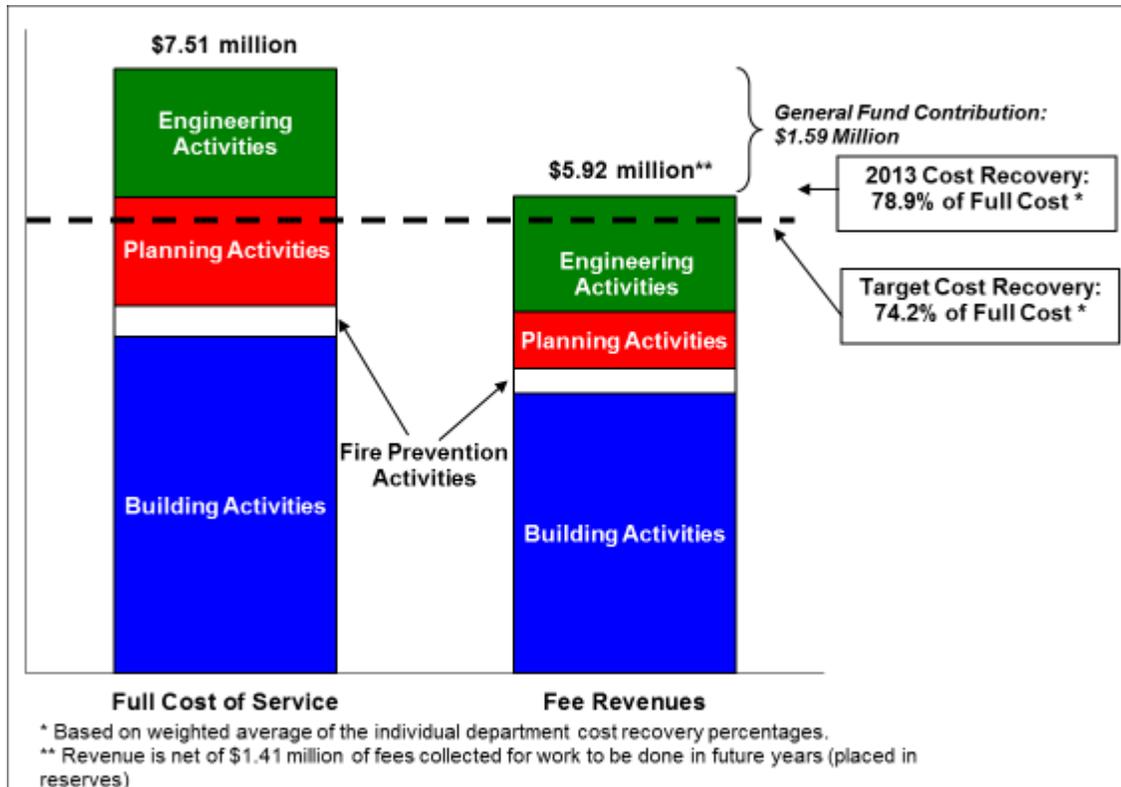
Planning Department				
Proposed Planning Fee Changes	Fees			
	Kirkland (Current)	Kirkland (Proposed)	Redmond	Bellevue
Zoning Verification Letter	n/a	\$ 205	n/a	\$ 310
Eliminate Pre-Submittal Fee refund	\$ (518)	\$ -	n/a	n/a
Environmental Review Base Fee	\$ 567	\$ 927	\$ 2,414	\$ 1,562



Public Works engineering fees are over the target recovery, but still less than full cost recovery. It should be noted that engineering services functions are much like building permit activities in that revenue received in one year is needed for ongoing services in the following year. In addition, the fees are based on the valuation of the improvements based on average costs, which causes them to grow with construction inflation but also be more subject to significant fluctuations. The Public Works Department is not proposing any fee changes at this time, as the department's valuation-based fees have allowed the fees to keep pace with costs and the department has continued to meet target revenues.



The chart below compares the 2013 full cost of development services with what the revenues would have been with the staff-recommended fee adjustments.



While the recommended fees would have recovered more than the targeted costs in 2013, it is important to recognize the resources have been added since 2013 to help manage the workload. The revenues and expenditures that will be proposed in the preliminary budget are expected to keep cost recovery near target levels, assuming that development occurs as projected. This means that each category would still receive a significant General Fund subsidy, even after the fee increases (\$1.59 million based on 2013).

MyBuildingPermit.com (MBP) Permit Surcharge

The City of Kirkland currently collects a 1.3% surcharge to pay the costs of the City's participation in MyBuildingPermit.com. Recent increases in the costs of MBP to enhance functionality and the structure of how the City is charged necessitated and examination of the amount and purpose of the surcharge. To absorb the cost increase for the increased functionality of MBP results in an increase in the surcharge amount to 1.5%. In addition, a temporary Applications Analyst at Kirkland has had a central role in implementing enhancements to both MBP and the City's permitting process. The City's Building Official, Tom Phillips, has presented the concept of increasing the surcharge to 3.5% to fund the Applications Analyst to the Master Builders and has received their support, in recognition of the value provided to the development community (see letter in Attachment E). Based on the revenues included in the preliminary budget, the surcharge is expected to generate approximately \$210,000 per year. Staff is recommending that the surcharge be increased from 1.3% to 3.5%, with any revenues above the funding of MBP and the Applications Analyst set aside as a reserve to help pay MBP costs during development downturns.

Comparative Data and Competitiveness

Attachment F contains the summary report from the 2012 Update of the *Competitiveness Assessment* prepared by Berk Consulting. Exhibit 4 of that report contains estimates of locally-variable costs by jurisdiction, including permit fees. A review of the underlying data indicates that there have not been substantial shifts in the overall comparisons. One of the main observations in the study was that land costs are the largest locally-variable cost factor and the permit fees represent a small share of the project's overall costs. The study indicates that land costs is a more dominant factor than locally controlled costs such as permit fees. At the September 2 Council

meeting, Council requested that staff contact Berk Consulting and inquire whether the change in the development market would alter their conclusions from the 2012 Update. Berk Consulting Principal Michael Hodgins indicated that healthier development activity and low vacancy rates put more pressure on the market and land values become an even greater factor in development decisions. This tends to render the portion of the costs that the City controls a smaller factor in the decision.

Summary and Next Steps

To summarize, staff is recommending to following:

- Rather than adjusting the cost recovery targets, focus on moving fire prevention and planning activities closer to the current target.
- Defer consideration of phasing in full cost recovery to a future fee update.
- Process housekeeping adjustments to other selected fees to recognize current practices or modify applicant behavior. *Note that one of the adjustments will be to change the fees in the Kirkland Municipal Code to reflect the 2.7% administrative adjustment for CPI that was applied effective January 1, 2013.*
- Increase the current MBP.com surcharge to cover costs and fund other market-driven technology improvements.

Based on Council on October 7, staff is planning to bring ordinance forward for adoption at the first meeting in November, will new fees effective January 1, 2015.

Attachments

- A – Excerpts of Cost Recovery Discussions from the 1998/2004 Fee Studies
- B – Building Fee Recommendations
- C – Fire Prevention Fee Recommendations
- D – Planning Fee Recommendations
- E – Letter from Master Builders Association
- F – December 2012 Competitiveness Assessment Report

Attachment A

Excerpts from:

City of Kirkland – Phase 2 User Fee Study
Development Services Cost of Service Analysis (1998)

City of Kirkland – Development Review
Cost of Service Analysis and Fee Update (2004)

Development Fees Ordinance - Staff Memo (March 2005)

2. **Recommended Cost Recovery**

Cost recovery targets will be discussed frequently throughout the remainder of this report. *They are defined as the level of costs (a percentage of full cost) that the City is recommending should be paid for by development fees.*

Extensive discussions were held with City staff on how to set the level of cost recovery for each layer. It was the consensus of the study group that cost recovery targets be set on a consistent basis City-wide for all cost layers except Direct costs which were established by department. The result is as follows:

- **Direct Development Services Cost Layer** – Each department will determine its cost recovery target for this pool of costs based on the level of work attributable to private benefit. Therefore, the recovery percentage recommended for this layer will vary by department.
- **Indirect Cost Layers Code Enforcement, Public Information, and Policy Development** – A consistent target recovery rate for all departments should be set.
- **General Administration, Training, Departmental Overhead, and City-wide Overhead** – The departments will recover these cost layers based on a weighted average of how all other cost layers are recovered.

Department management and staff openly reviewed current practices and considered the level of activity in each layer attributable to public inquiry versus private projects. For example, the layer "Public Information" was determined to have a cost recovery rate of 50%. Such a target was the outcome of a discussion reviewing how much of so-called "front-counter" time is spent on specific development projects as opposed to general information. For example, the Fire/Building Department estimates that about 80% of its Public Information time is development-specific while the Planning Department estimates 20% of its time as development-specific. Based on this discussion, a City-wide determination on Public Information time was set at 50%. The result of these discussions were the percentages used to apply to each cost layer which generated the target cost.

Exhibit I displays the recommended cost recovery targets based on City staff's discussions of public/private benefit.

Exhibit I. Summary of Cost Recovery Targets by Cost Layer

Cost Layer	Building Services	Fire Prevention	Planning	Public Works
<p>Direct Development Services</p> <p>These costs represent the direct, hands-on work performed to provide development services. Both Planning & Public Works consider part of their regulatory responsibilities benefit the public by protecting existing City environment, character, and infrastructure; whereas, Building and Fire solely benefit the private projects they regulate.</p>	100%	100%	25%	80%
<p>Code Enforcement</p> <p>These costs are associated with ensuring compliance with City code. The discussion focused on not penalizing compliant development projects for those who do not follow City regulations. These costs might be recovered through fines or penalties, which were not addressed by this study.</p>	0%	0%	0%	0%
<p>Public Information</p> <p>The departments set cost recovery based on their judgement on the amount of front-counter time that is attributable to the level of development active in the City.</p>	50%	50%	50%	50%
<p>Policy Development</p> <p>This level of recovery was determined because much of the City's planning and policy development focuses on maintaining a specific community "look and feel" for the public. In addition, much of the planning aspects the City performs are required regardless of the level of ongoing development.</p>	20%	20%	20%	20%
<p>General Administration, Training, Department & City-Wide Overhead</p> <p>The labor costs and expenses associated with these activities are targeted to recover in proportion to the recovery levels in the other cost layers based on a weighted average of each department's cost recovery. It is assumed the level of work is proportional to that under all others.</p>	weighted average of all other cost layers			

Committee, and ultimately decided upon by the City Council. The percentages were set to reflect the amount of private benefit attained by the service, with the concept that the percentage of private benefit should be built into fees while the public benefit portion of the full cost should be borne by resources in the General Fund.

The recovery targets are established at the service layer level; that is, each direct and indirect service cost pool in each department has a cost recovery percentage assigned to it. When a department is evaluated in total, this mix of costs and recovery percentages results in a weighted average recovery target for each department's development review work. From year to year as fees are evaluated, the individual percentage targets for each service layer do not change; however, the costs themselves do shift between activities as workload shifts. This dynamic causes the total recovery percentage for each department to change slightly from year to year.

In this update, the cost recovery targets were left as adopted in 1998 and revised and affirmed and 2001, with one exception. At the time of the original 1998 study, staff in each department recommended a unique recovery percentage for their Direct Services layer, and all other indirect and overhead service layers were assigned a consistent target across all departments. This distinction recognizes that each department provides unique Direct Services, which yield a different mix of public and private benefits, but that the content of the work in all other indirect service layers is comparable between departments.

In the 2001 update, staff in the Planning Department recommended a small change to their cost recovery targets to address a perceived imbalance in service layer recovery rates. This change increased the recovery of Direct Services to 40% of full cost (from 25%) and decreased the recovery of Public Information to 20% (from 50%). From the department's perspective, this revision addressed a perception that implementing a higher recovery target for Public Information than that set for Direct Services is difficult to explain to the public. This revision did not change the overall cost recovery target for the Planning function.

In this 2004 study, staff in the Planning Department recommended further changes to their Direct Services cost recovery target to further mitigate perceived imbalance between the amount of Direct Costs and Indirect Costs included in the cost pool. This change increased the recovery of Direct Service consistent with Engineering Services to 80% of full cost (from 40%), while keeping all other recovery targets consistent with the 2001 update. The rationale behind the use of an 80% recovery target for Direct Services, as documented during the 1998 study process for Engineering fees, is that while most of the work performed is due to the activities and needs of the private applicant (private benefit), the purpose of the regulations are due in part to protect the greater interests of the community, such as health, safety, integrity of City-owned infrastructure, and community character (public benefit).

In addition, the revised targets were applied to an adjusted Planning cost pool. The costs associated with long-range planning were excluded from the Planning pool, since they are paid in their entirety by the General Fund. While the overall cost recovery target increased from 24% to 53%, the target was applied to a lower full cost of service. This revision increased the department's overall target recovery rate from the 2001 study; however, it is relevant to note that the department's overall target, calculated at 53%, is still well below full cost recovery. The

increase in the cost recovery rate is offset somewhat by the reductions to the City-wide and departmental overhead costs that are allocated to the development activities. The result is that Planning's total target cost in this update has a larger percentage of direct costs and a smaller percentage of indirect costs than the target cost calculated in 1998 and 2001. Exhibit 1 summarizes impacts of the changes in Planning targets since the 1998 study.

EXHIBIT 1. Historical Planning Cost Recovery Targets

Cost Layer	1998 Fee Study			2001 Fee Study			2004 Fee Study		
	Full Cost	%	Target Cost	Full Cost	%	Target Cost	Full Cost	%	Target Cost
Direct Services	\$609,098	25%	\$152,275	\$474,264	40%	\$189,706	\$716,320	80%	\$573,056
Code Enforcement	\$113,469	0%	\$0	\$164,723	0%	\$0	\$230,768	0%	\$0
Public Information	\$158,289	50%	\$79,145	\$190,268	20%	\$38,054	\$231,515	20%	\$46,303
Policy Development	\$503,626	20%	\$100,725	\$753,954	20%	\$150,791	\$11,283	20%	\$2,257
Department & City Overhead	\$1,120,222	24%	\$268,853	\$1,556,704	24%	\$372,212	\$638,461	52%	\$333,542
Target Cost Recovery	\$2,504,704	24%	\$600,997	\$3,139,913	24%	\$750,762	\$1,828,348	52%	\$955,158

The cost recovery targets for each service layer in each department are listed in Exhibit 2, and the rationale behind each direction can be referenced on pages 11 and 12 of the 1998 study report. For cost recovery and summary purposes Fire Prevention and Building Services were combined. The methodology for determining the cost remains consistent with the 1998 study and the 2001 update.

EXHIBIT 2. UPDATED COST RECOVERY TARGETS

Service Cost Layer	Building Services & Fire Prevention ¹	Planning	Engineering
Direct Services	100%	80%	80%
Code Enforcement	0%	0%	0%
Public Information	50%	20%	50%
Policy & Planning	20%	20%	20%
Department & City Overhead	as others	as others	as others
2004 Updated Target Recovery ²	91%	52%	71%

¹ Includes only that portion of Fire Prevention related to development review services.

² In total, based on these calculations, the City targets 71% cost recovery from all development fees.

2004 Development Study Conclusions

The 2004 cost of services update started with the same methodology as the 2001 update whereby current costs were determined, the current targets applied and a comparison against actual revenue made. As a result of that analysis, staff recommended a few changes to the methodology and cost recovery policy that are a better reflection of costs and benefits.

Two modifications were recommended:

1. One of the modifications deals with the data used in determining the amount of cost recovery. In the 2001 update, budgeted revenues were compared to budgeted costs and established recovery policies to determine the percent recovery of target costs. In reviewing the initial results of the 2004 update, development review staff felt that a more accurate picture could be achieved by using actual revenues received instead of budgeted revenues. Since actual revenue has exceeded budgeted revenue for the past several years, consequently using budgeted revenue would understate actual recovery levels. In this update the 2003 actual revenues were used in comparison to the 2004 budgeted costs, with staff time allocated based on time data from 2003.
2. The modification with the most significant impact is once again related to recovery targets for Planning-related development services. Using the 2001 recovery targets, the Planning Director believed that the amount of direct services being recovered is disproportionate to the sum of indirect layers (Public Information, Policy Development, and Overhead). Policy Development includes long range planning activities such as the comp plan update, development of neighborhood and business district plans and zoning code updates. Two changes are recommended to Planning Department target recovery levels and methodology. First, that a greater percentage recovery of direct costs (those specifically related to permitting) is a more realistic and defensible approach to the recovery of costs through fees. The proposed change is to increase the recovery target for direct services in the Planning Department from 40% to 80%. This recovery level for direct services is more consistent with targets established for other development functions.

Second, that the percent target recovery for the Policy Development layer not decrease; but that the definition of costs to be included in this layer change. Previously, all of the time related to long range planning was included in the indirect layer of Policy Development thereby inflating the department "overhead". Staff felt that although there is some tangible benefit to the development community from the long range planning functions, including the full scope of the costs was not justified. Only the portion of the staff time and non-labor costs of the long range function that have a direct relation to the permitting function should remain in the Policy Development layer. Additionally, the Department and Citywide Overhead layers were redefined for the Planning Department. By excluding a portion of the long range planning function from the Policy Development layer, the citywide and department overhead layers were reduced proportionately.

The following table shows the differences in percentages and costs for each direct and indirect layer from the original study to the proposed changes for 2004 for the Planning Department.

Cost Layer	1998 Fee Study		2001 Fee Study		2004 Fee Study*	
	\$	%	\$	%	\$	%
Direct Services	152,275	25%	189,706	40%	554,646	80%
Code Enforcement	0	0%	0	0%	0	0%
Public Information	79,145	50%	38,054	20%	44,815	20%
Policy Development	100,725	20%	150,791	20%	2,257	20%
Dept. & Citywide Overhead	268,747	as others	372,212	as others	467,067	as others
Target Recovery	\$600,892	24%	\$750,763	24%	\$1,068,785	52%

* Proposed modifications for Council consideration

After these changes were made to the methodology, the relationship between direct and indirect costs was more representative and the Planning Department's overall target recovery percentage increased from 28% in the 2001 study to 52%.

Excerpt from 2005 Development Fees Ordinance Staff Memo

The following table shows the comparison of target cost recovery percentages between each department for the 2004 study.

Service Cost Layer	Building & Fire Prevention Services*	Planning	Engineering
Direct Services	100%	80%	80%
Code Enforcement	0%	0%	0%
Public Information	50%	20%	50%
Policy & Planning	20%	20%	20%
Department & City Overhead	as others	as others	as others
2004 Updated Target Recovery	91%	52%	71%

*Includes only that portion of Fire Prevention related to development review.

The following chart compares the actual costs of each department and function in relation to the actual revenue received.

Costs to be Recovered	Bldg & Fire Prev. Svcs*	Planning	Engineering	TOTAL
Full Cost of Service	\$2,379,383	\$1,526,287	\$875,397	\$4,781,067
Target Costs from Fees	1,892,956	841,249	623,721	3,357,926
2003 Actual Revenue	2,442,377	648,643	355,450	3,446,470
Current Recovery of Target Costs	129%	77%	57%	103%
Fee Adjustment to Meet Target	0%	30%	75%	0%

*Includes only that portion of Fire Prevention related to development review.

- The Planning development activities across all three functions are recovering at 77% of the desired level.** Although it appears that we are under-recovering Planning-related costs, this would be a substantial improvement from the 2001 study where Planning functions were recovering at 42%.
- Building services and fire prevention activities are achieving 129% of its target cost recovery.** Although the results would suggest that the building and fire prevention services are over-recovering, they are in fact still recovering less than the total cost of providing these services. Furthermore, the study looks at a point in time in regards to cost and revenue. The building and fire prevention services workload related to specific permits may extend over a long period of time and revenues that are received in one year are needed to pay for ongoing services that may cross into the following year (e.g. inspections). Over-recovery of target costs in one particular year may be offset by under-recovery in the preceding or following year. Actual revenue performance has fluctuated over the years as a result of economic cycles and their influence on the level of development activity and fee changes approved by Council.
- By contrast, **fees for Public Works engineering are under-recovering compared to their target by currently recovering only 57% of target costs.** It should be noted that engineering services functions much like building permit activities in that revenue received in one year is needed for ongoing services in the following year.

Staff used these findings, along with the recommended changes to the target cost recoveries, and developed specific fee recommendations. (Included with this memo as Attachment E is a draft of the Development Fee Study update report prepared by FCS Group, Inc.) The Fire and Building Department did not recommend any changes to their current fees. The fee structure currently in place is recovering the identified target costs. Additionally, there is a regional effort underway to develop a new fee structure for building permits since the incorporation of the new International Codes in 2004 did not include a recommended fee structure.

Development Fee Update List										
Function:		Building Services								
Proposed fee change details										
Fee Name	New or Existing Fee?	Proposed Fee*	Existing Fee (if applicable)	Reference in KMC (if applicable)	Justification for fee update	Number of units in 2013	Revenues in 2013	Projected revenues with new fees	Net New	
Stop Work Order	Existing	add a \$200 minimum	Double the permit fee	21.74.025(i)	Fees for work without permits are addressed in 2 sections, KMC 21.06.405 and KMC 21.74.025(i). To avoid confusion KMC 21.06.405 should be eliminated. To help recover the cost of administering a stop work order, KMC 21.74.025(i) should be amended to make the minimum investigation fee.	100	15800	\$ 20,000	\$	4,200
Demolition Permit	Existing	\$250	\$26		Our current fee is \$26, we would like to increase to more accurately reflect the cost to the City. We may have been feeing this incorrectly. According to 21.74.030, this should be a valuation based, which would allow us to recover our costs.	168	\$ 4,368	\$ 42,000	\$	37,632
Adult Family Home	New	\$100 or the current	Charge 1 hour	N/A	This is a service the City provides to DSHS. We do not have a fee for this inspection, so we have traditionally charged one hour of inspection time. It should be a separate item in the City's fee schedule.	10	\$ 790	\$ 1,214	\$	424
"Basic" permit registration	New	Based on valuation using the permit fee schedule	Based on valuation using the permit fee schedule		A Basic permit is one in which the building is repeating the construction of a specific house plan. We do not currently have a specific fee for the first review (or registration) of a basic plan.	0	\$ -	No new revenue since these houses would have had to pay anyway. This is an administrative change.		
Plan Review for a "Basic" Building Permit	New	\$500	\$474, based on 6 hrs. @ \$79		We have been allowing a reduced plan review fee for a Basic permits (see item #3 above) because the review time is about half of a typical house. We started doing this with a few large subdivisions, and since we didn't have a specific fee, we have been estimating the amount of hours spent by staff to do the review and used the hourly rate.	10	\$ 4,740	\$ 5,000	\$	260
Annual electrical permit	New	\$2,400	Varies		We would like to create a new electrical permit, patterned on Labor and Industries' "Annual Permit". It would only be available to large institutions such as hospitals and school districts that employ licensed electricians. The scope of the work done under this permit would be limited to small work that is less than 100 amps. Instead of getting a separate electrical permit for each small installation, the permit holder would request a monthly inspection and all work done during that month would be inspected. The cost of the permit would be based on the number of licensed electricians employed.	72 single permits (24 per year per institution)	\$ 7,200	\$ 7,200	\$	-
Additional plan review fee	New	Hourly	Hourly		Additional plan review fee if review items aren't corrected the first time. A footnote should be added to the fee schedule clarifying that uncorrected items will be reviewed at the hourly rate.			No net change		
Expedited SFR Plan Review	New	\$1,700	\$1,700		Customers occasionally request that we expedite the review of their new single family home. We have been doing this for a few years by charging an additional flat \$1,700 based on the estimated hours to review a typical house at our overtime hourly rate. We would like to see this fee added to our fee schedule.	62	\$ 105,400	\$ 105,400	\$	-
Limit refunds to 180 days	Housekeeping	N/A	N/A	21.06.415 and 21.74.025(C)	Refunds are mentioned in 2 different KMC sections. 21.06.415 clarifies the refund must be requested within 180 days. 21.74.025 should be updated to state the same.					\$ -
Update the determination of valuation language in the KMC	Housekeeping				How to determine the valuation of work is located in KMC 21.06.400 and KMC 21.74.030(c)(2) and both sections only refer to building permits. We need to add the valuation determination of other permits. Also, it should be clarified that the building official may exempt unusually expensive equipment from the valuation of work. A good example is photovoltaic roof panels, where typically only one inspection is needed but the electrical permit fee is unusually high because of the cost of the photovoltaic panels.					\$ -
Update the Development Services fee schedules in KMC	Housekeeping				Many of the fee schedules were adjusted administratively to the CPI in 2013. The KMC was not updated to reflect this change, causing confusion when the public searches the KMC for our fees					\$ -
State Surcharge	Housekeeping: Clean up Table 2, regarding the State surcharge.				KMC 21.74.030 Table 2 should be clarified to indicate that the Multi-family fee is a State surcharge fee. The 2 fees should be combined and the reference to satellite dishes and spas should be eliminated.					\$ -
									Total Net New Revenue:	\$ 42,516

Development Fee Update List										
Function:	Fire Prevention									
Proposed fee change details										
Fee Name	Variable fee info (eg valuation or # of sprinkler heads)	New or Existing Fee?	Proposed Fee	Existing Fee (if applicable)	Reference in KMC (if applicable)	Justification for fee update	Number of units in 2013	Revenues in 2013	Projected new revenues with new fees	Net New Revenues
Building Plan Review / Fire	Valuation based fee =< \$100,000	Existing	\$ 140	\$ 81	KMC 21.74	Account for all costs associated with plan review of projects of similar size including remodels and ADUs. Move to a valuation system for predictable pricing for customer.	260	\$ 30,643	\$ 36,400	\$ 79,607
	\$100,000-499,999	existing	\$ 560	\$ 316		Account for all plan review costs associated with projects including SFR and commercial TI projects	75		\$ 42,000	
	\$500,000-2,500,000	existing	\$ 710	\$ 395		Account for all plan review costs associated with larger homes and mid size commercial structures	25		\$ 17,750	
	>2,500,000	existing	\$ 1,410	\$ 790		Account for all plan review costs associated with larger commercial structures	10		\$ 14,100	
Fire protection Sprinkler Fees Commercial	Size of system 1-25 heads	existing	\$140 for plan review +\$210 for inspection	\$ 250	KMC 21.74	Separate costs of plan review and inspection. Collect plan review fees up front to reflect KMC 21.74 and inspection fees at issuance. Category accounts for some non-reviewable permits	55	\$ 62,879	\$ 19,250	\$ 127,461
	26-100 heads	existing	\$140 for plan review +\$280 for inspection	\$ 380		Address increased costs of inspecting larger systems.	30		\$ 12,600	
	101-1000	existing	\$420 for plan review +\$420 for inspection	\$ 900		Address increased costs of inspecting larger systems.	10		\$ 8,400	
	>1000 heads	existing	\$1,700 for plan review +\$1,700 for inspection	\$ 900		Addresses very large commercial systems with interdependent controls, zones and systems including fire pumps and auxiliary water sources.	1		\$ 3,400	
Fire Protection Sprinkler fees Residential 13D	Size of System 1-50 heads	existing within current permits	\$140 for plan review +\$210 for inspection	\$ 180	KMC 21.74	Address full cost of reviewing and inspecting small single family systems	20	\$ 62,879	\$ 7,000	\$ 127,461
	51-100 heads	existing	\$140 for plan review +\$280 for inspection	\$ 240		Address full cost of reviewing and inspecting larger single family systems	3		\$ 1,260	
	101-1000	existing	\$420 for plan review +\$420 for inspection	\$ 240		Addresses the very rare, large residences that have commercial characteristics	1		\$ 840	
Underground Supply Main	Fixed	existing	\$520 for plan review +\$280 for inspection	\$ 330	KMC 21.74	Larger buildings have independent supply lines installed separate from the sprinkler plans and require review and inspection. This fee is encapsulated in existing fees based on small systems. This addresses large modern building practices.	5	\$ 62,879	\$ 4,000	\$ 127,461
Building Radio Coverage	Fixed	existing	\$370 for plan review +\$560 for inspection	\$ 158		Fixed pricing for in building radio coverage reflecting costs for review and inspection	3		\$ 2,790	
Fixed Fire Suppression (Hoods)	Fixed	existing	\$220 for plan review +\$280 for inspection	\$ 200		Fixed pricing for fixed system suppression systems including booths or hoods.	20		\$ 10,000	
Smoke Control Systems	Variable with retaining account.	existing	\$3,530 for plan review +\$700 for inspection	\$ 158		Mirroring other local jurisdictions Collecting a retaining deposit and billing for services per hour and or passing through of costs for services contracted out when expertise is not available. Projects are very large and time intensive for review of interdependent systems.	2	\$ 62,879	\$ 8,460	\$ 127,461
Fire Alarm/Detection	Based on valuation of system and fee schedule-<\$25,000	existing	\$226 for plan review +\$140 for inspection	\$ 330	KMC 21.74	Separate costs of plan review and inspection. Collect plan review fees up front at application to reflect KMC 21.74 and inspection fees at issuance. Variability in system size reflected in per device calculation	110		\$ 30,800	
	\$25,000-50,000	existing	\$280 for plan review +\$280 for inspection	\$ 560		Separate costs of plan review and inspection. Collect plan review fees up front to reflect KMC 21.74 and inspection fees at issuance. Variability in system size reflected in per device calculation	40		\$ 22,400	
	\$50,000-\$100,000	existing	\$280 for plan review +\$560 for inspection	\$ 560		Separate costs of plan review and inspection. Collect plan review fees up front to reflect KMC 21.74 and inspection fees at issuance. Variability in system size reflected in per device calculation	36	\$ 30,240		

Development Fee Update List										
Function:	Fire Prevention									
Proposed fee change details										
Fee Name	Variable fee info (eg valuation or # of sprinkler heads)	New or Existing Fee?	Proposed Fee	Existing Fee (if applicable)	Reference in KMC (if applicable)	Justification for fee update	Number of units in 2013	Revenues in 2013	Projected new revenues with new fees	Net New Revenues
	>\$100,000	existing	\$560 for plan review + \$1700 for inspection	\$ 660		Separate costs of plan review and inspection. Collect plan review fees up front to reflect KMC 21.74 and inspection fees at issuance. Variability in system size reflected in per device calculation	10		\$ 22,600	
Transmitter only replacement (NO review)	Fixed fee	existing	\$210 for inspection	\$ 110			30		\$ 6,300	
Update development service fees table 13 to reflect current fee schedules.	Housekeeping					In addition to fee schedule clearly identify requirement to obtain permits for all categories of required permits in IFC and in operating policy.				\$
IFC Operational Permit (see Schedule below)	Fixed Fee	existing	Fixed Fees, all collected at submission. See below.			Move to only two categories. Reviewable and non-reviewable. Collecting plan review fees at application and inspection fees at issuance.	32	\$ 1,967	\$ 11,760	\$ 9,793
IFC permits (permits not requiring review)					KMC 21.74		The line above accounts for all fees listed below			
Amusement Buildings	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to operate a special amusement building.				
Carnivals, Fairs, Exhibits and Trade shows	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to conduct any of these activities. Other conditions requiring permit may also be required in addition to this basic permit. Events qualifying under the City's <u>Special Event permitting</u> will be reviewed and permitted under that category.				
Open Flame or Gas Fired Equipment within a Mall	Fixed Fee	new^	\$ 140	\$81 an hour		The display of liquid or gas fired equipment or the use of open flame or flame producing equipment within a mall requires an operational permit.				
Cutting and Welding	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to conduct cutting or welding operations within the jurisdiction. Permits are not site specific and valid for up to 3 years.				
Fumigation and Insecticidal fogging	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to operate a business of fumigation or fogging or for the storage of toxic or flammable fumigant.				
Hot Work	Fixed Fee	new^	\$ 140	\$81 an hour		Any hot work not associated with a building permit. Including: public demonstrations, portable hot work equipment used within a structure, welding booths, application of roof coverings and hot work conducted in urban interface fire areas. In the case of welding associated permits only one permit is required. (Hot work or welding)				
Open Flames	Fixed Fee	new^	\$ 140	\$81 an hour		A permit is required to use an open flame within a structure classified as an assembly or dining occupancy or in any occupancy requiring a liquor license.				
Spraying or Dipping	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to conduct spraying or dipping operations utilizing flammable or combustible liquids or combustible powders. Additional permits may be required for hazardous materials that exceed allowable amounts. Permits are site specific and are valid for up to 3 years.				
Essential oils and extractions	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required for oil and essence extraction operations utilizing flammable or combustible liquids or gases. Additional permits may be required for hazardous materials that exceed allowable amounts. Permits are site specific and are valid for up to 3 years.				
Temporary membrane structures and tents	Fixed Fee	new^	\$ 140	\$81 an hour		A permit is required to operate an air supported membrane structure or tent in excess of 400 square feet. Or a cluster of tents in excess of 700 square feet. Or a single tent over 700 square feet that does not have sides. Exception: tents used for recreational camping. Tents used as temporary housing shall be reviewed and permitted under that category.				
Ambient air alteration	Fixed Fee	new^	\$ 140	\$81 an hour		An operational permit is required to conduct operations that have the potential to create low or high oxygen environments within structures. Including, but not limited to; CO2 enhancement, O2 enhancement, use of materials that may off-gas displacing oxygen and specialty fire suppression systems. Permits are site specific and valid for up to 3 years.				
Sparklers	No fee	new^	\$ -	\$ -		The use of sparklers at specific events qualifying for expressive displays require a permit. There is no fee associated with this permit.				
IFC permits (permits requiring review)					KMC 21.74					
Hazardous materials	Fixed Fee	new^	\$ 280	\$81 an hour		A permit is required to store, transport on site, dispense, use or handle hazardous materials in excess of amounts listed in table 105.6.20 A permit is also required to store, handle or use hazardous production materials at a production facility.				

Development Fee Update List										
Function:		Fire Prevention								
Proposed fee change details										
Fee Name	Variable fee info (eg valuation or # of sprinkler heads)	New or Existing Fee?	Proposed Fee	Existing Fee (if applicable)	Reference in KMC (if applicable)	Justification for fee update	Number of units in 2013	Revenues in 2013	Projected new revenues with new fees	Net New Revenues
Aerosol Products	Fixed Fee	new^	\$ 280	\$81 an hour		Manufacture, storage or handling of an aggregate amount in excess of 500 lbs. of level 2 or level 3 aerosol products requires a permit.				
Combustible dust and fibers	Fixed Fee	new^	\$ 280	\$81 an hour		Operations producing combustible fibers in excess of 100 cubic feet or operations producing combustible dust require a permit				
Compressed Gases	Fixed Fee	new^	\$ 280	\$81 an hour		The use, storage or handling of compressed gases in excess of the amounts listed in table 105.6.8 requires a permit. These amounts vary depending on toxicity and reactivity, contact the Fire Prevention Bureau to verify listed amounts for specific types of gases.				
Cryogenic fluids	Fixed Fee	new^	\$ 280	\$81 an hour		The use, storage or handling of cryogenic fluids in excess of the amounts listed in table 105.6.10 requires a permit. These amounts vary depending on toxicity and reactivity, contact the Fire Prevention Bureau to verify listed amounts for specific types of cryogenic fluids.				
LP Gas	Fixed Fee	new^	\$ 280	\$81 an hour		An operational permit is required for the storage and use of LP gas in excess of 100 gallons aggregate. Permits are site specific and valid for up to 5 years.				
Magnesium	Fixed Fee	new^	\$ 280	\$81 an hour		An operational permit is required to melt, cast, heat treat or grind more than 10 lbs. of magnesium.				
Flammable/reactive metals	Fixed Fee	new^	\$ 280	\$81 an hour		a permit is required to store or handle more than 50 lbs. aggregate of flammable metals including but not limited to magnesium and lithium. Permits are site specific and valid for up to 3 years.				
Battery systems	Fixed Fee	new^	\$ 280	\$81 an hour		A permit is required to store or use battery systems having a liquid capacity in excess of 50 gallons. Permits are site specific and valid for up to 3 years.				
Explosives	Fixed Fee	new^	\$ 280	\$81 an hour		A permit is required for the manufacture, storage, handling, sale, or use of any quantity of explosives, explosive materials, fireworks or pyrotechnic effects identified within the IFC. For legal exceptions contact the Fire Prevention bureau. Fireworks specific permits will be processed under that category.				
Temporary Housing	Fixed Fee	new^	\$ 280	\$81 an hour		Temporary residential housing in structures (including tents) that are not designed for permanent habitation require a permit. Permits are valid for up to 90 days. Fees may be waived if housing is considered emergency housing.				
Fireworks	Fixed Fee	new^	\$ 280	\$81 an hour		Consumer fireworks are illegal to sell, purchase, use or possess within the City of Kirkland. Shows by a WA licensed pyrotechnician require a permit. The storage, loading, handling or production of fireworks also requires a permit. This permit is \$100.00 and is valid for the event permitted.				
Special Events	Fixed Fee	new^	\$ 280	\$81 an hour		Events qualifying for the City's <u>Special Events Permit and Planning</u> will have all permitted conditions collected under one permit issued by the department for the duration of that single event.				
Underground storage tank removal	Fixed Fee	new^	\$ 280	\$81 an hour		The removal or alteration of underground storage tanks requires a permit. Permits must be issued prior to final removal of any remaining stored product. Exception; residential tanks on single family residential lots are exempt.				
Permits may also be required for activities deemed hazardous by the Fire Marshal but not listed here	Hourly Charge		\$141.85 an hour	\$81 an hour						
								Total Net new revenue:		\$ 216,861

^ new to our fee schedule, these existed before as an hourly charge, but were not specified in the fee schedule

Development Fee Update List									
Function	Planning								
Proposed fee change details									
Fee Name	New or Existing Fee?	Proposed Fee*	Existing Fee (if applicable)	Reference in KMC (if applicable)	Justification for fee update	Number of units in 2013	Revenues in 2013	Projected revenues with new fees	Net New Revenues
Zoning Verification Letter	New	\$205			These are discreet requests from developers and consultants for technical zoning information for specific properties. Bellevue charges \$310, Redmond doesn't charge.	15 (est.)	0	\$ 3,075	\$ 3,075
Delete refund for pre-submittal meetings	Existing		518 + MBP surcharge	5.74.070	Time consuming step for staff (checks have to be issued for the refunds). These are code required meetings for 90% of development permits. Bellevue and Redmond have no fee for pre-application meetings but have predevelopment processes with fees, so comparison is difficult.	169 mtgs (12 single family)	\$82,356	\$ 85,974	\$ 3,618
Environmental review base fee	Existing	927	567		Environmental reviews have consistently recovered less than 1/5th of their cost over the last decade, this increase would improve that recovery without dramatically increasing costs to customers	14	7938	\$ 12,978	\$ 5,040
								Total Net New Revenue:	\$ 11,733



MBA of King and Snohomish Counties
335 116th Avenue SE
Bellevue, Washington 98004
t 425.451.7920 / 800.522.2209
f 425.646.5985 www.masterbuildersinfo.com

September 26, 2014

Mayor Amy Walen
Kirkland City Council
123 5th Ave
Kirkland, WA 98033

Re: Proposed increase of the MyBuildingPermit.com surcharge and tech fee

Dear Mayor Walen,

I'm writing today on behalf of the 2,700 member companies of the Master Builders Association of King and Snohomish Counties regarding the proposal to increase the technology surcharge on permits.

We appreciate the efforts made by the city to keep costs down and still improve services to our members and the community. The technology fee proposed by the building department and city manager are in line with those efforts and we strongly support the changes.

Thank you for the opportunity to comment. If you have any questions please contact me at (425) 460-8224.

Sincerely,

David Hoffman

North King County Manager and PAC Director

COMPETITIVENESS ASSESSMENT: COST OF DOING BUSINESS IN KIRKLAND

2012 Competitiveness Assessment Update

INTRODUCTION

To inform discussions about the City's fiscal policies and its overall financial position, the City of Kirkland originally retained BERK in 2008 to perform a Tax Burden Study. The study built upon work performed in Kirkland's 2001 Tax Burden Analysis, adopting and extending much of the 2001 framework. In particular the analysis presented findings on:

- Tax burdens borne by a range of representative taxpayers in the city;
- Shifts in tax burdens over time (1996-2007);
- How current tax burdens in Kirkland compared to those in peer jurisdictions; and
- Overall contributions made by Kirkland's households and businesses (viewed as groups) to the city's tax revenue streams.

In the budgeting process that followed the Tax Burden Study, City policy makers took many actions to curtail expenditures in the biennial budget and they took a number of actions to augment revenues. Among the most high-profile of these revenue actions was the restructuring of the City's business tax to a "head tax."

In 2010 the City's Economic Development Department asked BERK to conduct some follow-up analysis to supplement the 2008 study. In particular, the Department was interested in looking at broader questions relating to the City's local competitiveness and the possible role of tax and fee policies on the City's ability to attract and retain commercial businesses and to compete for new commercial development.

For 2012, the City has again retained BERK to update the competitive analysis by looking at how the City's tax and fee policies might be affecting the City's ability to remain competitive among its local peer communities. This analysis considers two separate perspectives that can impact local competitiveness in attracting business activity. The first is a development perspective, with a particular focus on the costs associated with doing business with the City. The other perspective is the business operator perspective, with a focus on the costs of doing business in the City of Kirkland. These perspectives are explained below:

1. **Cost of Doing Business with Kirkland (Development Perspective).** The analysis of doing business with the City of Kirkland addresses how costs associated with permitting and impact fees compare with both other cities and with overall costs of development. This is a key element of competitiveness as developers look to limit their costs and risks while seeking development opportunities within the broader eastside marketplace. For similar projects, land costs and the costs of doing business with the host jurisdiction are the key locally-variable costs, while construction costs tend to be less variable site-to-site (excepting site prep/critical area issues).

2. **Cost of Doing Business in Kirkland (Business Operator Perspective).** The analysis of the business operator perspective considers the relative cost of doing business in the City of Kirkland. Beyond tax burdens, the analysis will also consider the lease rates, which is the other principal locally-variable business cost.

Ultimately, businesses do not base their location decisions purely on an assessment of these locally-variable costs. Rather, businesses make siting decisions by balancing costs against locational benefits, particularly with respect to the things they need from their place of business:

- Access to markets and customers; and,
- Access to the factors of production:
- Access to and ability to attract the appropriate labor force;
- Access to non-labor production inputs/supplies;
- Access to capital; and,
- Availability of entrepreneurial initiative

As a result, a key part of this assessment is to put the locally-variable cost comparison data in a market context, since the real question is not whether costs are higher but whether costs can be justified based on perceived value. For example, we can be certain that the cost of doing business will be higher in Bellevue than it is in communities in south King County. Yet, Bellevue has been much more successful at achieving employment growth than have the smaller communities in south King County. Clearly, businesses are willing to pay a premium for a location based on the value of that location in relation to the success of their enterprise, whether the enterprise is real estate development or operating a business in an office or retail space.

To explore these issues, this assessment focuses on estimating the location-driven costs of doing business for five representative development types (development perspective) and four representative businesses types (business operator perspective). The representative businesses are a subset of the ten representative commercial taxpayers that were examined as part of the 2008 Tax Burden Study, focusing on operators which might best represent the broadest perspective for all business types.

Exhibit 1
Representative Developments and Businesses

Representative Developments	Representative Businesses
Large Office	Large Office
Medium Office	Medium Office
Big Box Retail	Big Box Retailer
Neighborhood (Strip) Retail	Restaurant
Mixed Use (residential/retail)	

The analysis examines the locally-variable costs with costs that these developments and businesses would face if they were located in each of the peer cities examined in the 2008 and 2010 Tax Burden study, and adds in a comparison to the City of Issaquah:

- Bellevue

- Bothell (KC Portion)
- Issaquah
- Kent
- Redmond
- Renton

The 2008 study originally included a comparison to unincorporated King County instead of the City of Issaquah. Since the 2008 study was completed, Kirkland has annexed the areas of Finn Hill, Juanita, and Kingsgate. Since this annexation, the comparison to unincorporated King County no longer has particular relevance to policy makers. The City of Issaquah was added as a replacement in order to keep the same number of comparison points.

After reviewing preliminary findings for the 2012 updated analyses, the Economic Development Committee wanted to know a little bit more about the nature of the City's local economy. In particular, committee members posed a series of follow up questions related to the 2012 Competitiveness Assessment Update:

- What are Kirkland's most significant and profitable industry clusters?
- What are the factors that make a Kirkland location attractive to these clusters?
- What can the City do to improve or maintain its competitive position with respect to these clusters?

SUMMARY OF FINDINGS

Exhibit 2 summarizes the results of the competitive assessment for both the development perspective and the business owner perspective. The table shows how locally-variable costs relate to total project cost, in the case of the new development scenario or gross business income in the business owner perspective. For each perspective, the locally-variable costs are the major costs that will vary based on choice of location and include real estate costs and costs associated with local taxes and fees. The summary table illustrates the range of impacts using the lowest and highest value projects and businesses to illustrate the overall impact of local tax and fee policy on city competitiveness. The assessments are described in greater detail later in the report.

Exhibit 2
Summary of Key Factors in Local Competitiveness (in \$1,000s)

	Kirkland		Bellevue		Bothell		Issaquah		Kent		Redmond		Renton	
	Low Value	High Value	Low Value*	High Value**	Low Value	High Value	Low Value	High Value						
DEVELOPMENT PERSPECTIVE														
Total Project Cost	\$6,618	\$60,720	\$7,745	\$61,027	\$6,045	\$59,941	\$5,878	\$58,078	\$5,371	\$58,750	\$6,973	\$62,862	\$5,523	\$57,468
Local Variable Costs	\$2,343	\$5,370	\$3,470	\$5,677	\$1,770	\$4,591	\$1,603	\$2,728	\$1,096	\$3,400	\$2,698	\$7,512	\$1,248	\$2,118
Impact Fees	\$202	\$1,998	\$123	\$923	\$412	\$2,492	\$211	\$627	\$194	\$1,955	\$573	\$4,375	\$168	\$363
Permit Fees	\$65	\$777	\$72	\$660	\$40	\$453	\$35	\$406	\$32	\$357	\$55	\$550	\$45	\$462
Land Cost	\$2,076	\$2,595	\$3,275	\$4,093	\$1,318	\$1,647	\$1,357	\$1,696	\$870	\$1,087	\$2,069	\$2,587	\$1,034	\$1,293
Local Variable Costs	35.4%	8.8%	44.8%	9.3%	29.3%	7.7%	27.3%	4.7%	20.4%	5.8%	38.7%	11.9%	22.6%	3.7%
Impact Fees	3.0%	3.3%	1.6%	1.5%	6.8%	4.2%	3.6%	1.1%	3.6%	3.3%	8.2%	7.0%	3.0%	0.6%
Permit Fees	1.0%	1.3%	0.9%	1.1%	0.7%	0.8%	0.6%	0.7%	0.6%	0.6%	0.8%	0.9%	0.8%	0.8%
Land Cost	31.4%	4.3%	42.3%	6.7%	21.8%	2.7%	23.1%	2.9%	16.2%	1.9%	29.7%	4.1%	18.7%	2.2%
BUSINESS OWNER PERSPECTIVE														
Gross Revenue	\$3,763	\$17,311												
Local Variable Costs	\$347	\$1,444	\$403	\$1,286	\$475	\$1,096	\$400	\$1,354	\$375	\$1,015	\$499	\$1,201	\$347	\$1,061
Local Taxes	\$21	\$57	\$17	\$62	\$13	\$41	\$14	\$54	\$14	\$41	\$16	\$52	\$19	\$58
Rent	\$327	\$1,387	\$386	\$1,224	\$462	\$1,055	\$386	\$1,300	\$361	\$974	\$483	\$1,149	\$329	\$1,003
Local Variable Costs	9.2%	8.3%	10.7%	7.4%	12.6%	6.3%	10.6%	7.8%	10.0%	5.9%	13.3%	6.9%	9.2%	6.1%
Local Taxes	0.5%	0.3%	0.4%	0.4%	0.3%	0.2%	0.4%	0.3%	0.4%	0.2%	0.4%	0.3%	0.5%	0.3%
Rent	8.7%	8.0%	10.3%	7.1%	12.3%	6.1%	10.3%	7.5%	9.6%	5.6%	12.8%	6.6%	8.7%	5.8%

* using downtown impact fees

** using outside downtown impact fees

Source: CB Richard Ellis, 2011; Rider Levett Bucknall, 2011; Grubb & Ellis, 2011; and BERK, 2012

Overall there were several key findings that have emerged from the competitive assessments:

- The largest share of locally-variable costs is derived from the relative values placed on different locations (i.e. rent costs or land costs).
- The portion of locally-variable costs that are attributable to tax and fee policies is a relatively small share of total locally-variable costs and of the total size of a given development project or business.
- The City of Kirkland is among the higher cost places to do business due to both market factors and tax and policy decisions. One exception is for the low value, strip retail example, where Kirkland's low retail lease rates bring down locally variable costs for the business owner perspective.
- There is a general correlation between cities that have higher land values and lease rates and higher local costs associated with tax and fee policy.
- Given the relatively small share of total development and business costs that are attributable to local tax and fee policies, it is unclear how much impact changes in these policies might have on local competitiveness.
- The more significant factors affecting local competitiveness are those that increase demand for real estate, since these lead to increases in the price that businesses are prepared to pay to secure a location within a particular commercial district and generate the underlying economic value that supports the local tax and fee policies.

- It is important to not lose sight of the fact that the costs attributable to local tax and fee policies do provide value to developers and business owners, which can contribute to supporting the overall attractiveness of the City and thus the rents that can be achieved, for example:
 - Impact fees fund necessary capital improvements; and
 - Local taxes fund public services like public safety and amenities such as waterfront parks.

Development Perspective. Development profitability is a function of the income producing capacity of the project and the costs of developing the project. As a result, local government actions that are designed to influence development decisions must either address the cost (including development risk factors) or the market value of the project. The assessment of local competitiveness compares the locally-variable costs to the total cost of development and looks at how much of the locally-variable costs are attributable to local jurisdictions' tax and fee policies. Overall findings from this assessment include:

- Land costs are the primary driver of locally-variable costs. As development projects increase in value and density, land costs become smaller share of total development costs. Higher land values are a reflection of how the market values the commercial opportunities in a given community and correlate with higher lease rates that individual businesses are willing to pay to operate in these commercial centers.
 - Kirkland's land values (\$24/SF) for commercially-zoned property are similar to Redmond (\$24/SF) and generally lower than Bellevue (\$38/SF outside of CBD, \$150/SF in CBD) but substantially higher than Kent (\$10/SF), Renton (\$12/SF), Bothell (\$15/SF), and Issaquah (\$16/SF).
 - Kirkland and Redmond's land values dropped 24% and 20%, respectively, since the 2010 study, while Bellevue's prices remained nearly stable. Bothell, Issaquah, and Kent all experienced increases in land costs per square foot.
 - Over the past decade, the eastside peer cities have had the highest increase in land costs: Bellevue, Bothell, and Issaquah increased between 150% and 350% from 2003 to 2012. By comparison, the southend cities (Kent and Renton) increased land costs about 65% over the period.
- City of Kirkland's permit fees appear to be somewhat higher than some of its peer jurisdictions, and are similar to Bellevue's. However, the actual dollar value differences may not be material in the context of the overall share of development costs.
- City of Kirkland's impact fees have moved from the high end of the scale to the middle of the pack since the 2010 study, as other jurisdictions have increased or added impact fees.
 - Redmond has the highest impact fees as a percent of total project cost, followed by Bothell, Kirkland, and Kent.
 - Renton, Issaquah, and Bellevue have the lowest impact fees as a percent of total project cost.
- While local tax and fee policies might have some impact on the margin, the impact of these fees on the total cost of development is relatively small, though between impact fees and permit fees, impact fees have the larger impact on locally-variable costs.

- Beyond the cost of acquiring development permits, developers also care very much about the predictability and timeliness of the permit review process. Generally, the most important factor in assessing the impact of working with a jurisdiction on permitting is the predictability of the process. Lack of predictability increases development risk which can correlate to higher development costs (i.e. higher interest rates, higher capital requirements) or higher return requirements which can depress land values.
- Land values likely capture any meaningful distinctions among local tax and fee impacts. As a result it is worth noting that the low impact fee environment in Renton and Issaquah may reflect insufficient market value to support impact fees rather than fewer infrastructure needs or a particular “developer-friendly” approach. In contrast, Bellevue with its higher values and somewhat lower impact fees probably does reflect a “developer-friendly” building environment.

Business Owner Perspective. The assessment of local competitiveness from the business operator perspective considers the potential impact of the relative differences in tax burden for selected businesses on the City’s ability to attract and retain commercial enterprises.

- As with the development perspective, the most significant locally-variable cost factor is lease costs, which vary widely among the peer and neighbor jurisdictions based on the relative attractiveness of the commercial areas.
 - Overall average lease rates in Kirkland are generally higher than its neighbors for office uses and lower than its neighbors for retail uses. The average lease rates for retail uses are the lowest among the peer and neighbor jurisdictions
- The local tax burden (the portion that varies by location) is a very small portion of overall business operator costs.
- As with the development-related costs, any meaningful difference in local tax policy between jurisdictions that are competing for the same market will be reflected in the lease rates that landlords can achieve.
 - Generally, businesses that are particularly sensitive to certain local taxes will consider the costs as part of their decision, which will drive down what they are willing to pay for rent. For example, a high volume/low margin business might be particularly sensitive to a local B&O tax or a business that is very labor intensive might be particularly sensitive to a local head tax.

Business Sector Review. To better understand the key clusters in the City of Kirkland, a business sector review was conducted using data from the Puget Sound Regional Council (citywide employment by sector), the City of Kirkland (firm level data from the business license fee database), the Department of Revenue (countywide and City of Kirkland taxable retail sales data), and the Employment Security Department (statewide, countywide employment and wages data). The objective of this review was to identify the most significant and “profitable” sectors operating in the City of Kirkland.

- To assess the most significant business sectors operating in the City of Kirkland, total employment by sector was analyzed using the PSRC employment data and the City of Kirkland business license database. In addition a more detailed sub-sector assessment (using the 3-digit NAICS industrial classification) was done to identify in a more targeted way some of the key elements of the local economy.

- The most significant sector is services, which account for about 50% of all jobs in the database and PSRC's employment estimates. Retail and FIRE (finance, insurance and real estate) account for another 18% of jobs while education and government comprise 17%. The balance of almost 15% is split between manufacturing, WTU (warehouse, transportation and utilities) and construction and resources.
- Total employment in the City of Kirkland has declined by approximately 2,300 jobs between 2000 and 2011. This reduction can be traced back to both the recession in the early 2000's as well as the more recent downturn in 2008 and 2009. In fact, the employment level never returned to the 2001 level of 34,500, peaking at 32,700 in 2008 before dropping back down to approximately 31,750.
- Sector trends have been relatively stable over time however there has been a relative shift away from manufacturing, WTU and construction as these sectors comprised almost 25% of employment in 2000. Another interesting change has been a significant reduction in retail jobs overall (5,121 in 2000 to 3,434 in 2011) and as a share of total jobs (15% in 2000 to 11% in 2011). The shift away from manufacturing is consistent with overall shifts in the economy toward service-based industries
- License fee database suggests some divergence from PSRC estimates. Differences likely based on several factors including: (1) PSRC data based on business location versus City data based on businesses that need a license to work in the city (most relevant to contractors); (2) PSRC data may list total jobs associated with a business, while the business only reports to the City those employees that work in the City; and, (3) under reporting of employment and/or less than 100% compliance on the part of businesses in Kirkland.
- Looking a little deeper into what sectors are most significant, we used the license fee database to identify the subsectors based on employment. The top 5 subsectors represented in the business license database represent 44% of total jobs reported through the licensing process.
 - Professional, scientific, and technical services is the largest subsector with approximately 3,700 jobs, more than double the employment in the food services and drinking places subsector which is the next largest.
 - Ambulatory health care services, specialty trade contractors, and administration and support services round out the top 5.
 - The top 20 subsectors account for 81% of total employment in the license data base, while the remaining 79 subsectors account for the remaining 19% of employment.
- The other key question was to consider which sectors might be considered the "most profitable" sectors. Given the Washington State municipal tax structure, taxable retail sales are a critical factor in local government fiscal sustainability. As such, ranking subsectors by total taxable retail sales generated was determined to be a good proxy for "most profitable" subsectors.
 - The motor vehicle sales and parts subsector was the biggest overall taxable retail sales contributor and was second ranked countywide for TRS per job. Clearly this subsector is a key element of the City's economic and fiscal base.

- General merchandise stores were second in total taxable retail sales, less than half the total produced by the motor vehicle sales and parts sector. This sector includes the impact of Costco, suggesting this is primarily a Costco effect. General merchandise stores ranked 9th in countywide TRS per job.
- Only 4 subsectors represented in the top 20 for taxable retail sales are also in the overall countywide top 10 in terms of TRS per job.
- Food and drinking places are third in terms of total taxable retail sales, second in terms of jobs in the City, but only 23rd countywide in TRS per job.
- Several sectors rank in the top 20 for total taxable retail sales, but have a relatively low presence in terms of jobs suggesting that they are particularly attractive from a fiscal perspective. While these represent highly “profitable” sectors, there are market factors that can limit the ability to attract more businesses of this kind, particularly competition from nearby cities.
 - Electronics and appliance stores, rank 18th (1st in TRS/job)
 - Rental and leasing services rank, rank 17th (4th in TRS/job)
 - Clothing and clothing accessories, rank 20th (7th in TRS/job)

POLICY IMPLICATIONS

The key policy considerations that arise from this assessment are related to how City actions might influence the competitiveness of local commercial districts in terms of attracting new development and/or attracting and retaining businesses.

- The tax and fee impacts on the competitiveness situation may be a factor, but it is likely a small factor in locational decisions, as the biggest cost factor in locational decisions are related to the cost and availability of real estate (either land prices or lease rates).
- Further, these tax and fee policies have largely been accounted for by market adjustments to real estate costs – either lease rates or land values or both.
- While it is likely that the impact of tax and fee policies is small from a local competitiveness perspective, a reduction in these costs might produce some benefits on the margin.
- Probably the most significant jurisdictional factor that affects the relative attractiveness of development is the predictability and timeliness of development and not the absolute dollar costs of permitting or impact fees.
 - To put this into perspective, the estimated cost of acquiring the necessary building permits, while not insignificant, would likely equate to approximately 2-4 months of interest costs on construction loans.
 - Strategies designed to promote new development should generally start with addressing predictability and timeliness issues.
- To the extent that a strategy to reduce local tax and fee impacts on development (through reduced impact fees and/or reduced permit fees) had a meaningful impact it would likely either:
 - Provide some incentive to develop for current property owners who could then capitalize on the lower cost of development; or,

- Increase the price of land as prospective developers bid up the land costs, shifting the benefits of the lower permitting costs to property owners and having minimal impact on the overall incentive to develop.
- It is important not to focus exclusively on the cost side of the equation, since a big part of attracting and retaining businesses is the real and perceived value of locating in the City. In particular, Kirkland benefits from its location on Lake Washington and proximity to major highways, other employment centers, high income neighborhoods and significant cultural, recreational and entertainment opportunities. Efforts to leverage and enhance these characteristics are likely to have as much or greater impact on locational decisions.
 - By looking at the value part of the equation, it becomes important to remember that the costs discussed in this assessment are also revenues to the City that support infrastructure development and local services, which are important parts of the value equation.
- The current economic climate is one where the challenge for local jurisdictions is primarily on the demand side – there are fewer businesses, lower employment levels, lower sales. In considering policy options that might stimulate business activity, the focus should be primarily on strategies to boost sales for existing businesses and reduce vacancies among existing office and retail properties.
 - With vacancies at historic highs, strategies targeting incentives for new development are unlikely to provide much immediate benefit.
- The analysis of City industrial sectors suggests that Kirkland is becoming increasingly a home to professional, scientific, technical, and administrative jobs which are primarily housed in office-type environments. This is a strength that the City should try to build on as many of these jobs are above average income and support a healthy housing market in the city as well as a broad array of retail service offerings.
- While the market perspective suggests that retail continues to struggle, at least in terms of overall vacancy rate, it is clearly a key element of the City's fiscal base. When looking at the City's economic sectors in terms of relative importance and "profitability" retail and construction are key contributors to the City's overall fiscal health. The analysis suggests:
 - Vehicle dealerships are playing an outsized role in both importance and profitability -- need to ensure that this sector continues to thrive and possibly grow
 - Kirkland is constrained in going after some of the more "profitable" sectors, due to competition with Redmond and Bellevue
 - The most significant sectors are increasingly in office-type environments and health care which produce less in direct taxes but may offer other benefits relative to housing demand and support for other services
- Given the importance of retail in a fiscal sense and some of the market challenges identified in attracting retail, particularly large-scale retail, the City needs to identify the appropriate role that retail should play in its economic development efforts. While the sector is unquestionably "profitable" there are other subsectors that make meaningful contributions to the taxable retail sales base, though at a lower rate per job and may fit better with the type of commercial and retail space that is more likely to be constructed in the future.

DETAILED ANALYSIS AND RESULTS

The following sections dive deeper into the analysis summarized above, providing discussion on the approach, key assumptions, and detailed findings for each element of this study:

1. Cost of doing business with the City of Kirkland (Development Perspective)
2. Cost of doing business in the City of Kirkland (Business Owner Perspective)
3. Market Perspective on Local Competitiveness

Cost of Doing Business with City of Kirkland (Development Perspective)

The development perspective assessment presents an analysis of the key locally-variable costs associated with new development, namely land costs, impact fees and permit fees. For this comparison, representative profiles for different development types were developed and are presented in Exhibit 3, including the building scale and type of project and the estimated construction cost for each development. The mixed use development assumes ground level retail space with five stories of residential units above.

Exhibit 3
Representative Development Types

Type	Acres	GFA	Stories	FAR	Est. Construction Cost
Large Office Building	2.50	270,000	6	2.48	\$55,350,000
Medium Office Building	0.75	80,000	3	2.45	\$13,200,000
Big Box Retail	6.50	100,000	1	0.35	\$9,500,000
Strip Retail	2.00	45,000	1	0.52	\$4,275,000
Mixed Use Development	0.50	120,000	6	5.51	\$21,000,000

Source: Rider Levett Bucknall, 2011; and BERK, 2012.

Exhibit 4 presents the estimates of locally variable costs by jurisdiction for each of the representative development types. It is worth noting that this analysis is at a conceptual level and designed to highlight local policy implications. As such the fee estimates are based on generic development types and current development fee ordinances. The permit fees in particular reflect the principal permits that would likely be required for a new development and do not fully account for all of the likely permit costs, nor do they capture any costs associated with potential differences in permit review time. Since most jurisdictions seek to recover their permit review costs through permit fees, the fee structures will also depend on the expected level of development activity at any given time and/or the level of staffing that is offered to meet the expected demand.

Exhibit 4
Estimates of Locally-Variable Costs by Jurisdiction

Development Type		Kirkland	Bellevue	Bothell	Issaquah	Kent (DT)	Kent (Other)	Redmond	Renton
Large Office	Total locally variable	\$5,370,000	\$5,677,000	\$4,591,000	\$2,728,000	\$2,776,000	\$3,400,000	\$7,512,000	\$2,118,000
	% of Project Cost	8.8%	9.3%	7.7%	4.7%	4.8%	5.8%	11.9%	3.7%
	Total City variable	\$2,775,000	\$1,584,000	\$2,944,000	\$1,032,000	\$1,688,000	\$2,313,000	\$4,925,000	\$825,000
	% of Project Cost	4.6%	2.6%	4.9%	1.8%	2.9%	3.9%	7.8%	1.4%
	Impact Fees	\$1,998,000	\$923,000	\$2,492,000	\$627,000	\$1,331,000	\$1,955,000	\$4,375,000	\$363,000
	Permit Fees	\$777,000	\$660,000	\$453,000	\$406,000	\$357,000	\$357,000	\$550,000	\$462,000
Land Cost	\$2,595,000	\$4,093,000	\$1,647,000	\$1,696,000	\$1,087,000	\$1,087,000	\$2,587,000	\$1,293,000	
Medium Office	Total locally variable	\$1,573,000	\$1,677,000	\$1,344,000	\$779,000	\$810,000	\$995,000	\$2,468,000	\$618,000
	% of Project Cost	10.6%	11.3%	9.2%	5.6%	5.8%	7.0%	15.8%	4.5%
	Total City variable	\$795,000	\$449,000	\$850,000	\$270,000	\$484,000	\$669,000	\$1,692,000	\$230,000
	% of Project Cost	5.4%	3.0%	5.8%	1.9%	3.5%	4.7%	10.8%	1.7%
	Impact Fees	\$592,000	\$274,000	\$738,000	\$170,000	\$394,000	\$579,000	\$1,533,000	\$108,000
	Permit Fees	\$203,000	\$176,000	\$112,000	\$100,000	\$90,000	\$90,000	\$159,000	\$122,000
Land Cost	\$779,000	\$1,228,000	\$494,000	\$509,000	\$326,000	\$326,000	\$776,000	\$388,000	
Big Box Retail	Total locally variable	\$7,684,000	\$11,039,000	\$5,328,000	\$4,866,000	\$3,424,000	\$3,610,000	\$8,204,000	\$3,899,000
	% of Project Cost	44.7%	53.7%	35.9%	33.9%	26.5%	27.5%	46.3%	29.1%
	Total City variable	\$936,000	\$396,000	\$1,046,000	\$456,000	\$597,000	\$782,000	\$1,478,000	\$537,000
	% of Project Cost	5.4%	1.9%	7.1%	3.2%	4.6%	6.0%	8.4%	4.0%
	Impact Fees	\$805,000	\$294,000	\$962,000	\$383,000	\$531,000	\$717,000	\$1,366,000	\$450,000
	Permit Fees	\$131,000	\$102,000	\$85,000	\$73,000	\$65,000	\$65,000	\$112,000	\$87,000
Land Cost	\$6,747,000	\$10,643,000	\$4,282,000	\$4,410,000	\$2,827,000	\$2,827,000	\$6,726,000	\$3,361,000	
Strip Retail	Total locally variable	\$2,343,000	\$3,470,000	\$1,770,000	\$1,603,000	\$1,096,000	\$1,163,000	\$2,698,000	\$1,248,000
	% of Project Cost	35.4%	44.8%	29.3%	27.3%	20.4%	21.4%	38.7%	22.6%
	Total City variable	\$267,000	\$196,000	\$452,000	\$246,000	\$226,000	\$293,000	\$629,000	\$213,000
	% of Project Cost	4.0%	2.5%	7.5%	4.2%	4.2%	5.4%	9.0%	3.9%
	Impact Fees	\$202,000	\$123,000	\$412,000	\$211,000	\$194,000	\$261,000	\$573,000	\$168,000
	Permit Fees	\$65,000	\$72,000	\$40,000	\$35,000	\$32,000	\$32,000	\$55,000	\$45,000
Land Cost	\$2,076,000	\$3,275,000	\$1,318,000	\$1,357,000	\$870,000	\$870,000	\$2,069,000	\$1,034,000	
Mixed Use	Total locally variable	\$1,332,000	\$1,167,000	\$1,029,000	\$1,144,000	\$977,000	\$1,053,000	\$1,647,000	\$632,000
	% of Project Cost	6.0%	5.3%	4.7%	5.2%	4.4%	4.8%	7.3%	2.9%
	Total City variable	\$813,000	\$349,000	\$699,000	\$804,000	\$759,000	\$836,000	\$1,130,000	\$373,000
	% of Project Cost	3.6%	1.6%	3.2%	3.6%	3.5%	3.8%	5.0%	1.7%
	Impact Fees	\$546,000	\$129,000	\$524,000	\$648,000	\$620,000	\$697,000	\$926,000	\$188,000
	Permit Fees	\$268,000	\$220,000	\$175,000	\$156,000	\$139,000	\$139,000	\$204,000	\$185,000
Land Cost	\$519,000	\$819,000	\$329,000	\$339,000	\$217,000	\$217,000	\$517,000	\$259,000	

Source: BERK, 2012.

- Land costs are the largest locally-variable cost factor, in some cases by a wide margin. The land costs in this analysis are based on an overall average of land values for commercially-zoned land as estimated by the King County Assessor's Office. While individual sale prices will vary greatly, this estimate provides a reasonable overall measure of the relative value of commercial properties in the peer and neighbor jurisdictions.
- Land costs also already account for any meaningful differential in permit or impact fee costs since buyers would be factoring these cost differentials into what they are willing to pay for a piece of land.
- Impact fees vary both in terms of the particular impact fee rates but also in which fees, in any, are charged.
 - For commercial development the key is transportation impact fees where Kirkland is on par with Kent (outside of downtown), but substantially lower than Redmond and Bothell and substantially higher than Bellevue, Issaquah, downtown Kent, and Renton.

- For the mixed use projects, residential impact fees play into the equation. Kirkland is in the middle of the pack for total impact fees on mixed-use development. Redmond, Issaquah, and Kent are on the high end while Bellevue and Renton are the lowest.
- Overall, there is not a significant difference in total permit fees amongst the peer cities. Both Kirkland and Bellevue have fee totals higher than the other peer cities with Kirkland's being the highest for all of the development types except for strip retail, where Bellevue is highest.
- Permit fees represent a small share of a project's overall cost. In Kirkland, they are no more than 1.4% of a development projects overall cost. For the peer cities they are generally between 0.5% and 1.0%.

Permit fees. Building fees for Kirkland and the six other peer cities – Bellevue, Bothell, Issaquah, Kent, Redmond, and Renton – were gathered from each of the cities' municipal code and related documents available on their websites. Building fees required for commercial development vary from city to city, however all of the cities reviewed in this assessment charged at least a building permit fee and plan review fee. In addition to these two fees, a number of the cities charged other types of fees including:

- Design Review Fees
- Fire Plan Review Fees
- Engineering Plan Review Fees
- Mechanical Fees
- Electrical Fees
- Technology Surcharge Fees

All of the cities reviewed calculate these fees in a similar method. For example, the building permit fees have a base fee scaled on the total value of the development. Developments valued above an established threshold pay an additional fee amount based on the value of the remainder of the development above that threshold. Exhibit 5 summarizes the fee rates for these representative permits for each of the peer and neighbor jurisdictions.

**Exhibit 5
Representative Permit Rates by Jurisdiction, 2012**

Development Permit Rates	Kirkland	Bellevue	Bothell	Kent	Redmond	Renton	Issaquah
Building Permit Fee	\$3,430 + \$5.04 each \$1,000 over \$500k	<\$5M: \$8,125 + \$4.51 each \$1,000 over \$500k >\$5M: 26,165 + \$3.96 each \$1,000 over \$5M	\$6,730 + \$4.50 each \$1,000 over \$1M	\$6,649 + \$3.74 each \$1,000 over \$1M	\$4,109 + 0.365% of value over \$1M	\$6,690 + \$4.35 each \$1,000 over \$1M	\$6396.15 + \$4.40 each \$1,000 over \$1M
Plan Review Fee	65% of building permit fee	65% of building permit fee	65% of building permit fee	65% of building permit fee	\$2,027 + 0.237% of value over \$1M	65% of building permit fee	65% of building permit fee
Design Review Fee	\$1,427 + \$4,371 + \$0.20/SF new GFA + \$201/res. Unit			\$649			
Fire Plan Check Fee	\$79/hour	\$124/hour	\$0.06/SF		\$2,064		\$200 plan check intake fee + \$500 plan review fee for up to 300 sprinklers
Engineering Plan Check Fee					\$0.16/SF (commercial) or \$164.90/Unit (residential)		
Mechanical Fee	\$1,711 + \$14.86 each \$1,000 over \$100k*	\$2,176 + \$15.97 each \$1,000 over \$100k*	Charge per fixture	Charge per fixture	<\$1M: \$89.31 + \$19.63 each \$1,000 over \$1,000 \$1M-\$2M: \$19,712 + \$9.87 each \$1,000 over \$1M >\$2M: \$29,580 + \$5.95 each \$1,000 over \$2M	Charge per fixture	Charge per fixture
Electrical Fee	\$1,433 + \$8.70 each \$1,000 over \$100k*	\$1,935 + \$11.92 each \$1,000 over \$100k*	-	-	\$250k-\$1M: \$5,061 + 1.3% of cost over \$250k >\$1M: \$15,632 + 0.7% of cost over \$1M	\$250k-\$1M: \$3,573 + 0.8% of value >\$1M: \$11,573 + 0.4% of value	-
Technology Surcharge	1.3% of fees	-	5% of fees	3% of fees	3% of fees	3% of fees	

Source: City of Bellevue; City of Bothell; City of Issaquah; City of Kent; City of Kirkland; City of Redmond; City of Renton; and BERK, 2012.

Impact Fees. Among the studied peer locations and development types, the City of Kirkland's impact fees generally fall into the middle of the range. For the example developments analyzed in this assessment, Kirkland's impact fees are consistently and significantly lower than those charged by Redmond and

Bothell, and consistently higher than Bellevue, Renton, and Issaquah. The City of Kent, outside of downtown, is very similar to Kirkland, while downtown Kent is lower. The summary of these impact fees for example developments is shown in Exhibit 6.

Since the 2010 study, multiple jurisdictions have increased their impact fees, and Kent has added transportation impact fees. Kent's transportation impact fees are interesting, in that they are lower in downtown Kent than in the rest of the City, due to analysis that showed land uses within existing activity centers generate fewer vehicle trips than the same uses outside of a downtown core.

The 2010 study found that Kirkland was less competitive for developments with residential units, such as a mixed-use development, due to the City's park impact fees. However, given Kent's addition of traffic impact fees, the comparison to Issaquah, and increases in other cities' rates, Kirkland is now about average for all types of developments. Redmond consistently has the highest total impact fee for all types of development.

Exhibit 6
Summary of Impact Fees by Development Type and Jurisdiction

Type of Development	Kirkland		Bellevue		Bothell		Issaquah		Kent (downtown)		Kent (other)		Redmond		Renton	
	Rate	Units	Rate	Units	Rate	Units	Rate	Units	Rate	Units	Rate	Units	Rate	Units	Rate	Units
Large Office Buildings																
Traffic ¹	\$7.40 SF/GFA		\$3.42 SF/GFA		\$8.96 SF/GFA		\$2.18 per SF		\$4.88 SF/GFA		\$7.17 SF/GFA		\$15.00 SF/GFA		\$0.83 SF/GFA	
Fire	-	-	-	-	-	-	\$0.22 per SF		-	-	-	-	\$148 1,000 GFA		\$0.52 per SF	
Parks	-	-	-	-	-	-	-	-	-	-	-	-	\$1,055 1,000 GFA		-	-
Schools	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medium Office Building																
Traffic	\$7.40 SF/GFA		\$3.42 SF/GFA		\$8.96 SF/GFA		\$2.18 per SF		\$4.88 SF/GFA		\$7.17 SF/GFA		\$17.96 SF/GFA		\$0.83 SF/GFA	
Fire	-	-	-	-	-	-	\$0.22 per SF		-	-	-	-	\$148 1,000 GFA		\$0.52 per SF	
Parks	-	-	-	-	-	-	-	-	-	-	-	-	\$1,055 1,000 GFA		-	-
Schools	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Big Box Retail																
Traffic	\$8.05 SF/GFA		\$2.94 SF/GFA		\$9.32 SF/GFA		\$4.01 per SF		\$5.26 SF/GFA		\$7.10 SF/GFA		\$13.03 SF/GFA		\$8.86 SF/GFA	
Fire	-	-	-	-	-	-	\$0.71 per SF		-	-	-	-	\$170 1,000 GFA		\$0.52 per SF	
Parks	-	-	-	-	-	-	-	-	-	-	-	-	\$463 1,000 GFA		-	-
Schools	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Strip Retail																
Traffic	\$4.48 SF/GFA		\$2.74 SF/GFA		\$8.85 SF/GFA		\$4.01 per SF		\$4.26 SF/GFA		\$5.75 SF/GFA		\$12.11 SF/GFA		\$3.22 SF/GFA	
Fire	-	-	-	-	-	-	\$0.71 per SF		-	-	-	-	\$170 1,000 GFA		\$0.52 per SF	
Parks	-	-	-	-	-	-	-	-	-	-	-	-	\$463 1,000 GFA		-	-
Schools	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mixed Use Development²																
Traffic	\$4.48 SF/GFA		\$1.90 SF/GFA		\$8.30 SF/GFA		\$4.01 per SF		\$4.26 SF/GFA		\$5.75 SF/GFA		\$9.35 SF/GFA		\$5.19 SF/GFA	
Fire	-	-	-	-	-	-	\$688 per Unit		-	-	-	-	\$178 per Unit		\$388 per Unit	
Parks	\$2,515 per Unit		-	-	\$762 per Unit		\$4,408 per Unit		-	-	-	-	\$2,492 per Unit		\$355 per Unit	
Schools ³	-	-	-	-	-	-	-		\$3,378 per Unit		\$3,378 per Unit		\$346 per Unit		-	-

¹ Bothell also has a 3% admin. fee and a \$1633 traffic mitigation fee which varies on the number of trips/hr, Kent has a 1% admin fee. Renton traffic rates are \$75 per additional trip. Converted to dollars per square foot for comparison.

² Park and School fee rates are shown for residential portion only; Traffic fee rates are for commercial portion only.

³ Kent School District Fees applied for Kent; Lake Washington School District Fees applied for Redmond

GFA: Gross Floor Area

Source: City of Kirkland, City of Bellevue, City of Bothell, City of Issaquah, City of Kent, City of Redmond, City of Renton, and BERK, 2012.

Cost of Doing Business in Kirkland (Business Operator Perspective)

The local tax assessment summarizes the total local tax burden for four representative businesses used in the 2008 Kirkland Tax Burden Study and 2010 Competitive Assessment as part of determining the relative cost of doing business in the City of Kirkland. Exhibit 7 gives an overview of the four representative businesses used in this updated assessment.

**Exhibit 7
Representative Business Profiles**

Business Type	GFA	Employees	Gross Revenues
Large Office	45,000	150	\$17,311,141
Medium Office	13,200	44	\$7,126,773
Restaurant	17,100	57	\$3,763,331
Big Box	100,000	165	\$62,997,798

Source: BERK, 2012.

BERK used the same approach for this assessment as in the 2008 and 2010 studies. Assumptions about the number of employees, floor area, retail and utility purchase levels, and utility tax distribution all stayed the same. Changes include updated tax rates, inflated business retail and utility purchases (to 2012 dollars), and updating business gross revenue estimates. Local taxes evaluated for each representative business include the major sources of local funding: property, sales, utility, and business taxes, which are summarized in Exhibit 8.

For the office and restaurant representative businesses, the taxes paid in each jurisdiction are very similar. The biggest variation is seen for the Big Box retail development, where Bellevue and Issaquah are higher than the rest of the cities. This difference is mostly due to their business and occupation taxes (B&O), which none of the other cities levies.

Exhibit 8
Locally Variable Costs, 2012

Business Type	Kirkland	Bellevue	Bothell	Issaquah	Kent	Redmond	Renton	
Total locally variable	\$1,911,000	\$1,794,000	\$1,548,000	\$1,892,500	\$1,506,200	\$1,703,000	\$1,559,000	
% of Gross Rev.	11.0%	10.4%	8.9%	10.9%	8.7%	9.8%	9.0%	
Total City variable	\$47,500	\$52,500	\$31,500	\$44,000	\$31,700	\$42,500	\$48,500	
% of Gross Rev.	0.3%	0.3%	0.2%	0.3%	0.2%	0.2%	0.3%	
Large Office	Annual Rent	\$1,382,000	\$1,264,000	\$1,027,000	\$1,357,000	\$979,000	\$1,179,000	\$1,022,000
	State & Regional Taxes	\$472,000	\$468,000	\$480,000	\$482,000	\$486,000	\$472,000	\$479,000
	Local Taxes	\$57,000	\$62,000	\$41,000	\$53,500	\$41,200	\$52,000	\$58,000
	Property	\$10,000	\$8,000	\$11,000	\$9,500	\$10,500	\$12,000	\$21,000
	Sales	\$9,500	\$9,500	\$9,500	\$9,500	\$9,500	\$9,500	\$9,500
	Utility	\$22,500	\$18,500	\$19,500	\$17,000	\$20,500	\$16,500	\$19,000
	Business	\$15,000	\$26,000	\$1,000	\$17,500	\$700	\$14,000	\$8,500
Total locally variable	\$597,000	\$567,000	\$491,000	\$594,000	\$478,300	\$536,500	\$495,000	
% of Gross Rev.	8.4%	8.0%	6.9%	8.3%	6.7%	7.5%	6.9%	
Total City variable	\$14,000	\$19,000	\$9,000	\$15,000	\$9,300	\$12,500	\$14,000	
% of Gross Rev.	0.2%	0.3%	0.1%	0.2%	0.1%	0.2%	0.2%	
Medium Office	Annual Rent	\$405,000	\$371,000	\$301,000	\$398,000	\$287,000	\$346,000	\$300,000
	State & Regional Taxes	\$175,000	\$174,000	\$178,000	\$178,000	\$179,000	\$175,000	\$178,000
	Local Taxes	\$17,000	\$22,000	\$12,000	\$18,000	\$12,300	\$15,500	\$17,000
	Property	\$3,000	\$2,500	\$3,000	\$3,000	\$3,000	\$3,500	\$6,000
	Sales	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
	Utility	\$6,500	\$5,500	\$5,500	\$5,000	\$6,000	\$5,000	\$5,500
	Business	\$4,500	\$11,000	\$500	\$7,000	\$300	\$4,000	\$2,500
Total locally variable	\$419,500	\$454,500	\$534,000	\$455,500	\$444,000	\$547,000	\$458,500	
% of Gross Rev.	11.1%	12.1%	14.2%	12.1%	11.8%	14.5%	12.2%	
Total City variable	\$18,500	\$14,500	\$11,000	\$11,500	\$12,000	\$14,000	\$16,500	
% of Gross Rev.	0.5%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	
Restaurant	Annual Rent	\$343,000	\$383,000	\$462,000	\$383,000	\$370,000	\$475,000	\$382,000
	State & Regional Taxes	\$56,000	\$55,000	\$59,000	\$59,000	\$60,000	\$56,000	\$58,000
	Local Taxes	\$20,500	\$16,500	\$13,000	\$13,500	\$14,000	\$16,000	\$18,500
	Property	\$3,000	\$2,500	\$3,500	\$3,000	\$3,500	\$4,000	\$6,500
	Sales	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
	Utility	\$9,500	\$6,500	\$7,000	\$5,500	\$8,000	\$5,000	\$7,000
	Business	\$6,000	\$5,500	\$500	\$3,000	\$500	\$5,000	\$3,000
Total locally variable	\$2,526,000	\$2,813,500	\$3,205,500	\$2,788,000	\$2,678,200	\$3,280,000	\$2,753,500	
% of Gross Rev.	4.0%	4.5%	5.1%	4.4%	4.3%	5.2%	4.4%	
Total City variable	\$80,500	\$137,000	\$51,000	\$95,500	\$56,700	\$61,500	\$71,000	
% of Gross Rev.	0.1%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	
Big Box Retail	Annual Rent	\$2,004,000	\$2,239,000	\$2,703,000	\$2,239,000	\$2,164,000	\$2,777,000	\$2,232,000
	State & Regional Taxes	\$435,000	\$431,000	\$445,000	\$447,000	\$451,000	\$435,000	\$444,000
	Local Taxes	\$87,000	\$143,500	\$57,500	\$102,000	\$63,200	\$68,000	\$77,500
	Property	\$11,500	\$9,500	\$13,000	\$11,500	\$12,500	\$14,500	\$25,000
	Sales	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500
	Utility	\$52,500	\$33,000	\$36,500	\$33,500	\$43,500	\$32,000	\$37,000
	Business	\$16,500	\$94,500	\$1,500	\$50,500	\$700	\$15,000	\$9,000

Source: City of Kirkland, City of Bellevue, City of Bothell, City of Issaquah, City of Kent, City of Redmond, City of Renton, King County, and BERK, 2012.

Kirkland is near the middle of the pack for all development types, except for the restaurant where it is tied for highest with Renton. Overall, local taxes are relatively small as a percentage of each representative business' annual gross revenue. Exhibit 9 shows the percent of gross revenue that local taxes represent. Local taxes for each of the representative business are less than 0.50% of gross revenue in almost all of

the peer cities. Taxes for the representative restaurant in Kirkland have the largest percentage, which is 0.54%.

The difference in taxes between peer cities is not significant. The representative restaurant in Kirkland would pay about \$5,000 more in taxes annually than the same restaurant in Bothell, the peer city with the lowest taxes for the restaurant. This difference is relatively small compared to the restaurants annual gross revenues of \$3.8 million. The additional \$5,000 the restaurant pays in taxes is estimated to be approximately 0.1% of its gross revenue.

Since the 2010 Competitive Assessment, most jurisdictions have made minor increases in their property, utility, and business taxes. However, the relative picture between jurisdictions remains essentially the same and remains a minor portion of total business revenue.

**Exhibit 9
Annual State and Local Taxes as a Percent of Annual Gross Revenue, 2012**

City	Large Office		Medium Office		Restaurant		Big Box	
	Local	Total	Local	Total	Local	Total	Local	Total
Kirkland	0.33%	3.06%	0.24%	2.69%	0.54%	2.03%	0.14%	0.83%
Bellevue	0.36%	3.06%	0.31%	2.75%	0.44%	1.90%	0.23%	0.91%
Bothell	0.24%	3.01%	0.17%	2.67%	0.35%	1.91%	0.09%	0.80%
Issaquah	0.31%	3.09%	0.25%	2.75%	0.36%	1.93%	0.16%	0.87%
Kent	0.24%	3.05%	0.17%	2.68%	0.37%	1.97%	0.10%	0.82%
Redmond	0.30%	3.03%	0.22%	2.67%	0.43%	1.91%	0.11%	0.80%
Renton	0.34%	3.10%	0.24%	2.74%	0.49%	2.03%	0.12%	0.83%

Source: City of Kirkland, City of Bellevue, City of Bothell, City of Issaquah, City of Kent, City of Redmond, City of Renton, King County, and BERK, 2012.

Locally-variable taxes are a small part of the total state and local tax burden for businesses and can be difficult for businesses to separate which taxes are local and which are accruing to other jurisdictions, such as with the sales or property taxes. The exception however is when there is a locally levied and collected tax, such as a local B&O or a local employment tax. In this case it is clear, not only who is levying the tax, but also may lead to a perception that this tax is an “extra” tax. This makes it particularly difficult for a business owner to assess the true local tax differentials. For example, while Kent does not have a B&O tax or an employment tax, the City has higher property taxes which are not as visible and would tend to overstate the difference in local tax burdens between Kent and cities that do have employment taxes.

To the extent that they are meaningful to businesses in their locational decisions, variations in locally-variable tax burdens are likely already be reflected in local lease rate differentials. Generally, business owners are aware of the more meaningful local tax differentials, such as which cities have a local B&O tax and which do not. This knowledge gets incorporated into leasing decisions and, on the margins, will likely push down lease prices to account for these other costs of locating in a particular community.

Market Perspective

It is useful to look at the broader market perspective to see how the market views the relative attractiveness of local commercial districts. It is easy to be too focused on the relatively small differences in costs associated with variations in local tax and fee policies. The best market indicators are those that highlight the value that is placed on being in a particular location, namely the price that the market is

willing to pay to acquire land or secure a lease in one commercial area versus another. By this measure, Kirkland is viewed as a relatively high value location where the market is willing to pay more than some of the peer and neighbor jurisdictions.

Land costs. Land cost is not a development cost that policy-makers have direct control over as with impact and permit fees, but it is a locally based cost for developers that influences the location decisions for different development types. Land costs reflect the market fundamentals and desirability of that location based on the rents that one can expect to get at that location. High land values represent a desirable area with strong demand.

This assessment evaluated the difference in the average value per square foot of land that a developer would likely pay in each of the six peer cities. Because the value reflects the expected rents from that location, parcels were analyzed based on their zoning and thus the development potential for the five development types – large office building, medium office building, big box retail, strip retail, and a mixed use building. The total assessed land value and square footage for the selected parcels was summed by the develop type the zoning allowed and used to calculate an average value per square foot in each city.

Bellevue, Kirkland, and Redmond have the highest average land values of all the peer cities, although Kirkland and Redmond values have dropped significantly since 2010 while Bellevue (outside of downtown) has remained nearly stable. Kirkland experienced the largest drop in per square foot land value from 2010 to 2012 of any jurisdiction in this study.

Kent and Renton in south King County have the lowest average land values. Bothell and Issaquah both have land values toward the middle of the pack, although they have been increasing more quickly than other areas over the past decade. Exhibit 10 lists the average land value for each city.

Exhibit 10
Average Land Value per Square Foot (Commercial Zoning)

City	2003	2007	2010	2012
Bellevue (Outside of Downtown)	\$13.93	\$21.08	\$38.41	\$37.59
<i>Downtown Bellevue</i>	<i>\$70.32</i>	<i>\$86.92</i>	<i>\$181.59</i>	<i>\$149.51</i>
Bothell	\$5.90	\$8.45	\$11.77	\$15.12
Kent	\$5.95	\$7.15	\$9.13	\$9.99
Kirkland	\$12.91	\$18.66	\$30.99	\$23.83
Redmond	\$14.97	\$19.76	\$29.84	\$23.75
Renton	\$7.32	\$9.42	\$13.44	\$11.87
Issaquah	\$3.60	\$7.60	\$14.40	\$15.57

Source: King County, 2011; and BERK, 2012.

Overall, land acquisition in Kirkland will likely be more expensive for a developer compared to the other peer cities with the exception of Bellevue and Redmond. Higher land costs are not necessarily a negative. They indicate that Kirkland is desirable location relative to the other peer cities and that business owners are prepared to pay a premium for a Kirkland location presumably because they are able to generate higher business income in this location.

While the overall average land values in Kirkland are higher than many peer communities, there are significant differences in land values among Kirkland's various commercial districts. Exhibit 11 presents the estimated average land values for Kirkland's commercial business districts. As shown, there are several

districts that are close to the overall city average, with the Downtown Central Business District (CBD), Park Place, and the North Market Corridor valued significantly higher than average and Totem Lake significantly lower.

Exhibit 11
Average Land Value per Square Foot (Commercial Zoning) by Kirkland Business District, 2012

Business District	Average Land Cost/SF (2010)	Average Land Cost/SF (2012)
Kirkland (Citywide Commercial)	\$30.99	\$23.83
Downtown (CBD)	\$89.52	\$91.68
Houghton	\$34.44	\$27.18
Juanita	\$38.48	\$36.81
North Market Corridor	\$67.00	\$67.99
Park Place	N/A	\$67.70
Rose Hill	\$36.75	\$32.76
Totem Lake	\$17.58	\$16.39

Note: Land values are for commercial zoning within the district. Does not include Light Industrial Technology zoned parcels.

Source: King County, 2011; and BERK, 2012.

Since 2010, land values have changed differently in different areas of Kirkland. As mentioned above, citywide values have dropped about 23% since 2010. However, some districts, such as the Downtown CBD and North Market Corridor have actually seen increases in their land costs.

Exhibit 12 presents the percent of land cost for each of the development types for Kirkland overall as compared with the peer and neighbor jurisdictions.

Exhibit 12
Estimated Land Costs as a Percent of Total Project Cost

Development Type	Kirkland	Bellevue	Bothell	Issaquah	Kent (DT)	Kent (Other)	Redmond	Renton
Large Office Building	4.3%	6.7%	2.7%	2.9%	1.9%	1.9%	4.1%	2.2%
Medium Office Building	5.3%	8.3%	3.4%	3.6%	2.3%	2.3%	5.0%	2.8%
Big Box Retail	39.3%	51.8%	28.9%	30.7%	21.9%	21.6%	38.0%	25.1%
Strip Retail	31.4%	42.3%	21.8%	23.1%	16.2%	16.0%	29.7%	18.7%
Mixed Use Development	2.3%	3.7%	1.5%	1.5%	1.0%	1.0%	2.3%	1.2%

Source: King County, 2011; and BERK, 2012.

For higher cost projects, such as a large or medium office building or a mixed use building, the land costs are smaller percent of the overall project cost. However, for lower value projects, such as a big box development or smaller scale retail development, land costs makeup a larger share of the project's overall cost. A developer of these types of developments may realize significant cost savings by locating in a jurisdiction with lower land costs.

Commercial rents. Rent is another cost of business that varies by location that can impact a business's location decision. This assessment used per square foot lease rates to calculate a representative business's annual rent. Lease rates are average asking lease rates from CB Richard Ellis' 2011 MarketView and Grubb & Ellis Office Trends reports for Seattle. Exhibit 13 lists the lease rates used for this analysis and compares them to the lease rates from the 2010 assessment.

**Exhibit 13
Commercial Lease Rates**

Type	Office Class A			Office Class B			Restaurant/Retail		
	2010	2012	Change	2010	2012	Change	2010	2012	Change
Kirkland	\$28.42	\$30.70	8.0%	\$24.12	\$22.91	-5.0%	\$16.88	\$20.04	18.7%
Bellevue CBD	\$33.89	\$32.70	-3.5%	\$33.77	\$29.79	-11.8%	\$28.74	\$25.23	-12.2%
Bellevue (Bel-Red)	\$27.46	\$28.08	2.3%	\$23.74	\$23.36	-1.6%	\$23.26	\$22.39	-3.7%
Bothell	\$22.59	\$22.82	1.0%	\$22.05	\$19.47	-11.7%	\$20.15	\$27.03	34.1%
Kent	\$21.61	\$21.76	0.7%	\$20.88	\$16.85	-19.3%	\$23.10	\$21.64	-6.3%
Redmond	\$24.58	\$26.20	6.6%	\$24.47	\$24.34	-0.5%	\$29.53	\$27.77	-6.0%
Renton	\$22.30	\$22.72	1.9%	\$20.51	\$20.10	-2.0%	\$20.28	\$22.32	10.1%
Issaquah (I-90 corridor)	\$28.35	\$30.15	6.3%	\$26.83	\$25.85	-3.7%	\$25.40	\$22.39	-11.9%

Source: CB Richard Ellis, MarketView - Puget Sound, 2012; Grubb & Ellis, 2012; and BERK, 2012.
2012 office rates are 3rd quarter 2012 and retail rates are for the first half of 2012

CB Richard Ellis only has a broad “Retail” category for lease rates, thus, lease rates for the big box and restaurant representative business profiles are the same. The average retail lease rate used for Kirkland includes the Totem Lake area, which is likely to be lower than locations in downtown Kirkland. All lease rates for Bellevue are specific to the Bel-Red Corridor Commercial lease rates for the large and medium office profiles are based on the Class A lease rates.

Kirkland had the largest percentage increase in Class A office space lease rates since 2010, and the second largest increase in retail rates after Bothell. Kirkland has higher Class A lease rates than all other jurisdictions included in this analysis, but is middle of the pack for Class B and the lowest for retail. The low lease rate for retail space is likely heavily influence by the fact it has the highest retail vacancy rates of all jurisdictions.

High cost locations for commercial rent vary by the type of business. Exhibit 14 shows the annual rent paid for each representative business with the share of business’ annual gross revenue its rent represents. For the large and medium office examples, Kirkland, followed closely by Issaquah and Bellevue, has the highest annual rents. For retail businesses, Redmond and Bothell are close together with the highest rents. Kirkland and Renton have the lowest annual rents for retail.

**Exhibit 14
Annual Rent & Rent as a Percent of Annual Gross Revenue**

Business Type	Kirkland		Bellevue		Bothell		Issaquah		Kent		Redmond		Renton	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Large Office	1.28 M	1.38 M	1.24 M	1.26 M	1.02 M	1.03 M	1.36 M	0.97 M	0.98 M	1.11 M	1.18 M	1.00 M	1.02 M	
% of Gross Rev.	7.6%	8.0%	7.4%	7.3%	6.1%	5.9%	7.8%	5.8%	5.7%	6.6%	6.8%	6.0%	5.9%	
Medium Office	0.38 M	0.41 M	0.36 M	0.37 M	0.30 M	0.30 M	0.40 M	0.29 M	0.29 M	0.32 M	0.35 M	0.29 M	0.30 M	
% of Gross Rev.	5.6%	5.7%	5.4%	5.2%	4.4%	4.2%	5.6%	4.2%	4.0%	4.8%	4.9%	4.4%	4.2%	
Restaurant	0.29 M	0.34 M	0.40 M	0.38 M	0.34 M	0.46 M	0.38 M	0.40 M	0.37 M	0.50 M	0.47 M	0.35 M	0.38 M	
% of Gross Rev.	8.1%	9.1%	11.2%	10.2%	9.7%	12.3%	10.2%	11.1%	9.8%	14.2%	12.6%	9.7%	10.1%	
Big Box	1.69 M	2.00 M	2.33 M	2.24 M	2.02 M	2.70 M	2.24 M	2.31 M	2.16 M	2.95 M	2.78 M	2.03 M	2.23 M	
% of Gross Rev.	2.9%	3.2%	4.0%	3.6%	3.5%	4.3%	3.6%	4.0%	3.4%	5.1%	4.4%	3.5%	3.5%	

Source: CB Richard Ellis, 2011; Grubb & Ellis, 2011; and BERK, 2012.

Rent is more substantial of a cost for a representative business than taxes. Depending on the business, annual rent paid generally represents 3-13% of a business’ annual gross revenue. Rents do vary somewhat between the peer cities. The restaurant example varies the most. The difference between the highest rent (Redmond) and the lowest (Kirkland) is \$130,000, which represents 3.5% of the representative

restaurant's gross revenue. For the big box retail example, the difference between the highest rent (Redmond) and the lowest (Kirkland) is \$780,000, which is 1.2% of its gross revenue.

A more temporal indicator of local competitiveness is the vacancy rates in office and retail space. Exhibit 15 presents the current vacancy rate for the peer and neighbor jurisdictions and compares these with some earlier data points. For most cities, vacancy rates have improved since the 2010 study, which may reflect a burgeoning recovery from the recession that began in 2008. It is worth looking beyond the raw numbers and considering some of the underlying issues that may be involved in these vacancy rates:

- Vacancies reflect the peculiarities of how the ongoing recession has affected businesses throughout the region. Generally, high vacancy rates reflect a significant drop in demand as businesses have contracted and some have closed. There is a certain element of luck involved in terms of how these reductions have spread among the various commercial areas.
- Most peer and neighbor cities improved their office vacancy rates since 2010, except for Kent and non-CBD Bellevue, which both saw increased vacancy rates in office space.
- Kirkland' office vacancy rate has plummeted; it was the highest of the included peer and neighbor cities in 2010 and is now the lowest. Prior to the recession, Kirkland also had the lowest vacancy rate for office space, so this may reflect a return to historical trends.
 - The high office vacancy rate in 2010 may have reflected the impact of Google opening its own campus in late 2008 and pulling out of space elsewhere in the city. This shift, right as the overall economy was dropping into a major recession, would have had the effect of increasing the vacancy rate while keeping a major employer in the City.
- Kirkland's retail vacancy rate continues to be the highest of all peer and neighbor cities included in this analysis, which is especially troubling given that retail lease rates are the lowest among the peer and neighbor jurisdictions.

Exhibit 15 Office and Retail Vacancy Rates

City	Office					Retail				
	2003, Q4	2005, Q4	2010, Q1	2011, Q4	2012, Q3	2003, Q4	2005, H2	2009, Q4	2011, H2	2012, H1
Kirkland	9.3%	4.4%	30.6%	7.9%	7.4%	8.6%	0.8%	22.2%	21.3%	18.7%
Bellevue CBD	20.8%	9.1%	17.0%	14.1%	12.0%	1.5%	11.1%	4.4%	3.5%	3.3%
Bellevue (Non-CBD)*	10.1%	9.8%	11.1%	12.9%	9.0%	12.8%	2.9%	10.4%	9.3%	6.2%
Bothell	-	-	21.4%	17.6%	17.4%	0.9%	1.4%	4.6%	8.2%	9.6%
Issaquah**	14.2%	6.7%	17.8%	13.3%	11.5%	4.0%	2.9%	NO DATA	9.3%	6.2%
Kent	22.9%	24.5%	29.1%	31.1%	32.3%	1.9%	2.0%	7.5%	11.8%	8.6%
Redmond	11.6%	11.0%	25.7%	19.9%	19.0%	4.6%	0.3%	3.7%	7.5%	7.0%
Renton	23.6%	30.9%	14.0%	10.5%	9.8%	1.2%	0.9%	6.6%	7.8%	8.7%

Source: CB Richard Ellis, 2011; and BERK, 2012.

* For Office rates, Bellevue figures are from the "Bel-Red Road" Corridor. For Retail rates, Bellevue figures are from the "Bellevue Suburban/I-90 Corridor."

** For Office rates, Issaquah figures are from the "I-90 Corridor." For Retail rates, Issaquah figures are from the "Bellevue Suburban/I-90 Corridor."

Kirkland Market Sector Review

To better understand the key clusters in the City of Kirkland, a business sector review was conducted using data from the Puget Sound Regional Council (citywide employment by sector), the City of Kirkland (firm

level data from the business license fee database), the Department of Revenue (countywide and City of Kirkland taxable retail sales data), and the Employment Security Department (statewide, countywide employment and wages data). The objective of this review was to identify the most significant and “profitable” sectors operating in the City of Kirkland.

To assess the most significant business sectors operating in the City of Kirkland, total employment by sector was analyzed using the PSRC employment data and the City of Kirkland business license database. In addition a more detailed sub-sector assessment (using the 3-digit NAICS industrial classification) was done to identify in a more targeted way some of the key elements of the local economy.

Exhibit 16 presents summary level information for the major business sectors including the number of employees, full-time equivalent employees (FTE’s), business license fee revenue and taxable retail sales. All of the information presented is taken from the City’s business license database, except the taxable retail sales data which comes from the Department of Revenue. The degree to which there are businesses not captured in the business license fee database, there will be some mismatch between the data sources. However, at this level of analysis, these are good indicators of the composition of Kirkland’s local economy.

Exhibit 16
Business Sector Overview for City of Kirkland

Sector	Emp.	FTEs	Business License Fees	Taxable Retail Sales
Const/Res	2,636	1,896	225,912	205,707,240
FIRE	1,791	1,612	215,186	49,236,003
Manufacturing	1,112	1,036	109,830	19,982,644
Retail	4,056	3,369	376,660	790,288,314
Services	12,170	10,919	1,260,454	369,759,595
WTU	1,602	1,500	195,445	83,868,768
Education	0	0	0	0
Government	4	2	100	76,831
Total	23,371	20,334	2,383,587	1,518,919,395

Source: City of Kirkland Business License Fee Database, State of Washington Department of Revenue

Total employment for businesses within the City’s license database is 23,371 and the reported number of FTE’s is 20,334 for an overall ratio of 1.15 jobs per FTE. At a sector level, services dominate the employment with 52% of the jobs reported, followed by retail at 17% and construction/resources at 11%. As expected, the retail and construction sectors are significant generators of taxable retail sales, while services contribute almost 24% of TRS due in part by the size of the sector overall. It is worth noting that education and government are generally excluded from the business licensing requirements.

While the City’s license database provides a good foundation for looking at business in Kirkland, it does rely on self-reported information and likely does not include all activity. To round out the review of total employment, a broader data set was used to look at employment by sector and how these sectors have changed over time. Exhibit 17 summarizes PSRC employment data for the City of Kirkland in 2000 and 2010 and also compares the 2011 PSRC estimate with the estimates from the license database.

Exhibit 17
Trends in Business Sector Employment

Sector	PSRC			PSRC	License	Diff	% Diff
	2000	2010	Change	2011	Database		
Const/Res	2,967	1,677	(1,290)	1,501	2,636	1,135	43%
FIRE	1,601	2,227	626	2,373	1,790	(583)	-33%
Manufacturing	2,419	1,239	(1,180)	1,262	1,112	(150)	-13%
Retail	5,151	3,329	(1,822)	3,434	4,056	622	15%
Services	14,925	15,246	321	15,985	12,170	(3,815)	-31%
WTU	2,978	1,833	(1,145)	1,922	1,602	(320)	-20%
Total	30,041	25,551	(4,490)	26,477	23,366	(0)	0%
Education & Government	4,051	5,391	1,340	5,268	n/a		
GRAND Total	34,092	30,942	(3,150)	31,745			

Source: PSRC, 2012 and City of Kirkland Business License Fee Database 2012

As with the license data, the most significant sector is services, which account for about 50% of all jobs in PSRC's employment estimates. Retail and FIRE (finance, insurance and real estate) account for another 18% of jobs while education and government comprise 17%. The balance of almost 15% is split between manufacturing, WTU (warehouse, transportation and utilities) and construction and resources.

An interesting finding is that total employment in the City of Kirkland has declined by approximately 2,300 jobs between 2000 and 2011 and that this reduction can be traced back to both the recession in the early 2000's as well as the more recent downturn in 2008 and 2009. In fact, the employment level never returned to the 2001 level of 34,500, peaking at 32,700 in 2008 before dropping back down to approximately 31,750.

While employment has declined, the trends and relative shares have been reasonably stable over time, though there has been a relative shift away from manufacturing, WTU and construction as these sectors comprised almost 25% of employment in 2000. Another interesting change has been a significant reduction in retail jobs overall (5,121 in 2000 to 3,434 in 2011) and as a share of total jobs (15% in 2000 to 11% in 2011). The shift away from manufacturing is consistent with overall shifts in the economy toward service-based industries

Clearly there are differences between the license fee database and the PSRC estimates, with the license database showing about 3,000 fewer jobs in 2011. The differences in the two data sources are likely based on several factors including: (1) PSRC data based on business location versus City data based on businesses that need a license to work in the city (most relevant to contractors); (2) PSRC data may list total jobs associated with a business, while the business only reports to the City those employees that work in the City; and, (3) under reporting of employment and/or less than 100% compliance on the part of businesses in Kirkland.

Most important subsectors. Looking a little deeper into what sectors are most significant, the license fee database was used to identify the subsectors based on total employment by 3-digit NAICS industrial classification. At the 3-digit level, the economy is divided into 99 subsectors, giving a better understanding of the types of economic activity within the major sectors discussed above.

Exhibit 18 presents the top 20 subsectors ranked by employment. As the table shows, the top 5 subsectors represented in the business license database all have at least 1,000 jobs and in total represent 44% of total jobs reported through the licensing process. Professional, scientific, and technical services is the largest subsector with approximately 3,700 jobs, more than double the employment in the food services and drinking places subsector which is the next largest. Ambulatory health care services, specialty trade contractors, and administration and support services are the subsectors which round out the top 5. The top 20 subsectors account for 81% of total employment in the license data base, while the remaining 79 subsectors account for the remaining 19% of employment.

**Exhibit 18
Most Significant Subsectors of Kirkland Economy**

Top 20 Ranked by Employment	Emp.	Fee Total	TRS	Countywide TRS/job rank
Professional, Scientific, and Technical Services	3,683	378,849	28,416,423	46
Food Services and Drinking Places	1,826	169,703	136,252,485	23
Ambulatory Health Care Services	1,807	204,691	2,365,094	76
Specialty Trade Contractors	1,726	141,607	75,953,055	20
Administrative and Support Services	1,164	112,785	32,315,162	39
Merchant Wholesalers, Durable Goods	993	103,115	70,168,494	18
Motor Vehicle and Parts Dealers	792	76,675	365,695,143	2
Miscellaneous Store Retailers	758	51,210	52,534,264	5
Construction of Buildings	700	66,630	117,554,272	3
Credit Intermediation and Related Activities	684	82,971	12,072,239	47
Personal and Laundry Services	606	75,438	11,264,913	27
Real Estate	584	63,190	8,851,978	53
Nursing and Residential Care Facilities	536	46,550	198,145	79
General Merchandise Stores	503	56,500	152,671,202	9
Food and Beverage Stores	492	46,555	42,357,408	24
Other Information Services	476	1,050	2,297,577	66
Health and Personal Care Stores	447	30,400	25,740,782	16
Accommodation	411	39,350	33,655,747	17
Transportation Equipment Manufacturing	396	39,900	136,382	73
Repair and Maintenance	335	43,018	40,959,091	15

Source: City of Kirkland Business License Fee Database 2012 and Department of Revenue 2012

Most “profitable” subsectors. The other key question was to consider which sectors might be considered the “most profitable” sectors. To do this, subsectors were ranked by taxable retail sales as reported by the Department of Revenue at the 3-digit NAICS level. Given the Washington State municipal tax structure, taxable retail sales are a critical factor in local government fiscal sustainability. As such, identifying the industry subsectors that contribute to the City’s sales tax base was determined to be a good proxy for “most profitable” subsectors. In addition, countywide average taxable retail sales (TRS) per job was estimated for each of the 99 subsectors to provide an indicator as to how efficiently each subsector produces taxable retail sales.

Exhibit 19 presents the top 20 subsectors ranked by taxable retail sales. As one would expect, the top of the list is dominated by retail activities including motor vehicle and parts dealers, general merchandise

stores and food services and drinking places occupying the top three spots. The next two spots are related to construction and contracting activities – construction of buildings and specialty trade contractors.

Exhibit 19
Most “Profitable” Subsectors of Kirkland Economy

Top 20 ranked by TRS	Emp.	Fee Total	TRS	Countywide TRS/job rank
Motor Vehicle and Parts Dealers	792	76,675	365,695,143	2
General Merchandise Stores	503	56,500	152,671,202	9
Food Services and Drinking Places	1,826	169,703	136,252,485	23
Construction of Buildings	700	66,630	117,554,272	3
Specialty Trade Contractors	1,726	141,607	75,953,055	20
Merchant Wholesalers, Durable Goods	993	103,115	70,168,494	18
Miscellaneous Store Retailers	758	51,210	52,534,264	5
Telecommunications	195	79,715	49,678,592	12
Food and Beverage Stores	492	46,555	42,357,408	24
Repair and Maintenance	335	43,018	40,959,091	15
Accommodation	411	39,350	33,655,747	17
Administrative and Support Services	1,164	112,785	32,315,162	39
Nonstore Retailers	165	16,180	30,073,125	19
Furniture and Home Furnishings Stores	119	10,625	30,049,686	6
Professional, Scientific, and Technical Services	3,683	378,849	28,416,423	46
Health and Personal Care Stores	447	30,400	25,740,782	16
Rental and Leasing Services	57	6,940	25,357,426	4
Electronics and Appliance Stores	173	17,550	25,238,787	1
Sporting Goods, Hobby, Musical Instrument, and	165	15,840	22,579,853	10
Clothing and Clothing Accessories Stores	85	9,305	16,042,957	7

Source: City of Kirkland Business License Fee Database 2012 and Department of Revenue 2012

The motor vehicle sales and parts subsector was are the biggest overall taxable retail sales contributor and were second ranked countywide for TRS per job. Clearly this subsector is a major element of the City’s economic and fiscal base.

General merchandise stores were second in total taxable retail sales, less than half the total produced by the motor vehicle sales and parts sector. Since this sector includes the impact of Costco, which on its own is likely to generate a substantial portion of this total, it suggests this ranking is primarily a Costco effect. The general merchandise stores subsector was ranked 9th in countywide TRS per job. Food and drinking places are third in terms of total taxable retail sales, second in terms of jobs in the City, but only 23rd countywide in TRS per job. This is a reflection of how labor intensive this subsector is.

Only 4 subsectors represented in the top 20 for taxable retail sales are also in the overall countywide top 10 in terms of TRS per job which suggests a significant portion of the City’s taxable retail sales are generated by activity less often considered part of the retail base. In some cases, the sales tax impact is directly attributable to the overall size of the subsector. For example professional, scientific and technical services rank in the top 20 in total taxable retail sales, but are ranked only 46th countywide in terms of TRS per job.

Several sectors rank in the top 20 for total taxable retail sales, but have a relatively low presence in terms of jobs suggesting that they are particularly attractive from a fiscal perspective. While these each represent highly “profitable” sectors (from a TRS per job perspective), there are market factors that can limit the ability to attract more businesses of this kind, particularly competition from nearby cities.

- o Electronics and appliance stores which rank 18th and are 1st overall in countywide TRS/job.
- o Rental and leasing services, which generally includes equipment (e.g. construction, office, medical) and vehicle leasing activities rank 17th and are a surprising 4th in countywide TRS/job.
- o Clothing and clothing accessories, which ranks 20th in the City and ranks 7th in TRS/job countywide.

For further context, Exhibit 20 presents the top 20 subsectors based on TRS per job. These business sectors can be thought of as the most “efficient” producers of taxable retail sales.

Exhibit 20
Ranking of Most “Profitable” Subsectors Countywide

Top 20 Ranked King County Sectors	Countywide TRS/job rank
Electronics and Appliance Stores	1
Motor Vehicle and Parts Dealers	2
Construction of Buildings	3
Rental and Leasing Services	4
Miscellaneous Store Retailers	5
Furniture and Home Furnishings Stores	6
Clothing and Clothing Accessories Stores	7
Building Material and Garden Equipment and Supplies Deale	8
General Merchandise Stores	9
Sporting Goods, Hobby, Musical Instrument, and Book Stores	10
Heavy and Civil Engineering Construction	11
Telecommunications	12
Gasoline Stations	13
Petroleum and Coal Products Manufacturing	14
Repair and Maintenance	15
Health and Personal Care Stores	16
Accommodation	17
Merchant Wholesalers, Durable Goods	18
Nonstore Retailers	19
Specialty Trade Contractors	20

Source: PSRC, 2012 and Washington State Department of Revenue 2012