

**Resolution No. \_\_\_\_\_**  
**Establishing a Target Fund Balance and policies for the management of the  
Target Fund Balance for the Development Fee Revenue Fund.**

**WHEREAS**, The Development Fee Revenue Fund (the Fund) was created by the Olympia City Council adoption of Resolution No. 6983; and

**WHEREAS**, Ordinance No. 6983 states that the Olympia City Council shall establish a Target Fund Balance for the Fund, and shall establish policies for management of the Target Fund Balance, which shall address at a minimum actions to be taken when the Fund Balance exceeds or is less than the Target Fund Balance; and

**WHEREAS**, the Fund is for the purpose of depositing revenue from fees collected for management of development and is used to reimburse costs related to management of development, including but not limited to: personnel, equipment, consulting services, direct and indirect support and overhead, and other costs attributable to management of development; and

**WHEREAS**, establishing financial reserves within the Fund will allow for better management of cash flow from year to year, improve the financial stability for the services that are subject to fluctuations from economic and development cycles, and maintain predictable permit fees; and

**WHEREAS**, the City Council finds that the City should recover costs of providing development services for permit applicants, which allows general City taxes to be directed towards meeting the cost of providing services with broader public benefit; and

**WHEREAS**, in 2004, the City conducted a Permit Cost Recovery Study and the City Council established a goal to recover 85% of the cost of delivering development services; and

**WHEREAS**, in 2015 the City conducted a Development Services Cost of Service and Fee Study, which supports continuation of the 85% cost recovery target established in 2004, and includes recommendations for policies related to a target fund balance and establishment of reserves to address the City's cost of services of managing development;

**NOW THEREFORE**, be it resolved

**The following policies are hereby established to manage the Development Fee Revenue Fund.**

**Policy 1: Target Cost Recovery**

The cost recovery target for development services is 85%, recognizing that a portion of the cost of providing development services benefits the entire community and should be borne by the City's General Fund. The target is an overall weighted average that includes building fee, land use fee, and engineering fee cost recovery. Contracted services related directly to a development project, which are outside the expertise of City staff and special projects attributable directly to the development, will be recovered at 100%, (for example, hearing examiner reviews and services related directly to the project such as specialized inspections and plan reviews.) This does not include contracted services needed due to the capacity of City staff to meet the demand for service.

To maintain alignment between cost recovery policies, fees charged for permit review and inspection services, and the cost of providing services, the City will update the development forecast and analyze operating costs at least once every three years, which may result in adjustments to fees.

**Policy 2: Target Fund Balance**

Funds within the Fund will be used to reimburse costs related to management of development, including but not limited to: personnel, equipment, consulting services, direct and indirect support and overhead, and other costs attributable to management of development. Any funds not used to reimburse costs shall remain in the Fund.

The Fund shall maintain a target fund balance that is established annually during the budget process. The target fund balance shall include the amount of projected revenues plus the established target reserve balance.

**Policy 3: Target Reserve Balance**

The Fund shall also establish financial reserves. The target reserve balance will be evaluated annually during the budget process. The target reserve balance will take into account the following primary objectives for maintaining a reserve:

*A. Deferred Workload Liability.* Fees collected may be reserved for permits issued with anticipated development services costs to be incurred in the next calendar year or beyond. The amount to be reserved for this purpose shall be established at the end of each calendar year, and will be based on the development services remaining to be provided for permits associated with development projects of greater than \$1,000,000 estimated valuation.

*B. Working Capital.* Funds shall be used to maintain a balance of working capital cash. The target amount for this fund category is 17% of budgeted expenditures to be reimbursed, including all costs related to management of development as defined in Policy 2 above.

*C. Core Operating Costs.* Funds shall be used to maintain a minimum acceptable level of experienced and capable staffing during times of decreased workload and revenue, and the department's ability to provide services when permitting activity increases. The target amount for this fund category is one year of core development services operating costs, including all costs related to management of development as defined in Policy 2 above.

**Policy 4: Technology Advancements, Equipment Replacement, and Administrative Account**

Funds within the Fund shall be reserved to maintain, upgrade, and replace technology and equipment that benefits the users of development services. This technology account is in addition to the target reserve in policy 3. A technology and equipment surcharge (or fee) may be assessed to fund this account category. The budget needed for this account will be reviewed and updated annually in the preliminary City budget, based on anticipated technology and equipment needs. This will include, but may not be limited to:

- Software updates and licenses;
- Equipment maintenance and replacement lifecycles;
- Credit card payment processing fees; and
- Expected significant periodic expenditures, such as technology advancements needed to maintain or improve levels of service based on industry standards.

**Policy 5: Exceeding the Target Reserve Fund Balance**

Development fees shall correspond with the cost of delivering development services for permit applicants, contributing to the City's target cost recovery of 85% and target reserve fund balance. However, there may be years where an extended period of significant growth in development activity results in greater than anticipated revenues. If the average target reserve balance over a three year period exceeds the target balance by at least 15%, development fees shall be evaluated and adjusted by up to 15% per year until the reserve meets the target balance.

**Policy 6: Falling Short of the Target Reserve Fund Balance**

Development fees shall correspond with the cost of delivering development services for permit applicants, contributing to the City's target cost recovery of 85% and target reserve fund balance. However, there may be years where an extended period of decline in development activity results in less than anticipated revenues. If the average target reserve balance over a three year period is less than the target balance by at least 15%, development fees shall be evaluated and adjusted upwards by up to 15% per year until the target reserve fund balance is aligned with cost recovery and target reserve fund balance policies.