

COUNCIL MINUTES

The City Council of the City of Raleigh met in a lunch work session at 11:30 a.m. on Tuesday, January 17, 2017 in Room 305 of the Raleigh Municipal Building, Avery C. Upchurch Government Complex, 222 West Hargett Street, Raleigh, North Carolina, with the following present:

Mayor Pro Tem Kay Crowder, presiding
Councilor Mary-Ann Baldwin
Councilor Corey D. Branch
Councilor David N. Cox
Councilor Bonner Gaylord
Councilor Russ Stephenson
Councilor Richard A. “Dickie” Thompson

Absent and excused:

Mayor Nancy McFarlane

These are summary minutes unless otherwise indicated.

Mayor Pro Tem Crowder called meeting to order at 11:36 a.m. and stated Mayor McFarlane was absent and excused from today’s meeting.

The following items were discussed:

DEVELOPMENT SERVICES – USER FEE STUDY – INFORMATION RECEIVED

Development Services Director Tom Hosey and Management Accounting Services Manager Jennifer Stephens used a PowerPoint presentation to illustrate their report, which is outlined as follows:

The goal of the user fee study is to review best practice fee structures, simplify the City’s fee structure, establish a policy driven fee schedule and ensure stakeholders are engaged.

Project Timeline

January 2016:	Project Kickoff Mgt/Azimuth
July 2016:	Council Update Approach/Methodology
August 2016:	Stakeholder Engagement #1
September 2016:	Council Update Benchmarks/Feedback
October 2016:	Stakeholder Engagement #2
December 2016:	City Manager Update
January 2017:	Stakeholder Engagement #3

User Fee Project

Construction Permitting: Applies to all properties and includes all trade (Building, Electrical, Mechanical) inspections and reviews.

Land Development: Review and approval of subdivision and other land uses.

Development Engineering: Inspection and review of private development in the public right of way.

Key Elements:

- Best Practice Research
- Time and Motion Study
- National/Local Benchmark Comparisons
- Stakeholder Engagement

User Fee Methodology Changes

Construction Permitting:

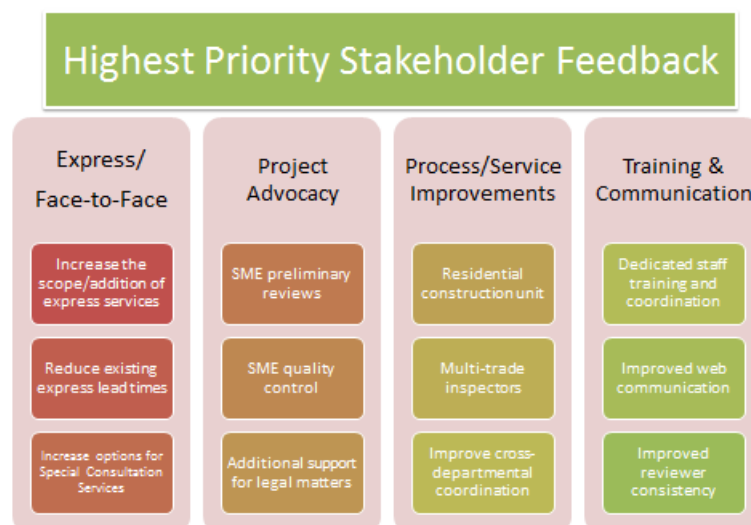
- Fee charged on valuation of construction project
- Leveled alterations and repairs

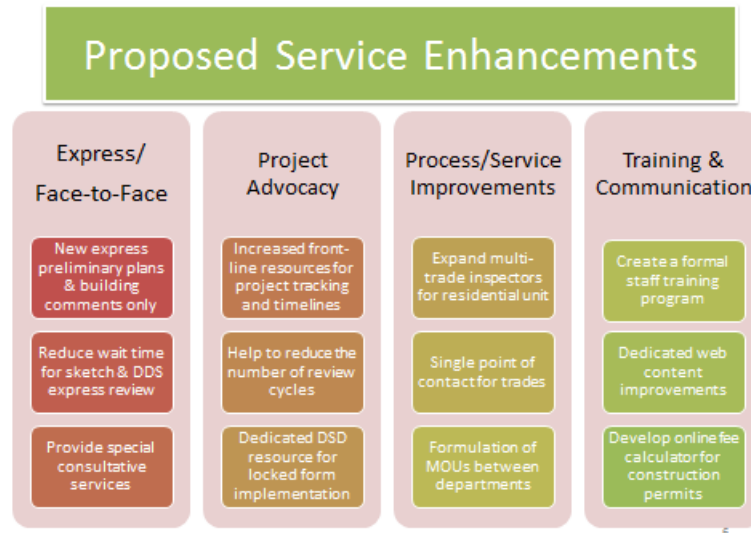
Land Development:

- Fees scale with complexity
- Projects fall into 3 categories
- Flat per cycle fee for each category
- Re-reviews charged at reduced price

Development Engineering:

- Special Consultation:
 - Flat rate per visit, based on 3 hours of staff effort
- Obstructions:
 - Flat rate based on type, location and duration





Fee Calculations

The following policy parameters incorporate consultant recommendations, results from peer benchmark comparisons indicating proposed fees would remain competitive and stakeholder desire for service delivery enhancements.

Process:

- Best practice review guided by external consultant
- 3rd party validation of some fees through time and motion study

Cost Basis:

- Development Services Operating Expenditure Budget
- Indirect city-wide organizational costs excluded
- Costs associated with technology – adder of 4%

Budget:

- FY18 Budget \$15.75m includes 14 new positions to support service enhancements
- DSD – 9 positions and 5 matrix department – 3 General Fund & 2 Enterprise positions

Fee Recovery:

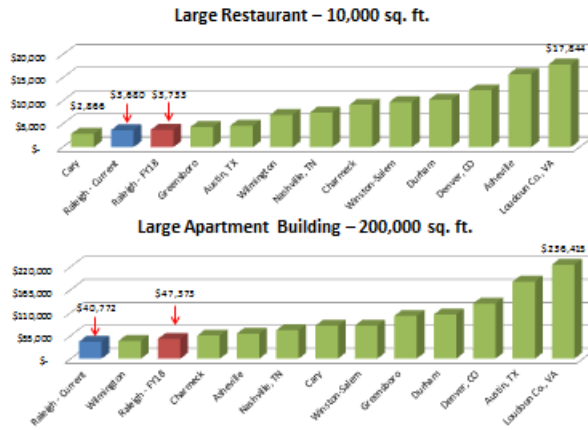
- 100% direct cost recovery
- Residential Single Family Dwelling Permitting – 89% (Marketing Constraints)
- Small number of other fees excluded from 100% cost recovery due to market constraints

Review Cycle:

- Annual review of revenue, expense and cost recovery
- Annual review of one third of all fees, year 1 focused on new fees

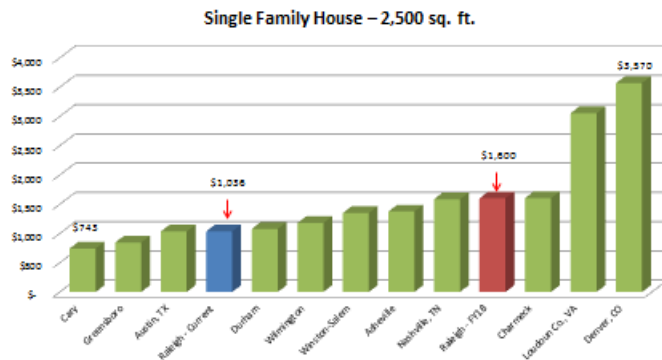
Commercial Permitting Example

The examples shown below display the fees to construct a large restaurant and a large apartment complex. Fees shown include plan review and all four trades.



Single Family House Example

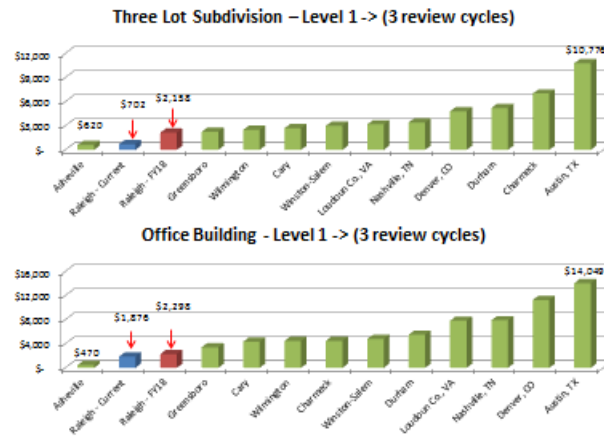
The following example displays the fees associated with construction permitting of a 2,500 square foot single family dwelling. Fees shown include plan review and all four trades.



Policy Impact – Raleigh FY18 Fee held to 89% cost recovery

Land Development Examples

The following examples display the fees to perform land site plan review for a three-lot subdivision and an office building. Fees assume three review cycles.



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Right of Way Obstructions Examples

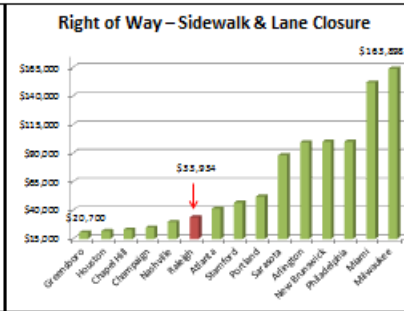
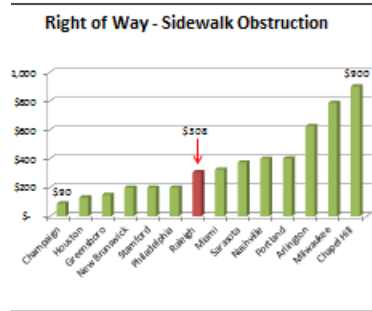
Scenario 1 – Downtown Project Sidewalk Maintenance - 15 Days

Review Fee	\$68
Sidewalk - Major Maintenance (\$16/day)	\$240
Total Fees	\$308

Scenario 2 – Large Downtown Project Sidewalk & Lane Closure - 690 Days

Review Fee	\$814
Sidewalk - Major Full	\$0
Lane - Major Striped (\$48/day)	\$33,120
Total Fees - 1 lane*	\$33,934

*Add'l lane closures incur the striped lane fee



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Project Plan – July 1, 2017 Implementation

January 2017:

- 1/12 – DSAC Stakeholder Engagement
- 1/17 – City Council Work Session

February 2017:

- 2/7 – City Council sets Public Hearing for 2/21
- 2/21 – Hold Public Hearing
 - Adoption of user fees and policy effective July 1st

Ongoing:

- Permitting system changes & updates
- Staff training & coordination
- Resource readiness

- Continued communication with Key stakeholders

The report included a draft of the proposed Development Services Fee Schedule.

Mr. Horsey noted a comprehensive fee study was never conducted and stated it was way overdue. He pointed out Parks fees, Stormwater fees, and Fire Inspection fees were not included in the study. He also noted the stakeholder feedback included in the report was provided directly from the stakeholders and not tabulated by staff.

Discussion took place regarding how project valuations are determined as well as how valuations are standardized in various parts of the country.

Mr. Branch questioned whether there was criteria established to qualify a project for express service with Mr. Horsey responding in the affirmative and indicating he will provide the specific information to the council.

Mr. Cox questioned the indirect costs with Ms. Stevens responding indirect costs count for approximately 20% of the budget, which at this point amounts to approximately \$1 million.

Discussion took place comparing Raleigh's fees to that of the City of Charlotte with Mr. Stephenson questioning why Charlotte's fees are higher than Raleigh's with City Manager Ruffin Hall responding Charlotte's fees are based on 100% recovery of direct and indirect costs.

Discussion took place regarding Charlotte's cost recovery methodology with Mayor Pro Tem Crowder questioning whether Raleigh has a goal to recover 100% indirect costs and City Manager Hall talking about the timeline to implement the 100% direct cost recovery policy.

Mr. Cox requested information on phasing in 100% indirect cost recovery with Ms. Baldwin questioning whether there was conversation with DSAC regarding indirect cost recovery and Mr. Horsey responding there has been no discussion with DSAC regarding indirect cost recovery as of yet. Ms. Baldwin suggested staff begin discussions with DSAC regarding indirect cost recovery.

Discussion took place regarding how project timelines affect major maintenance costs for right-of-way obstructions with Mr. Gaylord noting the costs disproportionately affect downtown projects over suburban projects.

The Council thanked staff and DSAC for their efforts in compiling the study with Mr. Stephenson noting he was on the Council in 2006 when Council approved the study with the Farragut Group and the DSAC and expressed his concern Raleigh's fees are still 1/3 to 1/2 its peers and feels this is unfair to taxpayers.

Ms. Baldwin indicated Council members received a memo from Tom Anhut of the Development Services Advisory Committee with Mayor Pro Tem Crowder pointing out Mr. Anhut will be speaking at the public hearing.

Tom Anhut, Development Services Advisory Committee Co-Chair, referred to his submitted statement, which reads as follows:

Good morning.

My name is Tom Anhut and I am the co-chair of the Development Services Advisory Committee.

The DSAC would like to commend Jim Greene, Tom Hosey and the entire Development Services Department staff for the very deliberate, transparent, and customer-focused approach that they used in conducting this fee study. We greatly appreciate the significant improvement in customer service that we have experienced at Development Services over the past year, and this process reflected that same approach.

Having said that, we have some concerns with the study's methodology which we shared during the process, most notably the determination that in almost all cases, fees should cover 100% of the Development Services Department's direct costs. Our goal has always been to ensure that Raleigh remains an attractive, competitive and viable place to do business and that there is recognition of the perpetual increase in tax base and economic benefit derived from development.

Additionally, the study's scope was limited to the fees associated with Development Services which is just one aspect of the overall cost of development in the City of Raleigh. There are other significant costs and requirements which are unique to Raleigh that we believe should be taken into account when benchmarking the overall cost of development against other municipalities. Lastly, we hope that if any increases are enacted, that they be implemented gradually to allow the development community to plan accordingly.

Again, we are grateful for the inclusive nature of this study. We look forward to continuing working with Jim, Tom and their staff on the study's proposals and implementing the enhanced services that it contemplates.

Thank you

Mayor Pro Tem Crowder indicated Mr. Anhut brought up a couple of important points and stated the Council will take them into consideration.

Ms. Baldwin indicated she used to receive complaints from the public on a regular basis regarding Development Services; however, now she receives compliments from the public and she congratulated Mr. Hosey and Development Services staff.

The Council received the information.

RALEIGH UNION STATION – LEASING STRATEGIES – INFORMATION RECEIVED

City Manager Ruffin Hall stated this item was discussed during a prior City Council work session and indicated staff is seeking guidance from the Council with regard to pursuing merchants for the Union Station retail spaces.

Transit Administrator David Eatman, Assistant Planning Director Roberta Fox, and Economic Development Manager James Sauls used a PowerPoint presentation to illustrate their report, which is outlined as follows:

Background

Why have commercial spaces?

- Offset operating cost by generating revenue
- Provide amenities
- Create and enhance placemaking opportunities

Business Plan

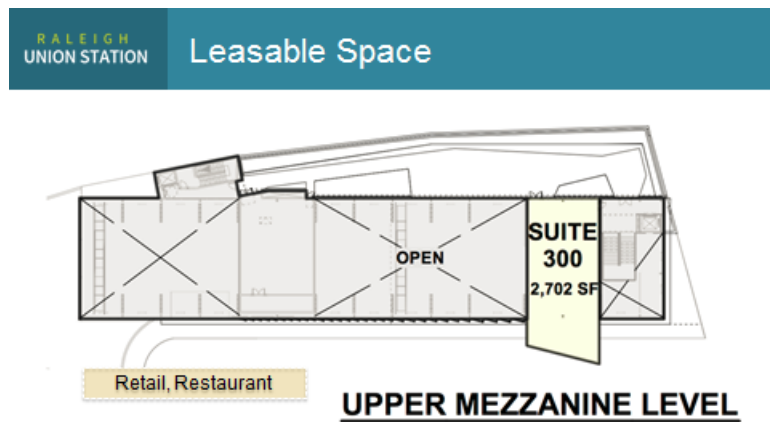
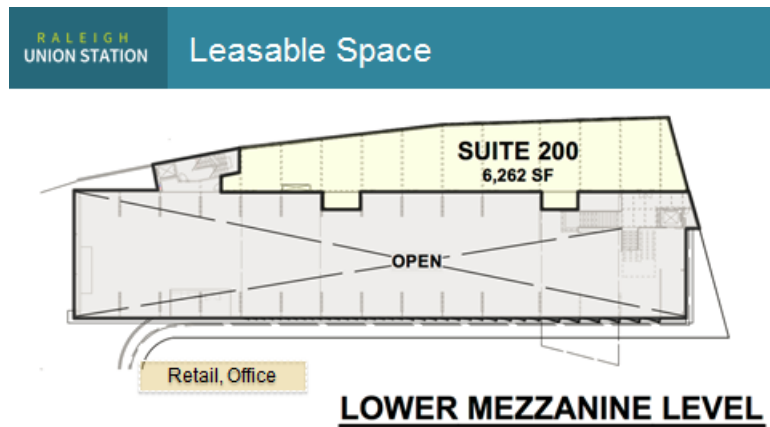
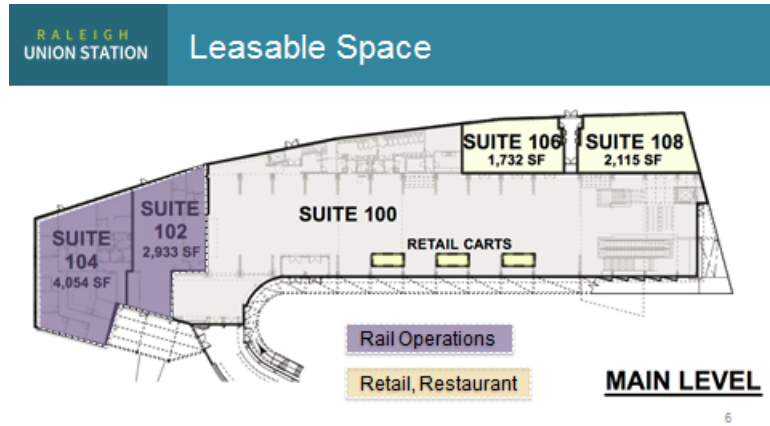
- Study completed by Parsons Brinkerhoff in 2014
- Helped to guide staff implementation of Union Station
- Staff has vetted the major assumptions included in the business plan financial model
- Financial model assumes a ramp up of revenue in FY2018
- Conservative Event Revenue projected
- Currently projecting an ongoing General Fund contribution ranging from \$500K -\$800K depending on lease terms
- Business Plan assumed there would be a City investment for upfit costs
- Current assumption is that retail spaces will be constructed to a level beyond a “cold / dark” standard
- \$400K in upfit costs are projected, these costs are derived from the upfits needed for the various retail uses

Retail:	\$25/sf	1,780 sf	\$44,500
Office:	\$30/sf	6,170 sf	\$185,100
Restaurant:	\$35/sf	4,812 sf	\$168,420
<u>Total:</u>			<u>\$398,020</u>

Funds to be allocated from FY2017 Operating Budget

Projected savings in transit fuel and labor are primary sources

Leasable Space



Market Overview

Upfit allocations are valuable investments:

- An approximate impact of \$40,000 per year in lease revenue for the next 10 years
- General Fund contribution may increase equally
- Future upfit needs are programmed in the business plan

Upfit allocations are important for marketability

Allows for a greater variety of eligible lease holders

- Reinforces and strengthens options for tenant mix
- Increases return on investment over life of lease
- Current public and private markets utilize tenant up-fit allocations in negotiations

Downtown Comps

Alexander Square Parking Garage and 150 Fayetteville Street				
SF	Proposed Use	Rental Rate	Tennant Improvement	NNN*
1,661	Restaurant	\$21.52 p/sf	\$20.00 p/sf	Yes
2,757	Restaurant	\$17.00 p/sf	\$7.00 p/sf	Yes
3,582	Restaurant	\$22.28 p/sf	\$15.00 p/sf	Yes

*Pass through expenses of leasing are portions tenants or lessees pay in addition to the lease fee, or rent to the landlord or lessor. The Triple Net fees are property taxes, property insurance and common area maintenance.

SF	Proposed Use	Rental Rate	Tennant Improvement	TICAM*
850	Retail	\$21.10 p/sf	\$9,000	\$5.11 p/sf
1,025	Retail	\$30.00 p/sf	\$95,000	n/a
1,650	Retail	\$21.00 p/sf	No data	\$5.53 p/sf
1,650	Retail	\$25.00 p/sf	\$70,000	\$5.00 p/sf
7,500	Retail	\$35.00 p/sf	\$200,000	\$6.00 p/sf

*Gross Lease is a lease in which the stated rent includes the operating expenses of the building. It can also be called a Fully Serviced Lease and is the opposite of a Net Lease. What are **TICAM** charges? Taxes, Insurance & Common Area Maintenance charges.

Retail Leasing Goals & Strategy

Request for Proposals (RFP) recommended

- Seeking a variety of lease relationships
- Market conditions will help define most advantageous option
- Up-fit budget allocations may be defined
- Tenant mix strategy will be communicated

Goals:

- Cost Recovery
- Quality / character of tenants
- Services that will compliment travelers, events, and the Warehouse District
- High Aesthetic Appeal
- Minimize Impact to Existing COR Operations and Resources
- Stability / predictability of tenants

Examples for tenant mix potentially included in RFP / Contract (compliments goals)

- Seeking affordable food options for travelers
- Destination restaurant / community and neighborhood amenity
- Retail - local and / or regional appeal
- Office
- COR reserves the right to accept or reject tenants

Recommended City Council Actions

- Council Authorization of Lease Agreement
- Authorization of Budget Transfer of \$400,000 for Tenant Upfits

Next Steps

First Quarter:

- RFP Solicitation
- Council Authorization of Agreement
- Authorization of Budget Transfer for Tenant Upfits

Other:

- Council Decision on Advertising at Transit Facilities

Ms. Fox pointed out the Business Plan is a Tiger Grant requirement.

Mr. Stephenson indicated he was under the assumption upfit costs were part of capital expenditures with discussion taking place regarding funding availability for City contributions to tenant upfit costs.

Mr. Thompson questioned where the City stood with regard to the contingency fund for construction costs with Engineering Services Director Richard Kelly responding the contingency fund is running tight at this time. Mayor Pro Tem Crowder requested information on the contingency fund be provided to the Council with City Manager Hall pointing out the \$500,000 - \$800,000 would be for annual operating costs for the entire facility.

Mr. Thompson questioned the projected project completion date with Mr. Kelly responding the project is scheduled for completion in January 2018.

Mr. Branch talked about passenger amenities and train schedules and questioned whether there will be flexible service hours for trains that run late.

Mr. Stephenson questioned the kind of tenants targeted for the retail spaces with Mr. Eatman responding his department has already received several telephone calls from potential tenants with discussion taking place regarding potential brokers, master lessees, etc. with Mr. Sauls reiterating the City retains first right of refusal regarding tenants, etc.

Mr. Gaylord pointed out the goal is to amenitize a public investment and suggested the City should not be “penny wise and pound foolish” in this situation. He talked about catering to the local population with local restaurants, retailers, etc.

Mr. Thompson and Ms. Baldwin talked about facilities at the Raleigh-Durham Airport with Mr. Thompson indicating he has sent inquiries to the Airport Authority regarding their business model and Ms. Baldwin questioning whether staff has spoken with the Airport Authority and whether staff looked at other cities regarding passenger amenities and Ms. Fox responding Staff has looked at passenger rail facilities in Union Stations of Denver, Washington, DC, Los Angeles, and Grand Central Terminal in New York. She noted different business models were used in each facility and that Raleigh’s business model would draw from each model.

Discussion took place regarding the Raleigh Durham Airport Authority’s Master Lease Model with several Council members encouraging staff to reach out to the Airport Authority.

The Council received the information.

ADJOURNMENT

There being no further business before the City Council, Mayor Pro Tem Crowder announced the meeting adjourned at 12:45 p.m.

Ralph L. Puccini
Assistant Deputy Clerk