



LOCAL

'Cookie jar' e-mail inflames debate over Minnesota cities' permit fees

Builders say message is proof that cities are overcharging them.

By Eric Roper

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Building materials for a home under construction sat near several already inhabited homes in Inver Grove Heights last year. (Star Tribune/The Minnesota Star Tribune)

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Minnesota cities have pushed back on [accusations by local builders](#) that they overcharge for permits to pay for other city services. But soon after the builders' report was released last month, the chairman of the association representing local building officials confided to his peers that cities had "got their hand caught in the cookie jar."

The Aug. 21 e-mail, obtained by the Star Tribune through a public records request, adds to a simmering debate over whether cities have raised the cost of new housing by charging more for building permits than it costs them to provide inspection services. State rules say the fees should be "proportionate to the actual cost of service."

The law also says cities must submit annual forms documenting their building fees and expenses, but few complied until recently. Nearly 100 have been submitted to the Department of Labor and Industry (DLI) since the builders' report was released.

"We all have to agree we know it has been happening. We all know that when we said something about it [it] fell on deaf ears," James Williamette, chairman of the Association of Minnesota Building Officials, wrote to the group's board members – most of them city building officials – regarding the prior day's news conference at the Capitol. "We all know that pushing this issue with management was always difficult and a few of our peers were let go over this."

He wrote in the e-mail that building officials have little say on how the permit money gets allocated. "The fact is most cities depend on permit revenue to help balance the budget," he wrote.

Williamette said in an interview last week that he misspoke in the e-mail and was incensed at the time by what he had read in the builders' report about a suburb planning to use permit money for a City Hall remodel. He said he does not have evidence to back up the claims in his note, some of which – like employees being terminated – were based on hearsay.

"We don't know exactly what the cost of the service is, so we have no idea," Williamette said. "There's a lot of money coming in, and it costs a lot of money for the departments. ... We don't know what's happening."

But builders seized on the e-mail as confirmation of their argument.

"To us [the e-mail] validates our worst fears. It says to us cities are knowingly overcharging for permits," said David Siegel, executive director of Housing First Minnesota, which published the report through its research arm. "And that's regrettable, but it's undeniable. And it suggests that the things we found are in fact very real."

Siegel added that they sympathize with the building officials, who appear to be caught in the middle of this debate.

The Minnesota Senate is scheduled to hold a hearing Tuesday on the issue.

State officials say they have heard similar qualms over the years to those expressed by Williamette.

"Code officials have been saying this is an issue," said Scott McLellan, director of construction codes and licensing with DLI. "It's no secret that they speculate that the fees aren't used properly because generally they would like to see more help in administering the code at the local level."

But, McLellan added, "we have no factual data to substantiate it."

Proving a city is misusing permit fees is complicated, because many cities put the money in their general fund, rather than a dedicated account, making it difficult to track what expenses it ultimately supports. The law is also not clear about precisely where the line gets drawn on what is proportional.

The [DLI forms instruct cities](#) to isolate their inspection-related expenses, including external costs from other departments. The builders drew on those reports to show that, over five years, cities received about \$78 million more in permit revenue than they reported spending on related inspection services.

But League of Minnesota Cities lobbyist Irene Kao said the builders are too narrowly comparing permit revenue to inspection expenses, without accounting for other development-related expenses like planning and zoning.

Those other costs and fees, documented elsewhere on the DLI form, show some cities earning far less than they spend, Kao said. In its 2018 form submitted in late August, for example, Minneapolis reported a \$2 million surplus related to inspection fees and expenses, but a \$4 million deficit in relation to other development costs. St. Paul's form, also submitted recently, shows a similar pattern.

"If the criticism is cities are taking in all this money and not using it for these purposes ... it's not that simple," Kao said. "If you only look at building inspection fees and expenses, that corroborates that story. But if you take a look at all of the fees and expenses related to the development, it doesn't."

Kao said the five-year analysis also misses years when the economy was poor and cities earned far less in fees, so the League is conducting its own 10-year examination of the data.

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