

--	--

<b>TO:</b>	<b>CHAIR AND MEMBERS PLANNING AND ENVIRONMENT COMMITTEE</b>
<b>FROM:</b>	<b>GEORGE KOTSIFAS, P. ENG. MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES &amp; CHIEF BUILDING OFFICIAL</b>
<b>SUBJECT:</b>	<b>ANNUAL REPORT ON BUILDING PERMIT FEES MEETING ON APRIL 29, 2014</b>

<b>RECOMMENDATION</b>
-----------------------

That, on the recommendation of the Managing Director, Development and Compliance Services & Chief Building Official, the attached report on building permit fees collected and costs of administration and enforcement of the *Building Code Act* and regulations for the year 2013, **BE RECEIVED** for information purposes.

<b>PREVIOUS REPORTS PERTINIENT TO THIS MATTER</b>
---

Planning and Environment Committee Report dated April 9, 2013.

<b>BACKGROUND</b>
-------------------

The *Building Code Act* and the regulations made thereunder (*Ontario's Building Code*) require that a report be prepared annually on building permit fees collected, and the costs incurred in the administration and enforcement of the *Building Code Act* and regulations. Specifically, Division C, Section 1.9.1.1 of the regulations state:

- (1) The report referred to in subsection 7(4) of the Act shall contain the following information in respect of fees authorized under clause 7(1)(c) of the Act:
  - (a) total fees collected in the 12 month period ending no earlier than three months before the release of the report,
  - (b) the direct and indirect costs of delivering services related to the administration and enforcement of the Act in the area of jurisdiction of the *principal authority* in the 12 month period referred to in Clause (a),
  - (c) a break-down of the costs described in Clause (b) into at least the following categories:
    - (i) direct costs of administration and enforcement of the Act, including the review of applications for permits and inspection of *buildings*, and
    - (ii) indirect costs of administration and enforcement of the Act, including support and overhead costs, and
  - (d) if a reserve fund has been established for any purpose relating to the administration or enforcement of the Act, the amount of the fund at the end of the 12 month period referred to in Clause (a).
  
- (2) The *principal authority* shall give notice of the preparation of a report under subsection 7(4) of the Act to every person and organization that has requested that the *principal authority* provide the person or organization with such notice and has provided an address for the notice.

--	--

**Revenues Collected**

Building permit fees collected during 2013 totalled \$5,069,182. Additionally, \$645,945 was deferred to the 2013 Building Division budget from 2012 as unearned revenue (revenue associated with permits that were applied for but not issued by year end). The resulting total building permit revenue for 2013 was \$5,715,127 of which \$1,150,453 was deferred to the 2014 budget as unearned revenue.

As shown below, the net revenue of building permit fees for 2013 was \$4,564,674.

Deferred Revenue from 2012	645,945
2013 Building Permit Fees	5,069,182
Deferred Revenues to 2014 (permits not issued in 2013)	<u>(1,150,453)</u>
<b>2013 NET REVENUE</b>	<b>4,564,674</b>

**Costs Incurred**

The total costs, both direct and indirect incurred during 2013 were \$4,911,175, as shown in the table below (these cost are not audited costs). It should be noted that significant cost savings were realized in 2013 primarily through vacancy management and organizational change.

	<b>Costs (\$)</b>	<b>Person Years</b>
<b><u>DIRECT COSTS</u></b>		
Administration	323,675	2
Permit Issuance	1,206,278	14
Inspection	1,473,839	18
Operational Support	438,435	10
Zoning Review and Property Standards	258,365	4
Operating Expenses (supplies, equipment, etc.)	206,573	
<b>TOTAL DIRECT COSTS</b>	<b><u>3,907,165</u></b>	<b>48</b>
<b><u>INDIRECT COSTS</u></b>		
Corporate Management and Support	520,725	
Risk Management	148,064	
Life Safety and Grading Review	137,221	
Office Space	198,000	
<b>TOTAL INDIRECT COSTS</b>	<b><u>1,004,010</u></b>	
<b>TOTAL COSTS</b>	<b><u>4,911,175</u></b>	

**Net Financial Position**

At 2013 year end, the net revenue was \$4,564,674. Deducting the total direct and indirect costs of \$4,911,175 for administration and enforcement, results in \$346,501 to be withdrawn from the Building Permit Stabilization Reserve.

Total Net Revenue	4,564,674
Total Cost of Enforcement	<u>4,911,175</u>
<b>YEAR END CONTRIBUTION (withdrawal if negative)</b>	<b>-346,501</b>

Agenda Item #	Page #

**Building Permit Stabilization Reserve (BPSR)**

The issue of what constitutes an adequate reserve fund was discussed with the building industry as represented by the London Home Builders' Association in 2006. Agreement was reached that the reserve fund should be approximately 40% of the year's costs for the administration and enforcement of the *Building Code Act* and the *Building Code*. It was also agreed that when the reserve fund falls below 30% of the annual cost, a review would be undertaken with a view to increasing permit fees. Likewise, when the reserve fund exceeds 50% of the annual cost, a review would be undertaken with a view to decreasing permit fees.

The BPSR 2013 opening balance was \$651,434. Considering a withdrawal of \$346,501, the balance of this reserve fund will be \$304,933 which equates to 6.2% of annual operating costs.

Reserve Fund Opening Balance	651,434
Possible Year End Contribution (withdrawal if negative)	<u>(346,501)</u>
<b>2012 RESERVE FUND CLOSING BALANCE</b>	<b>304,933</b>

Staff consulted with the Finance Division and it was determined that a prudent financial strategy would be to mitigate the draw from the BPSRF from the year end surplus in the amount of \$346,501.

Reserve Fund Opening Balance	651,434
Revised Year End Contribution (withdrawal if negative)	<u>0</u>
<b>REVISED 2012 RESERVE FUND CLOSING BALANCE</b>	<b>651,434</b>

The revised closing balance in the reserve fund equates to 13.3% of the annual operating cost which is well below the 30% threshold.

**Building Permit Fees**

In 2012, a review was completed of the building permit fee structure in relation to volumes and effort, as well as a comparison of London fees in relation to other similar jurisdictions. Consequently, a new fee structure was adopted by Council effective November 1, 2012, this was consistent with the findings of the Building Control audit. This was the first increase in building permit fees since 2005 and the average increase was approximately 20%.

The analysis undertaken during the Building By-law review in 2012 was based on a model of a 5 year cycle for permit fee review. The fee increase of 20% on average expected to yield approximately \$550,000 additional revenues in 2013, of which a significant portion was to be applied to the BPSR. The revenues in 2013 achieved this goal, however, a significant portion of this revenue was deferred to 2014 to account for building permits that were applied for but not issued by the end of the year.

**Conclusion**

As a result of building permit fee increases implemented in late 2012, the building permit revenues realized in 2013 surpassed the 2012 level. However, due to a significant deferral of revenues from 2013 to 2014 accounting for building permits that were applied for but not issued in the calendar year, a draw from the Building Permit Stabilization Reserve was considered. Should this have occurred then the resulting levels of the BPSR would have been 6.2% of the operating costs which is a dangerously low level and well below the 30% threshold established with the industry.

As such, it was determined that mitigation of the drawdown through 2013 year end surplus was a prudent financial strategy. Staff will continue to monitor revenues in 2014 and should another shortfall occur, then a possible fee increase in 2015 will be considered.

Agenda Item #

Page #

--

--

**PREPARED AND RECOMMENDED BY:**

**GEORGE KOTSIFAS, P. ENG.  
MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES  
& CHIEF BUILDING OFFICIAL**