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TO:	CHAIR AND MEMBERS PLANNING AND ENVIRONMENT COMMITTEE
FROM:	GEORGE KOTSIFAS, P. ENG. MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL
SUBJECT:	ANNUAL REPORT ON BUILDING PERMIT FEES MEETING ON MARCH 23, 2015

RECOMMENDATION

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 2014, **BE RECEIVED** for information purposes.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Planning and Environment Committee Report dated April 29, 2014.

BACKGROUND

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 breakdown 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.

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Revenues Collected

Building permit fees collected during 2014 totalled \$4,912,441. However, consistent with revenue recognition principles, governed by generally accepted accounting principles (GAAP), Building fee revenue recognized by the City of London for 2014 equated to \$4,712,827.

As shown below, the building permit fees revenue for 2014 was \$4,712,827.

Deferred Revenue from 2013	1,150,453
2014 Building Permit Fees Collected	4,912,441
Deferred Revenues to 2015 [permits not issued in 2014]	<u>(1,350,067)</u>
2014 REVENUE	4,712,827

Costs Incurred

The total costs, both direct and indirect incurred during 2014 were \$ 5,052,595, as shown in the table below (these cost are not audited costs). It should be noted that significant cost savings were realized in 2014 primarily through vacancy management.

	Costs (\$)	Person Years
<u>DIRECT COSTS</u>		
Administration	301,136	2
Permit Issuance	1,188,560	14
Inspection	1,571,834	18
Zoning Review and Property Standards	289,821	4
Operational Support	498,133	10
Operating Expenses (supplies, equipment, etc.)	192,947	
TOTAL DIRECT COSTS	4,042,431	48
<u>INDIRECT COSTS</u>		
Corporate Management and Support	523,594	
Risk Management	151,395	
Life Safety and Grading Review	137,176	
Office Space	198,000	
TOTAL INDIRECT COSTS	1,010,164	
TOTAL COSTS	5,052,595	

Net Financial Position

At 2014 year end, building permit revenue was \$4,712,827. By deducting the total direct and indirect costs of \$5,052,595 for the administration and enforcement of the *Building Code Act*, would result in \$339,768 to be withdrawn from the Building Permit Stabilization Reserve.

Total Net Revenue	4,712,827
Total Cost of Administration & Enforcement	<u>5,052,595</u>
YEAR END CONTRIBUTION (withdrawal)	(339,768)

Agenda Item #	Page #

Building Permit Stabilization Reserve (BPSR)

The issue of what constitutes an adequate reserve was discussed with the building industry as represented by the London Home Builders' Association in 2006. Agreement was reached that the reserve 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 falls below 30% of the annual cost, a review would be undertaken with a view to increasing permit fees. Likewise, when the reserve exceeds 50% of the annual cost, a review would be undertaken with a view to decreasing permit fees.

The BPSR 2014 opening balance was \$651,434. Considering a withdrawal of \$339,768, the balance of this reserve will be \$311,666 which equates to 6.2% of annual operating costs.

Reserve Opening Balance	651,434
Possible Year End Contribution (withdrawal)	<u>(339,768)</u>
2014 RESERVE CLOSING BALANCE	311,666

Staff consulted with the Financial Planning & Policy Division and it was determined that a prudent financial strategy would be to mitigate the draw from the BPSR from the year end surplus in the amount of \$339,768.

Reserve Opening Balance	651,434
Revised Year End Contribution (withdrawal if negative)	<u>0</u>
REVISED 2014 RESERVE CLOSING BALANCE	651,434

The revised closing balance in the reserve equates to 12.9% 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 annually, of which a significant portion was to be applied to the BPSR. Unfortunately, the revenues have not been realized which has resulted in an operating deficit.

Conclusion

Due to costs incurred exceeding revenue recognized, a draw from the Building Permit Stabilization Reserve was feasible. 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 2014 year end surplus was a prudent financial strategy. Staff will continue to monitor revenues in 2015. However, given that the expected revenues have not materialized (notwithstanding the fee increase of 20% in 2012), staff will undertake an analysis of the current fee structure to determine whether a fee increase may be warranted prior to consideration of the 2016 budget.

Agenda Item #

Page #

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PREPARED AND RECOMMENDED BY:

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