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<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 MARCH 29, 2016</b>

<b>RECOMMENDATION</b>
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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 2015, **BE RECEIVED** for information purposes.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Planning and Environment Committee Report dated March 23, 2015.

<b>BACKGROUND</b>
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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 2015 totalled \$4,519,709. However, consistent with revenue recognition principles, governed by generally accepted accounting principles (GAAP), Building fee revenue recognized by the City of London for 2015 equated to \$4,100,667.

As shown below, the net revenue of building permit fees for 2015 was \$4,100,667

Deferred Revenue from 2014	1,150,453
2015 Building Permit Fees Collected	4,519,709
Deferred Revenues to 2016 [permits not issued in 2015]	<u>(1,569,495)</u>
<b>2015 NET REVENUE</b>	<b>4,100,667</b>

**Costs Incurred**

The total costs, both direct and indirect incurred during 2015 were \$4,654,676, as shown in the table below (these cost are not audited costs).

	Costs (\$)	Person Years
<b><u>DIRECT COSTS</u></b>		
Administration	304,496	2
Permit Issuance	1,138,641	14
Inspection	1,355,599	18
Zoning Review and Property Standards	206,252	4
Operational Support	429,627	10
Operating Expenses (supplies, equipment, etc.)	181,582	
<b>TOTAL DIRECT COSTS</b>	<b>3,616,197</b>	<b>48</b>
<b><u>INDIRECT COSTS</u></b>		
Corporate Management and Support	526,004	
Risk Management	161,877	
Life Safety and Grading Review	152,598	
Office Space	198,000	
<b>TOTAL INDIRECT COSTS</b>	<b>1,038,478</b>	
<b>TOTAL COSTS</b>	<b>4,654,676</b>	

**Net Financial Position**

At 2015 year end, the net revenue was \$4,100,667. By deducting the total direct and indirect costs of \$4,654,676 for the administration and enforcement of the *Building Code Act*, would result in \$554,009 to be withdrawn from the Building Permit Stabilization Reserve.

Total Net Revenue	4,100,667
Total Cost of Enforcement	<u>4,654,676</u>
<b>YEAR END CONTRIBUTION (withdrawal if negative)</b>	<b>(554,009)</b>

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**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 2015 opening balance was \$651,434. Considering a withdrawal of \$554,009, the balance of this reserve will be \$97,425 which equates to 2.1% of annual operating costs.

Reserve Opening Balance	651,434
Possible Year End Contribution (withdrawal if negative)	<u>(554,009)</u>
<b>2015 RESERVE CLOSING BALANCE</b>	<b>97,425</b>

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 BPSRF from the year end surplus in the amount of \$554,009.

Reserve Opening Balance	651,434
Revised Year End Contribution (withdrawal if negative)	<u>0</u>
<b>REVISED 2015 RESERVE CLOSING BALANCE</b>	<b>651,434</b>

The revised closing balance in the reserve equates to 14.0% 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 2.1% 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 2015 year end surplus was a prudent financial strategy. Staff will continue to monitor revenues in 2016, 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 and report back in 2016.

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**PREPARED AND RECOMMENDED BY:**

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