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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 27, 2017

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 2016, **BE RECEIVED** for information purposes.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Planning and Environment Committee Report dated March 29, 2016.

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 2016 totalled \$6,676,026. However, consistent with revenue recognition principles, governed by general accepted accounting principles (GAAP), Building fee revenue recognized by the City of London for 2016 equated to \$7,105,347.

As shown below, the net revenue of building permit fees for 2016 was \$7,105,347.

Deferred Revenue from 2015	1,569,495
2016 Building Permit Fees	6,676,026
Deferred Revenues to 2017 [permits not issued in 2016]	<u>(1,140,174)</u>
2016 NET REVENUE	7,105,347

Costs Incurred

The total costs, both direct and indirect incurred during 2016 were \$5,396,721, as shown in the table below (these cost are not audited costs).

	Costs (\$)	Person Years
<u>DIRECT COSTS</u>		
Administration	312,160	2
Permit Issuance	1,362,727	14
Inspection	1,545,363	19
Zoning Review and Property Standards	256,886	4
Operational Support	512,812	9
Operating Expenses (supplies, equipment, etc.)	228,176	
TOTAL DIRECT COSTS	4,218,124	48
<u>INDIRECT COSTS</u>		
Corporate Management and Support	668,127	
Risk Management	161,447	
Life Safety and Grading Review	151,023	
Office Space	198,000	
TOTAL INDIRECT COSTS	1,178,597	
TOTAL COSTS	5,396,721	

Net Financial Position

At 2016 year end, the net revenue was \$7,105,347. By deducting the total direct and indirect costs of \$5,396,721 for administration and enforcement of the *Building Code Act* and the *Building Code*, would result in \$1,708,625 to be deposited to the Building Permit Stabilization Reserve.

Total Net Revenue	7,105,347
Total Cost of Enforcement	<u>- 5,396,721</u>
YEAR END CONTRIBUTION (withdrawal if negative)	1,708,625

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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 2016 opening balance was \$651,434. Considering a deposit of \$1,708,625, the balance of this reserve will be \$2,360,059 which equates to 43.7% of annual operating costs.

Reserve Opening Balance	651,434
Year End Contribution (withdrawal if negative)	1,708,625
2016 RESERVE CLOSING BALANCE	2,360,059

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. Notwithstanding the increased revenues in 2016 the average expected yield of \$550,000 never materialized in the preceding years, and in fact, the average annual net financial position was \$(489,933) for the years 2012 - 2015.

As indicated in the March 29, 2016 Annual Report on Building Permit Fees, staff were to monitor and undertake an analysis of the current fee structure to determine if a fee increase is warranted. Staff will be presenting proposed changes to the Building By-law through a report to Committee later this year. As part of that report, staff will identify any changes to the fees where warranted.

Conclusion

There was an increase in building permit revenues in 2016, in accordance with the legislation the funds are to be used for the cost of administration and enforcement of the *Building Code Act* and have been deposited to the Building Permit Stabilization Reserve (BPSR). The revised balance in the BPSR equates to 43.7% of annual operating costs, bringing the reserve to an adequate level as agreed upon with the industry.

Last year, staff committed to undertaking an analysis of the fee structure to determine if a fee increase is warranted to ensure adequate funding levels for the administration and enforcement of the *Building Code Act*. Staff will be reporting to Council later this year on potential amendments to the Building By-law and will address any fee changes, where warranted, at that time.

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PREPARED AND RECOMMENDED BY:

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