

TO:	CHAIR AND MEMBERS PLANNING AND ENVIRONMENT COMMITTEE MEETING ON APRIL 15, 2019
FROM:	GEORGE KOTSIFAS, P. ENG. MANAGING DIRECTOR, DEVELOPMENT & COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL
SUBJECT:	ANNUAL REPORT ON BUILDING PERMIT FEES

RECOMMENDATION

That, on the recommendation of the Managing Director, Development & 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 2018, **BE RECEIVED** for information purposes.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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March 19, 2018 – Planning & Environment Committee

BACKGROUND

The *Building Code Act* (“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.

Revenues Collected

Building permit fees collected during 2018 totalled \$4,454,395. However, consistent with revenue recognition principles governed by generally accepted accounting principles (GAAP), Building fee revenue recognized by the City of London for 2018 equated to \$5,238,556 on an accrual basis.

As shown below, subject to completion of the 2018 year-end financial statement audit, the net revenue of building permit fees for 2018 was;

Deferred Revenue from 2017 [permits issued in 2018]	2,245,556
2018 Building Permit Fees	4,454,395
Deferred Revenues to 2019 [permits not issued in 2018]	<u>(1,461,395)</u>
2018 NET REVENUE	5,238,556

Costs Incurred

The total costs, both direct and indirect, incurred during 2018 were \$6,163,926, as shown in the table below (subject to completion of the 2018 year-end financial statement audit).

	Costs (\$)	Positions
<u>DIRECT COSTS</u>		
Administration	309,312	2
Permit Issuance	1,551,593	14
Inspection	1,815,338	22
Zoning Review and Property Standards	305,381	4
Operational Support	571,621	11
Operating Expenses (supplies, equipment, etc.)	352,253	
TOTAL DIRECT COSTS	4,905,498	53
<u>INDIRECT COSTS</u>		
Corporate Management and Support	912,358	
Risk Management	148,070	
Office Space	198,000	
TOTAL INDIRECT COSTS	1,258,428	
TOTAL COSTS	6,163,926	

Net Financial Position

At 2018 year end, the net revenue was \$5,238,556. By deducting the total direct and indirect costs of \$6,163,926 for administration and enforcement of the *Building Code Act* and the *Building Code*, would result in a (\$925,370) withdrawal from the Building Permit Stabilization Reserve Fund.

Total Net Revenue	5,238,556
Total Cost of Enforcement	<u>-6,163,926</u>
YEAR END CONTRIBUTION (withdrawal if negative)	-925,370

Building Permit Stabilization Reserve Fund (BPSRF)

The issue of what constitutes an adequate reserve was discussed with the building industry as represented by the London Home Builders' Association in 2006. An 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 BPSRF 2018 opening balance was \$2,553,963. A withdrawal of \$50,000 occurred in 2018 to purchase and install a mobile application for building inspections as approved by Council, resulting in a balance of \$2,503,963. Considering a withdrawal of \$925,370 the revised closing balance of \$1,578,593 in the reserve equates to 25.6% of the annual operating cost.

Staff consulted with the Financial Planning & Policy Division and it was determined that a prudent financial strategy would be to not draw from the BPSRF in light of the anticipated corporate year-end surplus to be reported to the Corporate Services Committee on April 16, 2019. The 2018 closing balance of \$2,503,963 in the reserve equates to 40.6% of the annual operating cost.

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, which 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.

As indicated in the previous report, staff were to monitor and undertake an analysis of the current fee structure to determine if a fee increase is warranted. Staff completed the analysis and will be presenting proposed changes to the Building By-law this year.

Conclusion

In accordance with the legislation, building permit revenues are to be used for the cost of administration and enforcement of the *Building Code Act*. The balance in the BPSRF equates to 40.6% of annual operating costs.

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 this year on potential amendments to the Building By-law and will address any fee changes.

PREPARED AND RECOMMENDED BY:
GEORGE KOTSIFAS, P. ENG. MANAGING DIRECTOR, DEVELOPMENT & COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL

cc: Peter Kokkoros, Deputy Chief Building Official, Development & Compliance Services
 Kyle Murray, Director, Financial Planning & Business Support, Finance & Corporate Services
 Laurie Green, Financial Business Administrator, Finance & Corporate Services