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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 APRIL 9, 2013</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 2012, **BE RECEIVED** for information purposes.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Planning and Environment Committee Report dated March 26, 2012.

<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 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.

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**Revenues Collected**

Building permit fees collected during 2012 totalled \$4,070,391. Additionally, \$689,319 was deferred to the 2012 Building Division budget from 2011 as unearned revenue (revenue associated with permits that were applied for but not examined, issued or inspected by year end). The resulting total building permit revenue for 2012 was \$4,759,710 of which \$645,945 was deferred to the 2013 budget as unearned revenue.

As shown below, the net revenue of building permit fees for 2012 was \$4,113,765.

Deferred Revenue from 2011	689,319
2012 Building Permit Fees	4,070,391
Deferred Revenues to 2013 (permits not issued in 2012)	<u>(645,945)</u>
<b>2012 NET REVENUE</b>	<b>4,113,765</b>

**Costs Incurred**

The total costs, both direct and indirect incurred during 2012 were \$4,833,219, as shown in the table below (these cost are not audited costs). It should be noted that significant cost savings were realized in 2012 primarily through vacancy management and organizational change.

	Costs (\$)	Person Years
<b><u>DIRECT COSTS</u></b>		
Administration	298,033	2
Permit Issuance	1,139,020	14
Inspection	1,446,465	18
Operational Support	499,562	10
Zoning Review and Property Standards	281,628	4
Operating Expenses (supplies, equipment, etc.)	220,740	
<b>TOTAL DIRECT COSTS</b>	<b>3,885,448</b>	<b>48</b>
<b><u>INDIRECT COSTS</u></b>		
Corporate Management and Support	496,026	
Risk Management	129,970	
Life Safety and Grading Review	123,773	
Office Space	198,000	
<b>TOTAL INDIRECT COSTS</b>	<b>947,770</b>	
<b>TOTAL COSTS</b>	<b>4,833,219</b>	

**Net Financial Position**

At 2012 year end, the net revenue was \$4,113,765. Deducting the total direct and indirect costs of \$4,833,219 for administration and enforcement, results in \$719,454 to be withdrawn from the Building Permit Stabilization Reserve.

Total Net Revenue	4,113,765
Total Cost of Enforcement	<u>4,833,219</u>
<b>YEAR END CONTRIBUTION (withdrawal if negative)</b>	<b>-719,454</b>

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**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 2012 opening balance was \$1,370,888. Considering a withdrawal of \$719,454, the balance of this reserve fund will be \$651,434 which equates to 13.5% of annual operating costs.

Reserve Fund Opening Balance	1,370,888
Possible Year End Contribution (withdrawal if negative)	<u>(719,454)</u>
<b>2012 RESERVE FUND CLOSING BALANCE</b>	<b>651,434</b>

**Audit Committee**

At the meeting of October 9, 2012, Council resolved the following;

*That the following actions be taken with respect to the Quarterly Report on Internal Audit Results, dated September 27, 2012, from PricewaterhouseCoopers:*

- a) *Development and Compliance Services – Building Control –*
  - i) *prior to the submission of the annual report, the Civic Administration BE REQUESTED to provide an information report to the appropriate standing committee with respect to cash flow projections based on available information, as it relates to the departmental budget and reserve fund balances and contributions*

The above request was to report back prior to the submission of the annual report, however, it was necessary to obtain the year end disposition of the 2012 operating costs, revenues, and impact on the Building Permit Stabilization Reserve (BPSR) prior to reporting back.

A reserve fund for building permit services has been in place for more than 20 years. In 2005, the BPSR was re-established as a result of legislative change to the *Building Code Act*, through Bill 124. This legislation followed a Supreme Court of Canada decision that stated there must be a reasonable nexus between the user fee charged and the service provided, thus ensuring the user fees did not become indirect taxes. The following table provides a history of transactions related to this reserve fund.

Year	Drawdown	Deposit	Balance
2005			\$488,217.10
2006		(\$861,396.00)	\$1,349,613.10
2007		(\$651,873.00)	\$2,001,486.10
2008		(\$301,228.96)	\$2,302,715.06
2009	\$931,827.00		\$1,370,888.06
2010			\$1,370,888.06
2011			\$1,370,888.06
2012	\$719,454.00		\$651,434.06

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At the start of 2006 (the first mandated reporting year), the funds in the BPSR had an opening balance of \$488,217.10. At that time, a new Building By-law had recently been enacted (2005) with a permit fee rate increase of approximately 20% on average. During the next three years, the City of London experienced healthy growth, coupled with the new fee structure, the City realized significant surpluses that were ultimately transferred to the BPSR. In each of these years, there was an annual report, similar to this one that provided the information for the transfers.

The economic downturn impacted London in 2008 and the amount of surplus was significantly reduced in that year. The downturn continued to impact the London building industry resulting in a significant drawdown from the reserve in 2009. As reported in previous annual reports between 2009 and 2011, the City, and in particular the Planning & Development Department (formerly) was in a surplus position in each of the years. Consequently it was prudent to not increase fees nor drawdown from the BPSR during this time period as it would have had a further negative impact on the building industry in London. The amount of funds that were mitigated through corporate surplus funding was; \$394,302 in 2009, \$523,393 in 2010, and \$59,548 in 2011.

Despite the economic conditions, the volume of permits remained high but the type of construction activity has differed. Additionally, building permit fees in London continue to be significantly lower than the provincial average of large municipalities. The City had a record year in building permit construction value in 2011, however, the fees collected fell short of the costs to administer and enforce the *Building Code Act* despite concerted efforts of staff to mitigate costs throughout the year.

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%. Given the timing, the increase had minimal impact on the 2012 year end, hence, the significant drawdown requirement identified in this report.

The 2013 Building Division budget contains a Total Cost expenditure of \$5,024,000 and a corresponding building permit fee Revenue of the same amount. 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 recent fee increase of 20% on average is expected to yield approximately \$550,000 in 2013, of which a significant portion would be applied to the BPSR. In subsequent years it was anticipated that there would be a steady decline in annual surplus and contributions to the BPSR, the rationale being that there will be nominal annual operating cost increases (staff, operations, etc.). The model anticipates that the BPSR would increase over the first 3 years and then a drawdown from the reserve in the 4<sup>th</sup> year, at which time it is expected that a fee review would be underway for a for implementation in the 5<sup>th</sup> year. However, it should be noted that there are many assumptions built into the model as it is very difficult to predict building activity with any degree of certainty. Some of these assumptions include; stable economic conditions, slow steady increase in growth, slight shift from single family construction to multi-family, similar volume of ICI projects (Industrial, Commercial, Institutional), no increased in staff complement, efficiencies in service delivery (e.g. increased online services) to offset cost increases, etc. It should further be noted that if conditions change and a drawdown be required in 2013, it would be prudent to consider a fee review in 2014 recognizing the City of London costs and fees are both lower than the average of municipalities of comparable size.


**Conclusion**

A drawdown from the Building Permit Stabilization Reserve (BPSR) was required in 2012 in the amount of \$719,920, resulting in a balance of \$651,434 which equates to 13.5% of annual

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operating costs. The balance in the BPSR is at a dangerously low level and it is unlikely to sustain another drawdown. The model for the new fee increase that became effective in November 1, 2012 was based on a 5 year cyclical fee review with the expectation that there would be deposits to the BPSR in the earlier years and drawdown at the end of the period. However, as there are many factors that could influence the model and given the current condition of the reserve fund, staff will continue to closely monitor building permit activity throughout 2013 and will report back if required.

<b>PREPARED AND RECOMMENDED BY:</b>

<b>GEORGE KOTSIFAS, P. ENG. MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES &amp; CHIEF BUILDING OFFICIAL</b>

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