

**2024****Building Permit Fee Rationale**

In accordance with Section 7 of the Ontario Building Code Act (BCA) the Municipality may pass by-laws requiring the payment of fees on applications for issuance of permits and prescribing the amounts thereof.

The legislation requires that the total amount of the fees must not exceed the anticipated reasonable costs of the Township to administer and enforce the Act in our area of jurisdiction.

The Township has the right to recover 100% of all costs associated with the administration of the requirements of the BCA. We are permitted to collect a surplus of fees to set aside in a reserve to cover shortfalls in revenue during periods of lower activity and to provide for extraordinary legal fees. We are not obliged to collect 100% of our costs; however not doing so would constitute a tax subsidy by the general ratepayer.

The implementing regulation requires that the Township provide a rationale for imposing or changing a Building permit related fee. The following pages will provide the basis for the proposed increase in fees to be considered during Council's meeting to be held February 1, 2024.

**Revenues**

The building department's only source of revenue is building permit fees collected for various classes of permits. The Department's revenue depends upon and fluctuates significantly based upon construction activity.

A comprehensive service review of the Building and Planning Department was conducted by Performance Concepts Consulting (PCC) in 2020. Pursuant to a recommendation in the PCC report, the Township adopted a new fee structure in 2022 that was based upon a standardized cost per area (square metre/square foot) of construction rather than upon construction value. This approach was considered to be a best practice approach across Ontario by PCC.

A report was presented to Council in October of 2021 providing recommendations for the new fee schedule based upon an analysis of the number and types of building permits issued over the previous three-year period (2018-2020).

The intention of analysis was to establish a new fee schedule that would continue to provide sufficient revenue to offset the cost of delivering the service and maintain an appropriate reserve to offset unforeseen legal costs and slow activity periods while ensuring revenue neutrality as legislated under the Building Code Act section 7.(1)(c) and 7.(2). The impact of the new fee methodology was the generation of a significantly lower permit fee

high construction value projects and an increased fee on lower construction value projects.

As this was a wholesale change in fee structure the analysis required to develop it was quite complex and it was recommended that the fees be reviewed after a couple of years of experience to ensure that the new schedule had hit the mark and was providing sufficient revenue to cover the Department's costs.

This change coincided with a change in economic conditions in the post-pandemic era which has impacted the amount of construction activity due to elevated interest rates and significant material cost increases. As demonstrated in the table below, the Department has had to rely significantly on its contingency reserve in the last two years to offset the cost of operations and anticipates a transfer from this reserve again in 2024.

| <b>Year</b> | <b>Transfer from Building Contingency Reserve</b> | <b>Building Contingency Reserve Balance at Year-End</b> |
|-------------|---|---|
| 2022        | \$ 184,072  | \$ 667,533  |
| 2023        | \$ 139,310  | \$ 499,640  |
| 2024        | \$ 95,512 (Budget)                                | \$ 404,128  |

The table below presents the previous 5 years to provide a picture of the fees that we have collected in recent years. The change in fee methodology commenced in 2022 as denoted by the \* for the years 2022 and 2023.

| <b>YEAR</b> | <b>Permits issued</b> | <b>Value of Construction</b> | <b>Revenue</b> |
|-------------|-----------------------|------------------------------|----------------|
| 2019        | 475                   | 40,821,940                   | 635,795        |
| 2020        | 438                   | 38,457,218                   | 578,082        |
| 2021        | 462                   | 36,592,467                   | 775,925        |
| *2022       | 353                   | 41,002,373                   | 444,881        |
| *2023       | 332                   | 43,707,236                   | 470,554        |

## Expenses

The Building Code Act regulates that the amount of the fees collected by the Township must not exceed the anticipated reasonable costs to administer and enforce the Act (including a reasonable reserve contribution).

These are costs directly associated with the department's main activities, which include review of permit applications, issuance of permits, inspection of ongoing construction and enforcement activities. These costs include wages, benefits, vehicle maintenance/replacement, software licenses, legal fees, training, information technology, insurance, overhead and other support staff time (payroll, IT etc). These costs are all included in the annual budget estimates for the Department.

New in 2024 is the transition of the Building Code Part 8 (Sewage System) responsibilities from Peterborough Public Health to the Township. This transition begins on April 1, 2024 and the associated costs and revenues are included in the budget.

### Budget - 2024 Expenses

|  |                   |
|--|-------------------|
| Labour Costs   | \$ 348,000        |
| Labour benefits and employer expenses                | \$ 138,700        |
| Permit Software                                      | \$ 31,000         |
| Overhead (Admin, Dues, Communication, supplies etc.) | \$ 83,800         |
| Vehicle Expenses Fuel, repair and replacement        | \$ 18,000         |
| Education and training                               | \$ 9,000          |
| Legal and Insurance                                  | \$ 97,000         |
| <b>Total (100% cost recovery)</b>                    | <b>\$ 725,500</b> |

### Fee Requirement

#### (100% cost recovery)

|  |                   |
|--|-------------------|
| Projected required revenue   | \$ 725,500        |
| Projected revenue for 2024 from sewage systems   | \$ 86,300         |
| Projected revenue for 2024 (Current fee schedule)<br><small>(similar activity to 2023 &amp; including annual CPI adjustment)</small> | \$ 486,500        |
| <b>Projected shortfall in revenue using current fees</b>   | <b>\$ 152,700</b> |

The shortfall in Department revenues can be attributed in part to the downturn in the economy and in part to the new fee methodology. An additional adjustment to the fee schedule is being recommended in 2024 to ensure that fees are at the appropriate level to cover the Department's expenses. While the above calculation demonstrates a 21% shortfall, an increase of that magnitude is not proposed. It is being recommended that there be an additional increase (over and above the approved CPI increase of 3.4%) in 2024 of 10% to adjust the fee schedule to the level that would provide for adequate cost recovery in a typical year of construction activity.

There are also a number of other changes recommended to the schedule to simplify the fee calculation and better align the cost of service delivery with the fees being charged. These changes are summarized below.

- The minimum fee currently sits at \$132.50. The actual cost of servicing a minimum fee permit would include administration time for intake, plans examination time, overhead costs including software and insurance and 1-3 inspections depending on the actual permit. A conservative estimate will put that service cost at \$318 if the permit runs smoothly. The minimum fee is recommended to be increased to \$318 to closely reflect the minimum cost of delivery services.
- Flat fees for plumbing permits rather than per fixture fees.
- New flat rate fees (e.g. solar collectors and commercial exhaust hoods) developed with consideration to the complexity of the type building or component applied for – previously would have been charged the minimum fee which is not reflective of the cost to provide this service.
- New class fee for multi-unit residential projects which often have multiple inspections for the same category as construction may be completed by unit or storey and contain additional fire separations inspections not found in single dwelling construction.
- Flat fees have been added to account for areas of attached garages, porches, and decks for new dwelling applications.
- New fees for the septic system permits – proposed to be the same as current PPH fees and will be subject to review once the transition is complete and Township has some experience with this service area.

The impact of the proposed fee changes is demonstrated in the chart below:

| <b>Fee Requirement</b>                             |                    |
|--|--------------------|
| <b>(100% cost recovery)</b>                        |                    |
| Projected required revenue                         | \$ 725,500         |
| Projected revenue for 2024 from sewage systems     | \$ 86,300          |
| Revenue for 2024 (Proposed fee schedule)           | \$ 543,700         |
| Projected shortfall in revenue using current fees. | \$ 95,500<br>(13%) |

As noted earlier, the department had managed to set aside a building contingency reserve in previous years and that has been used as intended to make up for shortfalls in revenue in low activity years. In 2024, even with the increased fees proposed, it is estimated that there will still be a shortfall in revenues of \$95,500. However, this can be attributed to the lingering decline in construction activity. It is anticipated that this one-time increase will adjust the fee schedule to the appropriate level to provide for cost recovery during times of typical construction activity.

With the expectation that interest rates will begin to decline in 2024 it is anticipated that there will be a return to more normal levels of construction activity and stabilization of permit fee revenues in 2025 as residential projects continue to come out of planning stages and into construction phases. It is recommended that another review of the permit fees be conducted at the end of 2025 to ensure that the fees are now on target.