

**Report from:** Planning and Building Services, Building and Development

**Report Date:** June 23, 2020      **Meeting Date:** September 14, 2020

**Report Number:** PBS-093-2020      **File:** 56.49.4

**Subject:** Building Services Annual Report on Revenues, Expenses and Stabilization Reserve Fund for 2019

**Strategic Pillar:**



## Recommendation

That Report PBS-093-2020, regarding Building Services Annual Report, be received for information; and

That a comprehensive review of building permit fees be referred to the Budget Standing Committee for consideration in 2021. FORTHWITH

## Summary

2019 was a busy year for the Building Division with St. Catharines witnessing strong construction activity resulting in permit revenue, estimated value of construction and surplus fund transfer to the Building Services Reserve Fund exceeding expectations.

The revenue in 2019 was \$4,009,423 and the total expenses (direct and indirect) were \$2,547,760, resulting in \$1,461,663 being transferred to the Reserve Fund. The total Reserve Fund at the end of 2019 stood at \$2,487,536. Reserve funds help municipalities in stabilizing building services in times of construction downturn, and also helps in investing in capital projects to improve and modernize service delivery.

## Relationship to Strategic Plan

### Economic Prosperity Pillar Goal

Support the City's commitment to building and growing a diverse and resilient economy through fiscal responsibility, urban regeneration and collaborative partnerships.

The Corporation is demonstrating a continued commitment to the building industry, businesses, landowners and the citizens of the City of St. Catharines, in providing excellent customer service and to ensure public safety, as construction projects are proposed, constructed and occupied. The Building Division continues to deliver services effectively in meeting the complex demands of the construction industry.

## **Background**

Section 7(4) of the Building Code Act, 1992, as amended, requires that municipalities prepare an annual report on the total building permit fees collected, the direct and indirect costs of delivering services related to the administration and enforcement of the Building Code Act and the balance in the Building Stabilization Reserve Fund.

The Building Code Act (BCA) provides municipalities with the authority to collect fees to recover the cost of administration and enforcement of the Act and the Ontario Building Code (OBC). Article 1.9.1.1 of Division C of the OBC outlines the details of what can be included as part of the cost including direct and indirect costs, and provisions for a reserve fund. The Act also states under Section 7(2) that the fees must not exceed the anticipated reasonable costs to administer and enforce the Act. Therefore, any excess revenue must be transferred to the Building Stabilization Reserve Fund. The purpose of the Reserve Fund is to support the building permit program to offset periods of low building and construction activity, make service enhancements, and cover unexpected expenses.

It is necessary to develop a supporting reserve fund policy to assist in mitigating risks associated with economic downturns, achieving compliance, fluctuations in service demand and other potential issues. Prior to 2006, building revenue surpluses could be used corporately. With the legislation that was introduced in 2006 (as identified above), any surpluses must be transferred to a reserve and used for administering and enforcing functions related to the BCA and OBC regulations only. A stabilization reserve manages the risk associated with an economic downturn and is also available to fund one-time capital requirements to avoid fluctuations in fees. Based on legislation, this reserve fund cannot be used for any other City purpose. It is a segregated fund specifically established for the Building Division cost recovery. This is to ensure that the taxpayer is not left to pay for any deficits that should be borne by the building industry.

The costs associated with the operations of the Building Services Division are considered to be fixed costs that cannot be easily or immediately adjusted to the changes in the levels of construction activity. There is expected to be some level of fluctuation of work load from one year to another. Although a municipality can rely on property tax revenues to supplement BCA enforcement, most municipalities try to ensure that fees are adequate to recover the costs associated with the administration and enforcement of the BCA as well as reasonable contributions to the reserve fund.

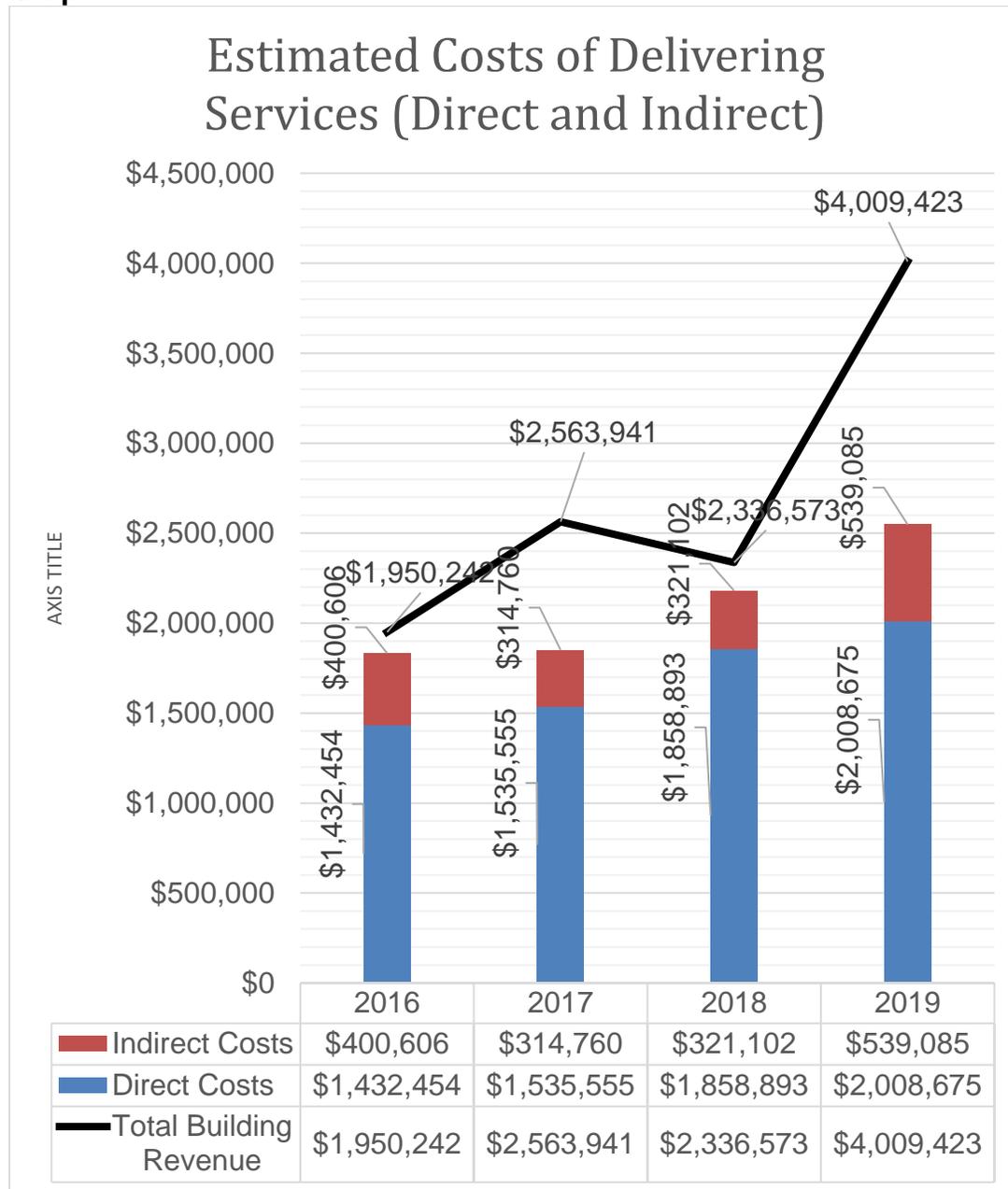
## **Report**

### **Financial Summary**

The revenue for building services for the year 2019 was \$4,009,423, which was a substantial (71%) increase over the previous year, 2018. The revenue for 2019 far exceeded the total cost of operations (direct and indirect) by \$1,461,663, which was transferred to the reserve fund. At the end of 2019, the total amount available in the Reserve funds is \$2,487,536.

The financial statement for 2019 is attached to this report (see Appendix 1) and illustrated in Graph 1 below.

**Graph 1**



### **Building Reserve Fund**

The Building Code Act makes provision for the difference between revenues and costs to be placed in a reserve fund, which in the case of St. Catharines, existed but was depleted in previous years. However, 2019 is the fourth year that funds are able to be transferred to the Building Permit Stabilization Fund. Many municipalities have a strategy for establishing, maintaining and managing a Building Permit Stabilization Fund to sustain service levels and service delivery which includes a target of between 1.5 – 3

times the annual operating budget. Based on 2019 numbers, the ratio is close to one, still below industry standard.

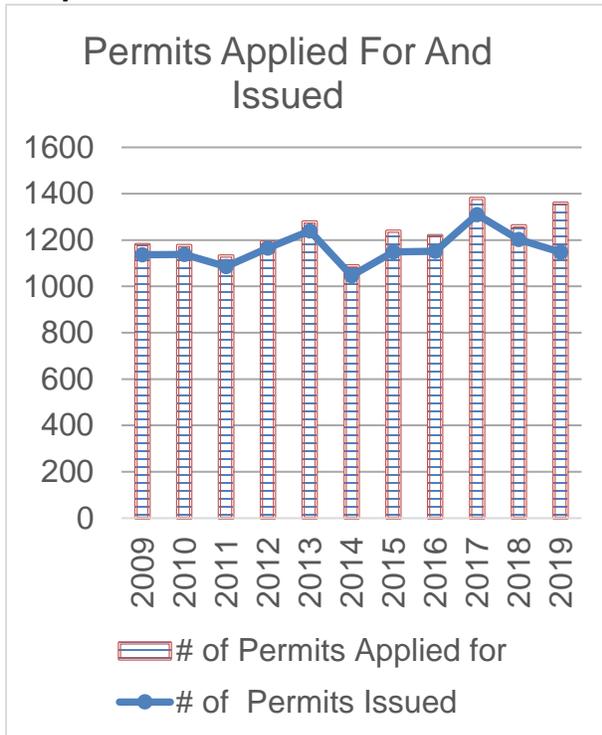
In past years, St. Catharines' strategy has been focused on trying to achieve a cost neutral target to remove the deficit. Fortunately, over the past four years, there has been the opportunity to replenish the stabilization fund for future years. However, the current ratio of reserve to operational costs is still below industry standard and therefore a long term strategy is required to implement a contributing formula that provides long term financial sustainability of building operations. In future, it will be prudent to hire an economist who can conduct a comprehensive review and provide recommendations for improvement in the financial model of the division. Please refer to new initiative section of this report for more details.

## **Building Permit and Construction Activity**

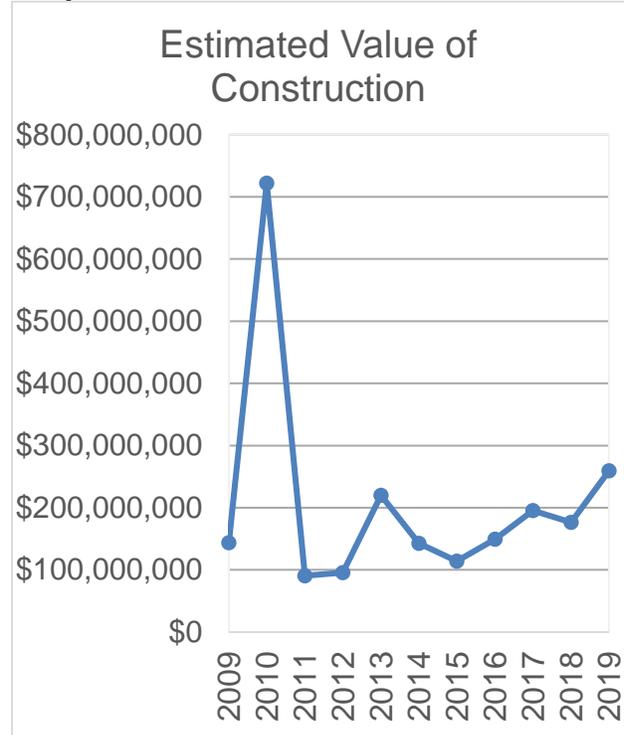
In 2019, a total of 1359 permit applications were submitted and a total of 1147 permits were issued including 382 dwelling units (see Appendix 2). Graphs 2, 3, and 4 below provide building permit and construction activities for 2019 and preceding years for comparison.

The total estimated construction value (EVC) for 2019 is \$259,452,492 (see Appendix 3). EVC's are generally considered a reasonable parameter of economic activity within a geographical area. Therefore, it is evident that St. Catharines saw an increased construction related economic activity in 2019. For comparison purpose, the EVC in 2018 was \$176,530,577. The top ten projects in terms of construction value submitted for building permits in 2019 included projects related to Brock University and a long term care facility on Louth Street (see Appendix 4).

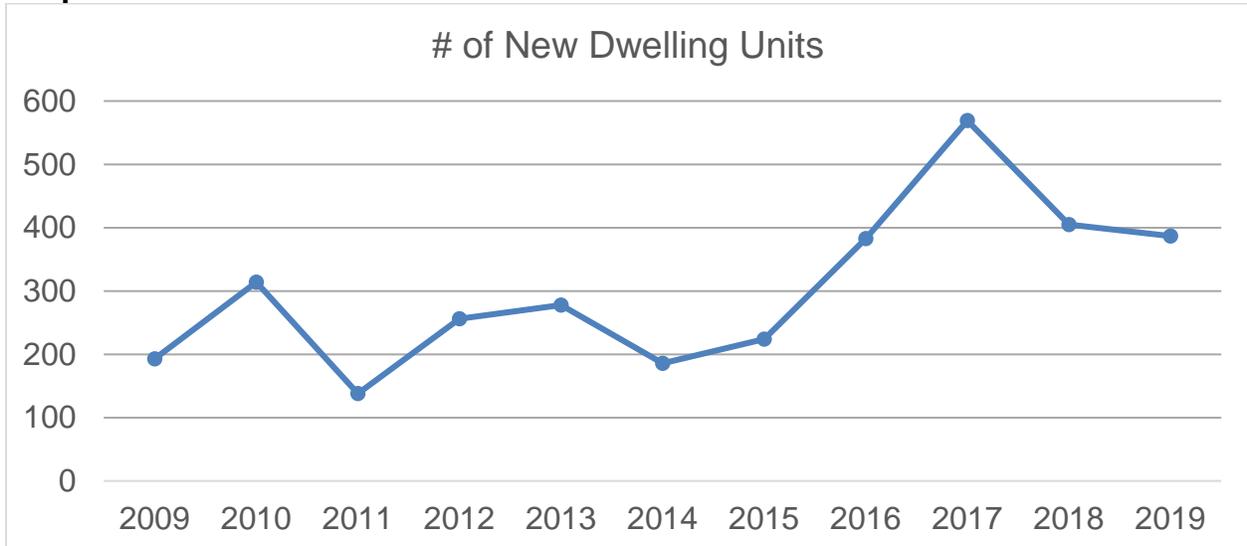
**Graph 2**



**Graph 3**



**Graph 4**

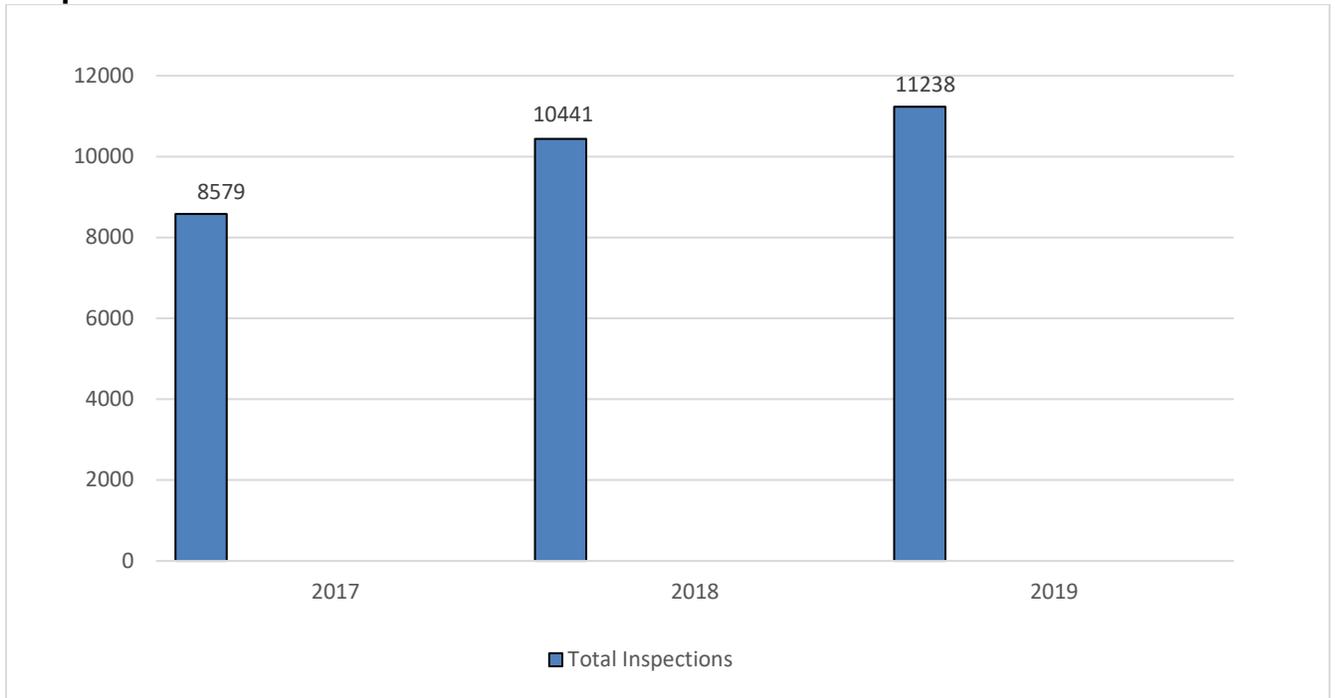


### **Building Inspection Activity**

Volume of building inspections continues to grow every year. Graph 5 below provides the total number of inspections across different disciplines (architectural, plumbing and HVAC) for the last three years. In 2019, the total number of such inspections carried out was 11,238 which was over 7.5% above 2018 numbers. The increase in the number of inspections relates to increase in construction activities. In addition, increased inspections are also a result of increased construction complexity and repeat

inspections required on sites where compliance from owners and contractors are not readily forthcoming.

**Graph 5**



## **New initiative proposed:**

### **To fund a Comprehensive Building Permit Fee Review**

Municipalities routinely review and update their various development application fees including building permit fees in order to address changes in development cycles, service enhancements and cost recovery levels with the intent of continuing to improve fee structures so that they more accurately reflect processing efforts. The City of St. Catharines is experiencing changing developments moving towards more medium to high density developments in intensification areas, increased service levels and changing regulatory environment.

### **Legislative Context for Fees Review**

The context for the building permit fees review is framed by the statutory authority under the Building Code Act (BCA) available to City to recover the costs of service. Section 7 of the BCA states that:

- “7 (1) The council of a municipality .... may pass by-laws
- (c) requiring the payment of fees and prescribing the amounts of the fees,
    - (i) on application for and on issuance of permits,
    - (ii) for maintenance inspections,
    - (iii) for providing documentation, records or other information under section 15.10.4, and
    - (iv) for providing information under subsection 15.10.6 (2);

- (c.1) requiring the payment of interest and other penalties, including payment of collection costs, when fees are unpaid or are paid after the due date;
- (d) providing for refunds of fees under such circumstances as are prescribed;

(2) The total amount of the fees authorized under clause (1) (c) must not exceed the anticipated reasonable costs of the principal authority to administer and enforce this Act in its area of jurisdiction. 2002, c. 9, s. 11 (2).”

The BCA allows the City to collect reasonable costs to deliver the services in the administration and enforcement of the BCA. Such costs can include direct costs including the review and inspection of buildings and indirect costs, including support and overhead costs. As the BCA allows municipalities to collect anticipated cost for the delivery of services, it follows that a building permit stabilization fund, also known as building reserves can be maintained through a contribution from the building permit fees. St. Catharines currently maintains such a fund to stabilize building permits services commensurate to construction fluctuations.

It is proposed that a specialist consulting firm be retained to carry out a comprehensive review of the financial model of Building Division as it relates to building permit services. The consultant review will enable us to determine the appropriate level of reserve funds, the ratio of operational to reserve funds and an appropriate contributing formula that will enable a long term financially sustainable service delivery model.

### **Fee Review Methodology**

Specialist consulting firms typically utilize what is termed as Activity-Based Costing (ABC) model to quantify the full costs of service being delivered. An ABC methodology assigns an organization’s resource costs through activities to the services provided to the public. This approach better identifies the costs associated with the processing activities for specific types of applications and is an ideal method for assessing the full cost of a development application process to determine user fees. As such the fee structure is based on a full cost recovery assessment.

### **Estimated Cost for the Study**

A comprehensive review of building permit fees by a consulting firm will enable us to review under performing and over performing permit categories, anticipated future developments and the design/maintenance of our reserve funds. We estimate that the cost of hiring consulting services will be up to \$50,000 and the funds will come from the building permit reserves.

In order to develop a financially sustainable model for Building Division, staff recommends that this funding be considered for future approval by the 2021 Budget Standing Committee.

## **Financial Implications**

There is no financial implication associated with this report.

## **Conclusion**

The 2019 Building Services Annual Report has been presented to Council for information purposes. The annual financial report is required by the Building Code Act and provides information on revenue, expenditure and the status of the Building Reserve fund.

As part of the work plan for 2021, it is recommended that funding approval be considered by the 2021 Budget Standing Committee for the cost of retaining a specialist consulting firm. This specialist can undertake a comprehensive review of the financial model of the Building Division as it relates to building permit related services. It is industry best practice to conduct such comprehensive reviews regularly. A comprehensive review of building permit fees by a consultant has not been undertaken in St. Catharines previously.

### **Prepared and Submitted by:**

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### **Approved by:**

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Director of Planning and Building Services

## **Appendices:**

Appendix 1 – Annual Financial Report of Revenue and Expenditure  
Appendix 2 – Permits Applied for and Issued, Estimated Construction Value  
Appendix 3 – Estimated Value of Construction for the years 2011-2019  
Appendix 4 – Top 10 Projects in 2019

**Annual Report of Fees and Costs, Pursuant to  
Building Code Act Section 7 (4)**

**Estimated Costs of Delivering Services (Direct and Indirect)**

	2018	2019
<b>Opening Balance of Reserve Fund</b>	<b>\$845,400</b>	<b>\$1,011,114</b>
<b>Direct Administration and Enforcement Costs</b>		
Staffing Costs (Direct Support Staff)	\$1,718,641	\$1,907,092
Direct Office Expenditures	\$140,252	\$101,583
<b>Total Direct Administration and Enforcement Costs</b>	<b>\$1,858,893</b>	<b>\$2,008,675</b>
<b>Indirect Administration and Enforcement Costs</b>		
Staffing Costs (Indirect Support Staff)	\$77,914	\$70,064
Indirect Office Support Costs	\$243,188	\$469,021
<b>Total Indirect Administration and Enforcement Costs</b>	<b>\$321,102</b>	<b>\$539,085</b>
<b>Total Direct and Indirect Costs</b>	<b>\$2,179,995</b>	<b>\$2,547,760</b>
<b>Total Building Revenue</b>	<b>\$2,336,573</b>	<b>\$4,009,423</b>
<b>Revenue/(Deficit) for current year of</b>	<b>\$156,578</b>	<b>\$1,461,663</b>
<b>Interest Earned</b>	<b>\$9,136</b>	<b>\$14,759</b>
<b>Balance to be transferred to/(from) Reserve Fund</b>	<b>\$156,578</b>	<b>\$1,461,663</b>
<b>Balance of Reserve Fund</b>	<b>\$1,011,114</b>	<b>\$2,487,536</b>

Permits Applied For and Issued, Estimated Construction Value

Year	# of Permits Issued	# of Permits Applied for	Estimated Value of Construction (Permits Issued)	# of New Dwelling Units
2019	1147	1359	\$259,452,492	382
2018	1202	1262	\$176,530,577	405
2017	1310	1379	\$195,570,292	569
2016	1151	1219	\$149,549,369	383
2015	1149	1238	\$114,147,715	224
2014	1046	1088	\$142,521,041	186
2013	1240	1278	\$219,761,808	278
2012	1166	1192	\$95,757,367	256
2011	1086	1131	\$90,588,582	138
2010	1138	1176	\$721,953,810	314
2009	1137	1180	\$143,813,482	193

**Estimated Value of Construction for the years 2012-2019**

	All Construction	Residential	Industrial, Commercial and Institutional	Other Permit Types	Three year average
2019	\$258,452,492	\$148,257,928	\$104,506,685	\$5,687,879	\$210,184,454
2018	\$176,530,577	\$116,544,373	\$54,665,322	\$5,320,882	\$173,883,413
2017	\$195,570,292	\$127,991,061	\$60,338,081	\$7,241,150	\$153,086,792
2016	\$149,549,369	\$89,429,721	\$55,200,829	\$4,918,819	\$135,403,708
2015	\$114,140,715	\$64,969,417	\$43,887,599	\$5,283,699	\$158,819,522
2014	\$142,521,041	\$55,568,194	\$78,385,372	\$8,567,475	\$152,691,739
2013	\$219,796,809	\$66,361,449	\$146,042,840	\$7,392,520	\$157,777,088
2012	\$95,757,367	\$47,935,329	\$40,170,554	\$7,651,484	

## Top Ten Projects in 2019

<b>ADDRESS</b>	<b>PROJECT DESCRIPTION</b>	<b>ESTIMATED CONSTRUCTION VALUE</b>
<b>1812 Sir Isaac Brock Way</b>	<b>Alter Interior and Construct Addition to Brock University - Decew Residence</b>	<b>\$25,000,000</b>
<b>179 Louth Street</b>	<b>Construct New 3 Storey Long Term Care Facility – Westhill Care Facility</b>	<b>\$17,000,000</b>
<b>77 Yates Street</b>	<b>Construct Superstructure only for 37-Unit Condominium Building - Yates Street Residences</b>	<b>\$15,000,000</b>
<b>198 Welland Avenue</b>	<b>Construct New 2 Storey Police Facility for Niagara Regional Police Services (Superstructure Only)</b>	<b>\$14,650,000</b>
<b>105 Vansickle Road</b>	<b>Construct a 6-Storey Residential Building with Underground Parking – Superstructure Only for Villa Serena</b>	<b>\$11,000,000</b>
<b>221 Glendale Avenue</b>	<b>Construct Additions and Alter Interior at Walmart</b>	<b>\$10,000,000</b>
<b>32 Towering Heights Boulevard</b>	<b>Construct Foundation Only for 20-Storey Apartment Building for Homestead</b>	<b>\$7,000,000</b>
<b>1812 Sir Isaac Brock Way</b>	<b>Construct Foundation Only for Residence 8</b>	<b>\$6,400,000</b>
<b>118 Glenridge Avenue</b>	<b>Construct Church Addition (Superstructure Only) to St. George &amp; St. Mercurius Coptic Orthodox Church</b>	<b>\$6,277,000</b>
<b>75 Corporate Park Drive</b>	<b>Alter Interior of Basement Level for Meridian Credit Union</b>	<b>\$5,600,000</b>