

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF APRIL 11, 2018**

Item 2, Report No. 4, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on April 11, 2018.

## **2 CITY OF VAUGHAN DEVELOPMENT SERVICES FEE STRUCTURE REVIEW PHASE 3 – BUILDING PERMIT FEES**

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Deputy City Manager, Planning and Growth Management, dated April 3, 2018, be approved; and
- 2) That the presentation and Communication C5, presentation material entitled, “*City of Vaughan Building Permit Fees Review*”, be received.

### **Purpose**

The Building Standards Department (BSD) seeks approval for an updated Building by-law including a new fee schedule for building permits based on a comprehensive review of current building permit fees carried out by an external consultant, Watson and Associates.

### **Recommendations**

The Deputy City Manager of Planning and Growth Management recommends:

1. That Council enact a new Building by-law, including Schedules A to D, to replace the existing Building by-law, 044-2015 as amended.

### **Report Highlights**

- This report provides information and recommendations on a proposed new fee structure developed in Phase 3 of the ongoing comprehensive review of fees charged throughout the development process. Phase 3 deals with fees charged for building permits and related services.
- In conjunction with the fee review, the existing Building by-law was also reviewed and updated to provide clarity and to enhance some provisions, including the requirements for safety fencing around construction sites.

### **Background**

In 2004, Council adopted the recommendations of the Budget Committee which were in response to changes in Building Code Act relating to the fees charged for building

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permits. Council also approved the establishment of a 'Building Standards Service Continuity Reserve' for service stabilization. At the time, it was understood that the fee structure would be reviewed at some point in the future to confirm that the fees being charged are fully recovering the costs of providing permit and inspection services.

In 2015, Council adopted the recommendations of the Finance, Administration and Audit Committee, set out in a report dated February 2, 2015. The report described a general budget shortfall in the BSD that resulted in their having to fund their operations by drawing from the Building Standards Continuity Reserve fund. An increase in fees for permits and other services of an average 10 percent was approved. However, the Building Standards Department also committed to a comprehensive fee review before the end of 2018.

As part of the ongoing Development Services Fee Structure Review, BSD retained the services of Watson & Associates Economists Ltd. (Watson) to conduct a comprehensive review of its current fee structure. Additionally, BSD took this opportunity to undertake a review of the Building by-law to update and modernize it.

#### **Previous Reports/Authority**

[http://meetingarchives.vaughan.ca/committee\\_2004/pdf/Budget1214\\_1.pdf](http://meetingarchives.vaughan.ca/committee_2004/pdf/Budget1214_1.pdf)

[https://www.vaughan.ca/council/minutes\\_agendas/AgendaItems/Finance0202\\_15\\_3.pdf](https://www.vaughan.ca/council/minutes_agendas/AgendaItems/Finance0202_15_3.pdf)

#### **Analysis and Options**

##### *Permit Fees and Continuity Reserve*

In 2005, legislative changes to the Building Code Act through Bill 124 came into effect. The changes mandated that fees charged for building permits must not exceed the cost of providing the service. The legislative changes resulted in changes to the fees charged for building permits and to fees charged for the development application approval process (DAAP). As a result, fees charged for permits and services offered by BSD are only used to fund the direct and indirect costs of operating the department.

When Council adopted the new fee structure in response to Bill 124, it also adopted recommendations for the creation of a Building Standards Continuity Reserve (Reserve). The Reserve is intended to be used during an economic downturn to fund the costs of operating the BSD to protect intellectual capital and maintain service levels. Annual permit revenues were intended to cover the cost of operating the BSD, with a small surplus each year which would be added to the Reserve. At the time, it was felt

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that the appropriate reserve level was equivalent to 1.5 times the annual operating costs of the BSD, generally an industry accepted standard. The current Reserve balance is \$16.1 million which is generally equivalent to 1.2 times the annual operating costs of the Department. However, as explained under the Section, 'Consultant Findings and Recommendations', the current fees are under recovering the cost of service being provided and negatively impacting the Reserve. Therefore, changes to the fees are necessary for the long term financial sustainability of the BSD.

#### *Operating Cost Factors*

Provincial regulations and customer demands have necessitated service improvements which, while having a positive impact on the services provided by BSD, also increased operating costs. In addition, changing development characteristics resulted in decreased revenues from some permit streams. Vaughan permit fees are among the lowest when compared with surrounding municipalities, as explained in the next section of this report. These factors combined to result in BSD achieving significantly less than the full cost recovery model that was intended. As referenced above, BSD revenues currently fall short of full cost recovery by about 26 percent.

#### *Building Permit Fees Review*

The City retained Watson to conduct a comprehensive review of development related fees and charges, and to make fee structure recommendations to provide for reasonable full cost recovery. Phase 1 of the review covered development engineering fees and was completed in 2016. Phase 2 of the review related to Development Planning and Committee of Adjustment fees and was completed in 2017. Phase 3, which is the subject of this report, deals with permit fees charged by BSD.

#### *Fee Study Methodology*

An activity based costing approach was applied by the consultant for the study that was designed to fully recover costs of administration and enforcement of the Building Code. This includes estimating the time spent by staff to process building permits and carry out inspection activities for each identified permit category, such as residential, office etc. The indirect costs and capital cost allocation was based on the City's 2016-2019 DAAP model.

#### *Consultant Findings and Recommendations*

Key findings presented by the Consultant are:

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- Current fees charged for building permits are generally recovering 74 percent of full costs of service.
- New residential permits and all alteration permits are under recovering costs of service.
- New non-residential permits are recovering costs and contributing to reserve fund sustainability.
- Current reserve fund balance is \$16.1 million. Without an increase in fees to reflect full cost recovery, the reserve fund balance would decrease to approximately 20 percent of the total annual building permit review and inspection costs, by 2022.

The Phase 3 analysis and report prepared by Watson (copy attached) recommends an increase in most of the fees charged for permits. The recommendations of the consultant are broadly summarized as:

- Increase fees for underperforming permit categories to either recover full costs or to move to the upper end of the market levels. For other categories, strategically increase the fees to provide service sustainability, contribute to the reserve fund and maintain market competitiveness.
- Fee increases be phased-in annually over a three-year period starting January 1, 2019 to minimize impact on the development industry. In addition, continue with the current practice of 3% indexation increase.
- Implementation of the recommended approach will result in full cost recovery, maintain service levels and market competitiveness, while achieving a healthy reserve fund estimated to be 1.2 times the total cost of building permit review and inspection costs by 2022.

Phased over three years, the adoption of the recommendations will increase most of the fees charged by the BSD. While the increase in some of the fees is relatively high, the impact is marginal when viewed from the standpoint of the overall planning and development charges. The total increase for planning and development charges based on the proposed increase in building permit fees ranges from 0.5 percent for an industrial building or a multi-unit residential building, to 1.0 percent for single detached homes and 1.2 percent for an office building.

Watson identified that the fees currently charged for permits in Vaughan are at the lower end of the scale when compared to referenced municipalities (Markham, Richmond Hill,

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Aurora, Newmarket, Mississauga, Brampton, Toronto, Hamilton, Burlington and Ottawa) surveyed by Watson, primarily in the Greater Toronto Area. When comparing the proposed changes in permit fees with fees in the ten municipalities, Watson determined that adoption of the increased fees would rank Vaughan as the sixth highest in terms of permit costs for most permits (Industrial, Office, Multi-Unit Residential) and third highest for single detached homes.

In terms of the overall cost of processing development applications, the City of Vaughan will continue to remain competitive. The City is currently ranked third highest of the ten municipalities surveyed by Watson. If the recommendations contained in this report are approved, that ranking will remain unchanged.

#### *Building by-Law Review*

In addition to the review of permit fees, a full review of the Building by-law was also conducted. The goal was to modernize terminology, correct references to provincial statutes and regulations and to introduce improvements where required including editorial changes.

The most significant enhancement is to the requirements for construction site fencing. The new by-law will mandate safety fencing on every construction and demolition site, only providing for an exemption where the Chief Building Official can be satisfied that a site fence is not required. It will also mandate the type of fencing which is required. These changes are comparable to standards for safety fencing requirements in other large area municipalities.

Improvements to the by-law include a section to further describe the requirements for conditional permits and related agreements that must be entered between the applicant and the City. At the time the previous Building by-law was drafted, conditional permits were less common at the City. As Vaughan has grown, conditional permits have become more common, as they are in other large municipalities. The proposed changes will further clarify the authority to issue conditional permits and to enter into agreements which set out the terms under which the conditional permit is issued.

#### *Industry Consultation and Communications*

The BSD met with members of the Building Industry and Land Development Association (BILD) on January 18, 2018. At the meeting, Watson provided a list of the proposed new fee structure, which highlighted the current and proposed new fee structure for building permits. There was general understanding of the need to maintain a full cost recovery position. The BSD has a history of positive working relationships with the development industry and has committed to continuing to consult with them as services

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are enhanced.

Following the January 18 meeting, BILD submitted comments in a letter dated February 2, 2018, attached to this report. They stressed the importance of developers receiving their permits within the provincially mandated timelines. BSD reinforced their commitment to continuous improvement in the services provided to customers and to meeting or exceeding the mandated processing timelines. In their letter, BILD also expressed their support for the three-year, phased-in approach to the fee increases recommended by Watson, in order to provide a transition period for the development community.

The BSD has complied with the regulatory requirements under the Building Code respecting communication related to changes to building permit fees.

If the recommendations contained in this report are approved, the BSD will communicate the new fee structure to BILD and will provide copies of the new fee structure at the permit counter and on the website.

#### **Financial Impact**

In their report, Watson identified that with the current fee structure, starting in 2018, the Reserve may be depleted by approximately \$2.5 million/year in order to fund the annual operating cost of the BSD and maintain service levels.

The fee increases proposed in Watson's report would be phased in over 3 years, starting in 2019, to minimize the impact on the development industry, allowing them to reliably forecast their project costs. As a result, in 2019 there would still be a net draw of approximately \$1.28 million on the Reserve to fund the operating costs not fully recovered by permit fees. By 2020, Watson forecasts that the BSD would operate at full cost recovery, with a \$0.29 million contribution to the Reserve. By 2021, the reserve contribution is forecast to increase to \$2 million.

Approval of the recommendations would achieve full cost recovery for the BSD annual operating expenses by 2020. It would also enable regular contributions to the Reserve, starting in 2021, enabling a financially sustainable model for the BSD.

If approved, the revised fees would be incorporated as part of the 2019 budget process.

#### **Broader Regional Impacts/Considerations**

There are no broader regional impacts that would result from the adoption of recommendations contained in this report.

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#### **Conclusion**

The BSD is operating below the intended full cost recovery model. The current level of revenues generated is not financially sustainable and if continued will impact service levels and service delivery. The current rates are also generally at the lower end of the market, as assessed through review of peer municipalities. Adopting the proposed phased-in fee structure will, by 2020, restore the Department to a position of full cost recovery, contribute funds to the Reserve fund and maintaining market competitiveness.

In addition, an updated and modern building by-law will provide enhanced clarity to the users on the administrative requirements respecting building permit applications and building inspections.

This report has been prepared in consultation with Financial Planning and Development Finance.

**For more information**, please contact: Nadim Khan, Manager, Policy and Regulatory Services, Building Standards Department

#### **Attachments**

1. City of Vaughan Development Services Fee Structure Review, Phase 3 – Building Permit Fees prepared by Watson and Associates Economists Ltd.
2. Draft Building By-law including Schedule A to D
3. Building Industry and Land Development Association (BILD) letter dated February 2, 2018.

#### **Prepared by**

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)