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**REPORT TO THE ELECTORAL AREAS COMMITTEE
MEETING OF APRIL 10, 2019**

SUBJECT **Building Inspection Cost Recovery**

ISSUE

At the March 13, 2019 Electoral Areas Committee meeting, the Committee directed staff to “Report back on the rationale and implications of different cost recovery policies for the Electoral Areas, Building Inspections Division as a whole and for each Electoral Area”.

BACKGROUND

The *Local Government Act*/Community Charter does not permit a government entity to recover in fees more than the cost of the function. In 2006, a fee recovery rate of 80% was set as the benchmark for the Building Inspection Division.

The rationale for the 80% benchmark was to only recover costs associated with the primary building inspection function. The rationale behind the approval was to acknowledge that there were other costs associated with the building inspection function. The previous estimated cost to carry out the other services below was approximately 20% of Building Inspection staff time:

- Development referrals
- Field inspections related to land use compliance
- Building Inspections carried out on Capital Regional District (CRD) owned buildings
- Administrative work associated with service planning and budgets
- Responding to Freedom of Information formal requests
- Property Information Reports for realtors

As the industry evolves, more time is spent on these administrative functions and the current estimated time to carry out this work is now approximately 25%.

Table 1: Cost Recovery for Building Inspection

Year	Fee Revenue	Requisition	Recovery
2009	\$718,209	\$340,000	67.87%
2010	\$769,366	\$346,800	68.93%
2011	\$933,413	\$350,320	72.71%
2012	\$781,268	\$357,340	68.62%
2013	\$735,020	\$369,640	66.54%
2014	\$804,262	\$377,250	68.07%
2015	\$757,328	\$384,810	66.31%
2016	\$867,663	\$390,570	68.96%
2017	\$992,913	\$390,570	71.77%
2018	\$1,196,231	\$390,570	75.39%
Average			69.52%

Over the past 10 years the fee cost recovery has averaged approximately 70%.

The CRD did not meet the benchmark of 80% over these past 10 years as the economy was in a down cycle and is now starting to move in a positive direction. The Building Inspection Division contracted services with the First Nations, the construction of the Juan de Fuca office building and contracts with other municipalities to help offset the downturn and minimize the impact to the requisition.

The following table breaks down the cost recovery per Electoral Area.

Table 2: Cost Recovery per Electoral Area

In (\$000's)

Year	JdF			SSI			SGI		
	Fees	Req'n	%	Fees	Req'n	%	Fees	Req'n	%
2012	227.0	74.8	75.2%	249.8	152.9	62.0%	257.1	129.7	66.5%
2013	221.1	76.3	74.3%	240.3	160.4	60.0%	232.7	132.8	63.7%
2014	214.4	79.2	73.0%	307.2	165.6	65.0%	250.6	132.4	65.4%
2015	252.1	82.8	75.3%	231.1	169.6	57.7%	219.4	132.5	62.4%
2016	216.4	86.5	71.4%	322.6	170.8	65.4%	299.0	133.2	69.2%
2017	353.9	88.0	80.1%	361.1	171.9	67.7%	243.6	130.6	65.1%
2018	311.1	88.5	77.9%	454.5	173.9	72.3%	399.2	128.2	75.7%
Average per Area			75.3%			64.3%			66.8%
Average All Areas			68.8%						

Table 2 indicates that Juan de Fuca (JdF) cost recovery is higher than the Salt Spring Island (SSI) and Southern Gulf Islands (SGI) and is in line with the proposed benchmark. This is due to more development per capita in the JdF. The Islands Trust Planning is mandated to preserve and protect the SSI and SGI areas and therefore there are fewer lots being developed at this time.

ALTERNATIVES

Alternative 1:

That the benchmark rate for Building Inspection Cost Recovery be set at 75%.

Alternative 2:

That the benchmark rate for Building Inspection Cost Recover be set at a rate as directed by the Electoral Areas Committee.

FINANCIAL IMPLICATIONS

In determining the appropriate cost recovery for Building Inspection services, an analysis of the building permit fee structure used by other municipalities within the CRD was completed. The following table compares fees for a Single Family Dwelling (1200 square foot, 2 storey, full basement home, 2 bathrooms, 10 plumbing fixtures and 1 hot water tank):

Table 3: Comparison of Permit Fees by Jurisdictions

Local Government	Fees	Analysis Method
Capital Regional District	\$5,671	1.3%/1000
City of Victoria	\$8,146	1.4%/1000
Township of Esquimalt	\$6,441	1.3 & 1.1%/1000
District of Oak Bay	\$4,845	1.0%/1000
District of Saanich	\$5,997	1.3% and Marshall Swift Valuation
City of Colwood	\$5,328	1.2% & 1.0%/1000
District of Sooke	\$4,950	1.3% and 1.0%/1000
City of Langford	\$3,327	Marshall Swift Valuation
Average	\$5,588	

The permit fees the CRD collects are aligned with the average of municipalities in the case above. The City of Victoria and the Township of Esquimalt have a higher building permit cost than the CRD at this time. The City of Victoria amended their Building Regulation October 12, 2017.

As the building inspection work is cyclical based on building boom and bust cycles, another way to look at the cost recovery amount would be to set the requisition at an amount to cover off the minimum requirements to operate the division should the industry go into a down cycle and construction cease in the Electoral Areas. The minimum staff required to maintain the Building Inspection Division would be the Manager of Building Inspection, a building inspector and an administrative assistant. The costs for three full-time equivalents and associated allocations is estimated at approximately \$400,000.

Building Inspection cost recovery for 2018 was 75.39%. The table below provides additional scenarios that would result with different cost recovery policies for the 2018 year.

Table 4: Sensitivity Analysis

Cost Recovery	2018 Fee Revenue	2018 Requisition
70%	\$1,110,761	\$476,040
75%	\$1,196,100	\$396,700
80%	\$1,269,441	\$317,360
90%	\$1,428,121	\$158,680

A change in benchmark will require a corresponding adjustment in the permit fees schedule to accommodate this.

CONCLUSION

Currently Building Inspection has a benchmark target of 80% cost recovery rate for building permit fees. Our analysis has shown that over the last 10 years the actual average fee cost recovery has been approximately 70%.

The *Local Government Act*/Community Charter does not permit a government to recover in fees more than the cost of the function. Staff recommend that a recovery rate be set at 75% to account for the increase in administrative work (approximately 25%) that is not recovered through permit fees.

Should the benchmark be set at 75%, staff will propose an amendment to increase the building fees to account for the greater permit fees required as compared to the historical average.

RECOMMENDATION

That the benchmark rate for Building Inspection Cost Recovery be set at 75%.

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RG/bc