



City of Waterloo
Building Fee Review – Sept. 15, 2021
Prepared by BMA Management Consulting Inc.

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Executive Summary



Executive Summary – Building Permit Fee Review

BMA Management Inc. was engaged by the City of Waterloo to undertake a review and make recommendations with respect to building permit fees, fee structure, Building Stabilization Reserve policies and to forecast revenues and expenditures over the next 10 years. This included benchmarking of all fees with 10 peer municipalities. The following provides a summary of the findings and observations.

Operating and Capital Expenditures

- An analysis of the Operating Budget, including cost allocations was undertaken to ensure that the full cost of service was being recovered and that the methodology in allocating corporate costs was fair. BMA reviewed the methodology and confirmed that it is in accordance with leading practices.
- Over the next 10 years, Building Standards has a Capital Budget of \$4.565 million which will be funded from the Building Reserve Fund. The Capital Budget includes new technologies to improve customer service and create efficiencies as well as vehicle replacements for building inspectors.

Benchmarking Construction, Permits and Staffing

- The operating expenditures in Waterloo are considerably lower in relation to the activity levels than the peer average which is a positive indicator of the efficiency of the operations.
- Waterloo has the highest construction value per permit, generally reflecting larger more complex projects being undertaken in the City.
- Waterloo has the second highest construction value per full-time equivalent, reflecting relatively lower staffing levels in Building Standards.

Executive Summary – Building Permit Fee Review – Fees and Financial Sustainability

Fees and Financial Sustainability

- The City of Waterloo has not increased their fees since 2003. Given the future forecast of growth and capital requirements, it is an appropriate time to undertake a fee review. This is a standard practice to ensure the Building Standards area is able to continue to operate as an Enterprise Model which is fully recovered from building permit fees and is not supported by property taxes.
- A comparison of fees across 10 peer municipalities was undertaken and reflects that Waterloo's fees are substantially lower than peer municipalities, generally the lowest in the survey for all new construction classifications. The fees in Waterloo, depending on the type of construction are 23%-50% below the peer municipal median.
- Most peer municipalities index fees annually which is a recommended practice.
- The City's Building Reserve Fund is currently in a healthy position. However, forecast growth is lower than has been experienced in the past 10 years. Based on the growth forecast, the Building Reserve Fund will be in a negative position by 2026 if no fee increases were to be made.
- There is a need to increase building permit fees to support full cost recovery.
- As there are Reserve Funds available in the short term, a phase-in strategy is recommended to move to full cost recovery.

Executive Summary – Building Permit Fee Review – Full Cost Recovery

Full Cost Recovery

- A forecast with no fee increases was developed to illustrate the challenges that would be faced by the City in terms of full cost recovery. Options were created with phase-in strategies to move the City toward full cost recovery and meet reserve policy targets. The following summarizes the options:
 - ***Option 1 - Status Quo*** – No change in fees. This option is not sustainable and does not support full cost recovery.
 - ***Option 2*** - Three year phase-in to move to achieve full cost recovery – This results in an annual increase of 18% over the first three years in the forecast and 2% indexing thereafter.
 - ***Option 3*** - Five year phase-in to achieve full cost recovery – This results an annual increase of 12% over the first five years in the forecast and 2% indexing thereafter.

Executive Summary – Building Permit Fee Review – Other Fees

Other Fees

- A detailed review of the various fees and fee structures was conducted and compared to a survey of 10 peer municipalities.
- The fees in Waterloo are consistently well below the survey averages and in many cases are the lowest.
- There are opportunities to reconsider the structure of some of the existing fees as well as the overall fee calculation.
- There are a number of specific permit fees that other municipalities employ that may be considered in Waterloo.

Introduction



Building Permit Fee Review - Introduction

In 2021, BMA Management Consulting Inc. was engaged by the City of Waterloo to undertake a review and make recommendations with respect to building permit fees, fee structure, Building Stabilization Reserve policies and to forecast revenues and expenditures over the next 10 years.

The following summarizes the main objectives:

- To provide a comparative benchmarking analysis of the current cost of the City's Building Permit fees and all other fees currently charged by the City of Waterloo's Building Standards Division relative to other similar-sized Ontario municipalities. This included a comparison of building department reserve balances and annual funding levels.
- To identify any fees or administrative functions that are not currently charged by the City that under applicable legislation could be levied in the future.
- To provide professional recommendations about the City's overall fee structure, costs, fee reserve fund levels, and fee administration methodology.

Peer Municipal Comparator Group

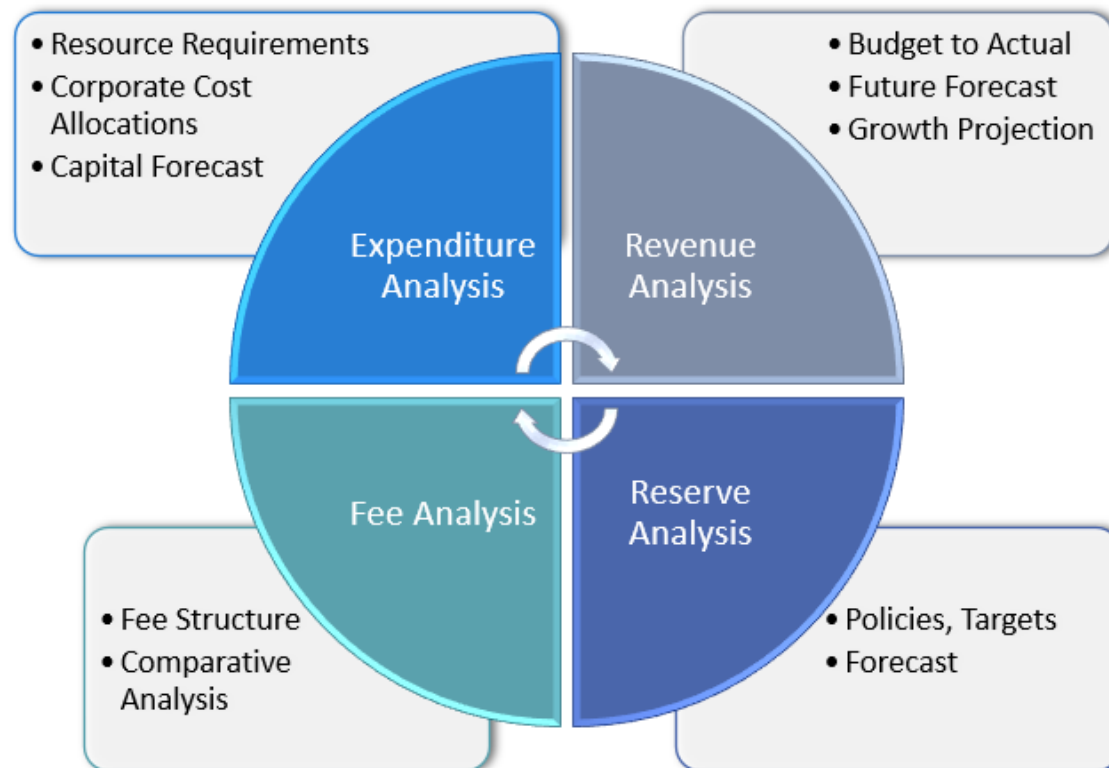
A major component of the study was to undertake a comprehensive peer benchmarking exercise with 10 municipalities. The following municipalities were included in the analysis.

Municipalities	2020 est population	Land Area sq.km	Population Density per sq.km	Construction Activity 3 yr average (000s)	Number of Permits 3 yr average
Ajax	129,542	67	1,931	\$ 184,888	972
Barrie	151,660	99	1,531	\$ 441,607	1,919
Brantford	105,082	102	1,030	\$ 183,549	1,042
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Richmond Hill	207,885	101	2,056	\$ 433,739	2,064
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Average	165,283	118	1,459	\$ 413,294	1,758
Median	148,790	108	1,379	\$ 437,673	1,772
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Source: Population Manifold Data Mining, Land Area Stats Canada, LMCBO 2017-2019 data as well as year end municipal reports, FIRs

Analysis of Full Cost Recovery

- The project included an analysis of all aspects of the cost of service for Building Standards with an overall objective and ensuring that the City is operating on a full cost recovery basis.
- The review also focused on revenue forecasting to align, to the extent possible future revenues with expenditures. This takes into consideration the availability of Reserve Funds to fund capital requirements and any operating deficits that may occur. The following provides a graphical overview of the key components of the review.



Building Code Act

To pay for the costs of providing Building Code services, municipalities are permitted to charge fees for processing building permit applications. The *Building Code Act (the Act)* requires that permit fees not exceed “the anticipated reasonable costs to administer and enforce the Building Code during building construction.” In addition, municipalities are required to prepare annual reports that record the amount of fees received and the costs incurred in administering the process.

Ontario Regulation 305/03 is the associated regulation arising from the *Building Code Statute Law Amendment Act, 2002*. The regulation provides details on the contents of the annual report and the public requirements for the imposition or change in fees. It specifies that annual reports must record both the direct and indirect costs of reviewing applications and conducting building inspections. In this regard:

- Direct costs include the costs of reviewing building permit applications and inspecting buildings; and,
- Indirect costs include the support and overhead costs of administering and enforcing the process.

Annual reports must also include the balance of any building permit reserve funds that municipalities may have. The regulation also sets out the requirements for a public meeting process that must accompany the setting of fees, including:

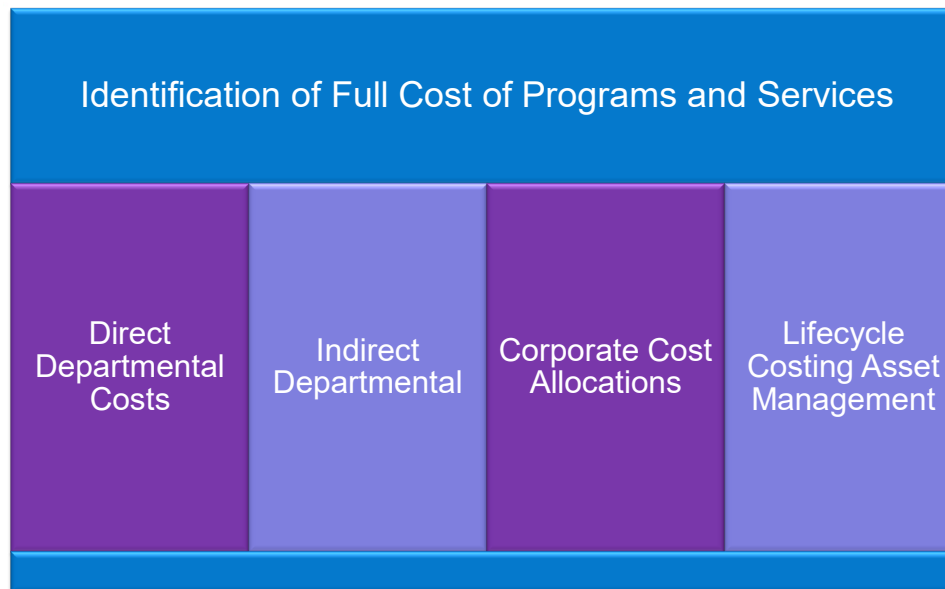
- Holding at least one public meeting;
- Providing 21 days notice of the public meeting; and,
- Providing in the notice an estimate of the costs of providing *Building Code* services, the amount of new fees, and the rationale for the new fees.

Expenditure Analysis



Expenditure Analysis

- The *Building Code Act 1992*, as amended (BCA) stipulates that the total amount of fees paid for building permit applications and issuance, must not exceed the reasonably anticipated costs of administering and enforcing the Act. As such, it is important to ensure that all costs allocated to Building Standards are appropriate.
- An analysis was undertaken of the full cost of Service for Building Standards. The full cost of service included the identification of the following cost components:



Historical Operating Expenditures

	Budget	Budget	Budget	Budget	Budget
Expenditures	2017	2018	2019	2020	2021
Salaries and Benefits	\$ 2,176,538	\$ 2,228,601	\$ 2,298,215	\$ 2,340,150	\$ 2,393,854
Staffing Related Other Expenses	\$ 35,165	\$ 35,165	\$ 35,165	\$ 35,165	\$ 35,165
Other Expenses	\$ 139,304	\$ 128,304	\$ 93,404	\$ 93,404	\$ 93,404
Services and Other	\$ 47,590	\$ 47,590	\$ 82,490	\$ 82,490	\$ 82,490
Corporate Overhead	\$ 588,064	\$ 588,064	\$ 708,064	\$ 592,415	\$ 596,078
Total Expenditures	\$ 2,986,661	\$ 3,027,724	\$ 3,217,338	\$ 3,143,624	\$ 3,200,991
	Budget	Budget	Budget	Budget	Budget
Expenditures	2017	2018	2019	2020	2021
Salaries and Benefits	73%	74%	71%	74%	75%
Staffing Related Other Expenses	1%	1%	1%	1%	1%
Other Expenses	5%	4%	3%	3%	3%
Services and Other	2%	2%	3%	3%	3%
Corporate Overhead	20%	19%	22%	19%	19%
Total Expenditures	100%	100%	100%	100%	100%

Source: City of Waterloo Budgets

- As shown above, approximately 75% of the expenditures in Building Services are related to salaries and benefits.
- Corporate Overhead is 19% of the operating expenditures.

Cost Allocations - Introduction

As part of the annual Operating Budget preparation, the City of Waterloo includes a corporate and departmental cost allocations to the Building Standards Division, in accordance with leading practice research. Building Standards operates through an Enterprise Model whereby all costs associated with the delivery of services to support construction are funded from building permit fees (direct and indirect costs). This approach ensures that the full cost of service is identified and can then be fully funded from building permit fees. This approach ensures the following:

- ***Accurately Reflects Permit Fees*** – Allocating costs to programs improves the process of setting and measuring user and permit fees. Without an allocation of direct or indirect (overhead) costs, the cost of the program is understated and could result in understated user fees and lower than adequate revenues.
- ***Adheres to Legislation Requirements*** – The *Building Code Act* addresses the need for Building permit fees to recover only the anticipated cost of the program.
- ***Improves Accountability*** – Business units which charge costs to other programs and services may have to identify why costs are increasing, how charges are calculated or what services are being received in return for the charge.
- ***Supports Decision Making*** – Understanding and knowing the true cost of a program or service can assist Council and management in making decisions about resource allocation, process changes or analyzing alternatives.

Cost Allocation Analysis

Analysis of Cost Allocations

- The Building Standards Branch 2021 Operating Budget includes an allocation of approximately \$596,000 in corporate and departmental overhead costs.
- A detailed review of the cost allocation methodology was undertaken by the City in 2018.
- A review of the methodology employed by the City was undertaken by BMA and confirms that the approach used by the City is consistent with leading practices.

Peer Comparison

- As an additional means to test the reasonableness of the corporate cost allocations, recognizing that no municipality's costs or service delivery structure is the same, benchmarking was undertaken to determine whether the existing cost allocations in Waterloo are reasonable.
- This comparison confirmed that the existing cost allocations are reasonable. For example, in 2019 which was the most current year end reporting available, the indirect cost allocations in other jurisdictions ranged from 15% to 37% of the total operating expenditures. The City of Waterloo's cost allocation in 2019 was 22%, equal to the peer survey average.

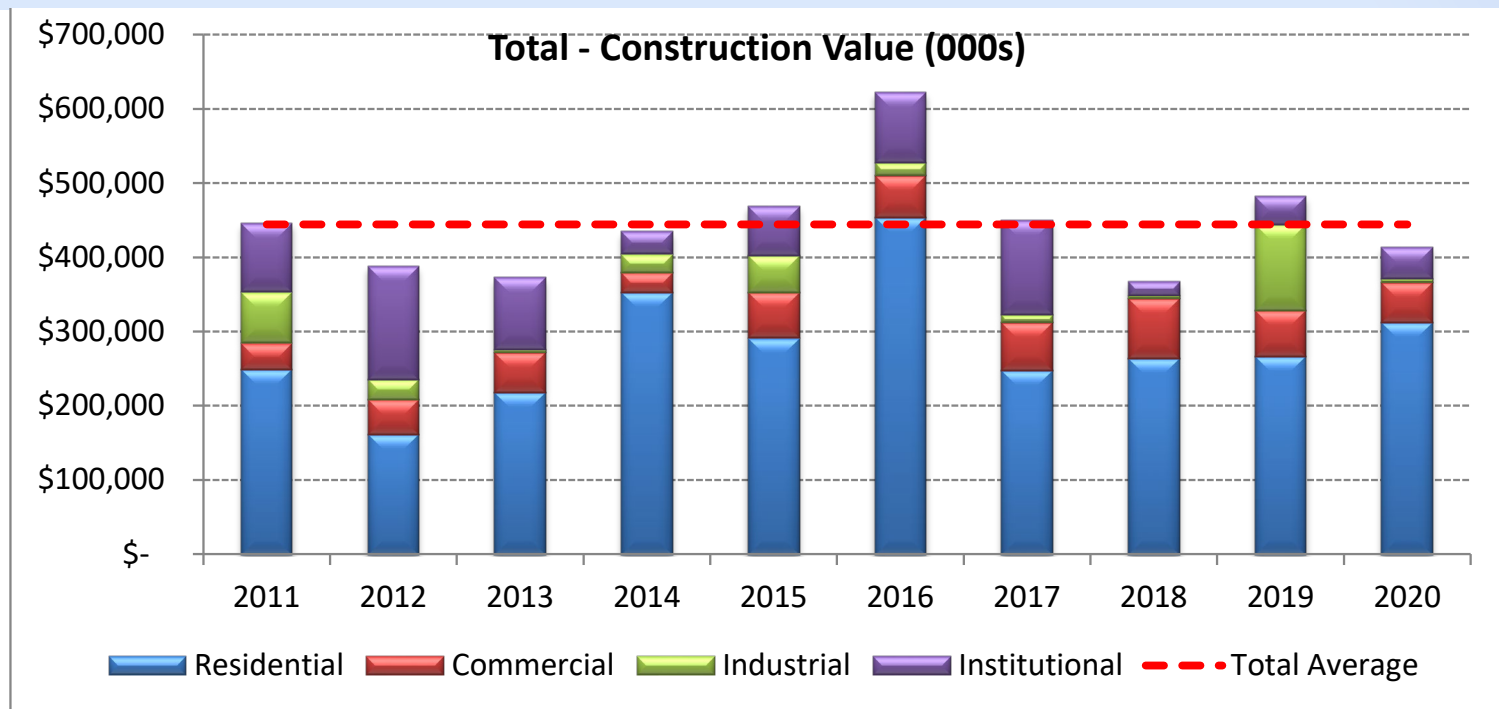
Revenue Analysis, Construction Activity and Permit Activity



Activity Levels, Construction Activity and Permit Revenues

- Prior to undertaking a review of the fees, it is helpful to gain an understanding of the overall trends in terms of the total construction activity, type of construction and revenues generated.
- This section provides a summary of the activity levels, construction activity and permit revenues from 2011-2020.
- Trends are important to understand as there are patterns in the total construction activity and type of construction activity that the City has experienced that potentially have an impact on revenues and therefore should be understood for forecasting.
- The following summarizes key findings and observations:
 - Over the past 10 years, there has been \$4.4 billion in construction value in the City;
 - Approximately 64% of the City's revenues were generated from Residential construction over the past 10 years; and
 - Over the last two years, under the deferral method, the Building Standards operating expenditures have exceeded building permit revenues.

Construction Value – Trend Analysis



Source: Year End Building Report

- The graph reflects the construction value by type of application from 2011-2020.
- Over the past 10 years, there has been \$4.4 billion in construction value in the City, with an annual average construction value of \$440 million.

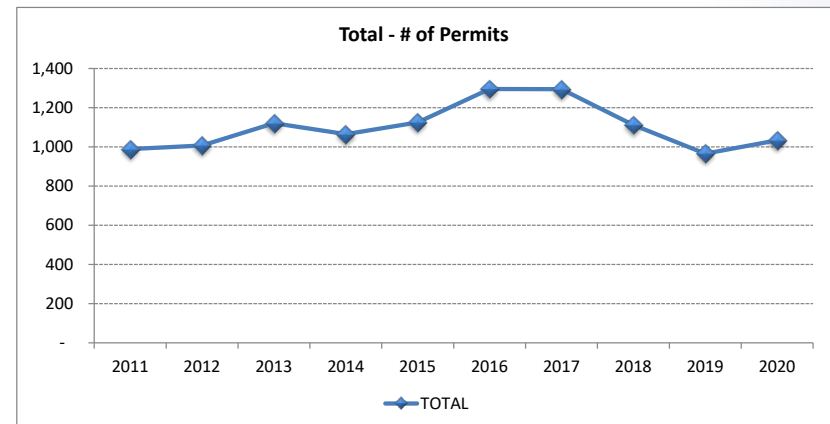
Number of Permits – Trend Analysis

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Residential	701	766	855	797	861	1,027	1,033	819	709	818
Commercial	125	116	181	176	168	175	181	212	160	148
Industrial	84	55	25	28	39	31	20	28	24	17
Institutional	79	70	60	64	57	62	60	53	72	50
TOTAL	989	1,007	1,121	1,065	1,125	1,295	1,294	1,112	965	1,033
Yearly % Change		1.8%	11.3%	-5.0%	5.6%	15.1%	-0.1%	-14.1%	-13.2%	7.0%

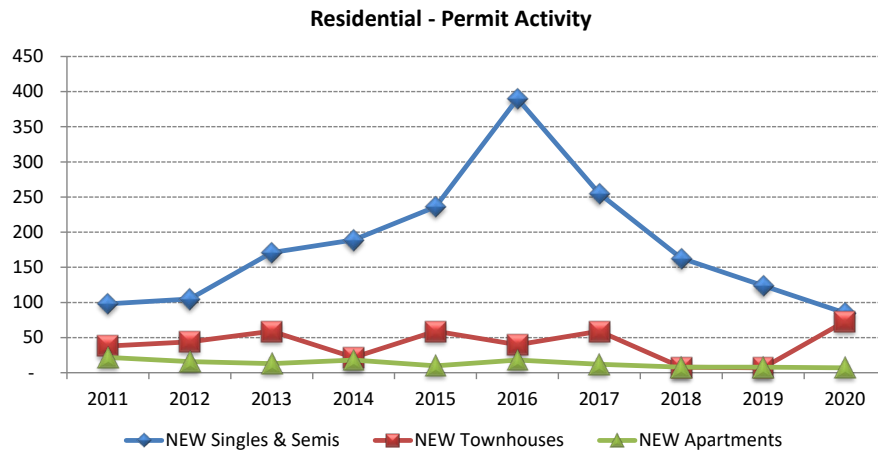
Source: Year End Building Reports

- The number of permits is not necessarily indicative of workloads as the complexity and type of application impacts workloads.

Source: Year End Building Reports

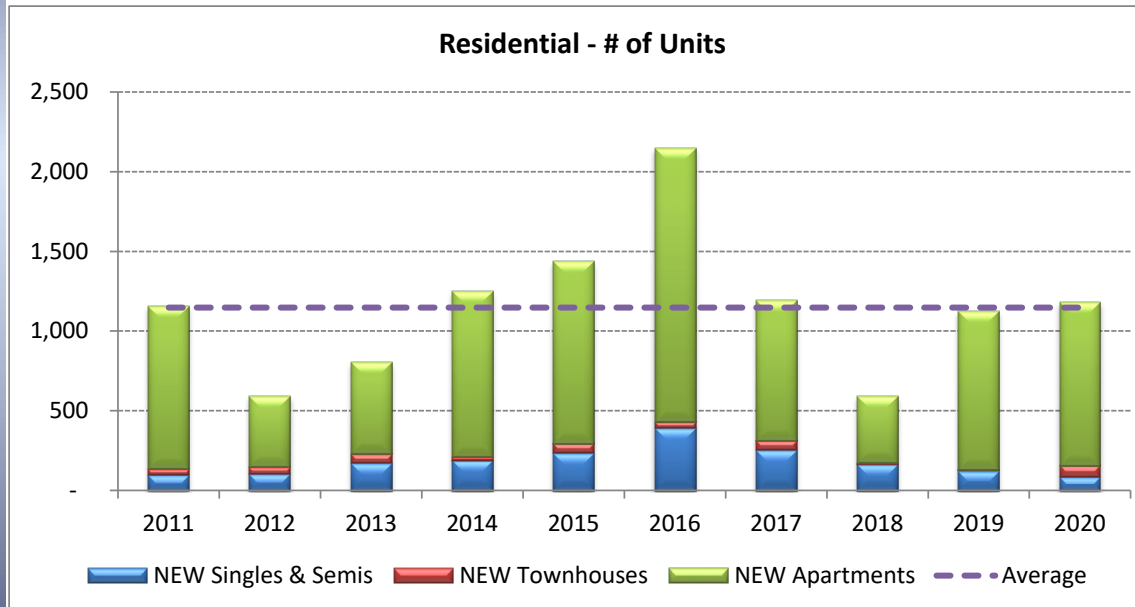


Source: Year End Building Reports



- Since 2016, there has been a downward decline in applications in the residential new singles and semi detached homes.

Residential Units – Trend Analysis



Source: Year End Building Reports

	Singles & Semis	Town.	Aparts.	Total New
2011	98	38	1,019	1,155
2012	105	44	442	591
2013	171	59	576	806
2014	189	22	1,042	1,253
2015	236	59	1,142	1,437
2016	390	40	1,715	2,145
2017	255	59	877	1,191
2018	163	8	423	594
2019	124	7	995	1,126
2020	85	73	1,023	1,181
Total	1,816	409	9,254	11,479
Average	182	41	925	1,148

Source: Year End Building Reports

- The graph above provides a summary of the total number of new residential units.
- Over the past 10 years, there were, on average, 1,148 permit units issued annually.
- The majority of the new units were in the Apartment class which averaged annually 925 units. Many of the Multi-Residential projects are large, complex infill construction which increases the time required to undertake the plans examination and inspection functions and activities.

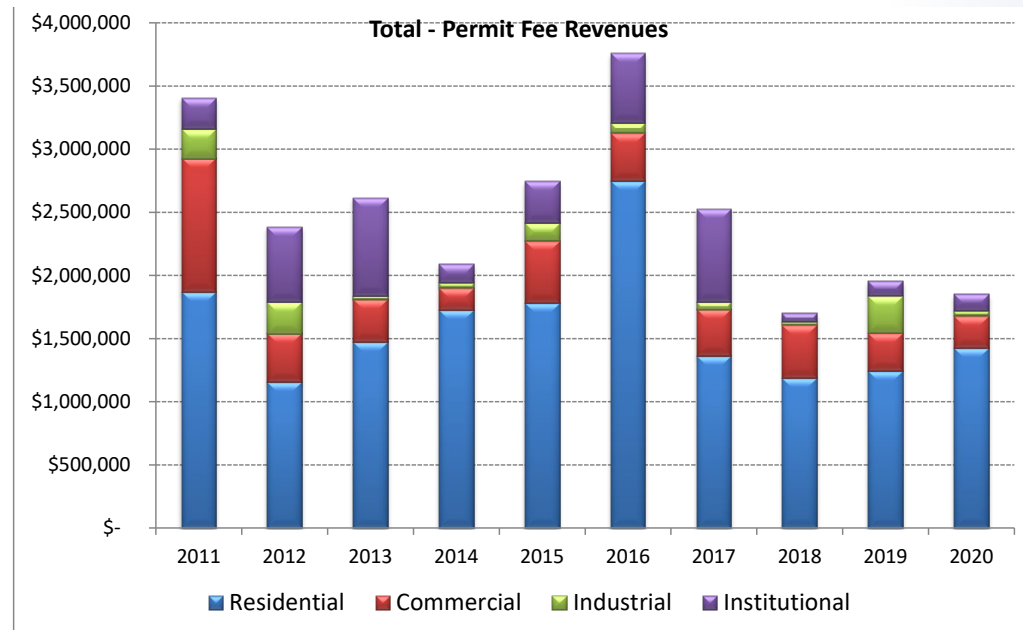
Summary of Building Permit Fee Revenues

TOTAL										
Building Permit Revenues	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Residential	\$ 1,869,588	\$ 1,156,849	\$ 1,470,109	\$ 1,724,572	\$ 1,782,314	\$ 2,748,141	\$ 1,362,701	\$ 1,185,508	\$ 1,240,381	\$ 1,422,847
Commercial	\$ 1,055,483	\$ 382,837	\$ 339,292	\$ 177,574	\$ 490,155	\$ 381,717	\$ 368,001	\$ 423,460	\$ 302,116	\$ 257,635
Industrial	\$ 237,027	\$ 252,577	\$ 27,694	\$ 40,803	\$ 140,857	\$ 76,361	\$ 62,179	\$ 24,698	\$ 295,010	\$ 35,725
Institutional	\$ 243,841	\$ 592,650	\$ 777,257	\$ 146,057	\$ 332,296	\$ 551,279	\$ 735,891	\$ 67,762	\$ 117,561	\$ 134,743
TOTAL	\$ 3,405,939	\$ 2,384,913	\$ 2,614,353	\$ 2,089,007	\$ 2,745,622	\$ 3,757,498	\$ 2,528,772	\$ 1,701,428	\$ 1,955,068	\$ 1,850,950

Permit fee revenues fluctuate from year to year. The average annual permit revenues were \$2.5 million over the past 10 years.

Revenues have declined since a high in 2016, with an average annual revenue of \$2 million from 2017-2020. Expenditures averaged \$2.6 million over the same period.

As will be shown later in the report, over the last two years, operating expenditures have exceeded revenues.



Source: Year End Building Reports

Building Permit Revenues 2011-2020

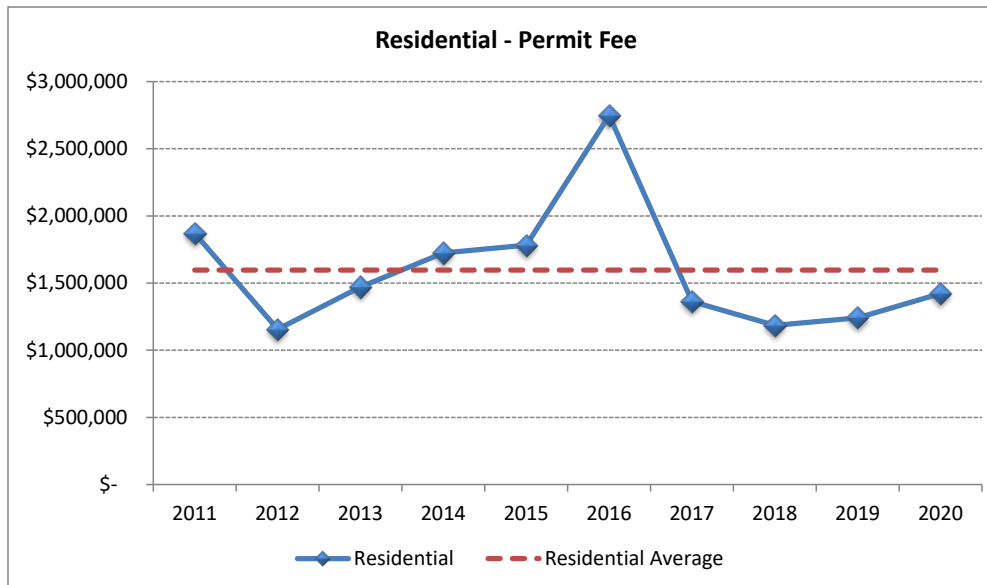
- It is important to understand the trends in terms of type of construction activity.

TOTAL % distribution of Total Revenues											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10 Year
Residential	55%	49%	56%	83%	65%	73%	54%	70%	63%	77%	64%
Commercial	31%	16%	13%	9%	18%	10%	15%	25%	15%	14%	17%
Industrial	7%	11%	1%	2%	5%	2%	2%	1%	15%	2%	5%
Institutional	7%	25%	30%	7%	12%	15%	29%	4%	6%	7%	15%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

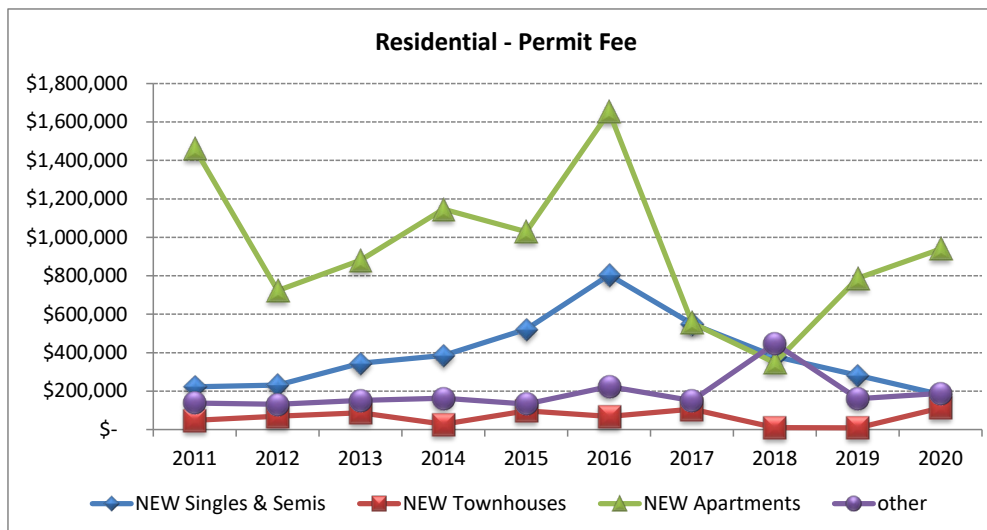
Source: Year End Building Reports

- As shown above, the amount of revenues generated from each type of construction varies considerably.
- In each year, residential revenues comprise the largest permit fee revenues, averaging 64% over the last 10 years.
- Forecasts for each of the types of permits will be presented later in the report to estimate future revenues, taking into consideration growth projections included in the DC Background Study.

Residential Building Permit Fee Revenues

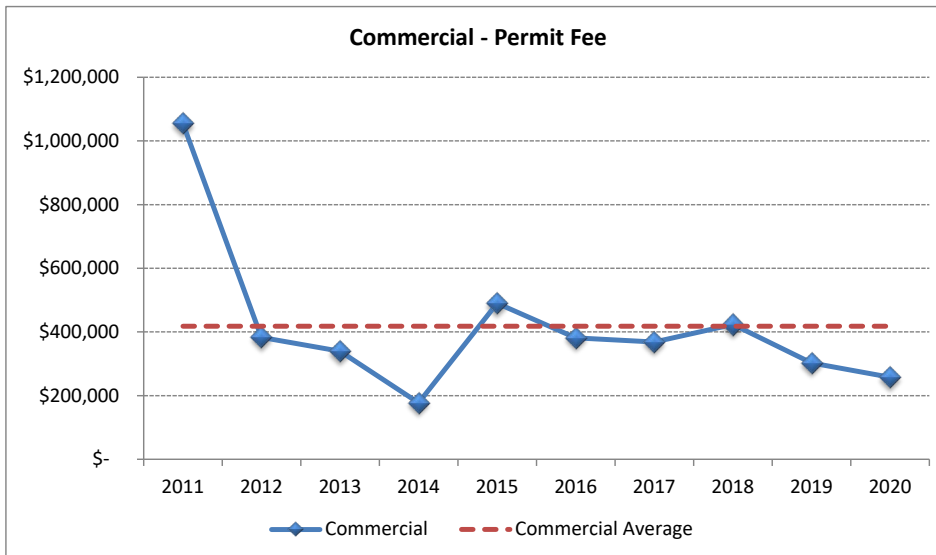


- The average annual residential permit revenues was \$1.6 million over the last 10 years. The average from 2017 to 2020 was \$1.3 million.

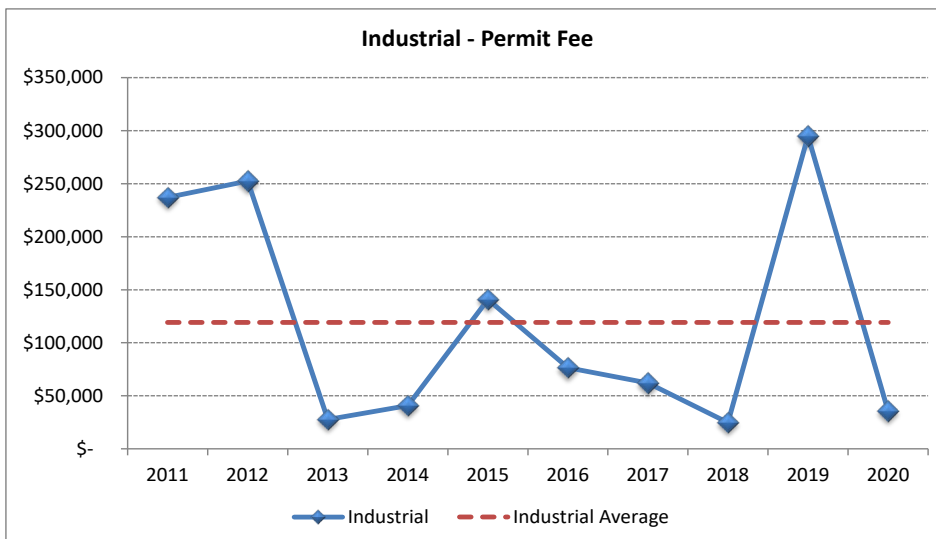


- The lower graph provides a summary of the revenues in the Residential class by type of application.
- Apartment fee revenues are particularly volatile. Over the past 10 years, apartment revenues generated \$9.5 million which is equal to 60% of total residential revenue.

Commercial, Industrial Building Permit Fee Revenues

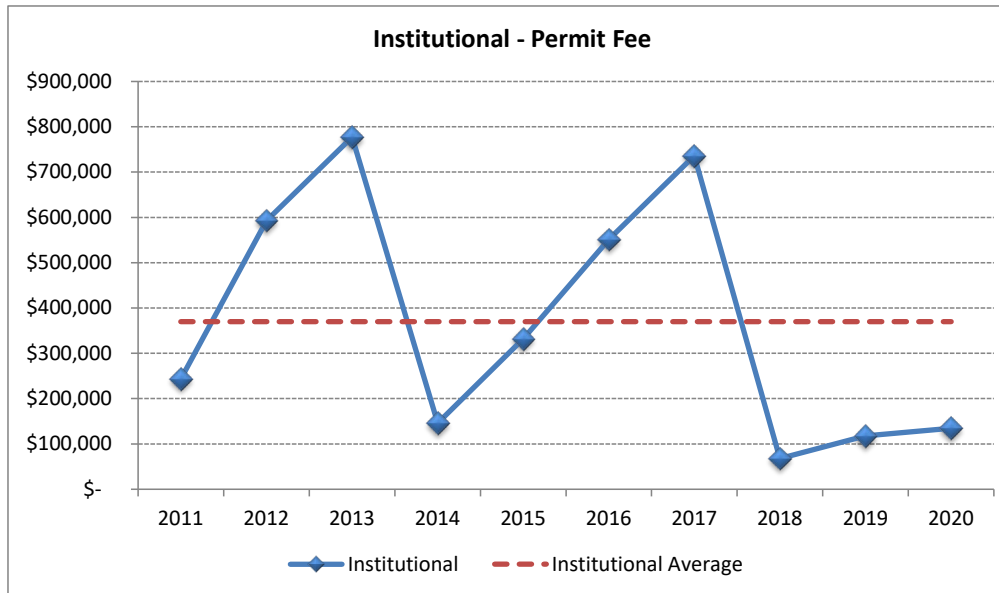


- Commercial permit revenues have been trending down since 2015.
- On average, the annual commercial permit fee revenues was \$418,000 over the past 10 years.



- Industrial permit revenues have been volatile over the past 10 years.
- On average, the annual industrial permit fee revenues was \$119,000 over the past 10 years.

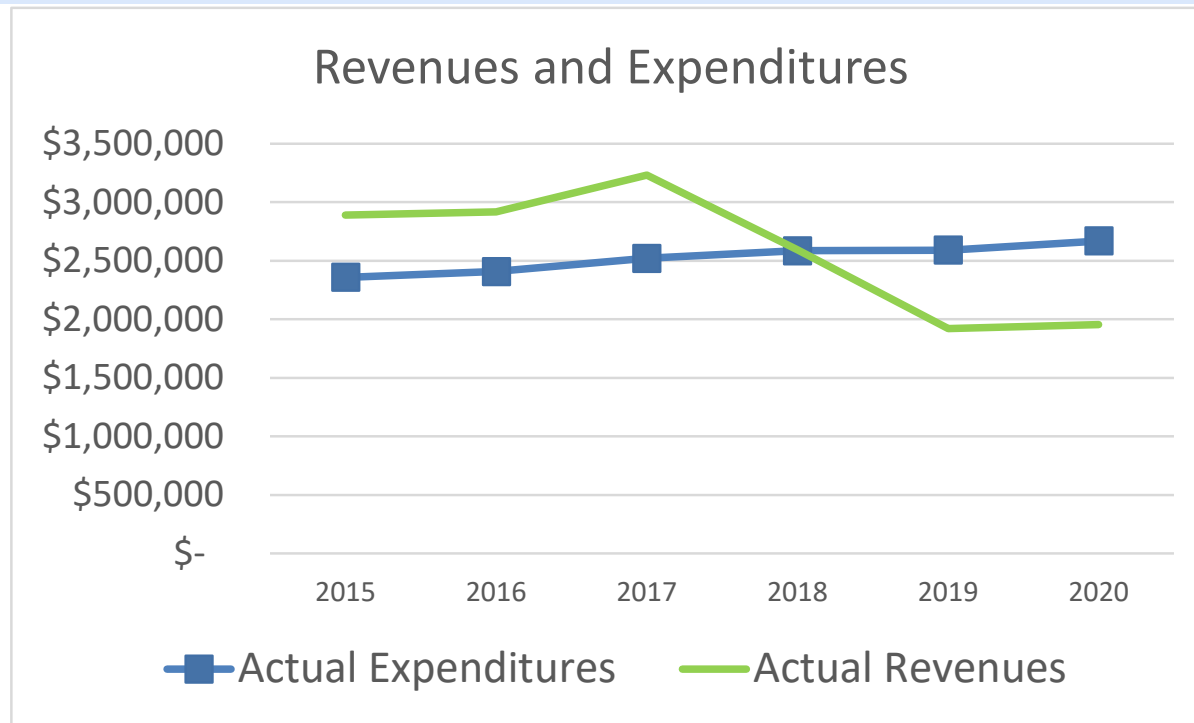
Institutional Building Permit Fee Revenues



Source: Year End Building Reports

- Institutional permit revenues have volatile over the past 10 years.
- On average, the annual institutional permit fee revenues was \$370,000 over the past 10 years.
- Over the past three years, the average institutional building permit revenues was \$107,000.

Permit Revenues and Expenditures



Source: Annual Budgets to Actual Expenditures

- As shown above, while expenditures are relatively easy to predict, revenues vary each year. From 2019-2020, operating expenditures have exceeded permit revenues. Any shortfalls are funded from the Building Reserve Fund.

Building Permit Reserve Fund



Building Permit Reserve Fund - Introduction

- *The Building Code Act* requires that fees collected are to be used to administer and enforce the Act. Surpluses cannot be used to fund other City expenditures not related to the enforcement and administration of the building code, and similarly deficits should be funded from a reserve fund and not other City revenues.
- Optimally, a matching of revenues and expenditures, on an annual basis, ensures that the cost of service is fully recovered from the associated fee revenues but, to balance the revenues and expenditures on an annual basis is difficult without the availability of reserves.
- Given that building operations do not have sufficient elasticity to adjust operating expenditures to immediately coincide with the fluctuations in building activity, a best practice of municipalities is to establish a dedicated Building Permit Reserve Fund. This is in fact in place in the City of Waterloo.
- A Building Reserve Fund manages the risk associated with an economic downturn; spreads the impact of market fluctuations across an economic cycle; avoids fluctuations in fees and is available to fund capital requirements which, in the case of Waterloo, are significant over the next 10 years as the City is implementing new technologies to support the efficient delivery of service.
- Without such a Reserve Fund, reduced permit volumes during a downturn could result in budgetary pressures and the loss of certified City building staff, which would be difficult to replace during the subsequent recovery when mandatory permit processing turnaround times apply.

City of Waterloo – Existing Building Permit Reserve Fund Policy

- **Revenues** - Revenues to the Building Permit Reserve Fund are generated from Building Permit surplus and interest earned on outstanding balances.
- **Expenditures** - Expenditures from the Building Permit Reserve Fund are to stabilize the building permit revenue line in the Operating Budget and to fund Building Standards division capital expenditures.
- **Council Approved Target Level** - The Building Reserve Fund target is to maintain a minimum equal to 12 months of operating expenses, to mitigate the sharp cyclical drops experienced, or when the economy faces a recessionary period, and to protect against building activity down turns.

Comments:

- The minimum target balance using the 2020 Operating Expenditures is \$3.2 million. Currently, the Reserve Balance exceeds the minimum target, with a balance of \$9.3 million as at December 2020.
- As will be shown in the forecast section of the report, while the reserve is healthy, taking into consideration the existing fees, projected capital and operating requirements and the growth projections in the Development Charge Background Study, the Building Reserve Fund balance will be below the minimum level by 2023.
- Fees should be reviewed at least every 5 years to help ensure building permit revenues match expenditures.

Peer Municipal Benchmarking

- Typically, municipalities have established a target range for the Building Reserve Fund of 100%-250% of operating costs. Differences in minimum targets relate to the level and type of volatility in the construction cycles.
- The following minimum targets were identified in the peer municipal benchmarking based on operating expenditures:
 - Brampton – 250%
 - Burlington - 160%
 - Cambridge - 150%
 - Guelph 100%-150%
 - Kitchener 100%-150%
 - Oshawa 200%
 - Whitby 207% (including indirect and capital costs)
 - Waterloo's 100% minimum target is at the low end of the municipal comparators

Benchmarking

There are a number of challenges in benchmarking in relation to other municipalities as there are many factors impacting the delivery of service including but not limited to:

- ***Demand for service and the service mix composition*** – for example, municipalities may have the same level of construction activity measured as \$'s of construction but very different types of construction activity (new residential construction versus complex ICI projects, etc.) which impact the number of staff required;
- ***Service levels and service standards*** – timeliness of responses, policies and practices;
- ***Land area served*** – large land area results in higher travel time and less productive hours;
- ***Degree of infilling versus new subdivisions*** – a subdivision with similar/same type of houses constructed typically takes less inspection and travel time than the same number of infill houses;
- ***Use of generalists versus specialists*** - other staff deployment strategies employed; and
- ***Use of technology*** – municipalities that are efficiently using technology create efficiencies in the operations.

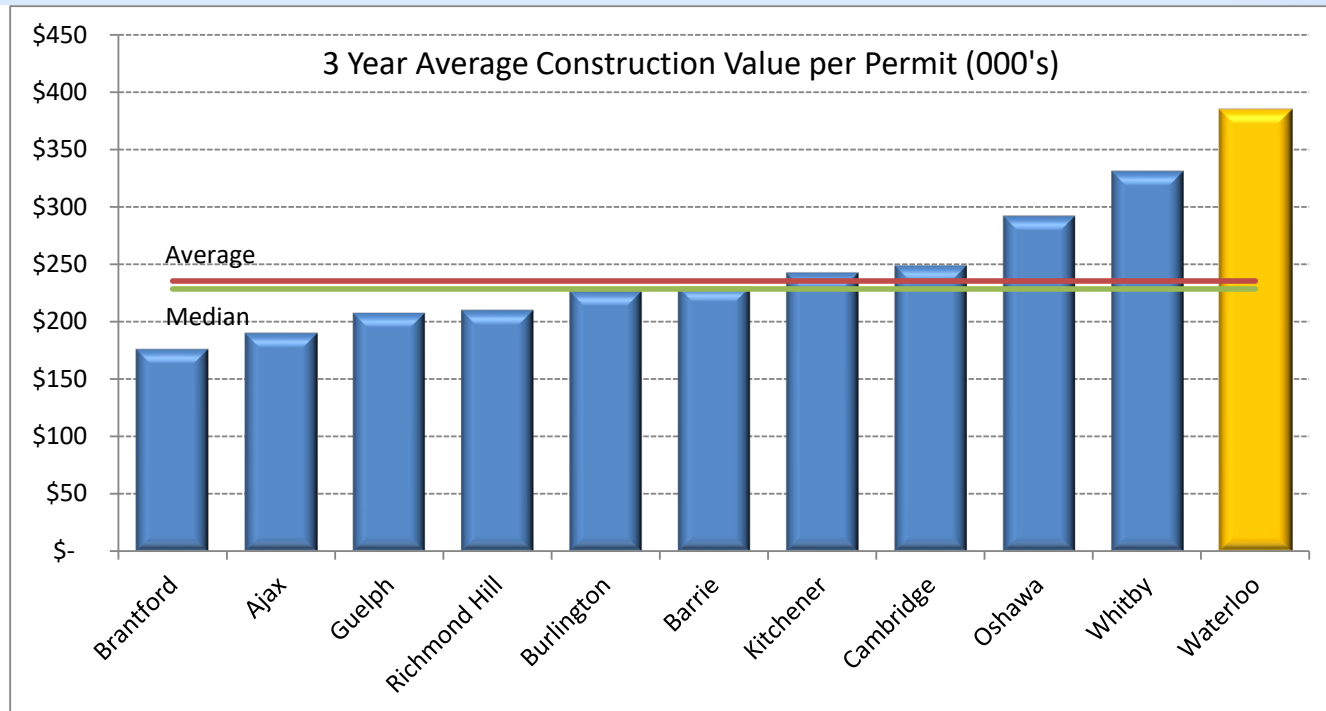
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Source: Population Manifold Data Mining, Land Area Stats Canada, LMCBO 2017-2019 data as well as year end municipal reports, FIRs

- In total, 10 municipalities were selected for the peer comparison with similar population, density and construction activity.

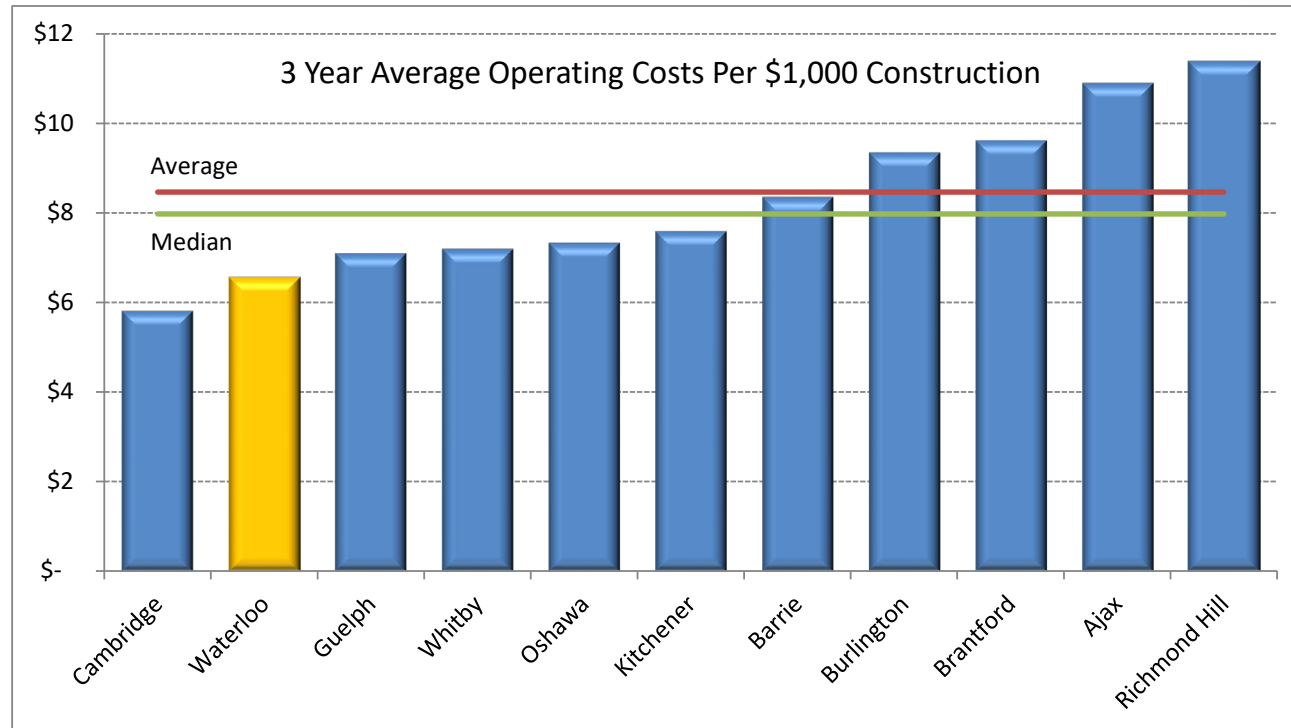
3 Year Average Construction Value per Permit



Source: LMCBO 2017-2019 data as well as year end municipal reports, FIRs

- The graph above reflects the three year average construction value divided by the number of permits to provide an indication of the complexity of the work and the types of projects undertaken. As shown above, the City of Waterloo has the highest construction value per permit.
- A high construction value per permit reflects larger and potentially more complex projects that have been undertaken in Waterloo in comparison to the peer municipalities.

3 Year Average Operating Costs per \$1,000 of Construction



Source: LMCBO 2017-2019 data as well as year end municipal reports, FIRs

- The above graph shows the operating costs per \$1,000 of construction value associated with the provision of building permits and inspection services in Waterloo in comparison to peer municipalities.
- The actual operating costs per \$1,000 of construction value in Waterloo is the second lowest in the survey of comparator municipalities. This measure is an indication of the efficiency and resources employed in each department, however, is not a measure of effectiveness.

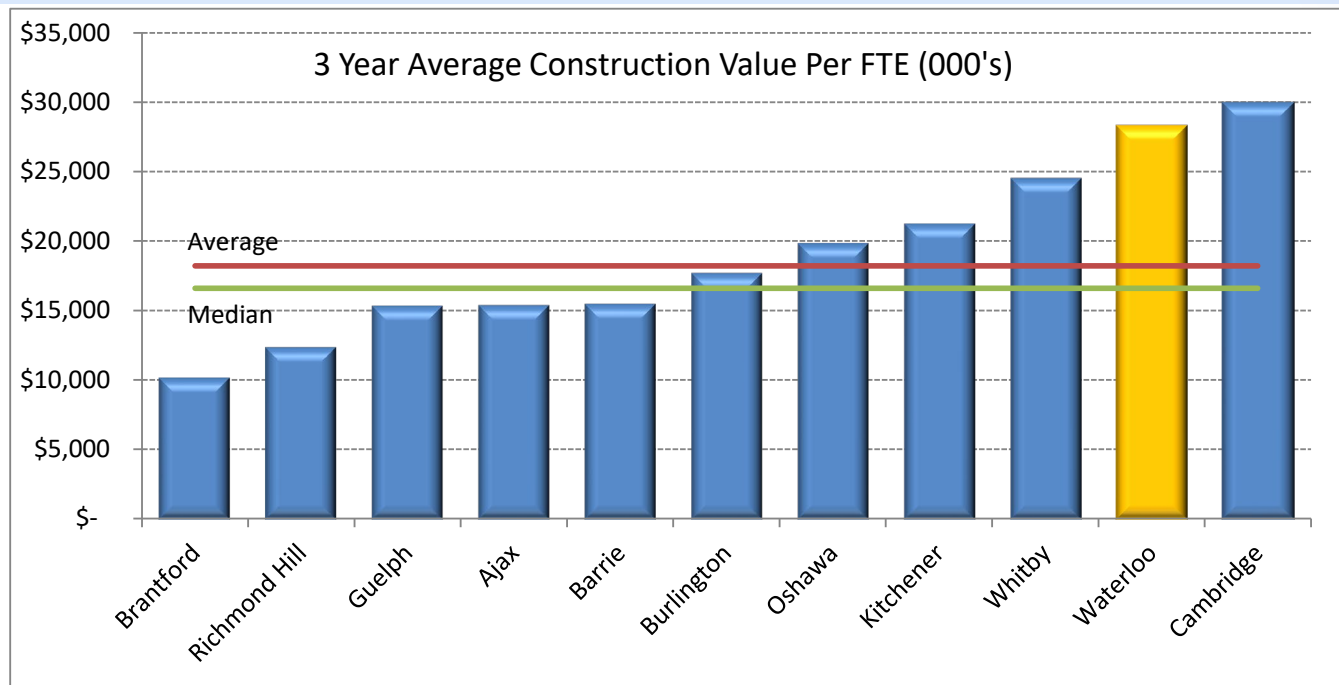
Staffing Scope of Operations Summary

LMCBO 2019	SCOPE OF OPERATIONS												
Municipality	Zoning	Property Compliance Letters	Plan Review	Inspections	Site Grading	Site Plan Approval	Property Standards	By-Law Enforcement	Signs	Licensing	On-Line Applications	Electronic Plans Review	Fire Protection
Ajax	yes	plan	yes	yes	eng	plan	by-law	by-law	yes	n/a	no	no	no
Barrie	no	yes	yes	yes	yes	no	no	no	yes	no	yes	yes	yes
Brantford	yes	yes	yes	yes	no	yes	yes	yes	yes	no	no	no	yes
Burlington	plan	yes	yes	yes	eng	plan	by-law	by-law	by-bldg	by-law	no	no	yes
Cambridge	no	yes	yes	yes	no	yes	no	no	yes	yes	yes	yes	no
Guelph	yes	yes	yes	yes	eng	plan	by-law	limited	yes	no	res	res	yes
Kitchener	no	no	yes	yes	yes	no	no	no	no	no	yes	yes	no
Oshawa	yes	limited	yes	yes	no	no	no	no	yes	no	no	no	no
Richmond Hill	yes	yes	yes	yes	no	no	no	no	yes	no	no	no	no
Whitby	yes	no	yes	yes	no	no	no	no	yes	no	no	no	no
Waterloo	yes	yes	yes	yes	yes	no	no	no	yes	no	some	yes	no

Source: LMCBO 2019 data

- The table above provides a summary of the scope of operations within each of the peer municipal comparators which provides an indication of the staffing levels and roles and responsibilities.
- Note that the analysis on the next page excludes staffing related to property standards and by-law enforcement.
- For the most part, the responsibilities are consistent in Waterloo to the peer municipalities. It should be noted that Barrie, Burlington, Cambridge and Kitchener are not responsible for zoning reviews.

3 Year Average Construction Value Per Full Time Equivalent



Source: LMCBO 2017-2019 data as well as year end municipal reports, FIRs

- Total construction value per full time equivalent (FTE) is an proxy to understand staffing levels (actual staffing).
- As shown above, the construction value per FTE in Waterloo is second highest in the survey reflecting relatively lower staffing levels.

Waterloo Zoning – Building Standards

- Building Standards is currently responsible for zoning reviews of Singles and Semi's including accessory structures with the remaining zoning reviews completed in the Planning Department.
- An analysis of the time spent on zoning reviews from 2016-2019 was undertaken by the City:

Building Zoning Hours	2016	2017	2018	2019	2020	Average
Hours	409	325	301	226	211	294
Number of Reviews	802	764	637	558	564	665
Average Review Time Minutes	31	26	28	24	22	26

Source: Building Standards Time Sheets 2016-2020

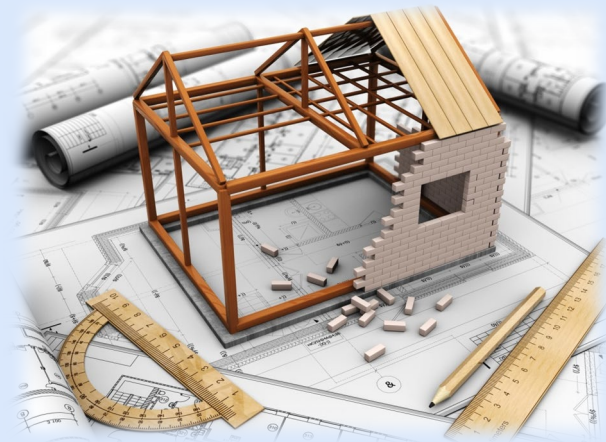
- Over the past five years, there has been a range of 226-409 hours spent annually on zoning reviews undertaken by Building Inspectors (average of 294 hours).
- Consideration may be given to transferring this responsibility to Planning to allow Building Standards to focus on plans examination and inspections. This is the approach taken in a number of peer municipalities surveyed.
- Given that the total hours to complete zoning is equivalent to approximately 25% of one staff's time, it is not anticipated that this would change staffing levels in Building Standards.

Summary Benchmarking Construction, Permits and Staffing

The following summarizes the peer comparative analysis:

- Waterloo has the highest construction value per permit reflecting larger more complex projects being undertaken.
- Waterloo has low operating costs in relation to construction value which is an indicator of the efficiency of the operations and the resources deployed.
- Waterloo has the second highest construction value per FTE, reflecting lower staffing levels.

Fee Comparison New Construction



Comparison of Building Permit Fees

- A fee comparison of 10 peer municipalities was undertaken using the most current fees available (2021).
- In all classifications, Waterloo's fees are well below the survey average and amongst the lowest in relation to peer municipalities.
- In fact, in a survey of 110+ Ontario municipalities, Waterloo's fees are the 10th lowest.
- This section of the benchmarking focuses on fees related to new construction by type of property as well as findings in terms of fee structures employed across the peer municipal group.
- This section also provides a ratio analysis to understand the new construction fees charged in each municipality in relation to Residential Single Family class C.
- A comparison of the ratio of fees between finished and shell has also be included to discuss the appropriateness of the existing fees and the level of work involved.

Note: All other Building Permit Fee comparisons have been provided in the last section of the report.

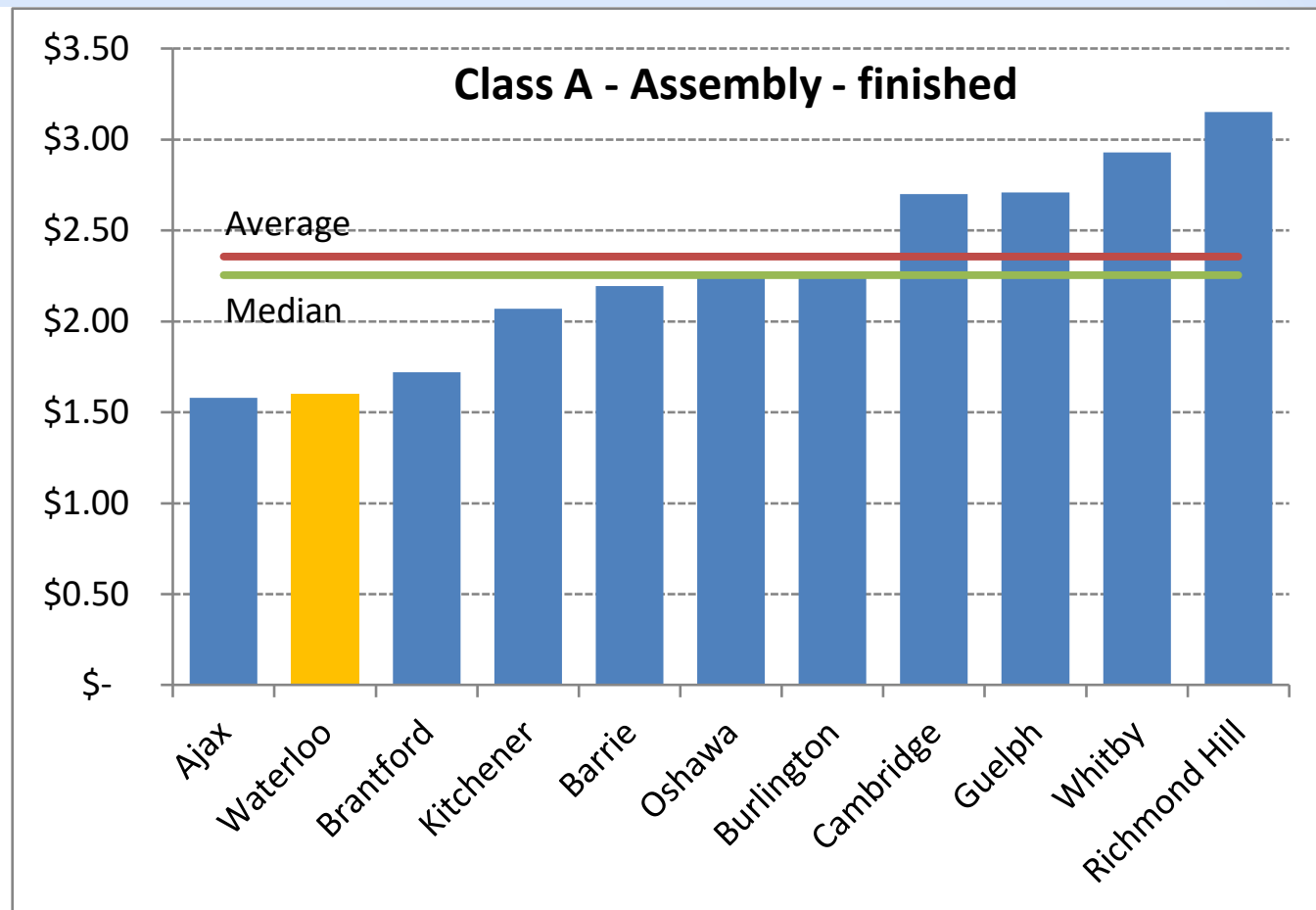
Summary Table – 2021 - New Construction by Classification fee per sq.ft.

Group A	Waterloo	Median	Difference to Median
Assembly Buildings - finished	\$ 1.60	\$ 2.25	-29%
Assembly Buildings - shell	\$ 1.40	\$ 1.82	-23%
Group B			
Institutional - finished	\$ 1.70	\$ 2.51	-32%
Institutional - shell	\$ 1.50	\$ 2.03	-26%
Group C - Residential			
Single Family Detached, Semi-detached, Townhouse, Duplex	\$ 0.80	\$ 1.44	-44%
Apartment Building	\$ 0.80	\$ 1.59	-50%
Hotels/Motels	\$ 1.35	\$ 1.84	-27%
Residential Care Facility	\$ 0.95	\$ 1.88	-49%
Group D - Business and Personal Services			
Office Buildings - finished	\$ 1.35	\$ 1.93	-30%
Office Buildings - shell	\$ 1.15	\$ 1.53	-25%
Group E - Mercantile			
Retail Stores - finished	\$ 0.95	\$ 1.62	-41%
Retail Stores - shell	\$ 0.75	\$ 1.28	-41%
Group F - Industrial			
Warehouse, factories - finished	\$ 0.55	\$ 1.05	-48%
Warehouse, factories - shell	\$ 0.45	\$ 0.83	-46%

- In every type of permit, the City of Waterloo's fees are well below the peer municipal average.
- The difference to the median ranged from 23%-50% below the peer median.

Source: 2021 Building By-laws

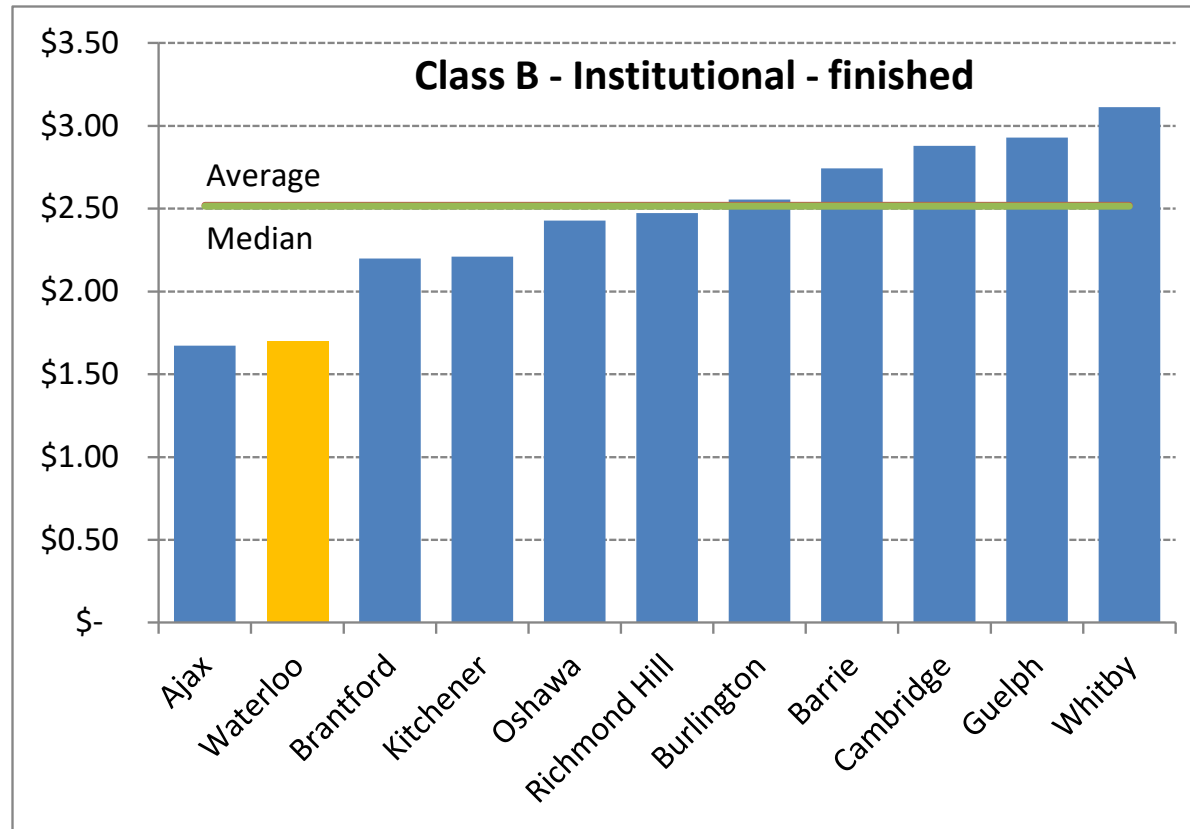
Fees per square feet – Class A buildings - Assembly



Source: 2021 Building By-laws

- The Assembly fee in Waterloo is 29% below the peer median, substantially lower than neighbouring municipalities such as Cambridge, Kitchener and Guelph.

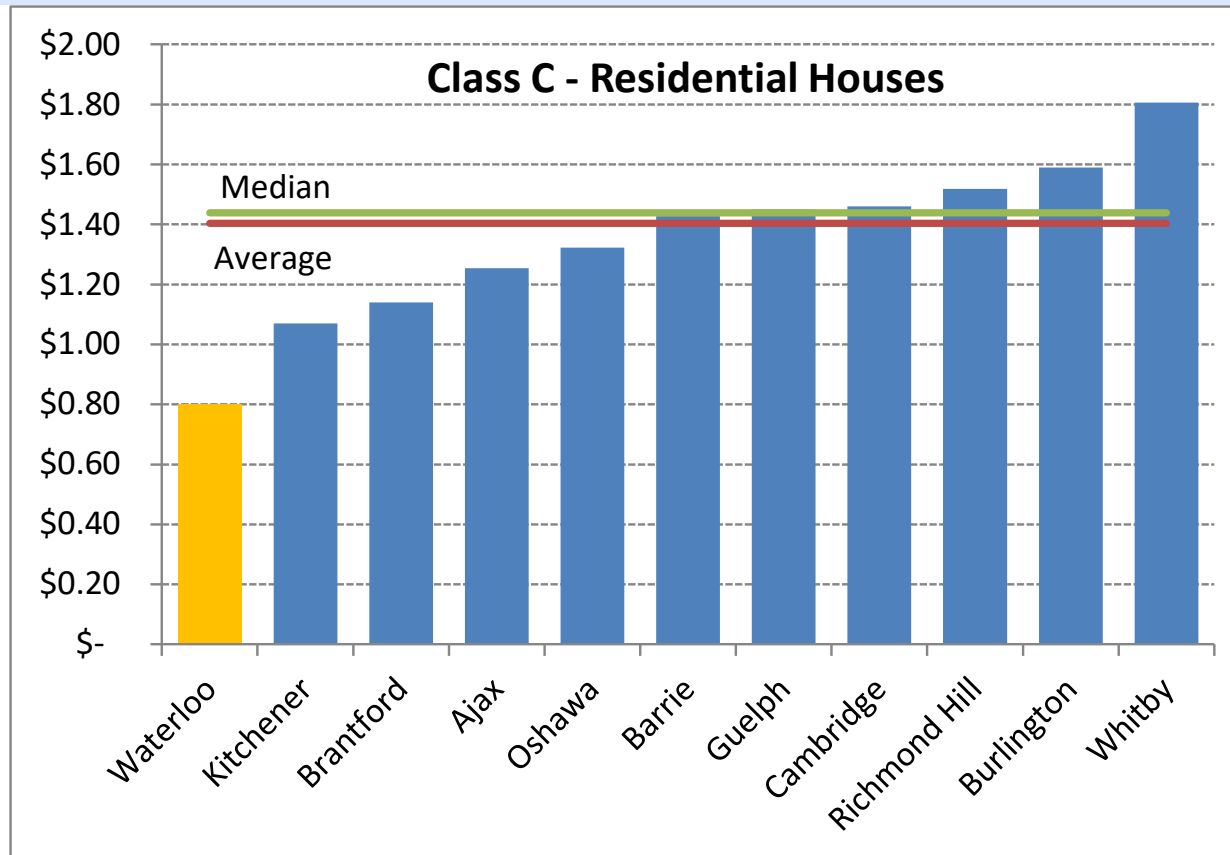
Fees per square feet – Class B buildings - Institutional



Source: 2021 Building By-laws

- The Institutional fee in Waterloo is 32% below the peer median.

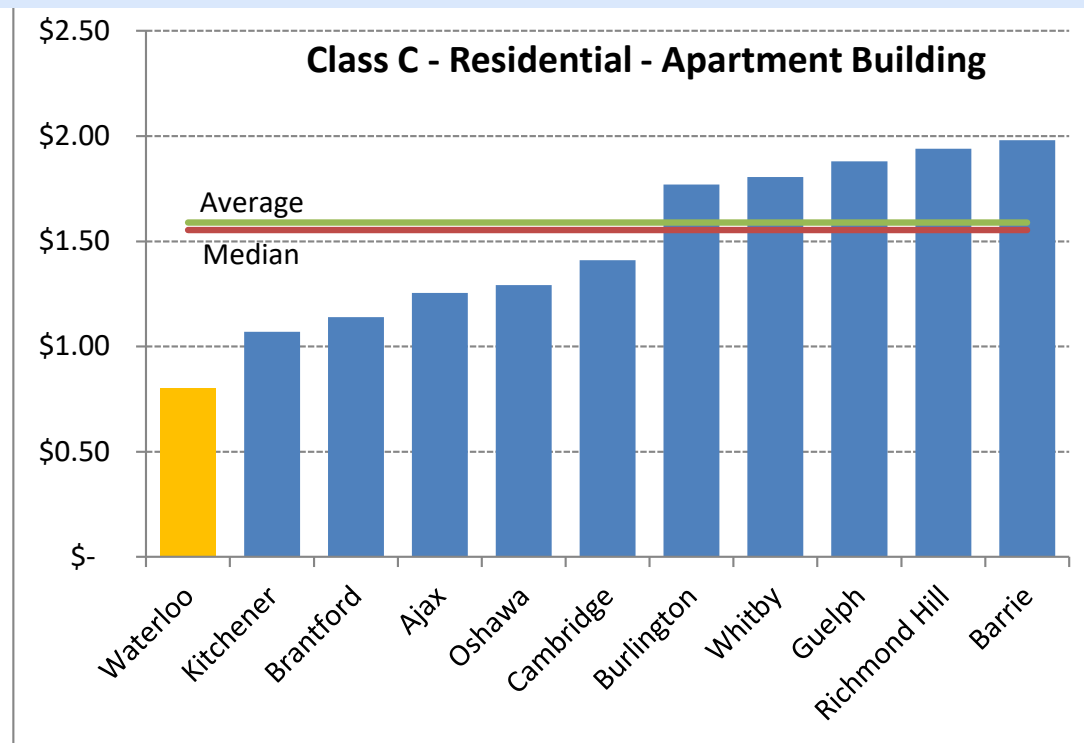
Fees per square feet – Class C buildings – Residential Houses



Source: 2021 Building By-laws

- The Residential Single Family fee in Waterloo is 44% below the peer median.
- Assumption: Residential homes up to 3,230 sq.ft (Note that Burlington has a two tiered fee based on size of the building with a higher fee above this threshold).

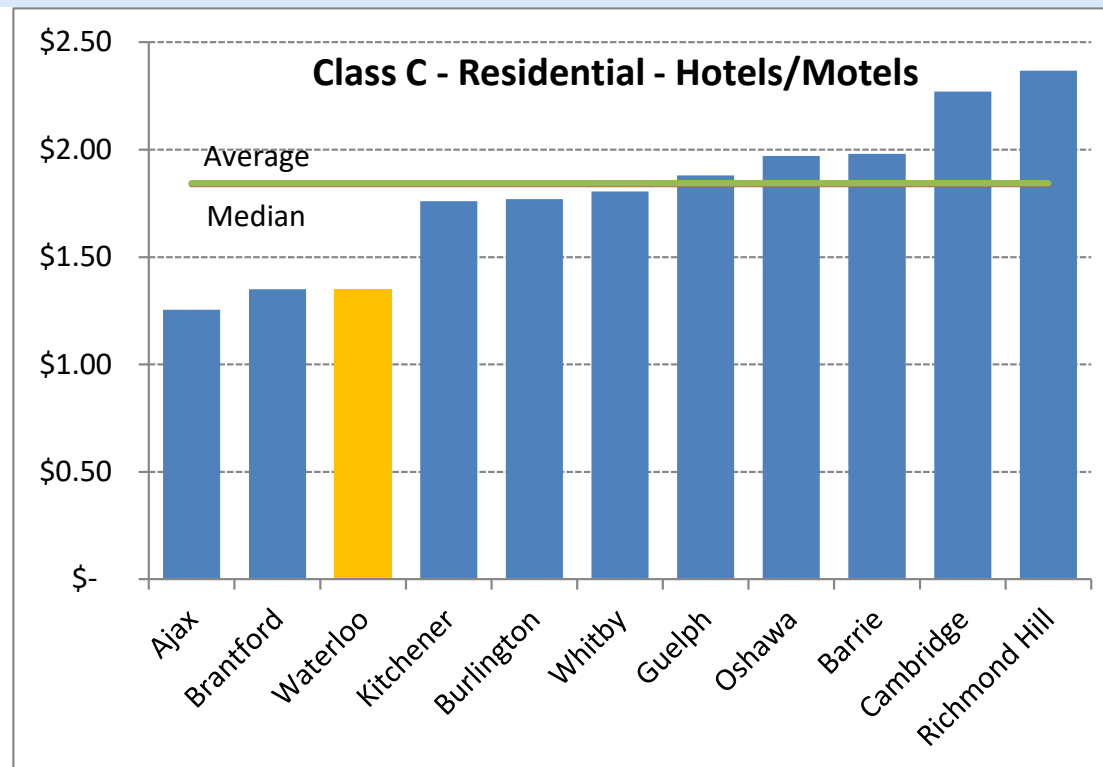
Fees per square feet – Class C buildings – Apartments



Source: 2021 Building By-laws

- The Apartment fee is 50% below the peer median.
- Barrie, Burlington, Guelph and Richmond Hill charge a higher fee for Apartments than for a Single Family Residential fee on a per sq. ft basis to reflect increased complexity.
- Burlington has three different apartment fees (increasing by number of storeys). The above reflects fee for 4-7 storeys.
- Waterloo charges the same fee for both single family and apartments, consistent with the practice in Ajax, Kitchener, Cambridge and Whitby.

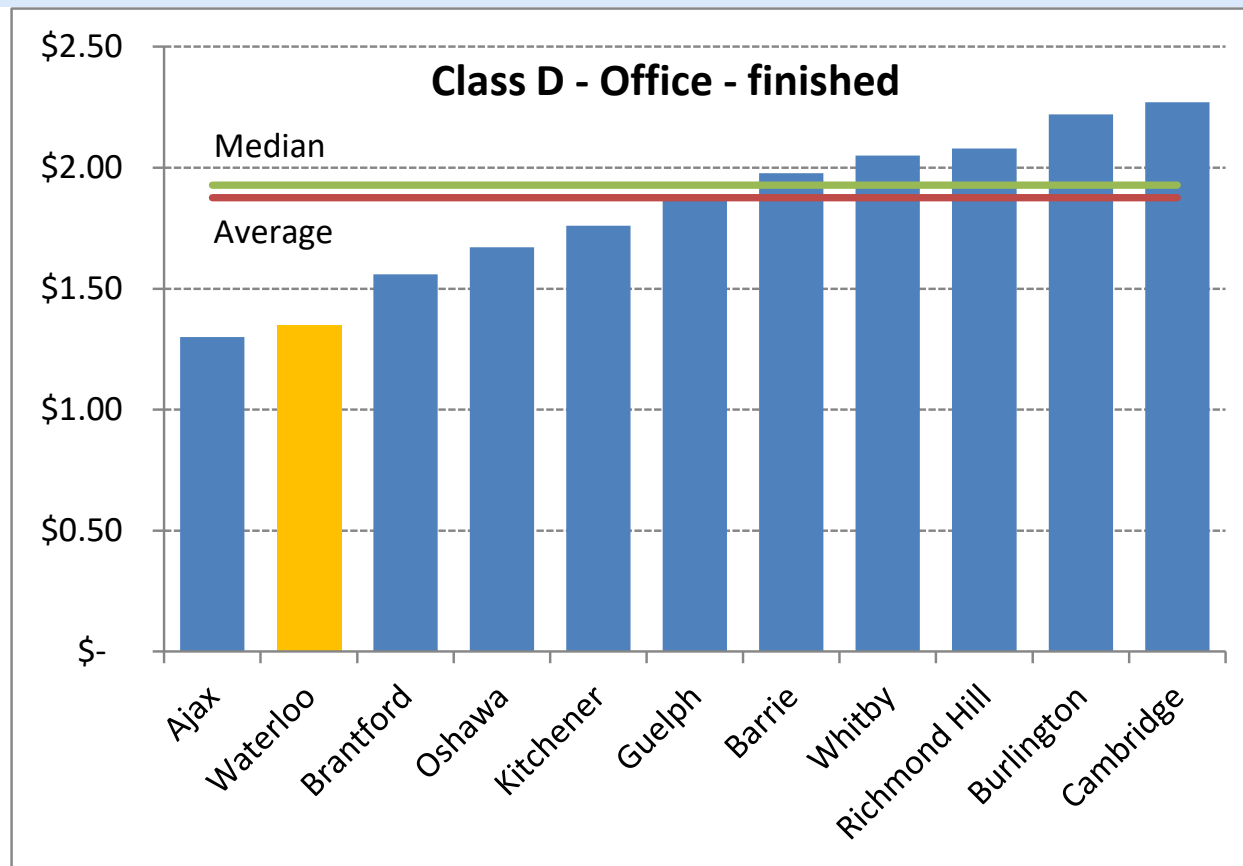
Fees per square feet – Class C buildings – Hotels/Motels



Source: 2021 Building By-laws

- The Hotel fee in Waterloo is 27% below the peer median.
- Waterloo charges a 69% higher fee for Hotels/Motels than apartments and Single Family dwellings. This practice is consistent with the approach in Cambridge, Kitchener, Barrie, Oshawa.
- Burlington has a three different rates, depending on the number of storeys. The above reflects the fee for 4-7 storeys, (same approach as Apartments).

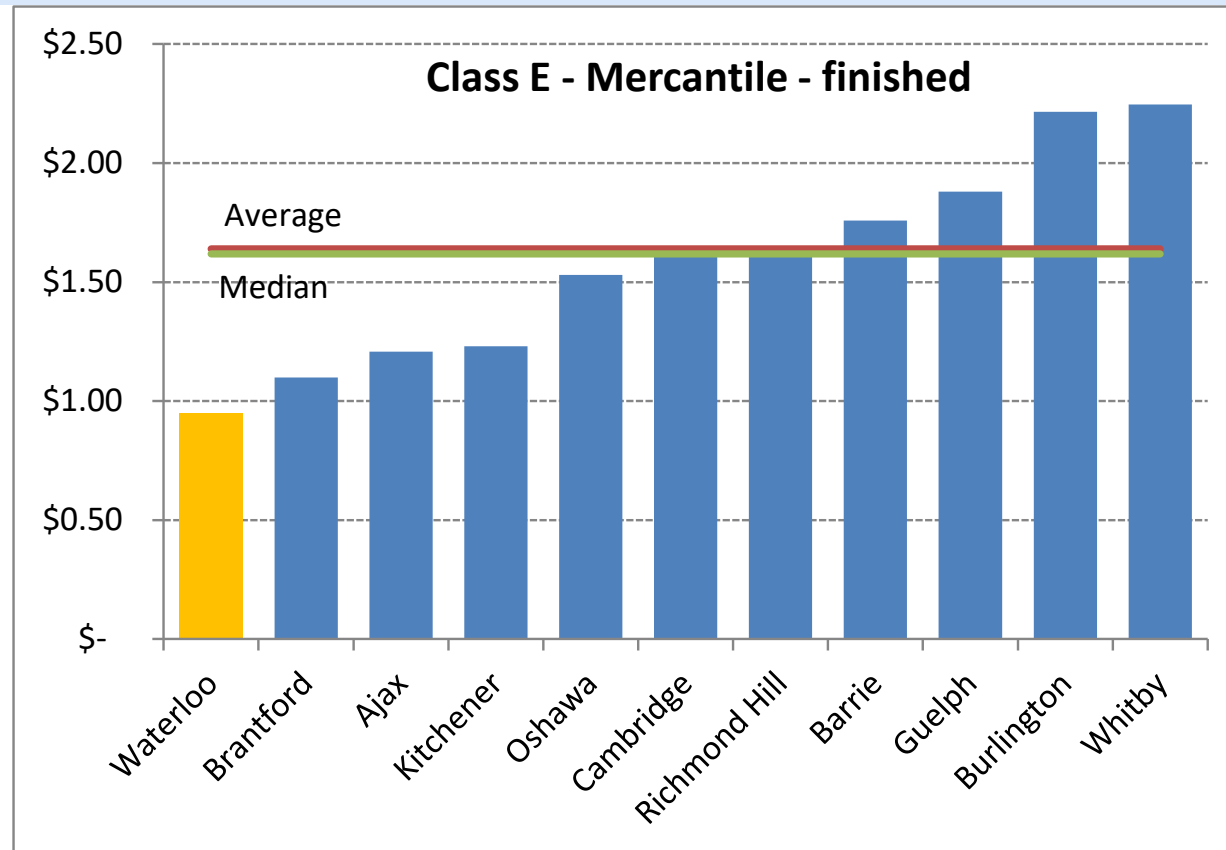
Fees per square feet – Class D Buildings - Office



Source: 2021 Building By-laws

- The Office Building fee is 30% below the peer median.
- Assumption - Business buildings up to 10 storeys high (Burlington has two rates 1-10 storeys and greater than 10 stories which is a higher rate).

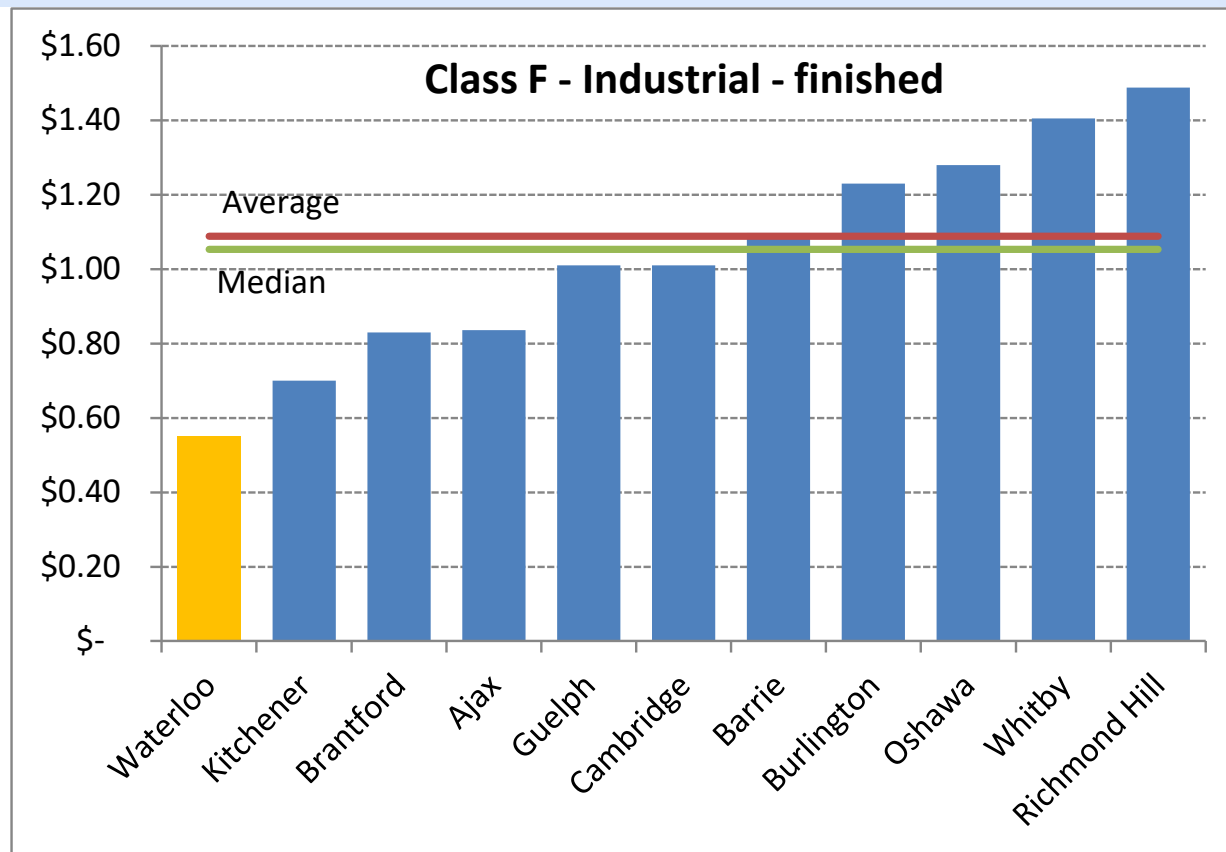
Fees per square feet – Class E buildings - Mercantile



Source: 2021 Building By-laws

- The Mercantile fee in Waterloo is 41% below the peer median.

Fees per square feet – Class F buildings - Industrial



Source: 2021 Building By-laws

- The Industrial fee in Waterloo is 48% below the peer median.
- Industrial buildings fees for the first 50,000 square feet (Burlington has a two tiered fee structure based on size with a lower fee above 50,000 sq.ft)

Comparator Municipalities – Fee Ratios Between Classifications

Class Finished Ratios to Residential Single		Richmond										Waterloo	Median
		Ajax	Barrie	Brantford	Burlington	Cambridge	Guelph	Kitchener	Oshawa	Hill	Whitby		
Class A	Assembly	1.26	1.54	1.51	1.42	1.85	1.87	1.93	1.70	2.13	1.62	2.00	1.70
Class B	Institutional	1.33	1.92	1.93	1.61	1.97	2.02	2.07	1.84	1.63	1.72	2.13	1.92
Class C	Single	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Class C	Apartment Building	1.00	1.39	1.00	1.11	0.97	1.30	1.00	0.98	1.28	1.00	1.00	1.00
Class C	Hotels/Motels	1.00	1.39	1.18	1.11	1.55	1.30	1.64	1.49	1.56	1.00	1.69	1.39
Class D	Office	1.04	1.38	1.37	1.40	1.55	1.30	1.64	1.26	1.37	1.14	1.69	1.37
Class E	Mercantile	0.96	1.23	0.96	1.39	1.10	1.30	1.15	1.16	1.07	1.24	1.19	1.16
Class F	Industrial	0.67	0.77	0.73	0.77	0.69	0.70	0.65	0.97	0.98	0.78	0.69	0.73

Source: 2021 Building By-laws

- The table above reflects the fees in each municipality in relation to the Single Family Class C classification.
- For example, the Assembly Fee in Waterloo is double the fee for Single Family Class C compared with the survey median of 1.7.
- In all cases except Industrial, the ratios in Waterloo are higher than the median. This has helped historically to generate additional proportionate revenues in the non-residential classes.
- Consideration may be given to modifying these ratios in establishing new fee structure.

Comparator Municipalities – Fee Ratio Between Shell and Finished

Shell to Finished		Ajax	Barrie	Brantford	Burlington	Cambridge	Guelph	Kitchener	Oshawa	Richmond Hill	Whitby	Waterloo	Median
Class A	Assembly	59%	75%	N/A	61%	88%	87%	88%	50%	59%	63%	88%	69%
Class B	Institutional	100%	76%	N/A	67%	89%	87%	88%	50%	86%	65%	88%	87%
Class D	Office	71%	77%	N/A	75%	88%	85%	85%	80%	66%	81%	85%	81%
Class E	Mercantile	77%	75%	N/A	70%	78%	85%	80%	79%	79%	78%	79%	78%
Class F	Industrial	78%	96%	N/A	49%	79%	85%	71%	N/A	59%	84%	82%	79%

Source: 2021 Building By-laws

- The table above reflects the fees in each municipality in relation to the shell and finished fee in each classification.
- For example, the shell Fee in Waterloo is 88% of the finished fee for Assembly and Institutional, 85% in Office, 79% in Mercantile and 82% in Industrial.
- These ratios are relatively comparable to peer municipalities.

Summary of New Construction Peer Benchmarking

- In all classifications, the fees in Waterloo are amongst the lowest in the survey.
- A number of municipalities automatically index fees annually to keep up with the cost of inflation which is recommended for the City of Waterloo once a new fee schedule is in place.
- Consideration should be given to the following differences in fee structures relative to other municipalities:
 - A higher relative fee for Apartments as compared to Residential Single, similar to the approach for Hotels and Motels;
 - Tiered fees to reflect complexity for the size/height of construction in classes such as Apartments, Hotels/Motels, Office Buildings (Burlington approach); and
 - Ratios between classes relative to the Residential is generally higher in Waterloo.

10 Year Forecast Assumptions and Analysis



10 Year Forecast

A 10 year forecast of revenues and expenditures has been prepared under several Options to help in the decision making process for future fees.

- Under each Option, the assumptions with respect to operating expenditures, growth and capital requirements remains the same.
- Assumptions:
 - Anticipated growth by type of construction as identified in the City's Development Charge Background Study dated Oct. 17, 2019;
 - 2020 Building Reserve Fund balances;
 - 2021-2029 Capital Budget for Building Standards; and
 - 2021 Operating Budget Expenditures, projected using a 2% annual inflationary increase over the next 10 years.

Operating Expenditure Forecast – Base Assumptions

	Budget	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
Expenditures	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Salaries and Benefits	\$ 2,393,854	\$ 2,441,731	\$ 2,490,566	\$ 2,540,377	\$ 2,591,185	\$ 2,643,008	\$ 2,695,868	\$ 2,749,786	\$ 2,804,782	\$ 2,860,877
Staffing Related Other Expenses	\$ 35,165	\$ 35,868	\$ 36,586	\$ 37,317	\$ 38,064	\$ 38,825	\$ 39,602	\$ 40,394	\$ 41,201	\$ 42,025
Other Expenses	\$ 93,404	\$ 95,272	\$ 97,178	\$ 99,121	\$ 101,103	\$ 103,126	\$ 105,188	\$ 107,292	\$ 109,438	\$ 111,626
Services and Other	\$ 82,490	\$ 84,140	\$ 85,823	\$ 87,539	\$ 89,290	\$ 91,076	\$ 92,897	\$ 94,755	\$ 96,650	\$ 98,583
Corporate Overhead	\$ 596,078	\$ 608,000	\$ 620,160	\$ 632,563	\$ 645,214	\$ 658,118	\$ 671,281	\$ 684,706	\$ 698,400	\$ 712,368
Total Expenditures	\$ 3,200,991	\$ 3,265,011	\$ 3,330,311	\$ 3,396,917	\$ 3,464,856	\$ 3,534,153	\$ 3,604,836	\$ 3,676,933	\$ 3,750,471	\$ 3,825,481

- As shown above, the Operating Expenditures are \$3.2 million in 2021 and projected to increase to \$3.8 million in 2030.

Assumptions

- 2% annual inflation of all expenditures.
- No change in staffing levels.

Capital Requirements Forecast

- In addition to the Operating Budget expenditures, there are Capital expenditures related to the Building Standards area that are funded from the Building Reserve Fund.
- Over the next 9 years, there are \$4.565 million in Capital requirements to ensure that the City continues to operate in an efficient and customer focused manner.

Capital Budget & Forecast - '000s		Approved		2023-2029 Forecast						
Project Description	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Various Corporate Projects (Building's Funding Contribution total)	\$33	\$43	\$29	\$43	\$34	\$33	\$28	\$29	\$43	\$351
Technology Upgrades and Refresh	\$21									\$21
Building Standards Vehicle Replacements			\$119	\$364					\$488	\$1,064
Mobile Solutions	\$49									\$49
Digital Solutions	\$717	\$1,131			\$1,168					\$3,015
Building Permit Fee Review										\$65
Total	\$819	\$1,174	\$148	\$408	\$1,201	\$33	\$28	\$29	\$531	\$4,565

Source: City of Waterloo Capital Budget & Forecast

- It is estimated that \$3 million will be required to support the implementation of digital solutions and \$1.06 million in vehicle replacement requirements over the next 9 years.

Growth Forecast Assumptions

Development Charge Background Study – October, 2019, Hemson Consulting:

- The forecast for residential units 2021-2030 by single/semi, townhouses, multi/apartments was used in the calculation of future revenues based on existing fees.

Residential

- New Residential Construction - The DC Study forecasts the number of units by type of residential construction.
- The average square footage of each type of residential construction was calculated by using the historical data which included number of units and revenues. A three year average square footage per residential unit type was used as the basis for revenue forecasting.
- Other Residential (e.g. additions, alterations, garages, etc.) - A three year historical average was used to calculate permit revenues.

ICI

- New Commercial, Industrial, Institutional (ICI) square footage used from the DC Background Study 2021-2030. Note, all new square footage was assumed at the finished classification fee.
- Other Non-Residential - A three year average revenues was used for other non-residential construction.

DC Background Study – Growth Assumptions

Year	Singles/ Semis	Townhouses	Multiples/ Apartments	Total
2021	291	91	321	703
2022	303	108	305	716
2023	303	108	305	716
2024	303	108	305	716
2025	303	108	305	716
2026	303	108	305	716
2027	346	115	318	780
2028	346	115	318	780
2029	346	115	318	780
2030	346	115	318	780

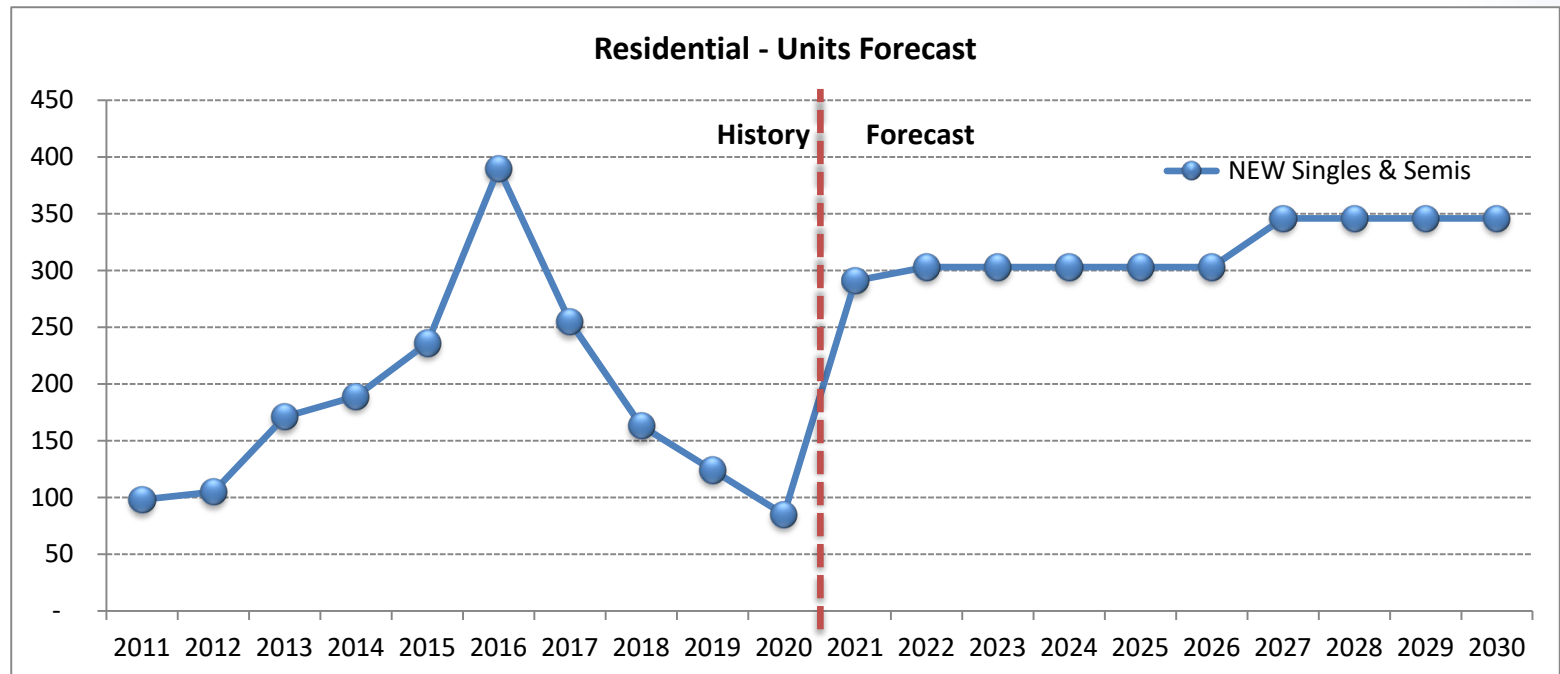
Source: HEMSON Forecast DC Background Study

Mid-Year	Employment By Type (sq.ft.)			
	Commercial	Industrial	Office	Institutional
2021	71,271	16,561	61,655	167,193
2022	72,027	16,737	62,309	168,967
2023	72,784	16,913	62,963	170,741
2024	73,540	17,088	63,617	172,515
2025	74,391	17,286	64,353	174,510
2026	75,147	17,462	65,007	176,284
2027	75,903	17,637	65,661	178,058
2028	76,754	17,835	66,397	180,054
2029	77,510	18,011	67,051	181,828
2030	78,361	18,209	67,787	183,824

Source: HEMSON Forecast DC Background Study

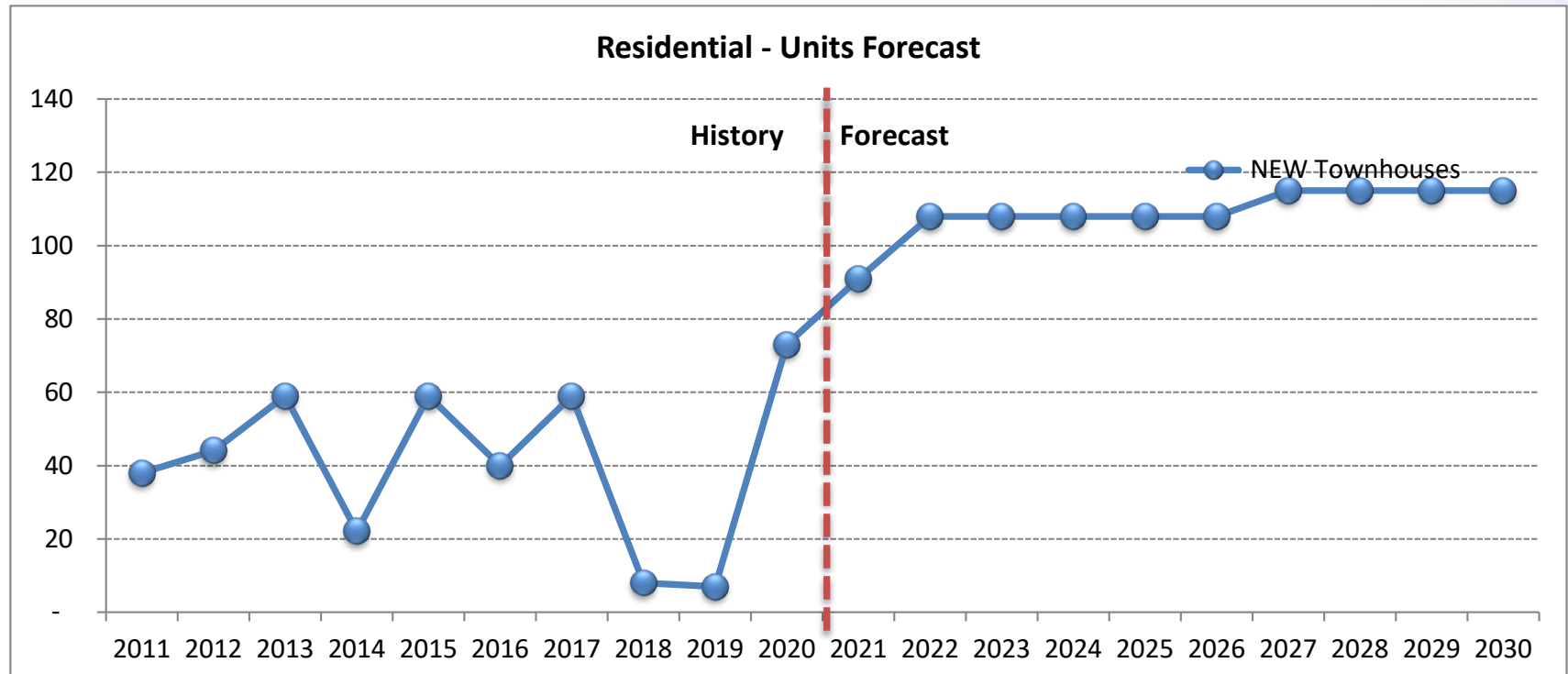
- The tables above provide the number of units forecast from 2021-2030, as contained in the DC Background Study for Residential units (Table A.7 in DC Study) and the square footage for Commercial, Industrial and Institutional growth (Table A.9 In DC Study).

Residential Unit Historical and Forecast – Single Family & Semis



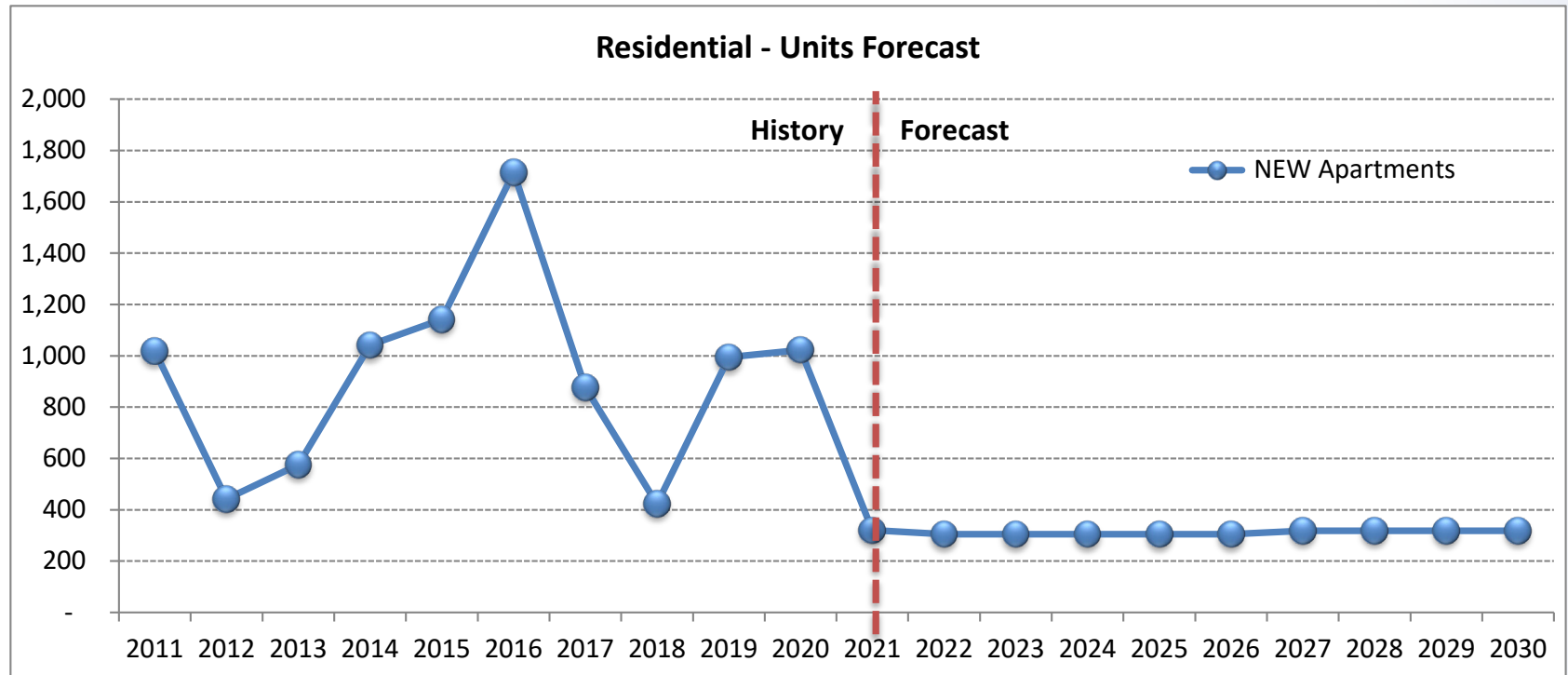
Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

Residential Unit Historical and Forecast - Townhouses



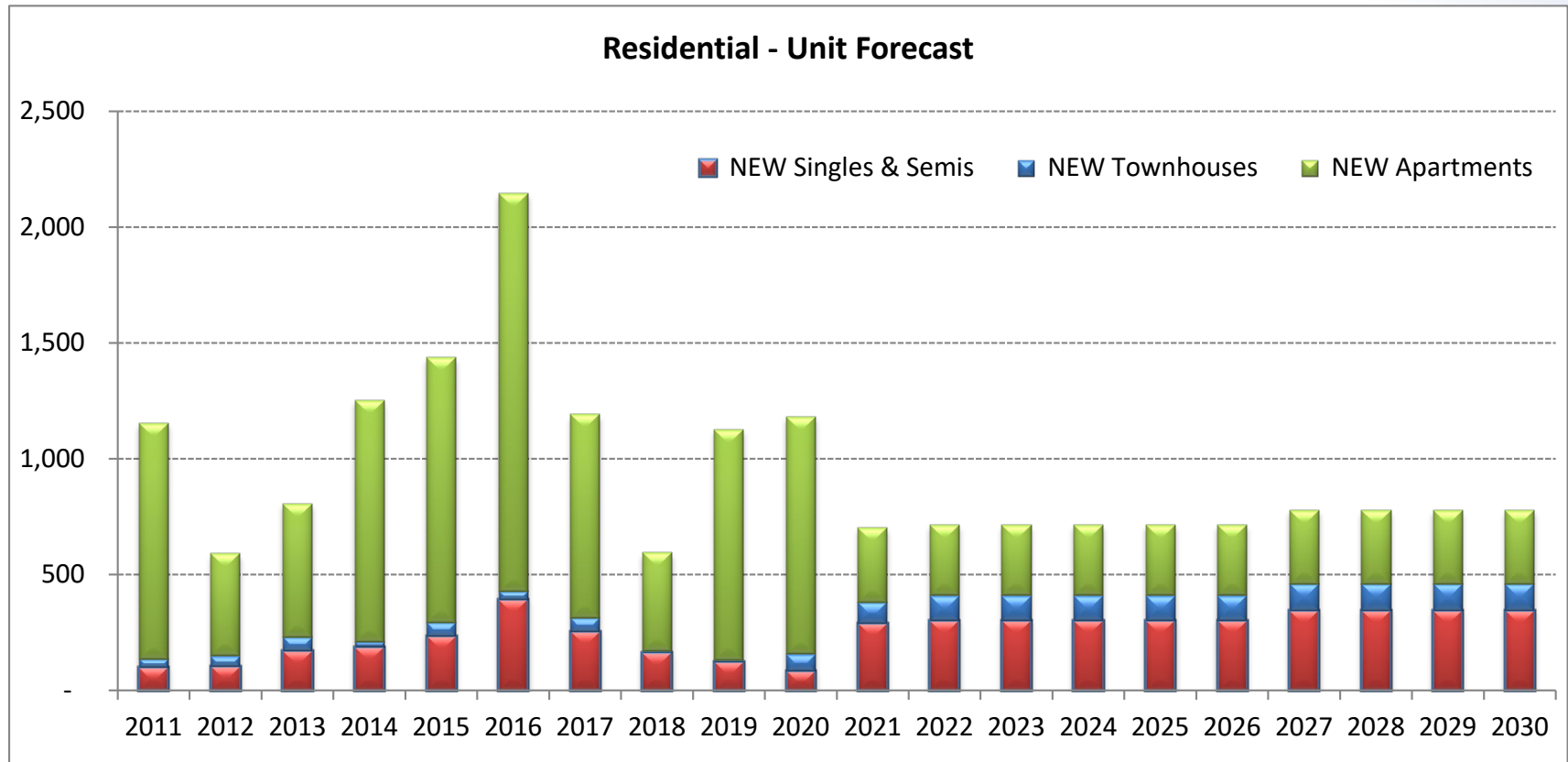
Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

Residential Unit Historical and Forecast - Apartments



Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

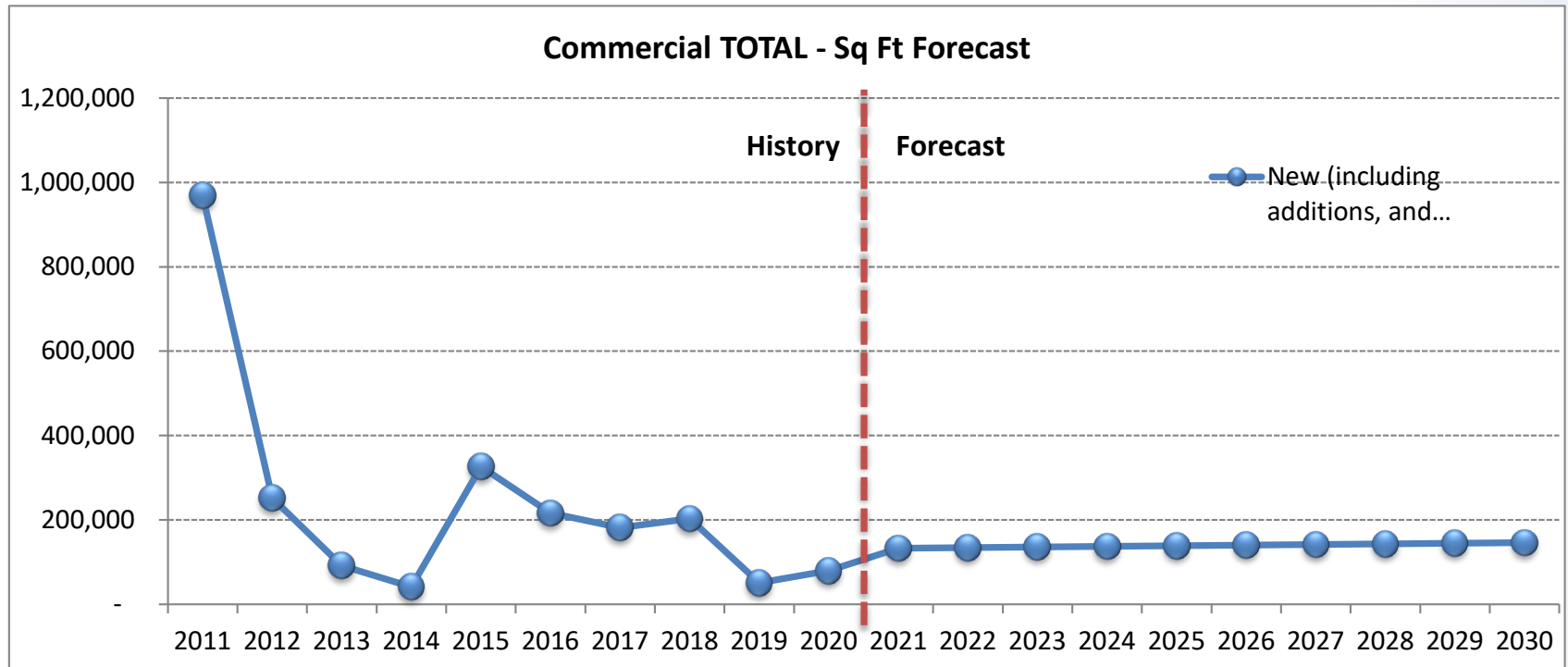
Total - Residential Unit Historical and Forecast



Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

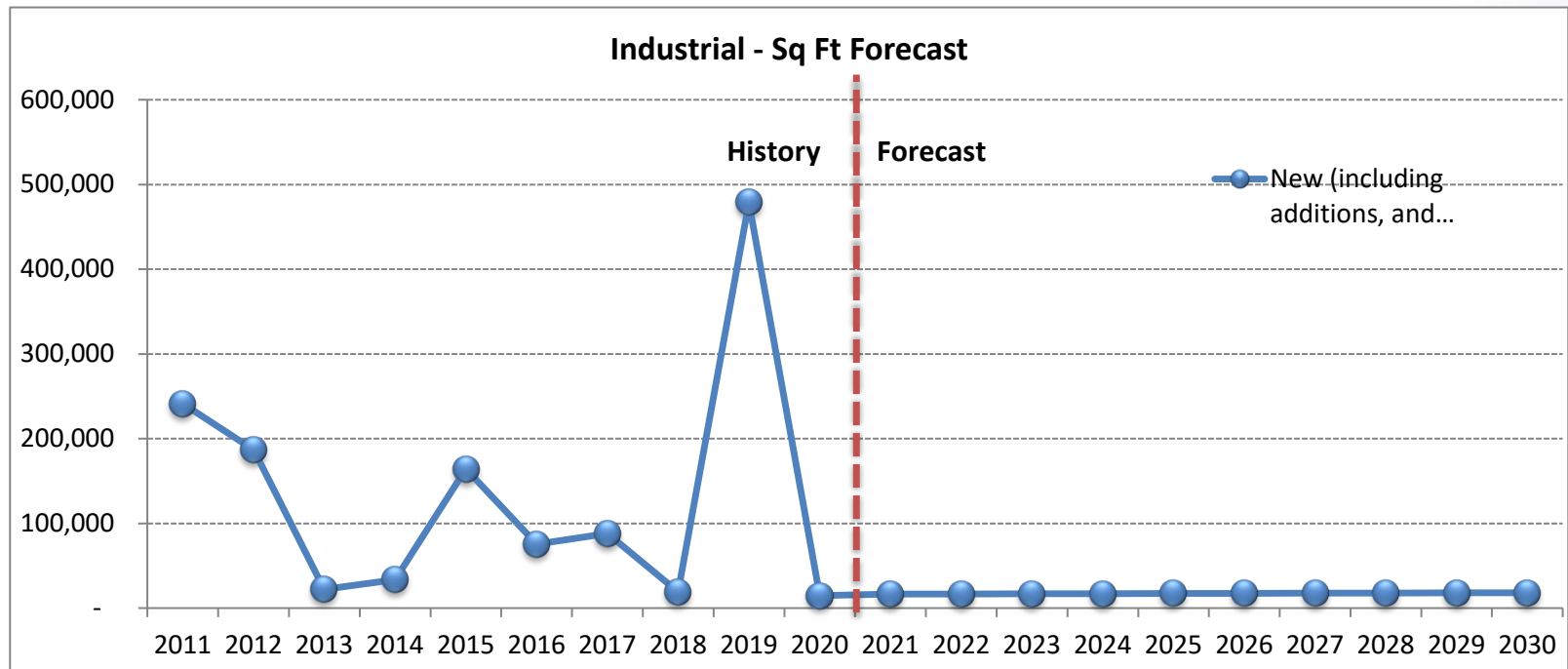
- As shown above, the forecast new residential units is considerably lower than historical levels.

Commercial Unit Historical and Forecast



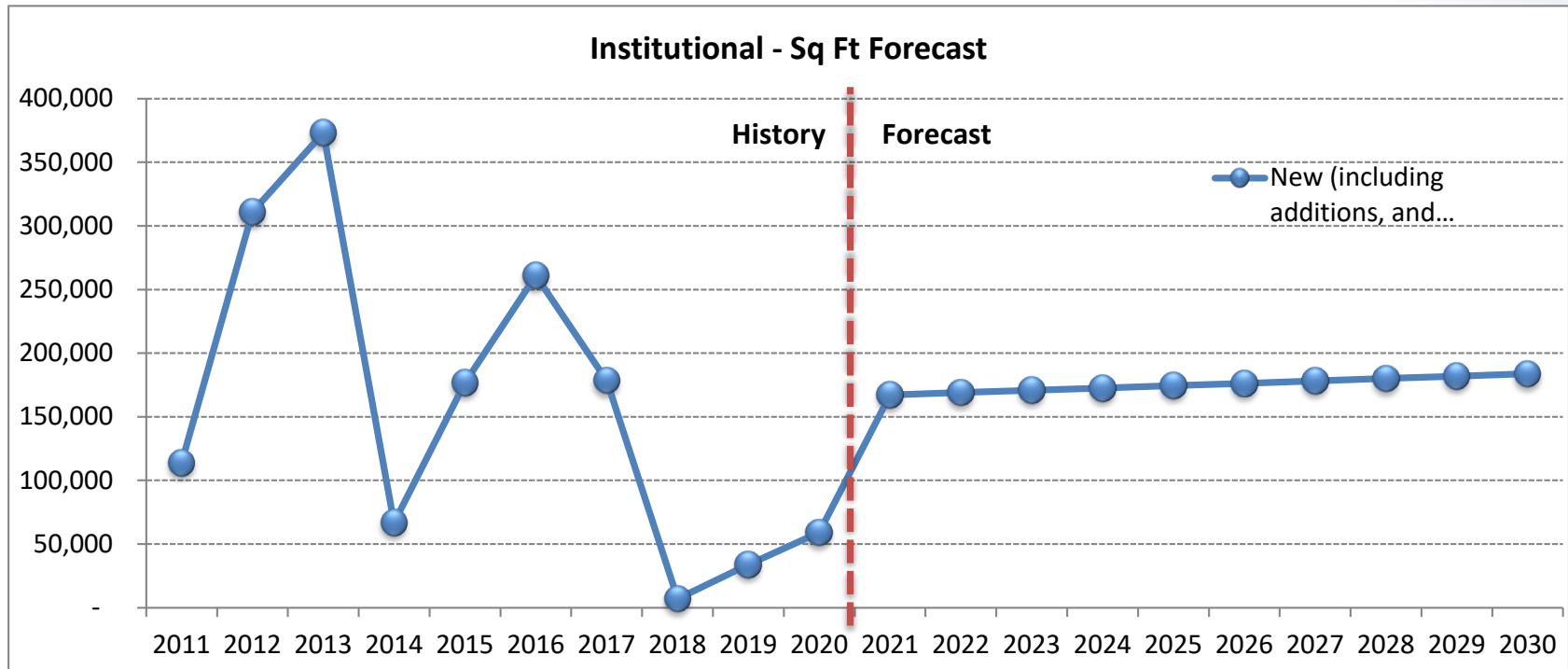
Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

Industrial Unit Historical and Forecast



Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

Institutional Unit Historical and Forecast

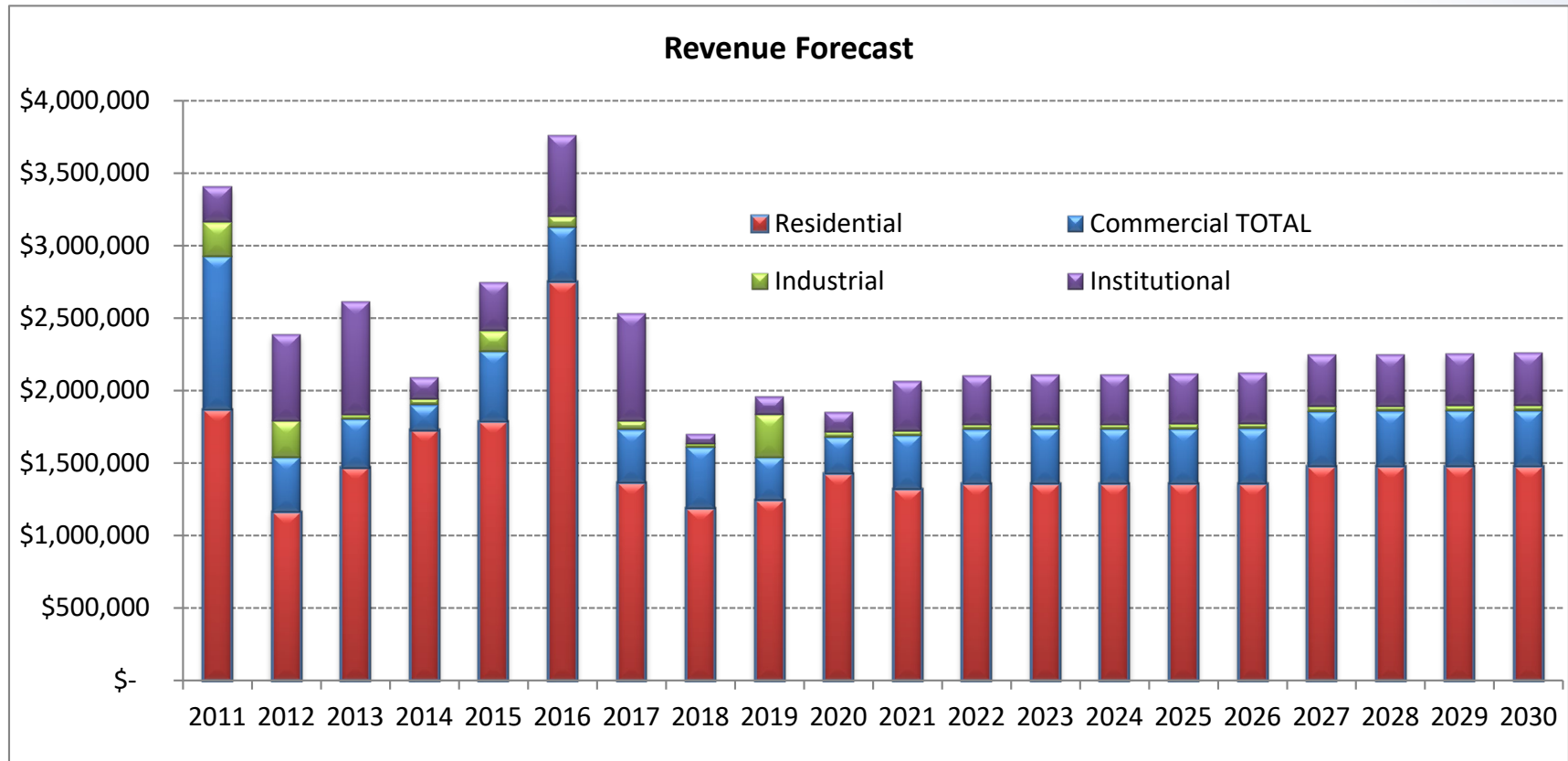


Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

Option 1 - Status Quo No Fee Increase



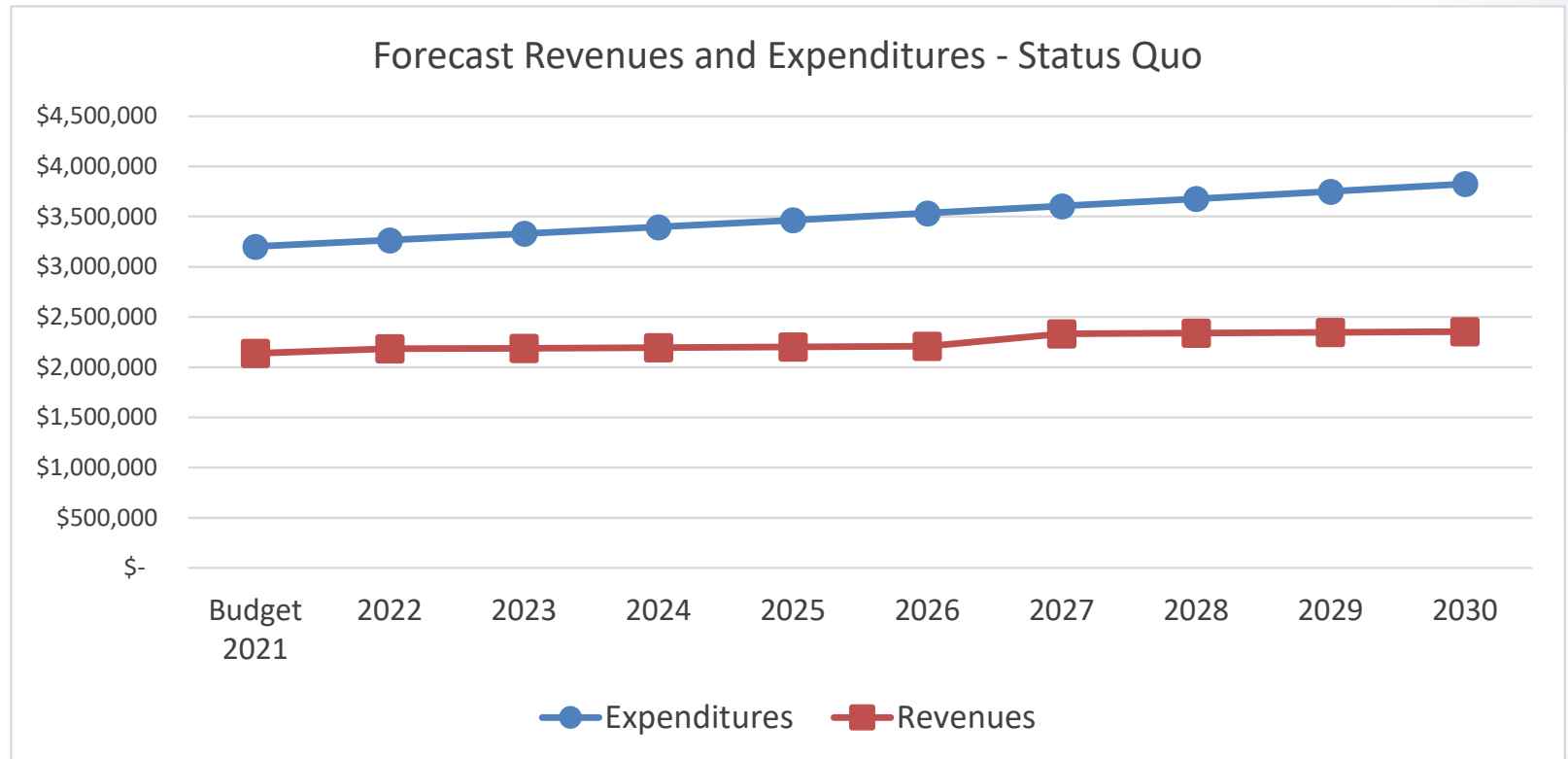
Revenue Historical and Forecast Revenues – Status Quo Fees



Source: 2011-2020 Year End Building Report, HEMSON Forecast DC Background Study

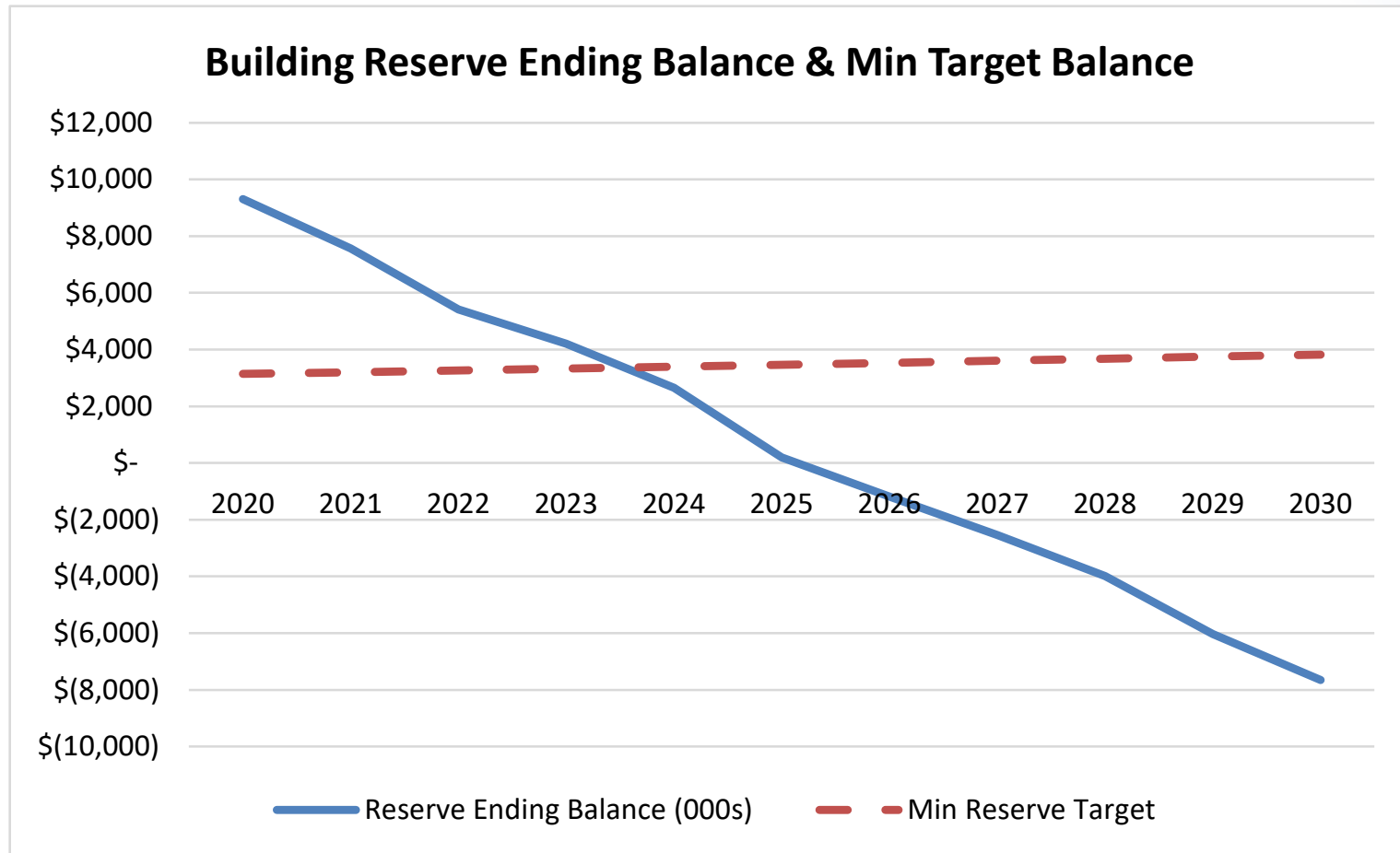
- As illustrated above, the annual forecast revenues is approximately \$2.1 million based on existing fees.

Forecast Revenues and Expenditures – No Change in Fees



- Based on assumption presented, the operating expenditures will exceed the revenues over the next 10 years by a total of \$12.5 million which would be funded from the Building Reserve Fund.
- As will be shown on the next page, this is not sustainable as the reserve will be a negative position.

Reserve Forecast at Existing Fees

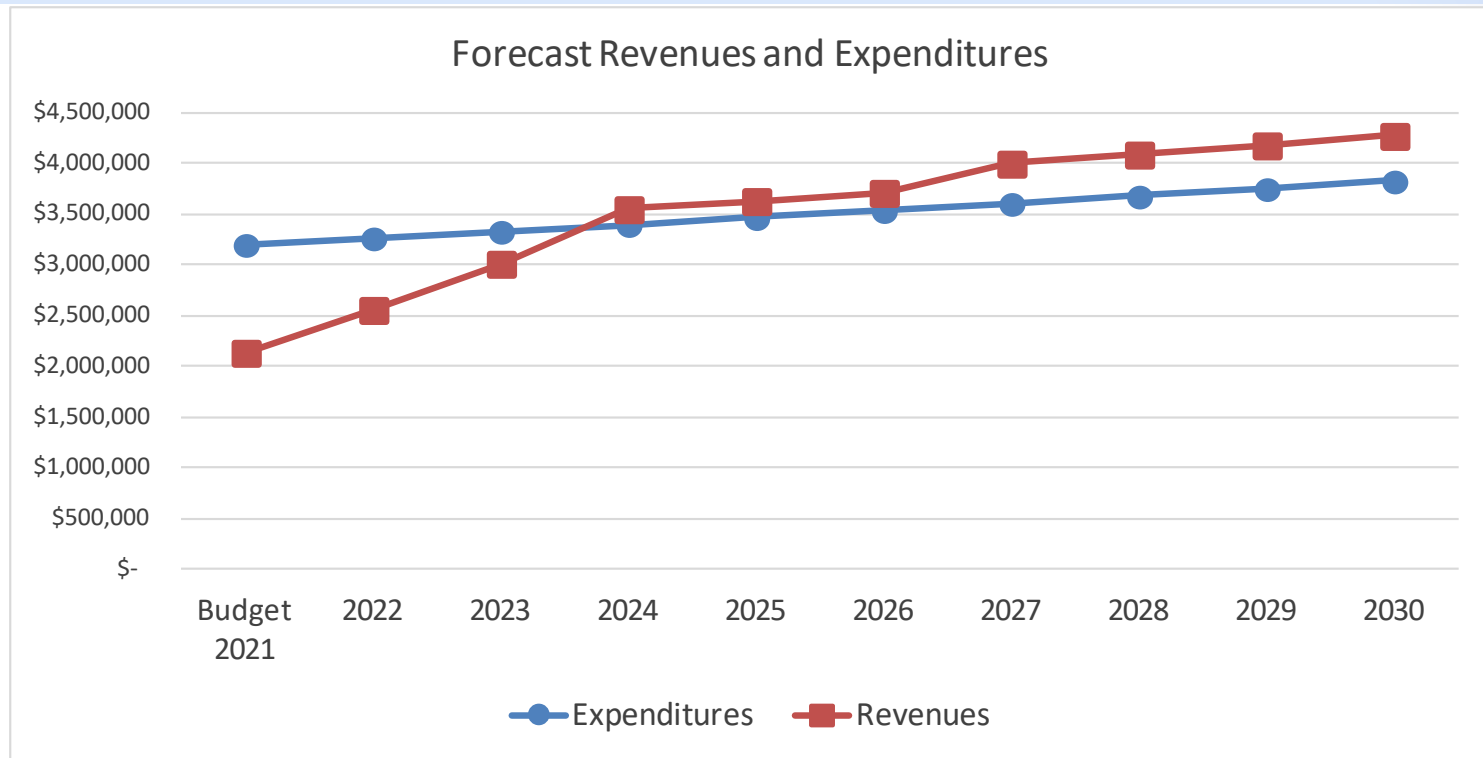


- By 2024, it is forecasted that the Building Permit Reserve Fund is below the minimum target and will be in a negative position by 2026.

Option 2 Three Year Phase In

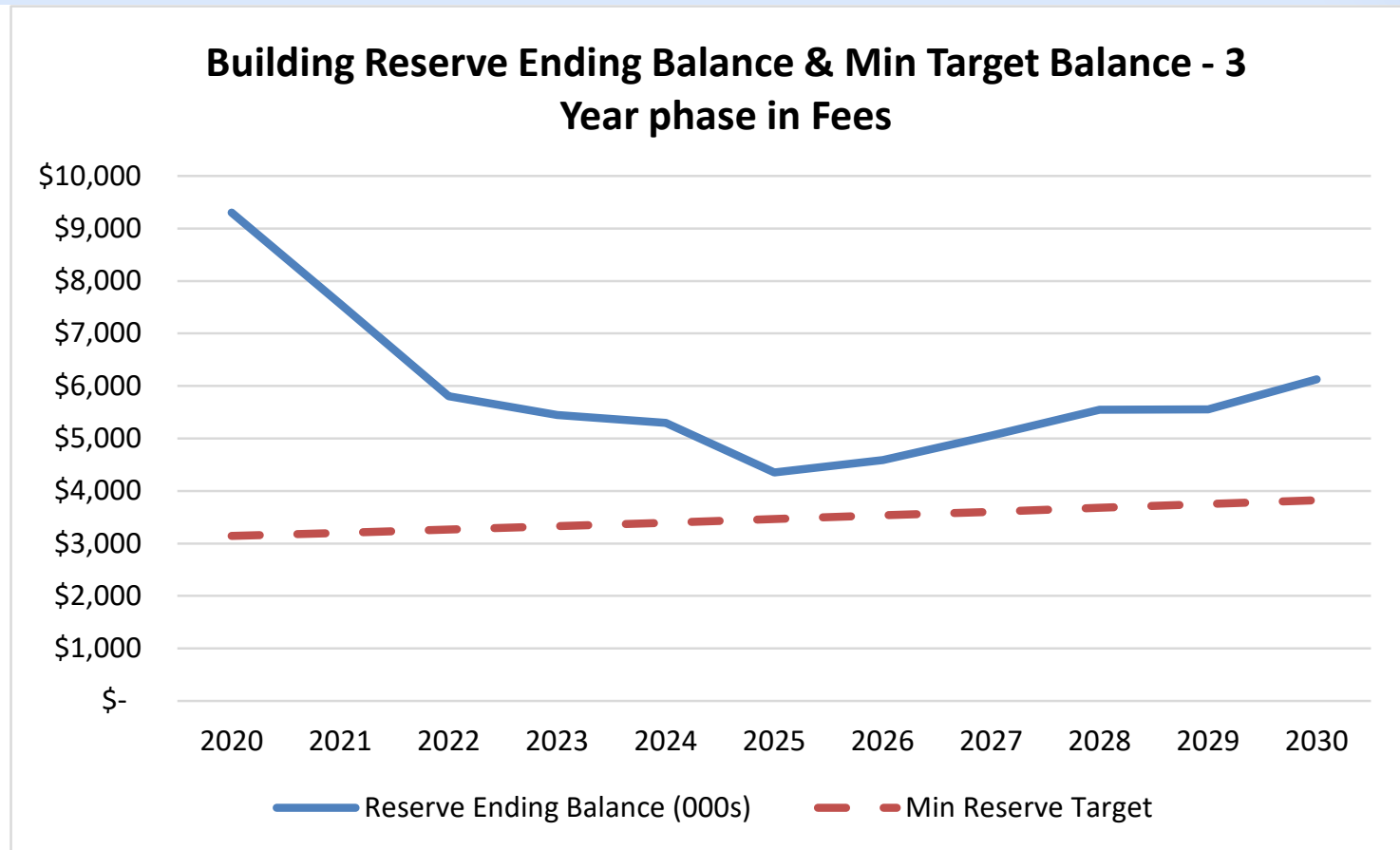


Option 2 (Three Year Phase In) - Forecast Revenues and Expenditures



- This Option would result in a fee increase of 18% in each of the first three years, and an inflationary increase thereafter.
- Based on the assumptions presented, the revenues will exceed the operating expenditures in 2024 which is required to support the capital program. Capital programs are funded directly from the Building Reserve Fund.
- As will be shown on the next page, this is sustainable as the reserve will be a positive position and will support the minimum reserve target.

Option 2 (3 Year Phase In) - Reserve Forecast (000's)



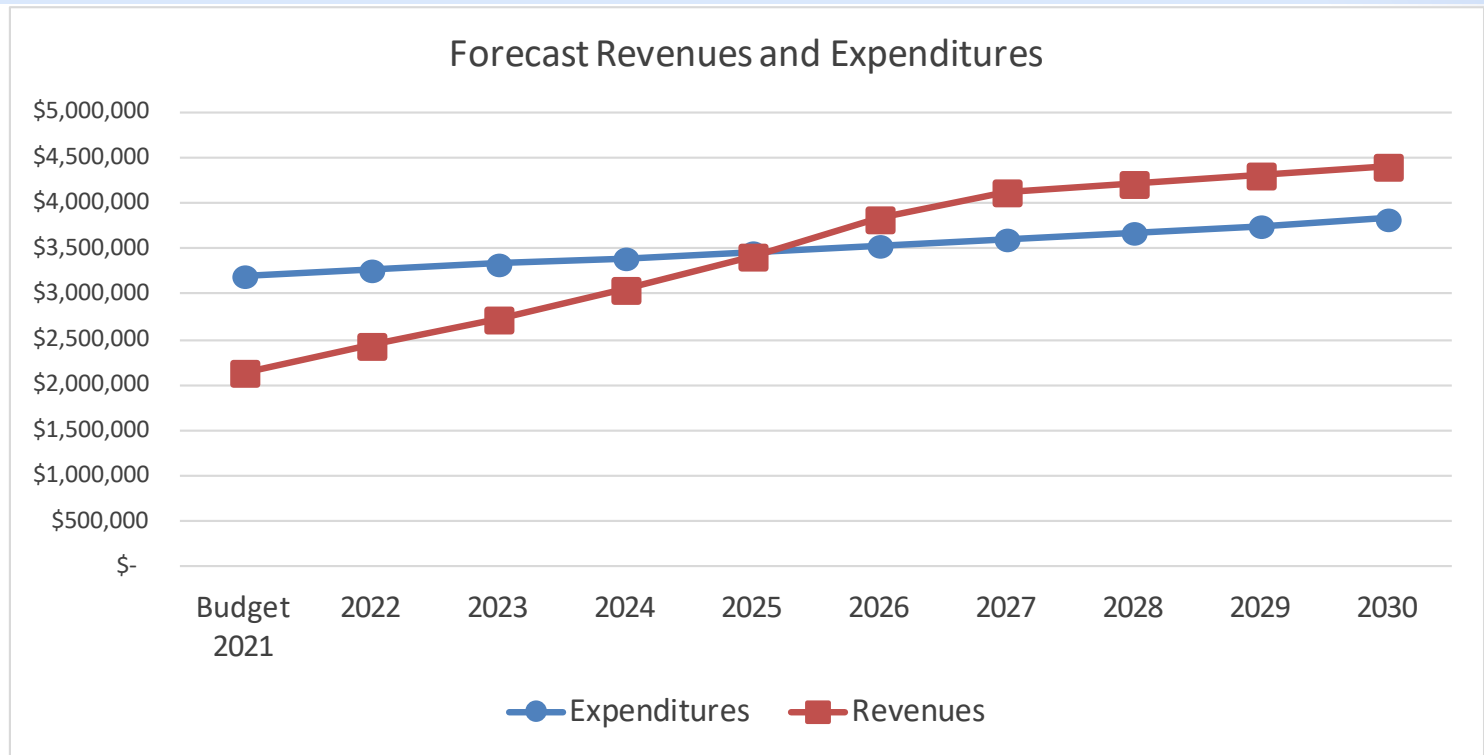
- The Building Permit Reserve is forecast to remain above the minimum reserve target.

Option 3

Five Year Phase In

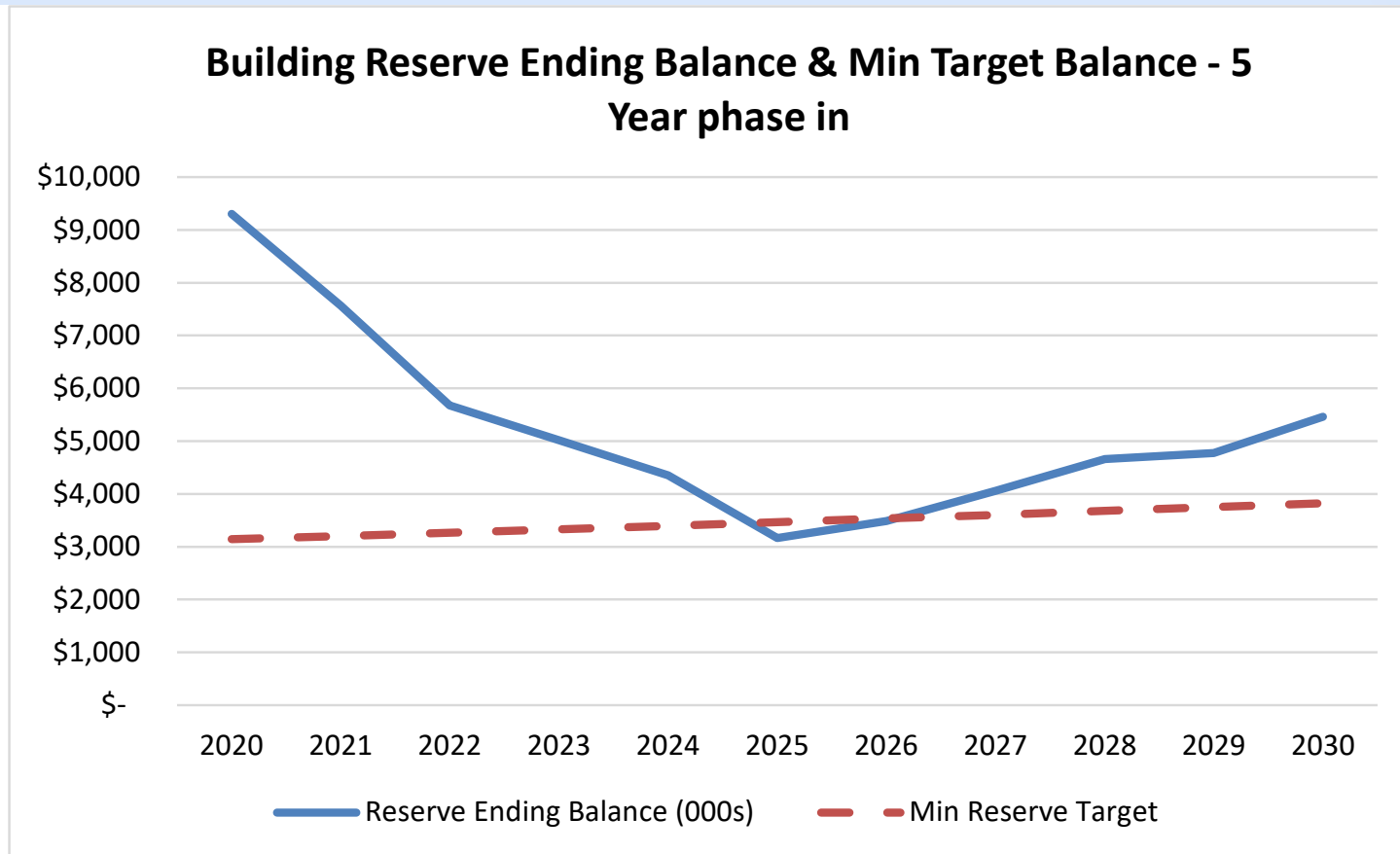


Option 3 (5 Year Phase In) - Forecast Revenues and Expenditures



- This Option would result in a fee increase of 12% in each of the first five years, and an inflationary increase thereafter.
- Based on the assumptions presented, the revenues will exceed the operating expenditures in 2026 which is required to support the capital program. Capital programs are funded directly from the Building Reserve Fund.

Option 3 (5 Year Phase In) - Reserve Forecast (000's)

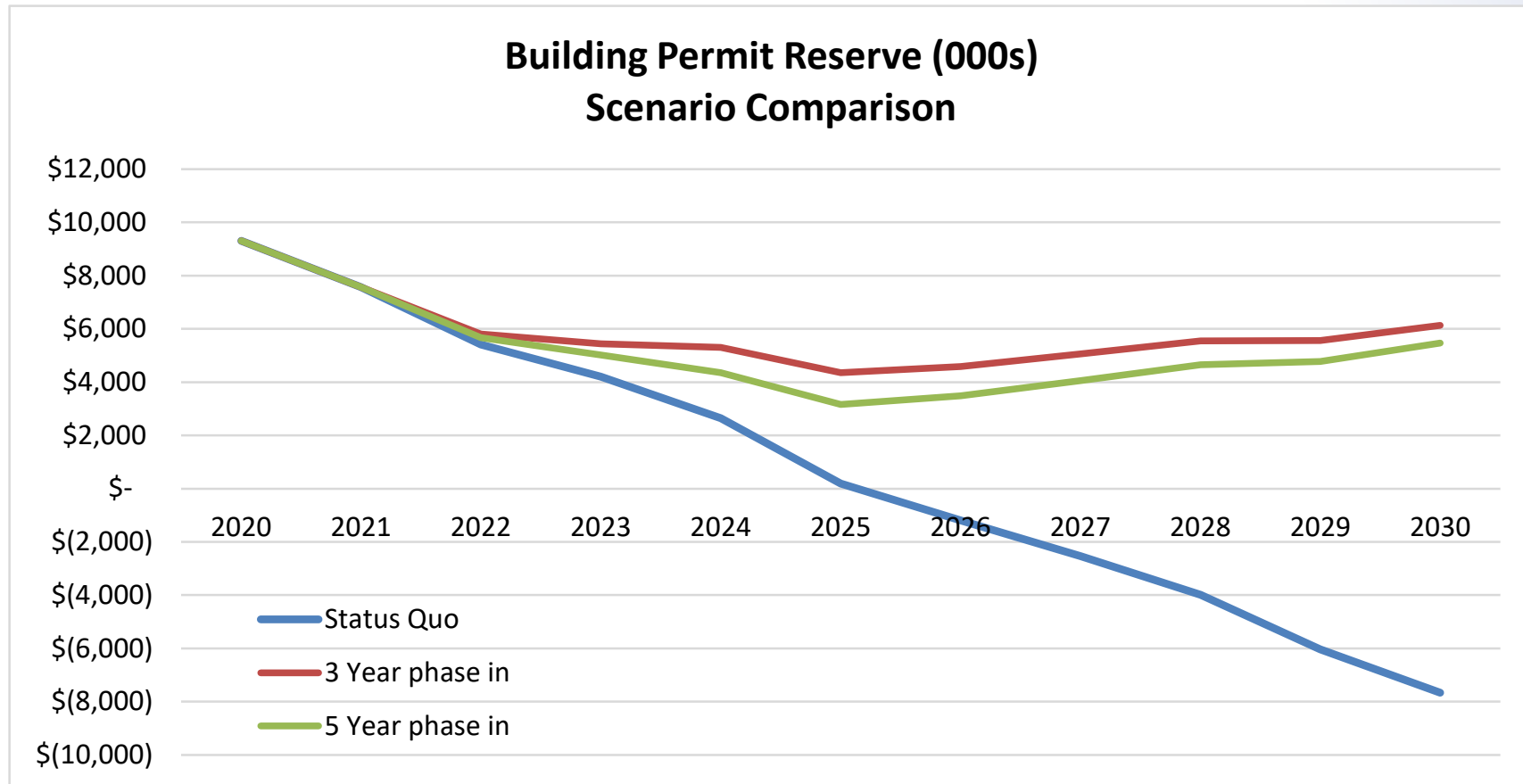


- In 2025, it is forecast that the Building Permit Reserve will be slightly below the minimum target balances however by 2027 the Reserve Fund will meet the minimum target.

Fee Options Comparison Summary



Options Comparison - Reserve Forecast (000's)



Alternative Solution



Alternative Solution - Introduction

- An **alternative solution** is all or part of a **building** design that demonstrates compliance with the **Building Code**, but differs completely or partially from the Acceptable **Solutions** or Verification Methods
- Article 1.2.1.1. Part 1, Division A of the Ontario Building Code states that compliance with Division B shall be achieved by complying with the applicable *acceptable solutions* in Division B, **or** by using *alternative solutions* that will achieve the level of performance required by the applicable *acceptable solutions* in respect of the *objectives* and *functional statements* attributed to the applicable *acceptable solutions* in Supplementary Standard SA-1.
- Clause 1.1 – (6)a of the *Building Code Act* states that it is the role of the Chief Building Official to establish operational policies for the enforcement of the Building Code within the applicable jurisdiction.
- Policies are established for evaluating *alternate solutions* and the Chief Building Official may designate officials who are to conduct such evaluations.

Alternative Solution – Peer Municipal Comparison

- The City of Waterloo has one fee - \$500 for all types of alternative solutions.
- There are a number of observations with respect to fees in other municipalities:
 - Fees ranged from \$146 minimum to \$1,519 minimum;
 - Some municipalities charge a minimum fee based on minimum number of hour and then additional fee per hour thereafter – Richmond Hill, Barrie, Oshawa;
 - Ajax states the fee is nonrefundable;
 - Burlington includes a clause that there is a minimum fee (3 times that of Waterloo) plus fees for 3rd party testing, and an additional fee for resubmission;
 - Whitby also states that there is an addition fee for any 3rd party review; and
 - Guelph has a different fee for residential (\$500) and non-residential \$1,000.

Alternative Solution – Peer Municipal Comparison

Alternative Solution			
Municipality	Fee	Minimum	Description
Ajax	\$500 or equal to 10% of the building permit fee, whichever is lesser		Alternative solutions which are accepted under this part shall be applicable only to the location as described in the application, and are not transferable to any other building permit. Alternative Solution fees are <u>nonrefundable</u> .
Barrie	\$314.56 per hour, with 4 hour minimum	\$ 1,258.24	Many projects have more than one alternative solution submitted in a single report. <u>Each alternative solution</u> submitted will be reviewed and responded to on an individual basis and <u>fees will be levied for each alternative solution</u> referenced in the report
Brantford	No separate fee.		No clauses in By-law
Burlington	\$1,519 <u>plus additional fees</u> from 3rd party testing, consulting review; \$155 per hour of review for resubmission	\$ 1,519.00	<u>plus additional fees from 3rd party testing, consulting review; \$155 per hour of review for resubmission</u>
Cambridge			
Guelph	\$500 for all Buildings/systems within the scope of Division B, Part 9 of the Building Code; \$1,000 for all other buildings or systems	\$500 - Res \$1,000 - Non-Res.	
Kitchener	No separate fee.		If the alternative solution is part of a permit being reviewed, standard fees apply. If an alternative solution is applied for a permit that is already issued, re-review fees would apply.
Oshawa		\$146 - Res \$584 - Non-Res	\$146 / hour, in addition to applicable type of permit fee (minimum 1 hour for house or 4 hours for other building)
Richmond Hill		\$ 382.69	\$382.69 minimum, includes up to 3 hours, \$125.24 each additional hour or part thereafter.
Whitby	\$ 1,051	\$ 1,051.00	(+ any 3rd Party Consultants Costs)
Waterloo	\$ 500	\$ 500.00	

Source: 2021 Building By-laws

Affordable Housing



Affordable Housing

- Building is an enterprise fund which means that expenditures related to the issuance of a permit is recovered solely from user fees and there are no revenues from taxation.
- The Building Code Act (the Act) requires that permit fees not exceed “the anticipated reasonable costs to administer and enforce the Building Code during building construction.”
- Exempting building permit fees for affordable housing would result in a subsidization from builders and developers.
- May not be in compliance with the Building Code Act whereby fees can only cover the reasonable cost of service to administer and enforce the Building Code.
- Should the City wish to exempt building permit fees for affordable housing it should be by way of a grant through the operating budget.