



Report to: Development Services Committee Date Report Authored: November 7, 2016

SUBJECT: Development Fee and Building Fee By-laws Update (2017)
PREPARED BY: Jonathan Tate, Senior Business Analyst, Finance Department
Chris Bird, Director of Building Standards, Ext. 4712
Jamie Bosomworth, Manager of Strategy and Innovation,
Ext.2180

RECOMMENDATION:

- 1) That the Report titled “Development Fee and Building Fee By-laws Update (2017)”, dated November 7, 2015 be received, and
- 2) That the proposed amendments be referred to the Development Services Committee Public Meeting to be held on December 6, 2016, and
- 3) That Staff be authorized and directed to do all things necessary to give effect to this resolution

PURPOSE:

The purpose of this report is to outline proposed changes to fees that are applied to offset the projected costs associated with staff review and processing of applications for Building, Engineering and Planning and Urban Design Departments in 2017. The proposed fees will be enacted through amendments to the Development Fee By-law 211-83 and to Building By-law 2015-166. These by-laws set fees to be paid by applicants for development applications requiring planning, urban design and engineering review and approval, and for building permits and their associated services. These by-laws are reviewed and updated annually.

The recommended increase in fees included in the Building by-law for 2017 is 5.0% for fixed fee categories. Within the Development fee by-law, the recommended fee increase for Planning and Urban Design is 15% and for Engineering it is 15%. This report seeks authorization to refer the proposed amendments to a Development Services Committee Public Meeting to be held on December 6, 2016.

BACKGROUND:

The Development Fee By-law and the Building By-law are reviewed each year to recover the anticipated reasonable costs associated with the administration of *Planning Act* applications and building permits and building code inspection and enforcement under the *Building Code Act*. The annual adjustments fall into one or more of the following categories:

- overall adjustments driven by a moving average of indirect and direct costs (5-year volume of activity model)
- increases to provide opportunities to balance reserve accounts;
- refinements to existing fees to better reflect actual and anticipated costs of providing the related services; and
- new fees to capture new or previously underfunded services.

A fee model was established in 2005 in order to calculate the annual adjustments necessary to ensure the City's Building, Engineering and Planning and Urban Design Departments remain adequately funded by building permit fees and development fees. The model is designed to cover direct and indirect costs based on the past five year average level of activity. In addition, transfers to a reserve for Building and a combined reserve for Planning and Urban Design and Engineering are included, as well as yearly specific capital costs.

OPTIONS/ DISCUSSION:

Reserve Forecast

As part of a Report approved at Development Services Committee on November 2, 2015, Staff prepared an analysis, projecting the reserve balances for the next 5-years for both the Building Reserve and Planning and Engineering Reserve. Based on that analysis, Council approved a 5% increase for Building, 10% increase for Planning and Urban Design and an 8% increase for Engineering fees for 2016. The 2015 report also identified forecast fee adjustments through 2020.

Staff have since updated the reserve balance analysis. The 2016 year end forecast indicates a draw on reserves for Building with a positive (but declining) reserve balance, and a positive 2016 contribution to reserves for both Planning and Engineering, but still with a significant negative reserve balance. Staff are recommending the proposed increase for 2017 for Building be the same 5% rate as 2016 as identified in last year's report. However, for Planning and Engineering, Staff are recommending an increase of 15% for 2017 and a forecast increase of 15% per year for 2018-2020. A 15% fee increase per year is currently forecast to be required to bring the Planning and Engineering Reserve to a zero balance by 2020.

The following two tables have been updated based on the projected unit counts and outline the following:

- 2016 year end projection
- Revenues based on conservative estimates of residential permits
- Expenses
- Projected year-end reserve balances

The current forecast increases for 2018 – 2020 will be revisited prior to the 2018 Fee by-law adjustments, based on ongoing updates to the estimated volume of development activity and direct and indirect costs.

The current, forecast is based on the 5 year volume of activity model; however, it is anticipated that actual subdivision activity in the Future Urban Area may advance more quickly than currently forecast, depending on the timing of development approvals and market demand. Growth forecasts will be updated prior to Fee by-law adjustments for 2018 and beyond.

Building Permit Fees

BUILDING RESERVE FORECAST (\$ millions)					
Building	2016 YE Projection	2017	2018	2019	2020
Revenues	7.027	8.320	10.180	9.963	11.595
Less: Expenditures	8.098	8.810	8.986	9.166	9.349
Transfer to/(from) Reserve	(1.071)	(0.490)	1.194	0.797	2.246
Capital investment and Interest	(0.970)	(0.410)	(0.350)	(0.350)	(0.350)
Building Reserve Beginning Balance	9.628	7.587	6.687	7.531	7.978
Building Reserve Ending Balance	7.587	6.687	7.531	7.978	9.874
2016 Approved/ 2017-2020 Proposed Building Fee Increase	5.00%	5.00%	5.00%	5.00%	5.00%
Estimated Residential Permits/Year		2,517	3,525	3,932	3,603

As outlined in the above table, the 2017 proposed Building by-law fee increase is 5.0%. Even with this proposed increase, it is anticipated that there will be a draw from the reserve of \$0.900M (operating deficit 0.490M + capital investment and interest 0.410M) for 2017. For 2018-2020, a 5% per year increase has been applied. At the end of the 5 year period the reserve is projected to be at \$9.874M or 102% of its starting position (\$9.628M at the beginning of 2016).

In addition to the proposed 5% fee increases, editorial corrections and some minor adjustments, the proposed Building By-law includes the following additional changes:

- Provisions of permit submission requirements through electronic means to support ePlan;
- An additional increase in fees for multiple unit buildings such as row houses, stacked townhouses, apartment buildings and combustible 6-storey buildings to address the increased complexities of review and inspections;
- A fee for a zoning preliminary review service for applicants who are seeking to confirm zoning compliance prior to the submission of a Planning, Heritage, or Building Permit Applications;
- Increases in conditional permit fees including a fee to extend the compliance date of the conditional permit;
- Increased fees for alternative solution proposals

E-plan Requirements

It is anticipated that by the second quarter of 2017, the new e-plan process will be launched for building permit services. This will permit an applicant to apply, submit digital drawings and, pay fees on-line. In addition, the review and approval of drawings will be completed digitally including commenting between staff and consultants through the system, batch stamping of drawings and issuing building permits online. With these process improvements, changes to the wording in the Building Bylaw are required as well as specific fee requirements.

As part of the online submission of applications, it is expected that the applicant will be permitted to pay for fees on-line. Staff have reviewed with the Finance Department on various payment options (e.g. Interac, account payments) and have identified payment by

credit card is the only on-line option made available by the City at this time. Although cheques are still acceptable, it is not as immediate or efficient as on-line payment. Credit card companies charge the payee (in this case it is the City of Markham) a service charge based on a percentage of the fee. This charge is approximately 2% depending on the type of credit card. Staff are proposing to add an additional charge to every fee category in the Building By-law to cover this additional service charge but need to further analyze the anticipated proportion of on-line payments and the service charge amount at the time of e-plan implementation.

Development Fees (Planning and Urban Design and Engineering)

ENGINEERING/PLANNING COMBINED RESERVE FORECAST (\$ millions)					
Planning	2016 YE Projection	2017	2018	2019	2020
Revenues	8.378	8,810	10.345	11.341	13.807
Less: Expenditures	7.918	8.329	8.496	8.665	8.839
Transfer to/(from) Reserve	0.460	0.481	1.849	2.676	4.968
2016 Approved/ 2017-2020 Proposed Planning Fee Increase	10.00%	15.00%	15.00%	15.00%	15.00%
Engineering	2016 YE Projection	2017	2018	2019	2020
Revenues	6.982	7.011	7.822	8.658	10.050
Less: Expenditures	6.968	7.086	7.228	7.372	7.520
Transfer to/(from) Reserve	0.014	(0.075)	0.594	1.286	2.530
2016 Approved/ 2017-2020 Proposed Engineering Fee Increase	8.00%	15.00%	15.00%	15.00%	15.00%
Plan/Eng Beginning Balance	(10.668)	(11.264)	(11.649)	(9.906)	(6.644)
Planning Transfer/Draw (from above)	0.460	0.481	1.849	2.676	4.968
Engineering Transfer/Draw (from above)	0.014	(0.075)	0.594	1.286	2.530
Capital investment and Interest	(1.070)	(0.791)	(0.700)	(0.700)	(0.700)
Plan/Eng Reserve Ending Balance	(11.264)	(11.649)	(9.906)	(6.644)	0.154

The Planning and Engineering combined reserve balance continues to be in a deficit position, notwithstanding higher volume of activity in recent years and the positive contributions to reserve forecast for both Planning and Engineering at year end 2016. Staff are recommending a 15% increase to Planning and Urban Design and an 15% increase to Engineering fees for 2017. For 2018-2020, the currently projected fee increases are also 15% per year for Planning and 15% per year for Engineering. Based on these projected increases and activity levels it is projected that the reserve will have a \$0.154M surplus at the end of 2020, an improvement of \$10.822M from the 2016 opening balance of the reserve of (\$10.668M). These forecasts and fee increases will be updated prior to 2018 Fee by-law adjustments.

Within the Development Fee By-law, staff are proposing to maintain fees at current levels for various types of minor applications. These include:

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- Residential Lots/Blocks of 10 units or less that are less than 50m² and those that are between 50 and 100 m²;
 - Minor ICI Facade;
 - Changes to a residential driveway or parking area.

In 2017, all other fees within the development fee by-law are recommended to increase by 15% for Planning and Urban Design, and 15% for Engineering, rounded up to the closest \$50.

Possible Future Structural Changes to Development Fee By-law

A consultant has been retained by the City to complete a comprehensive review of Planning and Engineering application processes to update the development activities and the time for each staff member for all activities to ensure fees are sufficient to cover actual costs. Staff have reviewed a draft copy of this report and due to the potential changes that may arise from the final recommendations of this report, staff are not proposing any additional structural changes to the Development Fee By-law based on the draft consultant report at this time.

In addition, with the launch of the electronic plan submission and review project (E-plan project) proposed to be launched in mid 2017 for the first phase of Planning and Urban Design, there may be additional fees and changes required to support this project.

Staff will report back in 2017 after the consultant's report has been finalized, and on the changes associated with the E-plan project.

Consultation with the Development Community

The *Building Code Act* requires the City to hold at least one public meeting with respect to any changes in Building permit application fees. Notice must be given to the general public and interested parties 21 days prior to the meeting. It is recommended that notice be placed on the City's website, in the Markham Economist and Sun and the Thornhill Liberal, and be mailed to the Urban Development Institute, the Toronto Home Builders Association, and development industry representatives listed on the City's "Developers Round Table" distribution list. Staff are recommending that the changes to the Development Fee and Building Fee By-laws be referred to the Development Services Committee Public Meeting to be held on December 6, 2016.

Fraser Institute Report

On September 23, 2016, the Fraser Institute released a "Study that Ranks 23 Greater Golden Horseshoe Municipalities According to the Restrictiveness of Their Residential Land-Use Regulation". The survey results used a compilation of individual index factors to create a composite index of residential land use regulations. One of the individual indexes identified was the regulatory compliance costs and fees accrued per dwelling unit. Out of the 23 municipalities, Markham's \$44,474 fees/unit was about average. The highest was \$57,500 and the lowest was \$17,500, while the majority of the municipalities were within \$10,000 of each other.

The survey results indicate that Markham regulatory costs and development related fees and charges are within the range of most of the other municipalities within the Greater Golden Horseshoe.

FINANCIAL CONSIDERATIONS AND TEMPLATE:

The Finance Department has been working closely with Development Services Commission staff to ensure proper direct and indirect cost recovery and revenue forecasting and to incorporate the results into the proposed 2017 operating budget. The fee adjustments recommended in this report for 2017, 5% for Building, 15% for Planning & Urban Design and 15% for Engineering will assist in providing increased funding for projected direct and indirect costs, including contributions to Building, Planning and Engineering reserves. Finance and Development Services Staff will monitor financial performance against budget in 2017 and report back to Development Services Committee if any midyear adjustments to the Fee By-laws need to be contemplated along with a future year forecast. Development volume and direct and indirect cost forecasts will be updated prior to any 2018 Fee by-law adjustments.

Summary of Reserve Balances

Markham has experienced strong building activity over the past several years resulting in an positive reserve level for Building, which is reasonable to maintain in anticipation of economic cycles. This reserve has been utilized by the Building Department to invest in new processes and technologies, such as E-plan project and a comprehensive zoning by-law project, and to withstand cyclical downturns without abrupt changes to capacity and service levels. Unfortunately the combined reserve balance for Planning and Engineering does not reflect the level of activity and remains in a deficit position. The following table provides a history of the balances in Building and the combined Planning and Engineering reserves:

Reserve Balances Surplus/(Deficit) (\$ millions)		
Year End	Building	Planning and Engineering
2007	3.571	1.528
2008	2.412	(1.716)
2009	0.540	(5.632)
2010	(0.090)	(1.476)
2011	6.630	(2.455)
2012	11.887	(0.907)
2013	13.846	(3.959)
2014	11.890	(8.630)
2015	9.628	(10.668)
2016 Forecast	7.587	(11.264)

Greenfield development has historically been the largest contributor to Planning and Engineering revenues, but subdivision activity has been declining in comparison to intensification and infill development in Markham. This trend is consistent with Council's Growth Strategy focus on infill and intensification, and is projected to continue. Intensification through complex rezoning and site plan applications is increasing, requiring more effort and additional fees to cover staff costs than previously received. The increase in the fees proposed with this report will reflect the yearly increase in costs for each Department. Upon receiving the final Consultant report in early 2017, staff will have a better understanding of the distribution of our costs across our application activity to make any structural changes to our fees to better reflect the actual work being completed by application type. In addition, Staff will have a better understanding of any fee changes that may affect or support the implementation of the E-plan project. Development activity forecasts will be updated in particular relating to Future Urban Area subdivision activity, prior to 2018.

HUMAN RESOURCES CONSIDERATIONS

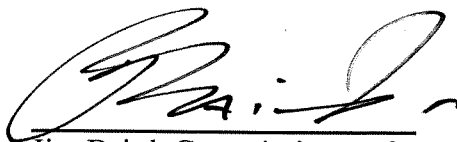
Development related staffing in the three departments are fee based, and updating of the fee by-law as proposed will ensure that adequate funding is available to support the regulatory process related to development.

ALIGNMENT WITH STRATEGIC PRIORITIES:

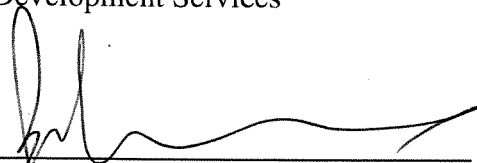
Growth Management and Municipal Services delivery.

BUSINESS UNITS CONSULTED AND AFFECTED:

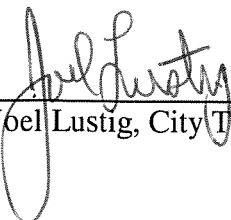
Development Services Commission Departments and Finance Department were consulted.

RECOMMENDED BY:

Jim Baird, Commissioner of
Development Services



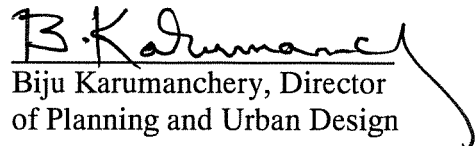
Brian Lee, Director of Engineering



Joel Lustig, City Treasurer



Chris Bird, Director Building
Standards



Biju Karumanchery, Director
of Planning and Urban Design

ATTACHMENTS:

Attachment "A"	Draft of amendment to Development Fee By-law 211-83
Attachment "B"	Draft of amendment to Building Fee By-law 2011-263