



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	January 22, 2018
SUBJECT/REPORT NO:	Revised Building Permit Fee Reserve Policy (FCS18004) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Marcel Cerminara 905-546-2424 Ext 4371
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That the Building Permit Fee Reserve Policy Attached as Appendix "A" to Report FCS18004 be approved.

EXECUTIVE SUMMARY

Reserves play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. One of the key attributes of financial sustainability is appropriate reserve fund levels. Adequate reserve balances provide financial flexibility, mitigate risk, weather uncertainty and ensure the ongoing financial stability of the City. Reserves are also leveraged to sustain City infrastructure, support programs and form an important part of the City's financial strategies.

Obligatory Reserve Funds are monies set aside and legally restricted by provincial legislation, a municipal by-law or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. By definition, the Building Permit Fee Reserve is an Obligatory Reserve Fund as the use of this Obligatory Reserve is governed under the *Building Code Act*.

Based on the Municipal Enterprise Model and Building By-law established in 2001 in Report PD01027, revenues from building permits and other related development fees are required to fund the staff activity required to administer Building Code requirements for development. The purpose of keeping a sustainable balance in the Building Permit Fee Reserve is that should development activity slow for an extended period, it would not be practical for the City to significantly reduce the staff requirements for a short period and then rehire as development picks up again. It is necessary to keep current a Building Permit Fee Reserve Fund Policy to assist in mitigating risks associated with economic downturns, achieving compliance and other potential issues.

The Building Permit Fee Reserve manages the risk associated with potential economic downturn and is also available to fund one-time capital requirements to avoid fluctuations in fees. Based on legislation, this Reserve Fund cannot be used for other City purposes. It is a segregated fund specifically established for the Building Division cost recovery. This ensures that the taxpayer is not left to pay for any deficits that should be borne by the building industry.

Based on recent trends and comparators, staff recommend that an adequate target Reserve balance of \$22 M is sufficient. This amount is equal to two years of budgeted operating expenses of \$11 M (based on 2017 budget).

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: N/A

Staffing: N/A

Legal: The use of this Reserve is governed under the *Building Code Act*.

HISTORICAL BACKGROUND

The Building Code Act, 1992, as amended, permits the establishment of a reserve fund for the administration and enforcement of the Act and the annual reporting of the reserve fund direct costs, indirect costs and balance at the end of the year.

A Stabilization Reserve was established by the former City of Hamilton in 1993 for fluctuations in the building division operations.

The Committee of the Whole, at its meeting in April 2001, approved the recommendations in Report PD01027, Enterprise Model and Building By-law, to continue to maintain a Building Reserve.

The General Issues Committee, at its meeting on February 28, 2013, received Report FCS13026, Reserve Funding By Category, wherein staff advised that they would develop individual formal reserve policies that define the appropriate level of the reserve's target balance, review the reserve's purposes and review how resources will be allocated for the reserve's replenishment.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

By definition, the Building Permit Fee Reserve is an Obligatory Reserve Fund. That is, monies are set aside and legally restricted by provincial legislation, a municipal by-law or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. The use of this Obligatory Reserve is governed under the *Building Code Act*.

The *Building Code Act, 1992*, as amended and related regulations, require that municipalities prepare an annual report on the total building permit fees collected, the direct and indirect costs of delivering services related to the administration and enforcement of the *Building Code Act* and the balance in the Building Permit Fee Reserve Fund. A Planning and Economic Development (PED) report for the 2017 fiscal year, inclusive of proposed fees, can be expected in the coming months.

The *Building Code Act* provides municipalities with the authority to collect fees to recover the cost of administration and enforcement of the *Act* and the Ontario Building Code. The *Act* also states that the fees must not exceed the anticipated reasonable costs to administer and enforce the *Act*. Therefore, any excess revenue must be transferred to the Building Permit Fee Reserve Fund.

RELEVANT CONSULTATION

Staff from the Building Division have reviewed and provided information for the preparation of the Building Permit Fee Policy Update Report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The purpose of the Building Permit Fee Reserve is to support the building permit program during periods of decline, to fund onetime expenditures and to provide for various contingent and potential future liabilities. The Building Permit Fee Reserve is not intended to be a long-term funding source for general operations.

The reserve's target balance is recommended to be amended to two times the Building Enterprise Zone program's annual operating budget cost. The target balance currently sits at one to one and a half times the annual program cost, as established over a decade ago. The move to two times annual program costs brings the City in line with comparator municipalities. The revised target balance based on the 2017 program budget of \$11 M would be \$22 M.

Figure 1 below shows where Hamilton would rank in terms of target reserve balance among comparator municipalities if the new policy update were to be approved.

Figure 1

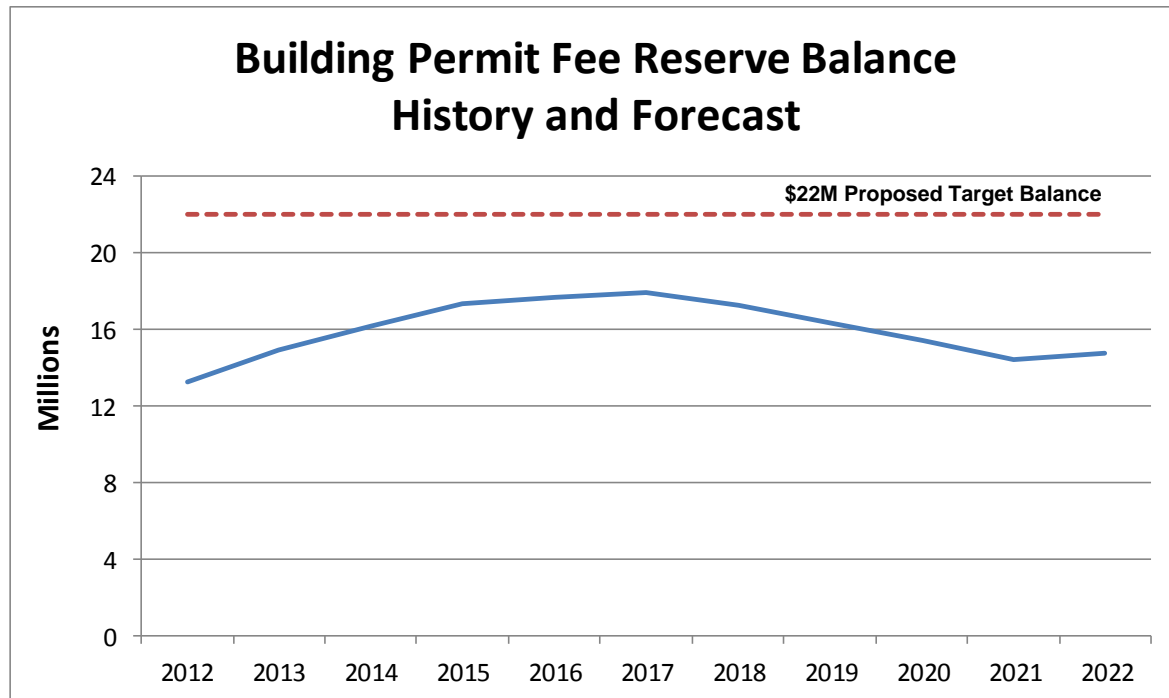
MUNICIPALITY	RESERVE CAP
Clarington	No cap
Brantford	No cap
Ajax	No cap
Brampton	2.5 times annual budget
Richmond Hill	2.5 times annual budget
<i>Hamilton</i>	<i>2 times annual budget (proposed)</i>
Barrie	2 times annual budget
Mississauga	2 times annual budget
Oshawa	2 times annual budget
Newmarket	1.5 to 2 times annual budget
Oakville	1.5 times annual budget
Kitchener	1.5 times annual budget
Guelph	1 time annual budget
London	30-50% of annual budget

If the program were to achieve a year end surplus of \$1 M annually, the reserve would reach its target balance of \$22 M by 2023. The building program has run a year end surplus annually dating back to 2010. However, the last seven years have seen significant building activity which is not sustainable on a permanent basis. The below reserve balance chart does not assume program surpluses in its forecast, as the program is budgeted on a cost recovery basis.

Major expenditures forecasted for the reserve include the Digitalization of Microfiche Records which is budgeted to cost \$4 M over four years (2018-2021), as well as Online Digital Permit Modernization budgeted to cost \$1 M over one year (2018). Both of these initiatives are eligible expenses as per the *Building Code Act*.

As illustrated in Figure 2, the Building Permit Fee Reserve balance has ranged between \$13 million and \$18 million from 2012 to 2016 and is forecasted to decline in future years.

Figure 2



ALTERNATIVES FOR CONSIDERATION

Not applicable.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – Building Permit Fee Reserve Policy

MC/dt