

05 - 0658

**Department of Labor and Industry**

**Construction Codes and Licensing Division**

**Building Codes and**

**Standards**



**Legislative Report**

**Nov. 30, 2005**

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## **Report requirement**

This report is submitted pursuant to Minnesota Statutes 16B.70, Subd. 3, which states:

Subd. 3. [REVENUE TO EQUAL COSTS.] Revenue received from the surcharge imposed in subdivision 1 should approximately equal the cost, including the overhead cost, of administering sections 16B.59 to 16B.75. By November 30 each year, the commissioner must report to the commissioner of finance and to the legislature on changes in the surcharge imposed in subdivision 1 needed to comply with this policy. In making this report, the commissioner must assume that the services associated with administering sections 16B.59 to 16B.75 will continue to be provided at the same level provided during the fiscal year in which the report is made.

## **Building Codes and Standards Division**

The Building Codes and Standards Division (BCSD) was established July 1, 1972 to:

- streamline construction regulation in the state by reducing more than 200 municipal codes to one statewide code.
- obtain uniformity and consistency of construction regulations in Minnesota.
- conduct plan review and inspections of state-owned buildings, schools, hospitals, nursing homes, correctional facilities, elevators and manufactured structures.

The BCSD is divided into two segments:

### *Administrative services:*

- develops and maintains state building code, which includes building, mechanical, accessibility, energy, elevator and manufactured housing codes;
- provides building official certification and recertification;
- provides education and training programs for building officials, design professionals and contractors to maintain consistency and uniformity of code administration;
- conducts investigations of improper, inconsistent code administration and consumer complaints;
- adopts rules to update state building code to most recent national model standards and construction technology; and
- issues grants for code development, research and education.

### *Field services:*

- reviews plans and conducts inspections of public buildings (state-owned and school district buildings) and state-licensed facilities (hospitals, nursing homes, and correctional facilities);
- conducts elevator, escalator and wheelchair lift inspections; and
- conducts manufactured and modular housing inspections and audits of plants and dealer lots.

On May 16, 2005, Governor Pawlenty's Reorganization Order No. 193 consolidated code regulation entities of five agencies into the Department of Labor and Industry (DLI). These five entities include the Board of Electricity, Building Codes and Standards Division from the Department of Administration, Plumbing and Engineering from the Department of Health, Code Administration and Inspection Services from the Department of Labor and Industry, and Residential Contractor and Remodelers from the Department of Commerce. These activities were all consolidated into a new Construction Codes and Licensing Division (CCLD) within DLI.

## Financial information

The BCSD operates through an account in the Building Code Special Revenue fund. The fund is financed primarily by a surcharge (M.S. 16B.70) that is collected on permits issued by jurisdictions administering the state building code. Other revenues collected include permit, plan review and inspection fees, license and bond filing fees, and seminar registrations.

The surcharge fee schedule was originally established in 1971; it was adjusted in 1983 when surcharge fees for higher valuation buildings were lowered. Plan review and inspection fees for public buildings and state-licensed facilities have not increased since 1990, and are lower than the fee schedules of most local jurisdictions.

The following table summarizes the historical fiscal-year 2003 through 2005 and projected fiscal-year 2006 through 2008 activity of the fund:

### Building Code Special Revenue (In thousands)

Fiscal year	Surcharge revenue	Other revenue	Total revenue	Operating expenses	Grants	Ending balance
2003	\$4,881	\$1,590	\$6,471	\$5,518	\$113	\$4,005
2004	\$5,266	\$1,581	\$6,847	\$5,685	\$267	\$4,900
2005	\$5,018	\$1,619	\$6,637	\$5,607	\$130	\$5,800 <sup>1</sup>
2006	\$5,018	\$1,829	\$6,847	\$8,499 <sup>2</sup>	\$248	\$1,900
2007	\$5,018	\$1,829	\$6,847	\$6,683	\$248	\$1,816
2008	\$5,018	\$1,829	\$6,847	\$6,768	\$248	\$1,647

<sup>1</sup>\$2 million of fiscal-year 2005 ending balance transferred to the General fund in fiscal-year 2006.

<sup>2</sup>Includes \$2 million for construction code consolidation costs.

### Assumptions

- The previous three years have shown a slight growth in construction activity; however, the overall economy relating to construction activity is projected to decline. There are indications the overall housing market is cooling off. New housing starts are projected by the National Association of Home Builders October 2005 report to

drop approximately 5 percent in 2006 with an additional 4 percent drop 2007. The Department of Commerce's reported sales of new homes in September also fell shy of expectations, while median prices declined 5.7 percent. DLI believes this reduction in residential activity will be offset with the increases in valuation of projects, thus, a slight decrease in activity is not expected to reduce surcharge revenue.

- A reduction in construction activity does not necessarily reflect a reduction in service demands or statutory service requirements. Many activities of the division such as maintaining up-to-date code standards for the construction industry, investigation of improper administration of the code, training and education on the codes, certification and recertification of code officials and code research are not affected by minor fluctuations in construction.
- With the passage of the State Bonding bill in the 2005 Legislative Session, plan review activity of state-owned facilities is expected to increase other revenue.
- An appropriate level of carryover dollars is required to balance minor fluctuations in the construction economy and meet cash-flow needs.

### **Recommendation**

DLI does not recommend any change to the surcharge fee at this time. During the next year, DLI will perform a comprehensive fee analysis of all revenue collected by the Construction Codes and Licensing Division. Any resulting fee changes will be recommended to the 2007 Legislature as part of DLI's budget for the fiscal-year 2008 through 2009 biennium.