

Modernizing Residential Building Permit Fees

HF 4271(Elkins)

Bill Description

Under current Minnesota law, residential building permits are based on the permitted value of a project. The valuation method of setting permit fees has proven to be problematic on several levels. A review of more than 1,500 building permit data from 2019-2021 reveals that new home valuation is inconsistent across Minnesota. HF 4271 would require residential permit fees to be based on square footage.

Like all regulatory requirements and fees – *building permit fees are all paid for by homeowners in the price of their new home.*

Wide Disparities In Accepted Valuation

Permit valuation, determined by a municipal building official, is defined in statute as the “total value of all construction work, including materials and labor, for which the permit is being issued.” This is not to include the land cost or the value of non-construction improvements. However, substantial valuation variations and large permit fee surpluses in many growing cities reveal structural problems with valuation-based permitting. These wide disparities in accepted valuation lack a rational basis.

Home size and type, not arbitrary valuation, is the number one factor in how long inspections will take.

Valuation Includes: Total value of all construction work, including materials & labor, for which the permit is being issued, such as electrical, gas, mechanical, plumbing equipment, and permanent systems.

Valuation Cannot Include: Land or lot costs, park fees or land, offsite improvements, connection charges, municipal infrastructure, builder overhead, or non-permanent building components.

Building Permit Facts ¹

Valuation Increased Nearly Every Time

A review of building permits from 2019-2021 showed that **nearly 94% of the time**, a local building official increases the valuation.

Valuation Increased As High As 2X Value

Residential new home permit valuation change figures **can exceed 123%**, more than **double** the submitted valuation.

Size Of Changes Increasing Rapidly

The average change rate observed in 2019 was 26.8% and 34.5 % in 2020. In early 2021, the average valuation **grew to 35.1%**.

How Valuation Changes Increase Costs

This example uses the same home from the same builder, valued at \$300,000, with the average increase observed by this homebuilder for that city. Both cities use the same permit fee schedule. For \$300,000 valuation this permit fee should be \$3,723.64.

| | City Value | Valuation Increase | Permit Fee | Permit Fee Increase |
|-----------|------------|----------------------|------------|----------------------|
| Lakeville | \$379,560 | + \$79,560 (+26.52%) | \$4,515.64 | + \$792.00 (+21.27%) |
| Rosemount | \$369,480 | + \$69,480 (+23.16%) | \$4,416.64 | + \$693.00 (+18.61%) |

¹ Source: Housing First Minnesota Review of Building Permit Submissions and Issued Permits, 2019-2021