HOME BUILDERS ASSOCIATION OF MICHIGAN

2026

FAIR & RESPONSIBLE PERMIT FEES

A Guide to Reviewing Construction Permit Fees in Michigan





Introduction

Michigan communities rely on effective building departments to ensure construction is safe, code-compliant and completed efficiently. Permit fees are an important tool for funding those services, but Michigan law places limits on how those fees are established and how the revenue they generate may be used.

When permit fees are disconnected from the actual cost of providing permitting and inspection services, they can unnecessarily increase the cost of building, improving and maintaining homes.

The Home Builders Association of Michigan encourages local elected officials and municipal leaders to periodically review their permit fee structures to ensure they are reasonable, transparent and supported by the actual cost of providing the service.

Builders need effective permitting services. Communities need housing. A fair and transparent permit fee structure supports both.

Why Permit Fees Matter

A permit fee may appear to be a relatively small part of a municipal budget, but for the person paying it, that cost becomes part of a new home, renovation, repair or other construction project.

Those costs can affect:

- **The price of constructing a new home**
- **The cost of renovating or expanding an existing home**
- **Whether needed repairs or improvements move forward**
- **The financial feasibility of new housing development**
- **Investment in neighborhoods and communities**

Ultimately, the cost of building and improving housing is borne by the people who live there. We know that in Michigan, for every thousand-dollar increase to the cost of a new home, roughly 5,000 households are priced-out of being able to afford it.

That means permit fees are not simply a builder issue. Housing costs affect young families looking for their first home, seniors hoping to remain in their communities, teachers and first responders who want to live near where they work, employers trying to attract workers and communities working to encourage housing investment.



What Does Michigan Law Require?

Section 22 of Michigan's Stille-DeRossett-Hale Single State Construction Code Act establishes requirements for construction code fees charged by local governments.

At its core, the law establishes three important principles:

1 Fees Must be Reasonable

Local governments have authority to establish fees for permitting, plan review, inspections and other services performed by the enforcing agency — but that authority is not unlimited.

2 Fees Must be Reasonably Related to the Cost of Providing the Service

Permit fees are intended to reflect the cost to the building department for performing the service, including appropriate overhead.

3 Permit Fee Revenue Must Only be Used for its Authorized Purpose

Revenue generated through these fees may only be used for the operation of the enforcing agency, their legally required construction board of appeals, or both. It may not be used for any other municipal purposes.

Michigan courts have reinforced these requirements.

Michigan court decisions involving construction code fees have made clear that municipalities must be able to reasonably relate the fees they charge to the actual costs of providing permitting and inspection services.

Courts have found that:

- A municipality's discretion in setting construction code fees is subject to a reasonableness requirement.
- Fees must bear a relationship to the cost of the services provided and allowable overhead.
- Building inspection fees may not be used to satisfy a historical deficit.
- Consistently collecting revenue beyond the cost of providing the service can raise questions about whether the fees are functioning as an unauthorized revenue source.
- Costs from other municipal departments cannot be treated as building department costs.

Why Review This Now?

Recent litigation demonstrates that these requirements are not merely theoretical.

A proactive review can help communities identify potential concerns before they become disputes and before litigation becomes necessary. In a recent case that found a community had excessive permit fees, the HBA was awarded nearly $600,000 in legal fees. In another case, the HBA will soon be collecting more than $200,000 in legal fees from a community that imposed excessive water and sewer tap-in fees.

HBAM vs. City of Troy - Permit fee overcharges

Prevailed; Legal precedent secured, along with attorney fee reimbursement.

The Michigan Supreme Court (MSC) ruled that "discretion (for setting fees) under MCL 125.1522(1) is not unfettered. It is subject to a reasonableness component that ensures payments are related to the costs for building inspection services performed or overhead, not the overall operation of the Building Department."

The Court of Appeals ruled that inclusion of costs incurred by other city departments was inconsistent with the Act. The court stated, "The trial court properly concluded that defendant could not continue to designate other department costs as being direct costs of the building department and use a percentage of these inflated costs to calculate its indirect costs. This method of calculating costs violates the CCA's requirement that fees be related to building department costs. Nowhere in the Act does it state that a building official can delegate building department functions to other city departments."

In MAHB IV, 504 Mich at 216, the MSC set forth the three mandatory restrictions that limited a municipality's authority to establish CCA fees: "fee reasonableness, the fee amount reasonably related to the service cost, and the fee collected to solely be used for the operation of the enforcing agency. … This reasonableness component was designed to ensure that the payments bore a relationship to building inspection services or overhead."

"The reasonableness of a fee would be suspect if it consistently generated revenue that exceeded the cost of the service. A lack of proportionality between the fees and cost of services, creates an unauthorized surplus that is revenue generating. Inclusion of costs incurred by other city departments (is) inconsistent with the CCA."

Michigan Public Service Commission/Consumers Energy - Challenge to $1,300 electric connection fee

HBAM advocacy led to an MPSC order replacing an excessive electric connection fee that was grossly higher than the cost to extend service. It was replaced with a charge equal to the actual cost of extending service ($9.93 per foot).

HBAM vs. City of Owosso - Challenge to unlawful water and sewer tap-in fee increases

Prevailed; Affected builders and developers will receive court-ordered refunds, with recovery of HBAM's legal fees anticipated.



How Does Your Community Set Fees?

There are many ways a municipality can arrive at a permit fee. But the starting point should be the cost of providing the permitting, plan review and inspection service.

Some common fee-setting practices deserve a closer look.

Is your community's fee based on:

The value or estimated construction cost of the project?

The value of a house or renovation does not reflect the amount of municipal staff time or inspection work required to provide the permitting service.

International Code Council Building Valuation Data or Permit Fee Multiplier?

Construction valuation data estimates construction costs. It does not establish what it costs a building department to provide permitting and inspection services.

What neighboring communities charge?

Another community's fee schedule does not establish the cost of providing services in your own municipality.

Costs from other departments?

Only appropriate costs associated with operation of the enforcing agency and allowable overhead should be included in determining construction code fees.

A desired level of revenue?

Permit fees should be established based on the cost of providing services — not based on how much revenue a municipality would like the department to generate.

Start with the Cost of the Service

A cost-based review should help a community understand what it actually spends to administer each type of permit.

That can include both direct costs and appropriate overhead.

Direct costs may include:

- Employee wages and benefits
- Permit application intake and processing
- Plan review
- Permit issuance
- Required inspections
- Project and permit closeout

Appropriate overhead may include:

- Office supplies
- Appropriate allocations for support functions such as human resources and accounting
- Michigan Department of Treasury guidance states that indirect costs should be allocated in a logical and consistent manner so a local government can accurately determine the full cost of providing the service.

A municipality should review:

- The number of permits issued by permit type
- The average amount of plan review time associated with each permit type
- The number and length of inspections typically required
- Differences in the resources required for various types of projects

That information can help establish a fee schedule that is understandable, defensible and tied to the actual services being performed.

The fee should resemble the cost of providing the service — NOT the value of the project or a revenue target.

5 Questions
Every Local Official Should Ask

Local elected officials do not need to personally calculate every permit fee, but they should be confident their community can explain how those fees were established.

1 **When was our permit fee structure last comprehensively reviewed?**

Have fees simply been increased over time, or has the municipality recently evaluated what it actually costs to provide each service?

2 **What methodology do we use to establish our fees?**

Are fees based on actual permitting, plan review and inspection costs — or are they tied primarily to project value, neighboring jurisdictions or another measure?

3 **Can we demonstrate the relationship between our fees and the services they fund?**

Municipal staff should be able to explain the basis for the fees being charged and the costs those fees are intended to recover.

4 **How are permit revenues and expenses tracked?**

Can the municipality identify the revenue generated through construction code fees as well as the direct costs, allowable overhead and accumulated balance associated with providing those services?

5 **Are permit revenues consistently exceeding the cost of providing the service?**

An ongoing difference between revenue and actual costs should prompt the community to determine why that difference exists and whether its fee schedule remains appropriate.

One more question worth asking: Is our methodology documented?

A documented, transparent process helps elected officials, residents, builders and other permit applicants understand why a particular fee is being charged.

A Proactive Review Benefits the Entire Community

HBAM supports well-funded, effective construction code enforcement.

Building officials need adequate resources to review plans, conduct inspections and provide timely service. At the same time, the people paying for those services should be able to trust that fees are based on legitimate costs and used for their intended purpose.

A responsible permit fee structure can:

- Provide appropriate resources for building departments
- Improve transparency for residents and permit applicants
- Give elected officials confidence in how fees are established
- Create greater predictability for builders and property owners
- Reduce disputes over permit costs
- Identify potential compliance concerns before they escalate
- Avoid unnecessarily adding to the cost of housing
- Support continued housing and neighborhood investment

This does not have to be an adversarial process. Local governments, builders and residents share an interest in safe construction, effective public services and communities where people can afford to live and invest.





Take the Next Step

Ask for a review of your community's permit fee structure.

A proactive review can begin with five simple steps:

1. Identify the methodology currently used to establish construction permit fees.

2. Determine the actual direct costs and allowable overhead associated with providing permitting and inspection services.

3. Compare those costs with the fees and revenue currently being collected.

4. Reduce or remove fees that cannot be clearly supported by the cost of providing the corresponding service.

5. Document the methodology and establish a process for periodically reviewing it.

HBAM is Here to Help

The Home Builders Association of Michigan works with local governments and the housing industry to support responsible policies that encourage safe construction and housing investment across Michigan.

If your community has questions about construction permit fees or would like additional information and resources, contact HBAM.

BOB FILKA
CEO
bob@hbaofmichigan.com
M: 517.230.2735

ARIANA DAWES
Legislative Aide for Government Relations
ariana@hbaofmichigan.com
M: 561.542.5812

HBA OF MICHIGAN
6427 Centurion Drive Suite 100,
Lansing, MI 48917
517.322.0224

Additional Resources

Michigan Association of Home Builders v City of Troy, 504 Mich 204; 934 NW2d 713 (2019)

Michigan Association of Home Builders v City of Troy, unpublished opinion of the Michigan Court of Appeals, 2024 WL 4508609 (October 16, 2024), lv denied 26 NW2d 431 (October 29, 2025).

Stille-DeRossett-Hale Single State Construction Code Act, MCL 125.1522

Michigan Department of Treasury Numbered Letter 2000-02 (Revised)

Relevant Michigan court decisions regarding construction code fees

This resource is intended to provide general information regarding construction permit fees and is not legal advice. Local governments should consult their legal counsel regarding application of Michigan law to their individual circumstances.

Additional resources can be found at **hbaofmichigan.com/fees** or by scanning the QR code.



hbaofmichigan.com/fees