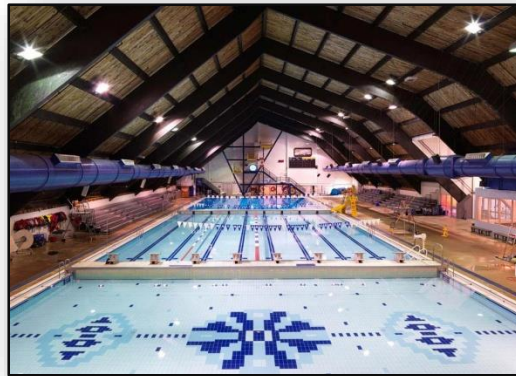


# Whenever Possible, Charge? User Fees as a Revenue Source



Thursday, September 19<sup>th</sup> 2019

**HEMSON**  
Consulting Ltd.

**M**FOA

MUNICIPAL FINANCE  
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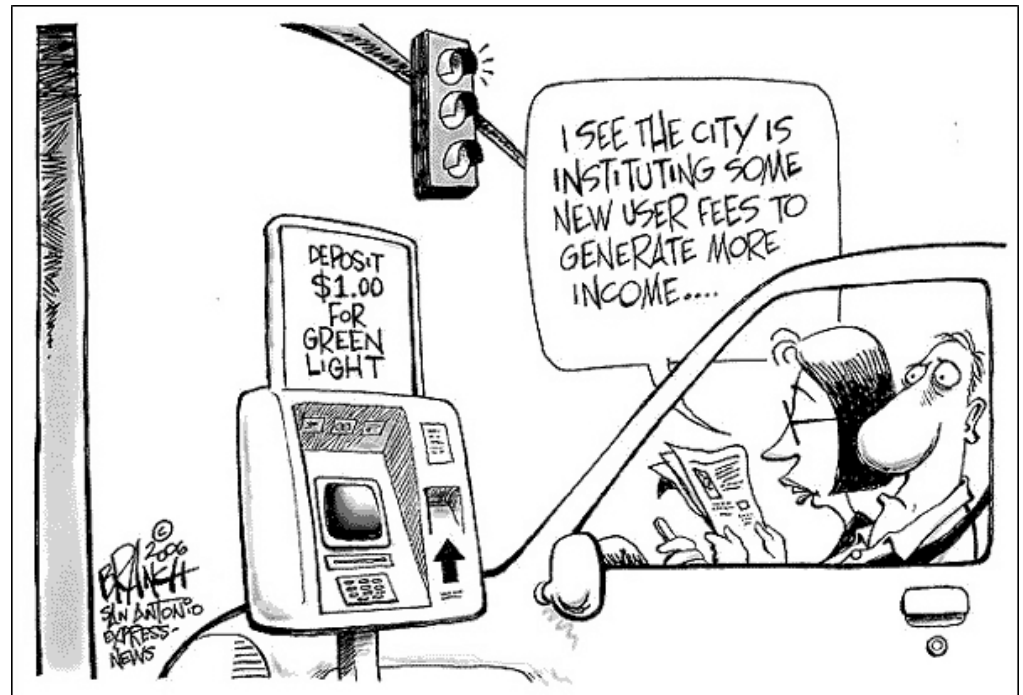
# Topics

## Theory

- Why use user fees?
- Fee types
- Applicability

## Practice

- Legislation
- Setting fees
- Communicating results



# Rationale For User Fees

- Efficiency – fees allow municipalities to allocate resources to produce the largest bundle of services
- Fairness – those who benefit from a service should pay for it
- Accountability and transparency



# Rationale For User Fees

Activity Name	YEAR	SEASON	LOCATION	Min	Max	# Reg	Revenue
1-on-1 Swim Lessons	2014	Winter	Woodbridge Pool & Memorial Arena	7	7	7	\$2,171.75
Apple Pie Bonanza -	2014	Fall	Al Palladini Community Centre	8	12	9	\$249.75
Aquafitness Instructor	2014	Spring	Al Palladini Community Centre	8	20	2	\$607.50
Aquasquirt Camp	2009	Summer Camp	Woodbridge Pool & Memorial Arena	40	65	56	\$17,880.66

- Valuable information – about service standards (quantity and quality) and who uses services
- Diversity of revenue – political pressure to keep taxes low; uncertainty of provincial grants
- Environmentally friendly – lower water consumption; switch to recycling and composting

# Getting The Price Right

- Users can see costs clearly and judge whether they are appropriate
- Consumers can determine what level of service they want
- Municipalities can respond to provide these service levels



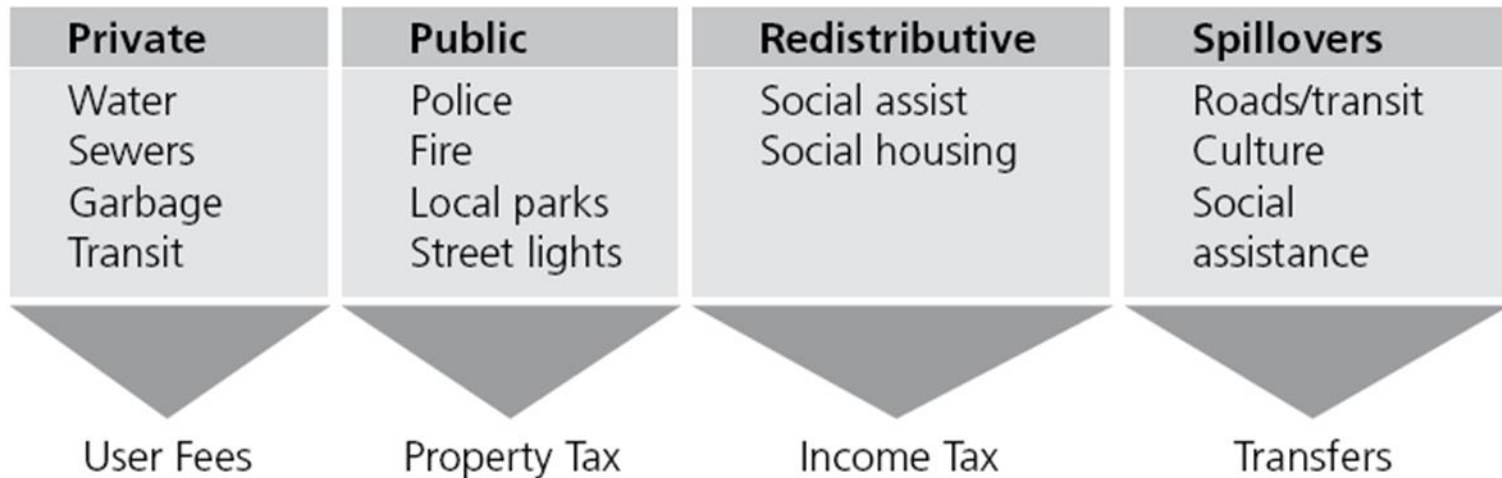
# There Can Be Drawbacks

- Revenue security/adequacy can be unreliable
  - for non-essential services
  - where there is private sector competition (rec fitness programs)
  - where program/service relies on very few users
  - where demand is volatile (building permits)
- Administration – assessing, collecting, and accounting for revenues takes resources



# Different Funding Tools For Different Services

Need to be able  
to identify specific  
beneficiaries



Source: E. Slack, Guide to Municipal Finance, Figure 2, Page 18.

# Services Suited For Fee Funding

Municipal Service	Comments
<b>Water and Sewer</b>	Often 100% funded
<b>Solid Waste Management</b>	Increasingly funded by fees (tipping fees for industrial/commercial; flat fee or charge per bag or size of bin for residential)
<b>Transit</b>	TTC approx. 70% fair box funded (operating costs only); most much lower
<b>Planning and Building</b>	Move towards full cost recovery (capital and operating) in last 10 years
<b>Recreation</b>	Partially funded by fees
<b>Stormwater</b>	Handful of municipalities impose fees
<b>Other (Library, Fire, Cemetery, Administration)</b>	Range of fees where direct benefits can be identified
<b>Roads</b>	May be efficient to subsidize transit from road charges but municipalities cannot impose road tolls (yet)
<b>Parking</b>	Increasingly fully funded by fees and fines



# Theory Vs. Practice

- Setting fees is straightforward in theory
- In practice, opposition comes from
  - specific user groups (sports leagues; older adults)
  - politicians
  - municipal departments (administrative change; new data on service delivery)
- Change to fee *structures* often more challenging than fee *rate* adjustments
  - New fees – why are we now paying for something we used to get “for free”
  - Winners and losers



# Questions?

- Are there areas where you are introducing a fee for the first time?
- Are you considering subsidies?
  - What user groups?
  - Why?

# The Practice of Setting Fees

- Not all legislation is alike
- Understand what “full cost” means
- Communication strategies



# Be Aware of the Nuances of Legislation

- Legal definition of a fee is well established
- Fees differ from taxes in **two** important respects
  1. Fees are levied for a specific purpose
  2. “Nexus” must exist between fee charge and service provided—but Provincial legislation varies on how precise the nexus must be from one service to the next

# Building Code Act

- Building permit fees must not exceed “the anticipated reasonable costs to administer and enforce the Building Code during building construction” (c.7)
  - some cross subsidization permitted
- O.Reg. 305/03 (2.2.3.1.1) – Municipalities must report on costs and fee revenues annually, including:
  - direct cost of reviewing applications and inspecting buildings
  - indirect cost of support and overhead
  - building permit fee reserve fund balances

# Building Code Act

- Public process for changing fees:
  - At least one public meeting
  - 21 days notice
  - Must make available:
    - Cost estimates
    - Amount of new fees
    - Rationale for new fees
- No appeal to LPAT



# Planning Act

- Allows Municipality to “establish a tariff of fees for the processing of applications made in respect of planning matters” (s.69(1))
- Tariff “shall be designed to meet only the anticipated cost...in the respect of the processing of **each type** of application”
  - i.e. much tighter nexus required
- No annual reporting or public process but applicants can appeal to LPAT

# Municipal Act

- Municipal Act – authority under Part XII to charge fees for services provided directly or on Municipality's behalf and for use of property.  
Can also:
  - Impose licensing fees
  - Establish fines for contravention of by-laws (s.429)
- Water, wastewater and storm user rates levied under this section
- Also authority for parks and recreation and various administrative fees



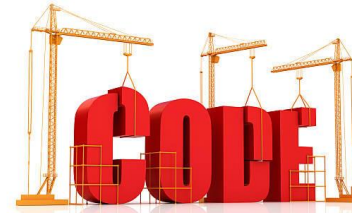
# Other Legislation

- ***Funeral, Burial and Cremation Services Act***
  - authorizes fees for service under following conditions:
    - Portion of fee revenue must be deposited into trust fund
    - Trust fund to be used only for long-term maintenance, security & preservation
- ***Public Libraries Act***
  - allows fees to be charged for:
    - Services other than admission, use of library materials (including reserving and borrowing), reference and information services
    - Use of building unrelated to library services
    - Non-residents

# Understanding Full Cost of Service



- Under *Safe Drinking Water Act*:
  - Source protection costs
  - Operating costs
  - Financing costs
  - Renewal and replacement costs



- Under *Building Code Act*:
  - Direct costs
    - Operating
    - Capital
  - Indirect costs
    - Other departments
    - Corporate overhead
  - Contributions to reserve fund

# Key Concepts & Assumptions

## 1. Activity Based Costing

- Estimate future activity based on historical records
- Understand process through staff interviews (who does what; time spent)
- Use financial documents to identify costs (i.e. payroll costs by Recreation Centre)

## 2. Average vs. Marginal Cost Pricing

## 3. Benchmarking

- Used when activity data is insufficient or when required by statute (Cemeteries Act)



# Example: Mapping Exercise

Position	Time Shares		Official Plan Amendment	Zoning By-Law Amendment		Holding Removal Fee	Temporary Use By-Law	Site Plan Agreement	Site Plan Amending Agreement		Subdivision/Condominium Applications	Exemption from Part-Lot Control	Committee of Adjustment	
	Development Applications	Non-Fee Based Work	Base Application	Major	Minor	Base Application	Base Application	Base Application	Major	Minor	Base Application	Base	Consent to Sever	Minor Variance
<b>Planning</b>														
Town Planner	40.0%	60.0%	4.00%	3.00%	2.00%	2.20%	0.30%	5.50%	1.75%	1.00%	7.00%	0.50%	10.00%	2.75%
Policy Planner	0.0%	100.0%												
Assistant Planner	38.0%	62.0%	5.00%	2.80%	1.90%	2.10%	0.40%	5.80%	2.00%	1.00%	3.00%		12.00%	2.00%
Drainage Superintendent	2.0%	98.0%						1.00%	0.50%	0.50%				
<b>Public Works/Engineering</b>														
Manager, Infrastructure & Capital Works	2.5%	97.5%						0.50%	0.50%	0.50%	1.00%			
Manager, Environmental Services	2.5%	97.5%						0.50%	0.50%	0.50%	0.50%			0.50%
<b>Protection to Persons and Property</b>														
Chief Building Official - 1	2.0%	18.0%											1.00%	1.00%
Chief Building Official - 2	2.0%	18.0%											1.00%	1.00%
Fire Chief	2.0%	98.0%						0.50%	0.25%	0.25%	1.00%			
Deputy Fire Chief	2.0%	98.0%						0.25%	0.25%	0.25%	0.25%		0.50%	0.50%

# PUBLIC RECREATION IN VAUGHAN

## USER FEE EXAMPLE



# Fees Were Becoming Increasingly Important and Controversial

- Policy target was **95%** recovery of **direct costs**
- City was achieving the target
- Historical performance among highest of comparable municipalities

Historical Actual Cost Recovery Ratios	
Year	Cost Recovery Ratio
2010	91.8%
2011	94.2%
2012	95.8%
2013	93.6%
2014	94.0%
2015	95.6%

Comparable Cost Recovery Ratios (2014)	
Municipality	Cost Recovery Ratio
Milton	59%
Vaughan	58%
Richmond Hill (2013)	54%
Mississauga	50%
Markham	38%
Brampton	30%

Source. 2013 and 2014 Financial Information Returns.

Note. Figures exclude facility & park rentals, museums, & cultural services expenditures & revenues

# Vaughan Recognized That Most Benefit Accrues to Users

Vaughan Fees Compared to Municipal Benchmarks		
Service Area	Specific Programs	Vaughan Relative to Benchmark Range
Aquatics	Aquatics Programs	15%-20% higher
	Pool Rentals	5% higher
General & Indirect Programs	Older Adult Programs	200% lower
	Preschool Programs	40% higher
	Children/Youth Programs	25% higher
	Adult Programs	20% higher
Camps	Camps/School Break	15-20% lower
Fitness	Fitness	30% higher
Arena Hockey	Arena Hockey	15-20% higher
Room Rentals	Meeting Rooms	65% higher
	Halls	50% higher
Outdoor Facilities & Services In Kind	Baseball	20% lower
	Soccer	10% lower
	Artificial Turf	20% higher
Cultural Services	Cultural Services	200% lower



Older adults heavily subsidized even though:

- Wealthy age cohort
- Can use facilities in off-peak hours

# Surveys Revealed Little Connection Between Fees and Participation

Stakeholders consulted:

- Major user groups
- Individual users
- Staff
- Councilors

## User Groups Survey Results

Generally satisfied with fees

Felt they got value for money

Concerns about long-term sustainability of rental fees...BUT...

...participation overall was at an all time high

## Individuals Survey Results

25% of respondents had reduced participation in recent years—mostly in general programs, camps, and fitness...BUT...

...fees not a factor in reduced participation



# Policy Recommendations

- Maintain current cost recovery target
- Amend current policy to provide flexibility to react to
  - market conditions (e.g. competition from other municipalities and the private sector)
  - changes to participation
- Encourage participation in key areas through promotions, loyalty, rewards offerings, peak pricing strategies, and other marketing tools but **not** broad-based fee subsidies
- Avoid fee increases if participation declines for two or more years

# WATER AND WASTEWATER USER FEE EXAMPLE

# Water and Wastewater User Rate Study Objectives

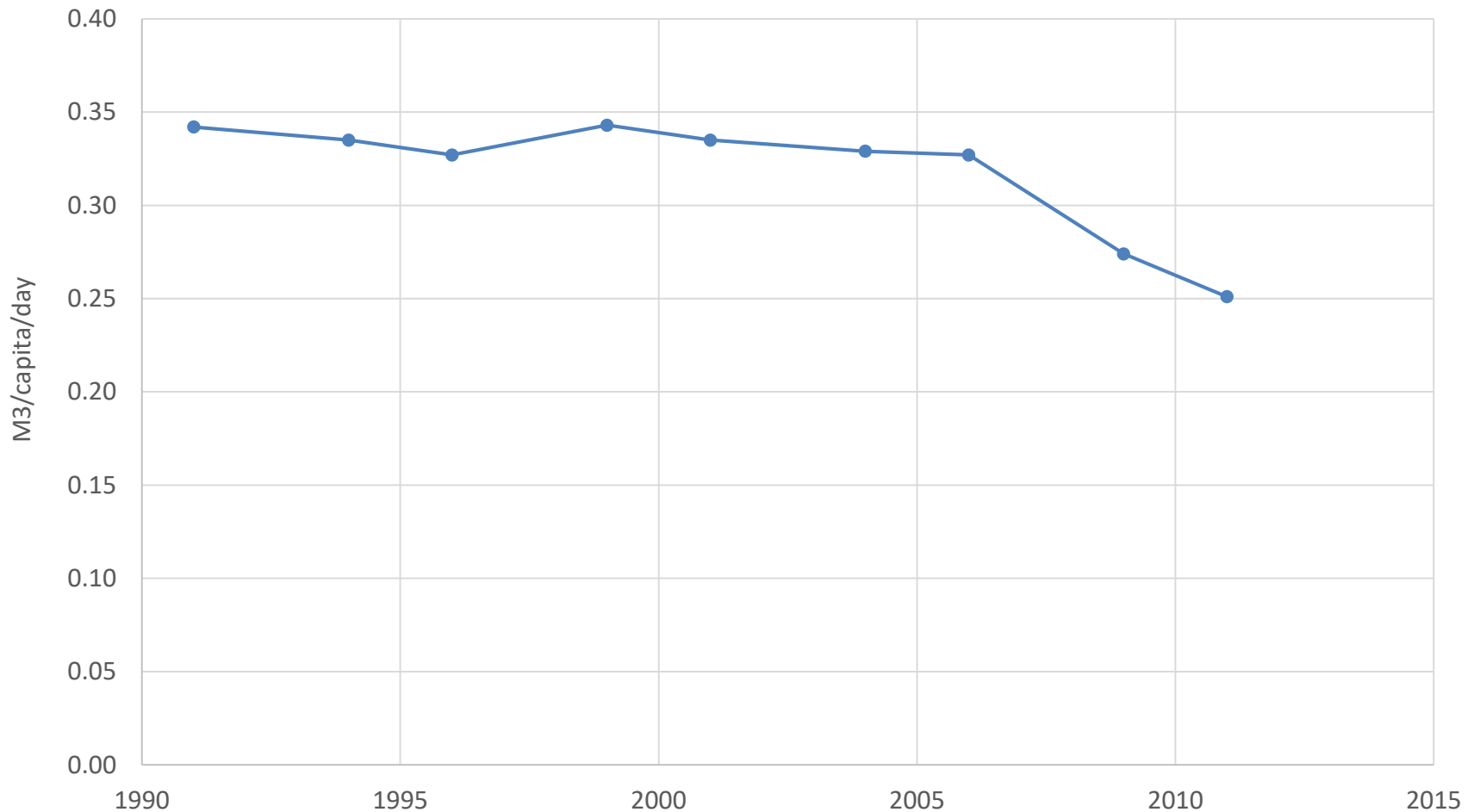
- To calculate water and wastewater rates that will provide for the full recovery of operating and capital costs associated with providing the services
- To set aside monies in reserves to fund the “full lifecycle costs” of the long-term repair and replacement of infrastructure:
  - Consistent with the Requirements of the *SDWA*
- Examine the impacts of implementing the newly calculated rates on the residents and businesses of the municipality

# Rate Structure Analysis

- The rate structure be developed to satisfy changing water use patterns and demographic trends while being fiscally responsible from a service delivery standpoint
  1. **Fixed component** – levied independently of water use and designed to recover costs that do not vary with use
  2. **Variable Component** – levied on the amount of water used by each individual customer

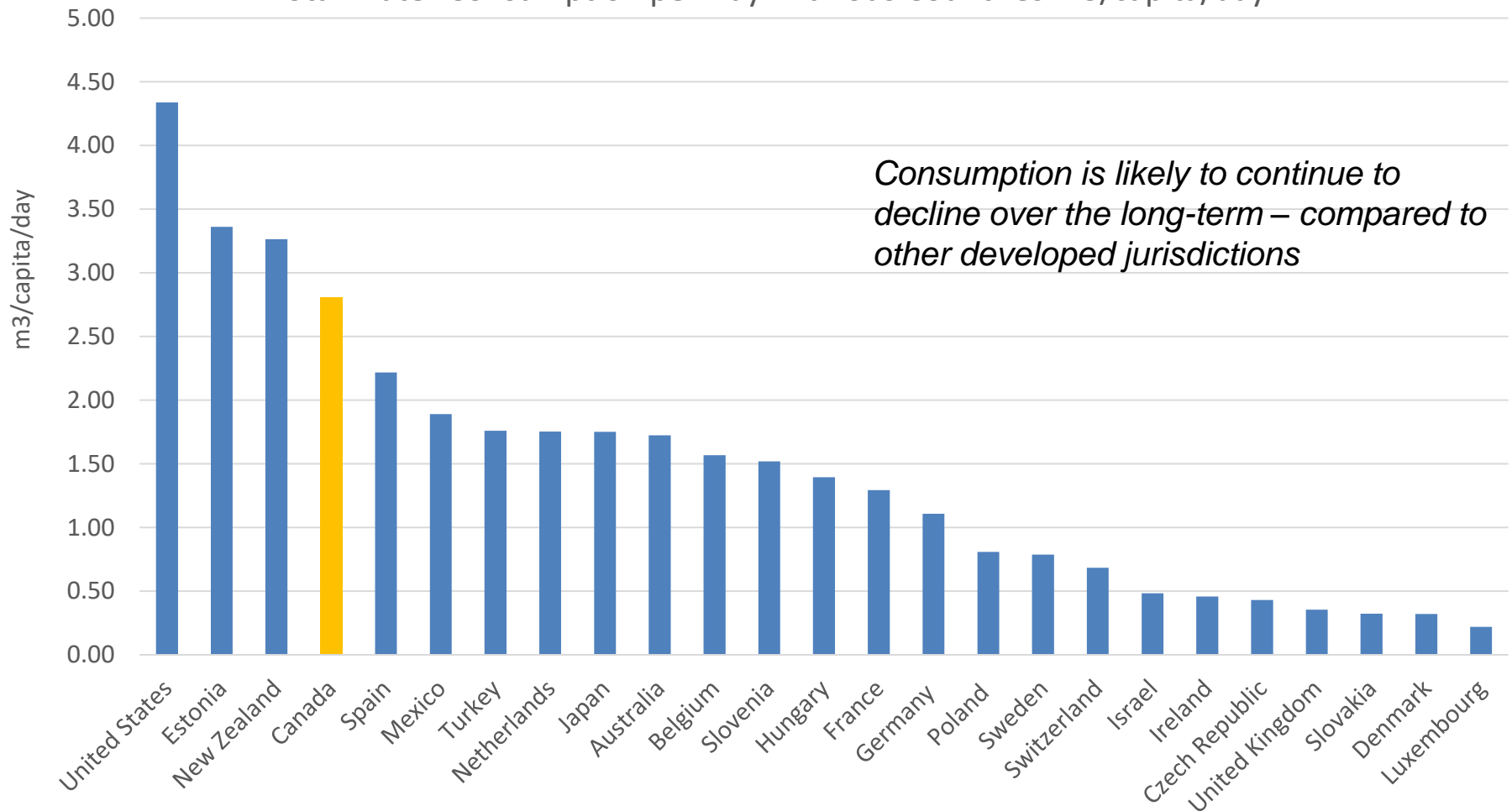


# Consumption Trends per Capita: Canadian Households



# Consumption Trends per Capita

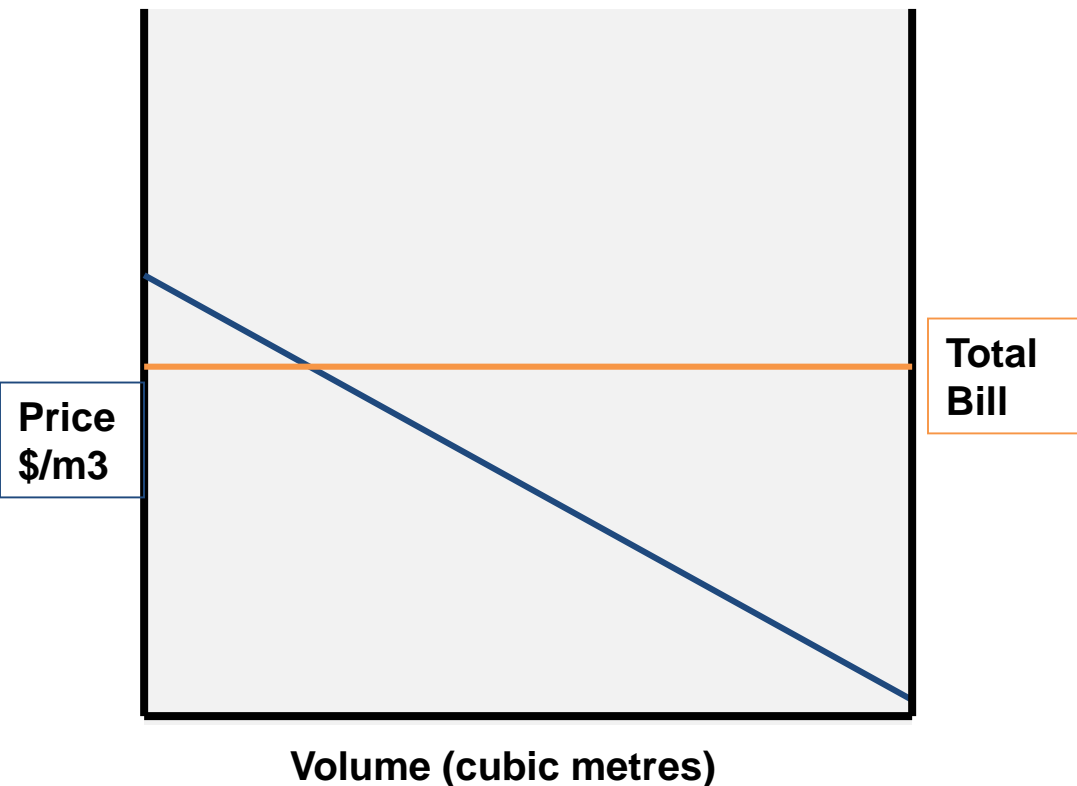
Total Water Consumption per Day - Various Countries m<sup>3</sup>/capita/day



Source: Statista, Water Allocations per capita in selected Countries, 2013

# Pricing Structure: Flat Rate

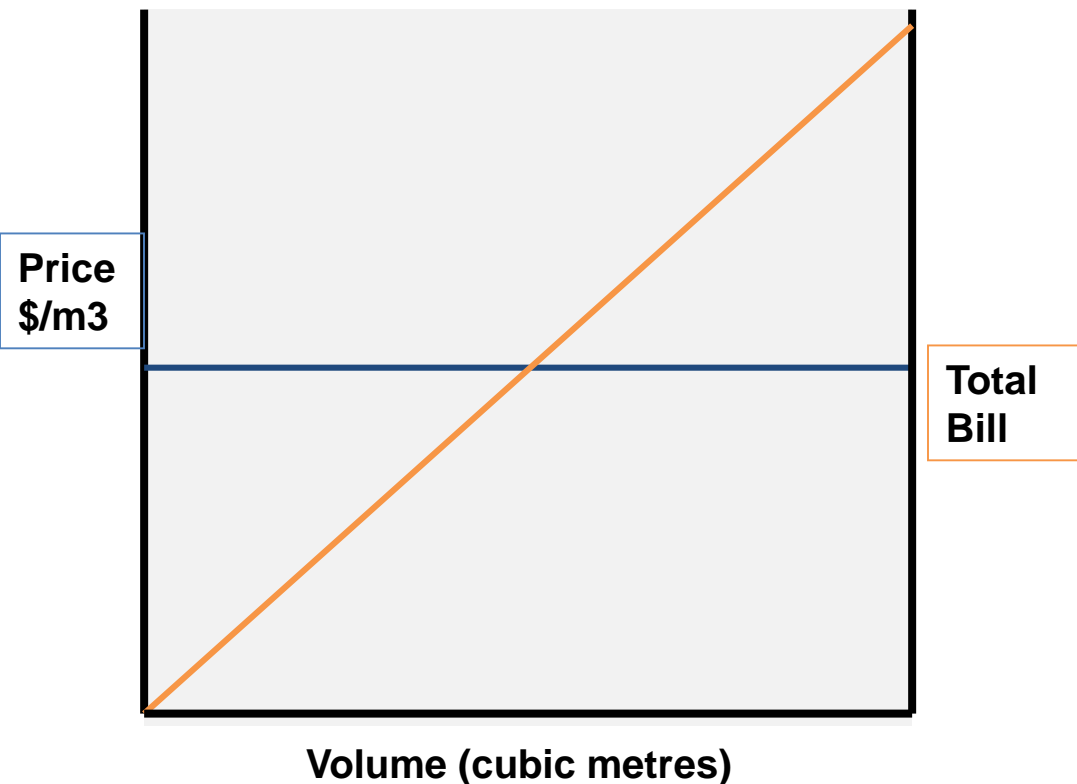
- Each user pays the same fee regardless of the amount of water consumed or wastewater generated



- Pros:
  - Understood by public
  - Easy to administer
  - Guaranteed Funding
- Cons:
  - Does not represent true cost of water
  - May encourage wasteful water use

# Pricing Structure: Constant Rate

- Each user is charged a constant rate per unit of water consumed or wastewater generated

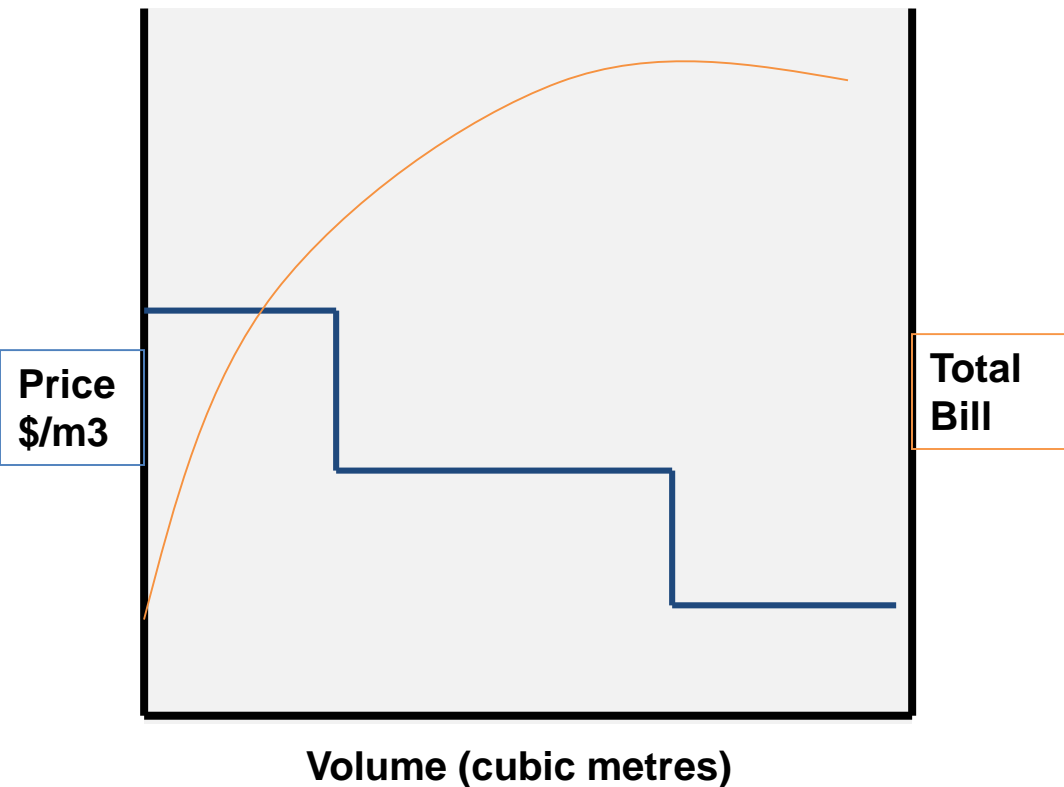


- Pros:
  - Understood by public
  - Easy to administer
- Cons:
  - May encourage wasteful water use
  - Increased risk of revenue shortfall



# Pricing Structure: Declining Block

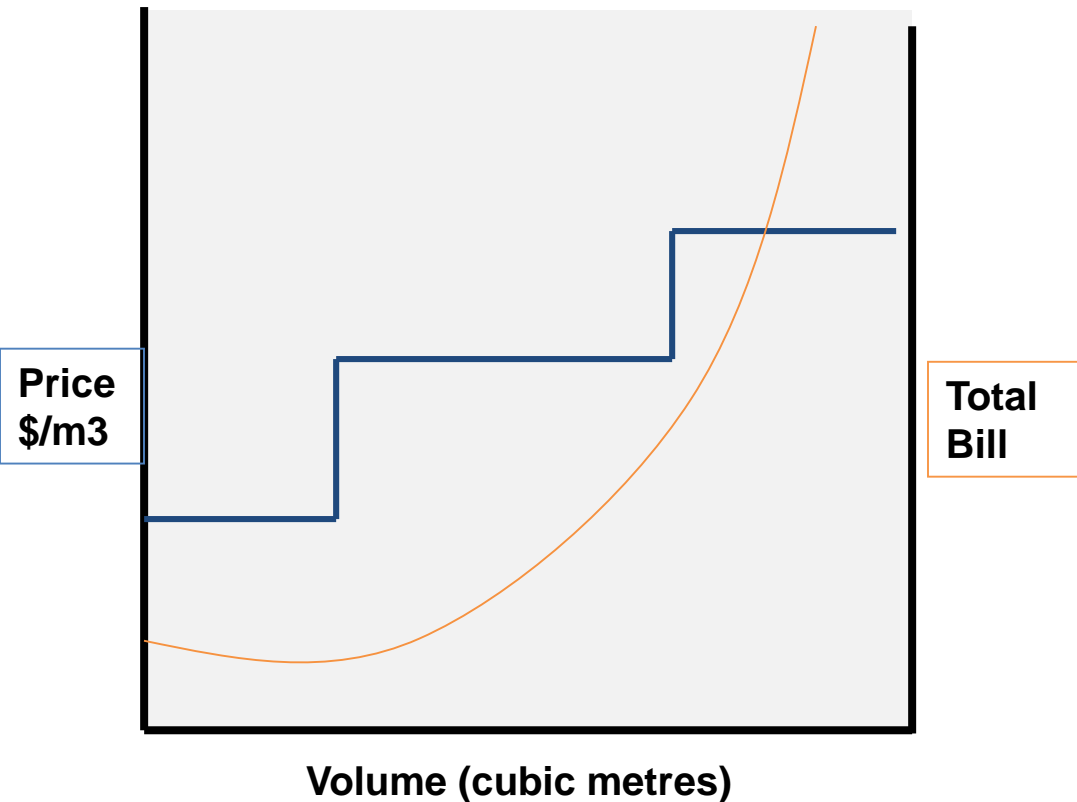
- A tiered approach in which the unit price of water/wastewater decreases relative to water use or wastewater generated



- Pros:
  - Supports high water/wastewater users (i.e. commercial or industrial operations)
- Cons:
  - May encourage wasteful water use
  - Shifts burden to residential users

# Pricing Structure: Inclining Block

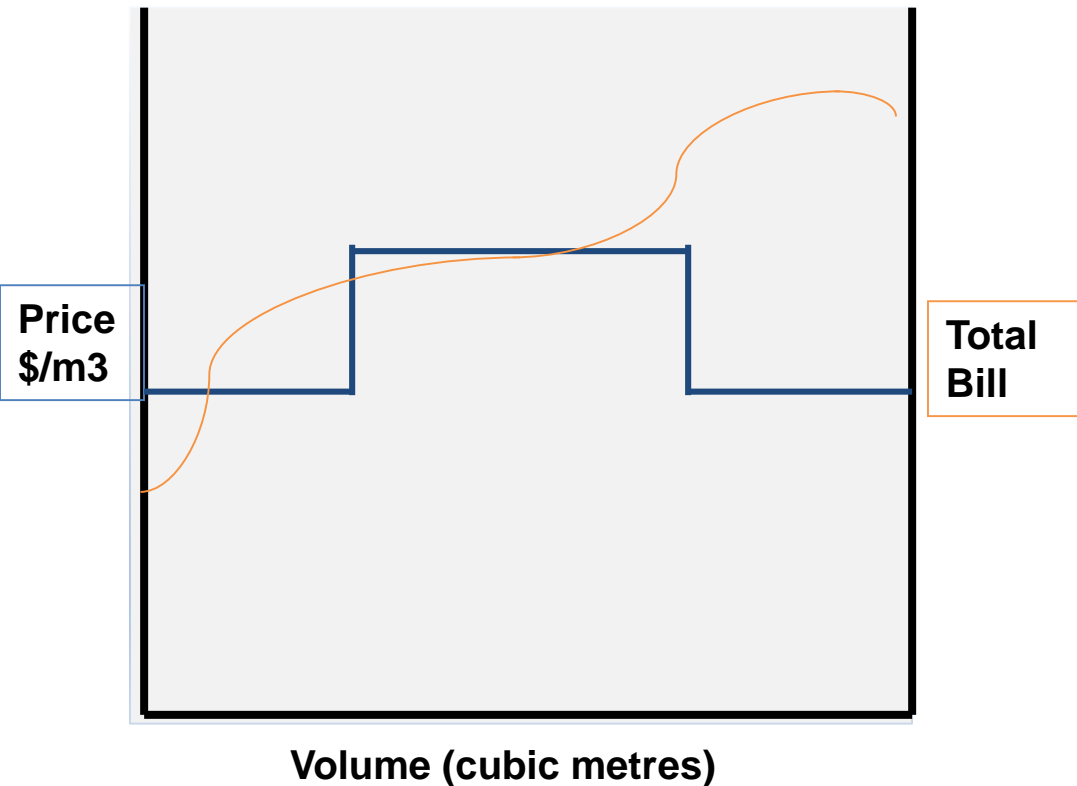
- A tiered approach in which the unit price of water/wastewater increases relative to water use or wastewater generated



- Pros:
  - Encourages conservation
  - Increased equitability
- Cons:
  - Large non-res users pay more
  - May deter economic development

# Pricing Structure: Humpback Rate

- A tiered approach in which the unit price of water/wastewater increases relative to use before retreating back to the lowest charge



- Pros:
  - Supports high water/wastewater users (i.e. commercial or industrial operations)
- Cons:
  - Shifts burden to residential users and low-volume non-res users

# What Pricing Structure is Suitable for My Municipality?

- Not a “one size fits all” approach as different municipalities have diverse needs
- Consideration should be given to
  - Size of your municipality
  - Scale of non-residential user base
  - Average household size and trends
  - Consumption trends and user base



# Communicate Results

- Keep Project Team and other municipal staff involved throughout the term of the assignment
- Allow Council to provide input on rate structure and preliminary results at key points throughout the process
- Present results to the public outlining the changes associated with the transition from existing to proposed rates

# Final Questions

- What other measures would you take to ensure that the rate setting process is transparent and consultative?
- In your opinion, what municipal services would be challenging to fund through user fees? Why would a particular service be more challenging than another?