

User Fee Audit

The City's Long-Term Sustainability Depends on Its Ability to Generate Sufficient Revenue

1. The long-term sustainability of the City's services and financing of its operations depends on its ability to generate sufficient revenue to meet its expenses.
2. The City faces significant current and future costs to maintain, upgrade and sustain its infrastructure to continue providing services to the residents of Brampton.
3. These costs put considerable stress on the property tax rates. Potential future costs include:
 - Planned transit projects with significant capital investment
 - Long-term asset repair and replacement costs
 - Slowing of development charges revenue as the supply of land available for development diminishes over time
 - Cost of development work may exceed the development charges revenue due to high inflation and service level increases
 - High inflation in operating and capital expenses while the property tax rate increases have typically been at or below Consumer Price Index (CPI) levels

Property Taxes and User Fees Remain the Only Meaningful Sources of Revenue

1. The City has limited revenue raising tools available other than property taxes and user fees.
2. Transfers from federal and provincial governments have not kept pace with growth, downloading of services and inflation and are unlikely to be a major revenue source in the future.
3. Provincial advocacy efforts to provide the City with additional revenue tools, such as Land Transfer Tax, 1% Municipal Sales Tax, Vehicle Tax have not gained traction and there is no indication of any additional tools being provided at this time.
4. Therefore, to meet the increasing costs of service delivery, property taxes and user fees remain the only meaningful sources of revenue.

Property Tax or User Levy?

“... where possible, the direct users, the beneficiaries, of the good or service should pay the price of providing the good or service. By charging users directly, this ensures that the goods or services are consumed by those who value them the most and the government obtains direct feedback as to whether citizens really desire the provision of the good or service at the cost incurred to provide that good or service.”

Lindsay M. Tedds. 2019. *Non-Tax Revenue for Funding Municipal Governments: Potentials, Constraints, and Emerging Opportunities*. In L. Phillips et al (Eds.), *Funding the Canadian City*: Toronto: Canadian Tax Foundation. Bird, Richard M. and Enid Slack (2014) “Local Taxes and Local Expenditures in Developing Countries: Strengthening the Wicksellian Connection,” *Public Administration and Development*, 34 (4): 359-369.

City's Property Tax vs. User Levy Share Remained Stable

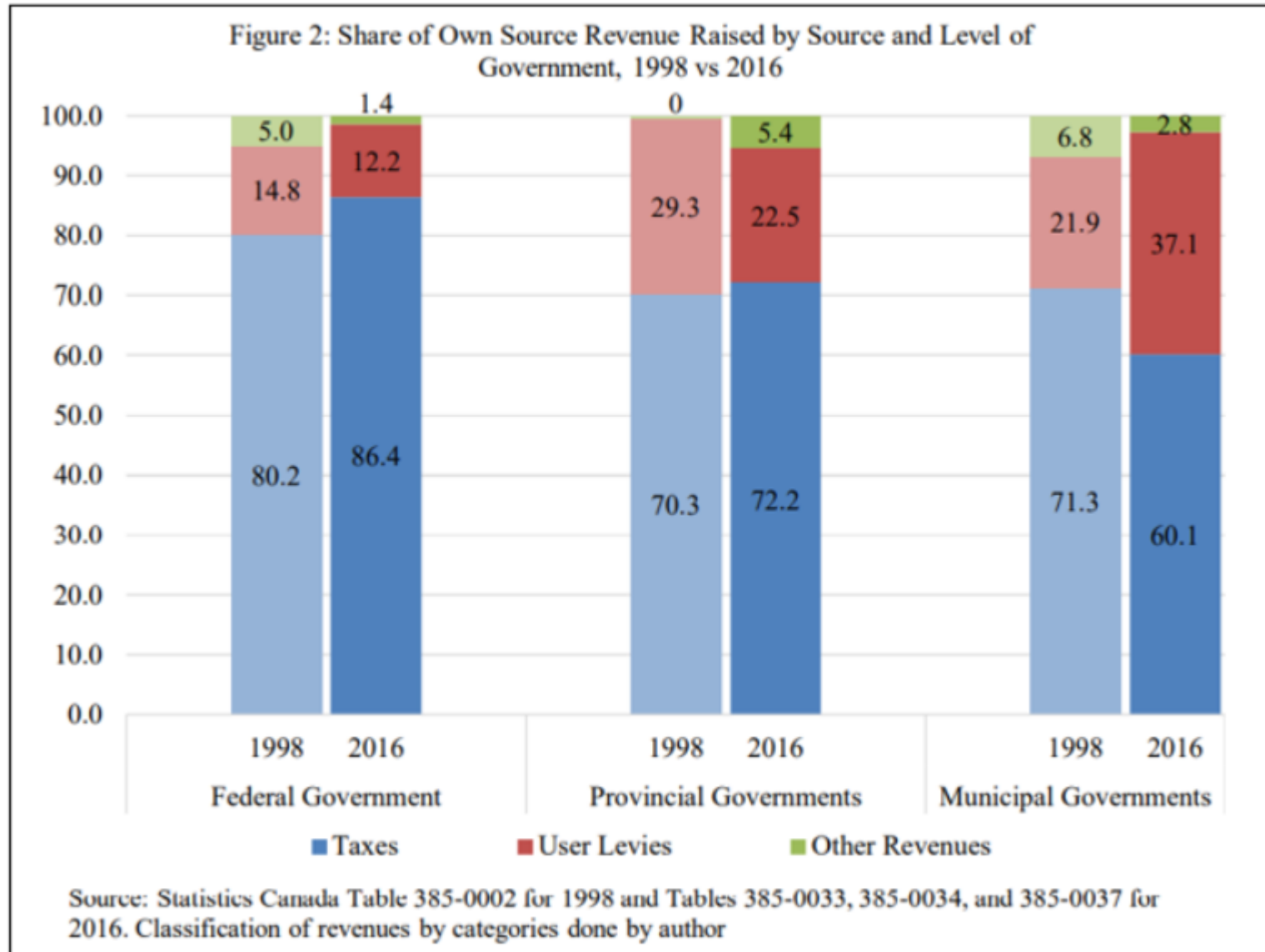
City's Total Revenue 2017-2022 (\$ Million)

Revenue Source	2017	2018	2019	2020	2021	2022
Contribution from Reserves	\$8	-\$1	\$6	\$66	\$36	\$24
Grants and Subsidies (<i>Note 1</i>)	\$11	\$11	\$13	\$15	\$18	\$17
Investment and Other Income	\$15	\$13	\$12	\$10	\$7	\$5
Taxes and PILs	\$451	\$482	\$487	\$494	\$497	\$508
User Fees and Service Charges	\$158	\$184	\$192	\$117	\$168	\$211
Grand Total	\$642	\$690	\$711	\$702	\$726	\$765

User Fee as % of Total Revenue	25%	27%	27%	17%	23%	28%
Property Taxes as % of Total Revenue	70%	70%	69%	70%	68%	66%

Note 1: In 2020 and 2021, the City received \$77 million and \$69 million in grants and subsidies, which included Covid-related transfers of \$62 million and \$51 million, respectively. The Covid-19 related grants & subsidies have been excluded from the above table as they represent one-time grants.

Canadian Municipalities Reduced Their Reliance on Property Taxes



Note: Lindsay M. Tedds. 2020. Who Pays for Municipal Governments? Pursuing the User Pay Model. In Elsbeth Heaman (ed.) Who Pays for Canada? Taxes and Fairness, McGill University Press. Lindsay Tedds is a specialist in applied economic research and policy analysis, with a particular focus on the design and implementation of fiscal and tax policy.

What did we assess?

1. Whether the City has a user fee policy and framework to ensure consistency in establishing and administering the City's user fees program and to provide guidance on cost recovery
2. Whether policies and procedures (SOPs) are in place to determine effective fee rates and fee structures and whether such SOPs are complied with
3. Whether SOPs are in place to identify, review, and approve exceptions to full cost recovery and for waiving fees and whether such SOPs are complied with.
4. We selected four user fee program areas and reviewed their user fee activities between Jan 1, 2020 to Dec 31, 2022. The programs and their 2022 user fees are as follows:
 - Recreation - \$22.3M
 - Parks - \$0.8M
 - Development Services – \$9.3M
 - Fire & Emergency Services - \$1.4M

Finding #1: Lack of a Comprehensive User Fee Framework

1. The City does not have a comprehensive user fee framework to ensure consistency in setting and administering the City's user fee programs and cost recovery.
2. User fees have been set and managed without a clear set of common principles.

A comprehensive user fee framework should:

1. require that the full costs be determined before setting the user fee, regardless of whether the full cost will be recovered
2. outline that the calculation of full-service costs should include the direct costs, the indirect costs, and the capital cost
3. include conditions and criteria for awarding subsidies, waivers, and exemptions
4. require automatic annual inflationary adjustments, periodic comprehensive user fee reviews, revenue allocation, public consultation, and approval processes.

Finding #2: Full Costs of User Fee Services Not Determined

1. The basis for setting user fees is not clear.
2. Rationale or the cost analysis for fees charged for various programs not documented.
3. The four program areas have not considered indirect costs or capital costs when setting user fees.
4. No coordinated approach to determine and allocate corporate overhead costs to divisions for assessing full-service costs and setting user fees.

There is a significant risk that City is undercharging for these services.

Finding #3: No Comprehensive User Fee Study; Limited Annual Updates

1. No comprehensive user fee study (last 5 yrs); periodic user fee updates inconsistently done
2. Limited annual user fee updates, primarily focusing on inflation adjustments

A comprehensive user fee study should:

- Identify all existing user fees
- Determine current basis of the fee price
- Determine those fees that should be fully cost-recovered, and their recovery ratios
- Determine those fees that should be exempt from full cost recovery
- Identify additional opportunities for collecting user fees

Periodic updates should include:

- the impact of inflation
- other cost increases
- adequacy of cost recovery
- use of services
- the competitiveness of current rates, and identify additional opportunities to collect new user fees.

Finding #4: Development Services Significantly Undercharging Fees

Multi-jurisdiction Comparison of Development Services Base User Fees

Application Type	Toronto	Mississauga	Markham	Hamilton	Average Fee Charged (excluding Brampton)* ¹	Brampton 2021 Base Fee	How much is Brampton undercharging? * ²	Average Volume (2020-2022)	Potential Impact of undercharging (Per Year) * ³
Official Plan Amendment	\$119,104	\$26,250	\$55,877	\$73,145	\$68,594	\$10,651	-84%	8	-\$375,251
Zoning By-law Amendment	\$45,258	\$34,381	\$42,687	\$31,067	\$38,348	\$16,483	-57%	15	-\$182,850
Subdivision Application	\$62,358	\$9,310	\$43,704	\$51,590	\$41,741	\$11,194	-73%	19	-\$432,187
Condominium	\$15,803	\$17,830	\$47,838	\$18,905	\$25,094	\$7,927	-68%	40	-\$469,763
Site-plan Approval	\$23,090	\$10,793	\$13,322	\$25,350	\$18,139	\$6,622	-63%	202	-\$1,479,517
Pre-construction Application	\$700	\$3,778	\$775	\$10,270	\$3,881	\$604	-84%	183	-\$505,372
Total									-\$3,444,941

The fee structure has two parts (1) Base fee, and (2) Additional Per unit fee. The above analysis only considers the Base Fee for comparison.

*¹ Average of fee charged by other jurisdictions excluding Brampton (includes Toronto, Mississauga, Markham, and Hamilton)

*² Compared to the average fee charged by other jurisdictions

*³ Calculated as a difference of fee charged by Brampton and the average fee charged by other jurisdictions based on average volume of applications between 2020 and 2022

Finding #4: Development Services Significantly Undercharging Fees

Potential Increase in Development Services Base User Fee Revenue

Application Type	Brampton 2021 Base Fee	Average Volume (2020-2022)	After 25% Fee Increase	Additional Revenue	After 75% Fee Increase	Additional Revenue	After 100% Fee Increase	Additional Revenue
Official Plan Amendment	\$10,651	8	\$13,314	\$20,414	\$18,639	\$61,243	\$21,302	\$81,658
Zoning By-law Amendment	\$16,483	15	\$20,604	\$60,438	\$28,845	\$181,313	\$32,966	\$241,751
Subdivision Application	\$11,194	19	\$13,993	\$54,104	\$19,590	\$162,313	\$22,388	\$216,417
Condominium	\$7,927	40	\$9,909	\$79,270	\$13,872	\$237,810	\$15,854	\$317,080
Site-plan Approval	\$6,622	202	\$8,278	\$334,963	\$11,589	\$1,004,889	\$13,244	\$1,339,851
Pre-construction Application	\$604	183	\$755	\$27,583	\$1,057	\$82,748	\$1,208	\$110,331
Total				\$576,772		\$1,730,316		\$2,307,088

The fee structure has two parts (1) Base fee, and (2) Additional Per unit fee. The above analysis only considers the Base Fee for comparison.

*¹ Average of fee charged by other jurisdictions excluding Brampton (includes Toronto, Mississauga, Markham, and Hamilton)

Finding #4: Development Services Significantly Undercharging Fees

Property Tax Subsidy (per application)

Application Type	2022 Direct Cost ^{*1}	Overhead ^{*2}	2022 Total Cost	2022 Base Fee	2022 Base Fee after 100% increase	Property Tax Subsidy on Direct Cost		Property Tax Subsidy on Total Cost	
	A	B	C = A+B	D	E	F = E-A		G = E-C	
Official Plan Amendment	\$51,292	\$18,978	\$70,271	\$10,651	\$21,302	-\$29,990	-58%	-\$48,969	-70%
Zoning By-law Amendment	\$47,136	\$17,440	\$64,576	\$16,483	\$32,966	-\$14,170	-30%	-\$31,610	-49%
Subdivision	\$65,872	\$24,372	\$90,244	\$11,194	\$22,388	-\$43,484	-66%	-\$67,856	-75%
Condominium	\$35,025	\$12,959	\$47,985	\$7,927	\$15,854	-\$19,171	-55%	-\$32,131	-67%
Site Plan (Basic/Full)	\$31,935	\$11,816	\$43,751	\$6,622	\$13,244	-\$18,691	-59%	-\$30,507	-70%
Pre-consultaion	\$11,351 ^{*3}	\$4,200	\$15,551	\$604	\$2,000	-\$9,351	-82%	-\$13,551	-87%

The fee structure has two parts (1) Base fee, and (2) Additional Per unit fee. The above analysis only considers the Base Fee for comparison.

*¹ Includes direct costs incurred by various divisions that contributed in processing development applications (based on the consultant's study)

*² Assumed to be 37% of the direct costs (based on a 2005 study commissioned by Development Services Division)

*³ Average of the estimated direct costs of pre-consultation for development and site plan applications.

We provide no assurance on the accuracy of the consultants' analysis of direct and indirect costs.

However, we have benchmarked the City's user fees with other municipalities, and benchmarking results are consistent with the consultant's cost-recovery analysis, both indicating that the City is undercharging for these services.

Finding #4: Development Services Significantly Undercharging Fees

- City is foregoing **\$3.4 million** in potential revenue based on the average application volumes and what Brampton charges v/s other jurisdictions.
- City can generate **\$2.3 million** in user fee revenue if the user fee rates are increased by 100% from 2022 levels.
- Even with an 100% increase, the user fee rates would still be below what other municipalities charge on average and not recover the full cost of service.
- With 100% increase in user fees, the City will still recover only 18% to 70% of direct costs for different development services user fee categories.
- The recovery ratio is much lower if we count indirect costs. The City is heavily subsidizing development service fees with property taxes.

Recommendations:

1. Implement a corporate comprehensive user fee framework and program-specific user fee policies
2. Determine the full-service costs for each user fee program area as the starting point for setting user fee rates
3. Document the rationale when user fees are not set based on the full-service cost
4. Conduct and present to City Council a comprehensive user fee study once every four years
5. Provide comprehensive annual fee updates to City Council that incorporate service delivery changes, benchmarking information, additional opportunities for user fees
6. Evaluate the feasibility of raising the development services user fees through a comprehensive user fee study

Summary of Findings

User Fee Best Practice / Program controls	Development Services	Fire & Emergency Services	Parks & Forestry	Recreation
1. City-wide Comprehensive User Fee Framework established				
a) Intended cost recovery ratio/ goals are formally established for each fee program	✗	✗	✗	✗
b) Individual user fees formally categorized as: (i) full cost recovery, (ii) partial cost recovery, (iii) provincially legislated, or (iv) market-based	✗	✗	✗	✗
c) Criteria for subsidies, waivers, and exemptions established for each fee program	✗	✗	✗	✓
d) Standard Operating Procedures (SOP) to administer user fees exist	✗	✗	✗	✗
2. Full service costs determined (including direct, indirect, and capital costs) for each program	✗	✗	✗	✗
3. A Comprehensive User Fee study for each program area completed and presented to Council in the last five years* ¹	✗	✗	✗	✗
4. Annual user fee review completed and presented to Council* ¹	✗	✗	✗	✗
a) Annual inflation adjustments performed	✓	✓	✓	✓
b) Rationale and cost-analysis for non-inflationary fee increases documented	✓	✗	✗	✓
c) Annual analysis of service volumes and revenues consistently performed* ²	✗	✗	✗	✓
d) Benchmarking of user fees with other jurisdictions performed	✓	✓	✗	✓
5. User fee revenues are recorded and tracked in specific accounts	✓	✗	✗	✓

✗ The City/Division did not meet the best practice criteria ✓ The City/Division met the best practice criteria

*¹ The City's reporting on user fees is limited to annual staff reports for adding or removing user fees or adjusting for inflation; and a once-every-four-year Financial Master Plan, which discusses user fees at a high level. However, these documents do not present a comprehensive analysis of program costs and cost recovery by program.

*² We found evidence of rudimentary analysis of service volumes and revenues, however, this was not done consistently. In a few cases, we found errors in how service volumes were calculated. In other cases, service volumes were not tracked or analyzed for all user fee categories.

Thank you!

