

Date: 2023-02-10

Subject: **User Fee Audit Report**

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Report Number: CAO's Office-2023-189

Recommendations:

1. That the report titled: User Fee Audit Report 2022, to the Audit Committee Meeting of February 21, 2023, be received.

Executive Summary:

- 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.
- Property taxes and user fees remain the only meaningful sources of revenue to meet the increasing costs of service delivery.
- In 2022, approximately \$211.5M, or 28% of the City's revenue was generated from user fees, while 66% was derived through property tax.
- We reviewed four user fee program areas and their activities from January 1, 2020 to December 31, 2022: Development Services, Recreation, Fire & Emergency Services, and Parks Maintenance & Forestry Divisions.
- We found the following:

The City currently does not have a comprehensive user fee framework to ensure consistency in establishing and administering the City's user fee programs and to provide guidance on cost recovery. Many of our observations resulted from lacking a comprehensive user fee framework.

For the programs we reviewed, many fees were set historically and the basis for setting user fees are not clear or no longer clear. The rationale or the cost analysis for fees charged were not documented. Staff had not determined the full services costs before setting the user fee rates. There was also no coordinated approach taken to allocate corporate overhead costs to divisions for assessing full-service

costs and setting user fees. Capital costs were also not considered when setting user fees.

There were no comprehensive fee studies done in the last 5 years. Periodic user fee updates to City Council were not consistently done. The annual updates facilitated by Finance were limited, primarily focusing on inflation adjustments and often did not count for program changes or identify new fee opportunities.

There is a significant risk that the City is undercharging for its services.

- We benchmarked Development Services fee rates with other cities, and estimated that the Development Services significantly undercharged their services. We estimated that the undercharging could be over \$2M a year.
- The findings of this report could apply to other user fee program areas.
- The issues and associated management action plans are detailed in the body of the audit report located in **Appendix 1: User Fee Audit 2023 Report**.

Process	Finding
1. Comprehensive User Fee Framework	<p>The City has not established a comprehensive user fee framework to ensure consistency in setting and administering the City’s user fee programs including cost recovery.</p> <p>In the absence of a cohesive user fee policy and accompanying procedures, user fees have been established and managed without a clear set of common principles.</p>
2. Full Cost of Service	<p>For most services and programs, the basis for setting user fees is not clear.</p> <p>Staff have not consistently documented the rationale or the cost analysis for fees charged for various programs.</p> <p>The four program areas we reviewed generally have not considered indirect costs or capital costs when setting user fees.</p> <p>City currently does not take a coordinated approach to determine and allocate corporate overhead costs to</p>

	<p>divisions for assessing full service cost and setting user fees.</p> <p>Consequently, there is a significant risk that the City is undercharging for services.</p>
<p>3. Comprehensive User Fee Study and Periodic Updates</p>	<p>Most user fee programs have not had a comprehensive user fee study in the last five years and have not consistently performed periodic user fee updates.</p> <p>The current corporate-wide annual updates of user fees primarily focus on inflation adjustments (typically 2% to 2.5%).</p> <p>Corporate-wide annual user fee report does not present to Council any information on program costs, subsidies, and recovery ratios.</p>
<p>4. General Recovery Accounts</p>	<p>Approximately \$7.1M or 3% of the total revenues were recorded as general recoveries.</p> <p>When user fees are recorded in general accounts, it is more difficult to track revenues from different user fee streams or to facilitate comprehensive and periodic fee reviews.</p>
<p>5. Development Services User Fee Revenue</p>	<p>The Development Services is significantly undercharging their fees. The City is foregoing \$3.4M in potential revenue based on the 2020-2022 average application volumes when comparing the City’s current development services user fee rates to the average fees charged by other cities.</p> <p>The City can benefit from an additional \$2M in user fee revenue if the City were to raise the Development Services user fee rates by 100%.</p> <p>With a 100% increase:</p> <ul style="list-style-type: none"> ➤ The City’s Development Services fees rates would still fall short of the fee average charged by other cities.

	<ul style="list-style-type: none"> ➤ The City still recovers only 18% to 70% of direct service costs. The recovery ratio using full service costs drops further. ➤ The City still heavily subsidizes development service with property taxes.
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Conclusion:

The objective of this engagement was to evaluate the effectiveness of the City's User Fee program, identify strengths and weaknesses, and provide recommendations for improvement.

Our review found that the City has not set a comprehensive user fee policy framework to govern the intended cost recovery for its various programs and services. The City has also not established the full cost of service before determining user fees for its programs and there is a significant risk that City is undercharging for these services.

The report identifies opportunities for the City to evaluate its development services fee rates and increase its user fee revenue by \$2M a year.

Implementing the seven recommendations in this report will improve the effectiveness of the City's user fee program, ensure consistency in administering the City's user fees program, manage the balance between property taxes and user fees, plan for the future, and help the City improve its long-term financial sustainability.

Authored by:

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Attachments:

Appendix 1: User Fee Audit Report 2022

Appendix 2: Management Response – User Fee Audit Report 2022