



STAFF REPORT ACTION REQUIRED

Comprehensive User Fee Review

Date:	January 4, 2012
To:	Budget Committee
From:	City Manager and Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2012\Internal Services\Fp\Bc12004Fp (AFS #14904)

SUMMARY

The purpose of this report is to present the findings and recommendations of the Comprehensive User Fee Review. In response to City Council's request that the City Manager undertake a Comprehensive User Fee Review and to develop a User Fee Policy [the Policy] and Framework, all user fees were examined using a common methodology. The Policy was adopted by Council at its special meeting of September 26 and 27, 2011. This report presents general and program-specific findings and recommendations arising from the user fee review.

The Comprehensive User Fee Review has examined the City's existing user fees against the principles established in the Policy, and has identified opportunities for improving the effectiveness and efficiency of the City's management of its user fees. Specifically, the Review has resulted in the categorization of all user fees on the basis of full cost recovery, city policy, provincially-legislated, and market-competitiveness. These groupings will provide clarity and transparency for the basis on which the fees are established, reviewed, approved and managed, consistent with the principles established in the User Fee Policy.

The fundamental principle of the User Fee Policy adopted by Council is that user fees should be utilized to finance those City services and products that provide a direct benefit to specific users and that user fees should be set to recover the full cost of those products and/or services, unless there is a City policy reason to change the recovery level to a different amount. While the Review identified user fee services that should be fully cost recovered, it was not possible to affirm the full cost of all user fee services due to time and staff resource constraints. It is evident, however, that in most cases the full cost of providing user fee services has not been determined given that capital cost and all indirect costs were generally not taken into account in determining the fee amount prior to approval of the User Fee Policy. In order to fully comply with the approved principle of full costing as the basis for setting user fees established in the

Policy, this report recommends that the full cost of user fee services should be determined in time for the 2013 Budget process.

This report includes user fee findings for all City Programs and Agencies, including the Toronto Transit Commission, Toronto Water and Solid Waste Management Services. Council considered the user fees and incremental revenues for Toronto Water and Solid Waste Management Services at its meeting of November 29, 2011 as part of the 2012 Rate Supported Approval Process. Recommended user fees and incremental revenues for other City Agencies and Programs will be before Council for consideration January 17 through 19, 2012.

RECOMMENDATIONS

The City Manager and Deputy City Manager and Chief Financial Officer recommends that:

1. City Council approve the discontinuation of the user fees listed in Appendix 2 attached.
2. City Council approve the transfer of the user fees listed in Appendix 3 from Technical Services to the Information and Technology Program.
3. City Council approve the rationalization / restructuring of user fees as detailed in Appendix 4 in order to make the City's User Fee Program more efficient, effective, and responsive to current demand for the City's products and services.
4. City Council approve the technical adjustments detailed in Appendix 5 to add existing user fees that were inadvertently excluded from the Official Inventory of User Fees, and to correct prices for existing fees.
5. City Council approve user fees classified as 'Market-Based' as detailed in Appendix 6 for which the user fee pricing strategy will include benchmarking against other organizations providing the same or similar services.
6. City Council approve the user fees classified as 'City Policy' as detailed in Appendix 7, as well as an automatic annual inflation adjustment based on the principles established in the City's User Fee Policy applicable to those fees as indicated in 2012.
7. City Council approve the user fees classified as 'Full Cost Recovery' as detailed in Appendix 8, as well as an automatic annual inflation adjustment based on the principles established in the City's User Fee Policy applicable to those fees as indicated in 2012.
8. City Council approve the user fee classification for new fees for implementation in 2012, detailed in Appendix 9.
9. City Council require that, as the basis for setting user fees going forward, the full cost of user fee services for all Programs and Agencies be determined prior to the commencement of the 2013 Budget process; Programs and Agencies report back during the 2013 Budget

process the criteria for waiving fees and the level of subsidy provided to fees that are not recovering full cost.

10. City Council require that City Programs and Local Boards (referred to as Agency in the report) determine the amount of revenues generated by each user fee service prior to the commencement of the 2013 Budget process.
11. City Council request the City Manager to undertake a comprehensive review of special events related services, fees and permitting processes, including a strategy to ensure consistent use of the City's civic squares, and report back no later than the 2013 Budget process.
12. City Council approve standard user fee rates for Exhibition Place, Toronto Centre for the Arts, St. Lawrence Centre, Sony Centre for the Performing Arts, the Arena Boards of Management, and Yonge-Dundas Square but delegate authority to these Agencies to approve in-year changes to their market-based user fees (listed in Appendix 10) without requiring Council approval prior to the fee changes coming into effect.
13. City Council request the City Manager to develop a corporate strategy for online payments or telephone self-service options that is consistent with the User Fee Policy and the City's e-Service vision.
14. City of Toronto Municipal Code Chapter 441, Fees and Charges, and any other Code Chapter or City By-law be amended, as required, to reflect the recommendations of this report.
15. City Council grant authority to City Staff to introduce the necessary bills to give effect to these recommendations.

FINANCIAL IMPACT

As a result of the Comprehensive User Fee review, changes to existing user fees and the introduction of new user fee opportunities will generate incremental revenues totalling \$20.126 million (including Toronto Water and Solid Waste Management Services, but excluding TTC) which has been included in the 2012 Recommended Operating Budget, and consists of \$14.061 million from City Tax Supported Programs, \$0.980 million from Agencies, and 5.085 million from Rate Supported Programs (Toronto Water and Solid Waste Management Services).

Price changes to existing user fees will generate \$17.008 million in total incremental revenues in 2012. This includes \$3.742 million from automatic inflation adjustments for 2012, and \$13.266 million from non-inflation rate changes. The non-inflation rate changes increase in revenues is mainly to recover more of the full cost of providing user fee services and/or to adjust the price of market-based user fees based on market price comparisons and benchmarks, where applicable.

(In Thousands)	Existing User Fee Price Changes			New User Fees \$	2012 Total Incremental Revenues \$
	Inflation Adjustments \$	Non-Inflation Rate Changes \$	Total Incremental Revenues \$		
City Programs	3,740.7	7,221.9	10,962.6	2,649.3	13,611.9
Agencies	2.1	959.2	961.3	19.0	980.3
Sub-Total	3,742.8	8,181.1	11,923.9	2,668.3	14,592.2
Rate Supported	-	5,085.0	5,085.0	449.0	5,534.0
Total	3,742.8	13,266.1	17,008.9	3,117.3	20,126.2

The incremental revenues listed above exclude the Toronto Transit Commission's 10 cent fare increase which is projected to generate \$30.0 million in 2012.

New fee opportunities will generate estimated revenues of \$3.117 million for 2012, which include \$0.266 million for Solid Waste Management Services and \$0.183 million for Toronto Water.

DECISION HISTORY

In 2005, City Council adopted a Comprehensive Report on the City's Long-Term Fiscal Plan, which included the principle that, "the pricing of user fees should generally take into consideration the full cost of the service (direct, indirect and cost of capital)".

The City of Toronto Act, Section IX, Fees and Charges, allow for the costs to be recovered in a fee or charge to include administration, enforcement, and the establishment acquisition and replacement of capital assets. Accordingly, the City is permitted to include the cost of capital assets in user fees.

On April 12, 2011, City Council adopted Executive Committee Report Ex. 4.10, Service Review Program and directed the City Manager "to undertake a User Fee Review to establish a user fee policy and framework that will ensure consistency in developing and administering the City's user fees program and report the outcomes to Executive Committee". City Council further requested that the City Manager include all Agencies in the review.

At its special meeting of September 26 and 27, 2011, City Council approved a User Fee Policy and Framework for administering the City's User Fee Program and required all City Programs and Agencies to comply with the principles established therein.

ISSUE BACKGROUND

In April of 2011, City Council approved a Service Review Program to address a sizeable 2012 Operating Budget pressure and a growing structural shortfall. The Service Review Program included three key undertakings:

- A Core Service Review to establish what services the City will deliver;
- An Efficiency Study Review to determine how well the services provided are delivered; and
- A User Fee Review to determine who pays for the services.

The User Fee Review would examine all user fees currently in place to determine the extent to which they are fair, and collect the full cost of providing the particular user fee services. City Council required that the Comprehensive User Fee Review examine all services delivered by City Programs and Agencies to:

1. Identify all existing user fees;
2. Determine the current basis of the fee price;
3. Determine those fees that should be fully cost-recovered, and the extent to which the full cost is recovered;
4. Determine those fees that should be exempt from full cost recovery;
5. Identify additional opportunities for collecting user fees;
6. Assess whether user fee services are delivered economically and efficiently; and,
7. Assess access and equity issues.

Furthermore, City Council required that the review examine the methodology used to determine the cost of services, identify the extent to which full cost is determined prior to setting fees, and analyze conditions under which fees may be waived for specific persons or groups of persons.

COMMENTS

Review Methodology

The approach for the Comprehensive User Fee Review included establishing a Corporate Review Team to address policy issues and perform due diligence to ensure that all fees are examined through a common lens. In addition, a Working Group undertook detailed analysis of all City Program and Agencies' services and user fees. The review compared the existing practices, processes, guidelines, and systems currently used by City Programs and Agencies to establish and manage user fees against the principles set out in the approved City's User Fee Policy. Interviews were held with key City Program and Agency staff on their user fee practices, assumptions, legislative authority, pricing strategies, and service costing. The review assessed:

- The extent to which the general public and identifiable individuals or groups benefit from the service;
- Who should be charged and how much to charge;
- The extent to which the full cost of providing the service should be recovered from user fees; and if not, confirming that principles and guidelines were established to award subsidies;

- The pricing strategy that would best achieve the objectives of the service or program; and,
- The degree to which public consultation was considered when introducing or changing user fees.

Given the scope of the project, challenging timelines and other constraints, key components of this review, such as the calculation of the full costs of all user fee services as a precondition for setting user fees, could not be delivered as part of this report. As well, determining when subsidies should apply and the criteria for awarding subsidies for services could not be fully addressed at this time.

User Fee Review Findings

As part of the Comprehensive User Fee Review, all user fees of City Programs and qualifying Agencies were identified and aligned with the respective Program Maps (services and activities). A User Fee Database was developed to facilitate the effective and efficient analysis and management of these fees, and to ensure conformity with the City's Municipal Code Chapters 441 and 442. It is noted that the database was designed to support the transparency and accountability requirements inherent in the City's approved User Fee Policy. Major findings of the user fee review are summarized below, while Program/Agency specific findings are discussed in Appendix 1 of this report.

Full Cost of User Fee Services Generally Unknown

The full cost of user fee services has generally not been determined and utilized as the basis for setting user fee rates. Some City Programs and Agencies indicated that they use direct costs only; others use direct plus indirect costs; and, a few use full cost that is, direct, indirect and capital costs as the basis for setting their user fees.

Accounting Services has developed a costing model that sets the framework for determining the full cost of services. However, still outstanding is the identification of capital assets that are used to provide particular services and the amortization rates that should be applied. Given the large number of user fee services offered by the City, it was not possible to achieve the goal of affirming the full cost of each user fee service within the time available to complete this Comprehensive User Fee Review.

The Development Application Review Process (DARP) fees represent a good example of a user fee service for which the relevant Program has complied with the full costing principle. City Planning staff play the lead role in reviewing development applications to ensure that proposed development contribute to Toronto's economic, physical, social and environmental quality of life. Development review is a horizontal service that directly involves staff from 9 City program areas in processing development applications. The resources attributed to processing activities and application categories include direct operating costs, indirect support costs and capital costs.

The DARP service provides direct benefits to identifiable beneficiaries (and not the general population) and therefore should be fully cost recovered. The City Planning Division has determined the full cost of providing the relevant service. Every effort was made to identify

direct, indirect and capital costs associated with providing the service. However, while the service satisfies the conditions for full cost recovery, approximately 70 percent is currently being recovered. As a result, DARP fees are subsidized by property tax funding which is not in compliance with the full cost recovery principle established in the recently approved User Fee Policy.

City Planning has completed its implementation plan to adjust user fees with a goal of recovering the full cost of the Development Application Review Service, and has submitted a report which was considered by the Budget Committee at its meeting of December 13, 2011. The Budget Committee recommended adoption to the Executive Committee and this report will be considered by City Council at its Special Meeting of January 17 -19, 2012.

This report recommends that all City Programs and Agencies determine the full cost of each user fee service before the commencement of the 2014 Budget Process and that the full cost be used as the basis for establishing user fee prices. Once completed, Program and Agency staff must establish the appropriate recovery rate or conversely the subsidy level, particularly in cases where the user fee service is not to be fully cost-recovered due to policy or market competitiveness considerations.

User Fee Service Revenues Uncertain

For many user fee services, the annual amount of revenues collected cannot directly be attributed to the specific user fee services. While revenues are accounted for and tracked, the ability to segregate revenues received for particular user fee services or activities is not possible in all cases.

Best practices and generally accepted user fee principles hold that user fee revenues should not exceed the cost of providing the user fee service. Furthermore, collection of revenues in excess of the cost of providing the user fee service can expose the City to the risk of the user fee being overturned by a Court as an illegal tax. As a minimum requirement, there must be a reasonable connection between the quantum of a fee charged and the cost of providing the service for which it is charged - noting that fees cannot be used to raise general revenue lest they be deemed a tax.

This report recommends that, prior to the 2014 Budget process, City Programs and Agencies should estimate the revenues to be generated by each user fee service and should provide assurance that user fee revenues do not exceed the full cost of providing particular services.

Periodic Review of User Fees

No recurring process was in place to ensure that user fee rates and user fee revenues are kept current. In many cases, user fee rates had not been reviewed for five years or more to ensure that the fees were comparable to similar services and that they were generating the appropriate level of revenues to recover the full or approved amount of the service cost, and to ensure that they were in compliance with best practices and generally accepted principles.

This issue has been addressed in the Council approved User Fee Policy. However, as part of this Comprehensive User Fee Review, some opportunities to increase user fees for services inflationary adjustments have been identified and recommended for Council approval.

Approval of User Fees

The Review found that there was no consistent approach or process for approving user fees. Fees were frequently approved through various channels, including, but not limited to, formal reports to City Council, the annual budget process, delegated authority to Division Heads, etc. In some cases, the authority to establish specific user fees preceded amalgamation and no change had been made since then.

The issue above has been addressed in the approved User Fee Policy. However, this report requests Council approval of all existing user fees and seeks authority for staff to introduce the appropriate bills to ensure that they are all included in the City's official user fee inventory.

In summary, prior to the establishment of the City's cohesive and comprehensive User Fee Policy, it was uncertain in some cases that best practices were in place or that the whole of the user fee program was being actively managed. Furthermore, the existing program-specific approach to user fee implementation has not addressed cross-divisional service provision issues. With the User Fee Policy and Framework now in place, it enables a more wholistic approach to assessing the City's user fee regime. The Review has identified inconsistent approaches to similar types of fees as well as fee categories. For instance, in determining the cost of providing some services, the contribution of other Programs and Agencies involved either directly or indirectly was not considered. The full cost of providing these services had therefore not been taken into consideration when determining the user fee rate.

Discontinued User Fees

The authority to introduce and discontinue user fees is vested in City Council. As part of the Comprehensive User Fee Review, all City user fees were assessed to determine whether they were still relevant or if there are fees that should be discontinued and, therefore, removed from Chapter 441 of the City of Toronto Municipal Code. As set out in Table 2, the review found 314 existing fees that ought to be discontinued for reasons such as lack of current demand for the service or product; duplication of fees; and, discontinuation of services such as the Toronto A La Cart Street Food Pilot Project. As outlined in the table below, 213 user fees, or 68 percent are user fees that were introduced in 2002 or earlier, while 101 user fees, or 32 percent of the fees recommended for discontinuation were implemented during 2003 to 2011.

Table 2 Comprehensive User Fee Review Discontinued User Fees				
City Program	Implementation Date			Total
	Pre-2003	2003-2007	2008-2011	
Technical Services	16	21	2	39
City Clerk's Office	13			13
Economic Development & Culture	2	1	23	26
Municipal Licensing & Standards	9			9
Transportation Services	12		4	16
Facilities Management & Real Estate	17			17
Emergency Medical Services			3	3
Toronto Water	2		1	3
Parks, Forestry and Recreation	142	35	10	187
Toronto Public Health			1	1
Total	213	57	44	314
Cumulative Total	213	270	314	314
Cumulative Total %	68%	86%	100%	100%

In compliance with the City's User Fee Policy, this report requests Council's authority to formally discontinue the user fees listed in Appendix 2 and to have these fees removed from the appropriate sections of the City of Toronto Municipal Code.

Transfer of User Fees between City Programs

In accordance with the City's User Fee Policy, a City Program and/or Agency that delivers a particular user fee service should also administer the user fee(s) for, and receive the revenues associated with that service. As part of the Information and Technology (I&T) Transformation Project in 2010, digital and mapping services that were originally provided by Technical Services were transferred to I&T for the development of a new Geospatial Competency Centre (GCC). The new GCC will be the prime contact and geospatial service provider for all City Agencies, and external service providers. To reflect the changes in service ownership and to ensure that user fees remain aligned with their respective Programs, this report recommends that the 32 user fees listed in Appendix 3 be transferred from Technical Services to I&T.

Rationalization/Restructuring of User Fees

Chapter 441 of the Toronto Municipal Code included a number of user fees that were no longer efficient to administer, or had not otherwise been rationalized for many years. Appendix 4 lists user fees for Parks, Forestry and Recreation; Transportation Services; City Clerk's Office; and, Facilities and Real Estate that should be restructured to ensure that they continue to fulfill current demand and market conditions, and are more effectively and efficiently administered.

In most cases, two or more fees were restructured or collapsed into one fee as illustrated in Appendix 4. As an example, the City Clerk's Office proposes that five individual Lifecycle Management of City Information user fees be replaced by one fee in order to streamline both the

product offered and the fee structure. Similarly, Parks Forestry and Recreation has restructured its lists of fees from 1,744 average categories which represented a total of 17,000 fees that have been restructured into 1,300 actual user fees.

Given that the rationalization/restructuring of fees compressed two or more similar fees into one user fees, and redefines existing user fee to more correctly reflect the services provided to the users, this report seeks Council's authority to effect the changes in Appendix 4.

Technical Adjustment of User Fees

As part of the Comprehensive User Fee Review, it was determined that several user fees that were approved by Council were inadvertently excluded from or incorrectly stated in the Official Inventory of User Fees for a few City Programs (Appendix 5). In the case of Parks Forestry and Recreation, incorrect user fee prices were included in the published inventory; some posted fees included the harmonized sales tax (HST) which does not represent City of Toronto revenues; and others did not reflect rounding to the nearest dollar adjustment strategy utilized by Parks, Forestry and Recreation in order to achieve administrative efficiency.

This report requests Council approval of the Technical Adjustments detailed in Appendix 5 and appropriate adjustments to Municipal Code Chapter 441 'Fees and Charges' to ensure that the Official City of Toronto User Fee Inventory reflect the correct information.

User Fee Inventory

The City's user fees cover a wide range of goods and services, including recreation programs, facility rental, engineering survey, sale of publications and other goods and services to name a few. Prior to the Comprehensive User Fee Review the database of fees totalled 3,120. As a result of the Review the inventory was increased to 3,810 to include user fees for all City Programs and Agencies. With the recommended discontinuation, restructuring and rationalization of various fees, the inventory of fees now total 2,927.

This count of fees excludes Provincially-Legislated fees, such as lottery licence fees, and bingo licence fees which are established by the Ontario Government and were not included in the City's User Fee Review as the City has no authority to determine whether the fee should be established and at what price. City Programs account for 2,382 or 81 percent, of the total City user fees, while the remaining 545 fees, or 19 percent, are provided by Agencies and Rate-Supported Programs.

User Fee Categories

A classification system has been designed to facilitate the annual review and evaluation of cost recovery rates; to simplify the process of calculating and applying automatic inflation rates; and, in general, to manage more efficiently the City's inventory of user fees.

User Fees are classified into the following four categories:

1. **Market-Based:** Fees in this category are compared to rates charged by other service providers of the same or similar services to ensure that market competitiveness is maintained.
2. **City Policy:** Fees in this category are for services that are intended to achieve a particular City policy objective and typically recover less than the full cost of providing the service.
3. **Full Cost Recovery:** Fees in this category are for services that directly benefits specific individuals or groups of individuals and are intended to recover the full cost of providing the service.
4. **Provincially-Legislated:** Fees in this category are legislated by the Province. While the City administers/collects these fees, it does not establish the fee or the basis for setting the amount of the service cost that should be recovered.

Table 3 provides the number of user fees based on the three categories that Council will approve.

Table 3			
2011 Comprehensive User Fee Review			
Categories of User Fees			
Category	Number of Fees	Percentage	New User Fees
Market-Based	541	18.5%	1
City Policy	1,281	43.8%	23
Full Cost Recovery	1,105	37.8%	1
Total	2,927	100.0%	25

Market-Based Fees

The City's Market-Based Fees are provided in a competitive market environment, that is, there are other providers of a similar service. As such, the fee price for the service is governed not only by the cost of providing the relevant service, but also by market forces such as demand and the pricing strategies of competitors. A comprehensive list of market-based user fees is provided in Appendix 6 attached.

In total, 541 (or 18 percent) of the user fees are classified as Market-Based. Primarily, these include user fees for services such as Heritage Programming, Arts Programming, Animal Sheltering and Adoption, on-street parking, Zoo Visitor Services, Community Centre Facility Access, and Toronto Centre for the Arts Facility Rentals. Appendix 6 shows the 2011 and 2012 user fee prices. The change in fee price is intended to ensure that the City recovers the maximum amount of the full cost of providing the related service without unduly undercutting private or other sector competitors. As a general price setting practice, City Programs and Agencies compare their user fee prices with those of competing public and private sector organizations that provide similar services.

In accordance with the City's User Fee Policy, these fees should be reviewed every year to ensure market competitiveness is maintained. In addition, changes to fee prices must be approved by City Council. This report recommends that City Council approve Appendix 6, which lists all user fees categorized as 'Market-Based'. It is noted that the incremental revenues

generated from these user fee price changes are included in the 2012 Staff Recommended Operating Budget.

City Policy User Fees

City Policy User Fees are set to achieve specific policy objectives of City Council. Subject to provisions in the relevant City Policy Objective, user fees within this category may be candidates for automatic annual inflation adjustment.

Appendix 7 lists all City Policy User Fees and identifies those qualifying for automatic annual adjustment. These fees total 1,281 and represent 43 percent of the overall inventory of user fees.

This report recommends that City Council approve Appendix 7, which lists all user fees categorized as 'City Policy' and approval of those identified for automatic annual inflation adjustment. It is noted that the incremental revenues are included in the 2012 Staff Recommended Operating Budget.

Full Cost Recovery User Fees

The User Fee Policy requires that user fees, including permits and licences, should be set to recover the full cost of providing a services from those who receive a direct benefit from the service. This principle applies where there is no explicit City Policy that precludes the collection of the full cost of providing the service; or where no authority has been granted by City Council to offer subsidies to individual or groups of individuals who benefit from the service.

Appendix 8 shows all user fees categorized as Full Cost Recovery, along with the 2011 and 2012 fee amounts. In total, 1,105, or 37 percent, of the City's inventory of user fees are categorized as Full Cost Recovery. It is noted that, with a few exceptions, all full cost recovery fees qualify for automatic annual inflation adjustment.

This report requests Council approval of the full cost recovery fees listed in Appendix 8; and approval of those that have been identified as candidates for automatic annual inflationary adjustments.

Provincially-Legislated Fees

There are 10 user fees legislated by the Province. These user fees are included in the City's database of fees but are not included as part of the Municipal Code Chapter 441 "Fees and Charges" given that the City has no authority over whether the fee should be established or the user fee rate charged.

These user fees are primarily for cost-shared programs administered by Long Term Care Homes & Services for resident care fees and adult day care programs; and by City Clerk's Office for bingo, raffle and bazaar licence fees.

Criteria for Fee Waivers and Subsidies

Notwithstanding the principle of full cost recovery, certain factors may warrant recovery of less than the full cost of providing the service. The justification for the level of cost recovery and the criteria for waiving fees should be clear and well defined. This will help to improve consistency, transparency and accountability in managing user fees and facilitate City Council's decision-making process.

It is recommended that Programs and Agencies report back during the 2014 Budget process on the specific criteria for fee waivers, and the level of subsidy to be provided to user fee services that are not recovering full cost, namely, user fees that are classified as city policy or market-based.

Existing User Fee Rate Adjustments

In accordance with the User Fee Policy, the inflationary adjustment applied to each user fee service is based on a blended rate of the specific inflation factors for each component cost represented in the basket of goods utilized to provide the service. This method reflects more accurately the overall inflation factor for the services provided. As a result, the inflation factor for each service will be different as shown in Table 4 below.

Annual Inflationary User Fee Adjustments - The City's User Fee Policy stipulates that, where Council has approved user fees for automatic annual inflation adjustment, the inflation adjusted fee price will be effective on January 1 of each year. Council has delegated authority to the Deputy City Manager and Chief Financial Officer to determine the annual inflation rate for user fees approved for automatic annual inflation adjustment, based on the projected rate of inflation for the upcoming year for the cost of each component of the overall cost of providing the individual user fee services.

User fees that satisfy the conditions for annual inflation adjustment are listed in Appendices 6 and 7 for user fees classified as City Policy and Full Cost Recovery, respectively. Market-Based fees are not candidates for automatic inflationary adjustments since market conditions constitute a significant factor in the pricing strategy for these fees.

Automatic inflationary adjustments of user fees will result in incremental revenues totalling \$3.742 million for 2012, summarized in Table 4 below, and included in the 2012 Staff Recommended Operating Budget.

Other Rate Changes - In addition to the inflation adjustments discussed above, this review has identified several user fees that could be adjusted to reflect market prices and/or to recover an incremental amount of the full cost of providing the related user fee service. As shown in Table 4 below, these user fee changes will generate incremental revenues totalling \$13.266 million in 2012, which has been included in the 2012 Staff Recommended Operating Budget.

Table 4
Comprehensive User Fee Review
2012 Summary of Incremental Revenues by Program
Due to Inflation and Other Rate Adjustments - Existing User Fees
(\$ 000's)

Programs / Agencies (by Service)	Inflation Adjustments		Other Adjustments		2012 Total Incremental \$ Revenue
	Avg. % Increase	Incremental \$Revenue	Avg. % Increase	Incremental \$ Revenue	
Economic Development and Culture					
Cultural Services			21.46%	20.5	20.5
Emergency Medical Services					
Emergency & Preventative Care	2.24%	4.4		0.4	4.8
Parks Forestry and Recreation					
Community Recreation	3.80%	1,096.9	10.00%	725.0	1,821.9
Parks	4.66%	348.8			348.8
City Planning					
Development Review, Decision & Implementation	2.10%	443.8		6,306.2	6,750.0
Municipal Licensing and Standards					
Business Licensing, Enforcement & Permitting	2.21%	411.3			411.3
Technical Services					
Land Surveys & Mapping	2.18%	1.7			1.7
Toronto Building					
Building Permission & Information	2.03%	1,133.3	0.70%	39.2	1,172.5
Transportation Services					
Public Right-of-Way Management	2.35%	295.1			295.1
Transportation Network Control & Safety			31.32%	98.0	98.0
Information & Technology					
Business IT Solutions	2.19%	3.0			3.0
Facilities Management and Real Estate					
Facilities Management			9.38%	28.8	28.8
City Clerks Office					
Make Government Work	2.10%	0.5			0.5
Promote Open Government and City Clerks Office	2.10%	1.8	20.00%	4.0	5.8
Sub-Total City Programs		3,740.7		7,221.9	10,962.6
Toronto Public Library					
Library Facility Access				217.0	217.0
Toronto Public Health					
Environmental Health	2.25%	2.1			2.1
Toronto Zoo					
Education and Outreach			3.85%	17.0	17.0
Visitor Services			8.19%	725.2	725.2
Sub-Total Agencies		2.1		959.2	961.3
Solid Waste Management Services				3,722.0	3,722.0
Toronto Water				1,363.0	1,363.0
Sub-Total Rate Supported Programs				5,085.0	5,085.0
Total Incremental Revenues		3,742.8		13,266.1	17,008.9

New User Fee Opportunities

As part of the Comprehensive User Fee Review, all City Program and Agency services and activities were reviewed to identify opportunities for new user fees, in accordance with the principles of the User Fee Policy. The review identified 25 viable new fee opportunities for four City Programs: Parks, Forestry and Recreation; Office of the Treasurer/Revenue Services; and, Toronto Public Library. The fees are classified as Market-Based (1); City Policy (23) and Full Cost Recovery (1). These new fee opportunities are included in the 2012 Staff Recommended Operating Budget and are listed in Appendix 9 of this report. As indicated in Table 5 below, the proposed new fees will generate \$2.668 million in 2012. The estimated incremental revenues will only partially recover the direct, indirect and capital costs of providing the respective services.

Staff report for action on the Comprehensive User Fee Review

The new fee opportunities for the Parks, Forestry and Recreation Program include 23 permit fees for sports-field bookings, room rentals, and use of outdoor ovens. The introduction of sports-field booking and room rental opportunities will harmonize the City's fees with those charged by surrounding Greater Toronto Area (GTA) municipalities, reduce overbooking of space, and allow for greater recovery of service costs. The two new permit fees for outdoor ovens, one for commercial / private / non-resident usage and the other for not-for-profit / resident usage, are added to recover the costs of the program.

The Office of the Treasurer identified one new user fee opportunity. This \$35.00 user fee will be charged for ownership changes on a tax account. At present, this service is performed at no charge to the consumer.

Toronto Public Library (TPL) identified one new fee opportunity to be charged for online payments of fines and fees and online resolution of account suspensions. To recover the banking charges incurred by TPL for the online service, a charge of \$1.00 is recommended for each online payment transaction.

Table 5 Comprehensive User Fee Review New User Fee Opportunities Incremental Revenues (\$000's)		
	2012 Gross Revenue	2013 Incremental Impact
Parks, Forestry and Recreation	1,503.5	
Office of the Treasurer	1,145.8	229.000
Toronto Public Library	19.0	
Total	\$ 2,668.3	\$ 229.0

The incremental revenue of \$2.668 million has been included in the 2012 Staff Recommended Operating Budget. Additional opportunities of new user fees will be reviewed during the 2012 for the 2013 Budget process.

Public Consultation Process

In compliance with the User Fee Policy, the general public must be provided with opportunity to make presentations as stated in the following principle:

With the exception of City Council approved automatic annual inflationary adjustments, where user fees are recommended to be introduced or changed, the public will be provided with five working days' notice of the recommended user fee prior to the meeting of the committee at which the recommended user fee will be considered, and will be provided with an opportunity to make presentations to the committee considering the user fee prior to the submission of the user fee to City Council for approval.

Public notice was posted and deputations were made to the Budget Committee at its meeting of December 7 and 8, 2011 regarding new user fees and changes to existing user fees included in the 2012 Staff Recommended Operating Budget.

Special Events Related Services

At present there are at least 16 different City Programs and Agencies responsible for either issuing a special events related permit or for the provision of support services for special events. Permits are issued and administered for a variety of special events from small community festivals to large international celebrations. The costs associated with permitting activities and the provision of support services are spread across multiple Programs, with each Program having its own processes and methods for tracking costs and fee waiver requests. There are instances in which services are actually recovering little or none of the direct or indirect costs of providing the service, and the overall costs to the City is disproportionately represented by the value or benefit derived from the event. The lack of a City-wide special events policy and the absence of consistent cost tracking and fee waiver mechanisms make it difficult for the City to assess the amount of financial support it provides to special events, forecast future expenditures on special events related services, and critically evaluate the costs and benefits of supporting special events activities across the City. Furthermore, there is a varying degree of costs being recovered for the City services that support these events, which can impact these Program's regular operations when unforeseen costs must be managed within constrained budgets.

Creating a comprehensive policy for special events cost recovery, including fee waiver criteria, would provide transparency in the decision-making process for the support of special events that promote or advance the economic and social benefits or specific policy goals and objectives of the City. It is recommended that a comprehensive review of special events related services, fees, and permitting processes be undertaken by appropriate City staff and report back no later than the 2014 Budget process.

Special Events Permitting Fees for Toronto Civic Squares

The City of Toronto recognizes that special events make an important contribution to the economy and the quality of life in Toronto. Given the strategic importance of the tourism industry to Toronto and the role of special events in community and business promotions, the City makes available the use of its public squares for a variety of events ranging from small community festivals to large international celebrations.

The City of Toronto owns five major civic squares, which are operated on different business models:

- Yonge-Dundas Square is operated by a Board of Management with the major objective of becoming financially viable. It charges permit and rental fees to the private sector and discounted rates or no permit fee to community groups.

- David Pecaut Square is managed by the Facilities Management Services, and is available only to community groups, registered charitable and not-for profit organizations. Currently, the City charges no permit or rental fees for use of the Square.
- Albert Campbell Square-Scarborough, is also managed by the Facilities Management Services and is available only to community groups, registered charitable and not-for profit organizations. Currently, the City charges no permit or rental fees for use of the Square.
- Nathan Phillips Square has a shared maintenance and management model. The Square's upkeep and event set up is a shared responsibility between Facilities Management Services and Parks, Forestry and Recreation and the Square's permitting process is managed and administered by Economic Development and Culture. The Square is available to community groups, registered charitable and not-for-profit organizations. The City charges no permit or rental fee for use of the Square.
- Mel Lastman Square is managed by Parks, Forestry and Recreation and is available to private groups at a fee of \$106.00 per hour. The Square is also available at no charge to community groups, and charitable and non-profit organizations.

Permit event fees for the Yonge-Dundas Square are based on market competitiveness and rates are compared with those of privately-owned locations within the City that compete for special events business. While Nathan Phillips, Albert Campbell and the David Pecaut Squares are available only to community groups and registered not-for-profit organizations, the Mel Lastman Square is available to private groups at a cost of \$106.00 per hour and is also available to registered not-for-profit organizations at no charge. The lack of a harmonized approach to the use of the City's civic squares put those Squares that charge a permitting or rental fee at a disadvantage. To date, the City has not reviewed the use of the Squares on a comprehensive basis to guide the type and size of events that are most appropriate for the respective locations. It is therefore recommended that the City Manager develop a city-wide, comprehensive approach for the use of the City's civic squares.

Age-Based Classifications for City Programs

The City of Toronto offers a variety of programs and benefits aimed at specific age groups. Age groups are classified as children, youth, adults, and seniors. The user fee review has found that the age group classifications are not used consistently across the organization. For example the age classification for a senior might begin at 55 or 65 depending on the program. This has implications for user fees where discounts, subsidies and or waivers based on age classifications are applicable.

Age group classifications should be well defined so that the age restrictions of those eligible to participate are clearly connected to the objectives of the service. It is therefore important that City Programs and Agencies have a clear policy basis for services that are designed for specific age groups. It is recommended that the City Manager develop guidelines for the establishment of consistent age-based classifications that ensure program objectives can be met.

User Fees of Agencies Recommended for Delegated Authority

Through the adoption of the City's User Fee Policy on September 26 and 27, 2011, Council approved the following recommendation:

City Council direct that Agencies with market driven user fees that change frequently throughout the year so as to respond to market conditions, to report to the Executive Committee by December 31, 2011 with a list of such fees and seeking authority from Council to specifically exempt such fees from requiring council approval.

Exhibition Place, Toronto Centre for the Arts, St. Lawrence Centre, Sony Centre for the Performing Arts, the Arena Boards of Management, and Yonge-Dundas Square have established standard rates for their user fee services. However, the market-based fees of these Agencies change frequently during the year to respond to market conditions, maintain competitive rates, and recover the cost of operations. Given the need to adjust fees on an ad hoc basis, this report recommends that Council delegate authority to these Agencies to approve in-year changes to market-based fees (listed in Appendix 10) without requiring Council approval prior to the fee changes coming into effect. These Agencies will, however, still be required to provide public notice for fee changes to the standard rates and the introduction of new fees annually for Council approval through the Budget process or as appropriate; and to publish their fees on the City's website. Notwithstanding this delegation, these Agencies will still need to comply with all other aspects of the User Fee Policy.

Issues Referred to the User Fee Review

Two issues were referred to the User Fee Review:

1. Front Yard Parking Fees. This issue involve the annual fee increases front yard parking.

A memo from Councillor Mihevc to the Budget Committee (May 10, 2011) requested that future front yard parking fees be limited to CPI rate increases, was referred to the CFO for consideration with the 2012 Budget process.

The 2012 Recommended Budget includes an inflationary increase of 2.35% for the front yard parking fees. This is in accordance with the User Fee Policy adopted by Council (September 26 and 27, 2011) that granted authority to the Deputy City Manager and Chief Financial Officer to annually determine the automatic inflationary adjustment to be applied to each user fee for which Council has approved an automatic inflationary adjustment using a blended inflationary rate based on a basket of goods and services required to deliver a particular user fee service.

2. Service Charge for Online Payment of Parking Ticket.

At its meeting of November 30, December 1, 2, 4 and 7, 2009, Council, in its consideration of Item GM26.3: *User Fees for Property Tax, Utility and Parking Ticket Accounts*, adopted the following pertaining to user fees for parking ticket payments:

- City Council direct that the fee for payment of parking tickets on-line or by telephone be phased-out over a three-year period;
- City Council request the City Manager to review all charges related to the payment of parking fines with a view to phasing them out and report to the Government Management Committee no later than June 2010.

Subsequently, at its meeting on August 10, 2010, the Government Management Committee considered item GM33.37: *Phasing Out User Fees for Parking Ticket Payments*. The Committee received the item for information only with no further action taken.

User fees are currently charged for parking ticket payments that are made through the City's website (\$1.50 per transaction) or via telephone through the City's Interactive Voice Response (IVR) system (\$2.00 per transaction).

The report indicated that phasing out user fees for parking ticket payments would require the identification of alternate revenue sources to make up the loss in fee revenue of approximately \$1.6 million annually. To date, an alternate or offsetting revenue source has not been identified, and as such, it is recommended that the current fees for online and telephone payments remain in place, pending the development of a corporate position on the imposition of user fees associated with on-line or telephone self-service options that is consistent with both the corporate user fee strategy and the City's e-Service vision.

Conclusion

The Comprehensive User Fee Review has taken the principles and framework approved in the User Fee Policy and applied them to the City's existing user fees that collect over \$1.4 billion annually in order to identify opportunities for improving the effectiveness and efficiency of the City's management of these fees. The review results in some user fees to being discontinued and others to be rationalized and restructured.

Fundamental principles and framework adopted by Council in the User Fee Policy states that City services and products that provide a direct benefit to specific users be charged a user fee to recover the full cost of the products and /or services that were applied, unless there is a specific City policy established to waive the fee or provide a subsidy to lower the fee.

User fees were categorized as either Market-Based and aligned to fees charged by other service providers of similar services; categorized as City Policy which generally established user fees at less than the full cost of providing the service; and identified user fees that directly benefit specific individuals or groups and grouped them under Full Cost Recovery with an intent to recover the full cost of providing the service.

The review identified incremental revenues of \$20.126 million for 2012 comprised of price changes to existing user fees of \$17.009 million, and new user fee opportunities of \$3.117 million.

CONTACT

Josie La Vita
Director, Financial Planning Division
Phone: 416-397-4229
Fax: 416-397-4465
Email: jlavita@toronto.ca

Pansy Murdock
Senior Financial Planning Analyst,
Financial Planning Division
Phone: 416-392-8891
Fax: 416-397-4465
Email: pmurdock@toronto.ca

SIGNATURES

Joseph P. Pennachetti
City Manager

Cam Weldon
Deputy City Manager & Chief Financial Officer

Attachments:

- Appendix 1 - Program / Agency Specific Findings and Recommendations
- Appendix 2 - User Fees For Discontinuation
- Appendix 3 - User Fee Transfers - from Technical Services to Information & Technology
- Appendix 4 - Restructured / Rationalized User Fee Schedule
- Appendix 5 - Technical Adjustments to Existing 2011 User Fees
- Appendix 6 - Market-Based User Fees
- Appendix 7 - City Policy User Fees
- Appendix 8 - Full Cost Recovery User Fees
- Appendix 9 - 2012 New User Fees
- Appendix 10 - User Fees of Agencies Recommended for Delegated Authority