

**TOWNSHIP OF
GUELPH/ERAMOSIA**

**DEVELOPMENT APPLICATION
APPROVALS PROCESS (DAAP)
USER FEE REVIEW**

April 7, 2008



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 **Planning for growth**

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1. INTRODUCTION TO DAAP USER FEES REVIEW

1. INTRODUCTION TO DAAP FEES REVIEW

Watson & Associates Economists Ltd. (Watson), in association with Performance Concepts Consulting, was retained by the Township of Guelph/Eramosa to undertake a user fee review of the *Building Code Act and Planning Act* mandated Development Application Approvals Process (DAAP). The Township's review of DAAP fees was initiated, in part, in reaction to the *Building Code Statute Law Amendment Act* (BCSLAA), Provincial legislation amending key provisions of the *Building Code Act*. BCSLAA imposes staff certification requirements, prescribes permit processing and inspection turnaround times, and restricts user fee design to only recover costs associated with "administration and enforcement" activities of the *Ontario Building Code Act* (OBCA). The user fees review also covers the *Planning Act* mandated component of the development process. These *Planning Act* mandated application processes typically recover less than a third of associated costs from application fees, thereby relying on significant property tax funding to recover much of the costs.

The scope of this undertaking consists of providing the Township with a legislative compliance framework for rationalizing processes and user fees governed by the *Planning Act* and *Building Code Act*. Watson has worked closely with Township staff to construct an activity based costing model to calculate "full cost" DAAP fees, that also meets the ongoing BCSLAA reporting requirements. A description of the DAAP user fees methodology and work plan employed for this undertaking appears below.

DAAP User Fee Review (Methodology/Work Plan)

1. A workshop was undertaken with Township staff from multiple departments (i.e. Planning, Building, Finance, CAO), reviewing the legislative provisions and fee design implications of the OBCA and Section 69 of the Planning Act. The kick-off workshop ensured all Township staff were working with a common understanding regarding the relationship between the operational, compliance and financial circumstances inherent in DAAP legislation.
2. Prepared application processing templates to track municipal staff effort associated with Planning and Building fee categories as contained in the Township's DAAP user fee by-laws. The templates feature sequential business process steps associated with each

Planning and Building application category to reflect measurable differences in processing effort. County mandated planning applications (e.g. subdivision and severances) were identified reflecting circumstances where Township staff act as a commenting agency contributing to the approvals process. Moreover, where processing effort is contracted out to planning, engineering and legal consultants and recovered directly from applicant, these efforts/costs have not been included in this exercise. Detailed process maps, developed with input from Township staff, were utilized to reflect actual work processes.

3. Estimated total application processing effort for all participating Township staff in respective DAAP fee categories. Average processing time for each planning and building process was documented based on staff's experience in recent years. Processing times were then applied against historic application volumes to calculate annual processing effort per employee. Total processing effort per staff member was then analyzed in terms of its relative share of that staff member's available productive time (annual capacity). The effort estimation and capacity testing process was refined to ensure accurate effort allocation shares across all participating Township business units and DAAP application categories. Planning processing effort estimates were subsequently benchmarked against municipal comparators as a further test of reasonableness.
4. Indirect support, corporate overhead and capital replacement costs were identified and allocated to direct DAAP business units using operational cost driver data. Allocated indirect costs and direct business unit costs were then stepped forward to various DAAP fee categories according to the effort estimation results noted above in Task 3.
5. An activity based costing (ABC) fees model was constructed by the consulting team. The model allocates costs according to the indirect cost drivers and the staff processing effort estimates. The model was constructed to produce full cost planning and building DAAP user fee schedules using the Township's 2007 budget data. At year-end, actual expenditure data can be input into the fees model to produce the mandatory OBCA financial reporting requirements. Full cost fee schedule impacts were modeled and analyzed for representative sample residential, industrial and severance developments.

6. An *Ontario Building Code Act* (OBCA) reserve fund was designed and integrated into the user fee model and fee determination calculations. A stabilization reserve fund target balance and accumulation strategy consistent with industry best practices was developed for the Township.

7. A municipal survey of local government sector input costs charged to development applicants was undertaken, in order to provide context for possible DAAP fee adjustments

In accordance with the above noted tasks, this report will provide a detailed description of the activity based costing fees methodology and findings.


2. LEGISLATIVE CONTEXT FOR DAAP FEES REVIEW

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2.1 Building Code Statute Law Amendment Act: Turnaround Time Provisions


The *Building Code Statute Law Amendment Act, 2002* was given Royal Assent on June 27, 2002 and substantially amended the *Building Code Act, 1992* as it relates to service delivery requirements and the imposition of fees. The changes provided within the Act can be traced (in part) to the report recommendations of the Building Regulatory Reform Advisory Group (BRRAG), which were offered to address issues of public safety, streamlining and accountability. While portions of the amendments came into force on September 1, 2003, and July 1, 2005, the amendments relating to permit processing turnaround times and financial reporting on fees came into force on January 1, 2006.

BCSLAA amendments concerning mandated turnaround times for permit processing and inspection are now in effect. Upon receiving a complete permit application that meets all of the technical requirements of the *Building Code Act*, applicable law, and the Township's Building By-law, the Chief Building Official must render a decision to issue/refuse the permit within prescribed timeframes (i.e. prescribed number of business days). A decision not to issue the permit requires written notification to the applicant documenting all deficiencies, with the written notification to be issued within the applicable turnaround time standard. Inspection turnaround times are calculated from the date the municipality receives notification of a request for a *Building Code Act* mandated inspection. The Figure below summarizes the *Building Code Act* turnaround time standards for various types of permit applications and inspections.




Building Code Statute Law Amendment Act (Bill 124)

Bill 124 Mandated
Permit Processing
& Site Inspection
Cycle Times



Incomplete permit application or application deficiencies “stop the clock”



Class of Building	Bill 124 Mandated Processing Time Period
Detached, semi-detached, town, and row houses, and certain tents and signs	10 days
Small buildings and small farm buildings	15 days
Large buildings and large farm buildings	20 days
Post disaster buildings and complex buildings	30 days
Site Inspections	2 Days from Notice

2.2 Building Code Statute Law Amendment Act: Permit Fees

With respect to establishing fees under the *Building Code Act*, Section 7 of the Act provides municipalities with general powers to impose fees through passage of a by-law. The Act provides that:

- “The council of a municipality...may pass by-laws
- (c) Requiring the payment of fees on applications for and issuance of permits and prescribing the amounts thereof;
 - (d) Providing for refunds of fees under such circumstances as are prescribed;”

BCSLAA imposed additional requirements on municipalities in establishing fees under the Act, in that:

“The total amount of the fees authorized under clause (1)(c) must not exceed the anticipated reasonable cost of the principal authority to administer and enforce this Act in its area of jurisdiction.”

In addition, the amendments also require municipalities to:

- Reduce fees to reflect the portion of service performed by a Registered Code Agency;
- Prepare and make available to the public annual reports with respect to the fees imposed under the Act and associated costs; and
- Undertake a public process, including notice and public meeting requirements, when a change in the fee is proposed.

O.Reg. 305/03 is the associated regulation arising from the *Building Code Statute Law Amendment Act, 2002*. The regulation provides further details on the contents of the annual report and the public process requirements for the imposition or change in fees. With respect to the annual report, it must contain the total amount of fees collected, the direct and indirect costs of delivering the services related to administration and enforcement of the Act, and the amount of any reserve fund established for the purposes of administration and enforcement of the Act. The regulation also requires that notice of the preparation of the annual report be given to any person or organization that has requested such notice.

Relating to the public process requirements for the imposition or change in fees, the regulations require municipalities to hold at least one public meeting and that at least 21-days notice be provided via regular mail to all interested parties. Moreover, the regulations require that such notice include, or be made available upon request to the public, an estimate of the costs of administering and enforcing the Act, the amount of the fee or change in existing fee and the rationale for imposing or changing the fee.

The Act specifically requires that fees “must not exceed the anticipated reasonable costs” of providing the service and establishes the cost justification test at the global *Building Code Act* level (as opposed to specific application type level of testing enumerated in the *Planning Act*). As the requirements of the Act do not limit municipalities to the costs directly related to the service, *Building Code Act* fees can include corporate overhead costs related to the provision of service (e.g. Governance, Chief Administrative Officer, Finance, etc.). Moreover, the recognition of anticipated costs also suggests that municipalities could include costs related to future compliance requirements or fee stabilization reserve fund contributions. As a result, *Building Code Act* fees modeled in this exercise include direct costs, capital-related costs, indirect support function costs directly consumed by the service provided, and corporate overhead costs related to the service provided, as well as provisions for future anticipated costs.

2.3 Section 69 Planning Act Fees

Section 69 of the *Planning Act*, allows municipalities to impose fees through by-law for the purposes of processing planning applications. In determining the associated fee, the Act requires that:

“The council of a municipality, by by-law, and a planning board, by resolution, may establish a tariff of fees for the processing of applications made in respect of planning matters, which tariff shall be designed to meet only the anticipated cost to the municipality or to a committee of adjustment or land division committee constituted by the council of the municipality or to the planning board in respect of the processing of each type of application provided for in the tariff.”

The Act requires municipalities to cost justify planning fees by application type (e.g. Subdivision, Zoning Amendment, etc.) as defined in the tariff of fees; therefore, subsidization across *Planning Act* fee categories is not permissible. The legislation further indicates that the fees may be designed to recover the “anticipated cost” of processing each type of application, reflecting estimated costs of processing a type of application and not the actual processing costs of a specific application. The Act does not specifically define processing activities and there are no explicit restrictions to direct costs as previously witnessed in other statutes (i.e. Municipal Act licensing). Therefore, acknowledging the staff effort consumed in processing applications from across municipal business units, such fees may include direct costs, non-growth capital-related costs, support function costs directly related to the service provided, and general corporate overhead costs apportioned to the service provided.

The payment of *Planning Act* fees can be made under protest with appeal to the Ontario Municipal Board (OMB) if the applicant believes the fees were inappropriately charged or are unreasonable. The OMB will hear such an appeal and determine if the appeal should be dismissed or direct the municipality to refund payment in such amount as determined by the Board.

3. ACTIVITY BASED COSTING USER FEE METHODOLOGY

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3.1 DAAP Fees Review Process

3.1.1 *Cost Allocation Methodology*

An activity based costing methodology attributes processing effort and associated costs from all relevant Township departments to the appropriate DAAP fee categories and sub-categories. Direct operating costs, indirect support and corporate overhead costs, non-growth capital replacement costs are all eligible for user fees based recovery. Figure 3-A is instructive in this regard.

Figure 3-A ABC Cost Flow Diagram

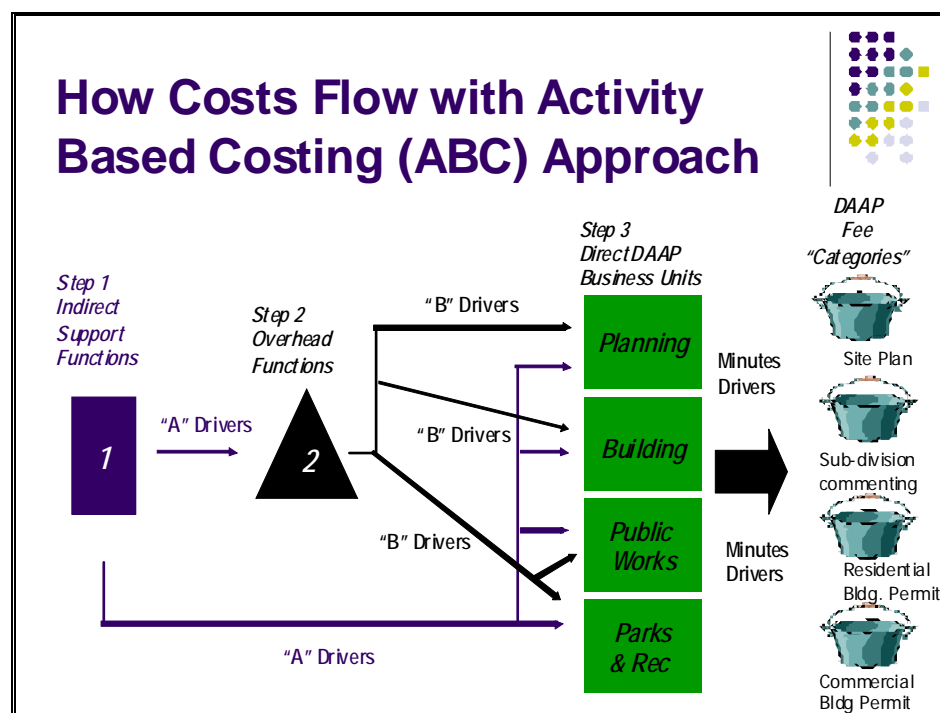


Figure 3-A traces eligible costs from support and corporate overhead functions to direct departments engaged in Planning and Building DAAP activities. Support function and corporate overhead costs (Steps 1 and 2) are distributed according to operational cost drivers (e.g. information technology support costs distributed by relative share of personal computers). Once support and corporate overhead costs are nested with direct departments (Step 3), these total

accumulated department costs are distributed across the various DAAP fee categories (and other non-DAAP Township services), based on relative staff effort. This sequence is referred to as a “service channel”.

3.1.2 Application Category Definition

The first step in designing the ABC user fees model is to identify the application categories that are to be costed. In doing so, the Township’s planning and building user fee bylaws were consulted. Subsequent discussions with Township staff resulted in the identification of application categories for the costing exercise that reflect material distinctions in processes or processing effort. These application categories are consistent with those found in other similar sized municipalities within County systems featuring upper tier approvals. The following table summarizes the planning and building DAAP fee categories costed through this undertaking.

Planning DAAP Fee Categories	Building DAAP Fee Categories
• Site Plan	• Assembly
• Subdivision	• Institutional
• Consent/Severance	• New Residential
• Minor Variance	• Residential Other
• Zoning By-law Amendment	• New Farm Building
	• Farm Other
	• Mercantile
	• New Industrial & Commercial
	• Industrial & Commercial Other
	• Temporary Buildings
	• Demolition Permit
	• Septic
	• Pool & Fencing

3.1.3 Effort Based Cost Allocation

To capture each participating Township staff member's relative level of effort in planning and building DAAP, application process templates were prepared. Discussions were held with Township staff to define the scope and nature of various Township and County departments' involvement in DAAP processes. An effort estimation template set out the specific sequence of typical process steps for each DAAP fee category. Process maps were designed with appropriate detail to identify both processing and commenting roles. Planning application processes driven primarily by external contracted resources have not been included in the process maps to remove the potential for double counting of processing effort.

Time estimates per process step were provided from all participating Township staff, summing up to the time for processing a typical DAAP application. Time estimation process steps for building DAAP covered pre-application support, application receipt, zoning conformity review, architectural/mechanical plans examination, grading review, permit issuance, all required inspections, and enforcement activity. Planning DAAP process maps, customized to reflect the specific Guelph/Eramosa service delivery model, were developed to collect typical effort estimates.

Application effort estimates per staff position were applied against historic application volumes to determine the average annual time per position spent on planning and building DAAP applications. Estimated annual effort per staff position was then compared against available annual processing capacity. This "capacity utilization" analysis ensures realistic effort estimates are provided for each staff position. Multiple iterations of the staff effort estimation and capacity analysis were undertaken and finalized. Planning DAAP application effort estimates were also compared to peer municipalities to assess their reasonableness.

Eligible costs for DAAP user fee recovery (i.e. allocated support/corporate overhead costs plus direct department costs) mirror the relative share of each participating staff member's effort estimates deployed across the DAAP fee categories.

3.1.4 Participating Township Business Units in Planning and Building DAAP

Figure 3-B Township Business Units included in DAAP User Fees Calculations

Support and Corporate Overhead Functions	Direct Business Units
<ul style="list-style-type: none"> • Administration/Clerks/Planning 	<ul style="list-style-type: none"> • Administration/Clerks/Planning
<ul style="list-style-type: none"> • Information Technology 	<ul style="list-style-type: none"> • Building
<ul style="list-style-type: none"> • Human Resources 	<ul style="list-style-type: none"> • Public Works
<ul style="list-style-type: none"> • Facilities 	<ul style="list-style-type: none"> • Parks & Recreation
<ul style="list-style-type: none"> • Council 	<ul style="list-style-type: none"> • Finance

3.1.5 Support Function and Corporate Management Cost Drivers

The choice of cost drivers for allocating indirect support and corporate overhead functions plays an important role in the calculation of full cost DAAP fees. These cost drivers are typically not based on staff time estimates. Township staff positions from these business functions do not typically participate directly in processing DAAP applications; however, they do enable the Township's direct departments to do so. Cost driver data measures the relative consumption of support and corporate overhead functions by direct departments. The relative share of a cost driver (units of work consumed) per direct department determines the relative share of support/corporate overhead costs attributed to that direct department. This allocation is referred to as its allocated support costs. Allocated support costs subsequently flow to DAAP fee categories along with the direct department costs, according to staff effort estimates.

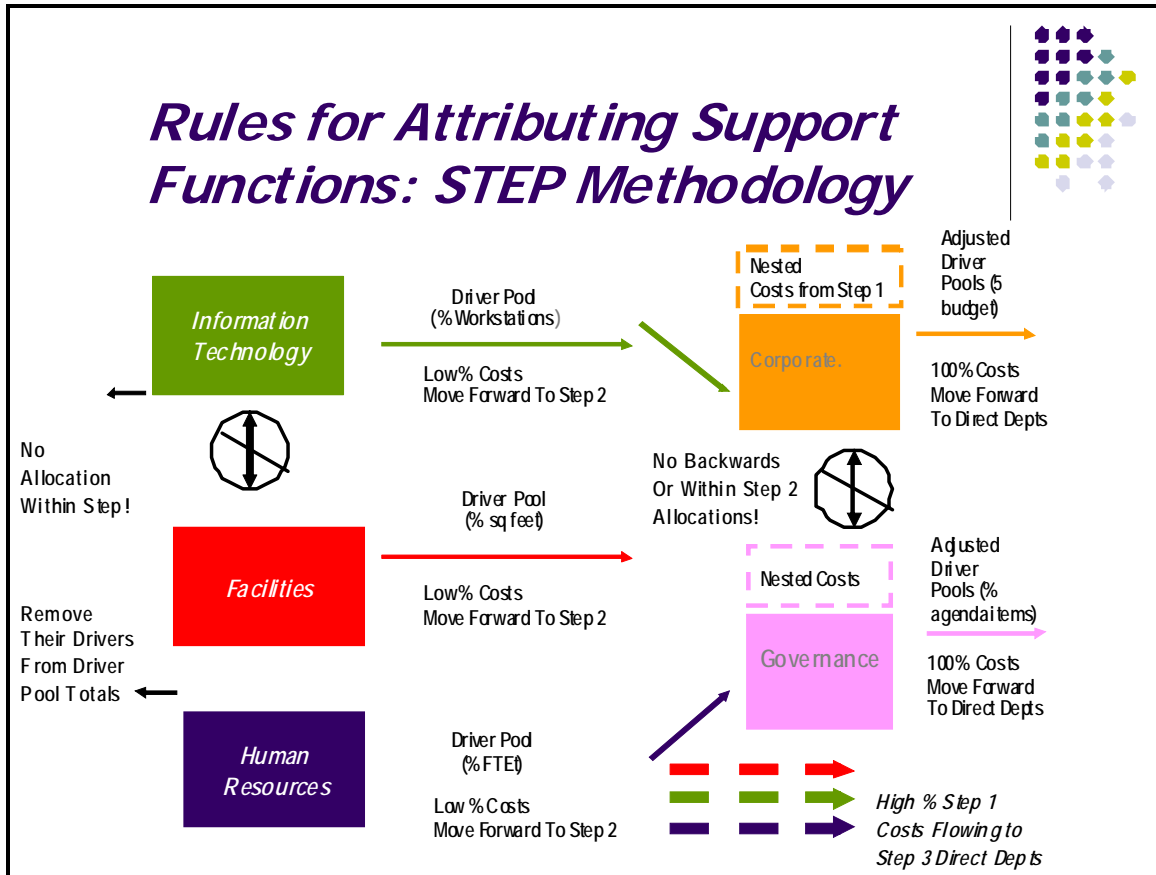
Figure 3-C summarizes the support and corporate overhead functions included in the user fee model and the cost driver assigned to each function for cost allocation purposes. The indirect support and corporate overhead cost drivers used by the Township in the fees model reflects accepted practices within the municipal sector by municipalities of similar characteristics. Moreover, many of the drivers selected are consistent with the Ontario Municipal Benchmarking Initiative (OMBI) for reporting requirements.

Figure 3-C Support and Corporate Overhead Functions and Cost Drivers Used in DAAP User Fee Calculations

Support and Corporate Overhead Functions	Assigned Cost Driver
<ul style="list-style-type: none"> Administration/Clerks/Planning (Step 2) 	<ul style="list-style-type: none"> Relative share of gross operating budget
<ul style="list-style-type: none"> Information Technology (Step 1) 	<ul style="list-style-type: none"> Relative share of supported PC work stations
<ul style="list-style-type: none"> Human Resources (Step 1) 	<ul style="list-style-type: none"> Relative share of gross operating budget
<ul style="list-style-type: none"> Facility Maintenance (Step 1) 	<ul style="list-style-type: none"> Relative share of occupied square footage within Township Headquarters Building
<ul style="list-style-type: none"> Council (Step 2) 	<ul style="list-style-type: none"> Relative share of gross operating budget

Support and corporate overhead costs are stepped forward in the full cost fees model. Step 1 support functions (Human Resources, Information Technology, and Facility Maintenance) are allocated primarily to Step 3 direct departments and partially to Step 2 corporate overhead functions. Step 1 functions do not allocate costs to each other. Step 2 corporate overhead functions allocate their nested costs from Step 1 and their direct costs to Step 3 direct departments. Step 2 functions do not allocate to each other, nor do they allocate backwards to Step 1 functions. Figure 3-D provides a simplified illustration on how support and corporate overhead costs allocated within the Township's user fee model. Other Step 2 functions not included in the diagram would have similar cost flow patterns. The design and implementation of a three step cost attribution model by the Township is consistent with best practices established by municipalities using this costing approach.

Figure 3-D Step Cost Allocation Diagram



3.1.6 Capital Costs

The inclusion of capital costs within the full cost DAAP user fee calculations follow a methodology similar to indirect costs. For capital costs the replacement value of assets commonly utilized to provide direct business unit services are established. These business unit asset replacement costs are then annualized over the expected useful life of the respective assets to determine the annualized cost of assets. This annualized amount reflects the sinking fund replacement amount required to reinstate the asset at the end of its useful life (or alternatively the annual depreciation of the asset over its useful life). This annuity is then allocated across all fee categories.

Capital replacement costs have been estimated for facilities using the R.S. Means Square Foot Costs Index, with an assumed 40 year average useful life. Building department fleet has also

been identified with replacement costs amortized over a 5 year useful life period. These assumptions form the basis for the annualized capital costs within the user fee model.

4. DEVELOPMENT APPLICATION APPROVALS PROCESS USER FEES

4. DEVELOPMENT APPLICATIONS APPROVALS PROCESS USER FEES

4.1 DAAP Cost Recovery Background

A number of municipalities in Ontario have historically used surplus building permit revenues (in excess of Building DAAP costs) to subsidize under-recovering early stage Planning DAAP approvals or to mitigate general levy impacts. Other municipalities (not generating building surpluses) have relied on recurring property tax funding for under-recovering planning and building fee structures. With the “up-front” recovery of full cost planning applications perceived as onerous by development industry applicants (whose land holdings had not yet accumulated a significant share of expected value), the historic reliance on building permit subsidies to recover planning costs had some merit. This cost recovery pattern recognized that at the building permit stage in the development process, the applicant’s cashflow and ability to pay based on land capitalization are typically well established. Moreover, other development related fees (i.e. Development Charges) are also collected during late stage DAAP, which further streamlines the administrative process of cost recovery for the municipality.

Regrettably, the BCSLAA did not recognize that in practice planning and building development application review activities function together within a single integrated review process. Section 7 of the *Building Code Act* now restricts the use of building permit revenues to recover only the “anticipated reasonable costs” of services mandated by the *Building Code Act*. Moreover, under O.Reg. 305/03 *Building Code Act* revenues, direct costs, indirect costs, and reserve fund balances must be reported on an annual basis. The cost accounting discipline required by municipalities, in order to comply with these *OBCA* provisions, has revealed significant cost under-recovery fee design issues that need to be addressed, particularly within the *Planning Act* defined component of the DAAP service channel. The consulting team’s *Planning Act* fee review experience in other jurisdictions has revealed typical cost recovery shortfalls of 60% or more.

4.2 Staff Capacity Utilization Results & Planning Application

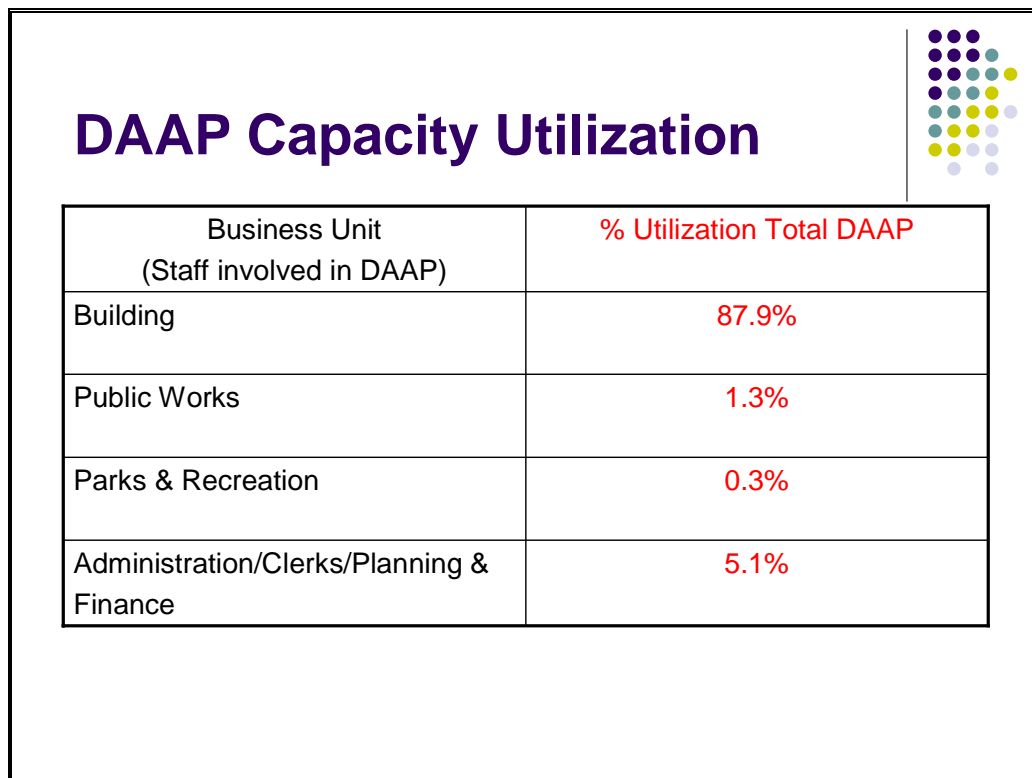
Processing Effort Benchmarks

Guelph/Eramosa DAAP processing effort is primarily supplied by staff from two key departments in the Township, i.e. Building and General Administration (which includes a Planning Assistant). Secondary levels of processing effort are supplied by Public Works, and Parks and Recreation.

Figure 4-A documents the capacity utilization results associated with direct Township departments that devote significant ongoing staff effort to processing DAAP applications. The Building departments 88% DAAP utilization (deployed primarily across building fee categories) and General Administration department's 5.1% DAAP utilization is consistent with the reality that:

- i. only a limited portion of policy workload has been incorporated into calculated DAAP fees;
- ii. a significant portion of the DAAP process is outsourced by the municipality to consultants and billed to the applicant directly;
- iii. significant amounts of ongoing non-DAAP work is undertaken by staff

Figure 4-A: Overview of DAAP Capacity Utilization




Planning Application Processing Effort Benchmarks

As noted in Chapter 3, the distribution of staff's estimated processing effort across the various *Planning Act* fee categories is critical to the calculation of full cost fees. In order to provide a quality assurance check on staff's estimates, the consulting team has conducted a benchmarking comparison of processing effort against a group of comparable municipalities. The results of the benchmarking quality assurance comparison appear below in Figure 4-B. The Township's processing times are typically lower than the benchmark average for all applications, this is expected given the amount of DAAP outsourcing employed by the Township.

Figure 4-B Benchmarked Processing Effort – Planning Applications

Municipal Processing Effort Benchmarks (Planning Applications)




Department	Re-Zoning	Site Plan	Subdivision	Consent	Minor Variance
Municipal Average - Total Minutes per Application	4,298	3,936	10,313	1,483	1,346
<u>Township of Guelph Eramosa</u>					
Planning Department	1,222	877	1,485	218	979
Public Works/Engineering	60	60	60	60	60
Building	60	120	60	60	30
Fire & Emergency Services	-	-	-	-	-
Parks & Recreation	-	-	480	-	-
Other Departments	471	471	1,131	-	-
Total	1,813	1,528	3,217	338	1,069

4.3 Consolidated Full Cost DAAP Fee Modeling

Figure 4-C documents the full cost components of the Guelph/Eramosa ABC modeled fees prior to any OBCA reserve fund policy modeling.

Figure 4-C Consolidated DAAP Fees Impact

Consolidated Fees Impact (No Policy Adjustments)



	TOTAL	PLANNING	BUILDING
Direct Costs	280,748	64,471	216,278
Indirect Costs	45,056	1,609	43,446
Non Growth Capital (Capital Replacement Cost)	4,847	50	4,797
Full Cost	330,651	66,130	264,521
Existing Fee Revenues	268,402	13,625	254,777
Net Position	62,249	52,505	9,744

Direct operating costs originating in a number of Township departments total \$64,471 across all *Planning Act* fee categories. Indirect and corporate management costs of \$1,609 have been allocated to direct departments and onwards into the various *Planning Act* fee categories. Non-growth capital costs (annual annuity) are \$50. Total modeled operating costs are \$66,130. Compared with modeled revenues for average historic volume levels of \$13,625, a cost-recovery deficit of \$52,505 annually (or 21% cost recovery) is realized.

Direct operating costs originating in Township departments total \$216,278 across all *Building Code Act* fee categories. Indirect and corporate support costs of \$43,446 have been allocated across direct departments and onwards into the various fee categories. Annual capital

replacement costs are approximately \$4,797. In total modeled annual Building DAAP costs are \$264,521. Average annual historic revenues for the model period total \$254,777, resulting in an annual cost-recovery deficit of \$9,744 or 96% cost recovery.

4.4 Building Code Act Reserve Fund Design

OBCA municipal financial reporting regulations recognize the legitimacy of creating a municipal reserve fund(s) to manage *Building Code Act* responsibilities. However, the Act and its regulations are silent on the actual design/rationale of reserve funds. Reasonable latitude therefore exists around defining rationale, along with an obligation to quantify reserve fund target balances.

We endorse the 2006 decision by the Township to create a *Building Code Act* Fee Stabilization Reserve Fund (FSRF), which has become a critical component of the Township's Bill 124 management strategy. The FSRF will smooth any future shortfalls within the *Building Code Act* revenue streams, and is not be available to fund any other municipal financial priorities. The primary rationale for the FSRF is to reduce the staffing and budgetary challenges associated with a cyclical economic downturn and the requirement for ongoing legislative turnaround time compliance. Without such a reserve fund, reduced permit volumes during a downturn could result in severe budgetary pressures and the loss of certified Building Department staff, which would be difficult to replace during the subsequent economic recovery when mandatory permit processing turnaround times apply. Establishing a reserve fund provides the Township with the ability to retain a sustainable portion of the qualified staff across an economic downturn, while recognizing the Township's responsibility to manage resources during times of economic downturns either through redeployment or attrition, until permit volumes improve during an economic recovery.

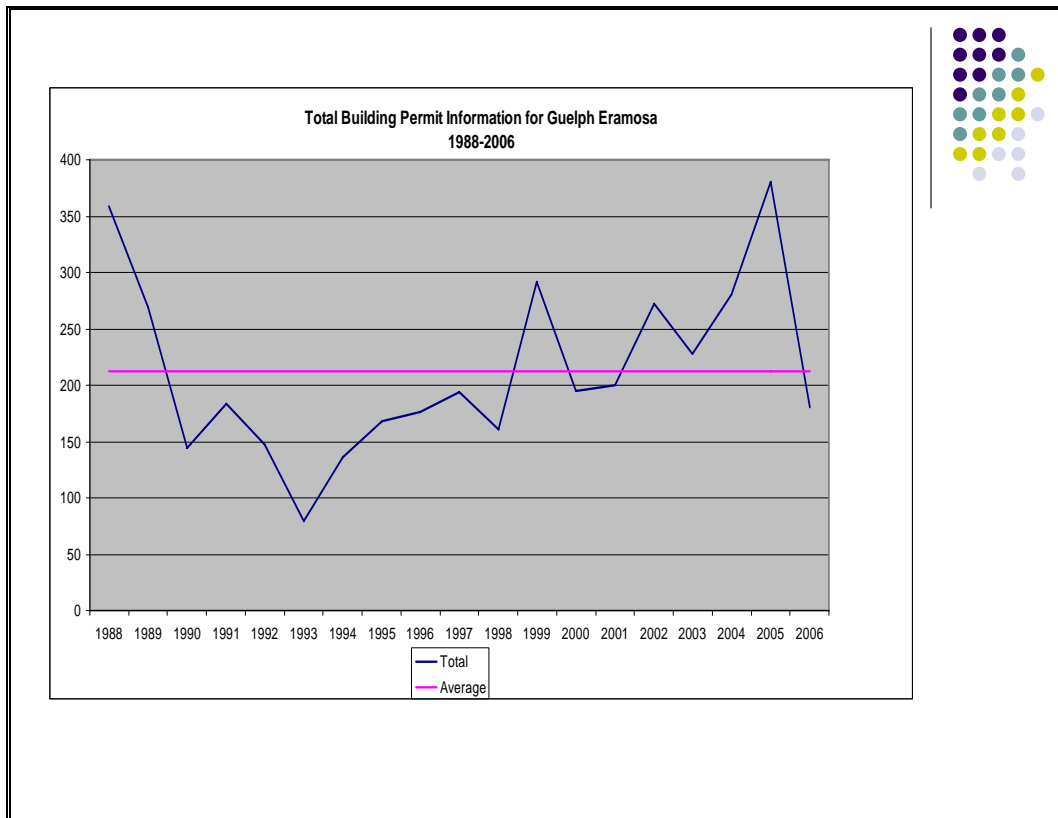
A number of key reserve fund design issues need to be documented concerning the *Building Code Act* FSRF, including:

1. Rationale for Reserve – Nature and Degree of Risk Mitigation;
2. Ultimate Reserve Fund Balance – Target Design Based on Empirical Experience;
3. Pace of Reserve Fund Accumulation – Forecast Annual Contributions.

4.4.1 Reserve Fund Rationale

Recent economic history suggests that an economic downturn lasting a number of years is a definite possibility. Figure 4-D illustrates the reduction in residential permit activity that occurred in Township of Guelph/Eramosa during the early 1990s recession.

Figure 4-D Township of Guelph/Eramosa Historic Residential Building Permit Activity



In comparing the economic downturn experienced during the early 1990's compared to the 20-year annual average rate of development, approximately 1.65 years of cumulative permit volumes (processing capacity) were lost. The Township's stabilization reserve fund will need to manage the risk associated with a similar recession occurring at some unspecified point in the future. The Township will need to retain certified and skilled labour through such an economic downturn. However, given the depth and length of the previous recession, there will be a responsibility on the part of the Township to manage a portion of these ongoing staff costs either through attrition or redeployment. We assume 25% of direct departments DAAP costs will be managed internally by the Township during an economic downturn.

4.4.2 Ultimate Reserve Fund Balance – Optimal Target

Given the primary rationale for creating a fee stabilization reserve fund (mitigating the financial and operational risk associated with a cyclical economic recession), the targeted reserve fund balance should reflect the reduction in permits (i.e. processing capacity) witnessed during the trough of the last recession when compared to the long-run development average - acknowledging again the Township's responsibility to manage a 25% portion of the costs associated with an economic downturn. Therefore, to ensure that sufficient reserves are established for these purposes, the Township should accumulate a reserve balance equivalent to approximately 1.24 years of *Building Code Act* DAAP direct costs. Based on the modeled activity based direct costs of approximately \$216,278 annually; this would translate into a FSRF target balance of approximately \$268,184. The Township currently has \$130,918 in its reserve fund. Therefore the residual dollar amount required to achieve the target multiple is currently \$137,266. Again, the ultimate reserve target is 1.24 years of direct operating cost, not the current dollar value representation of this multiple.

4.4.3 Pace of Reserve Fund Accumulation – Annual Contribution

Since the end of WWII, each Canadian economic “business cycle” expansion has averaged 9-12 years in duration. The current business cycle expansion is now well advanced. A prudent review of economic conditions suggests the Township attempt to accumulate the FSRF target balance as soon as possible. Our modeling estimates the target balance will be achieved in approximately 5 years, assuming historic permit volume trends continue. The annual FSRF contribution in a five year accumulation scenario would be approximately \$27,453. The prudent funding of the FSRF to ensure timely progress towards the target balance will require across-the-board building permit rate adjustments. It should be noted that once the FSRF target balance multiple has been achieved the Township should review the ABC user fee modeling to assess the rate changes necessary, at that time, to maintain OBCA compliance.


4.5 Consolidated Full Cost Fee Calculations & OBCA Reserve Fund

Figure 4-E documents the full cost components of the consolidated modeled DAAP fees, including recommended *Building Code Act* FSRF contributions.

Modeled costs for Planning Act application and commenting fees remain the same as presented in Figure 4-C. However, for *Building Code Act* application processes, the modeled costs plus the proposed annual OBCA reserve fund contribution of \$27,453 results in total annual costs of \$291,974. This has the impact of increasing the annual cost-recovery deficit to \$37,197. As a result, an OBCA user fee increase of 14.6% would be required to achieve full cost recovery and to achieve the reserve fund target balance in a timely fashion.

Figure 4-E Consolidated Full Cost DAAP Calculations (including Reserve Fund Contribution)

Consolidated Fees Impact (Including Policy Adjustments)




	TOTAL	PLANNING	BUILDING
Direct Costs	280,748	64,471	216,278
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Full Cost	330,651	66,130	264,521
Existing Fee Revenues	268,402	13,625	254,777
Net Position	62,249	52,505	9,744
Full Cost (incl. Reserve Fund Trasfer)	358,104	66,130	291,974
Existing Fee Revenues	268,402	13,625	254,777
Net Position	89,702	52,505	37,197

4.6 Modeled Building and Planning DAAP “Full Cost” Fee Schedules

In order to achieve DAAP fee full cost recovery performance and achieve OBCA reserve fund target balance in a timely fashion, application fee increases and new application commenting fees are required. Figures 4-F and 4-G set out modeled full cost planning and building fees and required adjustments.

Figure 4-F Modeled Full Cost Planning DAAP Fee Adjustments



PLANNING FEE	Current Fee	Full Cost Calculated Fee
Zoning By-Law Amendment Application Deposit	\$ 2,000.00	
Zoning By-Law Admin Fee	\$ 250.00	\$ 1,810.00
Site Plan Application Deposit	\$ 1,000.00	
Site Plan Admin Fee	\$ 250.00	\$ 1,560.00
Pre-Subdivision Agreement Deposit	\$ 10,000.00	
Subdivision Application Fee	\$ -	\$ 3,280.00
Consent / Severance (includes professional consulting fees)	\$ 409.00	\$ 860.00
Minor Variance (Committee of Adjustment)	\$ 500.00	\$ 1,060.00

Figure 4-G Modelled Full Cost Building Fee Adjustments

BUILDING FEE	Existing Fee		Calculated Fee	
	Misc	Fee for every \$1,000 of building value (ft GFA)	Misc	Full Cost Calculated with Reserve Fund Contribution
Building Permit - Minimum Fee	\$80.00		\$92.00	
Residential - New building, Additions or Structures incl. Plumbing		\$10.00		\$ 11.46
Residential - Interior or Exterior Alterations, Renovations, or Conversions		\$10.00		\$ 11.46
Accessory Buildings or Structures on Residential Property		\$10.00		\$ 11.46
Commercial and Industrial - New Building, Additions or Structures incl. Plumbing				
- First \$30,000		\$10.00		\$ 11.46
- Balance >\$30,000		\$5.00		\$ 5.73
Commercial and Industrial - Interior or Exterior Alterations, Renovations or Conversions		\$10.00		\$ 11.46
Institutional Buildings (based on contract value)		\$10.00		\$ 11.46
Farm Buildings - Additions or New Structures (based on estimate or contract cost)		\$5.00		\$ 5.73
Farm Buildings - Maintenance (no permit or fee required)		\$0.00		\$ -
Farm Buildings - Replacement (due to wind or fire only) - <i>minimum fee only</i>	\$80.00		\$92.00	
Pools & Fencing		\$10.00		\$ 11.46
Temporary Buildings - <i>minimum fee only</i>	\$80.00		\$92.00	
Plumbing Fee (based on \$800 per fixture)		\$10.00		\$ 11.46
Temporary Living Quarters - <i>per month</i>	\$100.00		\$115.00	
Partial (based on type or use of building or project being considered)				
Conditional (based on type or use of building or project being considered)				
Sign (based on estimate or contract cost)		\$10.00		\$ 11.46
Change of Use (based on the gross floor space of all storeys subject to the change of use)				
- based on type or use of building or project being considered				
Demolition	\$80.00		\$92.00	
Septic Permits				
- Class 2 & 3	\$175.00		\$201.00	
- Class 4 & 5	\$425.00		\$487.00	
- Tank Replacement Only	\$90.00		\$103.00	
- Between 4,000L and 10,000L (\$2,000 max) (sliding fee scale based on \$.10/sq ft of building envelope)	\$700.00		\$802.00	
- Greater the 10,000L - forwarded to Ministry of Environment				
- File Search/Work Order	\$75.00		\$86.00	




4.7 Impact Analysis of Full Cost DAAP Fee Adjustments

In order to understand the impact of the modeled DAAP fee increases, the consulting team has prepared an analysis that considers the complete range of municipal input costs imposed on an existing new development unit. These local government sector input costs include Development Charges, *Planning Act* fees, and *Building Code Act* permit fees. Per unit changes in overall local government sector input costs faced by an applicant (rather than % change in specific fee rates) provide the most meaningful impact analysis for Council and affected applicants.

Figure 4-H documents the impact of modeled DAAP fee increases on a single detached unit located in a 50 unit sub-division. *Planning Act* fees consist of the required sub-division approval. Building permit fees are also deemed owing. Development Charges are collected at issuance of Building permit. Overall local government sector input costs to an applicant increase by 1.8% in this scenario.

Figure 4-H Impact of Modeled Full Cost DAAP Fees - Single Detached Residential Unit in a 50 Unit Sub-division

Fee Impacts – Residential (50 Unit Subdivision)



Residential - 50 Unit Subdivision (1,800 square feet or 167 square metre units)

Fee Description	Existing	Full Cost	Per Unit Increase	Per Unit % Change
Subdivision - County	125	125	-	0.0%
Subdivision - Township	-	66	66	100.0%
Building Permit	1,260	1,444	184	14.6%
County DC	1,377	1,377	-	0.0%
Township DC	10,116	10,116	-	0.0%
Education DC	1,071	1,071	-	0.0%
Total	13,949	14,199	250	1.8%

Figure 4-I summarizes the impact of the modeled DAAP fee increases on an industrial commercial property of 20,000 square feet. *Planning Act* fees consist of Zoning Bylaw Amendment and Site Plan fees. Development Charges and Building permit fees are also deemed owing. Overall municipal input costs for this development scenario increase by 2.0%. Viewed from another perspective, the \$3,765 modeled increase in local government sector input costs is the current value of the property tax subsidy being paid by existing development to this applicant.

Figure 4-I Impact of Modeled Full Cost DAAP Fees - 20,000 square foot Industrial Property

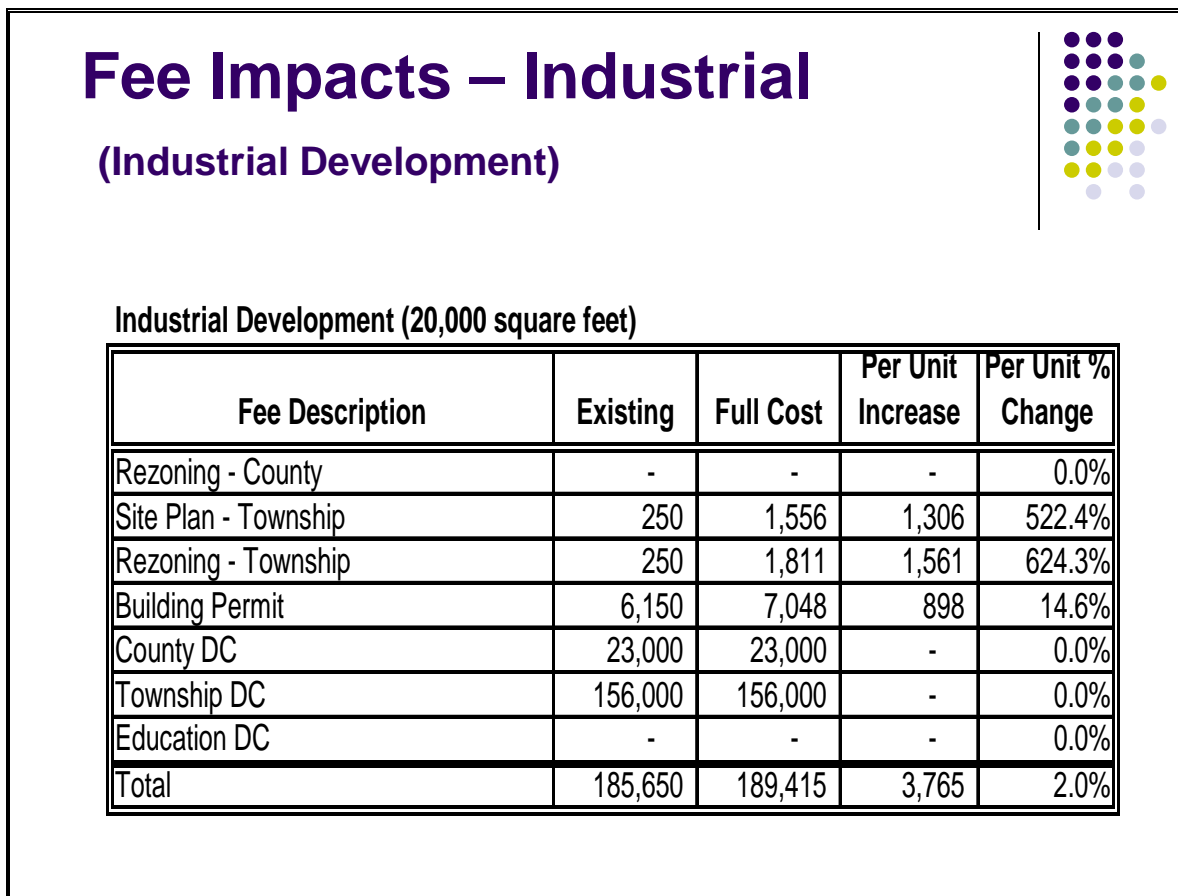
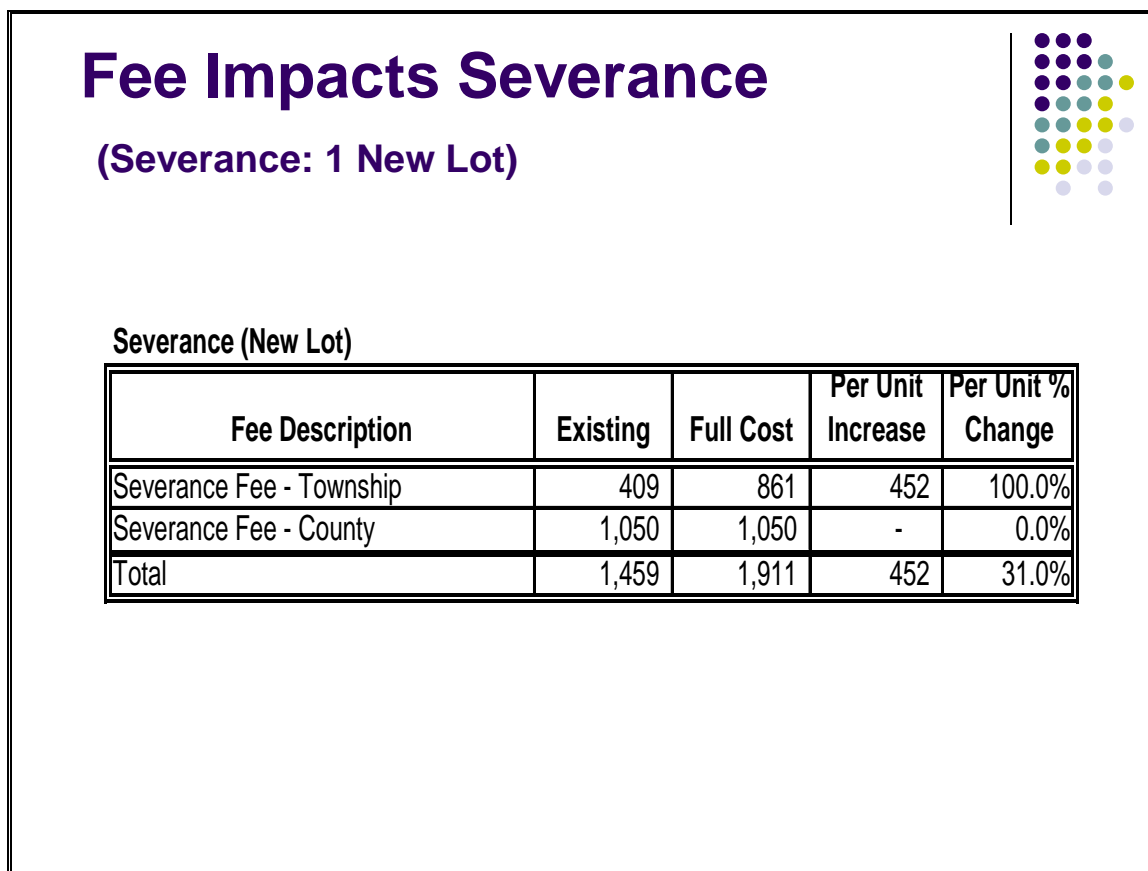


Figure 4-J illustrates the impact of modeled DAAP fee increases on a lot severance application. The fees included in the analysis consist of a Severance fee from both the County and Township (including external consulting fees). Overall local government sector input costs increase by 31.0% under this scenario. The tax funding being paid by existing development to each applicant for this type of approval is approximately \$452.

Figure 4-J Impact of Modeled DAAP Fee Increases on a Severance (1 New Lot)



4.8 Municipal Survey of Development Fees

In establishing OBCA compliant DAAP fees and setting sustainable cost recovery rates for *Planning Act* DAAP fees, it is critical that Township decision makers understand the relative positioning of its overall DAAP fee structures compared to the municipal market. Figures 4-K, 4-L, and 4-M set out the development fee structures of municipal comparators for a typical residential, industrial and lot severance development respectively. The DAAP fees (a subset of total local government input costs levied on new development) in each jurisdiction include *Planning Act* fees, Building Permit fees and Development Charges.

The survey results point to the following overarching conclusion:

- Modeled DAAP fee structures do not place the Township at a competitive disadvantage relative to surveyed municipalities in any of the two benchmarked development categories (i.e. Residential Unit and Industrial Property).

- Modeled DAAP fee structures for Lot Severances (see figure 4-M) result in a proposed fee that exceeds all municipal comparators. The resulting fee may put the Township at a competitive disadvantage relative to the other surveyed municipalities.

Across the survey it is important to note that some jurisdictions have recently adjusted DAAP fees as part of their BCSLAA compliance efforts, while others have not.

Figure 4-K Municipal Development Fees Survey of Detached Residential Unit

Comparison of Planning Fees, Building Permit Fees and Development Charges for Single Detached Units (167 sq.m.) based on 50 unit Subdivisions

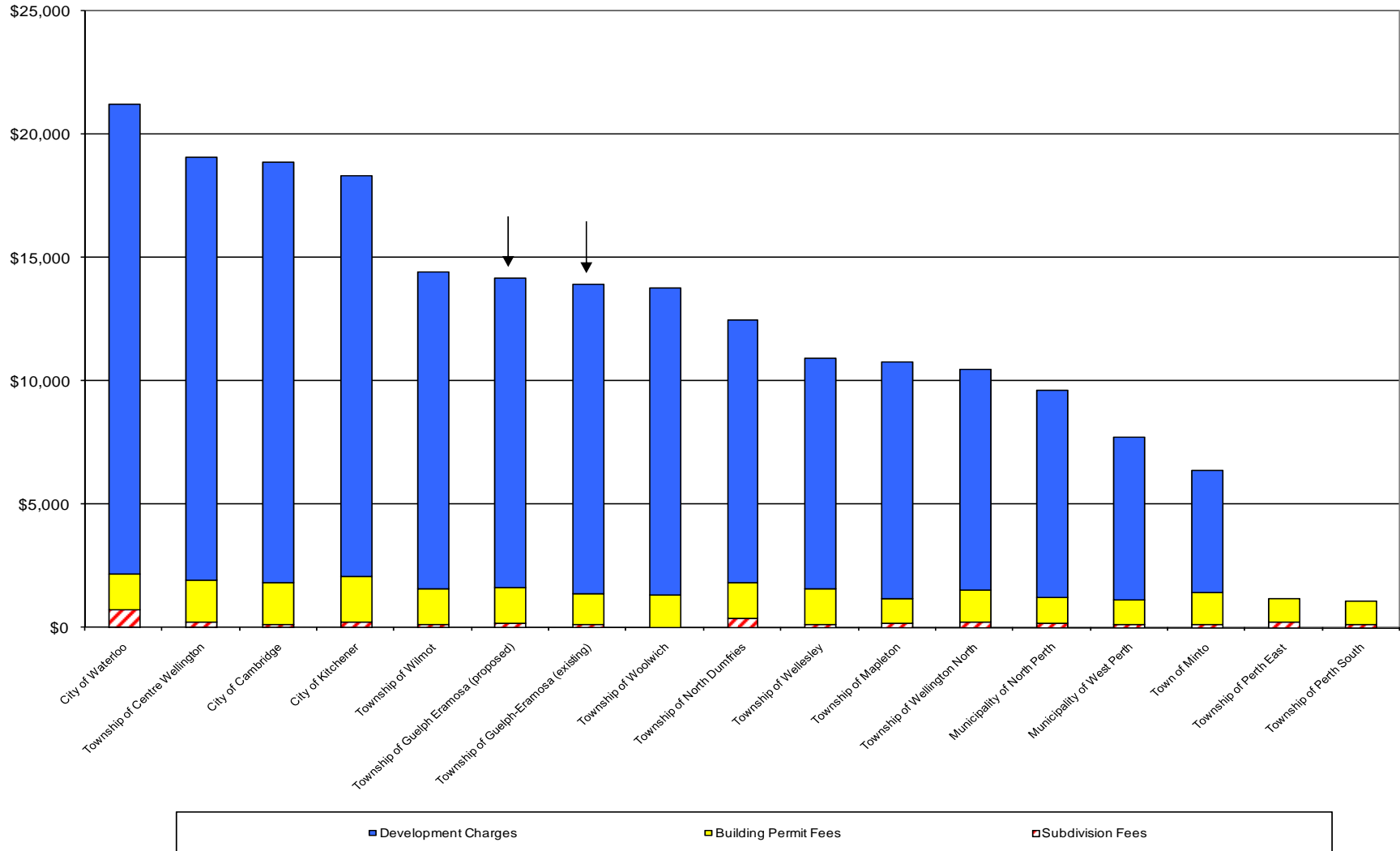


Figure 4-L Municipal Development Fees Survey of an Industrial Property

Comparison of Planning Fees, Building Permits and Development Charges
For an Industrial Building (20,000 sq.ft.)

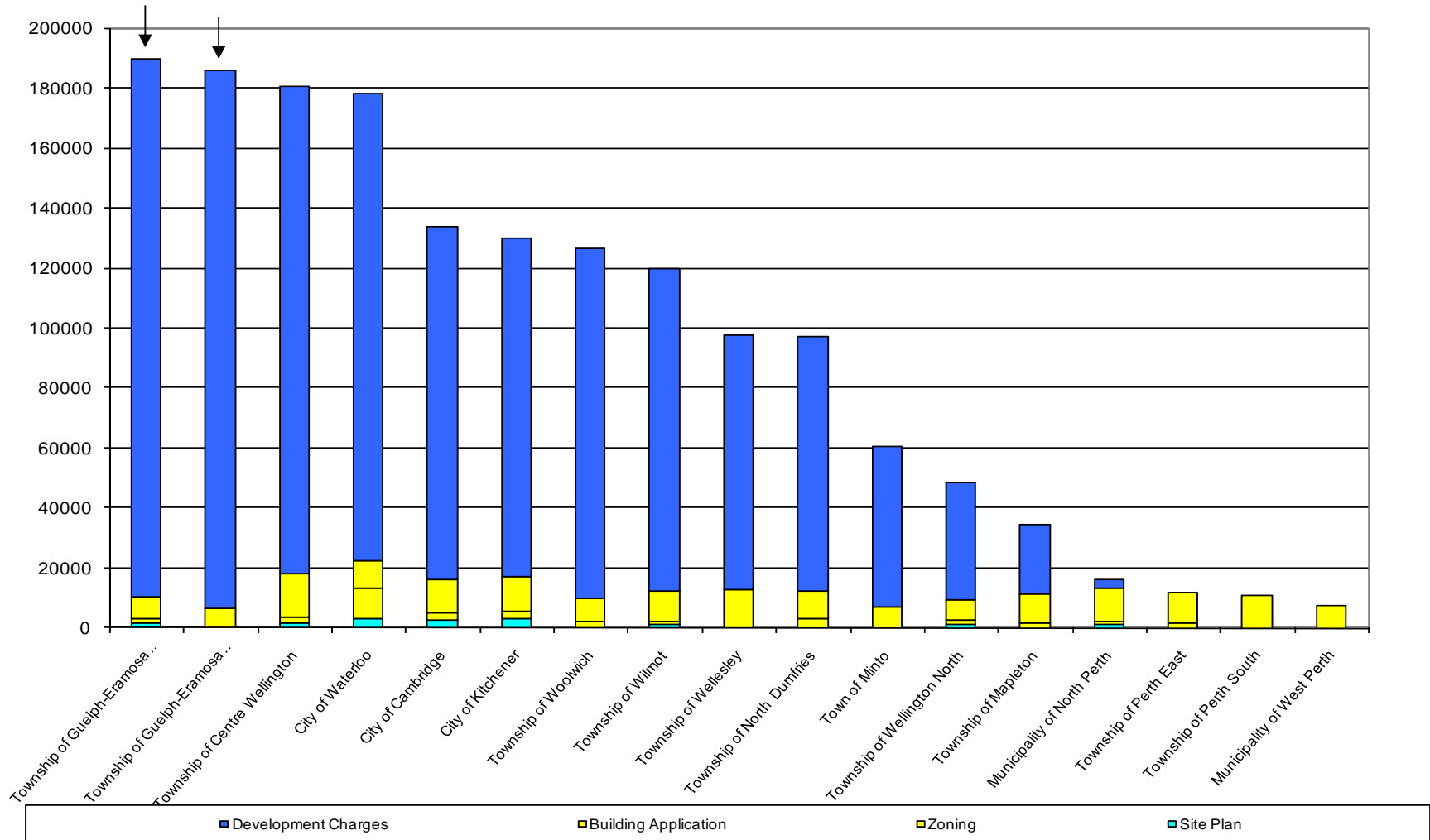
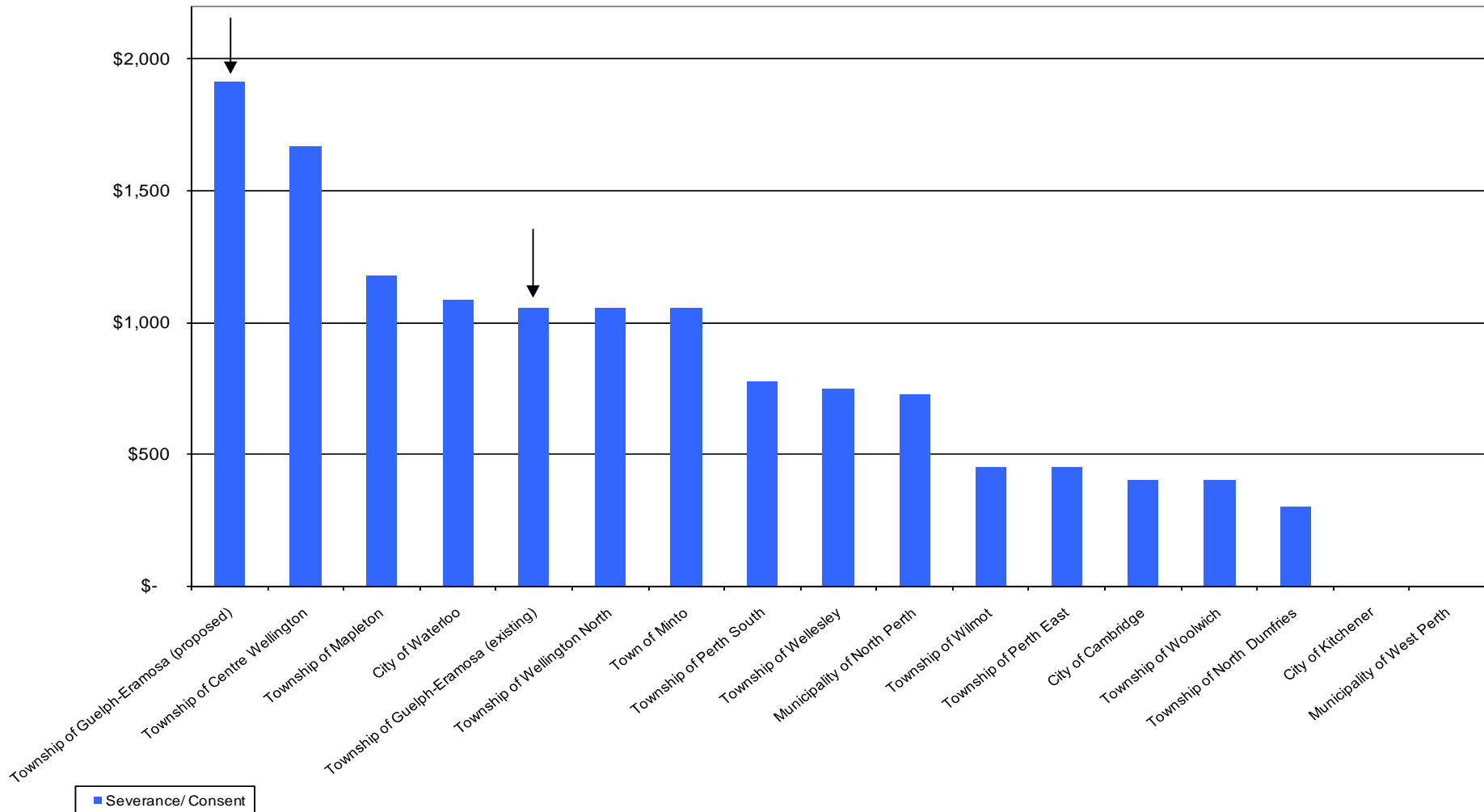


Figure 4-M Inter-municipal Development Fees Survey of a Lot Severance

**Comparison of Planning Fees, Building Permits and Development Charges
For Severance for a New Lot**



5. CONCLUSIONS AND RECOMMENDATIONS

5. CONCLUSIONS AND RECOMMENDATIONS

The activity based costing fees model prepared for the Township has been used to calculate full cost DAAP fees, in order to ensure compliance with *OBCA* and address a systemic under-recovery of *Planning Act* application costs. These full cost fees have been calculated within the Township's ABC user fees model using 2007 budget data. Future Township *OBCA* financial reporting requirements can be met by entering actual year-end data for the reporting period.

An increase in current *Building Code Act* fee schedule rates will be required to accommodate full ABC modeled operating costs, as well as the approximate \$27,453 annual reserve fund contribution required to achieve the modeled accumulation target in approximately 5 years. A future *Building Code Act* fee review should be triggered when the reserve fund target balance (1.24 X annual direct operating costs) is achieved, in order to verify continued *Ontario Building Code Act* fees compliance.

Significant *Planning Act* DAAP fee increases will be necessary to eliminate current levels of property tax funding of approximately \$52,505 annually.

The impact of the modeled DAAP Building and Planning fee increases can only be properly understood by analyzing the impact of local government sector input costs to residential development, industrial development, and lot severance scenarios on a per unit basis. For instance, the full cost fee increase results in a 1.8% increase in the total input costs for a typical subdivision residential detached unit. Overall municipal input costs for this residential detached unit (including development charges) represent approximately 10% of the overall price of a \$300,000 new house.

The impact of recommended fee increases on total local government sector input costs for a typical industrial property of 20,000 square feet is 2.0%. The impact on a typical lot severance is 31.0% or \$452. The driving factor behind local government sector input costs for ICI development is not DAAP fees, but rather the quantum of Development Charges. A survey of peer municipalities reveals that modeled DAAP fee increases will not materially impact the Township's overall cost of development market position when compared to similar municipalities in the area. However given the impact associated with the full cost of fees, Township staff has

given consideration to the impact on applicant affordability in considering fee adjustments. As such, the following recommendations are provided for Council's consideration and approval:

THAT the Council of the Township of Guelph/Eramosa receive this report as information.

AND THAT the Council of the Township of Guelph/Eramosa approve the proposed Building fees as set out in Table 4-G of this report, which includes a provision for annual contributions to the Building Code Act Reserve Fund, with a target balance of 1.24 years of direct Building Code Act costs.

AND THAT the Council of the Township of Guelph/Eramosa approve the proposed Planning fees as set out in Table 4-F, excluding the Consent/Severance fee.

AND THAT the Council of the Township of Guelph/Eramosa approve a Consent/Severance Fee equal to \$409 per application, recognizing that the calculated full cost fee of \$861 may put the Township at a competitive disadvantage relative to surveyed municipalities.

AND THAT the above fee changes take effect upon bylaw passage.