

Development Application Approval Process, (DAAP), Activity Costing and User Fee Justification for Building Permits and Planning Application Fees - Financial Impact of Bill 124

Recommendation

The City Manager and Commissioner of Finance & Corporate Services, the Commissioner of Planning and the Commissioner of Legal & Administrative Services and the Bill 124 Activity Costing Steering Committee recommends:

- 1) That the following report and presentation on the activity costing of the Development Application Approval Process (DAAP) be received; and
- 2) That a reserve entitled "Building Standards Service Continuity Reserve" be approved and that staff provide at a future meeting the associated by-law and report on the utilization of the new reserve; and
- 3) That the Budget Committee provide direction to staff on the appropriate balance between funding the new Building Standards Service Continuity Reserve and reducing building permit fees through the selection of Option 1 or 2 contained in the relevant section of this report; and
- 4) That the Budget Committee provide direction to staff on the overall average percentage of cost recovery in the planning application process by selecting Option 1, 2 or 3 contained in this report; and
- 5) That as soon as possible the Planning Department determine an appropriate fee structure based on the cost of service and taking into consideration the overall average percentage of cost recovery determined in recommendation 4 above; and
- 6) That staff in their respective departments be directed to give effect to the above approved recommendations as soon as possible.

Purpose

The purpose of this report is to provide the Budget Committee with the financial impact of Bill 124 based on 2004 budgeted data, the outcome of the activity costing exercise for the development application approval process, (DAAP), and determine an appropriate strategy to address the implications.

Background - Analysis and Options**Background**

The development application approval process, (DAAP), is an integrated service delivery channel including both early stage planning applications and later stage building permit issuance. Similar to many municipalities, Vaughan currently uses the building permit revenues collected at the end of the development application approvals process to fund the earlier stages of the planning application review and processing activities. The building permit revenues exceed the cost of issuing the building permits, and conversely, the revenue generated from the early stage planning applications does not in total recover the cost of the review and processing of planning related applications. In total, the combined planning and building permit revenues do not recover the full cost of the DAAP process.

In the provincial government's passing of Bill 124, it effectively imposed restrictions on building permit fees to not exceed the cost of issuing a building permit. The result was Bill 124, the Building Code Statute Law Amendment Act, 2002, comes into effect July 1, 2005.

Therefore, effective July 1, 2005, the early stage development application approval process planning activities cannot be funded from the later stage building permit revenues. However, the

Planning Act, similar to Bill 124, allows municipalities to charge their cost for the early stage planning application process. This now provides an opportunity for municipalities to increase the early stage planning fees to recover the cost of the review and approval of those planning applications and still comply with the legislation.

Recognizing that the impact of Bill 124 would be significant to the City of Vaughan, finance staff initiated a study to address the issue. The decision to initiate this study in early 2004 put Vaughan well ahead of most other major municipalities in dealing with this important legislative user fee justification requirement. The decision to complete this study in order to accommodate the 2005 Operating Budget timeframe was an aggressive and significant task due to the complexity and comprehensiveness in ensuring that both the direct and indirect cost methodology and allocation were conducted in a logical and defensible manner.

Led by Finance staff, a Bill 124 steering committee was formed with representation from the appropriate departments to:

- Interpret and address Bill 124 legislative requirements
- Develop an appropriate activity based costing model and methodology
- Identify the aggregate financial impact
- Design a financial risk mitigation strategy

In addition, the consultants for the Bill 124 activity costing study and DAAP user fee rationalization, C.N. Watson and Associated Limited, concluded in their report that "... Vaughan's modeling provides strong empirical justification for its licensing fees, Planning Act DAAP fees, and the Building Code Act fees." Thus, it is reasonable to state that the DAAP activity costing model is both sound and defensible on an aggregate DAAP basis. C.N. Watson and Associated Limited will also be available to defend the DAAP fees if required.

This report addresses the financial impact of Bill 124, the comprehensive approach to the activity costing of building permits and planning applications, the potential to increase planning application fees, and a prudent financial risk mitigation strategy.

Building Permit Fees – Bill 124 Background

Bill 124 imposes requirements on municipalities in establishing fees under the Act, in that the "fee... must not exceed the anticipated reasonable cost..." of providing the service, i.e. building permit issuance and inspection services.

Once the interpretation of the legislation was completed and the parameters were defined and understood, the steering committee's priority and key mandate was to identify the overall aggregate financial impact of Bill 124 in order to meet the 2005 Operating Budget process timeframe and develop a strategy. This included documenting processes and the development of an activity costing model to capture all of the costs related to the issuance of a building permit. Since the Act does not specify direct costs, it is reasonable to include all indirect costs including costs related to future compliance requirements and reserve fund contributions.

Quantifying the aggregate financial impact, through an activity costing model, was a major and comprehensive undertaking. It involved incorporating all direct and indirect costs on a city wide basis as they relate to the issuance of building permits. Cost objects for building permits were set up and cost drivers needed to be established to appropriately allocate both direct and indirect costs from other departments to the appropriate building permit cost objects. It was then necessary to meet with all staff in departments that directly or indirectly impact the building permit process. The model has successfully calculated the overall aggregate cost of issuing building permits and the methodology is both sound and defensible. Anticipating the results, staff expanded the costing study to include costing the early stage planning application process. The results of the model are presented later in this report.

Planning Application Fees – Section 69 of the Planning Act

As mentioned earlier in this report, the development application approval process, DAAP, is an integrated service delivery channel including both the early stage planning applications, which include the Committee of Adjustment, and the later stage building permits.

This challenging addition of costing and modeling the planning application process was in addition to the legislated requirement to address Bill 124. However, it was deemed prudent in order to ensure the entire DAAP process is based on cost recovery.

Similar to Bill 124, the Planning Act requires regard for the anticipated costs of providing the service. This then suggests that all indirect costs can be included as in Bill 124. Accordingly, the activity costing model followed the same methodology for costing out planning applications as it did for building permits including the set up of cost objects and drivers to allocate all costs. The result again was an overall aggregate costing of the early stage planning application fees that is both sound and defensible. A presentation of the results of the activity costing model for the entire development application process are presented below followed by options for the Budget Committee's consideration on the percentage recovery of the planning application approval process and the treatment of the balance in the existing building permit reserve.

The DAAP Activity Costing Model Financial Results

The DAAP activity costing model below presents a snapshot of the total cost of the development application approval process separated between early stage planning applications and later stage building permits. It was a comprehensive exercise including the identification of all associated direct and indirect costs across the city. In the creation of the model staff has reviewed and included all city wide departmental and corporate costs and allocated those costs based on determined cost drivers. Included in the indirect cost allocations were the related occupancy, human resources, legal and enforcement, finance, corporate accounts, various infrastructure allocations, council, commissioners, clerks, etc. The costs and associated revenues are based on 2004 operating budget data and represent the annual impact.

DAAP Section	2004 Direct Costs	2004 Indirect Costs	2004 Total Costs	2004 Total Revenue	2004 % Cost Recovery	2004 Financial Impact
Planning Applications(1)	\$3.8m	\$1.4m	\$5.2m	\$1.4m	26.9%	\$3.8m
Building Permits	<u>\$4.6m</u>	<u>\$2.2m</u>	<u>\$6.8m</u>	<u>\$9.9</u>	<u>145.6%</u>	<u>\$(3.1m)⁽³⁾</u>
Total DAAP(2)	\$8.4m	\$3.6m	\$12.0m	\$11.3m	94.2%	

(1) - includes Committee of Adjustment

(2) – Full Year Impact

(3) – Building permit fees not reduced until the Stabilization Reserve is adequately funded.

The activity costing study reveals, that based on 2004 budget data, there are revenues of \$3.1m in building permit fees in excess of costs. On the surface without considering any other options, this would mean a reduction in building permit fees of \$3.1m to comply with Bill 124 where revenues cannot exceed the cost. However given the cyclical nature of the building industry and the length of time to complete building inspections the legislation allows for contributions to a stabilization reserve that takes this into consideration. Contributions to this new reserve are discussed later in this report.

Conversely, in planning applications, based on the 2004 budget data, there is a shortfall of \$3.8m in revenue compared to the cost of providing that service. Recommendations with respect to recovering this shortfall are presented later in this report.

Based on the above Chart, Vaughan is budgeted in 2004 to recover approximately 94% of the entire DAAP total costs primarily through building permit revenue recovery. This recovery would reduce to approximately 68% if building permit fees were reduced to reflect cost recovery with no reserve contribution increase and no increase in the planning fees.

Financial Risk Mitigation Strategy - Create a Building Standards Service Continuity Reserve

The \$3.1m building permit revenue surplus does not include any additional costs that may be required to ensure compliance with “turn-around” time. It also does not include any contribution to a reserve fund to effectively mitigate the future financial risk of retaining appropriate staff during an economic downturn.

The consultants have advised that the legitimacy of a reserve fund contribution as part of an overall municipal management framework is appropriate.

Accordingly, staff recommends the establishment of a new ‘Building Standards Service Continuity Reserve’. The service reserve could fund operational costs for the continuity of services to protect intellectual capital during an economic downturn. The funding of this reserve forms the basis for a prudent financial risk mitigation strategy. This reserve fund would be restricted for this specific purpose and would not be available for any other general municipal allocation. The rationale for the service continuity reserve would be to provide the funding to continue operations in an economic downturn.

Based on the consultant’s recommendation, there should be a target balance in the service continuity reserve equivalent to 1.5 years of permit processing costs. This would translate into a target reserve balance of \$10m based on the 2004 budget data in the model. The target balance of the reserve would then fluctuate based on the annually revised processing costs.

It is also prudent that the Building Standards Service Continuity Reserve accumulate to the \$10m target balance within a 3 to 5 year period. This will ensure that any future economic downturn is covered as soon as possible. Once that target level is achieved, the building permit fee schedule would have to be reduced to just reflect the cost of building permit issuance, excluding any reserve contribution.

Balance Funding the Building Standards Service Continuity Reserve versus Reducing Building Permit Fees

The following options are provided for the Budget Committee’s consideration in relation to the accumulation of the reserve fund and the decision to adjust building permit fees, if at all, during the term of the reserve fund accumulation. Both options do not reduce the 2005 budget impact of Bill 124, but do provide for the creation of a reserve for service continuity.

Option 1 – 90% Cost Recovery of Building Permit Fees and Fund the Reserve Slower

Implications of Option 1:

- 10% reduction in building permit fees (approx \$1m impact)
- Increase building permit cost by amount needed for compliance with Bill 124
- Remainder contributed to the Reserve
- Potentially favourable response from the development community especially in light of the potential significant increase in planning application fees
- Takes 5 years to achieve Reserve balance

Option 2 – 100% Cost Recovery of Building Permit Fees and Fund the Reserve Quicker

Implications of Option 2:

- Building permit fees remain the same
- Increase building permit cost by amount needed for compliance with Bill 124
- Potentially unfavourable response from the development community especially in light of the potential significant increase in planning application fees
- Takes 3 years to achieve reserve balance

Both options provide a financially prudent risk mitigation strategy through contributions to the service continuity reserve and its ability to address fluctuations in the economy and retain specialized staff.

It is important to note that under both options building permit fees will reduce once the target reserve level is achieved.

Percentage Cost Recovery Options for the Planning Application Process

An opportunity exists for a permanent solution to offset the negative financial impact of Bill 124 through increasing the planning application fees to recover their costs as allowed by legislation. The planning applications activity costing chart below indicates an opportunity for significant fee increases totaling \$3.8m in planning applications which would result in the fee revenue equaling the cost.

In all of the options presented below, the dollars and percentage increase resulting from any of the percentage recovery of costs are based on the 2004 budgeted volume. They also assume that the increases would be fully enacted in 2005 with no migration period. The dollars are rounded to millions for presentation purposes but the percentages are more precise based on the rounding to thousands from the 2004 budgeted data in the activity costing model.

The following options are presented for the Budget Committee's consideration.

Option 1 – 100% Cost Recovery in the Planning Application Process

The chart below highlights the impact on the current aggregate revenue from a 100% recovery of the costs in the planning application approval process. As noted earlier, the Committee of Adjustment is included in the planning application service delivery channel.

A 100% recovery of the planning application fees translates to an increase of \$3.7m or 321% in planning fees, and an increase of \$0.1m or 41% in the Committee of Adjustment fees, for a total of \$3.8m or 262% increase over the 2004 budgeted volume.

	2004 Total Costs	2004 Total Revenue	2004 % Cost Recovery	2004 Cost Excess	Fee Increase if 100% Planning Recovery Dollars Percent
Committee of Adj. Planning	\$0.4m \$4.8m	\$0.3m \$1.1m	75.0% 22.9%	\$0.1m \$3.7m	\$0.1m 40.6% \$3.7m 320.8%
Total Planning Applications	\$5.2m	\$1.4m	26.9%	\$3.8m	\$3.8m 262.3%

An implication of the 100% cost recovery option for Planning has the potential for an unfavourable response from the development community in light of the fact that the later stage building permit fees would only be reduced by a small amount, if at all, over the next few years depending on the approved pace of the contribution to the recommended new Building Standards Service Continuity Reserve.

Option 2 – 95% Cost Recovery in the Planning Application Process

The chart below highlights the impact on the current aggregate revenue from a 95% recovery of the costs in the planning application approval process. As noted earlier, the Committee of Adjustment is included in the planning application service delivery channel.

A 95% recovery of the planning application fees translates to an increase of \$3.4m or 300% in planning fees, and an increase of \$0.1m or 34% in the Committee of Adjustment fees, for a total of \$3.5m or 244% over the 2004 budgeted volume.

	2004 Total Costs	2004 Total Revenue	2004 % Cost Recovery	2004 Cost Excess	Fee Increase if 95% Planning Recovery Dollars Percent
Committee of Adj. Planning	\$0.4m \$4.8m	\$0.3m \$1.1m	75.0% 22.9%	\$0.1m \$3.7m	\$0.1m 33.6% \$3.4m 299.8%
Total Planning Applications	\$5.2m	\$1.4m	26.9%	\$3.8m	\$3.5m 244.2%

An implication of this 95% average cost recovery option for the planning is basically the same as the 100% option in that there is potential for an unfavourable response from the development community in light of the fact that the later stage building permit fees would only be reduced by a small amount, if at all, over the next few years depending on the approved pace of the contribution to the recommended new Building Standards Service Continuity Reserve.

Option 3 – 85% Cost Recovery in the Planning Application Process

The chart below highlights the impact on the current aggregate revenue from an 85% recovery of the costs in the planning application approval process. As noted earlier, the Committee of Adjustment is included in the planning application service delivery channel.

A 85% recovery of the planning application fees translates to an increase of \$3.0m or 258% in planning fees, and an increase of \$0.1m or 20% in the Committee of Adjustment fees, for a total of \$3.1m or 208% over the 2004 budgeted volume.

	2004 Total Costs	2004 Total Revenue	2004 % Cost Recovery	2004 Cost Excess	Fee Increase if 85% Planning Recovery Dollars Percent
Committee of Adj. Planning	\$0.4m \$4.8m	\$0.3m \$1.1m	75.0% 22.9%	\$0.1m \$3.7m	\$0.1m 19.5% \$3.0m 257.7%
Total Planning Applications	\$5.2m	\$1.4m	26.9%	\$3.8m	\$3.1m 208.0%

An implication of the 85% average cost recovery option for planning has the potential for a more favourable response from the development community. Burlington's Council has already approved an 85% recovery rate from the combination of planning & building permit fees. Unfortunately, very few municipalities are at this advanced stage in addressing the impact of Bill 124, thus many other comparators are not yet available.

All municipalities, especially high growth municipalities, will be faced with a similar burden of deciding what portion of the development application approval process, DAAP, is paid by the development community and what portion is paid by the broader tax rate based funded community as a result of Bill 124.

No Migration Period for the Planning Fee Increases

The ability to permanently address the financial impact of Bill 124 resides with increasing planning application fees to match costs as allowed by legislation. The quicker the planning application fees are increased to recover costs, the quicker the financial impact of Bill 124 is addressed. Staff do not recommend a migration (phase-in) period for increases in planning fees. Accordingly staff recommend, that as soon as possible, the Planning department determine an appropriate fee structure based on the cost of service and taking into consideration the overall average percentage of costs recovery.

Bill 124 Permit Processing and Cycle Time Standards Study

The DAAP activity costing model reveals a building permit surplus of \$3.1m based on the 2004 budgeted data. However, this \$3.1m surplus does not include the additional costs that will be required to significantly shorten the current timeframes in permit processing as required per Bill 124. Therefore, the cost of issuing building permits may have to increase to address these compliance issues and this will correspondingly reduce the surplus in building permit revenue. The study to address the cycle time requirements and the yet to be determined additional costs for Bill 124 compliance in relation to permit processing and site inspections is currently underway and will be the subject of a future report from the Commissioner of Planning and the Director of Building Standards. That report should also address the building permit fee structure.

Next Steps

- Include impact amount of the recommended options in the 2005 Operating Budget
- Planning department completes their study of specific fees and recommends a fee schedule
- Building Standards department reports on their process study and recommendations

Relationship to Vaughan Vision

The recommendations forthcoming as a result of this result report have a significant impact to the 2005 Operating Budget and beyond. This report is consistent with the priorities set out in VV 2007 particularly with B-1, Ensure Short & Long Term Financial Stability for the municipality.

Conclusion

Bill 124 will cause a significant financial impact for municipalities, particularly high growth municipalities like Vaughan. To address this impact, staff have reviewed the entire DAAP, provided options to mitigate the financial impact, and recommend the creation of a "Building Standards Service Continuity Reserve" to maintain service during economic downturns.

Report prepared by:

Clayton D. Harris, CA, ext. 8475
Commissioner of Finance & Corporate Services

John Hrajnik, CMA, ext. 8401
Director of Budgeting and Financial Planning

Respectfully submitted,

Michael DeAngelis,
City Manager

Clayton Harris,
Commissioner of Finance & Corporate Services

John Zipay
Commissioner of Planning

Robert Swayze
Commissioner of Legal & Administrative Services

Bill 124 Steering Committee:

John Hrajnik
Director of Budgeting and Financial Planning

Mani N. Navabi
Director of Building Standards

Marco Ramunno
Director of Development Planning

John Studdy
Manager of Customer & Administrative Services

John Henry
Manager of Financial Planning

Terry Crew
Manager of Operating Budget & Activity Costing