Staff Report

Planning and Development Services

Report To: Committee of the Whole
Meeting Date: July 8, 2019
Report Number: PDS.19.88
Subject: Review of Planning & Development Engineering Services Fees
Prepared by: Nathan Westendorp, Director of Planning & Development Services

A. Recommendations

THAT Council receive Staff Report PDS.19.88, entitled "Review of Planning & Development Engineering Services Fees" be received;

AND THAT Council authorize staff to engage Watson & Associates on a sole source basis to complete an updated review of fees related to Planning and Development Engineering activities;

AND THAT Council direct staff to update the Terms of Reference for the fee review to include a review of Levels of Service and associated fee structure recommendations;

AND THAT the scope work outlined in Attachment #1 and the Level of Service review be undertaken to an upset budget limit of $60,000.

B. Overview

This report requests authorization from Council to sole source an updated review of fees related to Planning and Development Engineering activities. This update is recommended to inform the Budget 2020 process and any associated adjustments Council may deem appropriate. The project is recommended to be sole sourced to Watson & Associates as they performed similar work for the Town in recent years (2016).

C. Background

During the preparation of the 2019 Budget and 2020 Budget, it has become evident that the financial resources funding some Planning and Development Engineering activities require a updated review. During the last couple years, several factors have contributed to a strain being placed on the land use planning and development application review functions provided by Planning & Development Engineering staff. These include the following:

- **Changing legislative context** – In 2017, Bill 139 introduced an entirely new planning, development and appeal framework in Ontario. This has recently been replaced by another new planning development and appeal framework in Ontario, via Bill 108. Each time new legislative changes are introduced, particularly comprehensive bill such as Bill 139 or Bill 108, it requires considerable amount of staff time to assess the changes, to review their impacts on municipalities process, policies and bylaws, and to determine any implications the changes may have on existing applications.
- **Bill 108** – Bill 108 has introduced shorter application processing timelines for the Town. This means Town staff will have less time to receive information, review it in consultation with the appropriate internal and external stakeholders, and recommend a decision before the application is eligible for an appeal to the Local Planning Appeals Tribunal (LPAT). This has the effect of requiring more devoted time/attention from Planning & Development Services staff to ensure a proper review is conducted.
- **Proactive Planning** -- Shorter planning application processing timelines enacted through Bill 108 also suggest that it would be prudent for the Town to invest in proactively addressing both land use planning issues and pre-zoning certain areas for development. Such an approach would allow Council, members of the public, landowners, and other stakeholders the opportunity to collaboratively engage in a process of planning ahead. This is anticipated to have the effect of providing more certainty about what development can be expected and where; as well as reducing the need for some associated Planning Act applications.
- **Significant Volume of Development Applications** (both number of applications & number of units proposed) – This factor relates directly to workload volume.
- **Current Planning Projects** – It is anticipated that the number and complexity of planning special projects will continue to increase. Currently, these projects include: Short Term Accommodation Zoning Framework Review, Housekeeping Zoning Bylaw Amendment; Tree Preservation Bylaw and Future work related to Tree Canopy analysis and associated comprehensive Tree Bylaw; Green Energy Act repeal & required policy/zoning updates, Community Planning Permit System review; Staff support for Attainable Housing

Considering the above and the diverse demands being placed on the Planning & Development Services Department, an updated review of the Town's fees pertaining to Planning and Development Engineering activities would be prudent. It is noted that similar work was completed by Watson and Associates in 2016. However, information from this review would inform the current Council in determining how much of the Town's Planning and Development Engineering functions are funded by various revenue sources, including the taxpayer, development application fees, etc. Accordingly, Town staff have obtained a quote from Watson & Associates for the completion of an update to the fees review (see Attachment #1).

Other municipalities in southern Ontario have explored and/or integrated alternate revenue generation models that warrant investigation (i.e. direct billing for time and expenses, full cost recovery fees, etc.). Furthermore, the concept of fees associated with Level of Service has also been raised with staff. Staff see merit in exploring what various Levels of Service are achievable and how this concept could be incorporated into the Town's fee structure for Planning and Development Engineering services.

D. Analysis

Increasing demands being placed on the Planning & Development Services Department require a reassessment of the revenue sources that provide funding to the department's functions. An update to the fee review for Planning and Development Engineering activities will provide valuable information for Council consideration through the Budget 2020 process. While the quote listed in Attachment 1 was based on a certain project scope, staff recommend that the scope be increased to allow for exploration of Levels of Service and associated fee structure recommendations, to an upset limit of $60,000. Considering the past work and familiarity with related Planning & Development Department fee matters, there are anticipated efficiencies with retaining Watson & Associates on a sole source basis to complete an update to their previous work completed for the Town a few years ago.

E. The Blue Mountains Strategic Plan

Goal #3: Support Healthy Lifestyles
Objective #3 Manage Growth and Promote Smart Growth

Goal #4: Promote a Culture of Organizational & Operational Excellence
Objective #4 To Be a Financially Responsible Organization
Objective #5 Constantly Identify Opportunities to Improve Efficiencies and Effectiveness

F. Environmental Impacts

No direct environmental impacts are expected as a result of this report.

G. Financial Impact

An upset limit of $60,000 will be allocated from the Working Capital budget towards this project.

H. In consultation with

Ruth Prince, Director of Finance & IT Services
Jennifer Moreau, Director of Human Resources
Shawn Everitt, Chief Administrative Officer

I. Public Engagement

The topic of this Staff Report has not been subject to a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. Comments regarding this report should be submitted to Nathan Westendorp directorplanningdevelopment@thebluemountains.ca

J. Attached

1. Watson & Associates Proposal

Respectfully submitted,

___***Nathan Westendorp***_________________
Nathan Westendorp, RPP, MCIP
Director of Planning and Development Services

For more information, please contact:
Nathan Westendorp, RPP, MCIP
directorplanningdevelopment@thebluemountains.ca
519-599-3131 extension 246

June 25, 2019

Ms. Ruth Prince
Director of Finance & IT Services
Town of The Blue Mountains
32 Mill Street, P.O. Box 310
Thornbury, ON
N0H 2P0

Dear Ms. Prince:

Re: Proposal for Consulting Services for Development Approval Applications Process Review

1. Introduction

Watson & Associates Economists Ltd. (Watson) is pleased to provide this letter proposal which outlines our proposed approach and cost estimate to undertake an update to the Town of the Blue Mountains' (Town) planning application and development engineering fees. Our study objective, work plan/approach, and detailed budget are summarized below.

Municipalities have periodically undertaken to update their development fees in order to address changes in legislative requirements, development cycles, application characteristics, and cost-recovery levels with the intent of continuing to improve fee structures so that they more accurately reflect processing efforts. Watson has assisted a number of these municipalities in reviewing and modernizing their development fees. For example, we have assisted the City of Vaughan with a 25-year forecast of development fee revenues (i.e. planning applications, engineering review and inspections, and building permits) to measure the impacts of increased intensification and urbanization. We have also undertaken a review of the City of Burlington's planning application fees to better understand the processing changes related to infill development compared to historic greenfield development and to better align its fee structure with this new development reality. Watson has previously assisted the Town in 2016 with a review of Building, Planning, and Development Engineering Fees (2016 Fees Review).

It is our understanding that the Town is seeking a review of its planning and engineering development fees. A review of these development fees will allow the Town to examine the full cost, and staffing levels necessary, to process applications in light of future changes to the volume of applications.

2. Methodology and Work Plan

2.1 Proposed Study Methodology

Our proposed methodology for this assignment is based on updating the Activity-based Costing (A.B.C.) model that Watson developed for the Town in 2016 to quantify the full costs of service and recommended fees. An A.B.C. methodology, as it pertains to municipal governments, assigns an organization's resource costs through activities to the services provided to the public. Conventional municipal accounting structures are typically not well suited to the costing challenges associated with development application review activities; as these accounting structures are business unit focused and thereby inadequate for fully costing services with involvement from multiple municipal business units. An A.B.C. approach better identifies the costs associated with the processing activities for specific application types and thus is an ideal method for determining full cost development review user fees.

An A.B.C. methodology attributes processing effort and associated costs from all participating business units to the appropriate user fee service categories. The resource costs attributed to processing activities and application categories include direct operating costs, indirect support and corporate overhead costs, and capital costs. Indirect support function and corporate overhead costs are allocated to direct business units according to operational cost drivers (e.g. information technology costs allocated based on the relative share of departmental personal computers supported). Once support costs have been allocated amongst direct business units, the accumulated costs (i.e. indirect, direct, and capital costs) are then distributed across the various user fee categories (and other non-development municipal services) based on each business unit's direct involvement in processing activities. The assessment of each business unit's direct involvement in processing activities is accomplished by tracking the relative shares of staff processing effort across each application fee category's sequence of mapped process steps. The results of employing this costing methodology provides municipalities with a better recognition of the costs utilized in delivering development review processes, as it acknowledges not only the direct costs of resources deployed but also the operating and capital support required by those resources to provide services.

An A.B.C. approach to setting user fees will preserve the Town's ability to shelter existing taxpayers from service costs directly benefitting recipients, while cost justifying any required fee adjustments. Maintaining this approach embraces "best practices" utilized by other municipalities in Ontario.

Having established the average processing costs by user fee service category, application characteristics (e.g. application size, sub-processes, etc.) are considered to inform the fee structure design. These fee structure design charging characteristics are vital to implementation of a defensible and sustainable funding source. Furthermore, consideration of forecast development characteristics provides for a better understanding of cost recovery targets and strategies as opposed to broad based fee adjustments.

2.2 Project Work Plan

Based on our understanding of the requirements of this assignment and our past experience with similar undertakings for other municipalities, the following work program has been developed. Throughout the work plan, multiple opportunities for staff review have been built in.

Task #1 – Review of Project Methodology, Fee Review Trends, and Current Legislation

- Undertake an initial start-up meeting with Town staff to discuss assignment methodology/deliverables and review the implications of legislation.
- This start-up meeting will cover the following:
    - *Planning Act* and *Municipal Act* fee design and cost recovery issues;
    - A.B.C. methodology incorporating these legislative and regulatory guidelines to ensure all related direct and indirect costs permitted under the legislation are considered;
    - Insights into how other municipalities are addressing new legislative and regulatory requirements and fee design considerations to provide revenue sustainability;
    - Finalize a detailed project work plan and timeline;
    - Initiate discussions on refinement of fee design and fee categorization/characteristics and process delivery mapping for additional fees/services to be reviewed, including possible new fee categories;
    - Identify information requirements for the assignment; and
    - Review potential development industry representatives and discuss timeline and scope of involvement.

Task #2 – Receive and Review Background Documents from Town Staff and Preliminary Analysis

- Review to include the following:
    - Approved budgets;
    - Development review cost recovery performance;
    - Existing process maps; and
    - Existing fees and fee by-laws.
- Preliminary analysis and identification of additional activities and processes that may require fees (in addition to the categories considered in the 2016 Fees Review)

- Review the Town's current level of cost recovery performance over the 2014-2018 period. The intent of the review will be to analyze where revenues have not kept pace with expenditures, relating performance to application volume patterns, application characteristics, previous fee structure decisions, etc. Conducting the review at the outset will provide for meaningful discussion and input on modeling and fees structure design decisions.
- Update list of municipal comparators (neighboring municipalities and comparators), fees to compare and best practices.
- Prepare municipal comparison survey of municipalities and fees.

Task #3 – Fee Design

- Document fee categories and sub-categories, differentiating application characteristics, and participating Town staff positions
- In the context of fee categorization/characteristic recommendations provided at the initiation meeting and as determined through the review of background documentation, discussions during a working session will provide the development characteristics to be tested through the costing component of the assignment, to determine if fee structure adjustments are warranted based on material cost recovery impacts.
- Process maps that were developed during the 2016 Fees Review will be reviewed and updated as needed with regard to fee categories/processes established through these discussions.

Task #4 – Secure Processing Effort Estimates and Quality Test them Through Capacity Utilization and Benchmarking Tools

- Prepare communication materials for staff to update the established fee category effort estimation templates for existing modelled fees and complete effort estimations for additional fees to be included in the review.
- Support the departmental staff who will need to be engaged in the review through a working session to update processing steps (process maps) and effort estimates for all costing categories.
- Prepare staff capacity utilization quality control analysis to verify accuracy/defensibility of processing effort estimates. Capacity utilization results are assessed against available staff capacity to test for defensibility.

Task #5 – Construct an A.B.C. Model and Fee Structure Options

- Update the 2016 A.B.C. model to ensure appropriate fee costing categories, direct and indirect cost drivers, data flows, and full cost fee schedule generation. Model will project annual activity-based costs for development applications, based on application volumes by type.

- Model costing results will be utilized to generate fee structure options. Full cost and other policy-driven fee structure options will be considered in consultation with staff. These policy-driven fee structure options will be developed with regard for industry best practices, comparative analysis, and applicant affordability.
- Forecast revenues for five years for each rate structure option.
- Based on the A.B.C. model, allocation percentage for Town departments to the activities and costing categories included in the review will be assessed.

Task #6 – Prepare Draft Report and Recommended Fee Structure and Undertake Stakeholder Consultation

- Prepare a draft report which will summarize the project methodology and findings, as well as full cost recovery and recommended fee structures.
- Present results of A.B.C. model, policy research, fees survey of peer municipalities, and proposed fees and policies to staff.
- Study findings and recommended fee structure will be presented to development industry stakeholders.
- Receive feedback from development industry stakeholders and make any required adjustments to recommendations ahead of Council meeting.

Task #7 – Prepare Final Report and present to Council

- A Final Report will be prepared summarizing legislative context and resultant methodology, summary of the full cost recovery assessment, full cost recovery fee structure, implementation plan, property specific impacts, and a comparative assessment of its relative competitiveness with peer municipalities.
- A Council presentation will be undertaken to present the final report and discuss project methodology, findings, and proposed fee structures and policies.

3. Consulting Team

Our proposed consulting team has worked together on dozens of projects for our clients in the municipal sector. Project successes are ensured through strong leadership and experienced staff. A feature of our work is a focus on ensuring the project goals and objectives are being met in a manner that is satisfactory to the client. This is accomplished through maintaining open communication channels within our team and the client. Moreover, coordinating responsibility for the completion of all tasks necessary to deliver the work plan is accomplished through detailed record keeping and communication.

Our consulting team consists of:

Peter Simcisko, BA (Hons.), MBE, Manager – would represent the firm as Project Manager and be responsible for all facets of the study. Since joining the firm in the spring of 2013, he has assisted in the preparation of development charge background studies, water and wastewater rate studies, user fee studies, and asset management plans for our municipal clients. Furthermore, Peter has recently been involved in updating the firm's A.B.C. model, and he has also been heavily involved in the technical aspects of a number of recent user fees-related projects lead by Andrew, for clients such as the Town of Ajax, Dufferin County, City of Burlington, Town of Whitchurch-Stouffville, and Town of the Blue Mountains.

Andrew Grunda, MBA, CPA, CMA, Principal – would act as Advisor and would oversee the execution of the fees review. Andrew has been with the firm of Watson & Associates Economists Ltd. since 1996, before which he worked for the former Regional Municipality of Hamilton-Wentworth. He is presently a member of the firm's senior management group, which develops interpretations of legislative requirements, as well as methodologies for alternative policy strategies for all facets of the corporate assignments. Andrew has undertaken user fee studies for a number of municipalities of varying size and has assisted in the advancement of the concept of A.B.C. within rate structures. Andrew has completed similar reviews for other municipalities including the City of Burlington, Town of Grimsby, Town of Milton, and more recently the City of Thorold. In addition, he has undertaken numerous lectures on Municipal Act, 2001, Part XII Fees and Charges, Bill 124 *Building Code Statute Law Amendment Act* and Bill 175 *Sustainable Water and Sewage Systems Act* on behalf of the AMCTO and MFOA.

Matt Bouroukis, BA (Hons.), MBE, Consultant – would assist in the collection and compilation of data, modeling, report documentation and providing the comprehensive municipal survey. Since joining the firm in the summer of 2015, he has assisted in the preparation of Development Charge Background studies, water and wastewater rate studies, user fee studies, asset management plans, and long-term financial plans for our municipal clients. Matt has recently been involved in user fees reviews for the Township of Guelph-Eramosa, Town of Whitby, City of Burlington, and the Town of Petawawa.

4. Budget and Timing

Based on the work program identified above, our upset budget estimate to complete the Building Permit Fee Review is $31,950 (including fees and disbursements, and excluding HST). The details of the budget estimate by work plan task are summarized in Table 1 below.

The project schedule assumes project initiation in July 2019 with a completion target by the end of the calendar year so the results can be incorporated into the Town's 2020 budget process, with specific timelines established at the project initiation meeting. Our budget estimate provides for six meetings in total:

- one meeting with staff, to initiate the project, discuss project methodology, work plan, and timeline;

- one staff meeting to review and update processing effort estimates, as required;
- one meeting to discuss fee design and present A.B.C. model;
- one meeting to review and discuss the draft report and recommended fee structure;
- one meeting with industry stakeholders; and
- one presentation to Council.

Table 1
Proposed Budget

Workplan Task	Andrew Grunda, *Principal*	Peter Simcisko, *Manager*	Matt Bouroukis, *Consultant*	Total Budget
Hourly Billing Rate	***$ 295***	***$ 215***	***$ 140***	
Task #1 – Review of Project Methodology, Fee Review Trends, and Current Legislation	-	8	8	$ 2,840
Task #2 – Receive and Review Background Documents from Town Staff and Preliminary Analysis	-	4	8	$ 1,980
Task #3 – Fee Design	2	6	8	$ 3,000
Task #4 – Secure Processing Effort Estimates and Quality Test them Through Capacity Utilization and Benchmarking Tools	-	16	16	$ 5,680
Task #5 – Construct an A.B.C. Model and Fee Structure Options	4	12	24	$ 7,120
Task #6 – Prepare Draft Report and Recommended Fee Structure and Undertake Stakeholder Consultation	4	16	12	$ 6,300
Task #7 – Prepare Final Report and present to Council at Public Meeting	2	8	8	$ 3,430
Subtotal	*12*	*70*	*84*	*$ 30,350*
Disbursements (travel, printing)				$ 1,600
Total (excl. HST & Provisional Deliverables)				**$ 31,950**

We hope this proposal letter sufficiently addresses your requirements. We would be glad to discuss any aspect of this proposal further at your convenience. We look forward to the opportunity of working with the Town in this capacity.

Yours very truly,

WATSON & ASSOCIATES ECONOMISTS LTD.

Andrew Grunda, MBA, CPA, CMA
Principal