
REPORT TITLE: Update on the Development Services Fee Review

FROM: Andrew Farr, Interim Commissioner of Public Works

RECOMMENDATION

That the fees review findings as outlined in the report of the Interim Commissioner of Public Works, titled “Update on the Development Services Fee Review”, be endorsed;

And further, that the proposed phased implementation strategy as outlined in Appendix IX of the subject report be endorsed for consideration as part of the 2021 and 2022 annual budgeting processes;

And further, that a copy of the subject report be provided to the local municipalities and the Building Industry and Land Development Association for information.

REPORT HIGHLIGHTS

- In January 2020, staff retained the consulting services of Watson and Associates Economists Limited to conduct a review of all development-related user fees.
- Based on current user fees, the Region of Peel recovers 82 per cent of costs related to the processing of development-related applications. The resulting shortfall of approximately \$1.0 million is currently absorbed by the Region’s property tax base.
- Fee changes are recommended for both Planning and Traffic Development application categories.
- No changes are proposed to Engineering and Site Servicing fees.
- These changes improve the Region’s cost recovery from user fees up to 94 per cent and adhere to the financial principle of “Users Pay Where Appropriate” outlined in the Region’s Long-Term Financial Planning Strategy.
- Staff have also recommended updates to the interim Site Plan application fees, classifications, and criteria that were introduced in 2020.
- A phased implementation of fee changes is proposed to inform the 2021 Regional User Fees By-law as part of the 2021 Budget.

DISCUSSION

1. Background

a) Context

In November 2019, Regional Council endorsed a report from the Interim Commissioner of Public Works titled “Development Services Fees Review” directing Development Services staff to undertake a comprehensive review of existing development-related fees, and report back to Council with the results of the study. Current fees related to the review of

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development applications are set out in the Region of Peel's User Fees and Charges By-law 67-2019 (the By-law).

Fees that were considered within the scope of this review include:

- Planning
- Engineering and Site Servicing
- Traffic Development

Fees collected under the By-law are intended to recover the actual costs of reviewing various development-based applications to ensure Regional interests and infrastructure are protected, in accordance with applicable legislation and standards.

As development trends in Peel continue to evolve, application types are shifting, and the complexity of applications has increased over time. Planning legislation changes and increased development and redevelopment in urban areas are contributing to this shift. Complex development applications require the consideration, evaluation and implementation of new approaches to development review. While these approaches allow the Region and local municipalities to be more agile and collaborative in responding to changing development trends, these are time and resource intensive, in comparison with traditional greenfield development.

The comprehensive fees review will ensure the Regional fee structure is aligned with current processing efforts. Further, it supports the common best practice for municipalities to review fees to address changes in legislation, development process, application characteristics and cost recovery levels. The Region's current development-related fees have remained largely unchanged for more than 10 years, further emphasizing the need for this comprehensive review.

b) Fees Review Approach

In January 2020, the Region retained Watson and Associates Economists Ltd. (Watson) through a competitive procurement process. Watson is recognized as a leader in the field of municipal finance and have conducted Planning and Development application fees reviews for over 45 Ontario municipalities. Watson facilitated a comprehensive review of all development-related fees. An executive summary of the final Watson Report titled "Development Services User Fees Review" is attached as Appendix I and a full copy of the report is available from the Office of the Regional Clerk for viewing.

The objectives of the review included developing an equitable user fee structure that allows for cost recovery from those who directly benefit from the service, known as the "beneficiary pay principle". This objective is well-aligned with the Region's Long-Term Financial Planning Strategy, which establishes the "Users Pay Where Appropriate" principle, whereby users should cover the cost of services provided to them. The Financial Strategy also directs that Regional service outcomes, such as the creation of complete and sustainable communities, should be delivered without placing undue financial pressures on Regional taxpayers.

The Region seeks to achieve appropriate cost recovery through user fees, as there are some review processes that benefit Regional interests, along with the broader community rather than a specific applicant or user. For these processes, seeking full cost recovery through user fees would be inappropriate. The fees review aligns fees with staff processing

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effort and enables the determination of whether costs associated with each type of development review should be entirely borne by the applicant. These considerations were incorporated in the fee recommendations outlined in this report and is consistent with the approach of other municipalities in the Greater Toronto and Hamilton Area. For example, York Region recently identified a cost recovery target of 80 per cent for planning applications during their 2019 Fees Review.

A key task in the comprehensive review was to understand the total costs associated with reviewing development submissions. To determine the full costs of services, Watson utilized an activity-based costing (ABC) methodology. The ABC methodology assigns processing effort and associated direct and indirect costs to the application and fee categories. This robust methodology identifies the full costs associated with current processing activities to determine the complete costs, and associated cost recovery of development-related application fees. This methodology allows the Region to establish a framework for establishing fees that is consistent, fair and transparent, through an approach that complies with applicable legislation, industry practices and is reflective of the delivery of Regional services.

2. Findings

a) Annual Cost of Service and Current Revenue

The fees review determined it costs the Region \$5.6 million annually to provide Development application processing and review services. The Region's existing fee structure recovers 82 per cent of the costs attributable to Planning, Engineering and Traffic Development fee categories, resulting in an annual under-recovery of \$1 million.

Table 1 below summarizes the calculated annual processing costs compared with annual revenues, derived from the Region's current fee structure and historical average application volumes.

Table 1: Existing Cost Recovery of Development-Related User Fees

| Description | Annual Costs | Annual Revenue | Estimated Cost Recovery |
|--|----------------|----------------|-------------------------|
| Planning Application Fees | | | |
| Existing Fees | \$1.2 M | \$1.0 M | 84% |
| Potential New Fees* | \$0.6 M | \$0.0 M** | 3% |
| Subtotal | \$1.8 M | \$1.0 M | 56% |
| Engineering and Site Servicing Fees | \$3.2 M | \$3.2 M | 100% |
| Traffic Development and Permit Fees | \$0.5 M | \$0.3 M | 57% |
| Total | \$5.6 M | \$4.5 M | 82% |

*Application categories for which the Region does not currently collect a prescribed fee in accordance with the 2020 Regional User Fee and Charges By-law.

**Actual value is \$19,200

b) Fee Recommendations

i) Planning Fee Recommendations

The Planning Applications category includes existing fee categories defined in the current Regional User Fees and Charges By-law, as well as potential new fee

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categories. The potential new fees refer to application types processed by the Region, for which there are no prescribed fees in the current Regional User Fees and Charges By-law.

Recommendations for existing fee categories include moderate increases to the following three fee categories:

- Regional Official Plan Amendments (ROPA)
- Plan of Condominium
- Agreement Review and Execution

Fees for Local Official Plan Amendments are recommended to decrease to better reflect processing efforts, while Plan of Subdivision fees are not proposed to change.

Current fees for Site Plan applications were introduced in the 2020 update to the Regional User Fees and Charges By-law as an interim measure, prior to which no fees were collected for these applications. The interim fees were implemented to address a growing funding gap based on the increasing volume and complexity of Site Plan applications.

Various fee structure options were considered in order to improve cost recovery, along with other factors, such as application affordability and administrative impacts on local municipalities. A graduated flat fee is recommended, with three distinct categories and refined application criteria for each category:

- Full Site Plans (\$3,100 fee)
- Scoped Site Plans (\$1,700 fee)
- Limited Site Plans (no fee)

Limited Site Plans, for which no fee is proposed, are subject to a screening to identify matters of Regional interest. The majority of these applications are screened out, resulting in a small percentage undergoing a review that is scoped specifically to protect identified Regional interests. Significant benefit, particularly with respect to the protection of existing infrastructure, is realized with minimal staff administrative and technical review efforts.

All recommended changes to fees for existing Planning categories are detailed in Table 2 below.

Table 2: Recommended Fees for Existing Planning Application Categories

| Description | Current Fee | Recommended Fee | % Change |
|---|-------------|-----------------|----------|
| Regional Official Plan Amendment | \$20,000 | \$22,100 | + 11% |
| Local/Area Municipal Official Plan Amendment | \$12,000 | \$9,000 | - 25% |
| Plan of Subdivision | \$20,000 | \$20,000 | 0% |
| Plan of Condominium | \$3,000 | \$3,700 | + 23% |
| Full Site Plan | | | |
| - New non-residential or expansions (>500 sq. m) | \$1,000* | \$3,100 | + 210% |
| - Multi-residential built forms (e.g. townhouses, stacked houses, apartments) | | | |

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| Description | Current Fee | Recommended Fee | % Change |
|--|-------------|-----------------|----------|
| - 2+ residential units (e.g. townhouses, stacked houses, apartments, single/semi-detached dwellings) | | | |
| Scoped Site Plan - New non-residential or expansions (<500 sq.m) | \$500* | \$1,700 | + 240% |
| Limited Site Plan - Site alterations - Single/semi detached dwellings - Telecommunications towers - Oak Ridges Moraine | \$500* | No charge | - 100% |
| Agreement Review and Execution | \$2,000 | \$2,200 | + 10% |

**Interim fee introduced in 2020*

Potential new categories were also investigated to determine the full processing costs associated with these Planning application types that currently do not have a fee, and to inform decisions regarding whether a fee should be imposed. Three new fee categories have been proposed:

- Consent
- Zoning By-Law Amendments
- Secondary Plan Amendments

Secondary Plan Amendments are identified as a new sub-category of Local Official Plan Amendments to reflect a lower level of staff effort to process compared to typical Local Official Plan Amendments. In addition to the three new fee categories outlined above, processing efforts were also analyzed for several other potential new fee categories; however, the introduction of fees was not recommended for these categories. Given that these reviews primarily benefit wider Regional interests (rather than just the applicant), it is appropriate that these costs be recovered from the property tax base, rather than from development proponents, in order to ensure an equitable fee structure.

All recommended fees for new Planning application categories are detailed in Table 3 below.

Table 3: Recommended Fees for New Planning Application Categories

| Description | Current Fee | Recommended Fee | % Change |
|---|-------------|-----------------|----------|
| Consent | - | \$1,400 | N/A |
| Minor Variance | - | No charge | N/A |
| Zoning By-law Amendment (Stand-alone) | - | \$4,700 | N/A |
| Secondary Plan Amendments* (Stand-alone) | - | \$7,400 | N/A |
| Part Lot Control | - | No charge | N/A |
| Niagara Escarpment Commission Dev Permits | - | No charge | N/A |
| Permit to Take Water | - | No charge | N/A |
| Environmental Compliance Approvals | - | No charge | N/A |
| Non-Potable Groundwater | - | No charge | N/A |

**Secondary Plan Amendments are a sub-category of Local Official Plan Amendments (LOPA)*

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ii) Engineering and Site Servicing Fee Recommendations

The Region's existing Engineering and Site Servicing fees approximate full cost recovery levels, as observed in Table 1. As a result, no changes to any engineering or site servicing fees are proposed.

iii) Traffic Development and Permit Fee Recommendations

Table 4 below outlines recommended increases to Traffic Development fees. The existing fees were established without a fulsome review of the costs of service, and thereby do not accurately reflect current staff effort and resources applied to application review, inspection of works and enforcement of Regional standards. Proposed increases are aligned with current staff processing effort towards increasingly complex and challenging applications arising from infill and intensification in urbanized areas.

Recommended fee increases for road occupancy permits relate only to those permits related to development applications with associated roadworks and requirements. No changes are recommended to fees for road occupancy permits that are associated with standard works or maintenance.

While the engineering and inspection fee is recommended to increase to 10.8 per cent to achieve full cost recovery, the minimum charge will remain at \$1,724.40, which is meant to ease the transition of applicants to the new fee structure.

Table 4: Recommended Traffic Development Fees

| Description | Current Fee | Recommended Fee | % Change |
|--|------------------------------------|---------------------------------------|----------|
| Site Plan Review/Development Applications/ Engineering & Inspection Fees | 7% or minimum charge of \$1,724.40 | 10.8% or minimum charge of \$1,724.40 | +54% |
| Legal Letters (Access/Servicing Compliance Letters) | \$308 | \$1,667 | +441% |
| Temporary Access Fees | \$334 | \$1,940 | +481% |
| Road Occupancy Permit (Development Related) | \$450 | \$1,509 | +235% |

c) Anticipated Cost Recovery

The anticipated cost recovery based on fee changes recommended in this report is detailed in Table 5 below. These figures were determined based on costs of service and revenue generated through a fee structure that is reflective of staff processing efforts, as outlined in the recommended fee changes above.

Through the introduction of new Planning fee categories, the cost recovery of potential new fees would improve to 58 per cent. Recommended fee changes to existing Planning fee categories would improve their cost recovery from 84 to 94 per cent. Overall, the cost recovery of all Planning Application categories would improve from 56 to 82 per cent. Cost recovery for Traffic Development applications would improve to 100 per cent based on full implementation of the recommendations.

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In total, implementing the recommended changes would improve the Region's overall cost recovery from 82 to 94 per cent. This reduces the Region's reliance on the property tax base by approximately \$640,000 per year.

Table 5: Anticipated Cost Recovery of Proposed Development-Related User Fees

| Description | Annual Costs | Annual Revenue (Anticipated) | Estimated Cost Recovery (Anticipated) |
|--|----------------|------------------------------|---------------------------------------|
| Planning Application Fees | | | |
| Existing Fees | \$1.2 M | \$1.1 M | 94% |
| Potential New Fees* | \$0.6 M | \$0.3 M | 58% |
| Subtotal | \$1.8 M | \$1.5 M | 82% |
| Engineering and Site Servicing Fees | \$3.2 M | \$3.2 M | 100% |
| Traffic Development and Permit Fees | \$0.5 M | \$0.5 M | 100% |
| Total | \$5.6 M | \$5.2 M | 94% |

*Application categories for which the Region does not currently collect a prescribed fee in accordance with the 2020 Regional User Fee By-law.

d) Fee Recommendations Analysis: Development Impact Scenarios

An important aspect of the fees review is understanding how the proposed fee changes impact the overall costs of a development project and to confirm that there would not be negative impacts to development in Peel. A trusted approach to analyze impacts on development is using samples of development application types and analyzing all the municipal fees these applications would be subject to (i.e. planning, engineering, traffic, building permit and development charges fees). This method is the preferred approach to understanding the relative market position of the proposed fees, rather than a direct comparison of municipal fee schedules. Each municipality's fee schedules have different components, considerations and procedures for processing development applications that make it a challenge to establish direct and objective comparisons.

As part of the impact analysis, five different sample developments (low, medium and high-density residential developments, and small and large non-residential developments) in each of Peel's three local municipalities were examined by Watson.

Overall, it was found that development-related fees make up a small component of the overall expenses of a development project. Further, it was found that the full implementation of the fee recommendations would have a negligible to minor impact on total municipal development costs, increasing overall costs by 0.1 to 0.4 per cent for residential development, and 0.4 to 2.6 per cent for non-residential development.

The analysis also showed that, when compared against other local municipalities, implementing the fee recommendations would not meaningfully change the relative ranking of Peel's local municipalities with respect to total development costs. Details of these scenarios and resulting impacts can be found in Appendices II to VI.

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e) Stakeholder Consultation

A series of stakeholder consultation sessions were held with planning and development departments from each of the Region's local municipalities in May 2020. In addition, a consultation was held with the Peel Chapter members of the Building Industry and Land Development Association (BILD) on May 19, 2020. The objectives of these meetings were to present the project's initial findings, gather input on the calculated costs and receive feedback on implementation strategies for new and existing fees. All consultation participants were also given the opportunity to provide follow-up written comments to the Region, as needed.

Written feedback was received from the Town of Caledon Economic Development and Tourism division on June 5, 2020, attached in Appendix VII. Industry stakeholders (BILD) sent feedback on June 2, 2020 in the form of written correspondence to Regional Council (attached in Appendix VIII), which was officially received on June 11, 2020.

A follow-up supplementary report was prepared by staff and shared with BILD's Peel Chapter members in September to address feedback and provide requested clarification. A follow up review meeting with BILD members was held on October 9, 2020 to discuss the recommendations of this report. Additional correspondence from BILD is expected ahead of the November 12, 2020 Regional Council meeting.

Regional staff feel the recommendations provide a balance between the feedback received from stakeholders while still maintaining the financial objectives and guiding principles behind the fees review.

3. Proposed Direction

a) Phased Implementation Strategy

In order to achieve desired cost recovery levels, fee change implementation must consider the Region's financial objectives and guiding principles regarding user fees, alongside economic and social context. Primarily, the emergence of the COVID-19 pandemic in the spring of 2020 has had subsequent impacts on many sectors including the development industry, as also noted in BILD's June 2, 2020 correspondence (attached as Appendix VIII). For this reason, it is imperative that the implementation of these recommendations be flexible and responsive so as not to further impede Regional growth and development activity, while also protecting the interests of Regional taxpayers.

As such, a phased implementation strategy (Appendix IX) is proposed as follows:

- Effective upon the passing of the 2021 annual amendments to the Regional User Fees and Charges By-law, any fee reductions should be enacted to their full extent. These changes would be subject to consideration as part of the review of the 2021 fees by-law and 2021 annual budgeting process, any fee reductions should be enacted to their full extent upon the passing of the 2021 amendments to the fees by-law. This includes reductions to LOPA fees, and the implementation of Secondary Plan Amendment fees, which are a subcategory of LOPA fees.

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- Effective July 1, 2021, 50 per cent of all applicable fee increases should take effect. These changes would also be subject to consideration as part of the review of the 2021 Regional User Fees and Charges By-law and 2021 annual budgeting process.
- Effective upon the passing of the 2022 annual amendments to the Regional User Fees and Charges By-law, all fee recommendations outlined in this report should be fully implemented. These changes would be subject to consideration as part of the review of the 2022 fees by-law and 2022 annual budgeting process.

Delaying the initiation of fee increases until July 2021, and further delaying the full implementation of changes to 2022 helps manage impacts to the development community and provides sufficient time for transition to the new fee structure, while allowing the Region to reduce its reliance on property tax base contributions to the cost of development.

b) Next Steps

Leading practices suggest that fees be reviewed on a regular basis and that an annual mechanism is established to adjust fees commensurate with inflationary rates. Staff recommend that a fulsome follow up review of development related fees be conducted in 2023 to inform the 2024 Regional User Fees and Charges By-law and Budget. Staff will continue to adhere to Regional financial policies and best practices to ensure costs are recovered from the appropriate beneficiary of service.

As part of the Region's ongoing commitment to continuous improvement, staff will continue to plan and implement continuous improvement initiatives that seek to improve customer service and streamline service delivery.

Ongoing and planned initiatives include:

- technology solutions that support electronic plan submission and review
- enhanced development data tracking and workflow processes
- continued implementation of the Streamlining Development Approvals Program, which aims to improve customer service, knowledge, collaboration and partnerships. Five projects have been implemented over the past two years, with an additional nine ongoing projects to be implemented over the next two years

Staff will continue to communicate, consult and coordinate with BILD and local municipalities on these process improvements as they continue to be implemented. Further, some of the activities outlined above could result in cost efficiencies that impact costs of service. Staff will continue to monitor the new fee structure to determine how the new fees are performing and the degree to which cost efficiencies are realized through ongoing improvements. These considerations will be incorporated into adjusted fee recommendations during the fulsome review of fees proposed in 2023. However, in the interim, staff will also continue to review the Region's costs to process development-related applications annually and if changes are required, up or down, will recommend minor changes as part of the annual budget process.

In the interim, staff will also investigate the implications of eliminating or reducing service connection fees for neighbourhood-led projects with community benefits, as directed by Regional Council (as per Council Resolution 2020-716), and report back to Council on this matter in 2022.

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RISK CONSIDERATIONS

As outlined in this report, current under recovery for development-related applications has a cumulative impact of approximately \$1 million in annual costs that are currently being absorbed by the tax base. Maintaining the current user fee structure will further the Region's reliance on the tax base to subsidize these costs.

There is a simultaneous risk that implementing fee increases may affect the affordability of investing in Peel, thus unintentionally serving as an impediment to development in the Region. However, as found by this review, the proposed fee changes present a negligible to minor impact on the overall costs of development in the Region. Further, the above outlined implementation strategy considers these risks and allows for the pursuit of cost recovery in a reasonable phased manner.

The proposed fee changes reduce the burden on the property tax base and recover service costs, where appropriate from the user, in alignment with the financial principles outlined in the Region's Long-Term Financial Planning Strategy. Throughout the implementation of these recommendations and through any future iterations of the fee review, staff will continue to engage with the building industry and local municipalities, in order to proactively address any concerns that may arise.

Further, as outlined in next steps above, staff will continue to seek out and implement continuous improvement opportunities that will better serve Regional customers, including the development community and local municipalities.

FINANCIAL IMPLICATIONS

The Region's existing fee structure currently recovers approximately 82 per cent of the costs attributable to all development-related fee categories resulting in \$1 million in annual costs absorbed by the tax base.

Staff recommend a phased implementation strategy that allows the development industry sufficient time to transition and prepare for the recommended fee changes. It is proposed that 50 per cent of the proposed fee increases be endorsed and included in the 2021 Regional User Fee and Charges By-law and Budget process to be effective on July 1, 2021, while 100 per cent of the proposed fee changes be endorsed and included in the 2022 Regional User Fee and Charges By-law and Budget process. It is also proposed that the full extent of any fee decreases be endorsed and made effective immediately through the 2021 Regional User Fee and Charges By-law and Budget process.

By implementing the full scope of recommended fee changes by 2022, it is anticipated that cost recovery will improve from 82 per cent to 94 per cent for all three categories of application types. This increase in the proportional recovery of costs translates to a reduction of approximately \$84,000 for 2021 and \$640,000 annually from 2022 onwards in subsidies from the tax base.

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APPENDICES

Appendix I - Development Services Fees Review Final Report (Executive Summary)
Appendix II - Development Fee Impacts Survey for a Residential Subdivision (Single Detached Units)
Appendix III - Development Fee Impacts Survey for a Residential Subdivision (Townhouse Units)
Appendix IV - Development Fee Impacts Survey for a Residential Subdivision (Apartment Units)
Appendix V - Development Fee Impacts Survey for a Retail Development
Appendix VI - Development Fee Impacts Survey for an Industrial Development
Appendix VII - Consultation Comment from Town of Caledon (June 5, 2020)
Appendix VIII - Correspondence from BILD to Regional Council (June 2, 2020)
Appendix IX - Proposed Phased Implementation Strategy

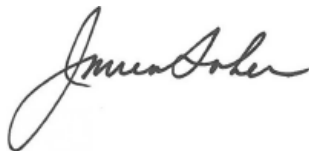
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Reviewed and/or approved in workflow by:

Department Commissioner, Division Director and Financial Support Unit.

Final approval is by the Chief Administrative Officer.



J. Baker, Chief Administrative Officer