

**Full Cost Pricing for New User Fees and Fee Increases  
for Administration of Property Tax and Water Accounts**

<b>Date:</b>	October 23, 2007
<b>To:</b>	Council
<b>From:</b>	Treasurer
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	P:\2007\Internal Services\Rev\cc07030Rev

**SUMMARY**

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This is a direct report to Council to provide information regarding full cost pricing of proposed new user fees/user fee increases for the administration of property tax and water accounts, as requested by the Government Management Committee at its meeting of October 12, 2007. The Committee had before it a report (September 27, 2007) from the Treasurer that proposed new user fees/fee increase as follows:

	<b>Proposed Fee</b>
- Final Notice (for overdue Property Tax Accounts) (per notice)	\$10.00
- Notice of Issuance to Bailiff (per notice)	\$35.00
- New Account Set up for Water/Utility Account (per account)	\$50.00
- Statement of Tax Account (per notice)	Fee increase from \$5.00 to \$7.50

[Re: GM8.6 “New User Fees and Fee Increase for Administration of Property Tax and Water Accounts”].

The Committee’s position is that proposed user fees should reflect the full cost recovery of staff costs.

**Financial Impact**

The proposed new service fees and fee increase proposed in the September 27, 2007 report from the Treasurer to the Government Management Committee identified new revenues totalling \$1.107 million for 2008 (if implemented January 1, 2008). If the fee levels were set to fully recover the costs of providing these services, the total new revenue for 2008 (assuming a January 1<sup>st</sup> implementation date) would be approximately \$2.490 million, based on the fee levels identified in Table 1 below.

Table 1  
Comparison of Proposed User Fees/Fee Increase vs. Fees Set at Full Cost Recovery

User Fees	Proposed User Fees (Staff Report dated Sept. 27, 2007)			User Fees set at Full Cost Recovery Level		
	Estimated volume/year	Proposed User Fee/Increase	Revenue (full year)	Revised Estimated volume/year (Note 1)	User Fee (at Full Cost Recovery)	Revised Revenue (full year)
Final Notice (for overdue Property Tax Accounts)	19,000	\$10.00 per notice	\$190,000	13,300	\$21.00 per notice	\$279,300
Notice of Issuance to Bailiff	6,200	\$35.00 per notice	\$217,000	4,340	\$56.00 per notice	\$243,040
New Account Set up for Water/Utility Account	2,000	\$50.00 per new acct.	\$100,000	2,000	\$60.00 per new acct.	\$120,000
Statement of Tax Account	240,000	\$2.50 (fee increase - \$5.00 to \$7.50)	\$600,000	168,000	\$11.00 (fee increase - \$5.00 to \$16.00)	\$1,848,000
Total Estimated Revenues			\$1,107,000			\$2,490,340

Note 1: Volumes have been adjusted to reflect a 30% decrease over the original volume estimate, where appropriate, to reflect anticipated consumer behaviour (i.e. more taxpayers may pay their account in order to avoid the additional charges).

Table 1 identifies that, by setting new user fees at the full cost recovery level, annual revenues from fees would be approximately \$2.5 million, or \$1.4 million more than the total revenue estimated for the fees as proposed in the Treasurer's report of September 27, 2007.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

At its meeting of October 12, 2007 the Government Management Committee considered a staff report (September 27, 2007) from the Treasurer entitled "New User Fees and Fee Increase for Administration of Property Tax and Water Accounts" that identified three (3) new user fees and an increase to an existing fee, to become effective January 1, 2008 (identified in Table 1 above). At that meeting, the Government Management Committee requested the Treasurer to report directly to Council for its meeting on October 22, 2007 on increased fees, to reflect the Committee's position that the proposed fees should reflect the full cost recovery of staff costs.

The full text of the original report to the Committee is available at:  
<http://www.toronto.ca/legdocs/mmis/2007/gm/bgrd/backgroundfile-7318.pdf>

## COMMENTS

In pricing user fees, consideration is given to the direct and indirect staff and resource costs of providing these services. In the case of user fees for non-mandatory or discretionary services to the public (such as those proposed for the administration of tax and water accounts), fees should ideally be set to recover the full costs of providing such services. Other factors, however, may influence the pricing of fees, including:

- Fees charged for similar services in other municipalities
- Cost of fee in relation to service provided
- Potential for negative public reaction to fees or fee increase
- Higher fees may result in decreased volume/demand for service, and lower than anticipated revenues

### Full Cost Pricing for User Fees

Full cost pricing refers to the method used to determine the full costs of delivering a particular service or product, such that the pricing of the product or service includes all relevant costs, both direct and indirect. A full costing protocol developed by Accounting Services Division has been used to establish fees in other City divisions, such as fees for building services, to recover the full costs of such services. In establishing user fees for products and services, therefore, utilizing a full cost pricing methodology will reflect:

**direct costs** - salaries, wages and benefits, materials and supplies consumed, utilities, equipment, purchase of services (telephone, printing, mailing, etc.), etc.;

**indirect costs** – costs of resources that indirectly support service delivery, including internal program support costs (e.g. divisional and office administration, facilities management), and external program support costs (e.g. information technology support, legal, etc.) and corporate support costs (e.g. human resources, payroll, facilities maintenance and depreciation), etc.

The total of all of these components represents the full cost of a service. Once the full costs of providing a particular service are known, a unit cost can be established for that service by dividing the full service delivery cost by the anticipated volume. This unit cost becomes the fee that is charged for the service, subject to any other factors or considerations that may affect the fee level.

### Applying Full Cost Pricing to User Fees for Tax and Water Accounts

In determining the proposed user fee levels for administration of property tax and water accounts identified in the September 27, 2007 report of the Treasurer, staff considered the direct costs of providing the service, and proposed fee levels designed to recover a substantial amount of the direct costs incurred. The proposed fee levels also considered fees charged for similar services in other municipalities, and were set so as to be consistent with other municipalities' charges, or with existing City charges for user fee levels (i.e. fees for Notices of Issuance to a Bailiff were priced consistently with fees charged for dishonoured cheques or amounts added to the tax collector's roll).

In reviewing the proposed fees to incorporate a full costing methodology, the estimated volumes were reduced 30 per cent over the original volume estimates, to reflect anticipated consumer behaviour (i.e. higher user fees will most likely result in more taxpayers paying their account, or entering into suitable payment arrangements, in order to avoid incurring the additional charges/fees), providing the following results.

**Table 2: Fees for Final Notices (for Overdue Property Tax Accounts)**

Cost Category	Full Costing (per notice)	Description	
Direct costs	\$13.95	- direct staff salaries and benefits - production, printing and mailing costs	
Internal Support costs	\$5.84	- customer service staff support (salaries and benefits) - non-salary support costs (administration, supplies, equipment)	
External Support costs	\$1.98	- corporate charges (I/T support, Legal, HR, payroll, facilities maintenance and depreciation)	
<b>Full Costs</b>	<b>\$21.77</b>		
	<b>Fee</b>	<b>Volume</b>	<b>Revenue</b>
<b>Fee as proposed</b>	\$10.00	19,000	\$190,000
<b>Fee Based on Full Cost Recovery</b>	\$21.00	13,300	\$279,300
<b>Difference:</b>			\$89,300

**Table 3: Fees for Notice of Issuance to Bailiff**

Cost Category	Full Costing (per notice)	Description	
Direct costs	\$32.84	- direct staff salaries and benefits - production, printing and mailing costs	
Internal Support costs	\$17.86	- customer service staff support (salaries and benefits) - non-salary support costs (administration, supplies, equipment)	
External Support costs	\$6.08	- corporate charges (I/T support, Legal, HR, payroll, facilities maintenance and depreciation)	
<b>Full Costs</b>	<b>\$56.78</b>		
	<b>Fee</b>	<b>Volume</b>	<b>Revenue</b>
<b>Fee as proposed</b>	\$35.00	6,200	\$217,000
<b>Fee Based on Full Cost Recovery</b>	\$56.00	4,340	\$243,040
<b>Difference:</b>			\$26,040

**Table 4: Increased Fees for Statement of Tax Account**

Cost Category	Full Costing (per statement)	Description		
Direct costs	\$7.69	- direct staff salaries and benefits - production, printing and mailing costs		
Internal Support costs	\$6.35	- customer service staff support (salaries and benefits) - non-salary support costs (administration, supplies, equipment)		
External Support costs	\$2.07	- corporate charges (I/T support, HR, payroll, facilities maintenance and depreciation)		
<b>Full Costs</b>	<b>\$16.11</b>			
	Total Fee	Fee Increase (over existing \$5.00 fee)	Volume	Add'l. Revenue*
<b>Fee as proposed</b>	\$7.50	\$2.50	240,000	\$600,000
<b>Fee Based on Full Cost Recovery</b>	\$16.00	\$11.00	168,000	\$1,848,000
<b>Difference:</b>				\$1,248,000

\* Additional Revenue column represents revenue over and above existing \$5.00 fee

**Table 5: Fees for New Account Set Up for Water/Utility Accounts**

Cost Category	Full Costing (per account)	Description		
Direct costs	\$50.89	- direct staff salaries and benefits		
Internal Support costs	\$6.19	- customer service staff support (salaries and benefits) - non-salary support costs (administration, supplies, equipment)		
External Support costs	\$3.17	- corporate charges (I/T support, HR, payroll, facilities maintenance and depreciation)		
<b>Full Costs</b>	<b>\$60.25</b>			
	Fee	Volume	Revenue	
<b>Fee as proposed</b>	\$50.00	2,000	\$100,000	
<b>Fee Based on Full Cost Recovery</b>	\$60.00	2,000	\$120,000	
<b>Difference:</b>			\$20,000	

By setting new user fees at full cost recovery levels, as identified above, the proposed new user fees and the increase to the existing fee will produce estimated annual revenues of \$2,490,340, as compared to the estimated total revenue of \$1,107,000 identified in the Treasurer's report of September 27, 2007. By utilizing a full cost recovery model as the basis for fee setting, without regard to other considerations in establishing fee levels, additional revenues of approximately \$1.4 million would be realized.

**CONTACT**

Giuliana Carbone, Director, Revenue Services  
Phone: (416) 392-8065, Fax: (416) 696-3778

**SIGNATURE**

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Cam Weldon  
Treasurer