

User Fee Guidelines and Cost Recovery

ISSUE

Are the City of Saskatoon's (City) user fees and cost recoveries set at the appropriate level in order to reduce the mill-rate impact of programs and services as much as possible?

BACKGROUND

At the August 31, 2021 Special Standing Policy Committee on Finance meeting, it was resolved, in part:

- “2. That the Administration provide a report back on user fees policies and cost recovery for optimal revenue budget.”

City of Saskatoon's Current Approach

The City has established a schedule on which to review user fees and cost recoveries supporting various operations to ensure appropriate revenues are generated to support various programs and services. The schedule is shown in Appendix 1. In order to have as little impact on the property tax base as possible, programs or services which are used for specific purposes have established user fee policies, bylaws, and/or guidelines, and cost recovery fees. User fees are defined as a charge to access a service, and a cost recovery is defined as recovering costs directly associated with a service. User fees can be set at a portion or all of what a service may cost, whereas a cost recovery typically recovers the full cost of a service. The City has over 70 individual various user fees and cost recoveries as presented in Appendix 1. User fees are reported through the Multi-Year Business Plan and Budget as required for City Council approval prior to being adjusted.

CURRENT STATUS

There are many policies, bylaws and guiding principles the City follows when determining what amount a user fee should be. Some of those considerations are as follows:

- Ensuring those who benefit from City services pay a fair and equitable share of the cost of such services.
- Ensuring that the City's fees and charges do not discourage the delivery of services by outside organizations.
- Providing affordable and accessible services for residents.
- Ensuring fees and charges are not counter-productive to program objectives.
- Ensuring participation in services by all residents, including the economically disadvantaged and individuals with special needs, to ensure there are no barriers to participation.
- Encouraging customers to utilize the services.
- Ensuring that fees are adjusted to reasonably reflect a fair market value.

User Fee Guidelines and Cost Recovery

In conjunction with following various guiding principles, the Administration also follows many cost recovery objectives when considering what rates to set. Many of these objectives need to be considered in conjunction with the impact on usage when the user fees are changed as that negative impact could result in less revenue collected. Some examples of those objectives are as follows:

- The combined cost-recovery objective for the City's six indoor leisure centers is 70% of the recoverable costs (with the recoverable costs assigned to the Harry Bailey Aquatic Centre adjusted to 70% of total recoverable costs). Consideration will be given to fair market value and the impact such fees would have on comparable private sector services and the ability for residents to be able to access affordable recreational facilities.
- Indoor Rink Rental Program rates are set to recover 100% of recoverable costs.
- Charge Sports Fields rates are set to recover 100% of recoverable costs above the basic service level (i.e., those costs to provide incremental services associated with maintaining and servicing charge-for-use sports fields in district, multi-district and special use parks).
- Structured Activities shall be set to achieve full cost-recovery. The fee structure shall be:
 - Adult (19 years of age and older) – base rate;
 - Youth (ages 6 to 18 years inclusive) – 85% of base rate; and
 - Pre-school (5 years and under) – free admission.
- General Admission Programs for Leisure Services have the objective to recover 65% of the total cost of providing the service. The fee structure shall be:
 - Adult (19 years of age and older) - base rate;
 - Youth (ages 6 to 18 years inclusive) - 60% of base rate;
 - Pre-school (5 years and under) - free admission; and
 - Family – two times the adult rate.
- Full subsidized services will not have user fees applied. These are programs identified as basic services. A basic service is one that:
 - addresses a concern or problem that affects the community-at-large and generates, thereby, a benefit to the general public;
 - addresses a need for a standard of service expressed by a specific target group representing a large portion of the community; and
 - is available at the neighbourhood level with minimal cost (e.g., transportation, equipment, etc.) to the participant.

- Partially subsidized services subject to budget and resource allocation approved by City Council, user fees may be set to recover less than the total cost of the services when:
 - it is necessary to promote on a short-term basis a program to attract new participants or spectators in order to maximize usage and increase patronage;
 - program costs to intended participants are considered prohibitive yet it is necessary because of the associated private and/or public benefits to encourage their participation/spectatorship;
 - it is necessary to promote family recreation and the encouragement of a leisure lifestyle for the family;
 - the program involves the development and/or use of advanced skills, the subsidy is reduced; and
 - the program provides economic benefits and/or promotes tourism opportunities that benefit the community-at-large.

Parking meter rates are reviewed in comparison to other cities in Western Canada to ensure they are in general alignment with best practices in similar cities. Comparing current rates to those charged by privately operated parking facilities, as well as the Saskatoon Health Region, Saskatoon Airport Authority, and the University of Saskatchewan, ensures the City's rates are set at fair market value. If on-street parking meter rates are too low in comparison to off-street private parking rates, it may lead to on-street parking congestion, reducing the availability of parking for business patrons or visitors to areas with metered parking. When setting City's parking rates, consideration is also given to existing Transit fares, as an argument could be put forward that if the City's parking rates are too low, it would discourage people from using public transit.

Saskatoon Transit continually monitors the current fare structure for the products offered to riders. Some key objectives considered while evaluating the fare structure is increasing the transit system ridership levels, supporting economic development, growth, community, and planning for public transportation. This is accomplished by conducting internal surveys of the Transit staff to understand trip patterns, comparing Saskatoon Transit to other cities of similar size through the Canadian Urban Transit Association (CUTA), and whether the discounted pass prices are appropriate for programs currently established. Prior to making any recommendations to current fare structures, Saskatoon Transit would deploy an extensive customer engagement strategy to assist in developing overall fares.

Solid waste (landfill operations and black bin collections) will be discussed in a separate report as City Council has directed the Administration to report back on implementation of a waste utility funding model for curbside organics and black bin garbage programs. Utility rates are set via bylaw and are to be 100% self-supporting making them separate from mill-rate support. Rates are designed to cover all operating costs, fund current and future capital requirements, and provide a return on investment (ROI), grant-in-lieu of taxation to the City, or both.

Saskatoon Light & Power historically sets electricity rates to match rates established by SaskPower. Matching these rates ensures there are no inequities between customers regardless if they are located within the City's or SaskPower's franchise areas. To ensure rates are set to cover 100% of the utility, adjustments to grant-in-lieu and/or capital reserve contributions must occur.

Water and wastewater rates are designed using an inclining block strategy to promote conservation for residential customers and a uniform rate structure for commercial properties. The rate structure consists of the following components:

- Water volumetric charges;
- Water service charge – fixed charge based on water meter size;
- Wastewater volumetric charges;
- Wastewater service charge – fixed charge based on water meter size;
- Wastewater volumetric surcharge – where applicable, commercial customers are surcharged for extra strength wastewater discharged to the collection system; and
- Infrastructure Levy – a volumetric charge for the capital replacement of the water distribution and wastewater collection systems.

Waste-related services (residential curbside recycling and multi-unit residential recycling) have fees set to cover 100% of contract costs for collections and processing recyclables, City administration costs, bylaw compliance, education, and communication costs.

DISCUSSION/ANALYSIS

The City continually strives to deliver world class programs and services while maintaining appropriate property taxes. Implementing effective user fee and cost recovery revenue streams are an effective way to offset property taxes. Annual reviews of all revenue streams ensures that the City is balancing program and service delivery requirement alongside citizens expectations.

The City utilizes many user fees to support operations, and as presented in Appendix 2, the top five user fees (excluding utility programs) represent on average 71% of total user fees, or \$35.2 million of the \$49.3 million average for the last eight years. These consist of Saskatoon Transit, Leisure Centres Rentals, Parking, Leisure Centres Programming and Solid Waste Management. User fees comprise, on average, approximately 11% of total revenues collected by the City. The remaining revenues consist of Taxation at an average of 46%, Grants-in-lieu of Taxes of 8%, General Revenues of 20% and Government Transfers of 15%.

When considering major user fee categories, price elasticity is a main impact to consider when proposing any adjustment. The term elasticity is a measure of the rate of change in quantity demanded in comparison to the rate of change in price. The quantity is considered elastic if the quantity demand of the product changes drastically

when its price increases or decreases. Price sensitivities are measured using low and high elasticity values. A low elasticity value indicates that the prices have little effect on consumption, whereas a high elasticity value means a relatively small change in price causes a relatively large change in consumption. This concept embodies the price sensitivity of consumers.

As the City has learned over the years, human behaviors greatly impact price elasticity, and the City's major user fees are considered highly elastic. In other words, when fees increase beyond what is deemed acceptable, there may be a significant and long-term negative effect on revenues. This can be seen when parking meter rates become too high, when leisure rates become higher than private business, or when transit fares make using personal transportation more attractive. In such situations, revenues collected can actually decline, putting additional strain on the Fiscal Stabilization Reserve which supports deficits within mill-rate programs, which in turn could result in future property tax increases to offset these negative impacts.

Over the past 18 months, COVID-19 has had a dramatic impact on the City's ability to collect on user fees which support various operations due to either limited capacity or limited usage of civic services. The primary focus for the City during the pandemic has been around keeping city staff and the citizens safe while still being able to access services. Many individuals rely on programs delivered by the City in their daily activities. Maintaining affordability and accessibility for all citizens has been a key principle during the pandemic.

FINANCIAL IMPLICATIONS

Any proposed fee changes will be included in the 2022/2023 Preliminary Business Plan and Budget for City Council consideration.

OTHER IMPLICATIONS

There are no privacy, legal, social or environmental implications identified.

NEXT STEPS

The Administration will continue to review the user fees periodically and present to City Council as appropriate for changes to user fees.

APPENDICES

1. User Fee Revenue Listing
2. City of Saskatoon User Fees – 2013-2020

Report Approval

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