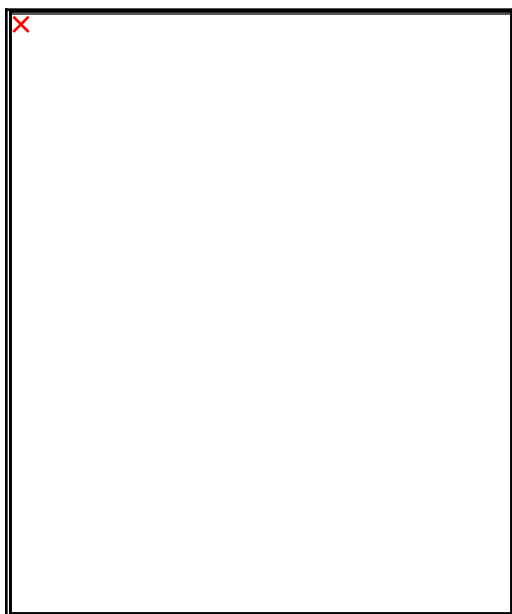


Vision: *The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.*



Agenda

Audit Committee

meeting to be held

Tuesday, November 13rd, 2012

at 4:00 pm

Tom Davies Square

AUDIT COMMITTEE AGENDA

Audit Committee Meeting
Tuesday, November 13, 2012
Tom Davies Square

COUNCILLOR CLAUDE BERTHIAUME, CHAIR

Doug Craig, Vice-Chair

4:00 P.M. AUDIT COMMITTEE MEETING
COMMITTEE ROOM C-11

Council and Committee Meetings are accessible. For more information regarding accessibility, please call 3-1-1 or email clerks@greatersudbury.ca.

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

PRESENTATIONS

1. Report dated November 8, 2012 from the Auditor General regarding Audit Report - User Fees and Recoveries - Sports Fields. **3 - 29**
(ELECTRONIC PRESENTATION) (RECOMMENDATION PREPARED)

- Brian Bigger, Auditor General

(A review of current practices followed in establishing, applying, and recovering user fees towards sustainability, within Leisure Services with a focus on Sports Fields)

CAROLINE HALLSWORTH, EXECUTIVE DIRECTOR, ADMINISTRATIVE SERVICES/CITY CLERK
LIZ COLLIN, COMMITTEE ASSISTANT

Request for Decision

Audit Report - User Fees and Recoveries - Sports Fields

Presented To:	Audit Committee
Presented:	Tuesday, Nov 13, 2012
Report Date	Thursday, Nov 08, 2012
Type:	Presentations

Recommendation

THAT the City of Greater Sudbury adopt the conclusions and recommendations in the report dated November 6, 2012 from the Auditor General regarding an audit of User Fees and Recoveries - Sports Fields;

AND THAT the report be forwarded to the Community Services Committee, and the Finance and Administration Committee for information.

Summary

Attached is the Auditor General's report entitled "User Fees and Recoveries – Sports Fields". This audit was conducted as part of the Auditor General's 2012 Audit Plan.

The Auditor General's Office reviewed user fees, focusing on elements of stewardship, control and compliance.

Our audit procedures also evaluated whether:

- The process for establishing user fees was effective in considering the future sustainability of CGS facilities and programs within Leisure Services – Sports Fields;
- Whether criteria used to establish user fees (e.g. operating costs, fixed costs, overhead costs) and cost recovery targets for new and existing Sports Fields within Leisure Services are established and maintained;
- User fees for Sports Fields are charged and collected according to the City of Greater Sudbury's (City) by-law;
- User fees for Sports Fields are periodically reassessed.

Our audit work included a review of current practices followed in establishing, applying, and recovering user fees within Leisure Services, and specifically for Sports Fields.

Sports Fields were considered to be one of the purest examples of user fee opportunities where virtually all users could be identified, and user fees could be collected. These fields are provided by the City to almost the exclusive benefit of participants from various sports leagues and associations. The recent addition of

Signed By

Report Prepared By

Brian Bigger
Auditor General
Digitally Signed Nov 8, 12

Division Review

Brian Bigger
Auditor General
Digitally Signed Nov 8, 12

Recommended by the Department

Brian Bigger
Auditor General
Digitally Signed Nov 8, 12

Auditor General

Brian Bigger
Auditor General
Digitally Signed Nov 8, 12

artificial turf at the James Jerome facility, also provided the auditors an opportunity to review how user fees were established.

Under the Municipal Act, municipalities have broad authority to impose fees or charges for any activity or service they provide. In an environment where reliable sources of funding are difficult to find, user fees and other revenues provide one of the few controllable sources that can reduce the reliance on property taxes by recovering an appropriate portion of the full costs for various services from the user(s) that primarily benefit from them. Under the Municipal Act, user fees can include a cost for operating, administration, enforcement and establishment, acquisition and replacement of capital assets. [1]

We observed that:

- When user fee revenues are only compared against operating costs, a positive trend is indicated;
- When user fee revenues are compared against an estimated annual amount required for replacement or renewal of existing capital assets[2], it is easier to identify when a capital funding gap exists;
- Decision makers need to consider annual capital requirements (for a sustainable plan), as well as projected full costs, when reviewing and setting user fee rates.

Audit Impact

The attached report contains 9 recommendations along with a management response and action plan for each of those recommendations.

The most notable of improvements expected as a result of this audit will be to:

- Make the linkage between full, sustainable, program costs and revenues more direct;
- Enhance communication of full, sustainable, program costs to support decision making, leverage community partnerships, and establish more reliable funding sources towards fiscal sustainability of Leisure Service programs;
- Increase the depth of periodic reviews for established user fees to ensure they are in line to meet established objectives and targets;
- Establish formal Joint Use Agreement(s) with local school boards;
- Provide some additional clarification within the User Fee By-law.

“The infrastructure renewal and facility development needs of the Leisure Services Division over the next ten years far outstrip the resources allocated in the City’s capital program.”[3] Therefore, establishing a financially sustainable program can reduce the burden on the general tax levy and ensure facilities can be sustained for years to come.

Implementing the recommendations contained in this report will enhance the quality of stewardship towards sustainability, in establishing, applying, and recovering user fees within Leisure Services, and specifically for Sports Fields.

[1] The Municipal Act 2001, S.O. 2001, ch.25, sec 392 (3).

[2] Estimated asset replacement cost divided by the asset’s estimated useful life (years)

[3] City of Greater Sudbury|Ville du Grand Sudbury, “Parks, Open Space & Leisure MASTER PLAN”, June 2004, p.2

2012



USER FEES AND RECOVERIES – SPORTS FIELDS

October 18, 2012

2012COMDEV05

Audit Report - User Fees and Recoveries - Sports Fields 1/18

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1.0 Purpose

The purpose of this review was to assist Council in holding itself and its administrators accountable for the quality of stewardship over public funds (and assets), and for achievement of value for money in municipal operations.

2.0 Legislative Authority

This review of User Fees and Recoveries was conducted by the Auditor General's Office (AGO), pursuant to section 223.19 (1) of the Municipal Act, 2001; Part V.1 - Accountability and Transparency; Auditor General.

223.19 (1) Without limiting sections 9, 10 and 11, those sections authorize the municipality to appoint an Auditor General who reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations. 2006, c. 32, Sched. A, s. 98.

In completing this audit, we followed generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

3.0 Scope

City staff were formally advised by the AGO of the scope of this review in a letter dated September 4, 2012. The Auditor General's Office reviewed the achievement of value for money through user fees, focusing on elements of stewardship, control and compliance.

Our audit procedures also evaluated whether:

- The process for establishing user fees was effective in considering the future sustainability of CGS facilities and programs within Leisure Services – Sports Fields;
- Whether criteria used to establish user fees (e.g. operating costs, fixed costs, overhead costs) and cost recovery targets for new and existing Sports Fields within Leisure Services are established and maintained;
- User fees for Sports Fields are charged and collected according to the City of Greater Sudbury's (City) by-law;
- User fees for Sports Fields are periodically reassessed.

4.0 Review Methodology

This review evaluated the trend in user fees as well as related operating and capital expenses for various programs within the City. The scope was then narrowed down to review strategies, policies and procedures and by-laws for setting and administering user fees for Sports Fields within Leisure Services.

Sports Fields were considered to be one of the purest examples of user fee opportunities where virtually all users could be identified, and user fees could be collected. These fields are provided by the City to almost the exclusive benefit of participants from various sports leagues and associations.

Our audit methodology included the following:

- Reviewed City policy and procedures for establishing user fees and evaluated the trend in user fees compared to both operating and capital costs for various programs within the City;
- Reviewed invoices sent to organizations for sports field usage;
- Reviewed the Joint Use Agreements with the various school boards;
- Reviewed a recent process used by Leisure Services in establishing a new user fee for the artificial turf at the James Jerome complex;
- Performed benchmarking and discussed the user fee development process for sports fields with other cities;
- Reviewed testing and observations with management and staff.

Based on the completed review, our observations and recommendations were provided.

5.0 Accomplishments

The Leisure Services department has a vision “To deliver great service that consistently exceeds the citizen’s expectations and enhances our northern lifestyle.” Its mission is “To support a physically, intellectually, socially and ecologically healthy community that nurtures local values, volunteers and community partnerships.”

Over the past few years, Leisure Services has undertaken a number of projects which improved the infrastructure of our existing facilities. They have made improvements at the Grace Hartman amphitheatre, James Jerome Sports Complex, Cambrian and Countryside arenas, the Howard Armstrong Sports Complex and Laurentian Track. They have also increased accessibility at various facilities by creating accessible playgrounds, adding a new door for sledge hockey and creating accessible washrooms and female change rooms.

In addition, Leisure Services has also added new splash pads, converted a natural field into artificial turf, added many mini and full size playing fields at various locations throughout the City of Greater Sudbury, and have worked with various groups to establish new sports development such as roller derby, cricket and Ultimate Frisbee. These developments have improved the City’s existing infrastructure as well as provided citizens with additional venues to enjoy their leisure time.

Leisure Services have also put together various plans such as the Multi-Use Recreational Complex Feasibility Study, Parks, Open Space and Leisure Master Plan, Leisure Services Strategic Plan and contributed to the City’s Healthy Community Strategy. These plans provide strategic direction for the department in order to make Greater Sudbury a healthy community.

6.0 Executive Summary

Under the Municipal Act, municipalities have broad authority to impose fees or charges for any activity or service they provide. In an environment where reliable sources of funding are difficult to find, user fees and other revenues provide one of the few controllable sources that can reduce the reliance on property taxes by recovering an appropriate portion of the full costs for various services from the user(s) that primarily benefit from them. Under the Municipal Act, user fees can include a cost for operating, administration, enforcement and establishment, acquisition and replacement of capital assets.¹

“The infrastructure renewal and facility development needs of the Leisure Services Division over the next ten years far outstrip the resources allocated in the City’s capital program.”² Therefore, establishing a financially sustainable program can reduce the burden on the general tax levy and ensure facilities can be sustained for years to come.

We observed that:

- When user fee revenues are only compared against operating costs, a positive trend is indicated;
- When user fee revenues are compared against an estimated annual amount required for replacement or renewal of existing capital assets³, it is easier to identify when a capital funding gap exists;
- Decision makers need to consider annual capital requirements (for a sustainable plan), as well as projected full costs, when reviewing and setting user fee rates.

The most notable of improvements expected as a result of this audit will be to:

- Make the linkage between full, sustainable, program costs and revenues more direct;
- Enhance communication of full, sustainable, program costs to support decision making, leverage community partnerships, and establish more reliable funding sources towards fiscal sustainability of Leisure Service programs;
- Increase the depth of periodic reviews for established user fees to ensure they are in line to meet established objectives and targets;
- Establish formal Joint Use Agreement(s) with local school boards;
- Provide some additional clarification within the User Fee By-law.

¹ The Municipal Act 2001, S.O. 2001, ch.25, sec 392 (3).

² City of Greater Sudbury/Ville du Grand Sudbury, “Parks, Open Space & Leisure MASTER PLAN”, June 2004, p.2

³ Estimated asset replacement cost divided by the asset’s estimated useful life (years)

7.0 Recommendations

1. Evaluate whether the youth per participant rate should be replaced by an hourly rate. If any changes are required, it should be reflected within the User Fee By-law approved by Council.
2. For adult associations, the City should ensure that the terms within the Facility Agreement which is signed by each association are followed so that fees are collected prior to the use of the City's facilities.
3. Leisure Services should amend the payment terms in the Facility Agreements for youth leagues, so that the City collects user fee revenue prior to the use of the facilities, similar to adult associations.
4. If the City continues to charge a per participant fee for youth associations, Leisure Service should consider including a provision for participant number verification rights within the Facility Agreement for youth leagues similar to other revenue generating contracts within the City.
5. A best practice for user fees is for the City to set a policy framework that provides transparency and clarity, promotes consistency, and makes cost sharing amongst users more equitable. Management should present user fee target recovery options to Council after performing a full cost analysis. Since the decision for establishing user fees rests with Council, full cost analysis will better inform Council of cost recovery target options as well as their impact on user fees. Management may want to consider implementing these recommendations within Leisure Services prior to rolling it out to other departments within the City.
6. User fee rates for James Jerome artificial turf should be re-evaluated to ensure it is meeting established program objectives.
7. Although the exceptions found in our limited review of Sports Fields did not have a significant dollar impact, any user fee charged should be specified within the User Fee By-law which is approved by Council. Exceptions to the By-law should not be given unless explicitly approved by the General Manager.
8. Additional clarification should be made in the User Fee By-law as to which City fields are major or minor complexes. This should include fields covered under Joint Use Agreements for which the City can charge a fee.
9. Ensure the Joint Use Agreements are updated in a timely fashion with all school boards participating in this agreement. Ensure they accurately reflect the current understanding amongst all the parties in regards to field maintenance, usage and restrictions.

8.0 Contacts

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Brian Bigger, Auditor General

9.0 Audit Results

9.1 Opportunity to Review Objectives of Youth Participant Rates

According to the User Fee By-law, youth are charged a per participant rate for field usage. A per participant youth rate was established in order to keep fees low for youth so that they can participate in organized sports. In 2011, the participant rate for youth was \$15. Auditors observed that this rate is less than 10% of the registration fees collected by most leagues or associations. This flat rate per participant allows unlimited use of the fields, which includes time scheduled during the association's regular season as well as tournament time.

CGS is somewhat of an anomaly as most other cities structure user fees on a per hour basis rather than on a per participant basis. Recognizing Council's support for Sport Tourism, an increase in Tournament use is expected. A fee per hour basis aligns revenues more closely with actual usage and maintenance costs.

Equity is a very important element of a user fee pricing strategy. Audit reviewed the invoicing and usage of four youth associations for 2011. Since the amount of field usage and number of participants varies per association, when broken down to a rate per hour there is a large deviation amongst associations. Table 1 illustrates the various rates per hour youth associations are paying for field usage based on the number of participants in each league and their field usage in 2011.

League	Number of Participants	Number of Hours Booked on Natural Turf Fields	Rate Per Hour
Sudbury Minor Girls Softball	138	334	\$ 6.20
Valley East Soccer	1692*	1799*	\$ 16.56
Sudburnia Soccer Club	1,235	3,372	\$ 5.49
Joe MacDonald Football League	274	100	\$ 41.10
Greater Sudbury Soccer Club	385	1,073	\$ 5.38

* Includes both Adult and Youth as they were all charged by the number of participants

Table 1 – Rate per hour for field usage for youth associations in 2011

When the revenues received from the various associations are calculated based on a per hour rate, the Joe MacDonald Football Association is paying close to the adult rate for playing at the City's major complexes and is paying a rate higher than the youth rate for the artificial turf.

	2011	
	Adult Prime Rate per Hour	Youth Prime Rate
Sudbury Major Complex	\$ 42.50	N/A
Sudbury Minor Complex	\$ 33.75	N/A
James Jerome Artificial Turf	\$ 71.00	\$ 35.00

Table 2 – Rate per hour for the Artificial Turf as well as Adult rates for 2011

Charging a per participant rate with unlimited field usage results in a variation of rates charged to the different youth associations. The objective of keeping rates lower for youth may not be being met. Furthermore, unlimited field usage may increase the maintenance required to maintain the fields in good condition.

Recommendation

1. Evaluate whether the youth per participant rate should be replaced by an hourly rate. If any changes are required, it should be reflected within the User Fee By-law approved by Council.

9.2 *Billing and Receivables*

Different associations have different billing arrangements. Due dates for payment of field rentals are specified in the Facility Agreements provided to each association when they book their fields. The payment fees and due dates are as follows:

1. General Bookings: Fees are payable in full at the time of reservation (including events);
2. Season Bookings: Fees are payable in equal monthly installments, the first payment due the 1st day of the month in which the first use occurs (including events). Post dated cheques/preauthorized monthly billing against credit cards must be provided before use;
3. Youth Association Bookings: At the completion of the season, the Permit Holder must submit a league roster to the Facility Booking Clerk, indicating the number of participants. At this time, the fees for the season will be added to the Facility Agreement. Fees are payable within 15 days after the statement date (including events).

At the time of the audit, some adult associations were not providing post dated cheques or pre authorized monthly payments. Furthermore, some associations were slow to pay based on the facility agreements and amounts were overdue and owed to the City.

As previously stated, the City waits until the end of the season to bill the youth associations. Furthermore, this billing is based on the number of participants which is provided to the City by the associations and would be onerous to independently verify. During the audit, nothing has come to the Auditor's attention where the City may want to independently verify the information submitted by youth associations. There is the opportunity to bill at the beginning of the season once registration is

complete so that fees can be collected when the service is provided. Collecting hourly rental revenue at the time a facility is rented, would provide a better matching of revenues to offset the costs for providing the facility such as maintenance costs.

Recommendations

2. For adult associations, the City should ensure that the terms within the Facility Agreement which is signed by each association is followed so that fees are collected prior to the use of the City's facilities.
3. Leisure Services should amend the payment terms in the Facility Agreements for youth leagues, so that the City collects user fee revenue prior to the use of the facilities, similar to adult associations.
4. If the City continues to charge a per participant fee for youth associations, Leisure Service should consider including a provision for participant number verification rights within the Facility Agreement for youth leagues similar to other revenue generating contracts within the City.

9.3 Strategically Set User Fees Towards Sustainability

In past consideration and evaluation of user fee revenues by Council, staff has referenced program operating costs. This seems to have contributed to a misconception that municipalities cannot impose fees or charges on persons that exceed the municipality's direct operating cost for a specific service or activity.

According to the Municipal Act 2001, S.O. 2001 c.25, sec 391 (2) permits the municipality to charge a fee whereby "capital costs related to services or activities may be imposed on persons not receiving an immediate benefit from the services or activities but who will receive a benefit at some later point in time. 2006, c.32, Sched. A, s.163 (2)". Section 391(3) permits "The costs included in a fee or charge may include costs incurred by the municipality or local board related to administration, enforcement and the establishment, acquisition and replacement of capital assets. 2006, c. 32, Sched. A, s. 163 (3)."

Considering the above, it is clear the intention of the Municipal Act is to allow municipalities to set user fee rates that will contribute to sustainable service levels, facilities and programs. The Municipal Act does not specify a level of aggregation for these sustainable levels.

The City's Budget Preparation Policy states that when establishing user fee rates, the "(a) Cost of service, including direct, indirect costs, allocation of capital costs etc. (b) Levels of cost recoveries" should be considered. In addition, as part of the Long Term Financial Plan, the City wanted to "establish target proportions of program costs to be raised through user charges based on reviews of benefits received" and "ensure that user fees are increased at the same (or greater) rate as increases in program operating costs." Furthermore, the City wanted to "ensure both operating and capital costs are considered when establishing user fees (full program costing)".

In 2004 Leisure Services went through an exercise to harmonize user fees between the former City and towns after amalgamation. Prior to 2007, user fees were increased by the previous year's Consumer

Price Index (CPI). In September 2007, management noted that actual costs were increasing by more than the inflation rate which was averaging around 2%, so Council decided to set user fees to increase at the greater of the CPI and 3%. Since this time, miscellaneous user fees have been increasing by 3%.

The Government Finance Officers Association (GFOA) “recommends that governments calculate the full cost of the different services they provide.”⁴ The full cost should provide a basis for setting the charge or fee.⁵

In establishing full cost of providing a good or service, operating expenses, administrative costs, capital (based on a sustainable capital plan for rehabilitation and replacement), as well as implicit costs of foregone opportunities or activities that are not being undertaken, environmental costs and social costs, are factors that can be considered when calculating the appropriate user fee. The cost recovery principle does not imply that all costs incurred need to be recovered through user fees; rather, it suggests that even if the full costs are not recovered through user fees, understanding the full costs should be the starting point in setting the appropriate user fee. Thereafter, explicit decisions can be made, including decisions regarding the level of subsidization of the good.

Furthermore the GFOA recommends that fees be reviewed and updated periodically and that information on fees, which includes any policies regarding full cost recovery and information about the amounts for fees be made available to the public.⁶

Private and public sector researchers and organizations collectively assert that well designed user fees ensure optimal and efficient use of scarce resources and assist municipalities in reducing pressures on property tax revenues.⁷

Criteria to consider in setting user fees:

(1) Community wide versus special benefits: if the benefits are community wide, the majority of the cost logically should be borne by the community.

(2) Capacity of the user to pay: leisure service should charge the same rates for all users, coordination with community support groups should be encouraged and developed to address issues with ability to pay.

⁴ Government Finance Officers Association of the US and Canada, “Measuring the Cost of Government Service (2002) (BUDGET)

⁵ Government Finance Officers Association of the US and Canada, “Establishing Government Charges and Fees (1996) (BUDGET)

⁶ Government Finance Officers Association of the US and Canada, “Establishing Government Charges and Fees (1996) (BUDGET)

⁷ City of Toronto, “User Fee Policy”, September 9, 2011

(3) What the private sector charges: user fees set at rates below market pricing may be artificially blocking private enterprise from offering leisure properties and services.

CURRENT USER FEE EVALUATION METHOD				
Sports fields			Percent Of Needs Recovered by User	
	2009	2011	2009	2011
User Fee Revenues Collected	\$ 249,891	\$ 296,575		
Annual Operating Requirement (Required to operate sports fields)	\$ 1,703,209	\$1,648,124	14.7%	18.0%

Table 3 – Information referenced when evaluating user fees. When user fee revenues are only compared against operating costs, a positive trend is indicated.

PROPOSED USER FEE EVALUATION METHOD				
Sports fields			Percent Of Needs Recovered by User	
	2009	2011	2009	2011
User Fee Revenues Collected	\$ 249,891	\$ 296,575		
Annual Operating Requirement (Required to operate sports fields)	\$ 1,703,209	\$1,648,124		
Annual Capital Requirement (Required to replace existing assets)	\$ 554,555	\$ 645,190		
Annual Full Cost Requirement (Operating and Capital)	\$ 2,257,764	\$2,293,314	11.1%	12.9%

Table 4 – Proposed information to be referenced when evaluating user fees. When user fee revenues are compared against an estimated annual amount required for replacement or renewal of existing capital assets⁸, it is easier to identify when a capital funding gap exists.

Decision makers need to consider annual capital requirements (for a sustainable plan), as well as projected full costs, when reviewing and setting user fee rates.

Given the current budget development policy and the City's Long Term Financial Plan, staff are attempting to consider full costs and the long term financial sustainability of the City's programs. Further direction is required to help staff achieve their objectives.

⁸ Estimated asset replacement cost divided by the asset's estimated useful life (years) NOTE: The Annual Capital Requirement was provided to Auditors by Finance Staff as an "estimate only", pending further detailed review of Tangible Capital Asset Register groupings if required.

The Auditors noted that sustainability from a capital perspective is in the best interests of the various leagues and associations and that leagues and associations have shown their recognition of this fact through capital contributions in the past. The City could choose to evaluate user fees firstly from the perspective of a user fee recovery toward sustainable capital requirements, and secondly from the perspective of a user fee recovery toward full costs (sustainable capital requirements plus ongoing operating requirements).

The City could also choose to evaluate user fee revenues against a consolidated sustainable plan for Leisure Services as a whole, rather than by individual activity or service. Including direct and indirect operating costs, as well as a sustainable capital program for the entire mix of properties, services and activities offered to the public to meet overall Leisure Services objectives, could add flexibility in Council's approach to strategically setting user fees towards sustainability. If managed from this strategic perspective, achievement of Leisure Services objectives for example, could be elevated by user fee setting that might shift the burden of the more capital intensive properties, services and activities towards the private sector over time.

In order to ensure future sustainability of facilities, some cities have also implemented a capital levy. This levy is applied to each hour a facility is rented and funds are held separately in a capital reserve for specific future infrastructure development and/or facility renewal projects.

In order to ensure that affordability needs are met, the public does have access to subsidies which are available through partnerships with other organizations such as The Human League, CGS Children Services and Sudbury Manitoulin Children's Foundation to name a few.

Recommendation

5. A best practice for user fees is for the City to set a policy framework that provides transparency and clarity, promotes consistency, and makes cost sharing amongst users more equitable. Management should present user fee target recovery options to Council after performing a full cost analysis. Since the decision for establishing user fees rests with Council, full cost analysis will better inform Council of cost recovery target options as well as their impact on user fees. Management may want to consider implementing these recommendations within Leisure Services prior to rolling it out to other departments within the City.

9.4 User Fees Need to Be Periodically Reassessed to Ensure They Are Meeting Established Objectives

Audit reviewed the recent analysis methods used by City staff to develop new user fees for the James Jerome artificial turf. In performing their analysis, City staff reviewed user fees for natural and artificial turf fields at four cities within Ontario. The average markup from natural to artificial turf fields at two of these cities was then applied to CGS natural turf rate in order to establish the artificial turf rate. Staff further decided to establish a prime and non prime rate based on the markup that has been established for City arenas.

Audit staff spoke to the two cities used as a benchmark in establishing the user fees for the artificial turf as well as three other cities in Ontario in order to clarify the process they use in setting user fees for their natural and artificial turfs. Upon further discussion with these cities, audit determined that using other cities' rates as a benchmark without understanding how they developed their fees may be misleading. For example,

- Some rates for natural turf included lining of fields, while others did not;
- Some rates were for five hour time slots where others were for one hour, or somewhere in between;
- Some artificial turf fields are supervised by city staff while in use, while others are not;
- One city never had user fees before for their natural turf fields, so when they were establishing user fees for their artificial turf, they were also implementing fees for their natural turf at the same time. Fees were kept artificially low during their introductory stage.

These details were not always indicated in each city's user fee by-law. Each city also had different Council directed strategies that they had to consider in establishing user fees. For example, one city had performed a full cost analysis and Council decided to keep rates low for youth, but increase rates for adults. Another Council decided to promote swimming within the City so kept rates low for pools and increased rates for arenas. Understanding the underlying Council philosophy and objectives as well as how they operate their facility are imperative when comparing fees. Using strategies established at other cities may not meet CGS's objectives.

Audit also determined that the comparative Ottawa rate used to establish the average markup rate was incorrect, as the wrong facility rate was used since the city's by-law did not clearly indicate at which facility the artificial turf was located. Applying the correct markup rate would have increased the average mark up rate which would have increased CGS's artificial turf fees.

Fees for the artificial turf were originally set at a 70% premium over natural turf for adults and a youth rate was established. A premium for prime time was established at 35% of the non prime time rate which is the same premium used for ice time. Prime and non prime rates were also established as illustrated in the table below.

Non Prime Season	From April 1 to the Sunday of the May Long Weekend and the period from Labour Day until November 30.
Prime Time Season	From Victoria Day until the Sunday before Labour Day.
Non Prime Time	7 a.m. to 5 p.m. from Monday to Friday during the Prime Season and all hours during the Non Prime Season.
Prime Time	5 p.m. to 11 p.m. Monday to Friday and all day Saturday and Sunday during the Prime Season.

Audit reviewed the artificial turf usage for 2011 and determined that the artificial turf was being used 60% of the time during the non prime time and only 40% during prime time. The highest usage occurred during the month of May which is considered non prime time. Some groups would rent the artificial turf in the spring and fall when the City's natural turf could not be used. Once the natural turf was available for use, they would switch to the natural turf. As a result, the established prime and non prime season does not match current demand and our user fees are lowest when the demand for the field is at its highest.

Although the artificial turf rates were based on a premium of the natural field rates, a full review of the natural turf rates was not done. It cannot be determined whether the natural turf rates are meeting any of the City's objectives towards long term sustainability. Therefore, placing a premium on this rate may not achieve the intended objectives originally considered in establishing the artificial turf fee.

The Treasury Board of Canada Secretariat recommends a periodic fee level review. Such a review can improve departmental responsiveness and planning and inform the department as to how fees are keeping pace with costs. Fee level reviews aim to renew departmental information and awareness of relevant pricing factors.⁹

Recommendation

6. User fee rates for James Jerome artificial turf should be re-evaluated to ensure it is meeting established program objectives

9.5 Compliance With The User Fee Bylaw

By-law 2012-5F details user fee rates established and approved by Council for the City Of Greater Sudbury. The User Fee By-law is a concise record of Council approved fees and charges. Administration does not have authority to collect fees or charges for services not found in the User Fee By-law, however they do have the discretion to collect an amount for fees and charges other than what has been approved by Council through this By-law if the charges would be "unfair".

We found that administration had been charging fees for services not found in the User Fee By-law in 2011 and therefore, have not been approved by Council. Audit testing indicated that there were two adult sport associations that paid a per participant rate. Management had indicated that some exceptions to the User Fee By-law are made for new associations in their start up year(s). For one association, this was corrected for the 2012 season. The adult per participant rate also varied amongst these two associations. Furthermore, the City does charge a group for the use of the Delki Dozzi Track, but the actual rate charged differed from the User Fee By-law.

⁹ Treasury Board of Canada Secretariat, "Guide to establishing the Level of a Cost-Based User Fee or Regulatory Charge", May 22, 2009, p.7

The By-law specifies a rate for both major and minor complexes. Although some fields are listed under the major and minor complexes, this list is not inclusive of all the fields. All fields available for use should be identified as well as their classification so that transparency is increased for all users.

Recommendations

7. Although the exceptions found in our limited review of Sports Fields did not have a significant dollar impact, any user fee charged should be specified within the User Fee By-law which is approved by Council. Exceptions to the By-law should not be given unless explicitly approved by the General Manager.
8. Additional clarification should be made in the User Fee By-law as to which City fields are major or minor complexes. This should include fields covered under Joint Use Agreements for which the City can charge a fee.

9.6 Compliance With The Municipal Act

The Municipal Act 2001, S.O. 2001 c.25, sec 391 (1) permits municipalities to impose fees or charges on persons for services or activities it provides and for the use of its property including property under its control.

As fees and charges must be for the use of its property including property under its control, our review included a review of Joint Use Agreements with various school boards, and for any other properties not owned by the City. We observed that:

- Formal agreements establishing the extent of the City's "control" of school properties did not exist for all school boards.
- For the Joint Use Agreements we were able to review, we found the agreements had not been updated for many years.

As a result, these agreements do not accurately reflect the working agreements between the City and the various school boards. For example, the City is performing maintenance on school fields during summer months which is contrary to the existing agreements. As well, facilities that are excluded from the joint use agreements such as the artificial turf at the James Jerome Sports Complex need to be included in the list of exceptions within the Joint Use Agreements. Management is in the process of drafting a new Joint Use Agreement that will be signed by all school boards.

Recommendation

9. Ensure the Joint Use Agreements are updated in a timely fashion with all school boards participating in this agreement. Ensure they accurately reflect the current understanding amongst all the parties in regards to field maintenance, usage and restrictions.

10.0 Conclusion

This report contains nine (9) recommendations related to establishing and evaluating user fees towards fiscal sustainability, as well as administering user fees in accordance with City policies and By-laws.

Decision makers need to consider annual capital requirements to sustain existing assets, as well as projected full costs, when reviewing and setting user fee rates.

Our recommendations relate to the need to:

- Make the linkage between full, sustainable, program costs and revenues more direct;
- Enhance communication of full, sustainable, program costs to support decision making, leverage community partnerships, and establish more reliable funding sources towards fiscal sustainability of Leisure Service programs;
- Increase the depth of periodic reviews for established user fees to ensure they are in line to meet established objectives and targets;
- Establish formal Joint Use Agreement(s) with local school boards;
- Provide some additional clarification within the User Fee By-law.

11.0 Appendices

A. Appendix - Background

Under the Municipal Act, municipalities have broad authority to impose fees or charges for any activity or service they provide. However, municipalities cannot charge more than it costs them to provide the service. In an environment where reliable sources of funding are difficult to find, user fees and other revenues provide one of the few controllable sources that can reduce the reliance on property taxes by recovering an appropriate portion of the costs for various services from the user(s) that primarily benefit from them.

Prior to 2007, user fees were increased by the previous year's Consumer Price Index (CPI). In September 2007, management noted that actual costs were increasing by more than the inflation rate which was averaging around 2%, so Council decided to set user fees to increase at the greater of the CPI and 3%. Since this time, miscellaneous user fees have been increasing by 3%.

A consistent approach to setting user fees is necessary to protect and anticipate this important revenue source, as well as to ensure that the necessary information is available to inform Council's approvals and decisions regarding user fees.

When user fees are established, a portion of the cost of providing the service is borne by those who benefit from the service. Economic theory indicates that users will adjust their level of consumption based on the fees charged. User charges provide information to both consumers and officials about the value for money perceived by users.

The principles underlying the City's Long Term Financial Plan were approved by council in 2002. One of the principles was to ensure long term financial sustainability of the City's infrastructure through life cycle costing and the development of replacement reserves. As well, the City wanted to ensure that operating revenues are sustainable (taxes versus user charges), that social equity objectives are met while delivering services in a cost effective and efficient manner.

According to the City of Greater Sudbury Parks, Open Space and Leisure Master Plan, "The infrastructure renewal and facility development needs of the City over the next 10 years far outstrip the resources allocated to the City's Capital Program"¹⁰. The City needs to consider its long term financial sustainability.

¹⁰ City of Greater Sudbury/Ville du Grand Sudbury, "Parks, Open Space & Leisure MASTER PLAN", June 2004, p.2

Auditor General's Office

Management Response and Proposed Actions

2012

User Fees and Recoveries – Sports Fields

Brian Bigger, C.G.A

Auditor General, City of Greater Sudbury

Appendix 2

Management Response: 2012 Audit of User Fees and Recoveries – Sports Fields

Rec No	Recommendation	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/ Time Frame
1	Evaluate whether the youth per participant rate should be replaced by an hourly rate. If any changes are required, it should be reflected within the User Fee By-law approved by Council.	X			Review impact of any potential changes to minor sports playfield user fees and prepare a report to Standing Committee with options re: participant rates vs. hourly, etc. The review will be conducted in time for the 2014 playfield season.
2	For adult associations, the City should ensure that the terms within the Facility Agreement which is signed by each association are followed so that fees are collected prior to the use of the City's facilities.	X			Staff will ensure that all adult associations provide payment in advance of the rental by way of post dated cheques or credit cards in order to guarantee the facility bookings as identified in the facility rental agreement.
3	Leisure Services should amend the payment terms in the Facility Agreements for youth leagues, so that the City collects user fee revenue prior to the use of the facilities, similar to adult associations.	X			The payment terms will be amended for the youth playfield users and fees will be collected prior to the use of the facilities in time for the upcoming 2013 season.
4	If the City continues to charge a per participant fee for youth associations, Leisure Service should consider including a provision for participant number verification rights within the Facility Agreement for youth	X			Contingent on any decisions made from recommendation #1. The requirements would have to be incorporated into the facility use agreement.

Appendix 2

Management Response: 2012 Audit of User Fees and Recoveries – Sports Fields

Rec No	Recommendation	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/ Time Frame
25	leagues similar to other revenue generating contracts within the City.				
26	A best practice for user fees is for the City to set a policy framework that provides transparency and clarity, promotes consistency, and makes cost sharing amongst users more equitable. Management should present user fee target recovery options to Council after performing a full cost analysis. Since the decision for establishing user fees rests with Council, full cost analysis will better inform Council of cost recovery target options as well as their impact on user fees. Management may want to consider implementing these recommendations within Leisure Services prior to rolling it out to other departments within the City.	X			The City's Base Budget Preparation Policy states "that when establishing user fee rates, the (a) Cost of service, including direct, indirect costs, allocation of capital costs etc. should be considered." In addition, policy #7 of the Long Term Financial Plan states "Ensure operating revenues are sustainable and consider community-wide and individual benefits (taxes versus user fees)". In addition, there are a number of principles that provide guidance to management regarding user fees. For example, principle 3.3 states "Establish target proportions of program costs to be raised through user charges based on reviews of benefits received; Principle 3.6 states "Ensure both operating and capital costs are considered when establishing user fees (full program costing)".

Appendix 2

Management Response: 2012 Audit of User Fees and Recoveries – Sports Fields

Rec No	Recommendation	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/ Time Frame
					Management agrees that the City should expand the use of the existing policy framework when setting user fees. As a first step, the Finance and Leisure Services department will prepare a report to Finance and Administration Committee which discloses the current and historical user fee recovery percentages for the larger programs in Leisure Services, and to seek the committee's direction regarding increasing user fees to address the City's infrastructure shortfall or to reduce the tax levy. In addition, as part of the 2013 budget planning session, Council requested a detail breakdown on the operational costs for the following programs: a) camp Sudaca / Wassakwa b) summer playground programs c) fitness facilities d) trailer park operations

Appendix 2

Management Response: 2012 Audit of User Fees and Recoveries – Sports Fields

Rec No	Recommendation	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/ Time Frame
6	User fee rates for James Jerome artificial turf should be re-evaluated to ensure it is meeting established program objectives.	X			User fee rates for James Jerome artificial turf will be re-evaluated in time for the 2014 Playfield season.
7	Although the exceptions found in our limited review of Sports Fields did not have a significant dollar impact, any user fee charged should be specified within the User Fee By-law which is approved by Council. Exceptions to the By-law should not be given unless explicitly approved by the General Manager.	X			Staff will review the user fee by-law on a regular basis to ensure compliance. In addition, to continue past practice, finance circulates the user fee by-law to all operating departments on an annual basis in order to provide input prior to forwarding to Council for approval. Leisure Services will ensure that new fees or adjusted fees are captured through this process.
8	Additional clarification should be made in the User Fee By-law as to which City fields are major or minor complexes. This should include fields covered under Joint Use Agreements for which the City can charge a fee.	X			Clarification will be captured through the annual user fee by-law review which is circulated to operating departments for input and forwarded to Council for approval annually (December/January).
9	Ensure the Joint Use Agreements are updated in a timely fashion with all school boards participating in this agreement. Ensure they	X			Leisure staff have been working on renewing the joint use agreement since the fall of 2011. A number of meetings

Appendix 2

Management Response: 2012 Audit of User Fees and Recoveries – Sports Fields

Rec No	Recommendation	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/ Time Frame
	accurately reflect the current understanding amongst all the parties in regards to field maintenance, usage and restrictions.				have been held with representatives from all Boards of Education in order to revise and update the Joint Use Agreement. A draft agreement will be circulated to senior staff and will be presented to Council for feedback. The objective is to finalize the agreement by year end 2013.