

THE REGIONAL MUNICIPALITY OF YORK

**REPORT NO. 4
OF THE REGIONAL COMMISSIONER OF FINANCE**

**For Consideration by
The Council of The Regional Municipality of York
on May 24, 2007**

**1
2007 DEVELOPMENT CHARGE BY-LAW APPROVAL**

***(Regional Council at its meeting on May 24, 2007 adopted this report as amended.
Please refer to Council Minute No. 100)***

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council approve enactment of a Development Charge By-law to establish a revised development charge incorporating the policies and rates outlined in this report, with an effective date of June 18, 2007.
2. The recommended rates be implemented as follows:
 - Residential: 10% Increase on June 18, 2007, Full Cost Recovery on September 18, 2007 for Singles / Multiple Unit Dwellings and on December 18, 2007 for Apartments. (Option 4 – revised Option 3 after Finance & Administration Committee meeting of May 4, 2007.) Includes subway: at approximately 70% of full charge on June 18, 2007; balance on September 18 / December 18, 2007 as per other charges.
 - Non-Residential: 10% Increase for 6 months; Equal Phase-In to Full Cost Recovery over 3.5 years; Full Cost Recovery at Phase 5. (Option 4)

- Non-Residential Subway: at ½ Full Charge on June 18, 2007; balance on December 18, 2007.

2. PURPOSE

The purpose of this report is to provide an update to the proposed development charge rates subsequent to the report to the Finance and Administration Committee on May 3, 2007. This report also proposes a phase-in of the updated development charge rates, and provides additional information requested by the Finance and Administration Committee. It also incorporates the fact that the subway legislation was proclaimed on May 4, 2007.

3. BACKGROUND

On March 22, 2007, York Region released the 2007 Draft Development Charge By-law Background Study. On April 5, 2007, the Public Meeting was held in accordance with the *Development Charges Act, 1997*. Deputations were heard at the public meeting pertaining specifically to the magnitude of the increase and the impact it would have on the development industry. Staff was also requested to continue discussions with the development industry, in an effort to resolve outstanding issues prior to enactment of a revised development charge by-law.

On May 3, 2007, staff tabled a report to the Finance and Administration Committee which outlined proposed development charge rates, and options to phase-in the rates over the term of the by-law. Staff was asked to report to Council on the financial impacts of offering a phase-in period.

4. ANALYSIS AND OPTIONS

4.1 Outstanding Cost and Methodology Issues

Staff has had ongoing meetings with development proponents to review and discuss various cost issues and assumptions used in the Draft Background Study. These meetings have continued after the Public Meeting on April 5th. Staff have updated various assumptions in the Draft Background Study based on input received from the development industry and from a peer review. These changes have resulted in the following revised full cost recovery rates.

REVISED Residential Development Charge Rates – Full Cost Recovery

Single and Semi-Detached		Multiple Unit Dwelling		Apartments	
				2 or more Bedroom	Less than 2 Bedrooms
<u>Hard Services</u>					
Water		\$4,087	\$3,368	\$2,553	\$1,647
Sewer *		\$8,590	\$7,118	\$5,367	\$3,461
Roads		\$6,790	\$5,626	\$4,242	\$2,736
Subtotal - Hard	\$19,467	\$16,130	\$12,162	\$7,844	
Transit		\$404	\$323	\$238	\$163
<u>General Services</u>					
Police		\$264	\$211	\$156	\$106
EMS		\$56	\$45	\$33	\$23
Growth Studies		\$29	\$23	\$17	\$12
Long Term Care		\$178	\$143	\$105	\$72
Public Health		\$51	\$41	\$30	\$20
Public Works		\$67	\$54	\$40	\$27
Subtotal - General	\$645	\$517	\$381	\$260	
GO Transit **		\$296	\$233	\$171	\$108
Total Excl. Subway	\$20,812	\$17,203	\$12,952	\$8,375	
Subway		\$1,345	\$1,114	\$840	\$542
Total	\$22,157	\$18,317	\$13,792	\$8,917	

* Rates do not apply to the Nobleton community.

** Not subject to this review.

(Note: The GO Transit and the Nobleton Sewer rates are those in effect as of the preparation of this background study.)

REVISED Non-Residential Development Charge Rates – Full Cost Recovery Per Square Foot of Gross Floor Area

	Industrial / Office / Institutional	Retail	Average Non-Residential
Water	\$2.35	\$2.49	\$2.38
Sewer*	\$4.35	\$4.80	\$4.45
Roads	\$3.23	\$11.19	\$5.00
Transit	\$0.18	\$0.61	\$0.28
General	\$0.23	\$0.32	\$0.25
Total Excl. Subway	\$10.34	\$19.42	\$12.36
Subway	\$0.59	\$2.16	\$0.94
Total	\$10.93	\$21.58	\$13.30

* Rates do not apply to the Nobleton community.

(Note: The Nobleton Sewer rates are those in effect as of the preparation of this background study.)

4.2 Timing of the Proposed Rate Increases - Options

As a result of revising the proposed rates above, the rates presented as part of the Phase-In Options in the May 3, 2007 report have been revised.

Staff has added an additional option that provides for a 10% increase, similar to Option 3, however this option provides a 10% increase in the hard service component and a 10% increase in the soft service component, with approximately 70% of the subway charge applied on June 18, and the balance on September 18 and December 18 similarly to Option 3. This new option addresses a timing issue associated with Option 3 in that the hard service component is paid at subdivision agreement and the general services at building permit issuance, which would have resulted in a decrease for the general service component.

Table 1
Potential Residential Development Charge Rate
Phase-In Options

	Single / Semi	MDU	2 + Apartments	< 2 Apartments
Current Rate ¹	\$15,953	\$13,613	\$9,986	\$6,352
Full Cost Recovery Rate ^{1,2}	\$20,516	\$16,970	\$12,781	\$8,267
Subway Rate	\$1,345	\$1,114	\$840	\$542

Option 1 – Full Cost Recovery on June 18, 2007

Option 1 – June 18, 2007

Full Cost Recovery Rate ^{1,2}	\$20,516	\$16,970	\$12,781	\$8,267
Subway Rate	\$1,345	\$1,114	\$840	\$542
Total	\$21,861	\$18,084	\$13,621	\$8,809

Option 2 – 10 % Increase on June 18, 2007, Full Cost Recovery on September 18, 2007 for Single/ Semi and MDU and on December 18, 2007 for Apartments. Subway at full charge on June 18, 2007

Option 2 ¹

Phase 1 – June 18, 2007 ²	\$17,548	\$14,974	\$10,984	\$6,987
Phase 2 – September 18, 2007 ²	\$20,516	\$16,970	\$10,984	\$6,987
Phase 3 – December 18, 2007 ²	\$20,516	\$16,970	\$12,781	\$8,267
Total Phase 3 with subway	\$21,861	\$18,084	\$13,621	\$8,809

	Single / Semi	MDU	2 + Apartments	< 2 Apartments
<u>Option 3 – 10 % Increase on June 18, 2007, Full Cost Recovery on September 18, 2007 for Singles / MDU and on December 18, 2007 for Apartments; Subway at ½ Full Charge on June 18, 2007, balance on September 18 / December 18, 2007 as per other charges.</u>				
Option 3 ¹				
Phase 1 – June 18, 2007 ²	\$17,548	\$14,974	\$10,984	\$6,987
With ½ subway	\$18,221	\$15,531	\$11,404	\$7,258
Phase 2 – September 18, 2007 ²	\$20,516	\$16,970	\$10,984	\$6,987
With full subway / ½ subway	\$21,861	\$18,084	\$11,404	\$7,258
Phase 3 – December 18, 2007 ²	\$20,516	\$16,970	\$12,781	\$8,267
With full subway	\$21,861	\$18,084	\$13,621	\$8,809
<u>Option 4 – 10 % Increase on Hard Services, 10 % increase on Soft Services on June 18, 2007. (Results in subway charge of approximately 70 % subway charge on June 18.) Full rates for Single / Semi Sept. 17, 2007, Apartments services Dec. 17, 2007.</u>				
Option 4 ¹				
Phase 1 – June 18, 2007 ²	\$17,548	\$14,974	\$10,984	\$6,987
With approximately 70 % subway	\$18,221	\$15,531	\$11,404	\$7,258
Phase 2 – September 18, 2007 ²	\$20,516	\$16,970	\$10,984	\$6,987
With full subway / 70 % subway	\$21,861	\$18,084	\$11,404	\$7,258

Phase 3 – December 18, 2007 ²	\$20,516	\$16,970	\$12,781	\$8,267
With full subway	\$21,861	\$18,084	\$13,621	\$8,809

Notes:

1. Region-wide charge only. Excludes GO Transit.
2. Excludes Subway.

In an effort to deal with transition issues staff recommend Option 4, which allows for a phasing of both the rates and the implementation of the new subway charge with the full rate being in place before year-end. Discussions with the industry indicate that there are greater timing issues related to high-rise development and the approval process and accordingly staff is recommending a longer phase-in period for those developments.

In accordance with the *DC Act*, the revenue shortfall resulting from these phasing options must be recovered from non-DC sources, i.e., tax levy and user rates.

As part of the preparation of the draft background study, staff examined various scenarios that include elimination or reduction of the current DC discounts on non-residential development. The following outlines some examples of potential strategies to reduce / eliminate this discount and the associated impact on capital cost recovery.

The impacts of the non-residential phasing is shown in the following table:

Table 2
2007 Development Charge By-law
Non-Residential Rate Phase-In Options – excluding subway

<u>Current</u>	Non-Retail	Retail
Rates:	\$3.97	\$7.88
Discounting:	Tax Levy: \$20 M / year	User Rates: \$32.5 M / year

Option 1: Equal Phase-In To Full Cost Recovery Over 5 Years; Full Cost Recovery at Phase 5.

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to June 17, 2008	\$5.28	\$10.19
2	June 18, 2008 to June 17, 2009	\$6.55	\$12.50
3	June 18, 2009 to June 17, 2010	\$7.80	\$14.81
4	June 18, 2010 to June 17, 2011	\$9.06	\$17.11

5	June 18, 2011 to June 17, 2012	\$10.32	\$19.38
Average Discount at Phase 5 Tax Levy: \$0 M User Rates: \$0 M			
Option 2: 10% Increase for 6 months; Equal Phase-In to Full Cost Recovery over 4.5 years; Full Cost Recovery at Phase 5.			
Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.40	\$8.67
2	December 18, 2007 to June 17, 2009	\$5.90	\$11.38
3	June 18, 2009 to June 17, 2010	\$7.38	\$14.08
4	June 18, 2010 to June 17, 2011	\$8.87	\$16.78
5	June 18, 2011 to June 17, 2012	\$10.35	\$19.44
Average Discount at Phase 5 Tax Levy: \$0 M User Rates: \$0 M			

Option 3: 10% Increase for 6 months; Equal Phase-In to Increased Recovery (90%) Over 4.5 Years; Full Cost Recovery Rates for Roads at Phase 5, Water/Sewer 90% Recovery.

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.40	\$8.67
2	December 18, 2007 to June 17, 2009	\$5.44	\$10.87
3	June 18, 2009 to June 17, 2010	\$6.46	\$13.08
4	June 18, 2010 to June 17, 2011	\$7.49	\$15.27
5	June 18, 2011 to June 17, 2012	\$8.53	\$17.44
Average Discount at Phase 5 Tax Levy: \$0 M User Rates: \$17 M			

Option 4: 10% Increase for 6 months; Equal Phase-In to Full Cost Recovery over 3.5 years; Full Cost Recovery at Phase 5.

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.40	\$8.67
2	December 18, 2007 to December 17, 2008	\$5.90	\$11.38
3	December 18, 2008 to December 17, 2009	\$7.38	\$14.08
4	December 18, 2009 to December 17, 2010	\$8.87	\$16.78
5	December 18, 2010 to June 17, 2012	\$10.35	\$19.44
Average Discount at Phase 5		Tax Levy: \$0 M	User Rates: \$0 M

In order to help offset transitional issues staff recommends that there be an immediate increase that is restricted to 10%. The further phasing can be to a full recovery within the 5 year period (Option 2 or Option 4) or phasing to a 90% level (Option 3). The advantage of Options 2 and 4 is that by the end of the 5 year by-law all discounting is eliminated. The advantage of Option 3 is that the existing level of discounting is reduced and there is an ability over that period to assess the impact on development. If Option 3 were to be considered it would be understood that the following by-law would move toward full recovery.

4.3 Spadina Subway Extension

Since the release of the May 3, 2007 report, the regulations have now been issued and the legislation has been proclaimed.

Since the legislation has been enacted the implementation of the subway charge being proposed will reduce the recommended phasing impacts. Accordingly, it is recommended that the subway charge also be phased in with approximately 70% of the charge being levied on June 18, 2007 for residential and 50% of the charge being levied on June 18, 2007 for non-residential. The full charge will be levied in accordance with the options outlined for residential and on December 18, 2007 for non-residential. The Residential rates with the subway are shown in 4.2 above.

The Non-Residential rates with the subway are as follows.

Option 1:

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to June 17, 2008	\$5.57	\$11.27
2	June 18, 2008 to June 17, 2009	\$7.13	\$14.66
3	June 18, 2009 to June 17, 2010	\$8.38	\$16.97
4	June 18, 2010 to June 17, 2011	\$9.64	\$19.27
5	June 18, 2011 to June 17, 2012	\$10.90	\$21.54
Average Discount at Phase 5		Tax Levy: \$0 M	User Rates: \$0 M

Option 2

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.69	\$9.75
2	December 18, 2007 to June 17, 2009	\$6.48	\$13.54
3	June 18, 2009 to June 17, 2010	\$7.96	\$16.24
4	June 18, 2010 to June 17, 2011	\$9.45	\$18.94
5	June 18, 2011 to June 17, 2012	\$10.93	\$21.60
Average Discount at Phase 5		Tax Levy: \$0 M	User Rates: \$0 M

Option 3:

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.69	\$9.75
2	December 18, 2007 to June 17, 2009	\$6.03	\$13.03
3	June 18, 2009 to June 17, 2010	\$7.05	\$15.24

4	June 18, 2010 to June 17, 2011	\$8.08	\$17.43
5	June 18, 2011 to June 17, 2012	\$9.12	\$19.60
Average Discount at Phase 5		Tax Levy: \$0 M	User Rates: \$17 M

Option 4:

Phase:	Phase In Dates:	Non-Retail Rate:	Retail Rate:
1	June 18, 2007 to December 17, 2007	\$4.69	\$9.75
2	December 18, 2007 to December 17, 2008	\$6.48	\$13.54
3	December 18, 2008 to December 17, 2009	\$7.96	\$16.24
4	December 18, 2009 to December 17, 2010	\$9.45	\$18.94
5	December 18, 2010 to June 17, 2012	\$10.93	\$21.60
Average Discount at Phase 5		Tax Levy: \$0 M	User Rates: \$0 M

4.4 Staff Recommendation on Phasing

For residential development, staff is recommending Option 4 - that residential rates be phased in as follows: an increase of 10% June 18th with the balance of the increase imposed September 18, 2007 for Single / Semi and MDUs and on December 18, 2007 for Apartments. The subway rate will be at approximately 70% of the full rate on June 18, 2007, with the balance on September 18, 2007 and December 18, 2007 for Single / Semi, MDUs and Apartments respectively.

For non-residential development, staff is recommending Option 4 - that non-residential rates be phased in as follows: an increase of 10% June 18th; and a subsequent equal phase-in to full cost recovery over 3.5 years. The subway rate will be at 50% of the full rate on June 18, 2007 with the balance on December 18, 2007.

5. FINANCIAL IMPLICATIONS

Development charges are a major source of funding for York Region's \$8.7 billion growth-related capital program for the 2007 to 2031 term. This DC By-law update will allow York Region to more adequately recover growth-related infrastructure costs from development creating the need for the infrastructure.

Council's decision regarding the non-residential rate structure will determine the amount of the annual subsidy provided towards the growth-related infrastructure through tax levy and user rates, and will impact future budgets and levy requirements. Phasing out of the DC discount will provide relief to future years tax levy and rate supported budgets, beginning in 2008.

The foregone revenue of the various phase-in options for both residential and non-residential are as follows.

Foregone Revenues - Residential

Option 1 – Full Cost Recovery	\$0 Million
Option 2 – 10% Increase in June, balance for Single / Semi Sept. 17, 2007, Apartments Dec. 17, 2007	\$9.1 Million
Option 3 – 10% Increase in June, ½ subway charge; Full rates for Single / Semi Sept. 17, 2007, Apartments services Dec. 17, 2007	\$11.2 Million
Option 4 - 10% Increase on Hard Services, 10% increase on Soft Services on June 18, 2007. (Results in subway charge of approximately 70% of the full amount on June 18) Full rates for Single / Semi Sept. 17, 2007, Apartments services Dec. 17, 2007	\$13.4 million

Foregone Revenues – Non-residential

Summary – Options:

Option 1	Equal Phase-In To Full Cost Recovery Over 5 Years
Option 2	10% Increase For 6 Months; Equal Phase-In To Full Cost Recovery Over 4.5 Years
Option 3	10% Increase for 6 months; Equal Phase-In To Increased Recovery (90%) Over 4.5 Years; Full Cost Recovery Rates for Roads at Phase 5, Water/Sewer 90% Recovery. Rates increase by 10% in Phase 1, equal increases afterward
Option 4	10% Increase For 6 Months; Equal Phase-In To Full Cost Recovery Over 3.5 Years

Revenue – Non-Residential Foregone over 5 year the term of the by-law

Option:	Non-Retail	Retail	Total
1	\$80.7 Million	\$41.6 Million	\$122.3 Million
2	\$89.3 Million	\$45.7 Million	\$135.0 Million
3	\$120.0 Million	\$55.4 Million	\$175.4 Million

4	\$75.1 Million	\$38.4 Million	\$113.6 Million
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The foregone revenue of phasing in the subway rate over a six month period is \$1.9 million.

If the second step for the non-residential Phase-in is nine months after the first phase comes into effect, the foregone revenue over the 5 year term of the by-law for Option 4 is as follows:

	Non-Retail	Retail	Total
Option 4 – 9 month phase-in	\$77.5 Million	\$39.7 Million	\$117.5 Million

If the nine-month phase-in applies to the subway charge as well, the foregone revenue is \$2.8 million for the subway component.

6. LOCAL MUNICIPAL IMPACT

Development charges are a significant source of funding for York Region's growth-related capital programs. The completion of these capital infrastructure works facilitates the co-ordinated build-out of proposed developments within the area municipalities. The DC Background Study forms the basis for the long term infrastructure planning and a co-ordinated growth management approach. The change in rates will create an increased short term workload increase if a phase-in or transition process is not implemented as there will be a push to obtain building permits before the increases are in effect.

7. CONCLUSION

It is recommended that Council approve the enactment of a revised DC By-law, with an in-force date of June 18, 2007. It is also recommended that the DC rates be imposed based on Option 4 for residential and Option 4 for non-residential development, as outlined in this report.

The Senior Management Group has reviewed this report.

Respectfully submitted,

**May 24, 2007
Newmarket, Ontario**

**L. Russell
Commissioner of Finance**