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IMPACT OF DEVELOPMENT CHARGE DISCOUNTING

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, November 6, 2008, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

The purpose of this report is to provide an update to Council with respect to the impact of the phasing out of the Development Charge discounting on non-residential development since the new Development Charge By-law came into force on June 18, 2007. At the time of passage of the new By-law, Council requested that a report be provided in June 2008 and every six months thereafter illustrating the volume of non-residential development and development charge revenue impacts.

3. BACKGROUND

New DC By-law phased in rate increases

Development charges (DC) are imposed by York Region to recover growth-related capital costs from residential and non-residential development that create the need for the capital works. As the majority of York Region's capital expenditures are due to growth, development charges are a major source of funding for York Region's capital plan.

The first report regarding the impact of the phasing out of the DC discounts on non-residential development was submitted to the Finance and Administration Committee on June 5, 2008.

4. ANALYSIS AND OPTIONS

DC Collections at Discounted Rates

The following table summarizes the non-residential DC discount realized due to phasing in full cost recovery rates, from April 1, 2008 to the end of September 2008.

Table 1
Non-Residential DC Discount
($'000s)

Rate Category	Square Feet	DCs at new Full Cost Rate	DCs Collected	Amount of Discount (full cost rate – amt collected)	DCs if used June 2006 Rates
June 18, 2007 to March 31, 2008					
Industrial/Office/Institutional	2,693,980	$29,238	$12,720	$16,518	$10,650
Retail	956,605	$20,644	$10,676	$9,968	$7,538
Total	**3,650,585**	**$49,882**	**$23,396**	**$26,486**	**$18,188**
April 1, 2008 to September 30, 2008					
Industrial/Office/Institutional [1]	2,236,729	$24,447	$11,073	$13,374	$8,786
Retail [2]	1,114,423	$24,049	$12,374	$11,568	$4,403
Total	**3,351,152**	**$48,496**	**$23,447**	**$24,942**	**$13,189**

Notes: 1. As of June 18, 2008, rates were subject to next phase in and indexing of 7.2%. The "DCs if June 2006" rates used were for development both pre and post June 18, 2008.
2. Retail rates at full cost plus indexing as of June 18, 2008. Table includes only square footage at pre-full cost recovery rates.

Had the Region not implemented the rate increase on June 18, 2007, the amount of DCs collected on this same volume of non-residential development would have been only $13.2 million or $11.8 million less than at the new rates.

The phasing-in to full cost recovery rates of development charges is largely complete. Only the Industrial / Office / Institutional rates remain below full cost. Phase-in to full cost recovery for all rates is in accordance with the following schedule.

Table 2
York Region
Schedule of Rate Changes

Rate Category	Status	Effective Dates	Full recovery rate[1,2]
Residential			(per unit)
Singles / Semis	At full cost	September 18, 2007	$21,864
Multiple Dwelling Units	At full cost	September 18, 2007	$18,087
Apartments 2 + bedrooms	At full cost	December 18, 2007	$13,623
Apartment < 2 bedrooms	At full cost	December 18, 2007	$8,810
Non-Residential			(per square foot)
Retail	At full cost	June 18, 2008	$21.58
Industrial/Office/Institutional	Phase II	June 18, 2008	$6.93
Industrial/Office/Institutional	Phase III	June 18, 2009	$8.92
Industrial/Office/Institutional	At full cost	June 18, 2010	$10.93

Notes:
1. Rates exclude annual indexing.
2. Rate excluding GO Transit and Nobleton Area Specific.

Non-Residential discounting is significant due to the previous rates being substantially discounted

As previously shown in Table 1, non-residential rates are being phased-in to full cost recovery levels. Industrial, office and institutional rates had an initial rate increase of 10% plus two-thirds of the new subway charge effective June 18, 2007 and an annual increase on June 18, 2008. Phased-in rates were also indexed on that date.

Retail rates were increased to full cost recovery rates and were indexed on June 18, 2008.

Since non-residential DC rates were previously discounted (some up to 50% of full cost recovery rates), and on June 18, 2007 rates were only increased from previous levels by 10% to 25%, the difference between the discounted rate then enacted and the full cost recovery rate was significant, ranging from $6.19 to $10.42 per square foot or from $66.68 to $112.10 difference per square metre. This directly impacted the level of discounting realized to June 17, 2008. With the increases in the industrial / office and institutional rates effective June 18, 2008, this difference has been improved.

Non-Residential Square Footage Comparison

The following table compares the square footage of non-residential development commenced from April 2007 to September 2007 and April to September 2008 based on building permits issued.

Table 3
Non- Residential Building Permits – Square Footage

Rate Category	2007	2008	Difference
Industrial/Office/Institutional			
Jan – March	412,720	463,752	51,032
Apr – Sept	308,390	206,270	(102,120)
Retail			
Jan – March	222,578	156,152	(66,426)
Apr – Sept	224,026	141,580	(82,446)

*April to September 2007 figures include the issuance of permits to those parties that were attempting to avoid the higher development charge rates that went into effect on June 18, 2007.

When the proposed full cost development charge rates were presented to Council of May of 2007, information was provided indicating the percentage that Regional development charges were as a component of the overall development costs for retail and industrial development. That analysis indicated that Regional development charges were approximately 11% of the overall development costs for both types of development.

Table 4
Example – Retail Development Costs

Existing Development Charges			Proposed Development Charges		
	$ / S.F.	%		$ / S.F.	%
Land * *Note 1*	41.30	24.0	Land * *Note 1*	41.30	22.4
Land Servicing (on and off sites)	35.00	20.4	Land Servicing (on and off sites)	35.00	19.0
Building Shell	85.00	49.5	Building Shell	85.00	46.2
Hard Cost Sub-Total	**161.30**	**93.9**	**Hard Cost Sub-Total**	**161.30**	**87.7**
Region of York DC's	***7.88***	***4.6***	***Region of York DC's *Note 2***	***20.07***	***10.9***
Richmond Hill DC's	2.64	1.5	Richmond Hill DC's	2.64	1.4
TOTAL	**171.82**	**100.0**	**TOTAL**	**184.01**	**100.0**

* Notes:
1. Based on lot coverage of 25% @ $450,000 per acre.
2. Region of York Retail DC excluding subway.

Table 5
Example – Industrial Development Costs

Existing Development Charges			Proposed Development Charges		
	$ / S.F.	%		$ / S.F.	%
Land * *Note 1*	25.00	29.2	Land * *Note 1*	25.00	27.2
Building	55.00	64.3	Building Shell	55.00	49.8
Region of York DC's	***3.97***	***4.6***	***Region of York DC's *Note 2***	***10.51***	***11.4***
Vaughan DC's	1.54	1.8	Vaughan DC's	1.54	1.7
TOTAL	**85.51**		**TOTAL**	**92.05**	**100.0**

* Notes:
1. Based on lot coverage of 45% @ $500,000 +/- per acre.
2. Region of York Retail DC excluding subway.

The above examples were based on land costs of approximately $500,000 / acre. If the land costs were assumed to be doubled, the percentage of overall non-industrial development costs attributable to development charges drops to approximately 9.0% in the above examples.

5. FINANCIAL IMPLICATIONS

Retail discounts are now completely phased-out. Rate increases for Industrial / Office / Institutional will next occur on June 18, 2009. As rates are phased in, the amount of discounting will decrease. Improvement in the cost recovery rates achieved with the new by-law will go a long way to ensuring that growth-related capital costs are recovered from growth, as any costs not recovered as a result of the phase-in and discounting of DC rates must be recovered from either tax levy or user rates.

The numbers in Table 2 above indicate that a slowdown in development across York Region may be occurring and as a result development charge collections may be lower than expected. There may be the need to consider delaying or deferring capital projects should this occur. As the projects were anticipated to be funded from future DC collections, the reduced collections will impact the ability to fund these costs.

6. LOCAL MUNICIPAL IMPACT

Development charges are a significant source of funding for the Region’s growth-related capital programs. Any improvements in the cost recovery levels of the rates will facilitate the completion of the capital infrastructure works included in the Development Charge Background Study, supporting co-ordinated build-out of proposed developments within the area municipalities.

7. CONCLUSION

Retail rates are now at full cost recovery levels as of June 18, 2008. The next increase for industrial/office/institutional rates will occur on June 18, 2009 and will be at full cost recovery on June 18, 2010.

For more information on this report, please contact Kelly Strueby, Director Business Planning & Budgets at ext. 1611 or Beth Kodama, Manager, Capital and Development Financing at ext. 1699.

The Senior Management Group has reviewed this report.