1
IMPACT OF DEVELOPMENT CHARGE DISCOUNTING - UPDATE

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated February 24, 2010, 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.

3. BACKGROUND

DC By-law phased-in rate increases almost complete

Development Charges (DC) are imposed by the 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 the Region's capital expenditures are due to growth, development charges are a major source of funding for the Region's capital plan.

At the time of passage of the 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.

This is the fourth report regarding the impact of phasing out DC discounts on non-residential development. Since the first two reports were submitted there has been a global economic slowdown with far-reaching impacts. The Region is now seeing these impacts on the local economy and the level of development activity.

4. ANALYSIS AND OPTIONS

DC collections continue to move towards full recovery

The previous report regarding the impact of phasing out DC discounts in June 2009 provided information up to and including the month of March 2009. The following table summarizes the non-residential DC discount realized due to phasing in to full cost recovery rates from April 2009 to December 2009. The rates used for this analysis are as of June 18, 2009 when the last phase-in and indexing occurred.

Table 1
Non-Residential DC Discounts

Rate Category	Square Feet [2,3,4]	DCs Collected ('000s)	DCs at new Full Cost Rate [5] ('000s)	Amount of Discount ('000s)	DCs if June 2006 rates [6] ('000s)
April 2009 to December 2009 [*1]					
Industrial/Office/Institutional	1,125,946	$9,163.0	$13,779.7	$4,616.8	$4,470.0
Retail	600,283	$12,619.5	$14,052.0	$1,432.5	$4,725.1
Total	**1,726,229**	**$21,782.5**	**$27,831.7**	**$6,049.3**	**$9,195.1**

* Notes:
1. As of June 18, 2009, rates were subject to the next phase-in for all non-residential and indexing of 4.45%. Retail rates were at full cost recovery as of this date however subsequently adjusted down by $2.00 as per the settlement of an appeal. Retail rates will now be at full cost recovery levels as of June 18, 2010.
2. Months correspond to when the building permit was issued. Revenues are reported in the following month.
3. Includes square footage for areas where water and / or sewer charges were not applicable.
4. Includes square footage where other adjustments may be applicable.
5. "DCs at Full Cost" include indexing to date and include appeal settlements.
6. "DCs if June 2006 rates" are un-indexed.

As can be seen in Table 1, had the Region collected DCs at the June 2006 rates, it would have collected $12.6 million less in development charges.

The phasing-in to full cost recovery rates of development charges is largely complete. Only the Industrial/Office/Institutional and Retail 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 DC Rate Changes

Rate Category	Status	Effective Dates
Residential		
Singles / Semis	At full cost	September 18, 2007
Multiple Dwelling Units	At full cost	September 18, 2007
Apartments 2 + bedrooms	At full cost	December 18, 2007
Apartment < 2 bedrooms	At full cost	December 18, 2007
Non-Residential		
Retail	Revised	June 18, 2008
Retail	At full cost	June 18, 2010
Industrial/Office/Institutional	Phase II	June 18, 2008
Industrial/Office/Institutional	Phase III	June 18, 2009
Industrial/Office/Institutional	At full cost	June 18, 2010

* Notes:
1. Rates exclude annual indexing.
2. Rate excluding GO Transit and Nobleton Area Specific Sewer Charge.
3. Rates reflect the DC appeal settlements.

Non-residential development square footage has declined annually since 2007

The following table provides a year over year comparison of the square footage of non-residential development based on building permits issued.

Table 3
Non-Residential Building Permits – Square Footage

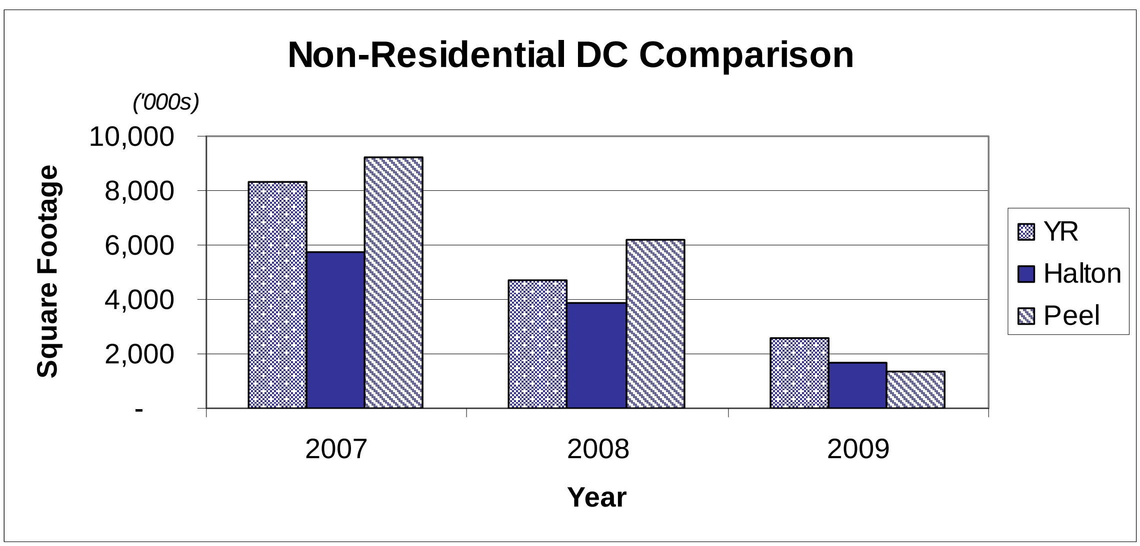
Rate Category		2007	2008	2009
Industrial/Office/Institutional				
Jan. – March		412,720	463,752	598,042
April - June		2,307,039	2,061,301	858,663
July – September		1,187,191	175,428	130,735
October – December		1,254,844	115,703	284,359
	Total	**5,161,794**	**2,816,184**	**1,871,799**
Retail				
Jan. – March		222,578	156,152	122,900
April - June		1,877,817	1,496,744	306,110
July – September		587,055	64,638	178,445
October – December		466,971	176,101	114,193
	Total	**3,154,421**	**1,893,635**	**721,648**

A substantial rate increase occurred for retail in June of 2008 (DC appeal impact is retroactive and effectively provides for a phase-in that will now bring full cost rates into effect on June 18, 2010). Shortly afterwards a downturn in the world economy occurred. In light of this it is difficult to isolate the impact of phasing out non-residential discounts, given the other factors that also affect development across the Region.

To help assess how the phase-out of the non-residential discounts has impacted development, staff has compared non-residential square footage from the Regional Municipality of Peel ("Peel") and The Regional Municipality of Halton ("Halton") from January 2007 to December 2009. Unlike York, Peel has not discounted its non-residential development charges and is in a more mature stage of build-out. Halton has had a discounted Roads development charge for non-residential only which will be phased out in April 2010.

The Region of Peel passed a new DC by-law in the fall of 2007 and its implementation may have an effect on the timing of its DC collections. However, as can be seen from the comparison in Figure 1, trends in development in Peel and York are somewhat similar, which suggests that reduced non-residential development in York is not solely due to the phase-out of the non-residential DC discounts.

Figure 1
Non-Residential Building Permits – Square Footage



Impact of removal of discounts is difficult to determine

While it is difficult to determine the exact impact that elimination of the DC discounts is having on development, there has been an increase in the number of retail developers that have inquired about the option of paying for their development charges via the letter of credit option. Some retail developers are expressing concerns that they are experiencing challenges in obtaining financing for their projects and are seeking deferrals for periods beyond that allowed in our policy.

5. FINANCIAL IMPLICATIONS

The final phase in will occur on June 18, 2010 for Retail and Industrial / Office / Institutional rates. All rates are also scheduled to be indexed on those dates. Improvement in the cost recovery rates achieved with the new by-law contributes to ensuring that growth-related capital costs are recovered from growth. However, in the absence of this growth, the Region may need to consider deferring capital projects or evaluating alternative financing options to compensate for the lack of growth in the DC reserves.

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 local municipalities. However, any reduction in the level of development charges collected as a result of the economic slowdown may impact the timing of the completion of the capital works and may require the use of alternative financing until development charge collections resume.

7. CONCLUSION

It is difficult to isolate the effect of eliminating DC discounts on the level of development in York Region, given that the phase-out of discounts and economic slowdown have taken place concurrently over the pas two years. The level of development in York Region is somewhat similar to neighbouring municipalities, which suggests that reduced non-residential development in York is not solely due to the phase-out of non-residential DC discounts.

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

The Senior Management Group has reviewed this report.