# 3
# DEVELOPMENT CHARGE BY-LAW UPDATE

**The Finance and Administration Committee recommends:**

1. **Receipt of the communication (April 7, 2010) from Marco Filice, Vice-President & Counsel, Liberty Development Corporation; and**
2. **Adoption of the recommendation contained in the following report dated March 18, 2010, from the Commissioner of Finance.**

## 1. RECOMMENDATION

It is recommended that:

1. Regional Council direct staff to proceed with the steps necessary to update the Development Charge By-law to incorporate cost and growth forecasts from the Water and Wastewater and Transportation Master Plans for the Water, Sewer and Roads components of the Regional Development Charge for implementation in June 2010.

## 2. PURPOSE

The purpose of this report is provide Council with an update regarding the status of current development charge rates and whether these rates are sufficient to fund the new Water and Wastewater and Transportation Master Plans adopted by Council in November 2009.

## 3. BACKGROUND

### Further rate changes were contemplated when the 2007 Development Charge By-law was approved

When the 2007 Development Charge By-law was passed, Council directed that "Within six months of the adoption of the Master Plans by Council, a report be brought forward outlining the development charge impacts and if the roads, transit, water and wastewater impacts are greater than 5%, those elements of the Development Charge By-law be updated at that time."

The purpose of this direction was to review the impacts of both the Provincial *Places to Grow* growth forecast as well as the infrastructure requirements to service that growth. With the adoption of the Master Plans in November 2009, the Region is now in a position to review the impact on development charge rates.

Staff has conducted a preliminary review of the impacts of the Master Plans on the Water, Wastewater and Roads development charges. With respect to Transit, since the historical service level restrictions in place at the time of the 2007 Development Charge By-law approval would still apply for this amendment, the Region could not capture any revised costs associated with Master Plan projects for Transit at this time.

## 4. ANALYSIS AND OPTIONS

### Preliminary analysis indicates development charge rates would increase by more than 5% as a result of Master Plans and *Places to Grow*

The results of the preliminary analysis indicate that the rate impacts for Water, Wastewater and Roads significantly exceed the 5% threshold established with the passage of the 2007 Development Charge By-law.

The Water Master Plan identified a number of new projects that are required before 2031. However, in addition to these new projects, a number of existing projects have faced cost pressure since the passage of the 2007 Development Charge By-law. When these two factors are combined, the preliminary estimate of the development charge rate increase determined to fund these projects is approximately 62% for residential development charges and approximately 70% for non-residential services.

The Wastewater Master Plan also identified a number of new projects that are required before 2031. Existing projects have not faced the same level of cost pressure as water projects since the passage of the 2007 Development Charge By-law. However the wastewater development charge rate increase required to fund the capital projects required to meet the *Places to Grow* forecast is estimated to be approximately 20-25%.

The roads component will be impacted by two factors; the updated master plan projects and costs; and the impact of funding changes by the Province and Metrolinx of assuming funding responsibilities for a number of High Occupancy Vehicle projects contained in the current development charge. The impact of these changes will be determined as part of the recalculation of the rate.

### An Amendment to the Existing Development Charge By-law is proposed for Water, Sewer & Roads

An amendment to the existing Development Charge By-law for water, wastewater and roads is proposed based on the dramatic increase in overall project costs. Regional staff has considered options in regards to updating development charge rates. These options are noted below.

The current Region-wide Development Charge By-law expires in June 2012. If the Region were to conduct a full Development Charge Background Study review for all services, it is expected that revised rates would be implemented in June 2011. A full background study and by-law review would provide the opportunity to more fully review any policy changes or administrative adjustments to the by-law.

By bringing forward an amendment to the by-law, revised rates for the services identified as experiencing cost increases of greater than 5% can be implemented much quicker. It will limit the issues reviewed to those issues and rates examined and revised as part of an amendment.

It is staff's recommendation at this time to move forward with a Development Charge amendment for the services outlined in this report with a target implementation of June 2010. It is also recommended that staff commence industry consultations and policy reviews required to support a full development charge background study and by-law for implementation in June 2012. Issues that have been the subject of development charge complaints since the passage of the 2007 Development Charge By-law will be subject to a comprehensive review as part of the 2012 Development Charge By-law.

### Public Notice and a Public Meeting is required

In order to pass an amendment to the current Development Charge By-law, certain statutory requirements must be met including the preparation of a background study to support the rate changes and a public meeting must be held. In order to meet a June 2010 approval, the following timing will be required:

1. Public Notice of Public Meeting – April 16, 2010.
2. Availability of the Background Study - April 22, 2010.
3. Public Meeting – Finance & Administration Committee May 6, 2010.

Staff have commenced the necessary detailed work to meet these requirements and will be engaging the development community to review the assumptions associated with this Development Charge By-law amendment.

## 5. FINANCIAL IMPLICATIONS

Implementing amended development charge rates for residential services could result in an increase in development charge rates of approximately $4,000 - $5,000 per single family dwelling. The current charge is $24,181. Similarly, the impact on non-residential development charges could be approximately $2.50 per square foot. Currently, the non-residential charge is $9.80 for office/industrial/institutional or $21.44 for retail.

These figures are a preliminary estimate only and indicate the order of magnitude of the potential rate changes. The actual rate increase will be based on refined cost estimates and other critical assumptions including post period benefit and benefit to existing population. These issues are currently under review and will be refined as part of the preparation of the background study to support the amendment.

## 6. LOCAL MUNICIPAL IMPACT

Implementing an amendment to the current development charge rates to reflect the adoption of the Master Plans will help ensure that capital infrastructure is provided in a timely and financially responsible manner with appropriate cost recovery from new development. This will facilitate the co-ordinated build-out of proposed developments within the local municipalities.

## 7. CONCLUSION

The updates to water, wastewater and transportation master plans indicated significant increases to growth-related infrastructure costs compared to what is currently included in the development charge calculation.

It is proposed that Regional staff be authorized to complete a Development Charge By-law amendment to reflect the impact of the higher infrastructure costs, including releasing a draft background study and conducting a statutory public meeting in order to enact an amended by-law in June 2010.

For more information on this report, please contact Kelly Strueby, Director Business Planning & Budgets at Ext. 1611.

LiBERTY
development

LIBERTY *for all*

April 7, 2010

Regional Municipality of York
17250 Yonge Street, 4th Fl.
Newmarket, ON L3Y 6Z1
Attn: Regional Clerk, Denis Kelly
e-mail: regional.clerk@york.ca
Fax: +1-905-895-3031

Dear Sirs/Mesdames:

**Re: Finance and Administration Committee**
**April 8, 2010 - Revised Agenda, 9 a.m.**
**Report of the Commissioner of Finance**
**Item No. D-3:**
**Development Charge By-law Update (the "Report")**

I am writing on behalf of Liberty Development Corporation, a development manager for several developments in York Region, including mixed-use and transit-oriented developments.

We are surprised with the out of the ordinary increases in the DC rates on the product we wish to deliver in the Region, including, the office (I/C/I) product.

In 2005, the office DC was about $3 per square foot, and not a disincentive to incorporate office into a mixed-use development for a desiring land developer. The 2006 DC By-law resulted in about a 300% increase in the office DC or nearly $12 per square foot by this summer. If the 70% increase proposed in Section 4 of the Report is applied to the office DC, that brings the office DC to a staggering $20 per square foot, or $17 more than it was merely 5 years ago. On a percentage basis, $3 to $20 per square foot is a 566% increase in the office DC, or 113% per year.

This is interesting considering in Toronto, office DC's are $0.00 for any GFA above the 1st floor (i.e. as an incentive to multi-storey non-residential; and to maximize what I call "M-ROLA" – "Municipal Return on Land Area"). The end consumer, including office users/tenants, will not be able to absorb these proposed enormous DC increases, and M-ROLA will not be maximized.

We appreciate the challenges faced by the Region in delivering the infrastructure required to help the Region house people and attract businesses; however our business and our customers/tenants (your potential new businesses and assessment registrants) face similar financial challenges. We



w.f.

applaud Regional staff in making great strides in advancing many excellent planning issues in a leadership role. However, the above DC increases do not appear to help satisfy Places to Grow goals of mixed-use intensification in centres and corridors (i.e. including office). This is an absurd observation given that the Region (and lower-tier municipality) receives a rate of 2:1 assessment dollars for every square foot of office built compared to any residential, and an even greater rate when receipts are considered on a per acre basis in a true mixed-use development. This is even more difficult to understand since the Region's own consultant report (Watson, April, 2008; supported in Markham/Watson February, 2010) demonstrated that intensification costs less on an operating basis and actually results in significant assessment surpluses (for all levels of government).

Interestingly, one Regional municipality has legislated an innovative mixed-use DC rate to incent intensification with office by providing a 50% discount, recognizing that the 'in-perpetuity' office assessment return is more valuable than the upfront increase of office DCs.

The costs of increasing office DC's will come at the loss of perpetual assessment revenue and operating savings for the Region for every square foot of office that is not developed in the Region, since office cannot absorb these rates of increases, that will not be offset by any increase in the office DC.

Nonetheless, we continue to welcome communication with finance and other staff to discuss this concern further and have hope that we can come up with some creative suggestions to help devise some financial policies in the DC review that will not result in further disincentives for office development (and loss of assessment revenue) in the Region.

Sincerely,

M. Filice

M. Filice
B.E.S., LL.B., M.B.A.
Vice-President & Counsel