2
IMPACT OF DEVELOPMENT CHARGE DISCOUNTING - UPDATE

The Finance and Administration Committee recommends:

1. **Receipt of the presentation from Lloyd Russell, Commissioner of Finance and Kelly Strueby, Director, Business Planning and Budgets;**

2. **Adoption of the recommendation contained in the following report dated April 20, 2009, from the Commissioner of Finance; and**

3. **The Commissioner of Finance provide further information to Council reconciling the decrease in non-residential development charges with the increase in square footage for non-residential development during the first Quarter of 2009 compared to the first Quarter of 2008.**

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

New DC By-law Phased-in rate increases

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 third report regarding the impact of the phasing out of the 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 including on the level of development activity.

4. ANALYSIS AND OPTIONS

DC Collections at Discounted Rates

The previous report regarding the impact of the phasing out of the DC discounts in December 2008 provided information up to and including the month of September 2008. The following table summarizes the non-residential DC discount realized due to phasing in to full cost recovery rates from October 2008 to March 2009. The rates used for this analysis are as of June 18, 2008 when the last phase-in and indexing occurred.

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

Rate Category	Square Feet *2,3,4	DCs Collected	DCs at new Full Cost Rate *5	Amount of Discount	DCs if June 2006 rates
October 2008 to March 2009 *1					
Industrial / Office / Institutional	713,744.6	$5,285.4	$7,813.8	($2,528.4)	$2,828.1
Retail	188,613.3	$4,304.3	$4,304.3	$0	$1,460.7
Total	**902,357.9**	**$9,589.7**	**$12,118.1**	**($2,528.4)**	**$4,288.8**

Notes:
1. As of June 18, 2008, rates were subject to the next phase-in for all non-residential and indexing of 7.2%. Retail rates at full cost recovery as of this date.
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" exclude indexing and BILD DC appeal settlement.

As can be seen in Table 1 above, had the Region collected DCs at the June 2006 rates, it would have collected $5.3 million less in development charges. However, it is unknown how much more gross floor area would have been registered had there been no increase.

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.
3. Rates do not reflect the BILD DC appeal settlement.

Non-Residential Square Footage Comparison

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	
July – September	1,187,191	175,428	
October – December	1,254,844	115,703	
Total	**5,161,794**	**2,816,184**	**598,042**
Retail			
Jan. – March	222,578	156,152	122,900
April - June	1,877,817	1,496,744	
July – September	587,055	64,638	
October – December	466,971	176,101	
Total	**3,154,421**	**1,893,635**	**122,900**

The final phase-in to full cost recovery occurred for retail in June of 2008 and then shortly afterwards an economic downturn hit global markets. In light of this it is difficult to isolate the impact of the phasing out of the non-residential discounts when compared with the other factors that affect the current level of development across the Region.

Impact of removal of discounts

While it is difficult to determine the exact impact that the 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 that they are experiencing challenges in obtaining financing for their projects.

5. FINANCIAL IMPLICATIONS

Retail discounts are now completely phased-out. Further phase-in of rate increases for Industrial / Office / Institutional are scheduled to continue on June 18, 2009 and June 18, 2010. 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 area 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

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.

Impact of DC Discounting & DC Collections to Date

Presentation to Finance & Administration Committee

Lloyd Russell & Kelly Strueby

June 11, 2009

Agenda

- Impact of elimination of DC Discount
- DC collection trends
- Budgeted DC requirements
- Development activity trends

DC Rate Changes – 2007 DC By-law

Rate Category	Status	Effective Dates	Full recovery rate
Residential			(per unit)
Singles / Semis	At full cost	September 18, 2007	$21,864
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Industrial/Office/Institutional	At full cost	June 18, 2010	$10.93

Non-Residential DC Rates Moving Towards Full Cost Recovery

($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		2,236,729	$24,447	$11,073	$13,374	$8,786
Retail		1,114,423	$24,049	$12,374	$11,568	$4,403
	Total	**3,351,152**	**$48,496**	**$23,447**	**$24,942**	**$13,189**
October 1, 2008 to March 31, 2009						
Industrial / Office / Institutional		713,745	$7,814	$5,285	$2,528	$2,828
Retail		188,613	$4,304	$4,304	$0	$1,461
	Total	**902,358**	**$12,118**	**$9,590**	**$2,528**	**$4,289**

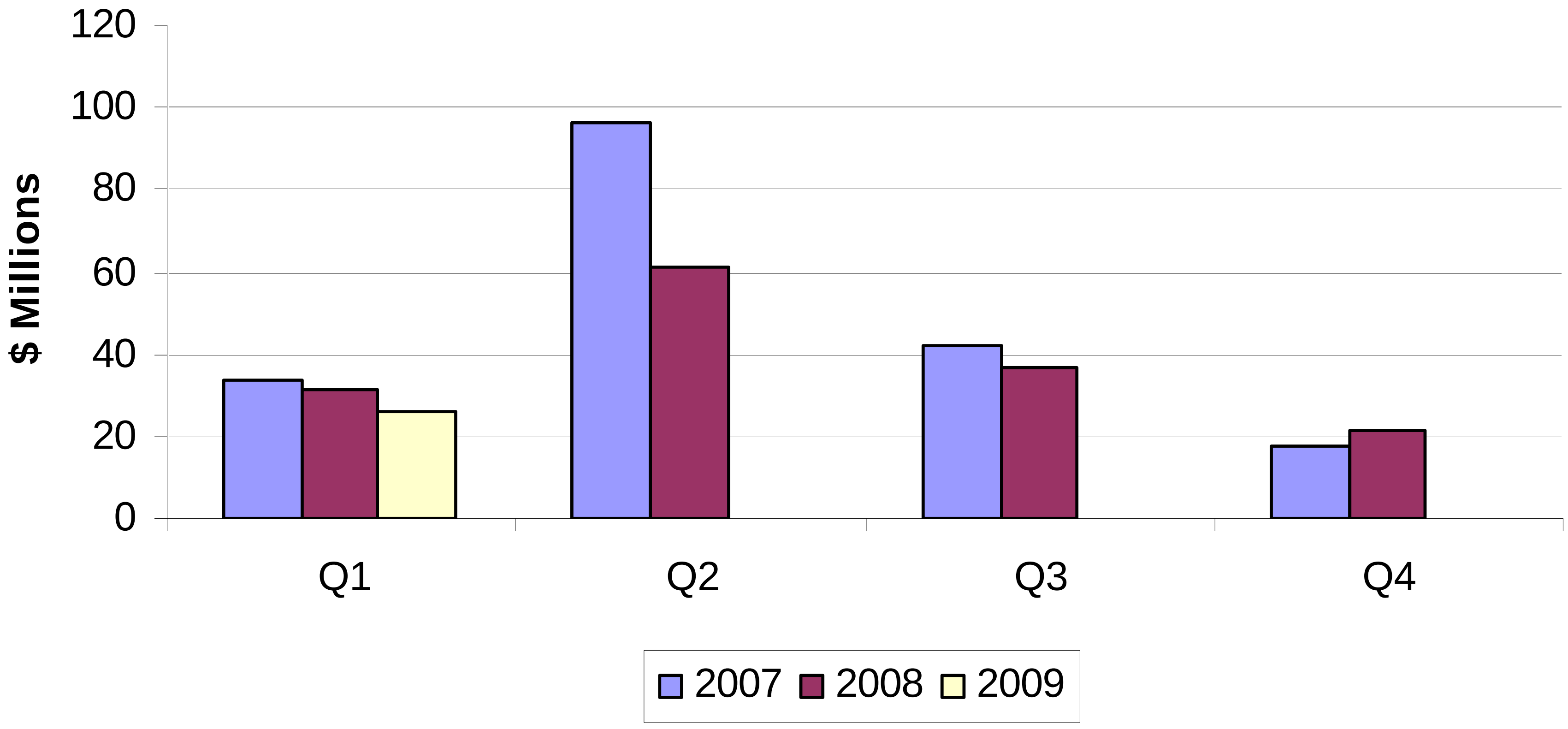
Q1/09 DC Collections have decreased compared to Q1/08

Development Charge Collections	Residential	Non-Residential	Total
Q1 2008	$26,874,122	$5,697,772	$32,841,894
Q1 2009	$22,027,361	$4,120,886	$26,148,247
Difference	**($4,846,761)** **-18%**	**($1,576,886)** **-28%**	**($6,423,647)** **-20%**

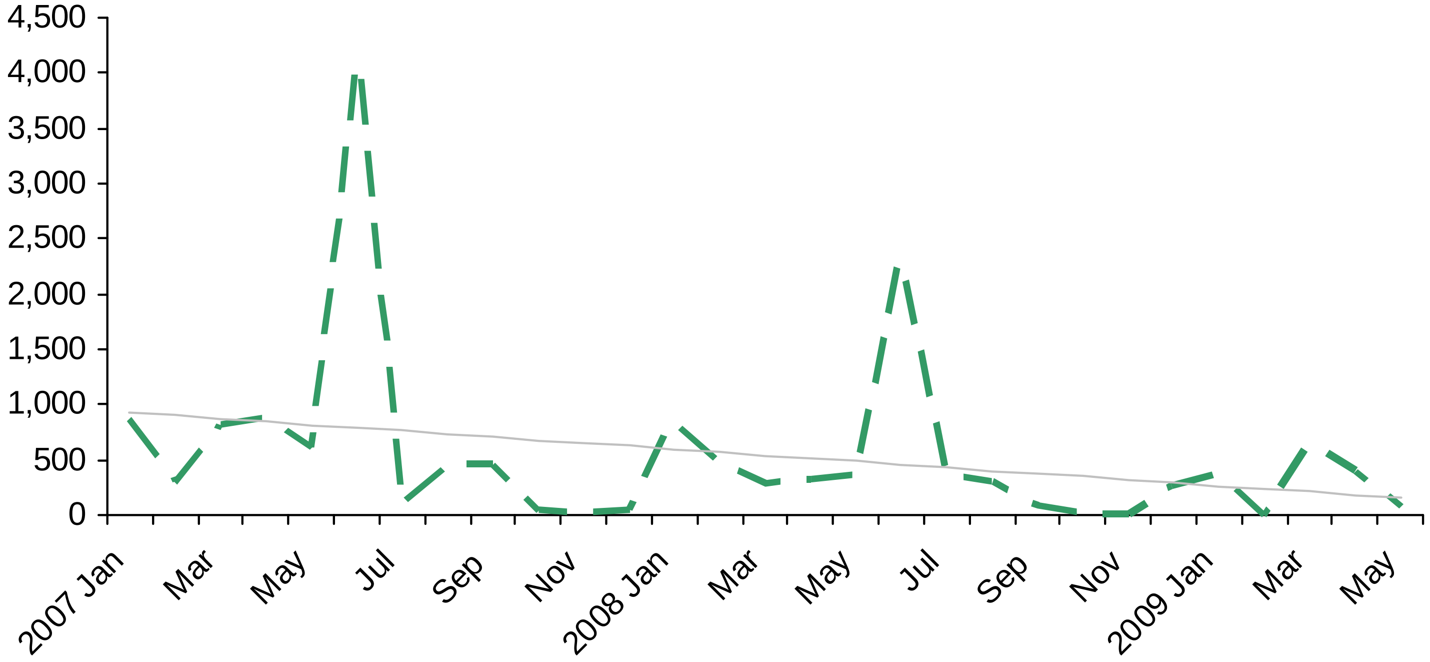
DC Requirements as per 2009 Ten Year Capital Budget

DC Requirements ('000s)	2009	2010
Direct from DC Reserve	$105,192.0	$162,553.0
Debt Repayment	$106,880.6	$151,945.6
TOTAL	**$212,072.6**	**$314,498.6**

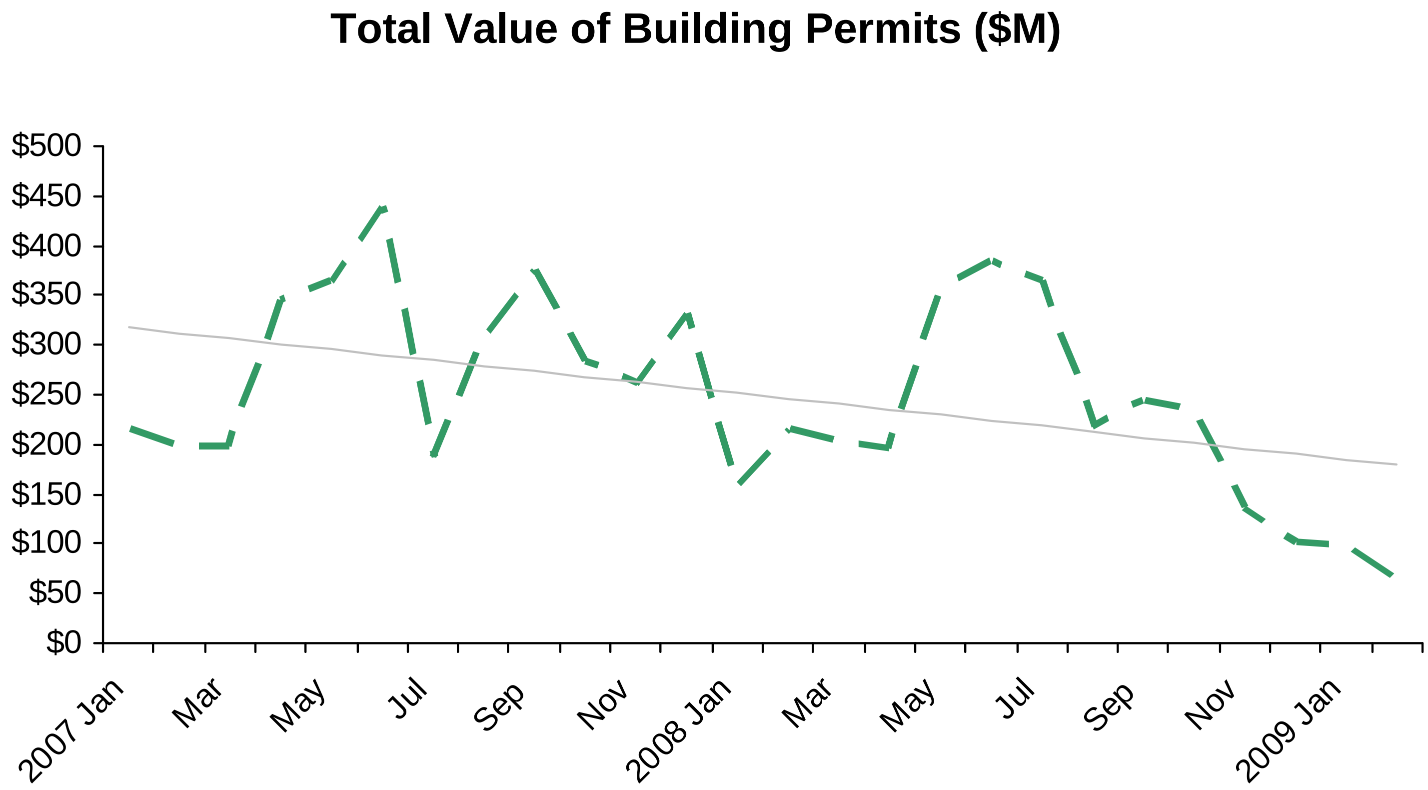
Quarterly Development Charge Collections



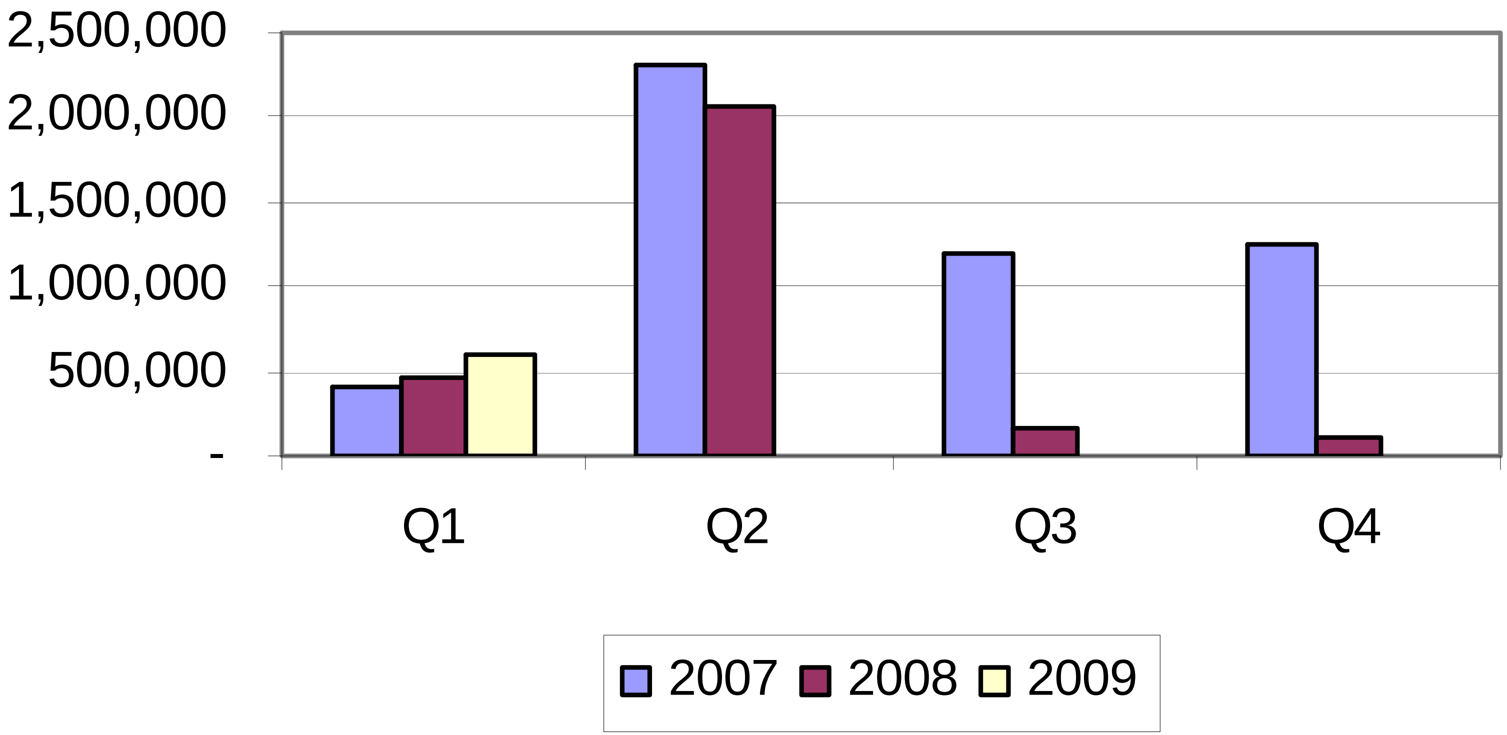
Number of Registered Residential Units



York Region Building Permit Trends

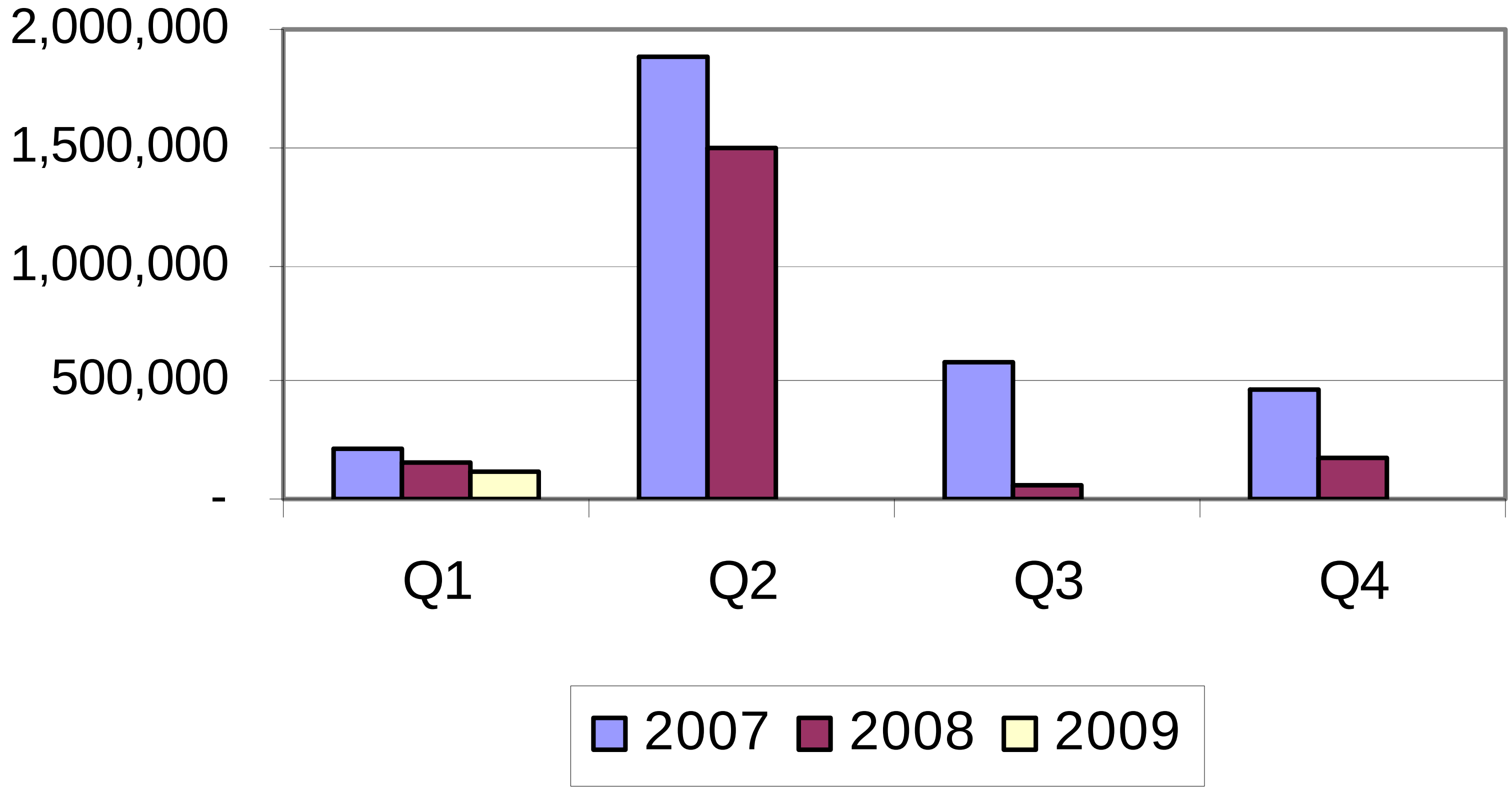


Non-Residential Square Footage – Industrial/Office/Institutional



Square footage at building permit issuance

Non-Residential Square Footage - Retail



Conclusions

- DC will be at full cost recovery by June 2010
- Building activity and DC Collections have decreased
  - Evidence of economic slowdown
- Continue to monitor DC collections vs. budgeted requirements
- Early indications of potential increase in development activity

Discussion

Building Permits

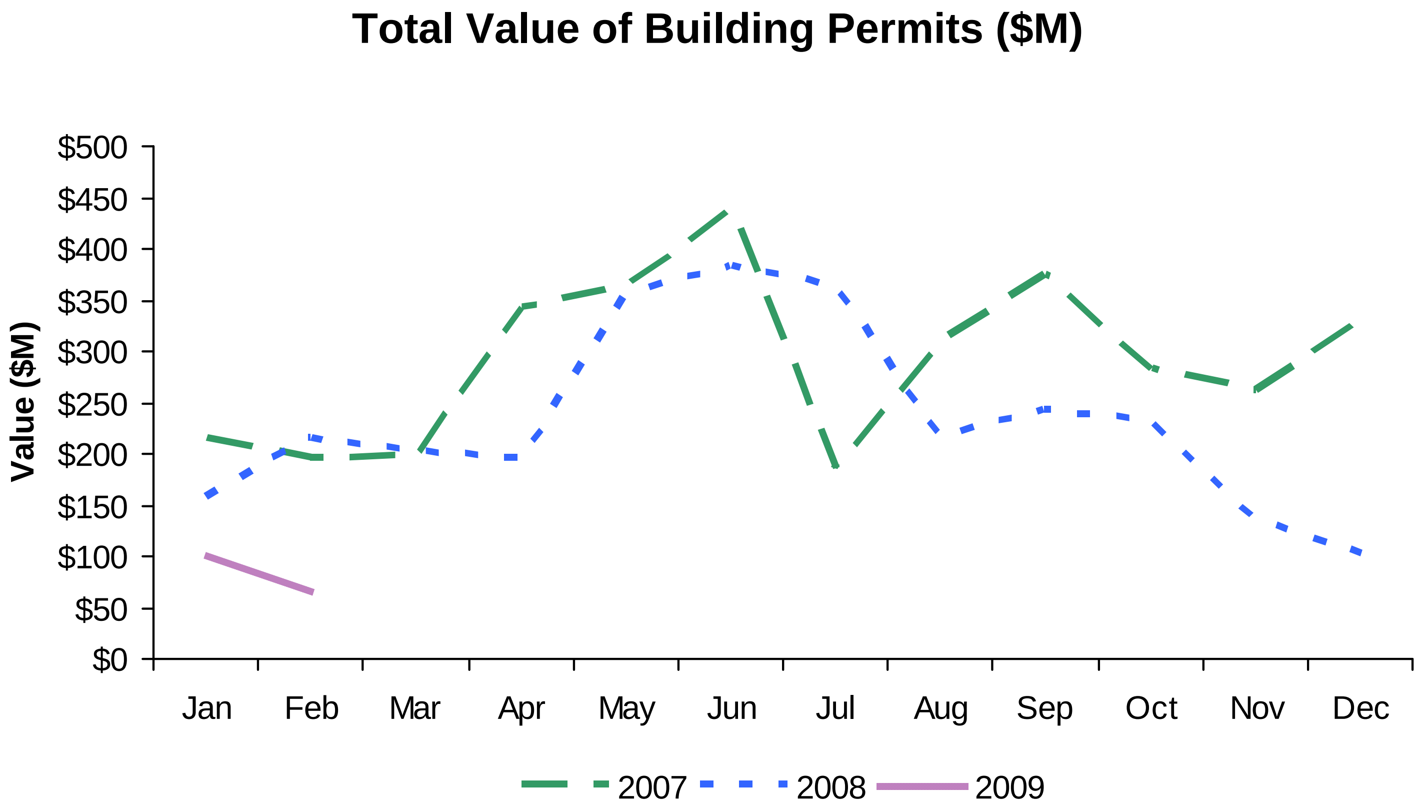
Residential

Q1 2009	Building Permits	Registered Units
S.F.D.	530.0	661.5
Towns	135.0	373.0
Apart. (2+)	65.0	
Apart (<2)	54.0	
Total	**783.0**	**1,034.5**

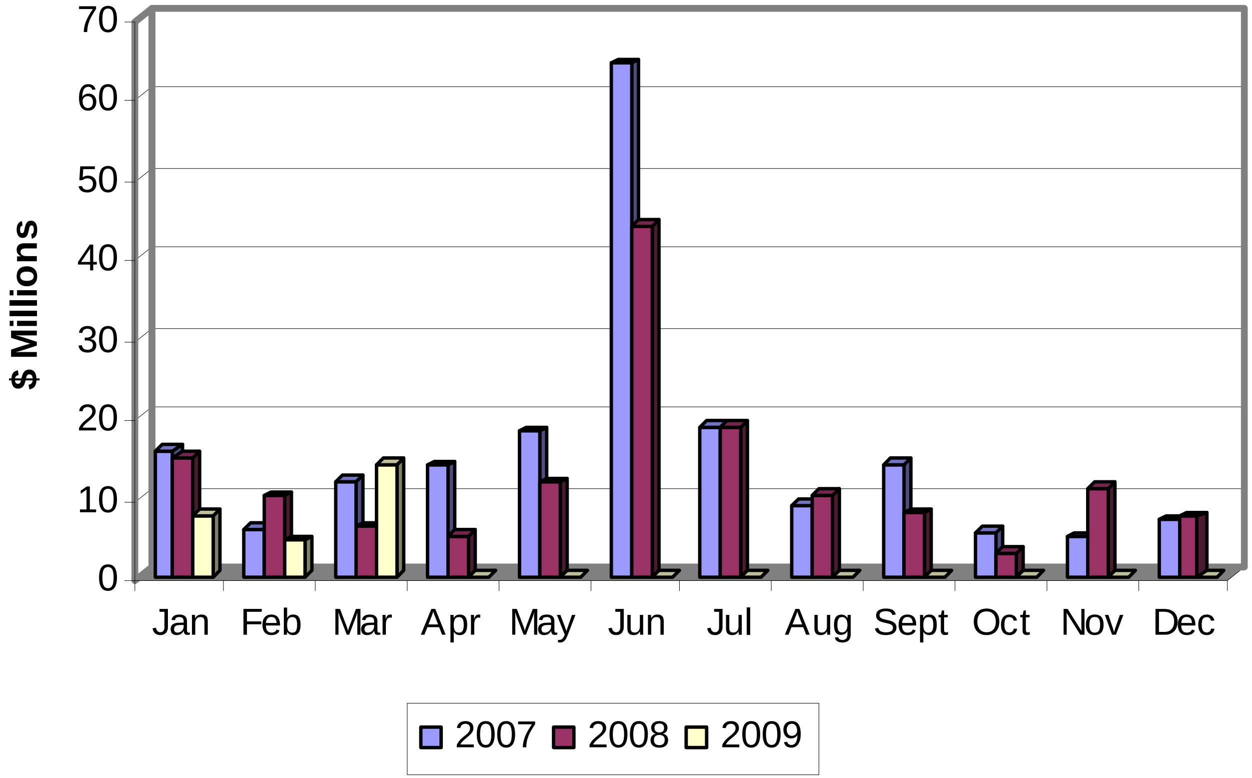
Non-Residential

Q1 2009	Building Permits (m^2)	Building Permits (Sq. ft.)
I/O/I	44,706.07	481,221.13
Retail	2,438.09	26,243.38
Total	**47,144.16**	**507,455.51**

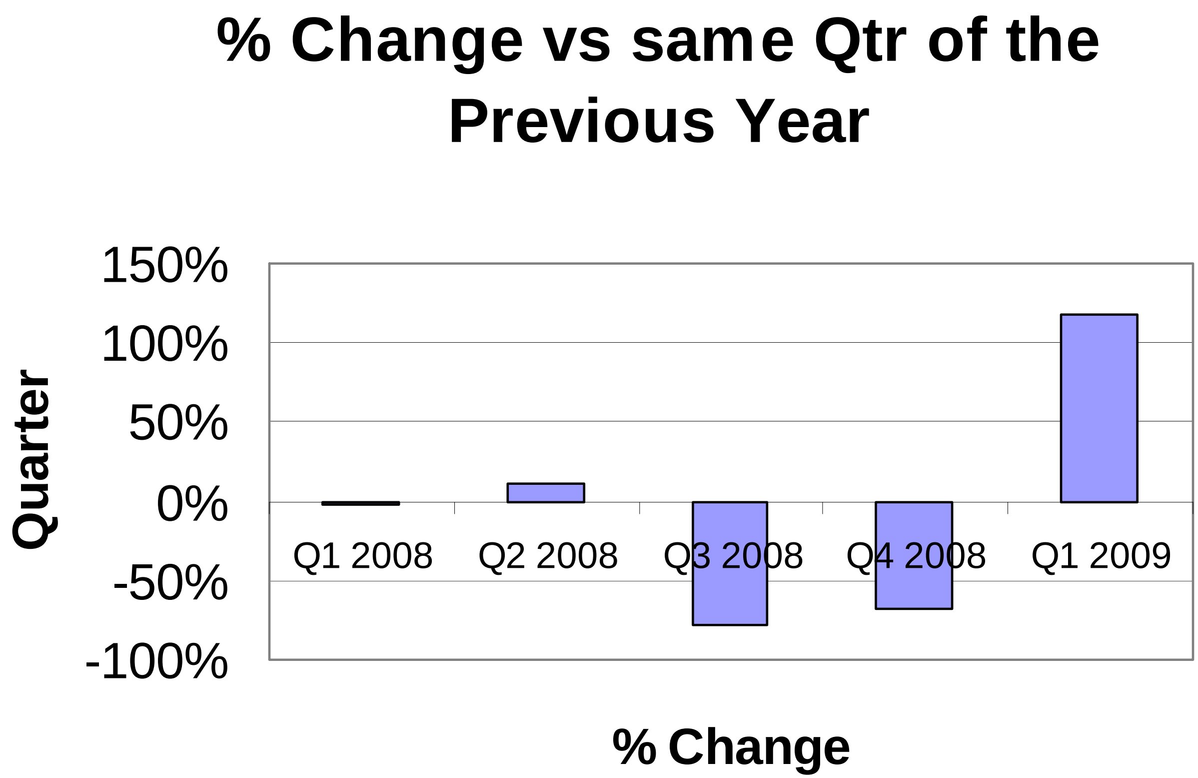
York Region Building Permit Trends



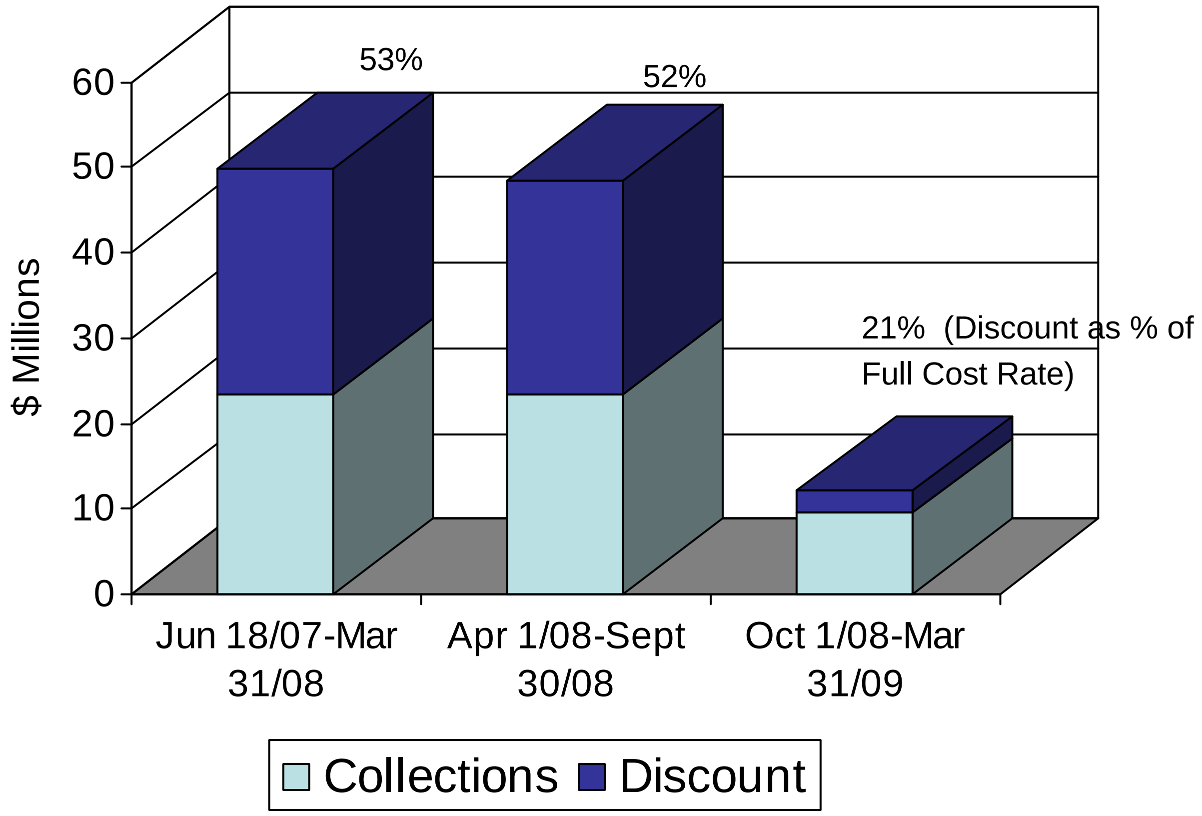
Monthly DC Collections



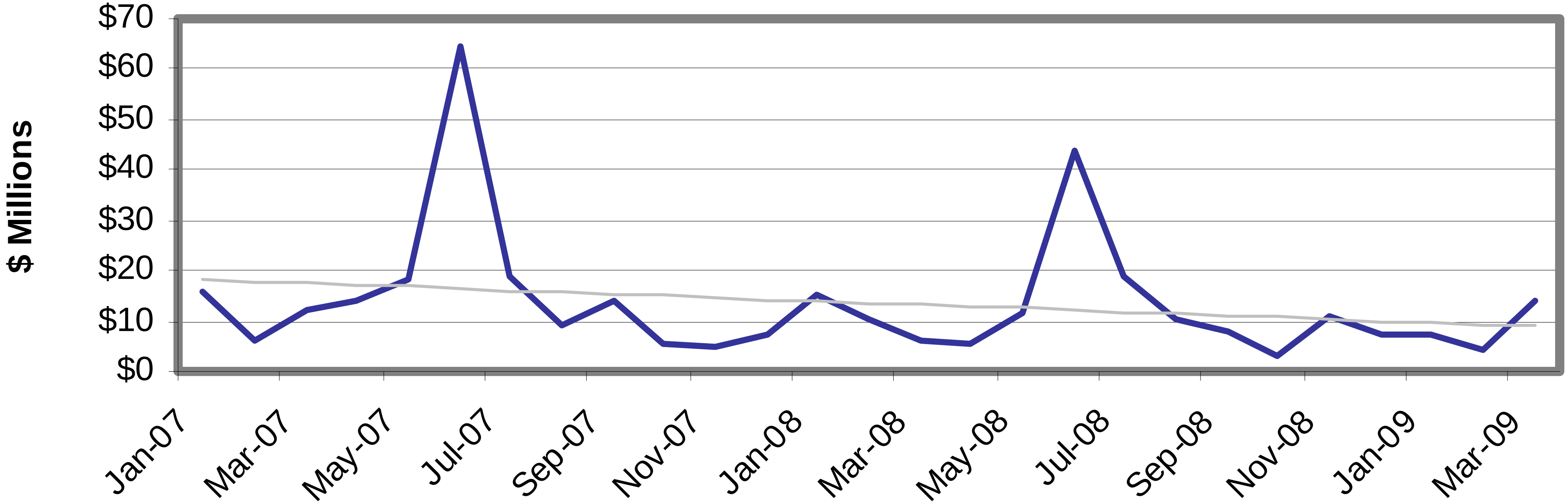
Quarterly DC Collections



Non-Residential DC Rates are Moving Towards Full Cost Recovery



Monthly DC Collections Trend



Plans of Subdivisions

# of New Applications			# of Sets of Conditions of Draft Plan Approval Forwarded to Local Municipality			# of Clearance/Final Approval		
Month	**2008**	**2009**	**Month**	**2008**	**2009**	**Month**	**2008**	**2009**
January	5	0	January	2	5	January	2	2
February	4	2	February	3	5	February	8	3
March	2	1	March	2	1	March	6	3
April	3	0	April	2	1	April	9	4
May	4		May	7		May	11	
June	3		June	1		June	8	
July	3		July	5		July	8	
August	2		August	4		August	4	
September	10		September	5		September	8	
October	7		October	8		October	10	
November	6		November	1		November	3	
December	5		December	12		December	5	

Residential Building Activity – Number of Registered Units