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# CENTRES AND CORRIDORS FINANCIAL STRATEGY

**The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 17, 2006, from the Commissioner of Finance and the Commissioner of Planning and Development Services:**

## 1. RECOMMENDATIONS

It is recommended that:

1. Staff consider the implications/recommendations outlined in the report prepared by Hemson Consulting entitled "*Centres and Corridors, Financial Strategy*" (see Attachment 1) as part of the Development Charge By-law review process including consultation with area municipalities and key stakeholders, and

2. A further report be brought forward to Committee and Council regarding the impact of an area specific regional development charge rate within Centres and Corridors.

## 2. PURPOSE

The purpose of the report is to summarize the key observations and findings from the Centres and Corridors Financial Strategy Report prepared by Hemson Consulting.

Secondly, the report seeks authorization for Regional staff to review the implications and recommendations of the Centres and Corridor Study through the Development Charge By-law process.

## 3. BACKGROUND

Focusing growth and infrastructure investment in Centres and Corridors has been a key goal of the Regional Official Plan since its adoption in 1994. This approach represents good planning and is central to the Region's Growth Management Strategy.

York Region has designated four regional Centres: Markham, Newmarket, Richmond Hill and the Vaughan Corporate Centre. These four centres are intended to be vibrant, higher density, mixed use precincts. In effect, they will be the Region's "downtown" and will facilitate the development of a strong sense of community. The four regional centres are intended to contain the highest densities in order to support rapid transit services and provide a broad mix of uses that will serve the entire Region. Uses will include office buildings, higher density residential, community and public gathering places either in the form of parks or squares, as well as a wide variety of restaurants, shops, cultural, institutional, human service and administrative facilities.

### 3.1 Growth Management

To further facilitate the development of the regional Centres and Corridors, York Region Council adopted a York Region Centres and Corridors Strategy in June 2004. The Centres and Corridors Strategy is premised on four action areas:

- Planning policy
- Financial policy and tools
- Infrastructure investment
- Supportive programs

A number of significant steps have been taken towards the implementation of the Centres and Corridors Strategy. Some of the key initiatives include:

- The York Region Rapid Transit Plan (YRTP)
- The creation of the Region's Rapid Transit system "VIVA", that became operational in September 2005
- The adoption of Regional Official Plan Amendment 43 (ROPA 43) that strengthened the policy framework for the development of Centres and Corridors
- The completion of secondary plans for the centres of Markham, Richmond Hill and Vaughan
- The completion of the York Region Transportation Master Plan and the Housing Supply Strategy
- The completion of a seven lane road study
- The preparation of Transit Oriented Development (TOD) guidelines that will be presented to Council in June 2006
- The Highway 7 Vision work
- The Vaughan Highway 7 Land Use Study
- The construction of a number of higher density mixed use buildings in and adjacent to several Regional Centres in Markham, Vaughan, Richmond Hill and Newmarket

York Region's Official Plan calls for the creation of compact well designed communities in order to protect our agricultural lands, rural countryside and green spaces like the Oak Ridges Moraine. In order to protect these areas, the Region needs to direct a significant portion of our future growth to existing urban areas. A key part of this strategy is the creation of viable regional centres linked by rapid transit in regional corridors.

York Region is at a critical juncture in its transformation from a suburban community to more urban environment. To date there has been some progress in building the regional centres and substantial corridor development has yet to materialize. Changes to the urban structure and attaining the type and intensity of built form and compact residential and employment development requires a comprehensive package of planning policy, financial policy and tools, infrastructure investment and supportive programs to be put in place.

### 3.2 York Region Financial Initiatives

York Region has a history of ensuring that growth and development are financed in a fiscally responsible manner, and has a number of leading edge financial growth management initiatives in place. Initiatives such as the Development Charges Financial Forecast, Long Term Water and Sewer Plans, the Master Transportation Plan, the 10 year prioritised Capital Works Plan and the required fiscal analysis of all new development are the cornerstones of this approach.

Financial policies and tools for infrastructure and service provision are key tools in building sustainable communities. The co-ordination of financial tools with land use objectives is key. Municipal financial tools can be used to encourage the private sector to build compact development within centres and corridors. York Region has already undertaken a number of policy enhancements to municipal financial tools that support the achievement of the planned urban structure including:

- √ Creating a "New Multi-Residential" property tax class and setting the rate at par with the residential/farm property class.
- √ Moving existing Multi-Residential property class ratio to 1.0.
- √ Providing conditional grants, equivalent to the assessed development charge to non-profit organizations providing affordable housing.
- √ Offering deferment of development charges for 18 months on condominium projects.

Further work needs to be done before the full vision for Centres and Corridors can be realized. In this regard, York Region Council authorized staff to undertake a study to assess potential financial strategies and options to facilitate development within the Regional Centres and Corridors. Staff will continue to review other financial tools to encourage development in centres and corridors, as identified in the report submitted to Finance Committee on September 19, 2002 – Update on Fiscal Policy and Growth Management in York Region.

## 4. ANALYSIS AND OPTIONS

### 4.1 Study Methodology

Hemson Consulting was hired in 2005 to:

> *Assess financial strategies, including residential and non-residential development charge options and tax based strategies to support and enhance development in regional Centres and Corridors and determine the impact of these strategies on the balance of the Region.*

The focus of the financial review was to identify those elements of Regional Capital infrastructure and costs that could potentially vary according to the location and density of future development. The analysis was based on two growth scenarios - a 20% intensification rate and a 40% intensification rate. The 20% scenario is based on a development pattern in which approximately 20% of the Region's population and employment growth would be located within Centres and Corridors. The second scenario incorporates the effects of a 40% intensification assumption, a level that is consistent with the policies in the Provincial Proposed Growth Plan.

The analysis considered both capital and operating costs at the regional level.

Analysis was prepared of transportation (transit and roads) costs per capita for centers and corridors and other areas in the Region. Similarly, an assessment of capital costs implications for the regional water and sewer systems of development in the Centres and Corridors as compared to other areas in the Region was undertaken. The purpose of these analyses was to determine whether there is any justification for differential charges between areas.

The analysis on operating costs was based on discussions with representatives from each regional department and focussed on potential differences in service requirements and differences in the costs and revenues per unit of services.

### 4.2 Capital Cost Review

The objective of the capital cost review was to identify those elements of regional infrastructure that could potentially vary according to location and density of future development. Transit, roads, water and wastewater were analyzed along with other Regional infrastructure.

The study concluded that Centres and Corridors provide potential savings in transportation costs (roads and transit) in Centres and Corridors as compared to development elsewhere in the Region. The report indicates that there is a potential cost savings of approximately 24% to 33% in Centres and Corridors for the transportation component of the Region's capital plan versus greenfield development. It should be noted that in the analysis of transportation costs it was assumed that the total costs of the Region's rapid transit capital infrastructure would be two thirds financed by senior levels of government. If this does not materialize, the cost savings potential would be significantly reduced.

When the potential water and wastewater capital cost savings were analyzed, it was determined that the cost savings were minimal due to the configuration and location of the Regional infrastructure. For example, wastewater collection of sewage flows for a significant population located in the northern municipalities occurs along the Yonge Street pipe and east and west sewage servicing along the Highway 7 corridor pipe. For water, the Region provides water that is integrated with the area municipal water systems in Vaughan, Markham, Richmond Hill and Aurora again through the Yonge Street and Highway 7 corridor. This infrastructure provides services to a large population, which is then distributed to various locations/developments through local/area municipal infrastructure. Therefore, location of development does not affect the costs of providing additional wastewater and water infrastructure at the Regional level.

However, it was concluded that there was potential to realize additional cost savings for wastewater and water infrastructure at the area municipal level for Centres and Corridors. This should be explored further with area municipalities in order to provide additional cost savings for those developments that occur in the Centres and Corridors as opposed to urban and rural areas within the Region.

### 4.3 Operating Costs Review

A service by service evaluation to identify where there would be net operating cost differences between Centres and Corridors and other areas in the Region was undertaken. The analysis focussed on potential differences in service requirements and differences in the costs and revenues per unit of the services.

The most significant budget items in the region are Police, GTA pooling, Transportation and Works, Transit and Community Services and Housing. The study found that the services most susceptible to costs savings are roads and waste management although potential cost savings are not significant. Balanced against this are other services where there could be increased costs for Centres and Corridors. (i.e. Police services). The overall net budget implication of combined potential savings and added costs would require a more detailed analysis.

### 4.4 Key Observations

The potential capital and operating costs differences between Centres and Corridors and other parts of the Region were assessed on a service by service basis. Key findings include the following:

- For capital costs, the most significant difference is for roads and transit.
- For water and wastewater and other services with large capital costs there are only marginal differences.
- On the operating side, there are potential cost savings in roads and operating costs and smaller savings in waste management operating costs. The quantum of the savings is not clear however are not significant.
- Some operating services could potentially include higher net operating costs for development in Centres and Corridors.
- The difference in transportation capital costs could potentially justify lower regional development charge rates for new development in Centres and Corridors.

### 4.5 Development Charge By-law Review

The Centres and Corridors report outlines the cost differentials between various components of Regional infrastructure. The report has calculated potential cost savings for the transportation component of the Regional DC of approximately 24% to 33% in Centres and Corridors compared to other areas within the Region. However, due to requirements of the Development Charges Act, those cost savings do not necessarily mean that the transportation component (i.e. roads and transit) can be reduced by the same amount. Regional staff must examine the potential cost savings in accordance with the DC Act to determine impact of differentiated DC rates. For example, the DC Act legislation limits the amount of Transit capital costs recoverable from DC due to the use of historical service level standards. In accordance with the current legislation the Region would be eligible to recover less than 10% of the growth related capital costs from development charges. The Region has requested changes to the Provincial Legislation to enable the Region to recover a greater portion of transit growth related costs through development charges.

The York Region Development Charge By-law will expire in June 2007. Region staff have initiated the process to update the Development Charge (DC) By-law. As part of the DC By-law review process, it is recommended that Regional staff review the recommendations of the Centres and Corridors, Financial Strategy Report and assess the potential of creating a differentiated Regional DC between Urban and Rural areas and Centres and Corridors. During the review, it is recommended that input be received from key stakeholders (including area municipalities) regarding the potential for differentiating DC rates.

It is anticipated that a revised DC By-law will be presented for Regional Council approval in February 2007. In order for this to occur it is recommended that consultation with area municipalities and the key stakeholders occur early in the process. This will allow all parties involved in the process to analyze the impacts of any proposed DC policy change that may occur in specific areas of the Region.

## 5. FINANCIAL IMPLICATIONS

Currently, the Region of York collects DC's on a uniform basis, it does not differentiate between location and/or cost within the Region. A differentiated DC rate is a departure from the current Region wide DC collection process and therefore, would require policy change. The potential impact of a differentiated charge on the DC rates and collections may be determined as part of the proposed review. It is important to note that a differentiated DC rate will not significantly increase the amount of funding collected from DC. Financial support from senior levels of government is required to ensure the costs of providing transit services are sustainable.

## 6. LOCAL MUNICIPAL IMPACT

If a change in the Regional DC helps to encourage development, the area municipalities will experience greater intensification in the Centres and Corridors. This in turn will benefit transit services for these areas. The City of Vaughan, Town Richmond Hill, Town of Markham and the Town of Newmarket will be affected the most due to the location of the Centres and Corridors. If the area municipalities reviewed the potential for an area specific DC, it could also help encourage development within Centres and Corridors.

## 7. CONCLUSION

Hemson Consulting was retained to conduct a study on financial strategies that could help support development in the Region’s Centres and Corridors. The purpose of the study was to assess the potential of strategies that are based on identifiable cost differences between Centres and Corridors and other areas in the Region.

In terms of capital costs, the analysis indicated that there are potential net cost differences for transportation services (roads and transit) within a range of 24% to 33%. There are marginal differences in regional water and wastewater services costs. This could potentially justify lower development charges in Centres and Corridors, with corresponding higher charges for greenfield development.

As for operating costs, there are some small operating cost savings for roads and waste management; however, this could potentially be offset by increased costs for other services. The quantum of the operating cost savings is not clear and would require further examination.

York Region has undertaken a number of policy enhancement tools that support the community building policies in the Regional Official Plan. The completion of the Centres and Corridors study is another key component in this process. Staff will continue to explore financial tools to encourage compact development in Centres and Corridors.

It is proposed that Regional staff consider the recommendation presented in the Centres and Corridors Study in conjunction with the DC By-law update process. Based on the DC policy changes proposed, it is recommended that staff consult with key stakeholders in the development industry and the area municipalities regarding differentiated rates at the Regional and local levels. It is anticipated that the DC By-law up-date will be submitted for Regional Council approval in February 2007.

The Senior Management Group has reviewed this report.

*(The attachment referred to in this clause was included in the agenda for the June 8, 2006 Committee meeting.)*