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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, May 16, 2008, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:

1. 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 DC 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 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. York Region’s current Region-wide Development Charge By-law, DC By-law DC-0007-2007-040, came into effect on June 18, 2007.

The Region-wide By-law was implemented with an initial increase in rates on June 18, 2007 with a phase-in to full cost recovery rates according to the type of development. The specific rate categories are at full cost recovery rates as per the table below.

Table 1
York Region
Schedule of Rate Changes

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

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

At the time of passage of the new By-law, Council requested that a report be provided in June 2008 illustrating the volume of non-residential development and development charge revenue impacts.

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, up to March 31, 2008.

Table 2
Non-Residential DC Discount
June 18, 2007 to March 31, 2008
($'000s)

Rate Category	Square Feet	DCs at new Full Cost Rate	DCs Collected at June 2007 Rate	Amount of Discount (full cost rate – amt collected)	DCs if used June 2006 Rates
Non-Residential					
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**

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 $18.2 million or $5.2 million less than at the new rates.

Regional DCs are only one component of Non Residential Development Costs

When the proposed development charge rates were presented to Council in May of 2007, the following tables were provided indicating the percentage that development charges represent of overall development costs by non-residential sector.

Table 3
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 4

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.

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 will be subject to annual increases on the anniversary date of the by-law in each of the next three years, achieving full-cost recovery levels as of June 18, 2010. Retail rates had an initial increase of 25% plus two-thirds of the new subway charge effective June 18, 2007 and will be at full cost recovery levels as of June 18, 2008.

Since non-residential DC rates were previously discounted (some up to 50% of full cost recovery rates), and on June 18, rates were only increased from previous levels by 10% to 25%, the difference between the discounted rate enacted June 18 and the full cost recovery rate was significant, ranging from $66.68 to $112.10 difference per square metre or from $6.19 to $10.42 per square foot. This directly impacted the level of discounting realized to March 31, 2008.

Non-Residential Square Footage Comparison

The following table compares the square footage of non-residential development commenced from January to March 2007 (prior to new by-law) and January to March 2008 (post by-law), based on building permits issued.

Table 5
Non- Residential Building Permits – Square Footage

Rate Category	Jan – Mar 2007	Jan – Mar 2008	Difference
Industrial / Office / Institutional	412,720	463,752	51,032
Retail	222,578	156,152	-66,426
Total	**635,298**	**619,904**	**-15,394**

5. FINANCIAL IMPLICATIONS

Residential discounts are now completely phased-out. Rate increases for Industrial and Retail DCs will occur on June 18, 2008. 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.

It should be noted that all rates will be indexed in accordance with the StatsCan Non-residential Construction Price Index on the anniversary of the by-law (June 18, 2008). The index was released by StatsCan on May 14, 2008 and will result in a 7.2% increase.

It should also be noted that should there be a slowdown in development across York Region, lower development charge collections than expected at the time of the passage of the new by-law will most likely occur. There may be delay or deferral of some capital projects should this occur, however those water and wastewater projects needed to provide additional servicing capacity will be completed. 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

The residential rates are now at full cost recovery levels. Retail rates will be at full cost recovery levels as of June 18, 2008. Non-retail rates will have another increase on June 18, 2008, with two more increases in each of the next two years.

For more information on this report, please contact Kelly Strueby, Director Business Planning & Budgets at ext. 1611 or Mary T. Coates, Senior Budget Advisor at ext. 1693.

The Senior Management Group has reviewed this report.