



Report to: General Committee

Meeting Date: December 5, 2017

SUBJECT: 2017 Development Charges Background Study
PREPARED BY: Kevin Ross, Manager, Development Finance – Ext. 2126

RECOMMENDATION:

- 1) THAT the report on the “2017 Development Charges Background Study” be received;
- 2) THAT Council determine that no further public meeting is required, pursuant to Section 12 of the *Development Charges Act 1997*, as amended;
- 3) THAT Council approve the Development Charge Background Study prepared by Hemson Consulting Ltd. dated October 2017;
- 4) THAT Council affirm its intention to ensure that the increase in the need for services to service anticipated development will be met;
- 5) THAT Council affirm its intention that development related to post 2026 capacity identified in the Background Study shall be paid for by development charges or other similar charges;
- 6) THAT Council affirm its intention that infrastructure related to post 2031 development identified in the background study shall be paid for by development charges or similar charges;
- 7) THAT Council recognizes that there are operating costs associated with the implementation of the capital program;
- 8) THAT Council approve the policy changes as outlined in this report;
- 9) THAT Council enact the City Wide Hard, City Wide Soft and Area Specific development charges by-laws, effective on December 13, 2017;
- 10) THAT Council affirm its intention that the future excess capacity identified in the Development Charges Background Study, dated October 2017, prepared by Hemson Consulting Ltd. shall be paid for by the development charges;
- 11) THAT these recommendations, including the implementing by-laws, be forwarded to the December 12, 2017 Council meeting for adoption; and

12) THAT staff be directed to do all things necessary to give effect to this report.

EXECUTIVE SUMMARY:

Staff commenced the review of the City's existing City Wide Hard, City Wide Soft and Area Specific development charge by-laws in November 2016, due to their impending expiration on May 28, 2018.

Throughout the review process, staff met with the Development Charges Sub-Committee, held consultative meetings with the development industry and responded to the industry's concerns, while providing updates to General Committee.

The draft Development Charges Background Study and by-laws have been prepared, and the legislated public meeting was held on November 14, 2017, where the public was provided with an opportunity to raise any concerns about the proposed development charges and policy changes.

The proposed development charges and the implementing by-laws are based on City policies and established service levels which the City intends to maintain, and they comply with the applicable legislation.

PURPOSE:

The purpose of this report is to update Council on the information, assumptions, and rates in the draft October 2017 City of Markham Development Charges Background Study, and to obtain General Committee's approval to forward the development charge rates and development charge by-laws to Council on December 12, 2017 for approval.

BACKGROUND:

The review of the current City Wide Soft (CWS), City Wide Hard (CWH) and Area Specific (ASDC) development charge by-laws commenced in the fall of 2016, in order to ensure that new by-laws were in place prior to the expiry of the current by-laws. In November 2016, a Development Charges Sub-Committee was formed and undertook a review of the policy changes being introduced in the 2017 by-laws, along with their implications, over a series of 5 meetings. These policy changes were later presented to General Committee for review, consideration and approval. Throughout this process, the City held consultation meetings with the development community (stakeholder group) to discuss the proposed rates and policy changes, and any issues arising from the changes to the City wide and area specific recovery process. The stakeholder group provided their comments with respect to issues with the development charges calculation and policies, and these were discussed at the Development Charges Sub-Committee and General Committee.

Policy Changes

The 2017 Development Charges Background Study was prepared with the following new policies, as well as changes to policies from the 2013 background study, and these were endorsed by the Development Charges Sub-Committee and approved by Council:

- 1) *Road Reconstruction* – The cost of new roads or expansions to accommodate growth are fully recovered through development charges.
- 2) *Non-residential Development/Redevelopment* – Calculate the non-residential City Wide Hard development charges based on gross floor area (GFA) rather than land area.
- 3) *Differentiated Rates* – The City Wide Hard non-residential charges, that are now based on GFA, will be differentiated into retail, industrial/office/institutional, and mixed-used categories.
- 4) *Redevelopment Credit* – Credits for a change in use will be based on the prevailing development charge rates.
- 5) *Apartment Delineation* – The threshold for apartments will be increased from 650sq. ft. to 700 sq. ft., so large apartments are units of 700 sq. ft. or larger and small apartments are units of less than 700 sq. ft.
- 6) *Office Incentive* – For new office buildings, 100% of City Wide Hard and City Wide Soft development charges will be levied on the first 100,000 sq. ft. of GFA, with a reduced charge of 25% City Wide Hard and City Wide Soft development charges on GFA exceeding the threshold.
- 7) *Deferral Policy Amendment* – The calculation option that states “*The rate that is in effect at the time of payment*” is being removed from the Development Charge Deferral Policy.
- 8) *Deferral for Purpose-Built (High Density) Rental Buildings* – A development charge deferral for this type of development will be instituted with the following terms:
 - i) Rate and amount of development charges payable determined at building permit issuance;
 - ii) Duration of 36 months with no interest applied if paid within 15 days of the deferral expiration
 - iii) Security for development charges deferred in the form of a charge against land; and
 - iv) Registration on title restricting change of use for 20 years.

City Wide Consulting Process

A stakeholder group, including representatives of the Building Industry and Land Development Association (BILD), has participated in a number of meetings with staff to review, in detail, their issues and comments related to the City’s new Development Charges Background Study and by-laws. The consultation group was provided with the following information:

- 1) The proposed policy changes
- 2) The Growth Forecast
- 3) The City Wide Hard Capital Program to 2031 including:

- i) Construction cost/metre for infrastructure included in the calculation of the City Wide Hard, i.e. illumination, sidewalks, roads
 - ii) Information on how structures and crossings are classified for their inclusion in the City Wide Hard, as well as how the cost estimates are determined
 - iii) Proposed local service definitions
- 4) The City Wide Soft Inventories for the period 2007-2016
 - i) Including the calculation of historical services levels
- 5) All Soft Services capital programs to 2026, e.g. fire, park development, waste.

The primary issues raised by the developers during the consultations were:

- 1) **The allocation of costs to non-growth share** – The reconstruction/expansion of existing infrastructure should include a share of cost for the existing population currently utilizing these structures.
- 2) **The allocation of costs to post 2031** – Infrastructure that will benefit population beyond 2031 is currently included in the City Wide Hard infrastructure list. Of particular note are the Highway 404 mid-block crossings located to the north of the City, which will also be utilized by new population not in the current growth forecast.
- 3) **Transition provision** – There are units that have already been sold for which building permits have not yet been issued, and increasing the development charges increases the cost of these units. Projects already have an established cost base and revenue stream therefore the City should implement transition and/or prepayment policies prior to the repeal of the existing by-laws.

Staff Response

City staff reviewed the issues raised during the consultative process and respond as follows:

- 1) **The allocation of costs to non-growth share** – City staff revisited the City Wide Hard capital program and subsequent to this review, are satisfied that the distribution of capital cost between the various categories (growth, non-growth, local costs and post 2031) are appropriate.
- 2) **The allocation of costs to post 2031** – The capital costs included in the draft City Wide Hard capital program were distributed in an appropriate manner. Subsequent to the release of the first draft capital program, staff made some changes to the program and added infrastructure that was omitted from the roads and structures categories. Over 80% of this incremental infrastructure cost, which relates to Markham Centre and the Highway 404 mid-block crossing at Elgin Mills, are captured in the post 2031 category, and does not impact the current calculated charges.
- 3) **Transition provision** – The City is cognizant that developers put dwelling units up for sale in advance of filing building permit applications, as this enhances their ability to secure financing. Developers of high-rise, mixed-use developments (i.e. residential and non-residential), have also indicated that they face a challenge in leasing the non-

residential component of these structures, as prospective tenants are price sensitive and do not commit quickly to available space.

In light of the above, staff have recommended the following transitions:

- 1) Until December 31, 2019, mixed-use buildings with a non-residential component of less than 25% of the total GFA, will pay no City Wide Hard development charges on that portion which is less than 25% of total GFA
 - City Wide Hard development charges will be applicable on any non-residential GFA in excess of the threshold.
- 2) Development charges will be calculated at the rates in the current 2013 by-laws, subject to indexing, where:
 - i) A building permit application, which includes a conditional Building Permit application meeting the requirements of Markham's Building By-law 2016-148, as determined by the City's Chief Building Official, is filed prior to 12:01 pm on December 29th, 2017, and
 - ii) A building permit (other than a conditional building permit) has been issued prior to March 31, 2018.

The City's approach to the allocation of costs to non-growth and the post 2031 period, has been discussed with the stakeholder group, and no further comments have been received. Revised development charge rates reflecting changes from the first draft of the City Wide Hard capital program along with the draft development charge by-laws were also provided to the stakeholder group, and the transition policy was presented at the Public Meeting on November 14, 2017.

OPTIONS/DISCUSSION:

Public Meeting

On November 14, 2017 a public meeting was held to present the proposed development charge rates and by-laws in accordance with the *Development Charges Act, 1997*, as amended. A deputation was made at the meeting with regards to the redevelopment of the Markville Shopping Centre by Michael Peiser of Cadillac Fairview who was accompanied by Randy Grimes of the IBI Group (see minutes attached – Appendix A).

Summary of Deputation

Michael Peiser highlighted the redevelopment of the Markville Shopping Centre and expressed his support for the methodology being proposed by the City for the assessment of development charges on parking structures.

Randy Grimes of the IBI Group, also spoke on behalf of the Markville Shopping Centre, and expressed concern with the scale of the proposed increase in the development charge

retail rates. He indicated that the Town of Richmond Hill's retail rate is roughly half of what is currently being proposed by the City of Markham.

- Response – The City's proposed development charge rates reflect the amount that needs to be recovered in order to provide the services and infrastructure required to accommodate planned growth. Markham is one of York Region's growth centres under the Provincial Places to Growth Act, and is anticipated to accommodate 31% of the Region's growth to 2041, as opposed to 12% in Richmond Hill¹. Markham will see increased capital costs pressures, as the City will be required to build more infrastructure than municipalities with significantly less designated greenfield area, and less anticipated growth. Within York Region, the Cities of Markham and Vaughan are forecast to accommodate nearly 60% of the Region's population growth.

FINANCIAL CONSIDERATIONS

Proposed Development Charges

The charts below outline the current development charges, the proposed development charges as included in the October 2017 Development Charges Background Study, along with the relevant variances.

Residential

The proposed increase in the residential development charge rates (City Wide Hard and Soft) range from 33% for a small apartment to 48% for a single detached unit, or a weighted-average increase of 42%.

City-Wide Hard & Soft Charges	Current Residential Charge	Proposed 2017 Residential Charge	Increase/ (Decrease)	Increase/ (Decrease)
	\$/Unit	\$/Unit	\$	%
Single/Semi Detached	\$22,770	\$33,687	\$10,917	48%
Multiple Unit Rate	\$17,666	\$25,763	\$8,097	46%
Large Apartment	\$14,946	\$20,175	\$5,229	35%
Small Apartment	\$11,116	\$14,833	\$3,717	33%

¹ As per the Region of York 2041 Preferred Growth Scenario – 2041 Population and Employment Forecasts, November 2015

Non-residential

The proposed increase in the City Wide Soft development charges range from 3% for mixed-use developments to 38% for retail developments.

City-Wide Soft	Current Non-Residential Charge	Proposed 2017 Non-Residential Charge	Increase/ (Decrease)	Increase/ (Decrease)
	\$/m2	\$/m2	\$	%
Retail	\$10.68	\$14.69	\$4.01	38%
Industrial/Office/ Institutional (IOI)	\$9.87	\$11.20	\$1.33	13%
Mixed Use	\$6.95	\$7.16	\$0.21	3%

There is no current year comparison for the proposed City Wide Hard development charge rates, due to a change in the methodology of levying the charge. The 2017 Development Charges Background Study update recommendation moves the City charges away from a per hectare charge, to a per square metre charge as this better captures redevelopment in the non-residential sector. It results in the calculation of the charge being similar to the City Wide Soft, and is reflective of the methodology utilized by most GTA municipalities.

City-Wide Hard	Current Non-Residential Charge	Proposed 2017 Non-Residential Charge
	\$/m2	\$/m2
Retail	N/A	\$124.78
Industrial/Office/ Institutional (IOI)	N/A	\$95.32
Mixed Use	N/A	\$60.80
Per Hectare charge - Retail/IOI/Mixed Use	\$ 239,868	N/A

The overall non-residential development charges are summarized in the chart below.

City-Wide Non-Residential	Proposed 2017 Soft Non-Residential Charge	Proposed 2017 Hard Non-Residential Charge	Proposed 2017 Total Non-Residential Charge
	\$/m2	\$/m2	\$/m2
Retail	\$14.69	\$124.78	\$139.47
Industrial/Office/ Institutional (IOI)	\$11.20	\$95.32	\$106.52
Mixed Use	\$7.16	\$60.80	\$67.96

Area Specific Charges

The City has 19 proposed area specific development charges by-laws (see Appendix B attached) for defined development districts across the City.

At the public meeting on November 14, 2017, there were 20 area specific by-laws proposed, however following a subsequent meeting with landowners of the employment block in the Future Urban Area (FUA), staff made the decision not to carry forward the proposed by-law (50A-1) for adoption. This is seen as the best course of action, in order to allow the landowners in the employment block to consult with the other landowners in the FUA, as there are some concerns about equity in the distribution of costs associated with the sanitary sewer servicing for the entire area.

Staff will report back on adoption of a by-law for Area 50A-1 and any other area specific by-law deemed necessary, in the upcoming year, in order to facilitate the recovery of costs in the FUA.

Development-Related Share

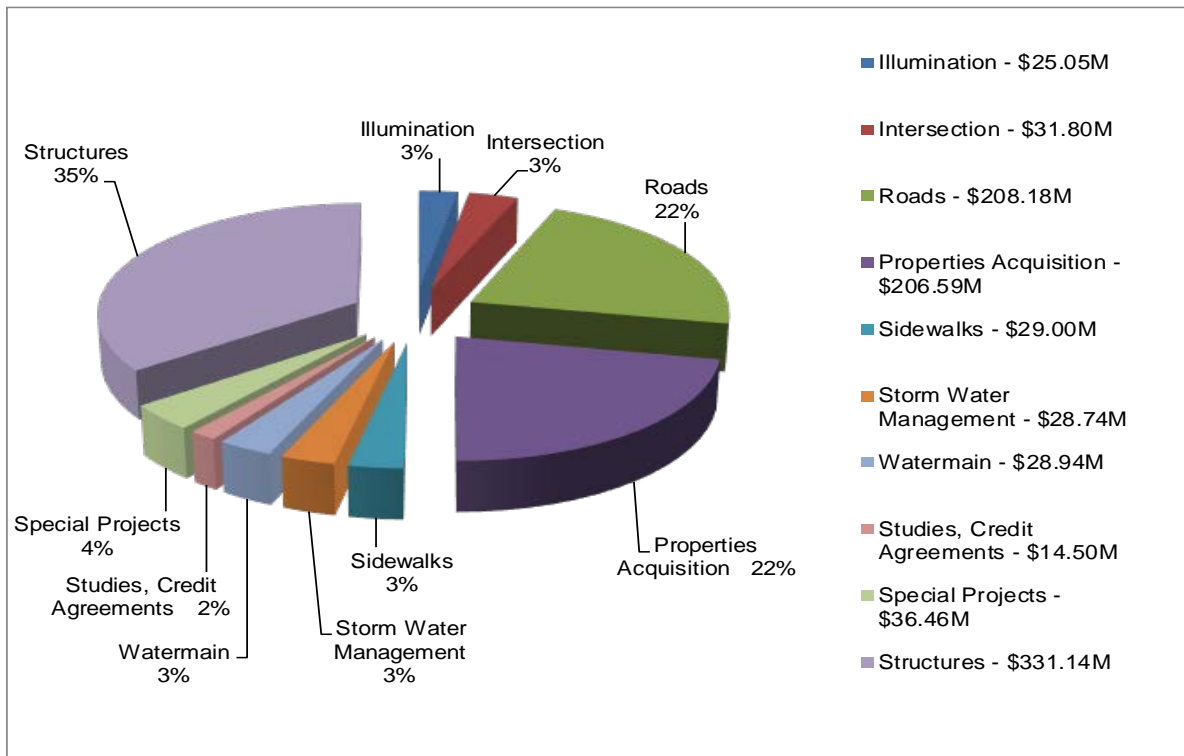
Hard Services

The 15-year (2017-2031) hard services capital program totals \$1,482.3M of which the development-related share that is recoverable through development charges is \$940.4M. As depicted below, the remaining amounts are to be financed through (1) local developers - \$394.9M, (2) Non-Development Charge (DC) shares - \$35.6M, (3) Area Specific and other DCs - \$5.4M and, (4) post 2031 charges - \$106.0M.

City Wide Hard Services (2017-2031)	(\$millions)
Total Gross Cost	\$1,482.3
Less: Local Costs	\$394.9
Less: Non-DC Share	\$ 35.6
Less: Area Specific & Other DCs	\$ 5.4
Less: Post 2031 Costs	\$ 106.0
DC Eligible Cost	\$ 940.4

City Wide Hard services are comprised of engineering-related infrastructure, required to provide amenities necessitated by growth. The City has designated areas for development, requiring new road networks and bridges, to connect and integrate these new areas into the existing City network.

The hard services costs are predominantly driven by structures/bridges (35%), roads (22%), and property acquisition (22%). The graph below shows the breakdown and distribution of the infrastructure costs that make up the hard services development charge recovery.



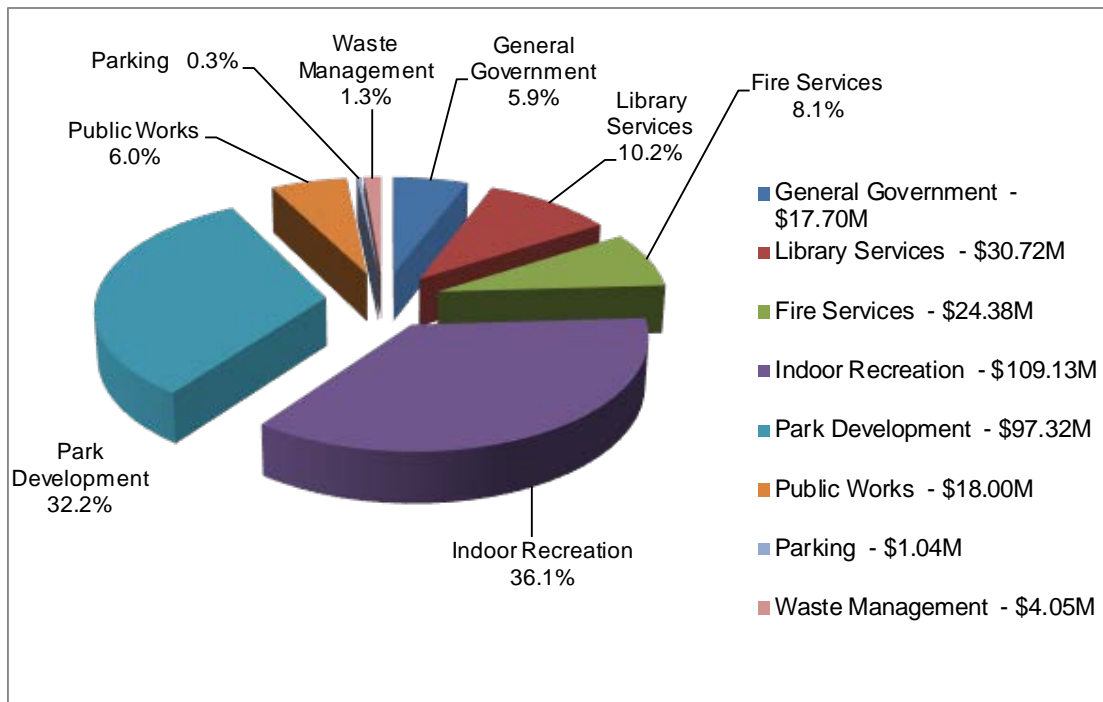
Soft Services

The 10-year (2017-2026) capital program is \$456.3M of which \$302.4M represents the development-related capital costs that can be recovered through development charges. The remaining amounts are to be financed through (1) Non-DC shares - \$30.5M, (2) previous growth - \$47.5M, (3) available reserve funds - \$50.6M and, (4) future DCs in the post 2026 period - \$25.3M.

City Wide Soft Services (2017-2026)	(\$millions)
Total Gross Cost	\$456.3
Less: Non-DC Share	\$ 30.5
Less: Prior Growth	\$ 47.5
Less: Available Reserve Funds	\$ 50.6
Less: Post 2026 Benefit	\$ 25.3
DC Eligible Cost	\$302.4

The City Wide Soft service DCs are collected to provide facilities and services to new growth, such as community centres, parks and fire services. The charge is predominantly driven by indoor recreation (36.1%) and park development (32.2%). The graph below

shows the breakdown and distribution of the services that make up the soft services development charge.



Non-Growth Share

The hard services non-growth share is not a legislated percentage and is based on the benefit the infrastructure will provide to the existing population. Consistent policies are applied to all hard service capital projects to determine the non-growth share.

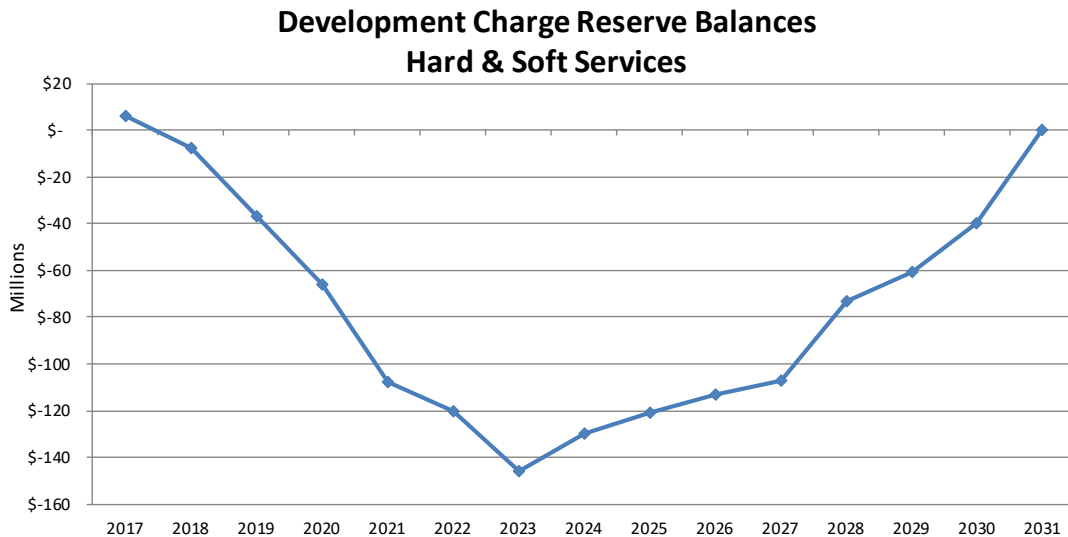
There is a mandatory reduction of 10% for the non-growth share of the capital program for all soft services excluding fire services and public works.

The amount to be funded from non-development charge sources for hard and soft services identified in this Development Charges Background Study, equates to approximately \$66.1M to be funded through non-development charge sources (e.g. grants/subsidies, taxes, reserves etc.). \$16M of this non-development charge funding has already been approved through the City's budgeting process, and the remaining amount can be funded annually through the Gas Tax framework as approved by Council in 2013.

Implementation of Capital Program

The *Development Charges Act* requires Council to indicate that it intends to ensure that the increase in the need for service attributable to the anticipated development will be met. Therefore, the enactment of the development charge by-law commits Council to ensure that the capital program is undertaken as outlined in the Development Charges Background Study.

The capital program included in the Development Charges Background Study anticipates a large portion of the infrastructure will be installed in advance of development. The City will be required to borrow internally and/or externally to meet this capital program. The borrowing costs associated with the front-loading of the capital program have been included in the development charge. It is projected that borrowing will peak around 2023 at approximately \$140M - \$150M. This places an increased commitment on Council to ensure that the capital program is implemented as outlined in the Background Study.



Council, in approving the 2017 Development Charges Background Study, affirms its intention that the future excess capacity (when the current year service level exceeds the 10-year historic service level) identified shall be paid for by the development charges.

Operating/Lifecycle Costs

In approving the development charge by-laws, Council is also committing to the costs associated with the ongoing operation and maintenance of the assets included in the capital program. The projected new asset value per capita for the period 2016-2031 is less than the existing asset value per capita throughout the City, indicating at a high level, that the City is not adding assets beyond its capability to operate.

The City has a practice of setting aside sufficient funds as a part of its annual budgeting process to offset the net operating costs of new facilities (e.g. currently ramping up for Aaniin Community Centre & Library). Staff will continue to ramp up for expected costs, where possible, in the operating budget to help offset the impact the capital program may have in any given year.

The City also has a lifecycle reserve study in place to ensure that there are sufficient funds in the reserve for the rehabilitation and replacement of infrastructure for the next 25 years, based on known inflows and outflows.

HUMAN RESOURCES CONSIDERATIONS:

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

The update of the Development Charges Background Study is important to ensure that the need for services generated by new development, is paid for by this new growth. Such services include, engineered services, indoor recreation, park development, fire services, library services and waste management services.

BUSINESS UNITS CONSULTED AND AFFECTED:

The process of updating the Development Charges Background Study was a cross-commission collaborative initiative that included input from Legal Services, Engineering, Planning and Urban Design, Library Services, Fire & Emergency Services, Recreation Services, Waste & Environmental Management, Operations, Building Standards and Financial Services.

RECOMMENDED BY:

2017-11-27

X



Joel Lustig
Treasurer
Signed by: cxa

2017-11-27

X



Trinela Cane
Commissioner, Corporate Services
Signed by: cxa

ATTACHMENTS:

[Appendix A - Minutes – Development Charges Public Meeting](#)

[Appendix B – Area Specific Development Charges](#)