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Development Charge Update

General Committee
April 8, 2013

Agenda

1. Process To-Date
2. Background Study Timelines
3. Changes Since Last Meeting
4. Proposed Rates
5. Capital Program
6. Debt
7. Non-Growth Costs
8. Operating Costs
9. Stakeholder Consultation
10. Timelines
11. Public Meeting

Process To-Date

- Staff presented a Development Charges update to General Committee on January 21st and 28th
  - ❑ Received endorsement for 17 policy recommendations used in the update of the Development Charges (DCs)for engagement with the development community
  - ❑ Discussed expiry date of current DC By-laws: Hard Services – June 2013; Soft Services – June 2014
- Development Charge Sub-Committee has met 4 times throughout the process (most recently March 26th)
- Stakeholder Group was formed to elicit feedback from the Development Industry

Background Study Timelines

- Developers Consultation/Round Table – April 10, 2013
- Finalize Study – April 23, 2013
- Public Meeting – May 13, 2013
- Council Sub-Committee – May 16, 2013
- General Committee – May 27, 2013
- Council Approval – May 28, 2013

Changes Since Last Meeting

- Growth forecast revised to:
  - ❑ Re-align the non-residential development forecast
  - ❑ Adjust the persons per unit across the different residential forms

- Resulted in a minor shift of development charges to low rise (3%-4% increase) and away from high-rise (11%-12% reduction)

	Initial	Revised
Categories	PPU	PPU
Single/Semi Detached	3.58	3.69
Townhouse	2.77	2.86
Apartment	2.30	2.02

Proposed Rates
Residential

Preliminary City-Wide Hard & Soft	Current 2008 Residential Charge	Proposed Residential Charge	Increase/ (Decrease)	Increase/ (Decrease)
	$/Unit	$/Unit	$	%
Single/Semi Detached	$19,626	$22,486	$2,860	14.6%
Townhouse	$15,424	$17,444	$2,020	13.1%
Large Apartment	$12,138	$12,314	$176	1.4%
Small Apartment	$7,292	$12,314	$5,022	68.9%

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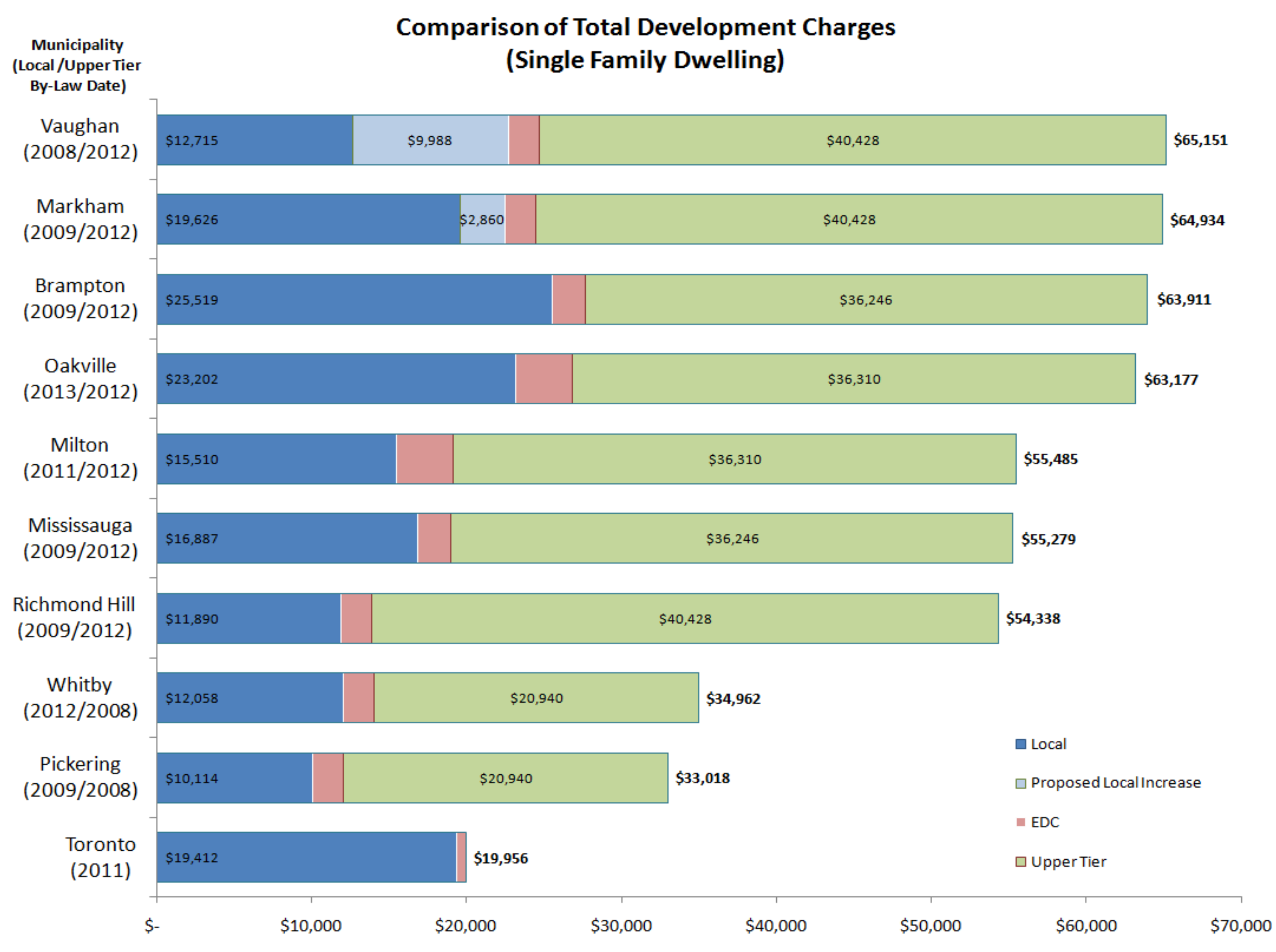

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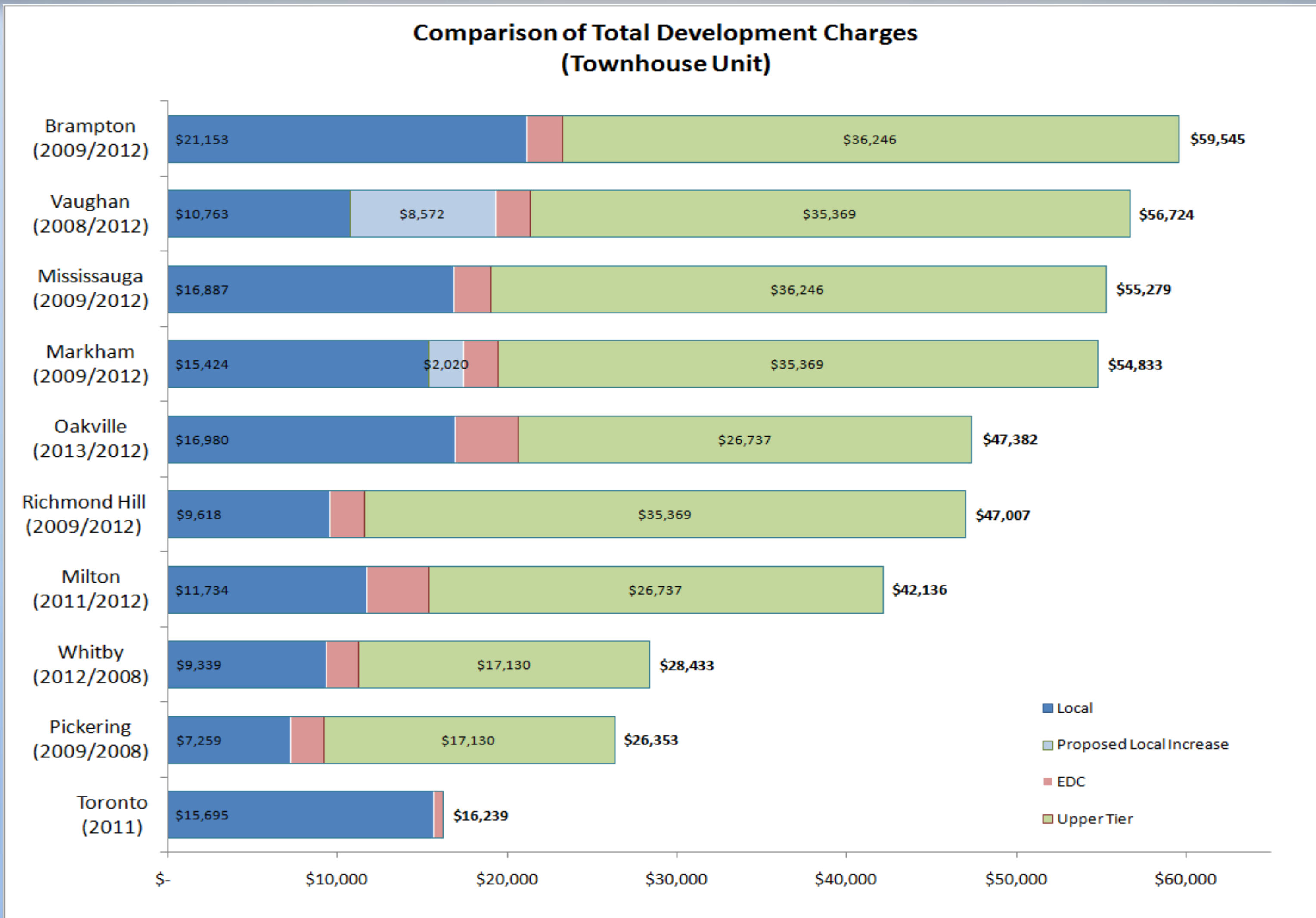

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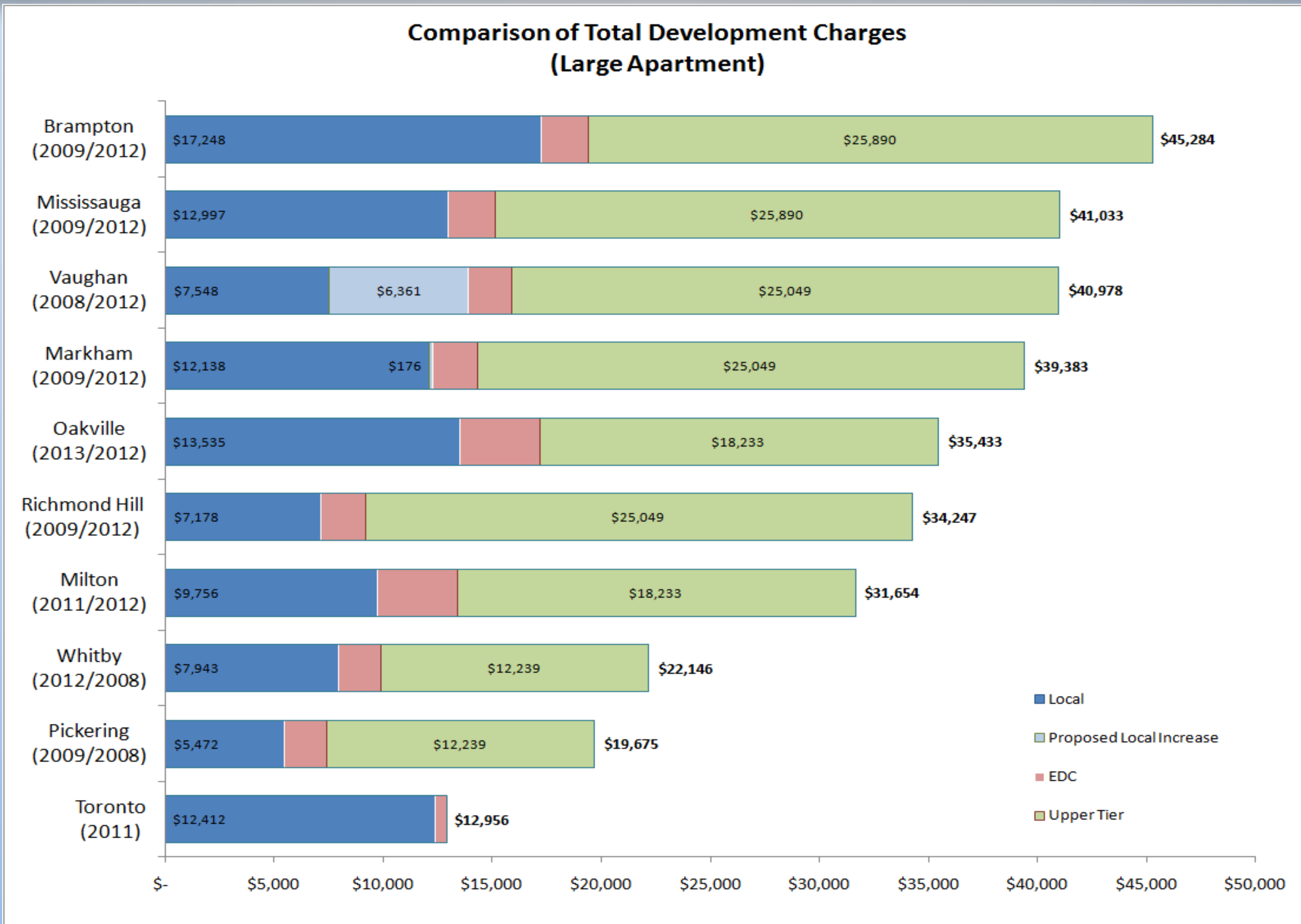

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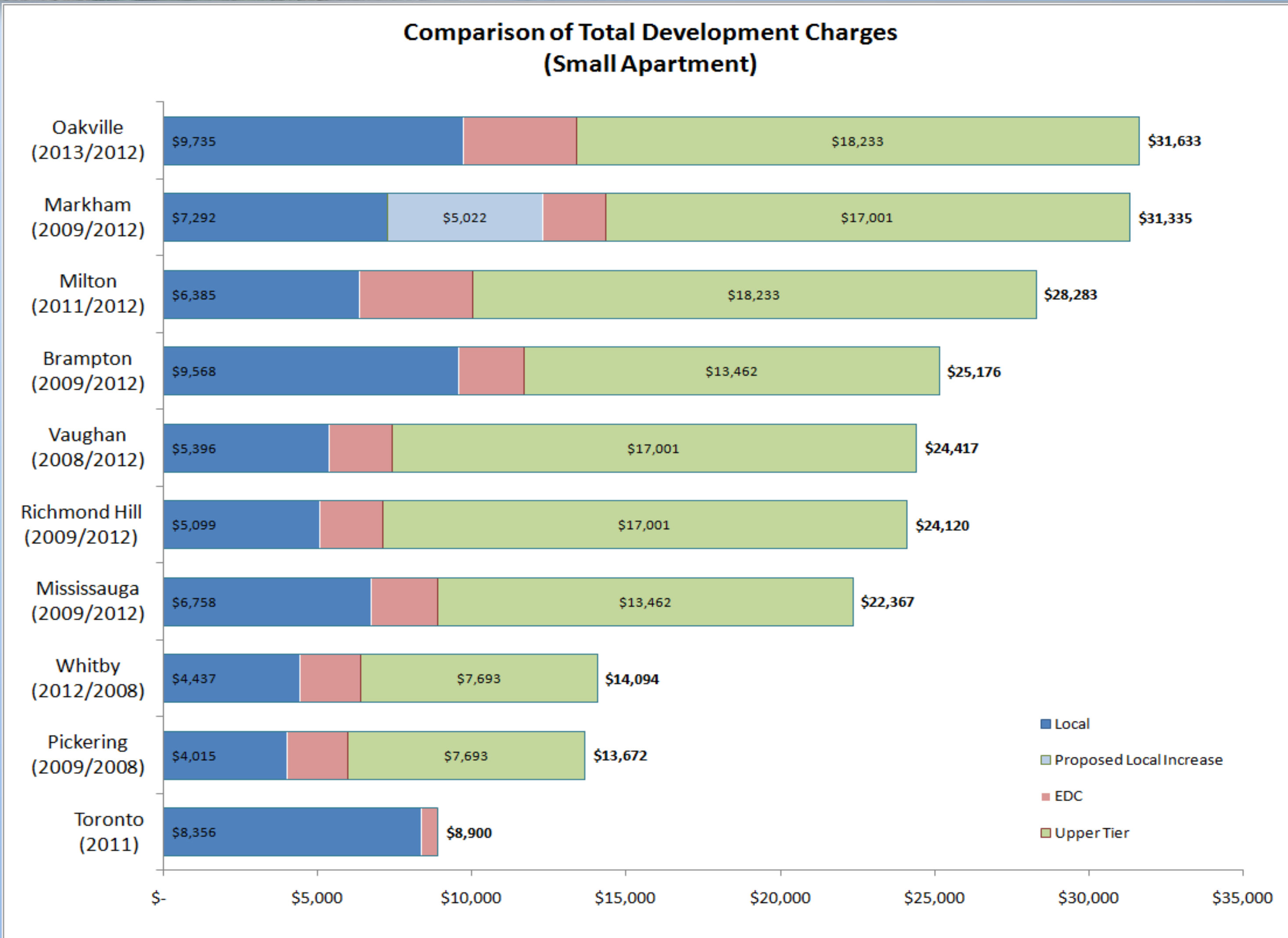

Proposed Rates
Non-residential

Preliminary Soft Services	Non-Residential ($/Square Metre) Current 2008 Non-Residential Charge	Proposed 2013 Non-Residential Charge	Increase/ (Decrease)	Increase/ (Decrease)
Retail	$9.39	$12.09	$2.70	28.8%
Industrial/Institutional/Office (IOI)	$8.64	$11.11	$2.47	28.6%
Mixed Use	$5.92	$7.55	$1.63	27.5%

Preliminary Service	Current 2008 Non-residential Charge per net ha	Proposed 2013 Non-residential Charge per net ha	Increase/ (Decrease) $	Increase/ (Decrease) %
City-Wide Hard	$191,243	$ 225,153	$33,910	17.7%

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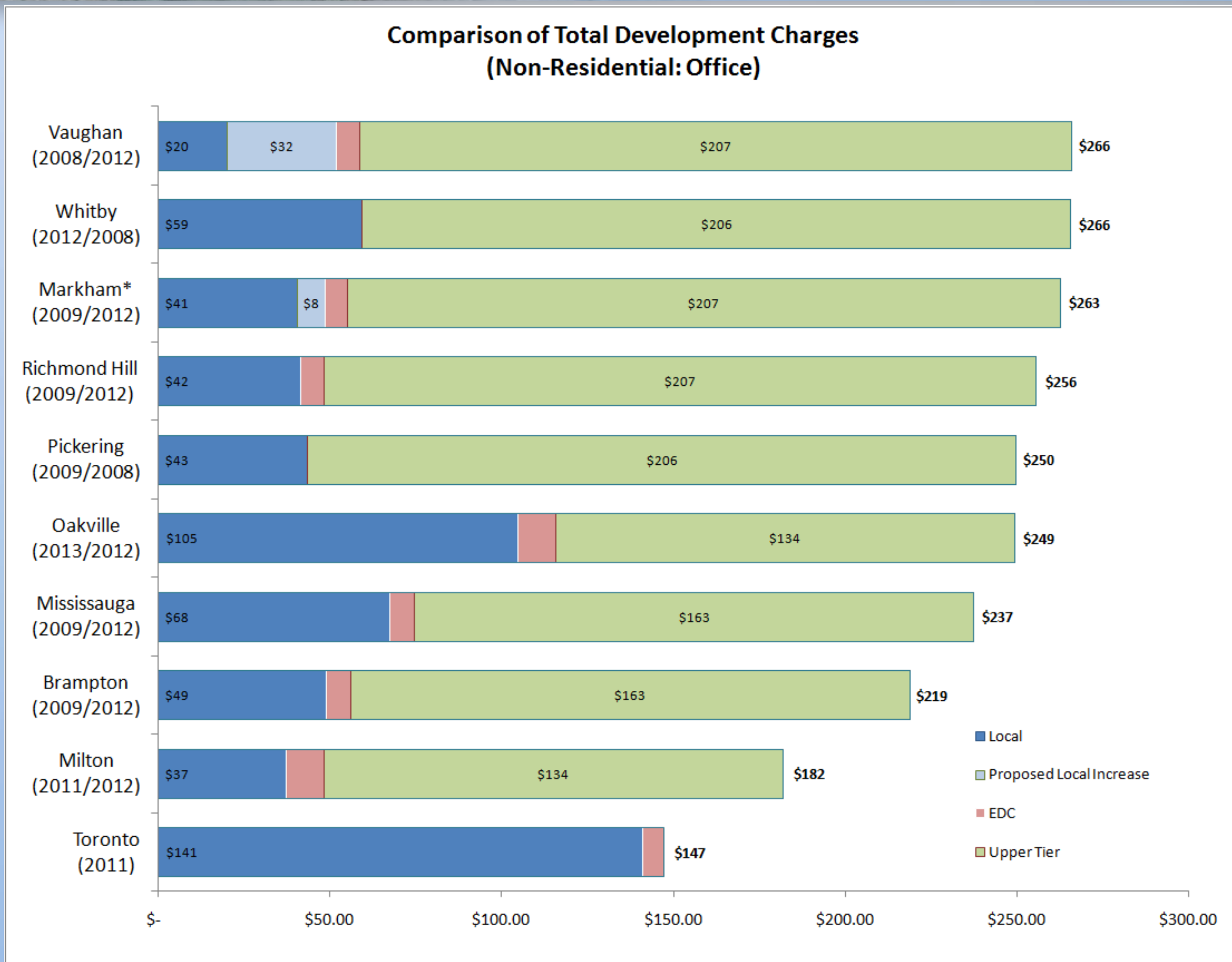


* Markham hard services are charged based on net developable land area. A floor space index of 0.6 is assumed.

Highlight – Soft Services Capital Programs

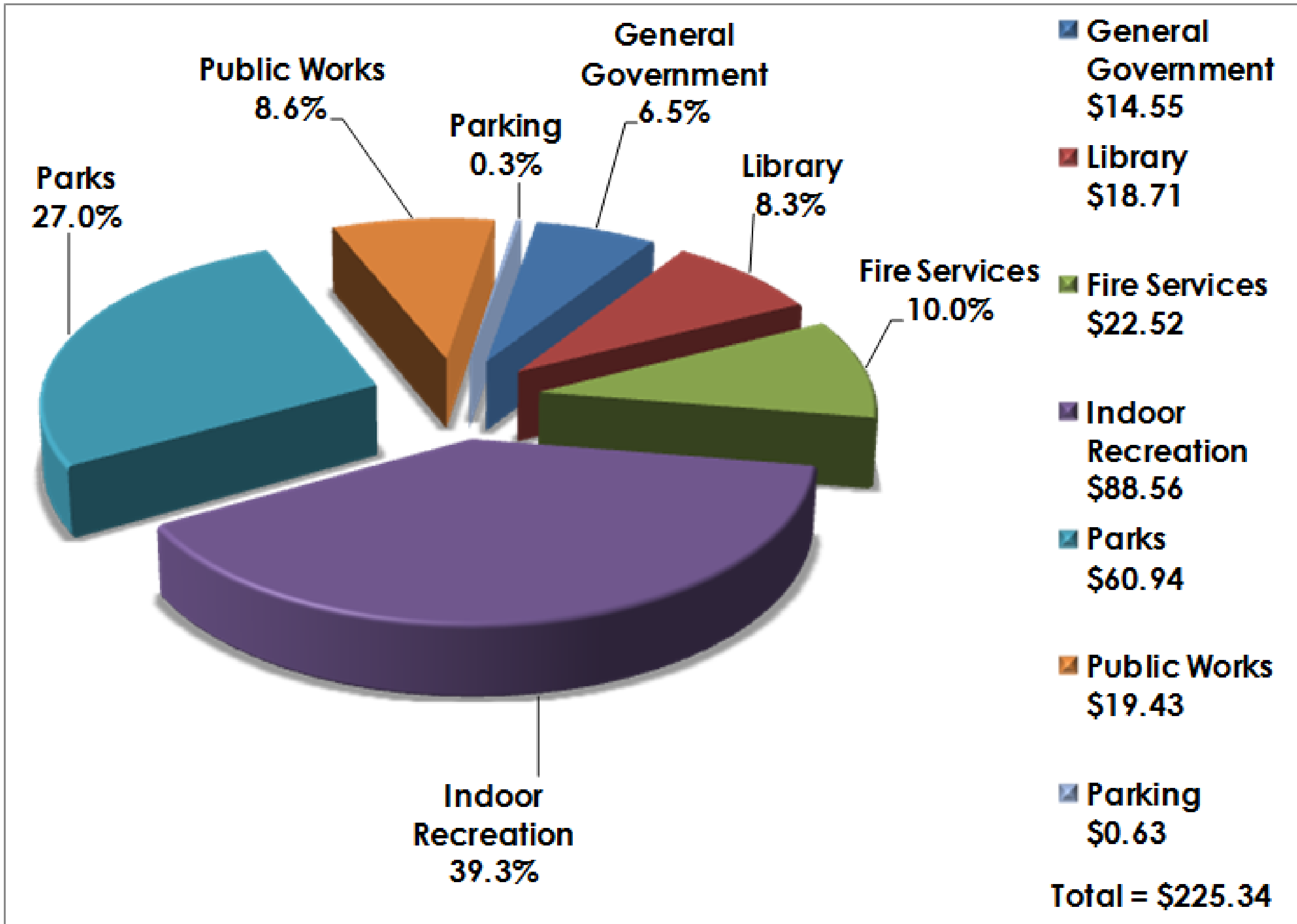
- $225M will be recovered through DCs for Soft services

Major Capital Programs

- Pan Am Centre and South East Markham CC & Library
- Library Expansion
- Public Works Yard
- Sports Park

City Wide Soft Services (2013-2022)	($ millions)
Total Gross Cost	$ 524.4
Less: Grants & Subsidies	$ 31.9
Less: Non DC Share	$ 42.4
Less: Available Reserve Funds	$ 60.2
Less: Post-2022 Benefit	$ 164.6
DC Eligible Cost	**$ 225.3**

DC Eligible - Share Soft Services ($millions)



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Highlights – Hard Services Capital Program

- $604M – Growth-related portion of City Wide Hard program

Service	Total Gross Cost	Non-Development Charge		Area Specific & Other Development Charges	City-Wide Development Charge Recoverable
		Local Costs	Non-Growth (Benefit to Existing)		
	$M's	$M's	$M's	$M's	$M's
ILLUMINATION	$ 20.3	$ -	$ 2.8	$ 0.0	$ 17.5
INTERSECTION	$ 22.5	$ -	$ 4.3	$ 1.5	$ 16.7
ROADS	$ 259.9	$ 98.9	$ 5.4	$ 26.9	$ 128.7
PROPERTIES ACQUISITION	$ 100.2	$ 26.2	$ 2.1	$ 1.3	$ 70.6
SIDEWALKS	$ 20.8	$ -	$ 3.2	$ -	$ 17.5
STORM WATER MANAGEMENT	$ 49.7	$ 9.2	$ 11.6	$ 13.9	$ 14.9
STRUCTURES	$ 401.2	$ 109.2	$ 0.8	$ 11.6	$ 279.6
STUDIES	$ 9.8	$ -	$ -	$ -	$ 9.8
WATER	$ 23.3	$ -	$ 2.5	$ 13.2	$ 7.6
SPECIAL PROJECTS	$ 72.3	$ -	$ 37.7	$ -	$ 34.5
CREDIT AGREEMENT PROJECTS	$ 11.2	$ -	$ -	$ 4.8	$ 6.4
TOTAL	**$ 991.2**	**$ 243.6**	**$ 70.4**	**$ 73.2**	**$ 604.0**

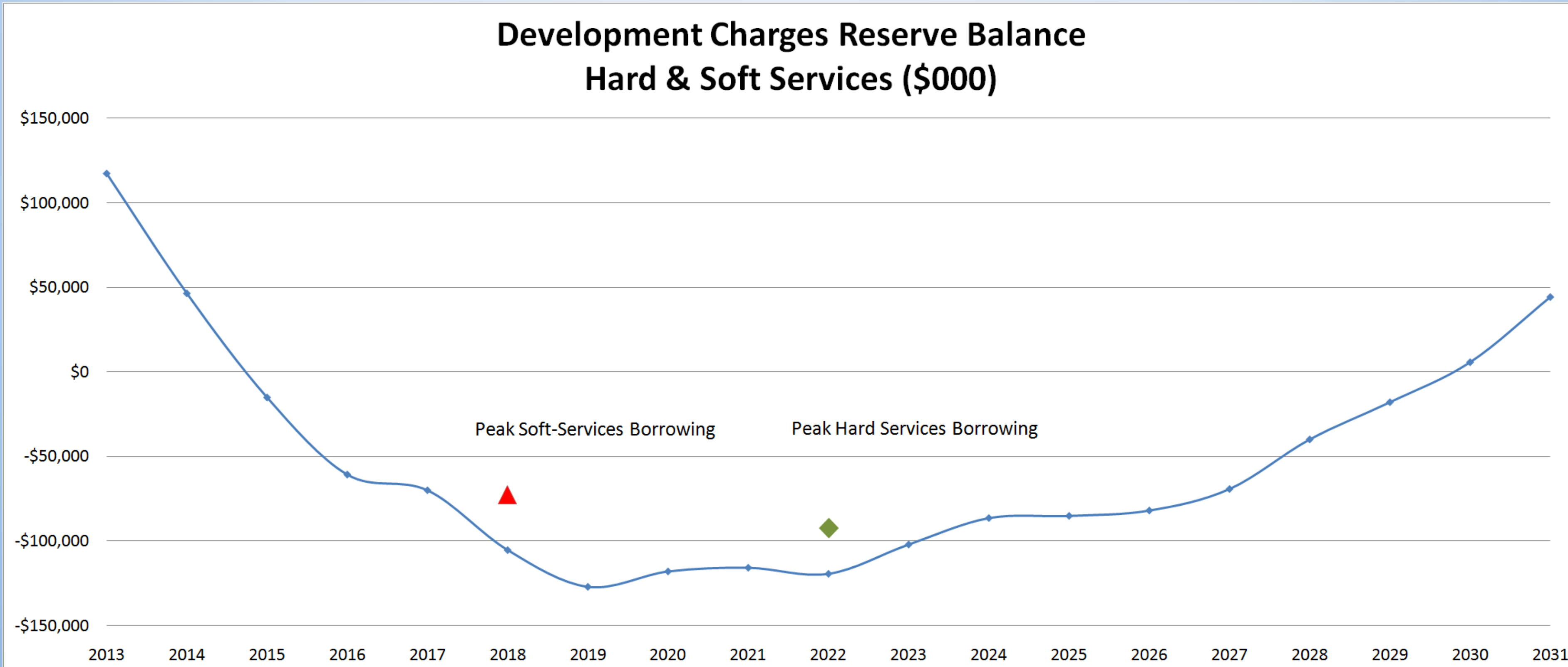
Debt

- Based on the soft services 10-year capital programs, the City will be constructing facilities ahead of growth with over 50% of the programs planned in the first 4 years (2013-2016)
- Pre-emplacement of facilities ahead of growth will result in expenditure before the corresponding DC revenue inflow and result in borrowing
- Based on the projected capital program timelines, DC borrowing should commence in 2015 and peak at approximately $127M in 2019

Debt
Issues to Consider

- DC Revenues
  - ❑ DC rates are increasing partly due to recovery of interest on the debt financing
- Housing & Employment Forecast
  - ❑ Not achieving the population and employment forecast will limit the City's ability to fund the capital programs through DC's – risk of not being able to service the debt
- Operating Costs
  - ❑ The City will incur operating costs in advance of assessment growth

Debt


Development Charges Reserve Balance
Hard & Soft Services ($000)
$150,000
$100,000
$50,000
$0
-$50,000
-$100,000
-$150,000
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
Peak Soft-Services Borrowing
Peak Hard Services Borrowing

Non-Growth Costs

The non-growth portion of the infrastructure costs are:

- City Wide Soft for period 2013-2022 is approximately $25M*
  - ❑ $13M of funding has already been approved
- City Wide Hard is approximately $70M over 19 years to 2031
  - ❑ $1.4M of funding has already been approved
- Total remaining annual non-growth cost to be funded is approximately $4.8M per annum over the next 10 years ($1.2M for soft services and $3.6M for hard services)

* Adjusted for post-period benefit

Operating Costs

- Operating costs associated with the capital program being approved are:

Service	$M's
Recreation	3.2
Library	0.8
Parks	1.3
Fire	1.9
Public Works	0.5
Hard (Roads)	4.2
	11.9

- The City has a practice of setting aside sufficient funds as a part of its annual budgeting process to offset the operating costs of new facilities (e.g. currently ramping up for South East CC&L, Pan Am, Sports Park)

Stakeholder Consultation

- Two meetings for the City Wide Development Charges were held – February 7th and 27th
- Area Specific meetings commenced February 20th and will continue through to April 18th
  - ❑ Discussions are continuing with the development industry relating to merging, eliminating and deferring some ASDCs
- The Group, inclusive of the Building Industry and Land Development Association (BILD), have made written submissions on issues they would like addressed by the Sub-Committee/Council

Stakeholder Consultation

(1) THAT the City adopt the Alternate Methodology for calculating the City Wide Soft Service levels

- The Alternate methodology calculates the historic service levels and funding envelopes using households and (net) population.
- The service levels are calculated as follows:
  - ❑ Library Services and Indoor Recreation – Population and Households
  - ❑ Park Development – Population and Households
  - ❑ Fire Service and Public Works – Households and Employment
- Using households recognizes the importance of location of facilities. Proximity and reasonable access ties together with the notion of developing complete communities.
- The use of population recognizes that the delivery of the services is driven by the population

Stakeholder Consultation

<u>Stakeholder Feedback</u>

- Building Industry and Land Development Association (BILD) suggests that the City should re-adopt the Net Methodology
- Does not appropriately account for excess capacity arising from the decline in population
- Results in DC funding levels of service that exceed the legitimate 10-year historic service levels
- Contrary to the decision of the Ontario Municipal Board (OMB) and Superior Court in the Orangeville case

Stakeholder Consultation

Staff Response

- It is Hemson Consulting's opinion that the proposed Alternate Methodology is defensible
  - ❑ Recognizes the Orangeville OMB decision
  - ❑ Gives consideration to "notional" excess capacity arising from net population
  - ❑ Complies with the *Development Charges Act (DCA)*

- The recommendation of BILD would result in the City not raising sufficient DC monies to fund development related infrastructure
- The City will continue to pursue the Alternative Methodology

Stakeholder Consultation

(2) Increase in Non-residential Rates

Stakeholder Feedback

- Proposed increase of 29% is a disincentive for the provision of office and retail space within mixed use centres
- Review proposed rate with the intention of ensuring that mixed use centres can remain competitive with single use developments

Staff Response

- The increase in the City's charge is approximately 2% - 4% of total DCs collected (City, Region, School Board) and rates are determined based on the growth forecast

Stakeholder Consultation

(3) THAT the City institute one apartment rate

Stakeholder Feedback

- Imposes higher costs on the most affordable housing type – Small apartments
  - Disincentive to build smaller apartments
- Large apartments constitute a high percentage of unsold inventory in condominiums
- Is counter intuitive to the Provincial *Growth Plan* policies for promoting intensification
- Demand for services differs between large and small apartments
- Draft Official plan contemplates affordable housing that may require the provision of small units
- Adopt the Region of York's approach in establishing a threshold of 700 sq.ft between large and small apartments (to be reduced to 650 sq.ft. in June 2014)

Stakeholder Consultation

<u>Staff Response</u>

- Hemson Consulting advises that under the DCA, the structure of the charge is a policy decision of the municipality
- There does need to be a correlation between the structure of the charge and the demand for services
  - ❑ A single apartment rate meets this test as the rate is set based on the average PPU for all apartments
- The institution of a single apartment rate does not contravene the *Development Charges Act, 1997*

Stakeholder Consultation

Staff Response

- By seeking to incent the construction of larger apartment units, the City's position is consistent with the Province's Place to Grow initiative as larger apartment units accommodates families and promotes higher PPUs
- The one apartment rate will only notionally increase the cost of a condominium development if the large/small mix is 33%/67% consistent with past trends
- The decision on whether to charge a single or differentiated rate for apartments is a policy decision and not a financial one
  - There is no financial advantage to either approach

Stakeholder Consultation
Small/Large Apt. Rate vs Single Apt. Rate

	Large	Small
Current City DC Rates	$ 12,138	$ 7,292
Estimated 2013 DC Rate (Status Quo)	$ 14,756	$ 10,975
Increase from Current Rate	21.6%	50.5%
Estimated DC Rates (One Apartment Rate)	$ 12,314	$ 12,314
Increase from Current rate	1.4%	68.9%

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Small/Large Apt. Rate vs Single Apt. Rate

Hard & Soft Services - Charge per Capita		$ 6,098
	PPU	Charge per Unit
Small Apartment	1.80	$ 10,975
Large Apartment	2.42	$ 14,756
Single Apartment Rate	2.02	$ 12,314

Example 1

	PPU	Mix	Charge per Unit	# of Units	Subtotal
Small Apartments	1.80	61.8%	$ 10,975	243	$2,667,022
Large Apartments	2.42	38.2%	$ 14,756	150	$2,213,424
Total		100%		393	$4,880,446

Example 2

	PPU	Mix	Charge per Unit	# of Units	Subtotal
Single Apartment Rate	2.02	100%	$ 12,314	393	$4,839,386

Difference ($)	($41,060)
Difference (%)	-0.84%

Municipality	Large Apartment	Small Apartment
City of Markham [1]	>750 sq.ft.	≤750 sq.ft.
Peel Region	>750 sq.ft.	≤750 sq.ft.
City of Brampton	>750 sq.ft.	≤750 sq.ft.
City of Mississauga	>750 sq.ft.	≤750 sq.ft.
York Region	≥700 sq.ft.	<700 sq.ft.
Halton Region	Single Apartment Rate	
City of Vaughan [2]	Single Apartment Rate	
Niagara Region	Single Apartment Rate	
Waterloo Region	Single Apartment Rate	
City of Kitchener	Single Apartment Rate	
City of Windsor	Single Apartment Rate	
City of Toronto	Two bedroom and larger	One bedroom and smaller
Durham Region	Two bedroom and larger	One bedroom and smaller
Town of Milton	Two bedroom and larger	One bedroom and smaller
Town of Whitby	Two bedroom and larger	One bedroom and smaller
Town of Oakville	Two bedroom and larger	One bedroom and smaller
Town of Richmond Hill	Two bedroom and larger	One bedroom and smaller
City of Pickering	Two bedroom and larger	One bedroom and smaller

1) Single apartment rate proposed
2) Large & small apartment rate proposed. To align for admin. purposes to the Region

The varying methodologies employed by these municipalities indicate that differing policies are used and consistent with the DCA

Stakeholder Consultation

(4) Transition Options

Stakeholder Feedback

- There are units that have already been sold and increasing the DCs (soft services) at this juncture will increase the cost of these units
  - ❑ Projects already have established cost base and revenue stream
- Allow for transition and prepayment policies prior to the expiry of the existing by-law

Stakeholder Consultation

Transition Options

1) Make the new City Wide by-laws and rates effective on the date of enactment – no financial impact
2) Phase in increases over a period of time (eg. 1 year)
3) Prepayment Option

The approximate cost of the phase-in and prepayment options is $4M - $5M

<u>Sub-Committee Resolution</u>

- That no transition policy be enacted due to the adverse financial impact to the City

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Timelines

- Developers Consultation/Round Table – April 10, 2013
- Finalize Study – April 23, 2013
- Public Meeting – May 13, 2013
- Council Sub-Committee – May 16, 2013
- General Committee – May 27, 2013
- Council Approval – May 28, 2013

Public Meeting

- Consistent with the provisions of the *Development Charges Act, 1997* before passing a Development Charge By-law Council shall:
  - ❑ Hold at least one Public Meeting
  - ❑ Give at least 20 days notice of the meeting
  - ❑ Ensure that the proposed by-law and background study are available to the public at least two weeks prior to the meeting

<u>Resolution</u>

That Council provide approval for staff to call a Development Charge Public Meeting on May 13, 2013 as required by the *Development Charges Act, 1997*

QUESTIONS