



Preparing for the D.C. Process

AMCTO
June 13, 2018

Overview of Presentation



- This presentation is to provide:
 - An overview of Development Charges including the recent changes to the Development Charges Act due to Bill 73 and the process to be used in developing draft rate calculations for municipalities
 - Discussion on policy matters
 - Discussion on the importance of a detailed Local Service Policy
 - Questions and General Discussion



Development Charges

Purpose:

- To recover the capital costs associated with residential and non-residential growth within a municipality
- The capital costs are in addition to what costs would normally be constructed as part of a subdivision (i.e. internal roads, sewers, watermains, roads, sidewalks, streetlights, etc.)
- Municipalities are empowered to impose these charges via the Development Charges Act (D.C.A.)



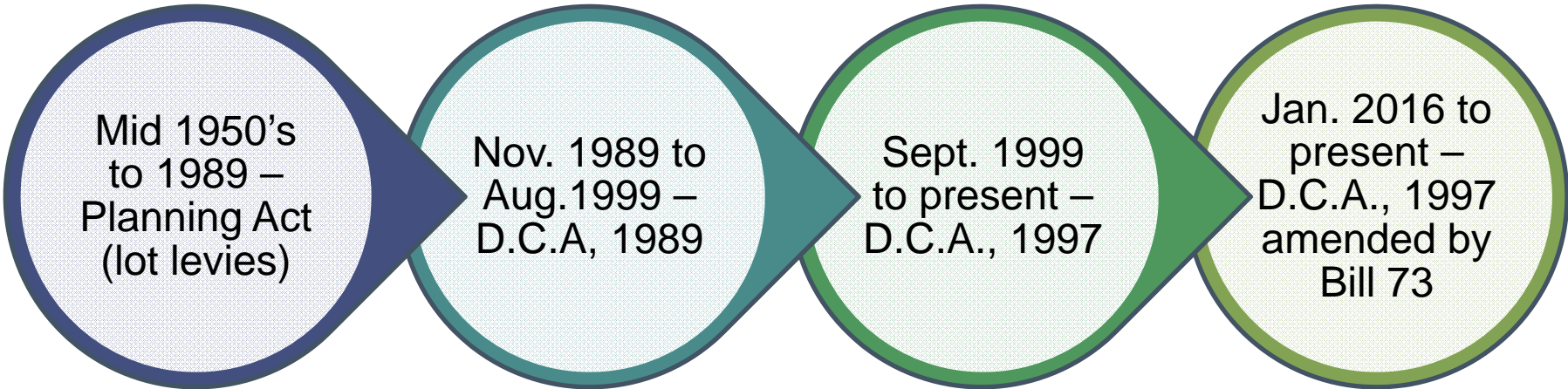
How Many Ontario Municipalities Have DC's?

- As of 2018 (population based on 2016 Census)

Population Range	# of Municipalities within the Range	# of Municipalities with DC By-laws	%
<2,500	134	5	4%
2,500 – 5,000	57	14	25%
5,000 – 10,000	80	42	53%
10,000 – 25,000	79	67	85%
25,000 – 100,000	59	43	73%
100,000 +	34	30	88%
Total	443	201	45%



History of D.C.'s





D.C.A. Overview

- The D.C.A. 1997 provided a major change to the D.C.A. 1989 which resulted in a significant loss of potential revenue to municipalities. The 1997 Act introduced a number of:
 - Service Limitations
 - Service Standard Restrictions
 - Mandatory Reductions
 - Mandatory Exemptions
- Bill 73, passed in December, 2015, introducing changes to the D.C.A. 1997
- The following provides a summary of the key aspects of the D.C.A. 1997 as amended



Examples of Eligible Services

90% D.C.

- Transit
- Parking Services
- Outdoor Recreation Services
- Indoor Recreation Services
- Library Services
- Provincial Offences Act
- Health/ Child Care
- Social Housing/ Social Services
- Homes for the Aged
- Ambulance
- Waste Diversion

100% D.C.

- Fire Protection Services
- Police Services
- Services Related to a Highway
- Stormwater Drainage and Control Services
- Wastewater Services
- Water Services



Limitations on Services

- Some forms of capital and some services can not be included in the D.C.A. For example:
 - Headquarters for the General Administration of the Municipality
 - Arts, Culture, Museums and Entertainment Facilities
 - Tourism Facilities
 - Provision of a Hospital
 - Parkland Acquisition
 - Waste Management Services – Landfill and Incineration



Capital Costs

- **Capital Cost definition includes:**
 - Acquire land or interest in land
 - Improve land
 - Acquire, lease, construct or improve buildings, facilities and structures (includes furniture and equipment)
 - Equipment and rolling stock
 - Capital component of a lease for the above
 - Circulation materials for Libraries
 - Studies for above including a D.C. Background Study
 - Interest on money borrowed to pay for the above



Capital Costs (con't)

- Certain Capital Costs may not be included:
 - Vehicle & Equipment with avg. life of <7 yrs.
 - Computer Equipment
- D.C.A. also provides for a mandatory 10% reduction of capital cost for all services except:
 - Water, Wastewater and Stormwater Services
 - Roads and related services (i.e. Public Works)
 - Fire
 - Police
 - Transit



Capital Costs (con't)

- The planning horizon for future capital needs is limited to 10 years for all services except:
 - Water, Wastewater and Stormwater Services
 - Roads and related services (i.e. Public Works)
 - Fire
 - Police
- Capital costs must be reduced by grants, subsidies and other contributions.
- May include authorized costs incurred or proposed to be incurred...and may be municipally provided or by others on behalf of the municipality



Maximum Charge Capped by Service Standard Calculation

- Service Standard measure provides a ceiling on the level of the charge which can be imposed
- Previously (D.C.A., 1989), provided that the D.C. be “no higher than” the highest level attained over the previous 10 year period.
- D.C.A., 1997 provides that the “average of the past 10 years”
- Impacts – generally lowers collection levels and may provide for spiral downwards if municipality does not keep up with construction of services

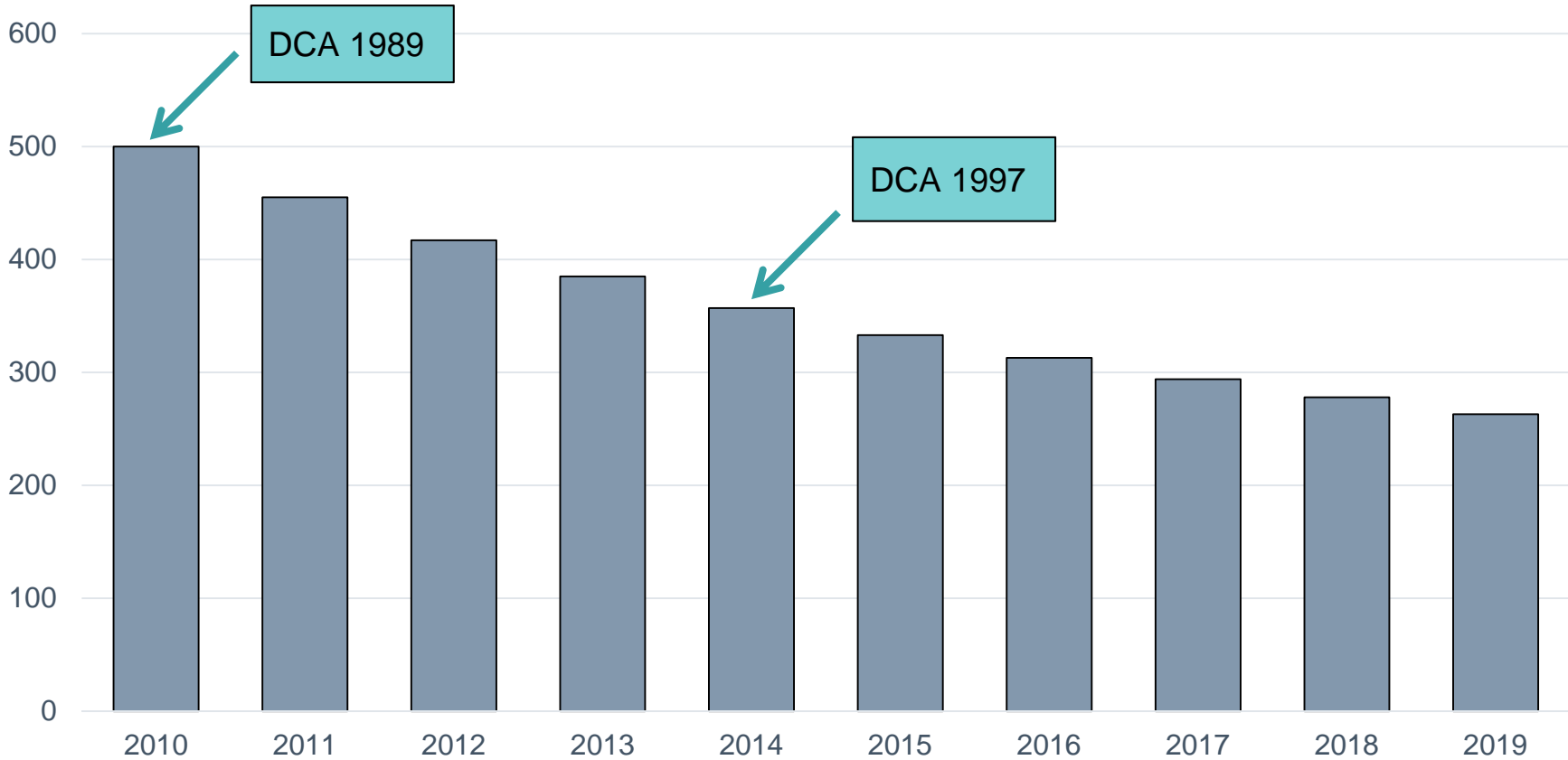
Service Standard Example



- A municipality of 10,000 in 2010 is growing at 1,000 persons per year
- They have 1 recreation facility (an arena - \$5 million value) and have a council approved standard of one arena per 10,000 persons – they will construct the new arena in 2020 when they reach a population of 20,000
- Following slide shows recovery under current D.C.A. vs. 1989 D.C.A.



Service Standard Example

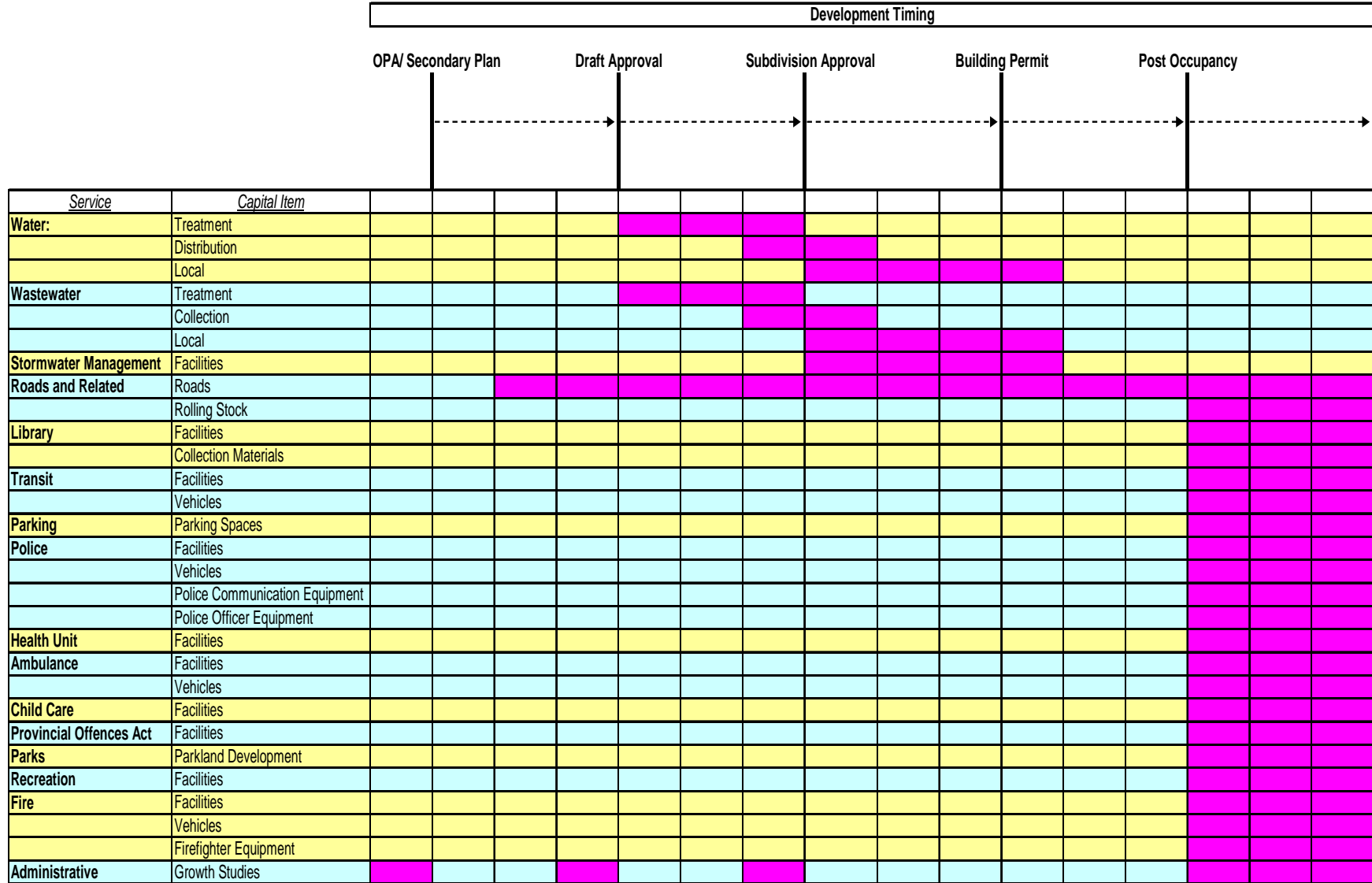


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Recreation Facility Value	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Population	10,000	11,000	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000
Service Standard	500	455	417	385	357	333	313	294	278	263

10 Yr. Avg.	359.39
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Timing of Capital Expenditures



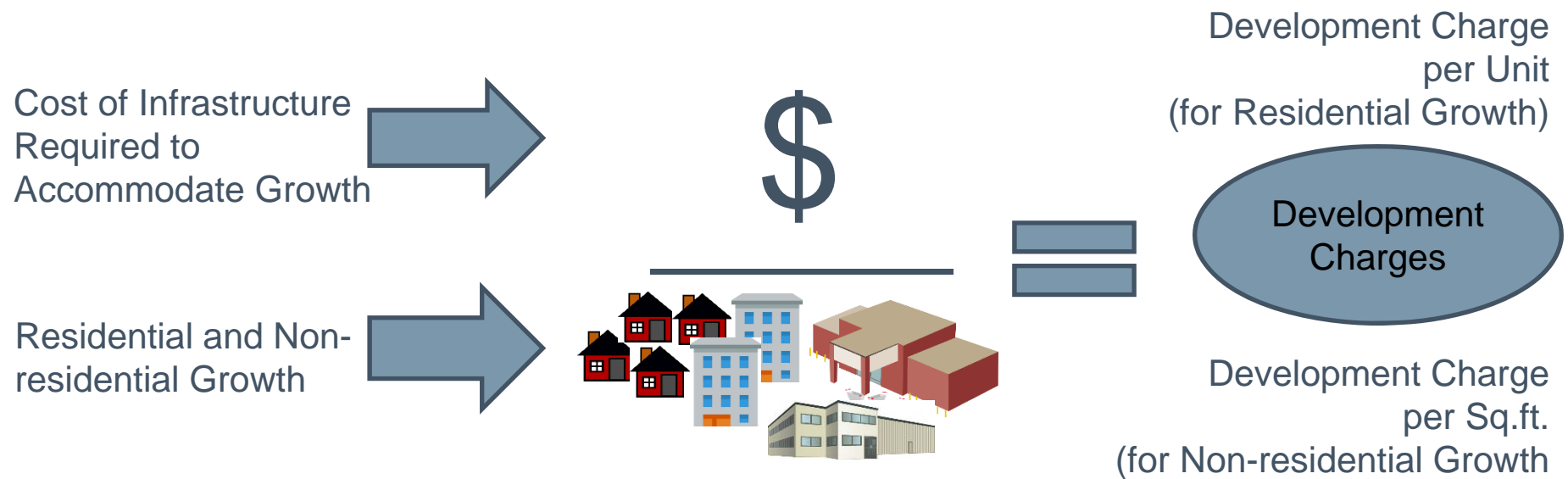
Timing of Capital Spending



- Depending on the particular service, capital spending to serve the development will occur at various times
- The “Hard Services” expenditures (i.e. water, wastewater, storm, roads) are often made well in advance of or during development, while the “Soft Services” are often incurred after building occupancy
- Payment of D.C.’s normally occurs at the time of building permit issuance



D.C. Cashflow



- As noted earlier, hard services normally constructed in advance of growth which can cause cash flow issues
- Project funding may require debenture financing or borrowing from other reserves to interim fund works (with repayment from D.C.'s) – also requires prioritizing the timing of construction for various projects
- In some cases, municipalities may consider agreements with developers to cash flow priority works



Exemptions via the D.C.A.

- **Mandatory exemptions**
 - for industrial building expansions (may expand by 50% with no D.C.)
 - May add up to 2 apartments for a single as long as size of home doesn't double
 - Add one additional unit in medium & high density buildings
 - Upper/Lower Tier Governments and School Boards
- **Discretionary exemptions**
 - Reduce in part or whole D.C. for types of development or classes of development (e.g. university or churches)
 - May phase-in over time
 - Redevelopment credits to recognize what is being replaced on site (not specific in the Act but provided by case law)

Considerations for Refining Draft By-law



- Definitions
- Residential and Non-residential categories
- Timing of Collection
- Exemptions
- Discounts
- Phase-ins
- Indexing



Bill 73

Effective January 1, 2016, D.C.A. changes include:

- Area Rating – Council must consider area rating
- No Additional Levies
- Transit Services – mandatory 10% deduction removed and basis for service standard measure changed
- Waste Diversion – to be included as an eligible service
- D.C. Background Studies to provide asset management plan for new capital
- Annual Report of the Treasurer – increased reporting requirements
- Ineligible Service definition moved from Act to regulations
- Minister to have power to impose area specific changes
- Housekeeping changes to the Act



Consideration of Area Rating

Legislated requirements as per Bill 73:

- Requires that Municipalities must examine the use of area-rating but is not mandatory to impose
- While there are no specific “prescribed” services, this section identifies that the background study must consider this to reflect the different needs for different areas
- A report will be provided to staff to bring forward to a future Council meeting that will provide for the pros and cons to area rating and gain Council’s direction.



Area Rating vs. Municipal-wide General Perspectives

- **Municipal-wide:**
 - Charges collected for a service can be spent anywhere throughout the municipality (or service area) without restriction.
 - A wider collection area results in a larger pool of D.C. revenue that can be used to fund growth-related projects sooner or to minimize the need for debt.
 - Fewer appeals to the D.C. by-law from developers occur, given their preference for the municipal-wide approach to funding growth-related infrastructure.
 - Collecting funds in one area and spending in another area may provide a perceived inequity as a result of the geographic separation.



Area Rating vs. Municipal-wide General Perspectives

- **Area Specific:**
 - Defining D.C. collection by individual areas ensures investment of those funds is in the areas where development is occurring.
 - Infrastructure that is to be funded from D.C.s may be delayed in areas where growth is not occurring.
 - Higher charge in one area vs. another may impact competitiveness where housing sales prices are similar for competing areas.
 - Area-specific D.C.s may encourage more development in built-up areas through increased densities and infill as D.C. rates may be lower in these areas.
 - Area-specific D.C.s increase the administrative requirements for the municipality related to accounting and reporting purposes (e.g. WW - one pooled service vs. many separate service areas).
 - Area-specific D.C.s can also increase the complexity where there are differing charges based on the services applicable and/or service areas that a development is located
 - Area-specific D.C.s may require additional debenture financing as funds are isolated to individual areas thus removing the ability to pool or access other D.C. contributions.



Area Rating vs. Municipal-wide

- **Non-Water/Wastewater/Stormwater Services**
 - Services require a 10-year service standard to be calculated to establish an upper ceiling on the amount which can be collected from development. In the case of area specific charges, the average service standard is multiplied by the growth within the area to establish the area specific ceiling which significantly reduces the total revenue recoverable.
 - Area specific charges potentially cause equity issues transitioning from Municipal-wide to area specific.
 - Many services provided are not restricted to one specific area and are often used by all residents (e.g. roads, parks, recreation, library, fire, etc.).

Area Rating vs. Municipal-wide



- **Water/Wastewater/Stormwater Services**
 - Area-specific charges would differ between services and systems.
 - Moving to Area-specific may require transition agreements.
 - For area-specific debt financing, slow growth may mean that there is not adequate revenue to pay the annual debt charges.
 - Increase number of reserve funds are required and result in loss of flexibility to the use of the funds and increased administration.
 - Increases complexity for local area municipalities
 - Depending on the range of rates, area specifics may create economic development constraints in some areas.

Area Rating vs. Municipal-wide



- **Generally with fewer area-specific charges a municipality is better able to:**
 - Fund its infrastructure priorities from a larger pool of D.C. revenue.
 - Maintain flexibility and respond quicker to infrastructure needs, (e.g. advance growth-related infrastructure as a catalyst for economic development opportunities).
 - Be more strategic in its provision of services.
 - Ensure new growth users of a service, pay their share.

Area Rating in Various Municipalities



- There are a number of municipalities that impose area specific D.C.s however for the most part they are related to more localized works for water, wastewater, storm, & roads.
- In the past, there have been a number of municipalities who have moved from area specific D.C.s to Municipal-wide D.C.s and/or reduced the number of area specific D.C.s by expanding the benefitting service areas.

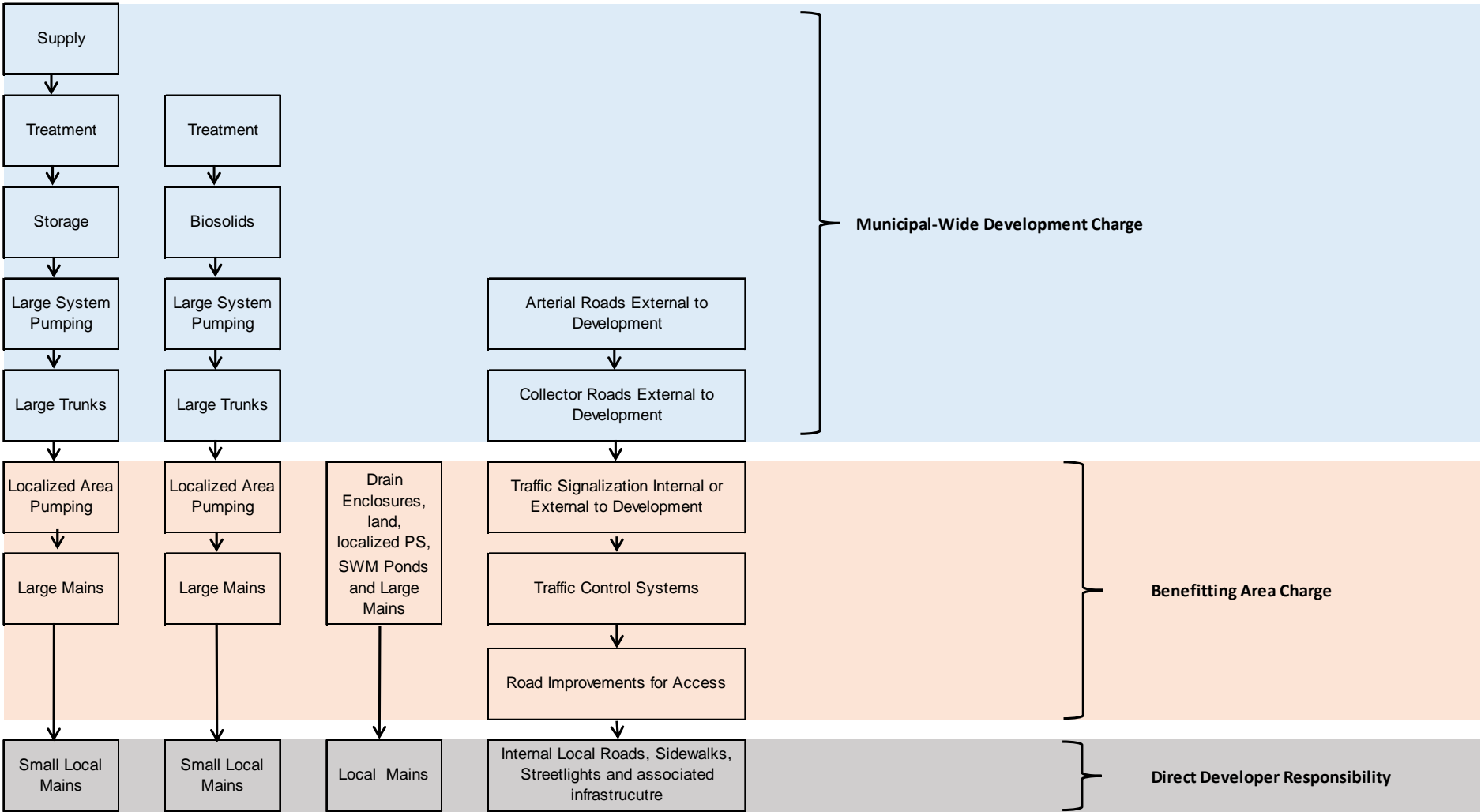


Local Service Policy (L.S.P.)

- Subdivision Agreement Conditions - the Act broadens the coverage of such agreements to include “local services related to a plan of subdivision or within the area to which the plan relates”.
- This suggests the need for a D.C. Background study to provide a local service policy
- Further, due to Bill 73, “no additional levies” clause, a Local Service Policy is required to be developed, to clearly define what developers would be required to do as part of their development agreements versus what would be included in the D.C.
- Items to consider are collector & arterial roads, intersection improvements & traffic signals, streetlights & sidewalks, bike routes/lanes/paths, Trails/Walkways, Noise Abatement Measures, Land dedications/easements, water, wastewater, stormwater, and park requirements.



Local Service Policy Schematic





Other Considerations

- Two significant O.M.B. hearings regarding approach to undertaking the growth forecast
- Hearing addressed the GROSS/GROSS approach vs. GROSS/NET approach – the GROSS/NET was designated by the Board as the required approach
- This approach is not undertaken by all consultants so may wish to consider the risk as part of the R.F.P. evaluation process
- Next page gives an example of the GROSS/NET approach

Gross/Net Approach



		Population
Mid-2018 Population (1)		20,106
Occupants of New Housing Units, Mid-2018 to Mid-2028	Units (2)	3,932
	<i>multiplied by P.P.U. (3)</i>	3,044
	<i>gross population increase</i>	11,857
Decline in Housing Unit Occupancy, Mid-2018 to Mid-2028	Units (4)	7,055
	<i>multiplied by P.P.U. decline rate (5)</i>	-0.063
	<i>total decline in population</i>	-446
Population Estimate to Mid-2028		31,517
<i>Net Population Increase, Mid-2018 to Mid-2028</i>		<i>11,411</i>

(1) Mid-2018 Population (1) based on:

2016 population (19,059) + mid-2016 to mid-2018 estimated housing units to beginning of forecast period (355 x = 1,132) + (6,700 x - 0.0127 = -85) = 20,106

(2) Based upon forecast building permits/completions assuming a lag between construction and occupancy.

(3) Average number of persons per unit (P.P.U.) is assumed to be:

Structural Type	Persons Per Unit ¹ (P.P.U.)	% Distribution of Estimated Units ²	Weighted Persons Per Unit Average
<i>Singles & Semi Detached</i>	3.164	85%	2.691
<i>Multiples (6)</i>	2.440	13%	0.327
<i>Apartments (7)</i>	1.636	2%	0.025
<i>one bedroom or less</i>	1.252		
<i>two bedrooms or more</i>	1.792		
Total		100%	3.044

¹ Persons per unit based on adjusted Statistics Canada Custom 2016 Census database.

² Forecast unit mix based upon historical trends and housing units in the development process.

(4) Mid-2018 households based upon 6,700 (2016 Census) + 355 (mid-2016 to mid-2018 unit estimate) = 7,055

(5) Decline occurs due to aging of the population and family life cycle changes, lower fertility rates and changing economic conditions.

(6) Includes townhouses and apartments in duplexes.

(7) Includes bachelor, 1 bedroom and 2 bedroom+ apartments.

D.C. Study R.F.P. Checklist



- Ensure study timing considers the minimum 60 day Public Process
- Include an evaluation of and Council resolution regarding Area Specific charges
- Include Waste Diversion (if service is provided)
- Include requirement for Asset Management within D.C. study
- If Transit provided, include enhanced evaluation and Asset Management evaluation
- Ensure growth forecast includes Gross/Net approach
- Include detailed Local Service policy for Water, Wastewater, Storm, Roads and Parkland Services

Questions?