Region of Peel
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REPORT
Meeting Date: April 30, 2015
Growth Management Committee

DATE: April 22, 2015

REPORT TITLE: **2015 DEVELOPMENT CHARGES BACKGROUND STUDY - PRELIMINARY FINDINGS AND POLICY CONSIDERATIONS**

FROM: Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the report of the Chief Financial Officer and Commissioner of Finance titled "2015 Development Charges (DC) Background Study - Findings and Policy Considerations" be received;

And further, that the collection of hard service Development Charges at the time of subdivision agreement for residential development, excluding apartments, be included in the 2015 DC Background Study and By-law update, with implementation to occur 120 days after the new DC By-law is in force;

And further, that 2.5 FTE positions be created to support the new process, funded through working fund reserves in 2015, and included in the 2016 operating budget as a tax funded expenditure;

And further, that single/semi-detached and rowhouse/other multiple residential categories be introduced in the 2015 DC By-law in place of the current "Other Residential" category;

And further, that the draft 2015 Development Charges Background Study and By-law be made available to the public at least two weeks in advance of the public meeting;

And further, that the Regional Municipality of Peel hold a Public Meeting as required under Section 12 (1) of the *Development Charges Act (DCA)* on May 28, 2015.

REPORT HIGHLIGHTS

- In response to Regional Council June 2014 direction, Regional staff commenced a new Background Study and DC By-law review/update in Q3 2014 with the intent to implement in 2015
- The 2015 DC By-law review, uses current 2031A population and employment forecasts, and is part of the Region's growth management program to ensure financially sustainable growth
- A 2017 DC By-law update will reflect 2041 population and employment forecasts and consider other potential financing options and considerations to enhance sustainability of growth

- The Region has issued gross DC debt of $1.273 billion since 2010 as compared to the forecast of $2.0 billion by 2014 in the 2012 DC Background Study
- The form and pace of development since 2002 has resulted in lower DC revenues being collected, in particular non-residential activity and revenues have been well below forecasts due to a changing economy
- The preliminary DC rates as of March 2015 have increased by different percentages by rate category due to changes in residential and non-residential density estimates per unit compared to the 2012 Background Study estimates. The final rates will be subject to the impact of technical adjustments being reviewed with BILD as part of ongoing stakeholder engagement.
- Policies were reviewed for possible implementation in 2015 based on input from stakeholders, environmental scans and technical advice
- To improve cash flow, the report outlines options and required resourcing to advance DC collection to time of subdivision agreement.
- Regional staff have engaged and will continue to engage the development community throughout the By-law review process and will present the preliminary background study and new DC rates prior to the public meeting
- Regional staff propose scheduling May 28, 2015 for the public meeting as required under section 12 (1) of the Development Charges (DC) Act to facilitate the adoption of the new By-law by Regional Council on July 9, 2015
- Regional Council's June 2014 direction to update the DC By-law provided to the development community one year advance notice in relation to the proposed July 9, 2015 adoption of the new By-law, therefore in keeping with Regional Council's 2012 direction no additional transition period is recommended
- Changes proposed in Bill 73 to update the DC Act are not expected to be in force prior to the 2015 DC Background Study and By-law update
- Proposed DC rate and policy changes will improve the financial sustainability of the Region's growth program consistent with the principles of the Long Term Financial Planning Strategy

DISCUSSION

1. Background - Funding Growth in Peel Region

a) Development Charges Legislative Framework

The *Development Charges Act (DCA), 1997* sets out the framework within which Ontario municipalities including the Region of Peel finance growth related capital programs.

The DCA outlines that a municipality must pass a new By-law at least every five years to impose development charges within its jurisdiction. This By-law must be supported by a background study which is to include estimates of the anticipated growth and its impact on services and the related capital costs in the municipality. The majority of the Region's capital costs are for water, wastewater and roads which are generally referred to as hard services. Capital costs for other services such as police, social housing, long term care and paramedics are generally referred to as soft services.

Once the DC Background Study and By-law have been prepared and made available to the public there must be at least one public meeting to allow for representations. Regional Council can determine if a further public meeting is required. Once a new DC By-law has been passed, there is 40 day appeal period. Any person or organization may appeal a DC By-law to the Ontario Municipal Board by filing with the clerk of a municipality within the 40 day appeal period.

b) Regional Council Direction

The Region last updated its DC By-law and background study in 2012. The By-law came into force on October 4, 2012. At the time the 2012 DC By-law was passed, Peel Regional Council directed Regional staff to do an annual assessment of DC rates and commence a new background study if the projected shortfall in rates exceeded 20 per cent. In 2013, Regional staff did an assessment of DC rates based on the 2014 Capital Plan which suggested a 15.5 percent rate increase was needed to keep the DC program sustainable. Despite the upset limit not being breached, Regional Council passed resolution 2014-593 in June 2014 directing Regional staff to do a new background study with the intent to calculate new DC rates and update current DC policies where required. A subsequent DC adequacy test done in 2015 based on the 2015 Capital Plan suggested a rate increase of just over 20 per cent was required.

The 2015 DC By-law review is based on the Regional Long Term Financial Planning Strategy principle that growth should pay for growth to the fullest extent within the DC legislative framework.

Further to Regional Council's June 2014 direction, Regional staff notified the development community of the Region's intent in July 2014, effectively one year before the proposed July 9, 2015 date for adoption of the new DC By-law. This honours Regional Council's 2012 direction on a triggered update to provide one year's notice of a new by-law in lieu of a transition period.

c) History of Development Financing in Peel

Historically, water and wastewater systems in Peel were designed, built, financed, operated and maintained by the Province and costs were recovered from all ratepayers. Responsibility for this system has since been fully transferred to the Region of Peel. The system which was transferred to the Region included excess capacity that the Region has largely now consumed. Major infrastructure projects such as water and wastewater treatment plants and watermains are put in place by the Region in anticipation of development to support Provincial Places to Grow population and employment estimates. Peel's infrastructure servicing is done so that it minimizes disruption to existing communities, with the Region thereby assuming most of the growth infrastructure financing risk.

In the past, Peel experienced robust population and to a lesser extent employment growth that contributed to strong DC Regional (DC) revenues compared to growth-related capital spending and consequently positive DC Reserve balances. As a result of changes in the nature of employment and the recent recession, the Region has collected significantly less in DC revenue than forecast; however, the Region has continued to invest in infrastructure to support growth. These factors have contributed to the need for the Region to borrow externally to finance growth-related infrastructure development.

Since the passage of the 2012 DC By-law, Regional Council has been actively managing growth related borrowing through the annual budget reviews. In addition, Regional Council and Regional staff have been monitoring all major capital projects in relation to the timing of actual project expenditures relative to budget to support appropriate timing and phasing of work and inform debt financing needs. Since 2010, the Region has issued $1.273 billion in DC debt compared to the 2012 DC Background Study forecast of $2.0 billion by 2014. DC debt, including interest, is to be fully funded by the developers through current DC rates.

d) Growth Management Program and Long Term Financial Planning Strategy

The Region's Growth Management Program's mandate is to develop a robust Regional Official Plan that is supported by a sustainable financial plan and servicing plans. Key components of the Growth Management Program include updating the DC By-law in 2015, examining the risks and benefits of infrastructure investment to the Region and other stakeholders, and developing alternative growth financing options for Peel. This work is consistent with the Region's Long Term Financial Planning Strategy including the principle that users should pay where appropriate, and supports Regional Council's principle that "growth pays for growth".

i. 2015 DC By-law considerations

The 2015 By-law update is focused on updating DC rates and policies within the current DC legislative framework to ensure financial sustainability. The 2015 DC By-law update utilizes 2031A population and employment forecasts.

ii. 2017 DC By-law considerations

The broader Growth Management Program initiatives utilizing Places to Grow 2031B and 2041 population and employment forecasts and related master servicing plans are expected to derive findings that will support the proposed 2017 DC By-law update. The 2017 DC by-law update will utilize Places to Grow 2031B and 2041 population and employment forecasts and related master servicing plans and will include possible new financing options to be considered by the Growth Management Committee and Regional Council.

e) 2015 DC By-law Update Overview

The 2015 DC study is based on the current Regional Council approved inputs (i.e. the places to grow 2031A population forecasts and associated Regional master servicing plans) for growth planning and financing in the Region to 2031. The 2031A forecasts assume a population of 1.64 million in Peel by 2031. While the preceding key inputs remain constant since the 2012 DC Study, Regional staff have reviewed the following other assumptions in consultation with key partners and stakeholders to help inform the 2015 DC Background Study and By-law updates.

Figure 1 – 2015 DC Background Study Review of Modelling Assumptions

Core Assumptions Reviewed for Modelling DC Rates	Resource that Informed the Review of Assumptions
Timing of Employment and Population Growth over the Planning Horizon to 2031	▪ Feedback from Regional Growth Management Committee and workshops ▪ Watson and Associates Economists Limited (Watson) technical analysis
Employment Densities: Floor Space Per Worker (FSW) Assumptions	▪ Hemson Consulting's employment trends study ▪ Watson's review of key inputs such as no

	fixed place of work and persons working from home
Residential Densities: Persons Per Unit Assumptions(PPU) assumptions	▪ Watson's review of 2011 Statistics Canada census data
Small Unit Threshold Size	▪ Feedback from the area municipalities ▪ Watson's review of data ▪ Environmental scan of area municipalities and other municipalities
Unbundling of "Other Residential" rate category into separate Singles/Semis and Rows/Other Multiples categories	▪ Feedback from the development industry ▪ Watson's review of 2011 Statistics Canada Census data ▪ Environmental scan of area and other municipalities
Financing Rate Inputs	▪ Input from Watson ▪ Environmental scan of economic trends
Asset Service Level Update	▪ Internal capital asset review
Capital Expenditures Estimates	▪ The Region's cash, debt and asset management strategies ▪ Environmental scan of economic conditions

The Region has contracted Watson to calculate the new DC rates and prepare the Background Study.

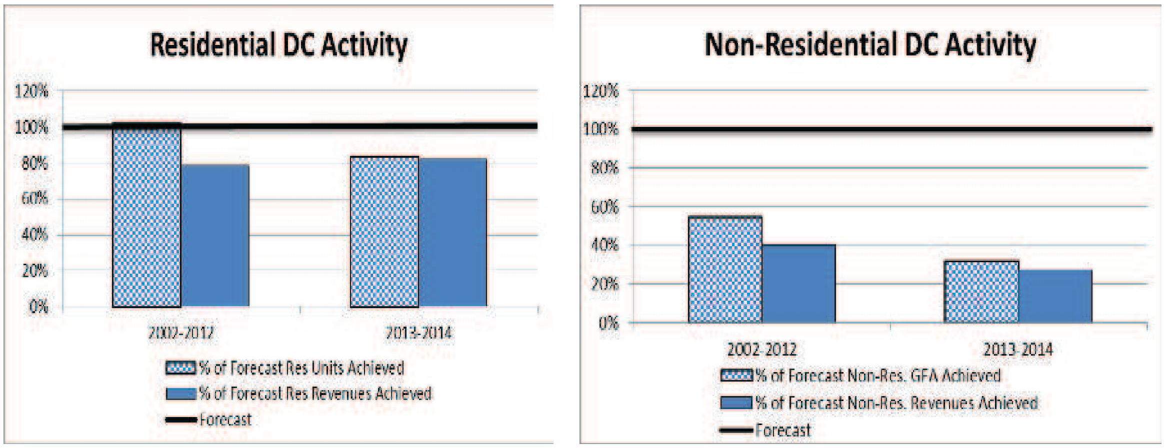
The Region has engaged the development community throughout the By-law review process by providing capital plans and preliminary DC rates for review and discussion in advance of the release of the draft DC Background Study. Regional staff propose May 28, 2015 for the public meeting as required under Section 12 (1) of the *Development Charges Act (DCA),* 1997 and July 9, 2015 for the new DC By-law adoption by Regional Council.

2. Findings

a) Revenue Forecast vs Actuals 2012-2014

As previously reported to Regional Council, the Places to Grow employment forecasts from the Province have not materialized as predicted. These forecasts formed the basis of past DC revenue forecasts. The following charts illustrate these shortfalls since 2002. Residential development activity has been closer to forecast than non-residential over this period.

Figure 2 – 2002-2012 and 2013-2014 – Forecast vs. Actual Residential and Residential Activity and revenues



The shortfall in 2013-2014 residential revenue is primarily attributable to the impact of the 2012 DC By-law update that increased the development charge rates. A spike in residential building permits occurred in 2012 ahead of this increase in rates and there was a corresponding decrease in permits issued in 2013, the first full year of the higher rates. In 2014, the residential construction level was at 97 per cent of the 2012 DC Background Study forecast.

As discussed at the Region's Employment Workshop in March 2015, all 905 Greater Toronto Area (GTA) municipalities have been impacted by a changing economy. As a result the provincial employment forecasts have not materialized in Peel. The Employment Workshop explored the opportunities for advocacy and the potential to develop more accurate employment forecasts for Peel in the future.

To mitigate the risks associated with not achieving the provincial Places to Grow employment targets, where practical servicing of employment lands should reflect the actual anticipated pace of employment growth experienced in the Region.

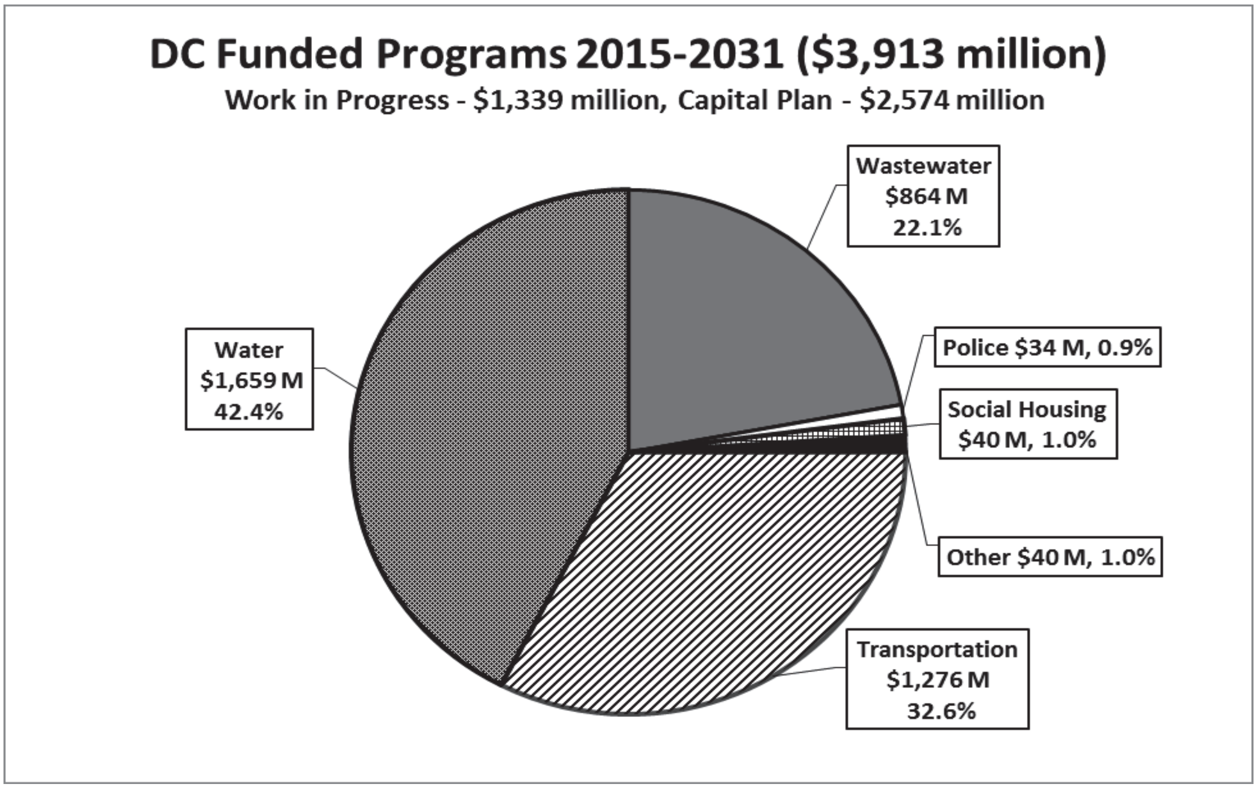
b) Forecast Capital Spending 2015-2031

Capital spending for the period is based on the 2015-2024 Capital Plan adopted by Regional Council in February 2015 plus forecast spending from 2025 to 2031 consistent with the Water, Wastewater and Roads master servicing plans. Total capital spending forecast for the period 2015 to 2031 is $3.91 billion or an average of $230 million annually compared to average annual spending of approximately $304 million over the last 5 years. The lower annual spending forecast into the remainder of the planning period reflects that many major investments in infrastructure have occurred in the last 5 years. In addition to the forecast capital spending, DC rates will also need to continue to capture the financing costs associated with the growth capital program. The amounts in the following chart include DC funding for projects already approved by Regional Council that remain as work in progress totaling $1.3 billon.

These amounts do not reflect the impact of technical adjustments being made as a result of ongoing engagement with BILD. One of the adjustments flowing out of these discussions relates to the addition of costs to service the Bolton (2031) Rural Service Centre Expansion (BRES).

The Regional Official Plan Amendment Application for this (ROP 14-002) has been endorsed by the Town of Caledon. Costs to service these lands in Caledon are proposed to be included in the technical adjustments that will be reflected in the final DC rates in the DC Bylaw. It is estimated that these costs for water, wastewater and roads servicing will be approximately $92 million. The anticipated growth has been included in the 2031A growth allocations established by ROPA 24. The inclusion of the costs to service BRES is consistent with the intention of the 2015 DC By-law update to better align overall DC revenue with DC capital costs over the planning horizon. As a result, the BRES capital cost estimate of $92 million is being included in the 11th year of the study to facilitate the collection of DCs in advance of the development.

Figure 3 - DC Capital Spending Forecast - 2015-2031



c) Updated Person Per Unit (PPU) and Floor Space Per Worker (FSW) Assumptions Including Composition

PPU and FSW estimates are important elements in the modeling of DC rates. As noted in the graphs on DC activity in Section 2(a) the past difference between residential units and GFA growth and corresponding revenues suggested that the PPU and FSW assumptions needed updating. This background study has provided an opportunity to update the assumptions based on the latest available data. Watson has reviewed the PPU and FSW assumptions using Statistics Canada 2011 census data, recent municipal employment survey data and the employment trends study prepared by Hemson Consulting to help inform the analysis. In commissioning the employment trends study results, the Region committed to using its results to inform the 2015 DC update.

Watson's findings suggest that the Region's average PPU over the past 10 years increased modestly from 3.33 in 2001 to 3.35 in 2011 compared to other Regional municipalities across the Greater Toronto Hamilton Area (GTHA) where average PPU levels have declined in recent years. This PPU increase has been driven by steady increases in the average PPU for low-density housing in the City of Brampton. The overall increase in average PPU in the Region is a combination of declining average PPUs for older residences and increasing average PPU for new housing units.

FSW estimates have increased for both industrial and non-industrial development since the 2012 DC Background Study. Industrial FSW has increased from 90 square meters per worker to 149 square meters per worker based mostly on the following:

- New information that was included in the 2014 Employment Trends Report
- Changing patterns of employment-related development in Caledon;
- The exclusion of data relating to non-industrial activity on industrial lands; and
- The exclusion of employees working from home and with no fixed place of work.

These factors all entered into the new FSW estimates developed and recommended by Watson as part of their review of the growth related inputs to the 2015 DC update.

Figure 4 - Updated Preliminary PPU and FSW assumptions, 2015-2031

Assumptions	2012 DC Study	2015 DC Update	% Change
PPU			
Other Residential	3.50	3.87	10.57%
Singles/Semis	n/a	4.15	n/a
Rowhouses/Other Multiples	n/a	3.40	n/a
Small Unit	1.30	1.68	29.23%
Apartment	2.50	2.54	1.60%
FSW - M^2/ Worker			
Industrial	90	149	65.56%
Non-Industrial	35	37	5.71%

d) Estimated DC Rate Results

Based on current assumptions the proposed Regional DC rates would change as outlined in the following table. These rates do not include the impact of the final technical adjustments currently under review with BILD. The impacts on DC rates will be reported on before inclusion in the proposed 2015 DC By-law.

Figure 5 – Preliminary Estimated DC rates by Category – Region of Peel

Type of Development	Current Rates	Preliminary Rates (March 2015)	Amount of Change $	% Change
Other Residential *	$36,402	$45,971	$9,569	26.3%
Singles/Semis	n/a	$49,297	$12,895	35.4%
Rowhouses/Other Multiples	n/a	$40,388	$3,986	10.9%
Small Unit (<750 sq. ft.)	$13,521	$19,955	$6,434	47.6%
Apartment (>750 sq. ft.)	$26,002	$30,172	$4,170	16.0%
Industrial (per M^2)	$137.06	$138.60	$1.54	1.1%
Non-Industrial (per M^2)	$199.57	$205.45	$5.88	2.9%

* Note: Based on recommendations the Other Residential category will not be in effect in the new by-law, it is included in this table for comparative purposes only.

The varying percentage changes in DCs rates within the residential and non-residential categories were driven by updates to the underlying density assumptions. These density assumptions are persons per unit (PPU) and floor space per worker (FSW) for residential and non-residential developments respectively.

e) Comparison of DC Rates Across the GTA

Peel DC rates continue to compare favorably with York and Halton Regional municipalities in the industrial and non-industrial categories. Peel DC Rates for residential properties are on the high end of the comparator group.

Appendix I illustrates a comparison of the estimated "all in" DC rates in selected GTA municipalities for the single-detached/semi-detached, rowhouse/other multiples, large apartment, small apartment, industrial and non-industrial categories respectively.

Appendix II provides a listing of the dates the other municipalities' current DC By-laws came into effect.

3. Policy Considerations

Regional staff have reviewed policies in the current DC By-law with the view to improving cash flow and administrative processes while supporting development in the Region.

The main policies that were reviewed for consideration in the 2015 By-law update include:

- Collection of "hard service" DCs for residential properties at time of subdivision agreement
- Changing the small apartment threshold size from 750 sq. ft. to 700 sq. ft.
- Aligning the Region's agriculture use definition with the Town of Caledon's definition
- Introduction of single/semi-detached and rowhouse/other multiple residential categories in place of the current "other residential" category
- Introduce change of use policy

a) Collection of Hard Service DCs at the Time of Subdivision Agreement

i. Current Legislative Framework and Regional Policy in Relation to the Timing of DCs Collection

The current legislative framework allows a municipality to collect DCs for the following hard services at time of subdivision agreement:

- Water supply services, including distribution and treatment services,
- Waste water services, including sewers and treatment services,
- Storm water drainage and control service,
- Services related to a highway as defined in subsection 1 (1) of the *Municipal Act, 2001* or subsection 3 (1) of the *City of Toronto Act, 2006*, as the case may be, and
- Electrical power services.

All three area municipalities in Peel currently collect DC at time of building permit issuance for themselves and on behalf of the Region. Most neighbouring Regional municipalities collect "hard service" DCs for residential development at time of subdivision agreement. Preliminary research and discussions with other municipalities suggest that in municipalities that require hard service DCs be paid at time of subdivision agreement, non-residential development is generally excluded as well as high density blocks (apartments), which are usually collected at building permit issuance. The following table shows the collection timing in several major Ontario municipalities.

Figure 6 – Hard Service DC Payment Timing-Ontario Major Municipalities

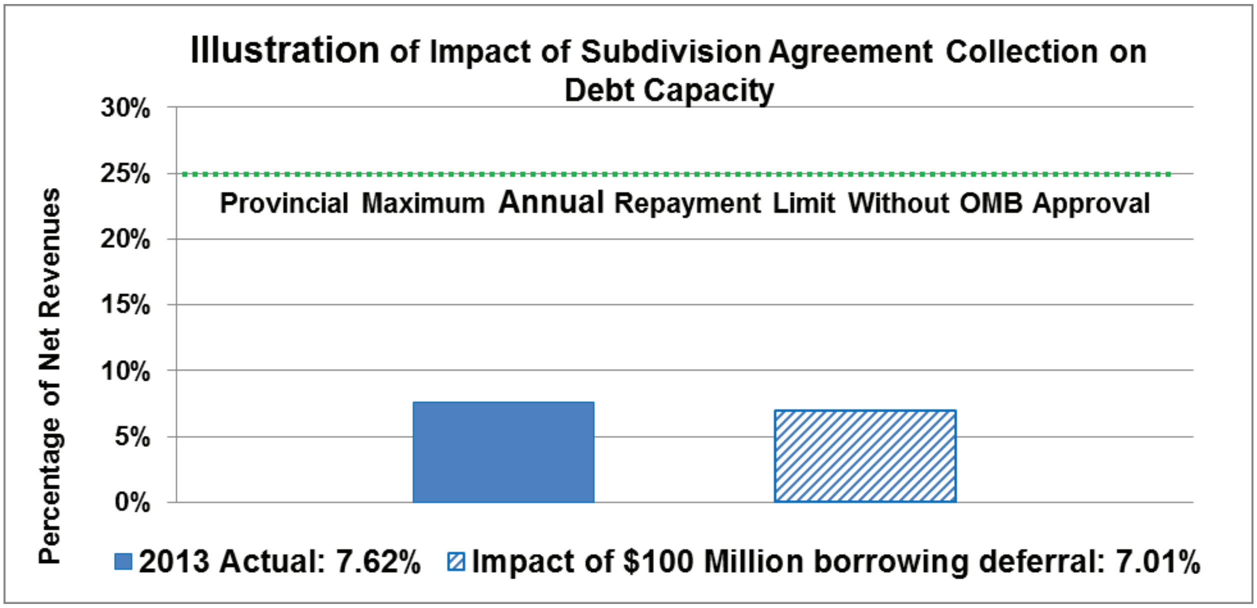
Municipality	Hard Service DC Collection Timing	
	At Subdivision Agreement	At Building Permit
Peel		Residential/Non-Residential
Halton	Residential	Non-Residential
Toronto	Residential/Non-Residential	
York	Residential	Non-Residential
Durham	Residential	Non-Residential
Ottawa		Residential/Non-residential
Hamilton		Residential/Non-residential
Waterloo		Residential/Non-Residential
Barrie	Residential	Non-Residential

ii. Potential Financial Impact on the Region

The collection of hard service DCs at the time of subdivision agreement would slightly reduce or defer the need for the Region to issue debt to support the Region's growth program. Based on in-house analysis, building permits are pulled on average eight months after plan of subdivision agreement. The eight month period between plan of subdivision execution and building permit issuance is less than Regional staff's original anticipation of two years that was based on preliminary data. Financial savings to the Region as a result of earlier collection would accrue to the Development Charge reserves and therefore put downward pressure on future DC rates paid by the development community. However, developer financing of the earlier payment to the Region, would offset the benefit to new home buyers.

It is estimated that approximately $100 million in DC related borrowing could be deferred as a result of this potential change. The following chart shows the relative impact of deferring $100 million in borrowing on the Regions annual debt capacity in relation to the Province's Annual Repayment Limit (ARL) based on the most current provincial statements. The impact is equivalent to 0.6 per cent of net revenues.

Figure 7 – Shows 0.6 % impact of $100 million in borrowing



iii. High-Level Administrative Considerations

Collection of hard service DCs at subdivision agreement time would result in DC payments being made at two different times in the process. Under the *Development Charges Act,* DCs for "soft" services such as paramedics, long term care and police cannot be collected before the time of building permit issuance. The implementation of two DCs payment times and two points of collection (Area and Region), from potentially two different payees (developers and builders) would require additional coordination between the Region and the area municipalities.

The amount and type of units in a subdivision can change from the time of original subdivision agreement execution. As a result, it would be necessary to continually monitor the issuance of building permits against the original plans used to determine the amount of DCs collected at the time of subdivision agreement in order to account for changes and collect the appropriate DCs. Approximately 50 subdivision agreements containing over 5,000 residential dwellings are entered into annually and each of these will need to be regularly monitored and reconciled.

Under the current system it is generally the builders that pay the DCs when building permits are issued. The new system may require developers instead of builders to pay DCs at time of subdivision agreement, thereby necessitating greater coordination between developers and builders in relation to DC payment. A similar situation could result between developers and builders when blocks are split between different subdivisions. New protocols would need to be established to manage these new processes.

iv. Options for DC Collection and Potential Impact on Key Stakeholders

Regional staff have consulted internally and with the other municipalities to inform possible options regarding the timing of DCs collection as follows:

1. The area municipalities continue to collect all DCs at the time of building permit issuance on behalf of the Region (Current Process),

2. The Region directly collects the “hard service” DCs for residential development excluding apartment blocks on its own behalf at time of subdivision agreement, or

3. The area municipalities collect the “hard service” DCs for residential development excluding apartment blocks at the time of subdivision agreement on behalf of the Region.

Soft service DCs and apartment blocks would continue to be collected at building permit issuance by the area municipalities in all three options.

Based on Regional staff discussions with key stakeholders and preliminary analysis of the potential financial and administrative impacts of changing the current policy of collecting DCs at the time of building permit issuance, Regional staff do not recommend option 3. Option 3 would place an administrative burden on the area municipalities that would be more appropriately borne by the Region. This impact would be most acute in the City of Brampton where the majority of subdivision agreements are being entered into. City of Brampton staff identified that there would be a resource requirement similar to the Region’s if the City of Brampton staff were required to manage this potential new process for the Region.

Regional staff recommend that the Growth Management Committee and Regional Council consider option 2 as presented below for inclusion in the 2015 DC Background Study and By-law.

Option 1 – Current Process / Collection of all DC at the Time of Building Permit Issuance

The current collection process for the Region is that all DCs are collected at time of building permit issuance by the area municipalities on behalf of the Region. When builders go to the area municipalities to acquire building permits they also are required to pay all the applicable development charges for the Region, the area municipalities and the Boards of Education. The DCs that the area municipalities collect on behalf of the Region are remitted to the Region on a monthly basis. This well-established process provides “one-window” payment for builders and eliminates duplication in the DC payment process.

Option 2 – Residential Hard Service DC Collected at Subdivision Agreement by the Region

This approach is generally consistent with the approach used at Durham, Halton and York Regions. The potential financial and administrative impacts (relative to the current collection process) to the Region, the area municipalities and the development community are outlined in the following table.

If Region Council decides to implement collection of hard service DCs at time of subdivision agreement as per Option 2 then it is proposed that this new requirement comes into effect 120 days after the proposed date that the new DC By-law comes into force. This would allow for coordination of new administrative processes with the area municipalities and the development community.

Figure 8 – Relative Impact of Option 2 on Key Stakeholders

Impact on the Region	
Financial	**Administrative**
▪ Potential deferral of approximately $100 million in DC borrowing ▪ Savings from this deferral would be reflected in lower future DC rates ▪ A 0.6% per cent saving of the Region's debt capacity in relation to the provincial annual repayment limit. *See figure 10 for illustration of impact on the Region's debt capacity*	▪ 2.5 additional FTEs and associated supports at an annual cost of approximately $300,000 to the tax base would be required ▪ Increased interaction with the area municipalities to reconcile payments ▪ One-time costs for technology and process changes
Impact on the Area Municipalities	
Financial	**Administrative**
▪ Reduced interest income as the Region will collect "hard service" residential DC directly	▪ Moderately increased demand on administrative resources to reconcile earlier DC payments with the Region
Impact on the Development Community	
Financial	**Administrative**
▪ Higher financing costs to pay hard service DC earlier	▪ Need to pay DC at two different times in the development process ▪ New processes for payment coordination between builders and developers

b) Change of Small Apartment Threshold Size from 750 sq. ft. to 700 sq. ft.

The City of Mississauga changed the threshold size for small apartments to 700 sq. ft. from 750 sq. ft. in its 2014 DC By-law update. The City of Mississauga's report titled "2014 Development Charges Background Study and By-law" justified the direction on "the basis the size of a small unit was established in 1999 based on information available at that time. Recent building trends reflect the construction of a larger number of smaller units than originally anticipated, along with the achievement of population forecast targets being achieved while DC revenue forecast fell short, which dictated that an analysis of small unit sizes be taken." The report further states that "Analysis of small unit using existing small unit parameters indicated that the number of persons per unit were greater than intended when the original unit size of (750 sq. ft.) was established.

This determination was confirmed as part of the 2011 Census data contained in the National Household Survey." The City of Mississauga's original intent was to change small apartment size to 650 sq. ft.; however, the final 2014 DC By-law resulted in 700 sq. ft. being implemented.

Regional staff have reviewed the feasibility of aligning the Region's small apartment threshold with the City of Mississauga's to ease administration with the area municipality expected to have the most of these units over the medium-term and help ensure the revenue from the mix of residential units is closer to forecast. Regional staff have considered the following:

- The City of Mississauga's 700 sq. ft. small apartment threshold is under appeal at the Ontario Municipal Board (OMB).

- Aligning the Region's small apartment size to the City of Mississauga's current small apartment would result in the Region's small apartment size not being synchronized with the City of Brampton's (750 sq. ft.) and the Town of Caledon's ($70m^2$).

Based on these factors, Regional staff recommend leaving the Region's threshold size for small apartment at 750 sq. ft. for further review and potential consideration in the proposed 2017 or future DC By-law updates, once the OMB appeal against this threshold size in Mississauga has been concluded.

c) Review Agricultural Use Definitions

Enquiries have been made regarding the potential to further align the application/interpretation of the Region's DC By-law with Caledon's DC By-law in relation to various types of agriculture-related developments in Caledon.

The Region of Peel's current DC By-law exempts DCs in respect of land developed for an agricultural use. This is a discretionary exemption and is not mandated by the *Development Charges Act*. The Town of Caledon DC By-law has a number of discretionary exempt categories relating to agricultural development such as a farm winery and farm cidery construction that the Region does not. To qualify for these exemptions in Caledon, one has to be a bona fide farmer (i.e. "currently actively engaged in a farm operation with a valid Farm Business Registration number in the Town of Caledon".) To be eligible for a Farm Business Registration Number, the applicant must have gross farm income of $7,000 or more declared for income tax purposes.

Appendix III shows the list of exemptions and agricultural development definitions at the Region and the Town of Caledon.

Data is currently unavailable to accurately assess the financial and administrative impacts on the Region from this potential change.

The Region currently has DC debt of $1.273 billion, translating to approximately $90 million in annual debt servicing/financing costs. New exemptions will further negatively impact the Region's ability to pay down the DC debt and sustain the DC program and support Regional Council's principle that growth should pay for growth.

If Regional water and water services are not currently available or planned to be available at the location of a development within two years after issuance of a building permit, payment of the water and wastewater portions of the DCs is not required. As a result, a number of developments in Caledon are not required to pay the Regional water and wastewater DCs which make up a majority of the DC charge.

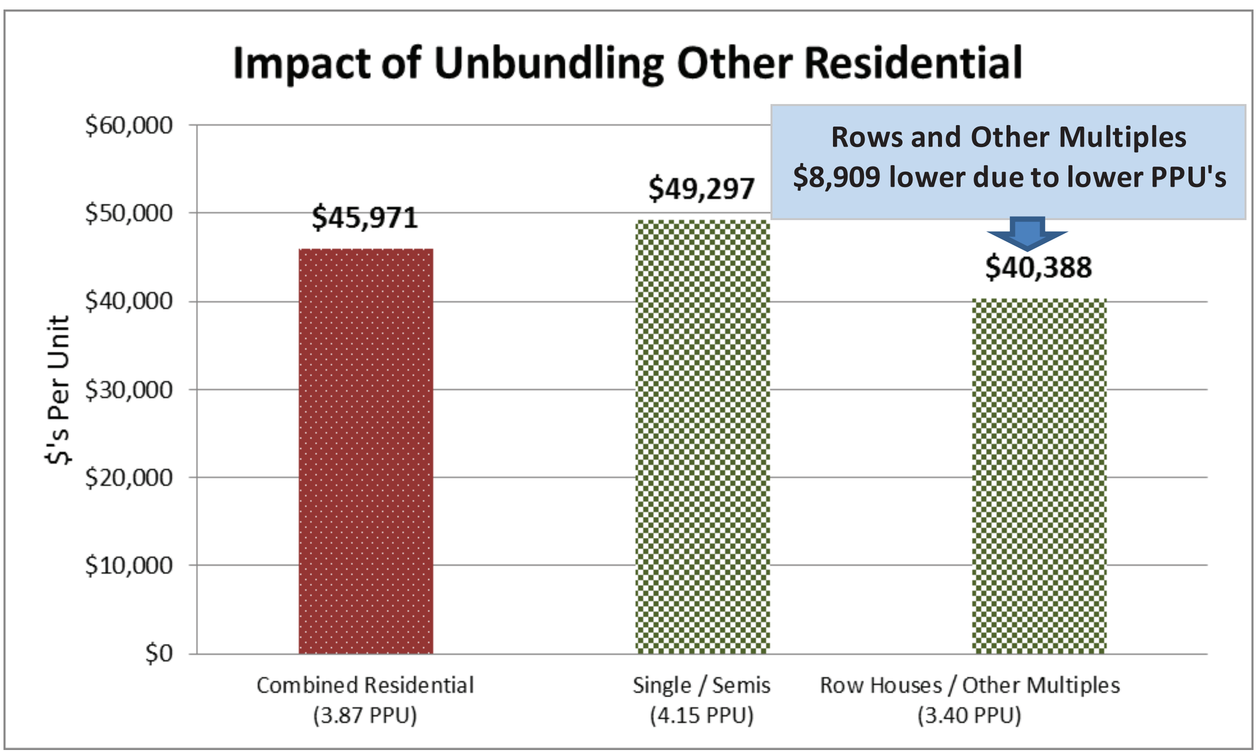
Based on these factors, Regional staff recommend maintaining the existing Regional agriculture exemption policy. This policy may be revisited in future DC By-law updates.

d) Introduce Separate DC Rates for Single/Semi-detached and Rowhouses/Other Multiple Residential Types

During stakeholder discussions BILD representatives questioned if a new grouping of categories would be created for row houses and other multiples. In the current Regional DC By-law, single-detached, semi-detached, rowhouse, town house and other multiple residential types are grouped as “Other Residential” and charged one DC rate. Unbundling of other residential would not impact overall residential DC revenue, however, rowhouse, townhouse and other multiples have a lower PPU compared to single/semi-detached and would pay a lower DC rate as a result. This change would support the Region’s Affordable Housing Strategy and Peel’s Official Plan and intensification objectives without any loss in DC revenues.

The following chart illustrates the impact of unbundling the Other Residential category and creating new rate categories for single and semi-detached units and rowhouses and other multiples respectively.

Figure 9 – Preliminary DC Rate Impact of Unbundling Other Residential



Regional staff recommend that respective single/semi-detached and rowhouse/other multiples categories be introduced in the 2015 DC By-law in place of the current other residential category.

e) Change of Use Policy

The Region's current DC By-law outlines a "redevelopment" policy in respect of a demolished building or structure but does not explicitly support current practices relating to change of use. The current DC By-laws of the area municipalities all reference policies relating to redevelopment, conversion or change of use situations. In order to ease administration of redevelopment and change of use cases, Regional staff propose that a "change of use" policy supported by the following definition be included in the appropriate sections of the proposed 2015 DC By-law:

"Redevelopment" means the construction, erection or placing of one or more buildings or structures on land where all or part of the building or structure has previously been demolished on such land, or changing the use of a building or structure for any of the following:

- from residential to non-residential
- from non-residential to residential
- from industrial to other non-residential
- changes in the mix of residential units in a mixed use or multi-residential building or structure

f) Other Policy Considerations

In response to a Staff Direction from a previous Regional Councillor, Regional staff reviewed the potential to exempt minor accessory buildings on institutional lots. Consistent with Regional Council direction to undertake this DC By-law update to ensure financial sustainability, Regional staff do not recommend any additional exemptions.

4. Stakeholder Engagement

Regional staff have met and had consultations with staff in other municipalities who have implemented the DC policies under consideration as well as with area municipal staff on the impact of policy changes in Peel.

The Region has had a number of meetings with the development community to discuss the way forward on various inputs and policy proposals for implementation in the proposed 2015 By-law. The Region has also provided the 2015 Capital Plan to the Building Industry and Land Development Association (BILD) for their detailed analysis. The Region will present new preliminary DC rates for BILD to review prior to the proposed May 28, 2015 Public Meeting.

Appendix IV provides a listing of the stakeholder engagement that has occurred leading up to the 2015 DC update.

Transition Period

In adopting the 2012 DC By-law Regional Council directed the Chief Financial Officer to commence a background study if the rate would require a 20 per cent increase and to notify the development community of the upcoming new by-law one year in advance to serve as a transition. While this update resulted from Regional Council's direction, rather than the 20 per cent trigger, the one year notification in-lieu of transition was none-the-less honoured with the proposed adoption of this by-law on July 9, 2015.

5. Impact of Bill 73

The Province's proposed "Bill 73 *Smart Growth for Our Communities Act, 2015"* has introduced several amendments to the *Planning Ac*t and the *DC Act, 1997*. Key proposals in Bill 73 if approved will:

- Expand the number of services (e.g. waste diversion) for which DC can be collected,
- Reduce the number of services subject to the 10 per cent mandatory discount, and
- Adopt a more forward-looking approach to determining service level standards.

The proposed changes partly reflect the Region's position in its January 2014 submission in response to the Province's October 2013 to January 2014 consultations. Other proposals in Bill 73 have implications for the timing of DC collection and the scope of growth financing options. Regional staff will report back to Regional Council on the progress of Bill 73 and implications to the Region when further details are available. The regulations enabling these changes are not anticipated to be in force before the 2015 DC By-law update.

FINANCIAL IMPLICATIONS

The updating of the DC By-law will help the Region in ensuring that the growth program remains financially sustainable. Based on proposed rates, the Region's debt level will level off at $2.8 billion compared to 2012 DC By-law forecast of $2.6 billion. Between 2015 and 2031, the Region's Annual Repayment Limit will peak at 15 per cent compared to the Provincial maximum of 25 per cent of own source revenues.

The policy option of the Region centrally managing the collection of hard service DCs at the time of subdivision agreement is expected to result in the deferral of approximately $100 million in DC debt for the first year. Financial savings as a result would accrue to the Development Charge reserves and therefore put downward pressure on future DC rates paid by the development community.

It is expected that 2.5 additional FTEs will be required in the short-term to medium-term to record and reconcile the collection of DCs for subdivision agreements. The additional FTEs can be funded by 2015 working funds reserves and then added to the 2016 budget. This would have an estimated impact of $300,000 on the 2016 tax supported operating budget.

CONCLUSION

The 2015 DC By-law update included a comprehensive review of assumptions included in the Region's DC model and ongoing engagement of the development industry. Policy recommendations and rate increases are necessary to ensure growth pays for growth to the fullest extent under the legislation and that growth is financially sustainable.

Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

Approved for Submission:

D. Szwarc, Chief Administrative Officer

APPENDICES

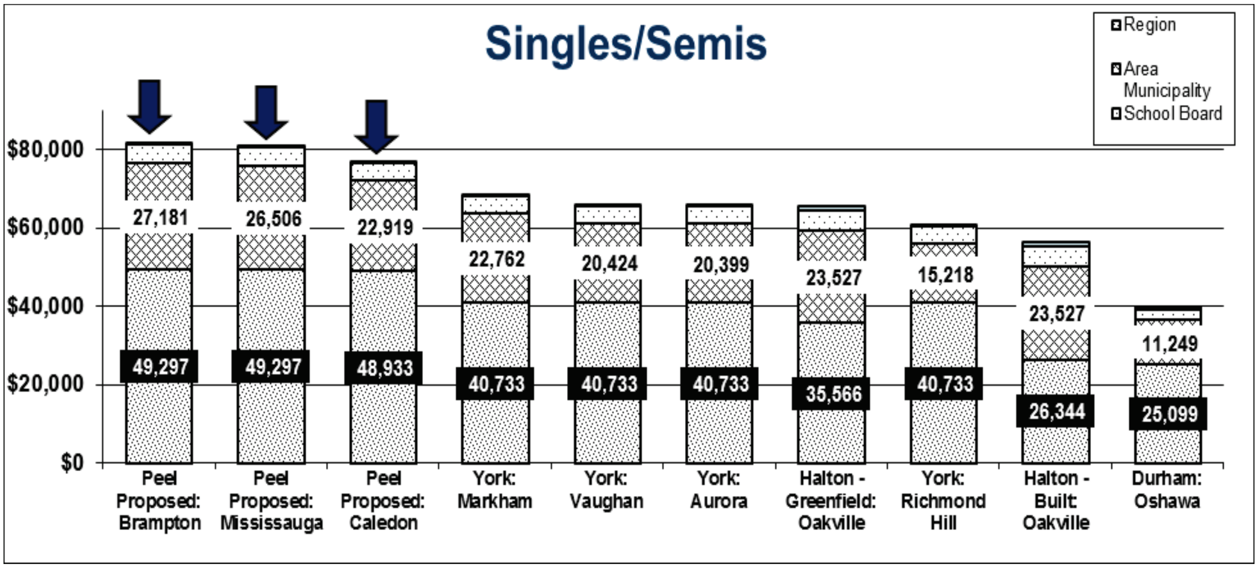
I. Comparison of estimated DC rates in selected GTA municipalities
II. Listing of the dates the other municipalities' current DC By-laws came into effect
III. Listing of exemptions and agricultural development definitions at the Region and the Town of Caledon
IV. Listing of the stakeholder engagement that has occurred leading up to the 2015 DC update

For further information regarding this report, please contact Dave Bingham, Treasurer and Director of Corporate Finance, extension 4292, Dave.Bingham@peelregion.ca.

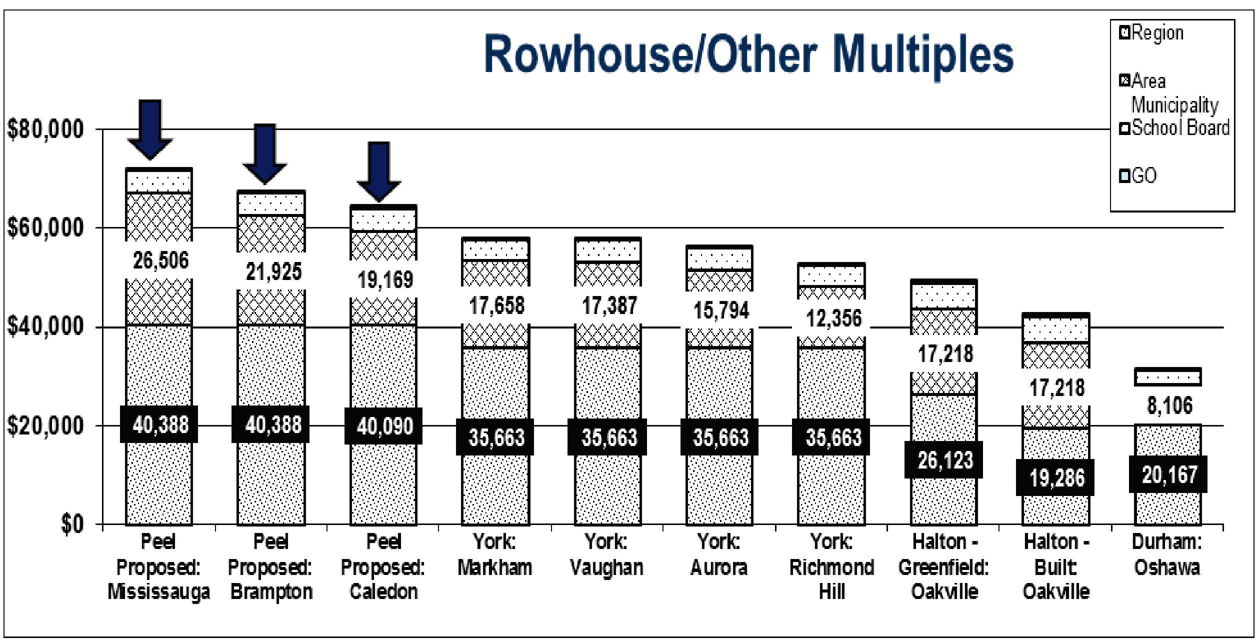
Authored By: Junior Higgins

The below charts are showing "all in" DC rates (i.e. local, regional, school board and GO Transit costs where applicable). This is necessary to make an accurate comparison since different levels of municipal government deliver different services.

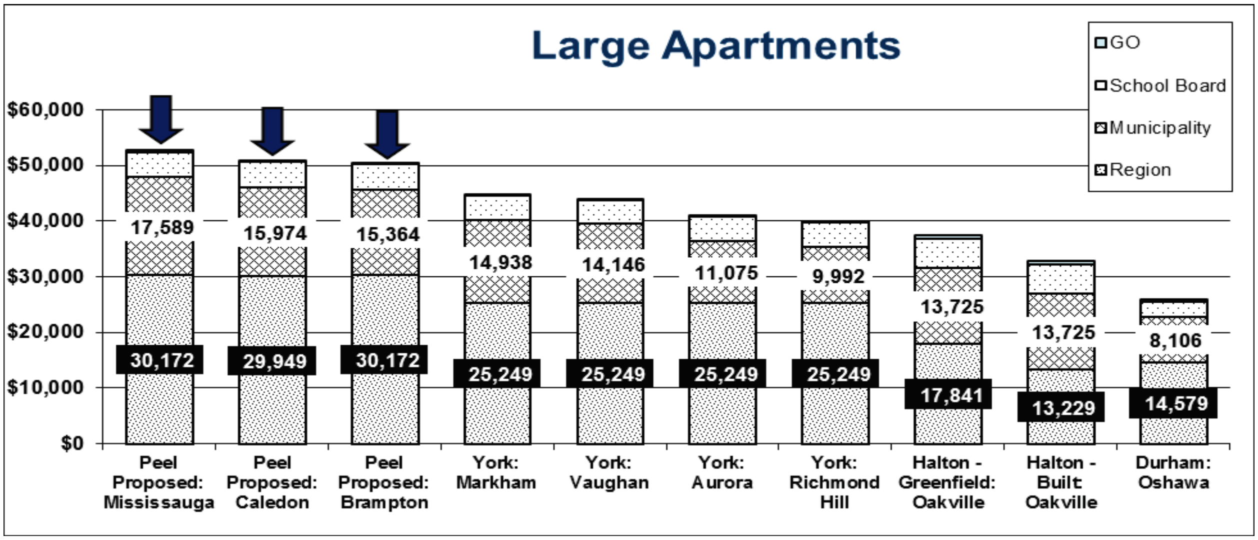
Estimated Comparative DC Rates - GTA (Singles/Semis)



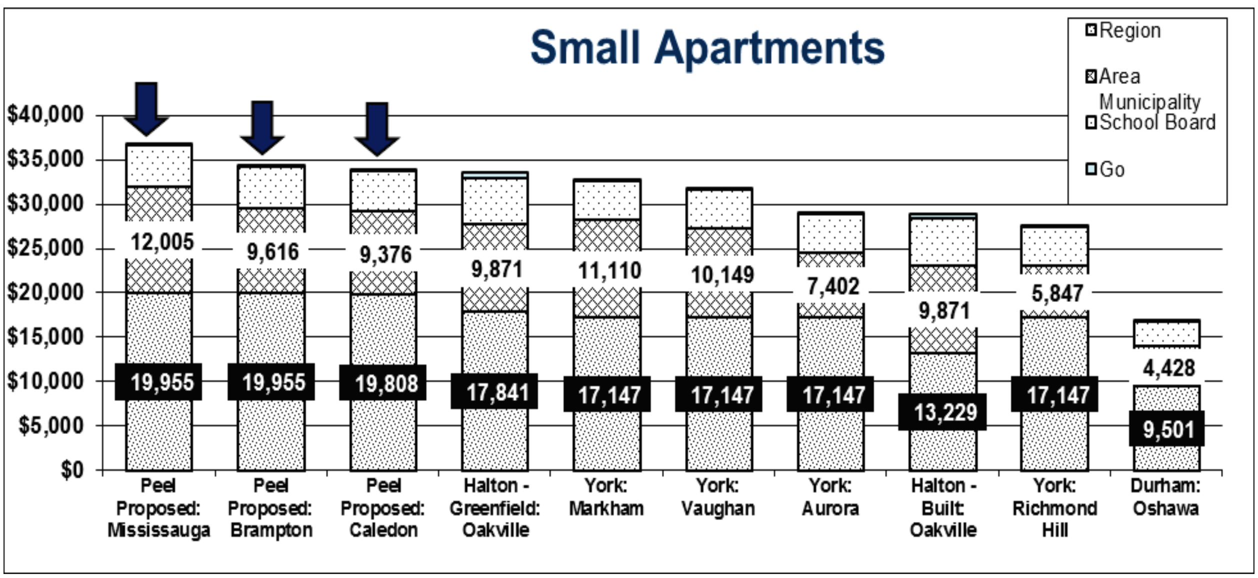
Estimated Comparative DC Rates - GTA (Rowhouse/Other Multiples)



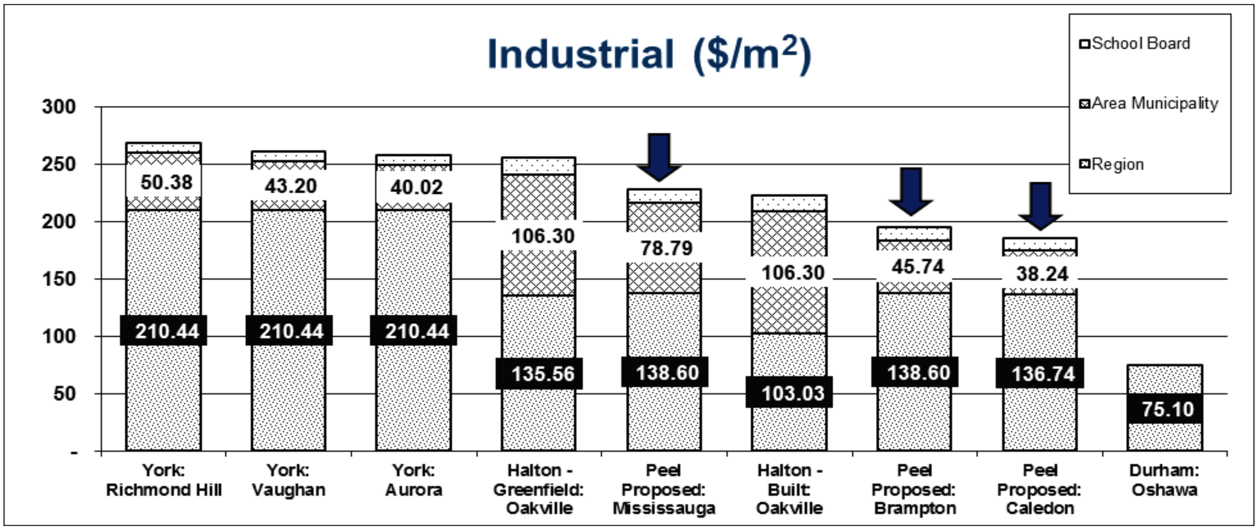
Estimated Comparative DC Rates - GTA (Large Apartments)



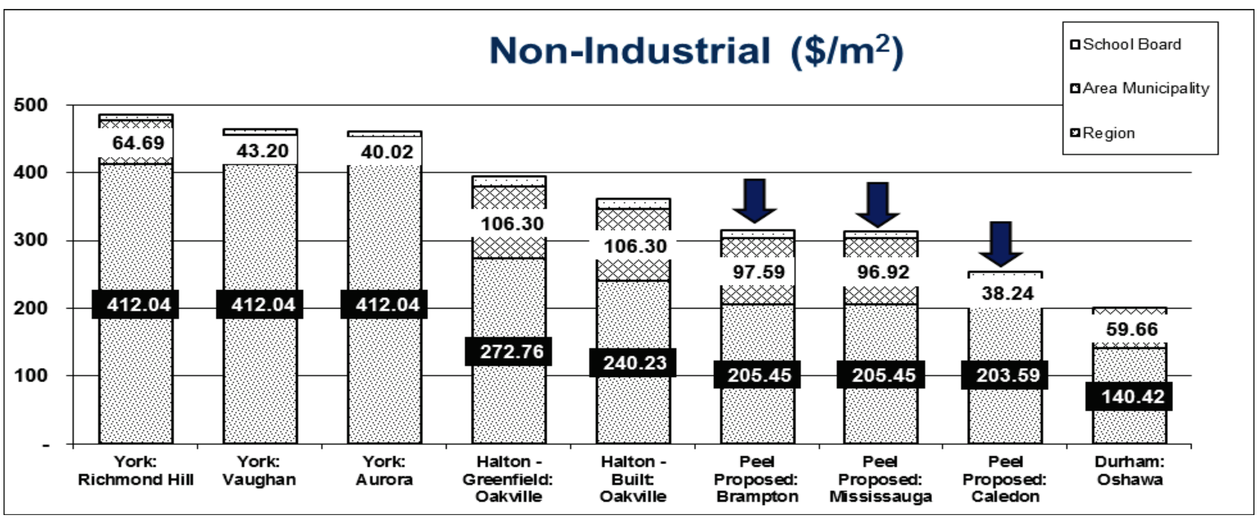
Estimated Comparative DC Rates - GTA (Small Apartments)



Estimated Comparative DC Rates – GTA (Industrial)



Estimated Comparative DC Rates – GTA (Non-industrial)



Appendix II

GTA Municipalities' Current DC By-laws Effective Dates

Municipality	**Effective Date of Current DC By-law**
Durham Region	July 1, 2013
City of Oshawa	July 1, 2014
Halton Region	September 5, 2012
Town of Oakville	March 5, 2013
Peel Region	October 1, 2012
City of Brampton	August 1, 2014
Town of Caledon	June 25, 2014
City of Mississauga	June 25, 2014
York Region	June 18, 2012
City of Vaughan	September 21, 2013
Town of Richmond Hill	June 9, 2014
Town of Aurora	April 8, 2014

Appendix III

The Region of Peel and The Town of Caledon Agriculture Use definitions

Region of Peel Agricultural Use Definition for Exemption Purposes

Agricultural Use

A use for the purpose of animal husbandry, dairying, fallow, field crops, removal of sod, forestry, fruit farming, horticulture, market gardening, pasturage, poultry keeping and any other use customarily carried on for the purposes of a bona fide farming operation, but does not include a residential use on lands that are developed for an agricultural use;

Town of Caledon Agriculture-related Definitions for Exemption Purposes

Agricultural building or structure

A building or structure that is used for the purposes of or in conjunction with animal husbandry the growing of crops including grains and fruit market gardening horticulture or any other use that is customarily associated with a farming operation of a bona fide farmer

Agricultural tourism building or structure

A building or structure or part of a building or structure located on a working farm of a bona fide farmer for the purpose of providing enjoyment education or active involvement in the activities of the farm where the principal activity on the property remains as a farm and where products used in the activity are produced on the property and or are related to farming The building or structure may be related to activities such as a hay or corn maze farm related petting zoo hay rides and sleigh buggy or carriage rides farm tours processing demonstrations pick your own produce a farm theme playground for children farm markets farm produce stands and farmhouse dining rooms

Bona fide farmer

An individual currently actively engaged in a farm operation with a valid Farm Business Registration number in the Town of Caledon

Farm based home industry building

An accessory building to a single detached dwelling where a small scale use is located which is operated by a bona fide farmer which is located on and is subordinate or incidental to a permitted farm operation which is associated with limited retailing of products created in whole or in part in the accessory building performed by one or more residents of the farm property and may include a carpentry shop a craft shop a metal working shop a repair shop a farm equipment repair shop a farm tractor repair shop a plumbing shop an electrical shop a welding shop a woodworking shop a blacksmith a building for the indoor storage of school buses boats snowmobiles or similar uses but shall not include a motor repair shop or vehicle paint shop

Farm winery and farm cidery

“Buildings or structures used by a bona fide farmer for the processing of juice grapes fruit or honey in the production of wines or ciders including the fermentation production bottling aging or storage of such products as a secondary use to a farm operation The winery or cidery may include a laboratory administrative office hospitality room and retail outlet and if required must be licensed or authorized under the appropriate legislation

On farm diversified use building or structure

A building or structure secondary to the principal agricultural use of the property by a bona fide farmer including home occupations farm based home industries and uses that involve the production and sale of value added agricultural products and excludes uses that involve lease of Commercial industrial space

Appendix IV
Stakeholder Engagement

Growth Management Committee

Since 2013, eight (8) separate Growth Management Committee meetings have been held that have provided opportunities to share information and gather stakeholder input into growth management issues, sustainable financing options as well as planning and servicing options.

Growth Management Workshops

Since 2013, four (4) Growth Management Workshops have been held on a series of topics including:

- Growing Where We Invest (1 and 2)
- Sustainable Financing of Growth
- Employment Trends

These workshops have provided opportunities to share information impacting the financing of growth as well as gather input from stakeholders.

2015 Stakeholder Engagement with the Building Industry and Land Development Association (BILD)

February 11th – BILD Meeting – 2015 Capital Plan

- A preliminary meeting was held with BILD staff and the details of the Region's 2015 growth related capital plan were shared.

February 18th – Building Industry Liaison Team (BILT) Meeting

- This meeting was well attended by the development community. A high level presentation on the 2015 DC update process was given.

March 9th – BILD/Region Engagement

- Two meetings were held. At the first Watson & Associates staff reviewed the overall methodology and approach for the 2015 DC update with BILD staff and their financial consultant Altus Group. A second meeting included BILD consultants from RJ Burnside and Associates and the BA Group and Public Works staff. A preliminary review of the 2015 Capital Plan was held.

April 7th – The Region's Public Works Department and BILD Consultant Technical Reviews

- Focused sessions on review of roads, water and wastewater programs with BILD consultants and Region Public Works staff.

April 7th – Finance and BILD Growth Estimate and Draft Rate Reviews

- Meeting involving Watson and Associates Limited, the Region's Integrated Planning Department and Finance Department staff to review growth estimates and preliminary DC rates with BILD and Altus Group.