



# Development Charges Update

**Public Meeting**

**May 28, 2015**

# Agenda

- Background
- DC Policy Considerations
- Preliminary DC Rate Changes
- Stakeholder Engagement Process
- Future Work

# DC Legislative Framework

- *The Development Charge Act (DCA), 1997* outlines the general rules that must be observed in the development and implementation of DC polices (including rates) in Ontario municipalities
- The DC Legislative Framework is supported by:
  - *The Planning Act* that sets out the ground rules for land use planning in Ontario; *and*
  - *The Places to Grow Act* that provides the population and employment forecasts used in DC rate modelling/calculation and DC Background Study preparation
- Municipalities pass By-Laws in accordance with the DCA to govern how DCs are applied/administered in their respective jurisdictions

# DC By-law Legislation

- A municipality must pass a new DC By-law at least every five years
- By-law must be supported by a background study
- There must be one public meeting to allow for representation with notification given at least 20 days prior to the meeting
- The DC background study and by-law must be made available to the public 2 weeks prior to the meeting
- Regional Council can determine if a further public meeting is necessary
- The Regional Clerk shall give written notice of the passing of the by-law
- Once a new DC By-law has been passed, there is 40 day appeal period

# Factors Driving Development Charge Increases Over Time

- While overall costs are somewhat the result of more localized issues, a number of factors are observed within the GTA which have contributed to the increase in the charges since passage of the DCA 1997.
- The following provides some commentary on matters impact the DC cost increases for Water and Wastewater

# Factors Driving DC's

## - Walkerton Recommendations

- a) Since Walkerton, significant cost increase in water treatment due
  - Requirement for redundancy;
  - Increase in quality measures (e.g. chlorine contact time, ultraviolet treatment, chlorine booster stations, etc.);
  - Operational and reporting requirements (SCADA and other controls);
  - Mandated upgrades of systems within stipulated compliance timing; and
  - Enhanced technology (both in quality management and in treatment approaches).

# Factors Driving DC's

## - Walkerton Recommendations

- b) Walkerton recommendations also impacted wastewater because of watershed management ( i.e. reduction in phosphorous and ammonia discharge targets) and enhanced levels of treatment (e.g. movement from primary or secondary treatment to tertiary treatment).

# Factors Driving DC's

## - Locational Factors

- Most GTA development occurring well north of Lake Ontario requiring “Big Pipe” systems to service growth (e.g. Peel/York system to service Aurora/Newmarket, Halton extension to Milton, North Oakville and Halton Hills, Durham extension to Pickering (Seaton));
- More northerly locations require large pipes over long distances, pumping, chlorine boosters, “big pipe” main looping, equalization, land; and
- Note that prior to 1997, “Big Pipe” systems were built by the Province (e.g. Elgin, Huron, Essex Union, Peel, York/Durham sewer etc.).
- More stringent requirements for liner infrastructure emplacement (i.e. tunneling vs. open ditch)



# Factors Driving DC's

## - Uncommitted excess capacity

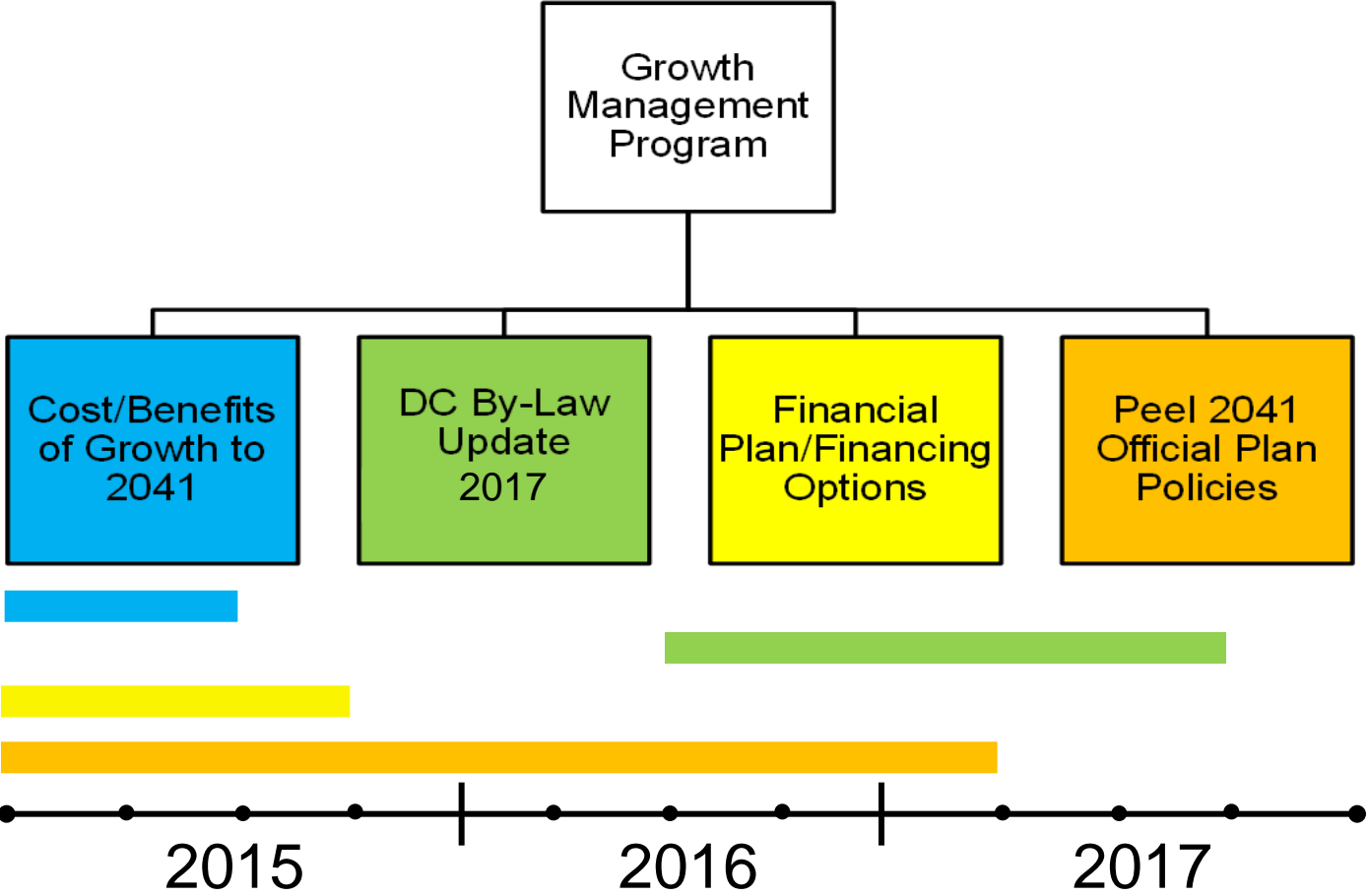
- When DCA 1997 passed, Uncommitted Excess Capacity was deducted. Over time, as excess capacity is used up, the DC will increase as a result. For example:

Stage	% Handled by Excess Capacity	% Required Treatment	\$ per capita
<p><b>Year 0</b></p> <p>Half the projected growth can be handled by excess capacity. The other half will require treatment of \$100/capita.</p>	<p>50%</p> <p>(50% X \$0)</p>	<p>50%</p> <p>(50% X \$100)</p> <p>\$50</p>	<p>\$50</p>
<p><b>Year 5</b></p> <p>Growth has used up half of the available excess capacity leaving capacity to service 25% of growth and 75% at \$100/capita.</p>	<p>25%</p> <p>(25% X \$0)</p>	<p>75%</p> <p>(75% X \$100)</p> <p>\$75</p>	<p>\$75</p>
<p><b>Year 10</b></p> <p>No excess capacity left in the plant.</p>	<p>0%</p> <p>(0% X \$0)</p>	<p>100%</p> <p>(100% X \$100)</p> <p>\$100</p>	<p>\$100</p>

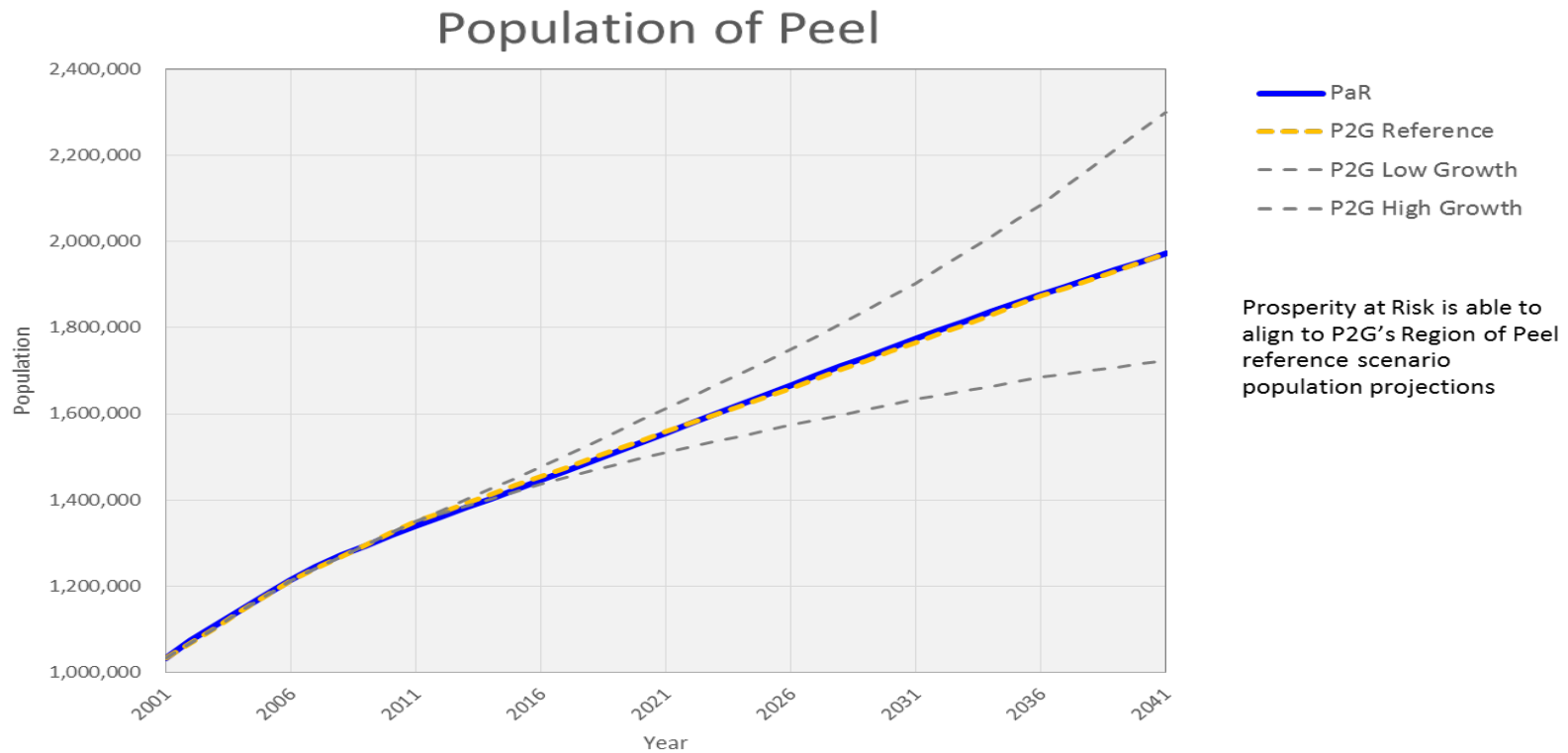
# Growth Management Program

- Supports Long-term Financial Planning Strategy including principle that “growth should pay for growth”
- Key Components of Growth Management Program include:
  - Adoption of 2031B & 2041 Provincial forecasts
  - Adoption of 2031 & 2041 growth #s by SGUs
  - Development of master servicing plans
  - 2017 DC By-law update based on 2031B and 2041 Provincial growth forecasts and related master servicing plans to be developed

# Growth Management Program Overview

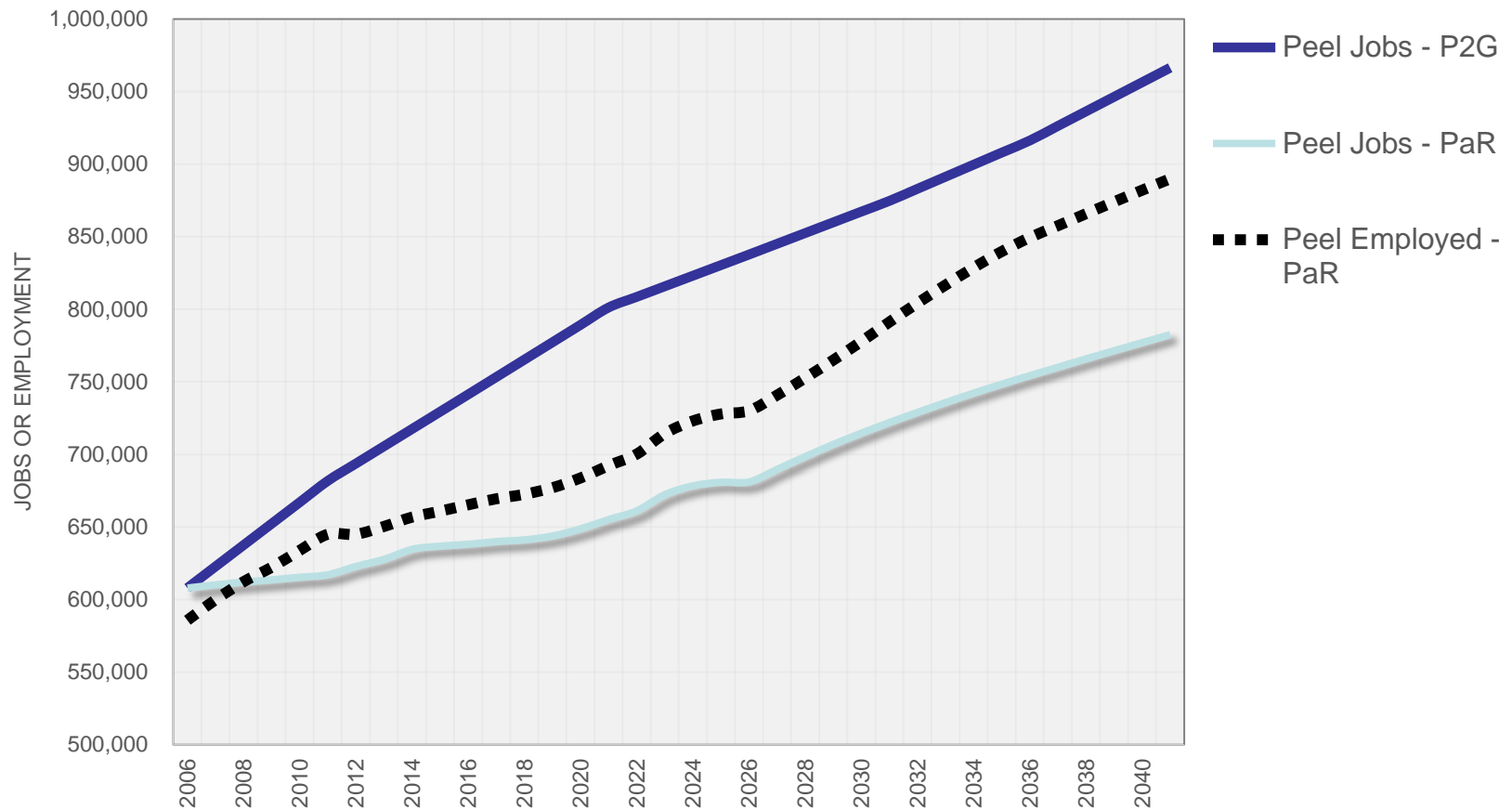


# Peel Expected to Achieve P2G Population Forecast



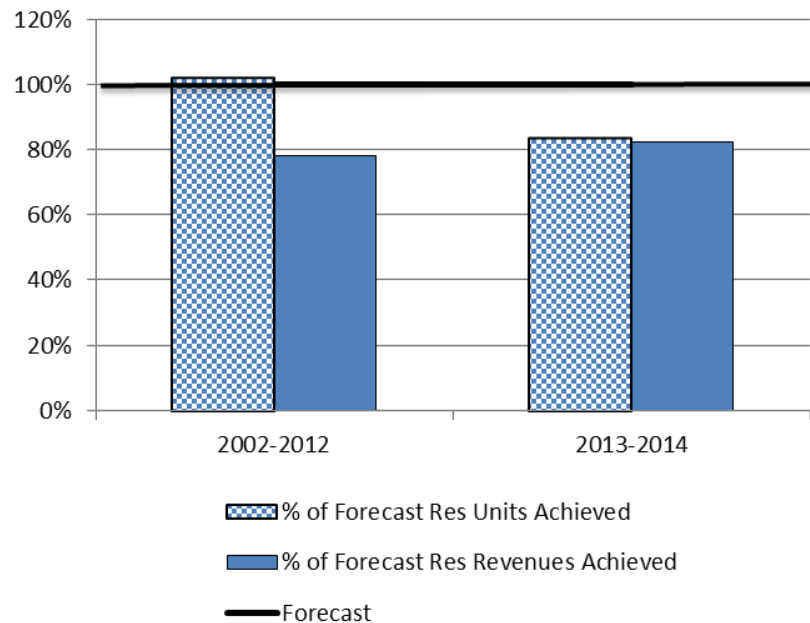
# Will Peel Achieve P2G Employment Forecast?

## PEEL JOBS & EMPLOYMENT

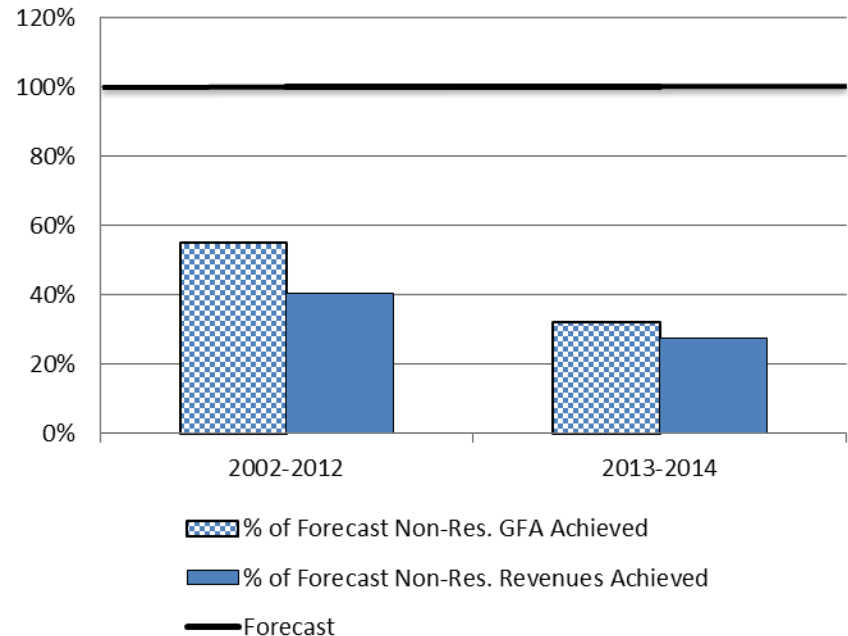


# Variations From Growth Forecasts

## Residential DC Activity



## Non-Residential DC Activity



# Council's Staff Direction

- Resolution 2012-949:
  - Annual adequacy assessment of DC rates
  - CFO to commence new background study if rate shortfall > 20 %
  - New by-law in 12 months to give development industry time to transition
  
- 2014 capital plan: shortfall 15.5 %
  
- Resolution 2014-593 (June 2014):
  - start new DC Background Study for new by-law in July 2015
  - BILD notified and in turn notified members

# Key DC Policy Considerations Received at April 30<sup>th</sup> Growth Management Committee for Consideration in By-law

- Review of 750ft<sup>2</sup> small unit threshold size
- Review and potentially revise “agricultural use” definition
- Unbundle current “other residential” into singles/semis and other residential categories
- Consider collection of “hard service” DC for residential properties at time of subdivision approval



# Potential Change of Small Unit Size from 750ft<sup>2</sup> to 700 ft<sup>2</sup>

- Consider reducing Peel's small unit threshold size from 750 sq. ft. to 700 sq. ft.
- Match City of Mississauga change in 2014 By-law
- City of Mississauga change under appeal at the OMB
- The City of Brampton and the Town of Caledon still at 750 sq. ft.
- Regional staff recommend maintaining current threshold and potentially revisit in the 2017 DC By-law update

# Review “Agriculture Use” Definition

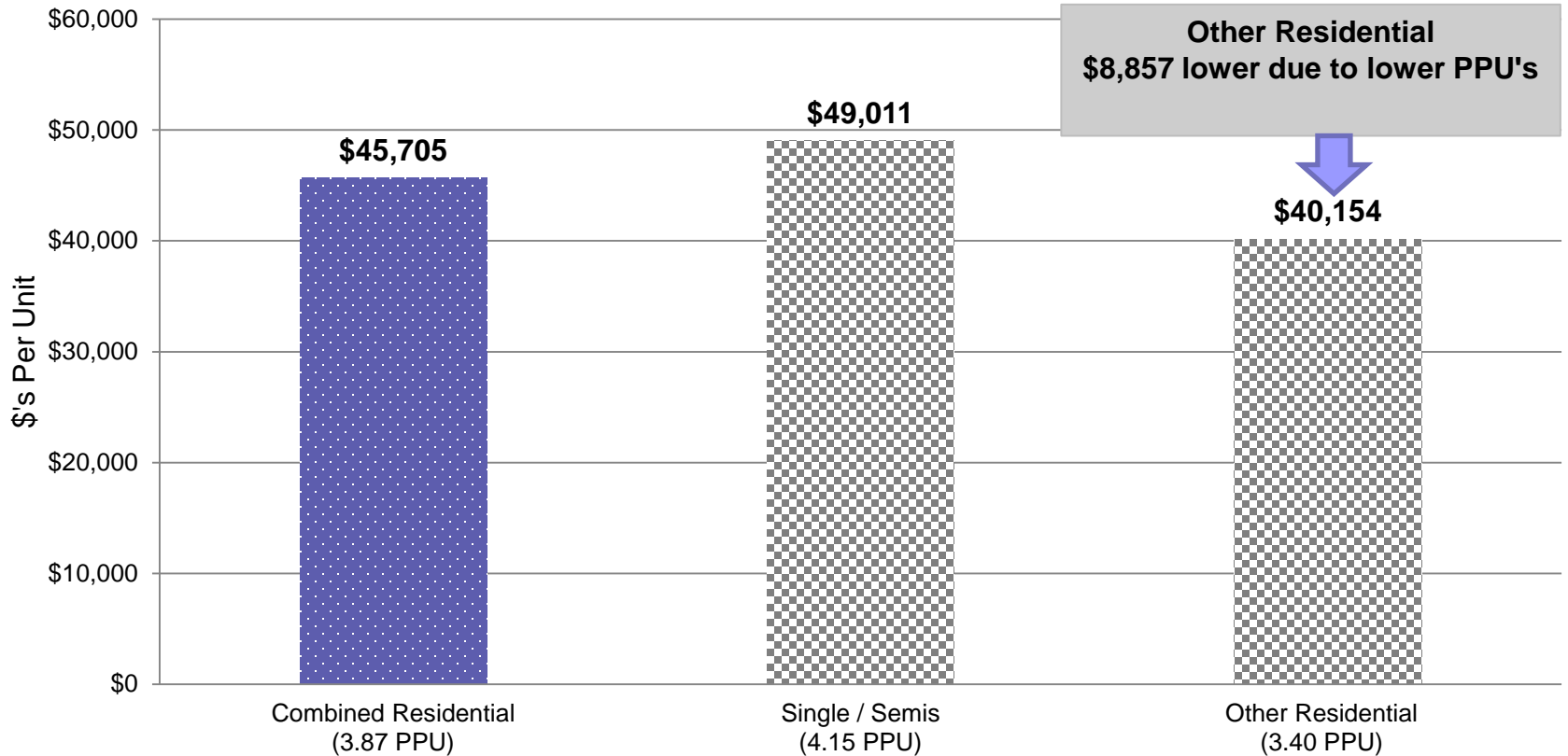
- Motions raised at April 30<sup>th</sup> GMC
  - On-farm diversified uses on agricultural properties
  - Secondary dwellings on agricultural properties for farm workers
- Regional staff reviewing impact of additional agricultural exemptions
- Regional staff will report back to Council on June 25, 2015

# Separate Categories for Semi/Singles and Other Residential

- The Region currently has “other residential” rate category that combines single, semi-detached, rowhouses and other multiples
- Town of Caledon and the City of Brampton separate singles/semis and rows/other multiples
- Separating or “unbundling” would be revenue neutral overall
- Lower rate for other residential compared to singles/semis due to lower PPU
- Supports intensification and affordable housing
- Regional staff recommend separate singles/semis and other residential rates

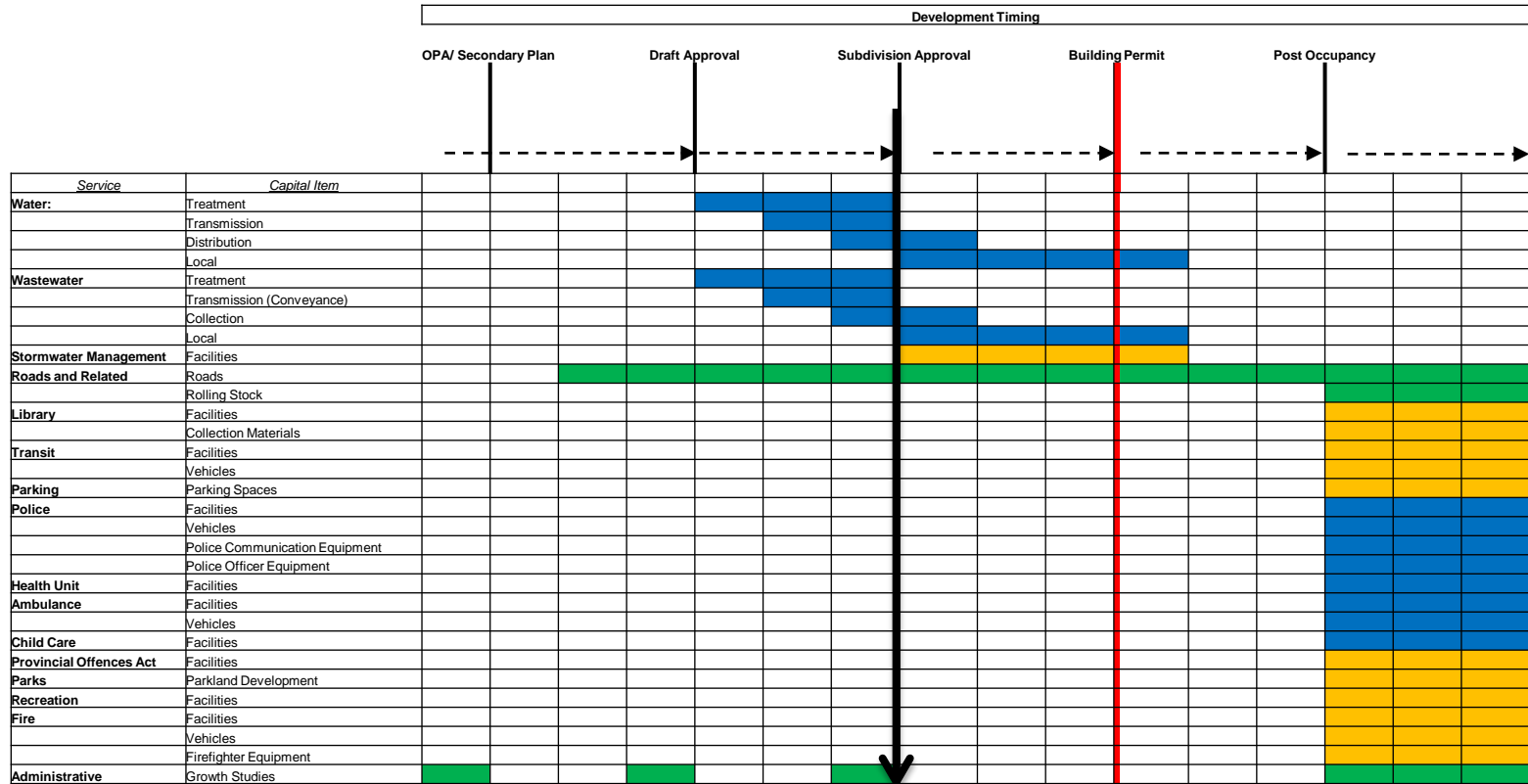
# Separate Singles/Semis and Other Residential Categories

## Impact of Separating Singles/Semis from Other Residential



# Investing in Infrastructure for Growth

## Peel Assumes Risk



Proposed stage at which Region will collect hard service DCs

Stage at which Region currently collects DC

Blue – Region

Yellow – Area Municipality

Green – Area Municipality & Region

# Collect Hard Service DCs at Subdivision Agreement

- Advance payment of DCs for water, wastewater and roads eight months sooner – less than original estimate
- Similar process followed by York, Durham and Halton
- Reduce borrowing by \$100M
- Administrative impact on the Region, area municipalities and developers
- 2.5 FTEs to administer - \$300K annually in tax supported budget
- Regional staff recommend collection of DCs at plan of subdivision agreement and one of the financial options being reviewed/considered

# DC Cost Distribution

Growth-related Costs

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graph TD; A[Growth-related Costs] --> B[Residential Development DC Rates]; A --> C[Non-residential Development DC Rates];
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Residential  
Development DC Rates

Non-residential  
Development DC Rates

- Share of Water Consumption Increasing
- Assessment Values and Growth Faster than Non-residential

- Share of Water Consumption Decreasing
- De-manufacturing Trend

# Key Factors Driving Residential and Non-Residential Rates

- Comparative (residential vs non-residential) demand for Regional services
- Persons Per Residential Unit
- Floor Space Per Worker/Employee



# Persons Per Unit (PPU) Changes – Impact on Rates

- Denser residential populations / Peel PPU's increasing
- Residential costs distributed by person
- Higher PPUs result in higher residential DC rates per unit

# Floor Space per Worker (FSW) Changes – Impact on Rates

- Bigger buildings and fewer workers / more floor area per worker
- Non-residential costs distributed by employee
- Higher FSW results in lower-non residential DC rate per square metre

# % PPU and FSW Changes

Assumptions	2012 DC Study	2015 DC Update	% Change
<b>Residential - PPU</b>			
Current Other Residential	3.50	3.87	10.6%
Singles/Semis	n/a	4.15	18.6%
Other Residential - e.g. Townhouse	n/a	3.40	-2.9%
Small Unit	1.30	1.68	29.2%
Apartment	2.50	2.54	1.6%
<b>Non-Residential - FSW - M<sup>2</sup>/ Worker</b>			
Industrial	90	149	65.6%
Non-Industrial	35	37	5.7%

# Technical Adjustments and Revisions

<b>DC Summary for Technical Review</b>		
<b><u>DC Reductions</u></b>		
Construction Cost Index (CCI) Adjustments		(71,998,850)
GE Booth		(119,627,379)
Potential excess water capacity to be recovered after 2031		(250,000,000)
Benefit to Existing/Other		(6,259,376)
<b>Total Reductions</b>		<b>(447,885,605)</b>
<b><u>DC Additions</u></b>		
BRES Infrastructure (Caledon POPA-14-04)		81,812,082
Other Corrections		36,727,510
<b>Total Additions</b>		<b>118,539,592</b>
<b>Net DC Decrease</b>		<b>(329,346,013)</b>

# Cost Per Person Increase

## Residential Cost Per Person

2012	2015	Amount of Change \$	% Increase
\$10,401	\$11,810	\$1,409	13.5%

## New Proposed Cost Per Person & PPU

Rate Category	2015 Bylaw - May 6, 2015	
	Cost Per Person	PPU
Singles/Semis	\$11,810	4.15
Other Residential	\$11,810	3.40
Small Unit	\$11,810	1.68
Apartment	\$11,810	2.54

## Existing Cost Per Person & PPU

Rate Category	Cost Per Person	PPU
Current Other Residential	\$10,401	3.50
Small Unit	\$10,401	1.30
Apartment	\$10,401	2.50

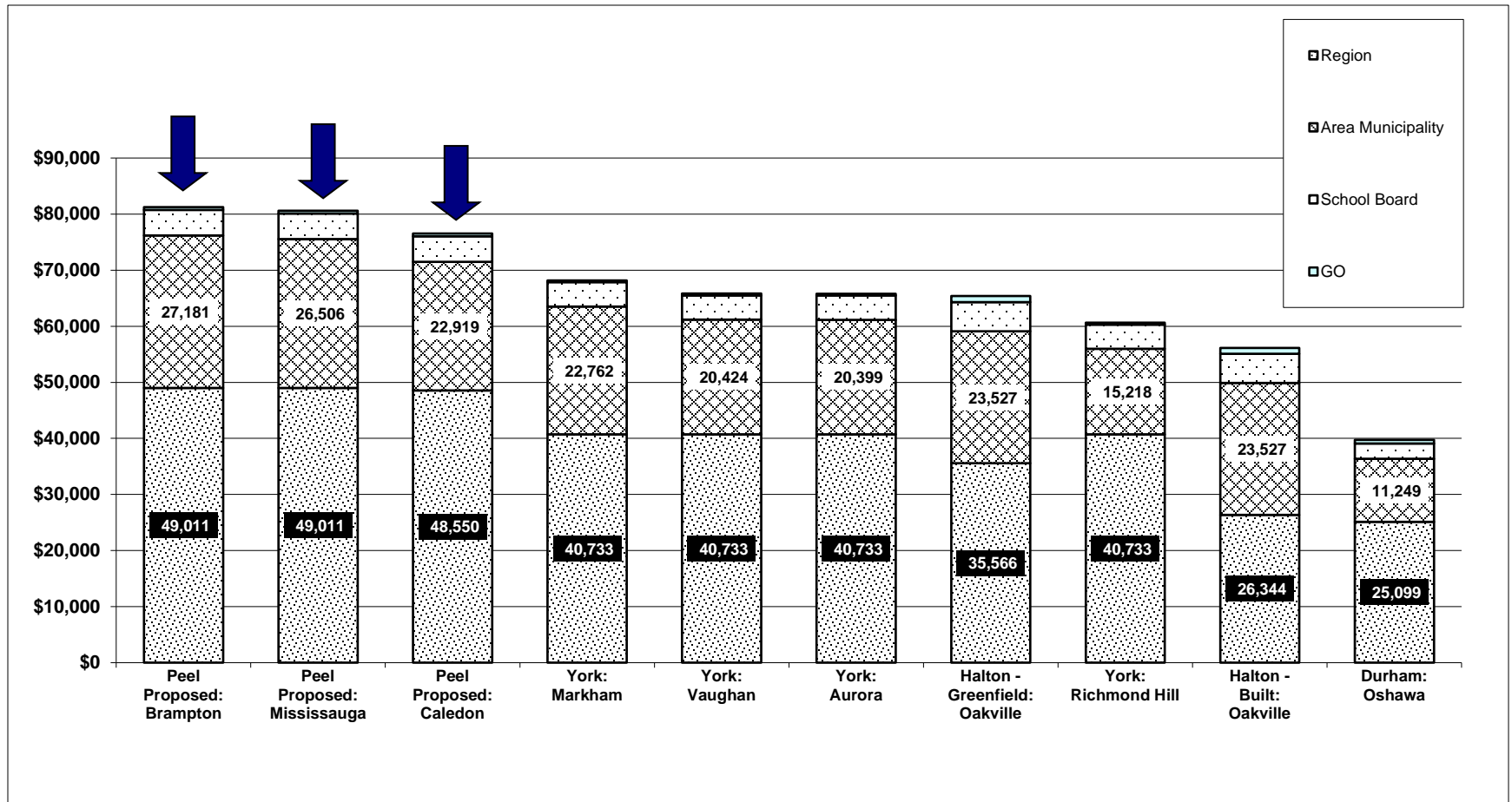
# Residential DC Rate Changes (May 2015)

Type of Development	Current Rates	Preliminary Rates (May 2015)	Amount of Change \$	% Rate Change	% PPU Change from 2012
<b>Residential</b>					
Current Other Residential *	\$36,402	n/a	n/a	n/a	10.60%
Singles/Semis**	n/a	\$49,011	\$12,609	34.64%	18.60%
Other Residential – e.g. Townhouse	n/a	\$40,152	\$3,750	10.30%	-2.90%
Small Unit (<750 sq. ft.)	\$13,521	\$19,841	\$6,320	46.74%	29.20%
Apartment (>750 sq. ft.)	\$26,002	\$29,996	\$3,994	15.36%	1.60%

# Non-Residential DC Rate Changes (May 2015)

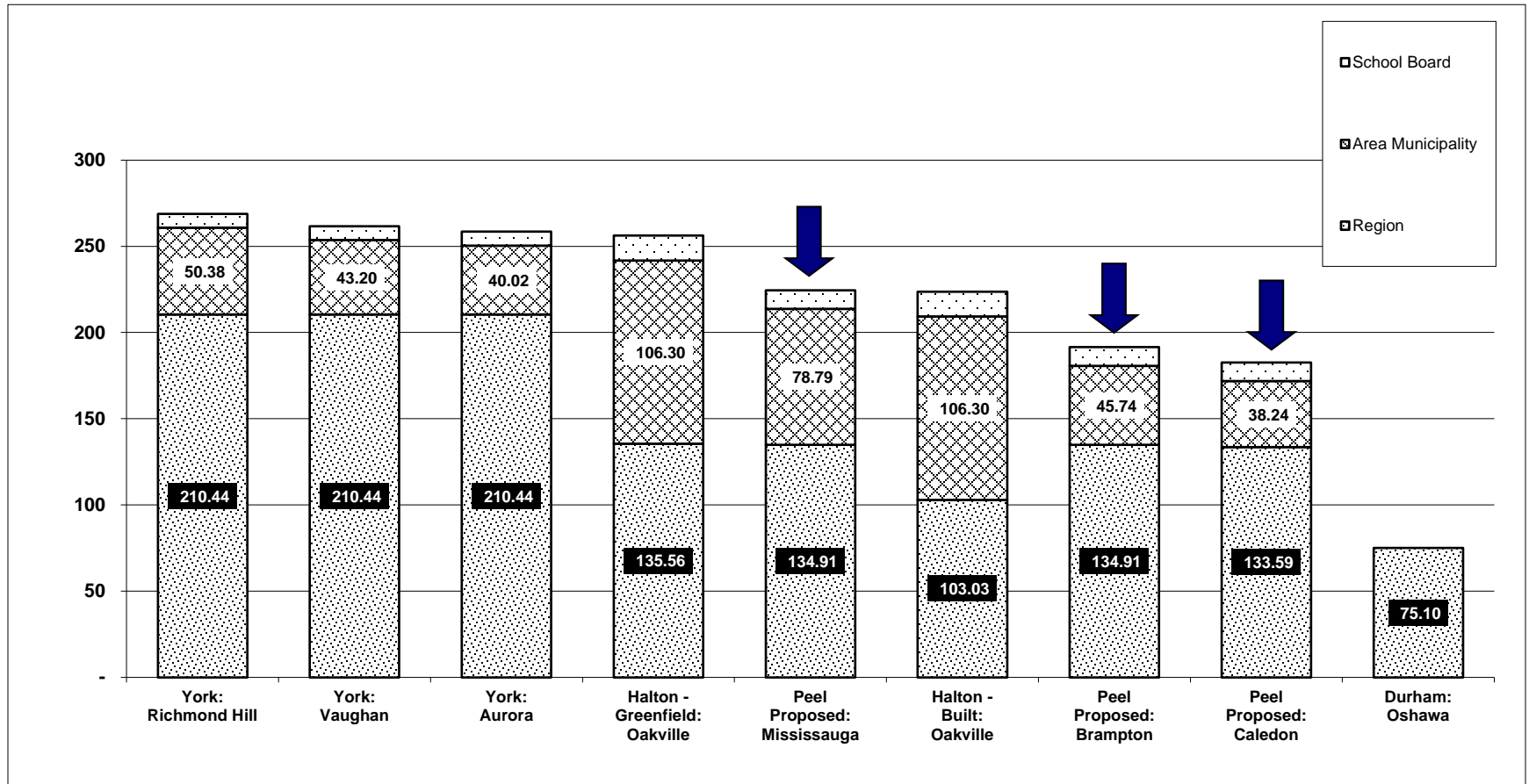
Type of Development	Current Rates	Preliminary Rates	Amount of Change \$	% Rate Change
Industrial (per. M <sup>2</sup> )	\$137.06	\$134.91	\$-2.15	-1.57%
Non-Industrial (per M <sup>2</sup> )	\$199.57	\$204.48	\$4.91	2.46%

# Singles/Semis Rates Comparisons – GTA Municipalities





# Industrial Rate Comparisons – GTA Municipalities



# Stakeholder Engagement Process

- Consultation with Area Municipalities on potential policy and process changes
- Early and continued engagement of the development community in sharing of information
- Growth Management Committee and Workshops
- BILD has been actively engaged partner in process – BILD & Orlando made deputations to April 30<sup>th</sup> GMC
- DC By-Law review Public Meeting on May 28, 2015
- Present new DC By-Law to Regional Council on July 9, 2015 for consideration and approval

# Timelines

2015



**We Are Here**

New DC By-Law Adoption by Council July 9, 2015

Public Meeting May 28, 2015

Release of Background Study May 13, 2015

Draft Background Study to Senior staff and the Development Community 2015/Q2

Watson & Associates background study including rates & input review 2015/Q1-2

Discussed Potential DC Policy Changes with Regional Staff and Area Municipalities

Began 2015 DC Background Study per Council Direction – 2014/Q3

Completed DC Rates Adequacy Tests Based on 2014 & 2015 Capital Plans

Employment Trends Study (Hemson) – 2012/2013

Work Completed

2012

# Bill 73 – Proposed Changes to the DCA

## Overview

- New legislation
- Feedback from public review
- Region of Peel made submission
- No regulations to date
- Working groups
- Can proceed with 2015 update under old legislation
- Change will impact 2017 update

# Bill 73 – Proposed Changes to the DCA

## Areas of Change

- Transit
- Waste diversion
- Service Standard Calculations
- Voluntary payments
- Area specific DCs
- Asset management Plan
- Annual report of Treasurer

# Future Work / After 2015 DC Update

- Implement process for the collection of DC at time of subdivision agreement
  
- 2017 DC By-law Update
  - Determine distribution of population and employment growth forecasts based on growth projections to 2041 from Province's Places to Grow plan
  
  - Update Regional Master Plans and determine servicing costs based on 2041 growth projections
  
  - Consider further financing options including allocation programs ("Made in Peel" solution) subject to interpretation of Bill 73
  
  - Update DC By-Law in late 2017 based on growth forecasts to 2041, updated Regional master servicing plans and Bill 73 and potentially other financing options

# Impact of Deferring By-law to October 2017

- \$96 million in lost revenue
- Potential issuance of additional \$200 million in DC Debt
- Would be impacted by Bill 73
- By-law expires in October 2017
- Delay in advancing administrative and planning objectives in relation to:
  - Better policy alignment with the area municipalities where practical
  - Residential intensification
  - Social housing development

# Impact of Deferring By-law to October 2015

- \$22 million in lost revenue
- Might be impacted by Bill 73
  - If so, would require reworking of by-law and background study
  - Rework would likely be completed in 2016
- Delay in advancing administrative and planning objectives in relation to :
  - Better policy alignment with the area municipalities where practical
  - Residential intensification
  - Social housing development



# Impact of Debt on Credit Rating

## S & P

“We believe the region demonstrates strong financial management, which has a very positive impact on its credit profile”

## Moody's 2014

A significant increase in debt issuance beyond current expectations, along with a material decrease in the region's level of cash and investments, could apply downward pressure on ratings

# Why Update Now

- Ensure DC revenues keep pace with growth
- Minimize issuance of debt
- Fairness of DC charge based on PPU's in residential categories