

For Information

DATE: April 27, 2012

REPORT TITLE: **2012 DEVELOPMENT CHARGES BACKGROUND STUDY – UPDATED**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide Council with an update on the revised estimated DC rates and revised policies to be included in the updated DC by-law and various activities directly related to the review and consideration of the 2012 Development Charges (DCs) By-law.

REPORT HIGHLIGHTS

- Final version of DC background study is completed and the DC rates are reduced marginally from those presented in the preliminary findings to Council on March 29, 2012; \$38,905 for single family residential unit, \$146.12 per sq. m for industrial and \$210.62 per sq. m. for non-industrial, and generally remain comparable for most categories to other GTA regions when combined with local and school board amounts.
- DC-related debt to be issued is estimated at \$2.6 billion.
- Report includes DC policy changes (no major changes) that will be proposed in the pending DC by-law to assist staff manage the DC program more effectively and to address situations that have arisen since adoption of the current By-law in 2007.
- Development industry (BILD) has been reviewing preliminary DC background study and will meet with Council on May 17, 2012 to share perspectives on growth management options.

DISCUSSION**1. Background****a) Actions Arising from March 29, 2012 Council Meeting**

At the meeting on March 29, 2012, Council approved the recommendation in the joint report from the Chief Financial Officer and Commissioner of Corporate Services and the Commissioner of Public Works titled "2012 Development Charges Study – Preliminary Findings", dated March 21, 2012, pertaining to the engagement of the Building Industry and Land Development Association (BILD). To facilitate BILD's review of the DC rates and growth projects a preliminary background study was provided on April 4th. BILD is currently reviewing the preliminary background study and meetings between staff and BILD's consultants to discuss the technical details within the study have commenced.

April 27, 2012

2012 DEVELOPMENT CHARGES BACKGROUND STUDY

Council also approved the recommendation to meet with BILD to receive its feedback on the preliminary findings in the subject report and to discuss options to minimize the costs of growth management in Peel in the current financial environment. An informal, open meeting between Council members and BILD has been scheduled for May 17, 2012.

b) Final Version of DC Background Study

As indicated to Council the preliminary study was subject to finalization of the 2011 financial estimates and completion of an external third party peer review of the preliminary analysis. Both the 2011 financials and the peer review have been completed and are incorporated into the final version of the background study which will be available on the Region of Peel's internet website on May 10th.

2. Findings

a) Revised DC Rates

The revised estimated DC rates vary marginally from the preliminary DC rates presented to Council on March 29. The main difference is attributed to a less negative 2012 opening balance and some of the technical assumptions in the DC model have also been updated. The revised estimated DC rates for the categories of properties are presented in Figure 1 below:

Figure 1 - Revised Estimated DC Rates by Category - Region of Peel				
	Current Rates	Preliminary Rates (March 29)	Revised Estimated Rates	Increase in Current vs. Revised Rates
Other Residential	\$17,629	\$39,136	\$38,905	\$21,276
Apartment (>750 sq. feet)	\$12,592	\$27,995	\$27,789	\$15,197
Small Apartment (<750 sq. feet)	\$6,548	\$14,537	\$14,450	\$7,902
Industrial (per sq. metre)	\$65.79	\$146	\$146.12	\$80.33
Non-industrial (per sq. metre)	\$94.21	\$209	\$210.62	\$116.41

Note: Regional DC rates do not include the GO Transit portion that is recovered through a separate by-law (45-2001) which has been extended by the Province to December 31, 2013.

The revised DC rates for Peel compared to the other GTA municipalities are presented in Appendix I. When the Regional, local, school board and GO Transit where applicable, portions are combined, the Peel DC rates are generally comparable for most categories with other regions. It is important to note that there are some differences in the definition of the categories which affect the comparison of the rates for some types of development such as office buildings. As well, some municipalities have policies that provide benefits to select categories that may impact any comparison.

b) Debt Implications

The projected amount of debt to be issued to support the DC program is estimated to be \$2.6 billion, which includes the \$723 million issued to date. Staff will be bringing forth a report requesting the borrowing amount for this year. The review of the Region's credit rating is anticipated to be undertaken during the period of May-June.

April 27, 2012

2012 DEVELOPMENT CHARGES BACKGROUND STUDY**c) DC Policies**

Staff is currently reviewing the policies contained within the current DC By-law in order to help manage the DC program more effectively and to address situations that have arisen since adoption of the current By-law in 2007. No major changes to the By-law are contemplated. The policy revisions proposed to be included in the pending DC By-law include:

- Clarification to places of worship exemption; and
- New DC deferral payment conditions.

- i) Clarification to Places of Worship Exemption:** The current by-law provides an exemption for places of worship for that portion of a building or structure owned by a church or religious organization which is used only as a place of worship (section 11.1.e). The proposed change would amend the policy to add greater clarity to the same clause in order to ensure that the exempted portion of the building is used solely by the "whole congregation" as a place of worship.

This change clarifies the intent of the change in policy at the time of the 2007 DC by-law. The Region introduced a change to allow for the exemption limited to "space used as a place of worship"; however, there has been some confusion as to whether it also extends to places like priests' prayer areas, assembly areas and offices. The intent of the policy is to limit the exemption to the area of worship that is explicitly used only by the congregation and not to any other area. The policy still maintains a balance between the demands placed on Regional services that a building used for religious purposes creates and recognizing the societal benefits that religious buildings provide to the community. The exemption remains voluntary in nature and still places the Regional DC policy between the City of Mississauga DC policy which does not provide for any exemption and that of the City of Brampton and the Town of Caledon, both of which provide for a general exemption, with certain conditions in the case of Brampton.

- ii) New DC Deferral Payment Conditions:** Section 6 (2) of the current DC By-law provides that the Chief Financial Officer (CFO) is authorized to enter into agreement for the payment of development charges before or after it would otherwise be payable, pursuant to section 27 of the *Development Charges Act, 1997*. The new policy proposes specific terms and conditions to enable the CFO to administer a consistent agreement and for property owners to be aware of such conditions in advance of any request for payment deferral. It is proposed that the CFO be authorized to enter into agreements with only non-residential use property owners requesting a deferral in the payment of their development charges to require that:

- security be provided in an amount and having form and content that is satisfactory to the CFO (e.g. an irrevocable letter of credit), to be drawn upon in the event that the owner does not pay the charge;
- the agreement contain provisions to index the DC amount payable by the semi-annual DC rate adjustment;
- the period of the deferral not exceed four years commencing from the signing of the agreement; and
- a \$500 non-refundable administration fee would be charged to applicants to cover costs associated in preparing and maintaining the agreement.

April 27, 2012

2012 DEVELOPMENT CHARGES BACKGROUND STUDY**3. Proposed Direction****a) Next Steps**

The DC meeting with BILD scheduled for May 17, 2012 presents an opportunity to discuss with BILD issues raised by Council at its meeting on March 29, 2012 as well as at the DC information session for Council members held on February 24, 2012 such as advancing the collection of DCs on some types of development from the current building permit stage and possible application of front end financing arrangements on some infrastructure projects. BILD has expressed its concern with the timing of the implementation of the by-law update and the need for transitional measures to cushion the impact of the new DC rates on its members.

The mandatory public meeting required under section 12 of the *Development Charges Act, 1997* will take place on June 14, 2012. As required by the *Act*, public notice of the meeting will be provided 20 days in advance. The DC background study and draft By-law are to be made available to the public two weeks in advance of the meeting. The proposed DC By-law will be presented for Council approval on July 5, 2012. The current By-law expires on October 4, 2012.

b) Hospital Services as DC Component

As discussed at Council on March 29, 2012 there is a desire to see the *Development Charges Act, 1997* amended to make hospital capital costs an eligible component of the DC rate, as it was under the previous version of the *Act*. The removal of the ability for municipalities to raise funds for hospitals from development charges has lead to some municipalities levying taxes and impacting existing taxpayers or making other contributions to help fund the 10 per cent community component for new hospitals. The Ontario government has not made reform of the *Act* a priority, therefore; the 2012 DC update will proceed under the provisions of the current *Act*.

c) New DC Discount for Office Use

As indicated to Council in the preliminary findings report on March 29, development charges revenue over the 2007-2011 period for the non-residential sector has underperformed compared to forecast amounts identified in the previous DC background study, achieving only 25 per cent of forecast. Economic growth over the next several years is anticipated to be slow (*TD Economics* projects sluggish economic recovery to 2016). There is also recognition that business location decision-making occurs in a very competitive environment. Therefore, staff is examining potential means to stimulate development and employment within the office sector in Peel and to help the Region achieve its 50 persons/jobs per hectare targets under *Places to Grow*.

Discussions with the area municipalities have identified both the benefits of such an incentive while also flagging potential limitations that may result in a neutral impact. From a community development perspective, office development tends to attract relatively high paying jobs and can help to further diversify the employment base. An incentive for other employment sectors such as retail and other service establishments is not being considered as these businesses tend to naturally be demand driven.

Two options are currently being reviewed as a basis for the incentive across the entire Region and include the application of either:

April 27, 2012

2012 DEVELOPMENT CHARGES BACKGROUND STUDY

- the industrial DC rate which is lower (currently 43 per cent) than the otherwise applicable non-industrial rate to new office use buildings. This method is currently utilized by Brampton for eligible buildings under its Roads DC by-law; or
- a fixed percentage discount to the DC rate for new office buildings.

Staff will bring forward a separate report on this subject at a future meeting of Regional Council. In considering details about either option staff will need to attempt achieving a balance between the benefits sought (i.e. development and jobs) and the cost of the program. A minimum size threshold is likely to be considered necessary in order to attract a significant scale development representing a meaningful level of employment that warrants such an incentive and also to limit the potential financial exposure of the Region and help make the program manageable.

FINANCIAL IMPLICATIONS

The estimated DC rates represent the proposed charges to be assessed on new development to sustain the funding of growth infrastructure costs (\$4.8 billion) across the Region of Peel over the next 20 years. The related borrowing requirements estimated at \$2.6 billion have been factored into the financial modeling of the DC background study.

As Council was advised on March 29, 2012 staff is proposing there not be a transition period as the Region has incurred \$723 million of DC-related debt to date and the cost of any transition would result in additional borrowing. The building industry is well aware of the expiry of the current By-law. The transition period provisions associated with approval of the current DC By-law are estimated to have resulted in approximately \$45 million in forfeited DC revenues which have contributed to the DC Reserve deficit.

CONCLUSION

The revised estimated DC rates form the basis of the proposed charges to be considered by Council and the public including key stakeholders such as BILD. Regional staff is working with BILD during its review of the background study which is to be further discussed at the public, informal meeting on May 17, 2012.



Norma Trim

Chief Financial Officer

and Commissioner of Corporate Services

Approved for Submission:

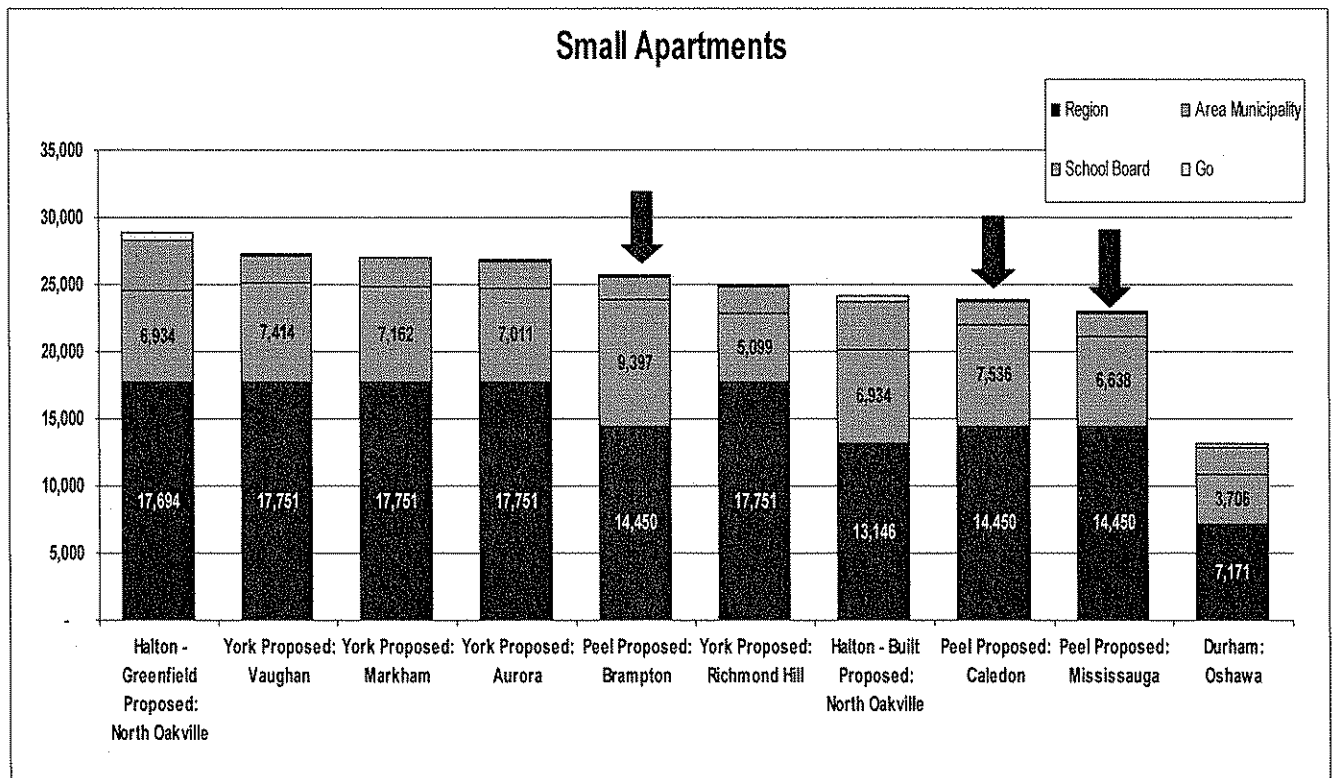
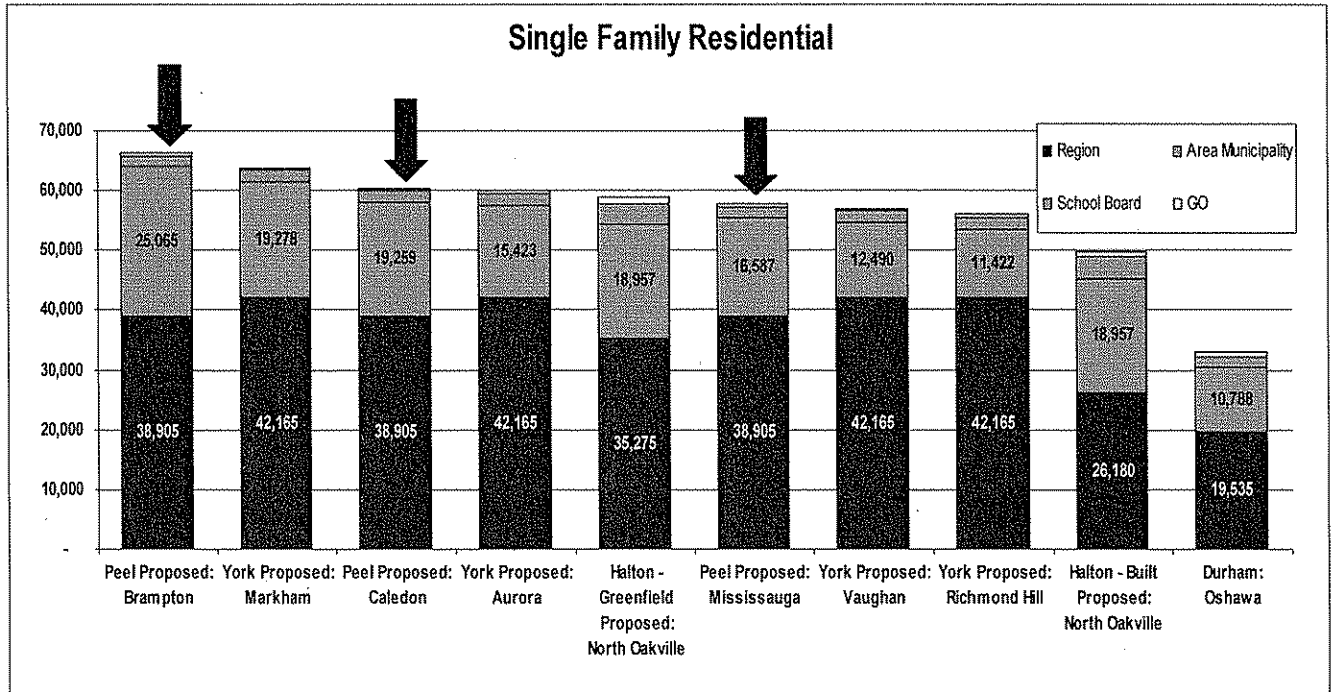

D. Szwarc, Chief Administrative Officer

For further information regarding this report, please contact Dave Bingham at extension 4292 or via email at binghamd@peelregion.ca

April 27, 2012
 2012 DEVELOPMENT CHARGES BACKGROUND STUDY

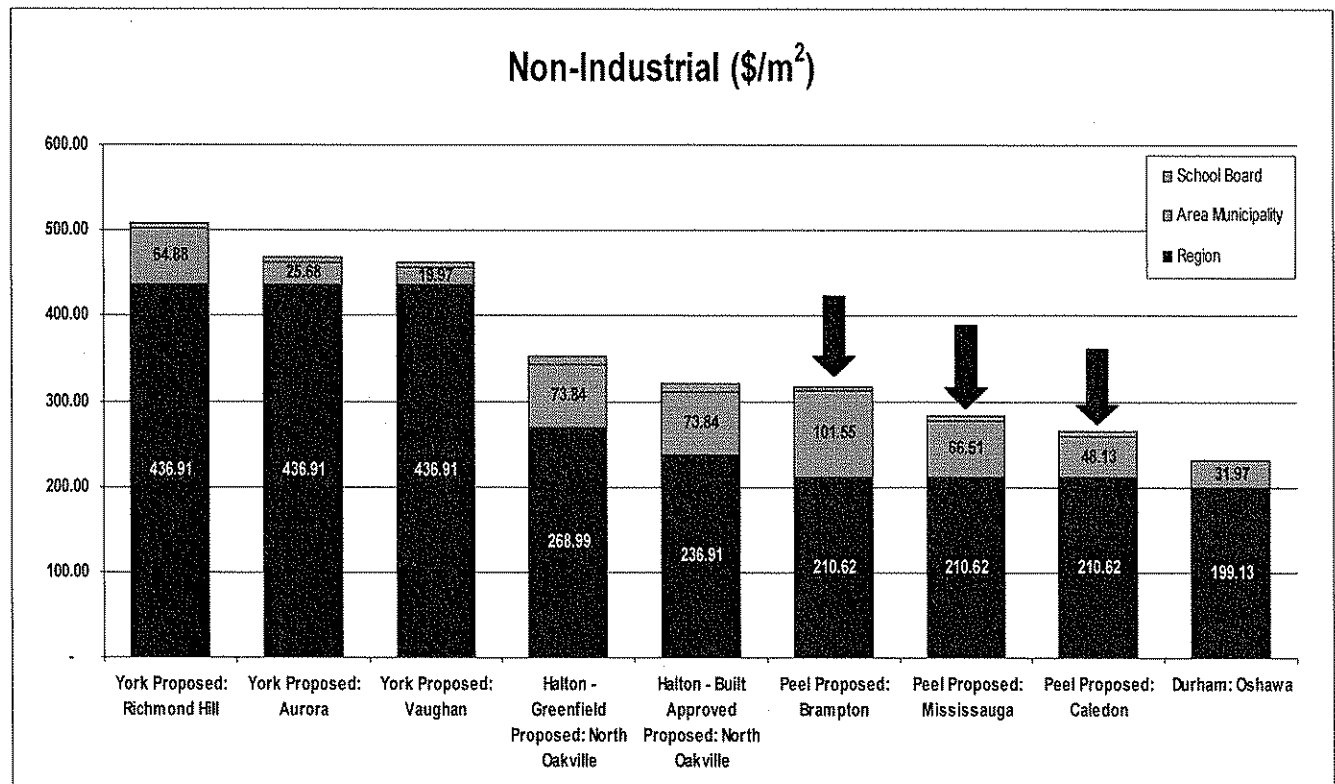
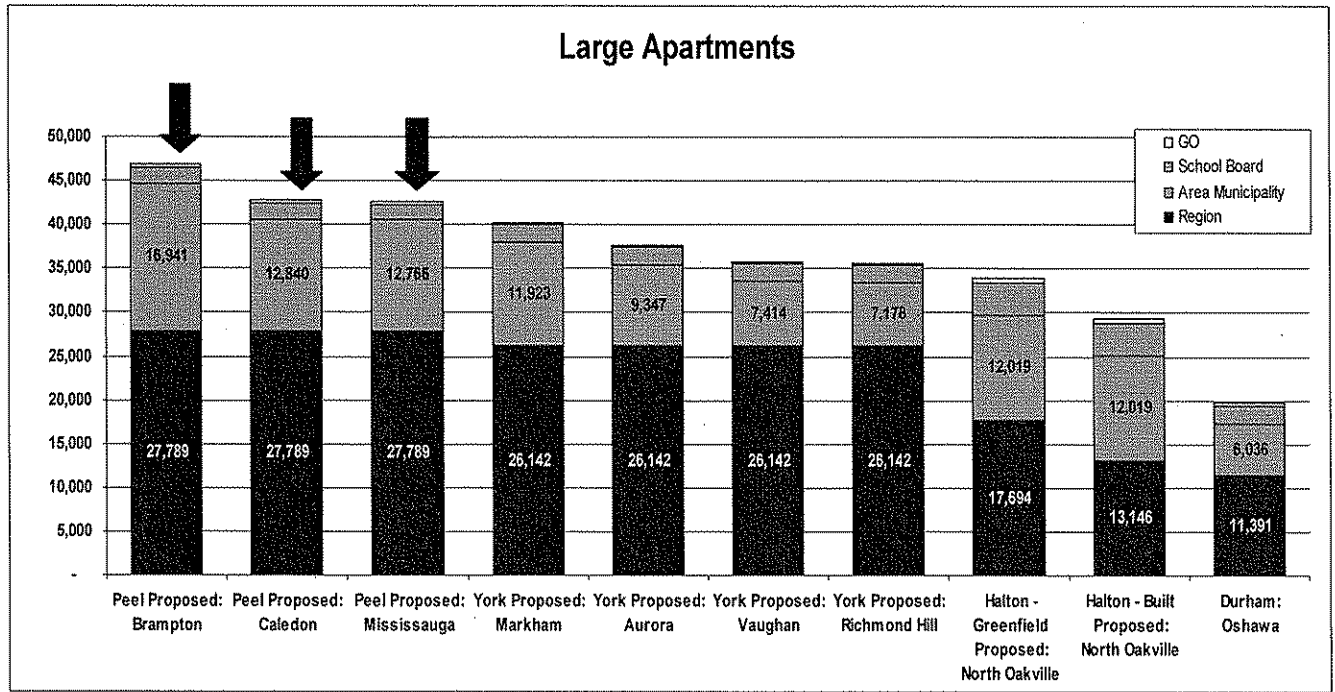
APPENDIX I

Comparison of DC Rates - GTA



April 27, 2012
2012 DEVELOPMENT CHARGES BACKGROUND STUDY

APPENDIX I



April 27, 2012

2012 DEVELOPMENT CHARGES BACKGROUND STUDY

APPENDIX I

