



# Development Charges Study: Area Rating Background Information

Council Added Agenda  
March 22, 2022



# What is the purpose of DC recovery?

## Development Charges = Cost recovery for growth infrastructure

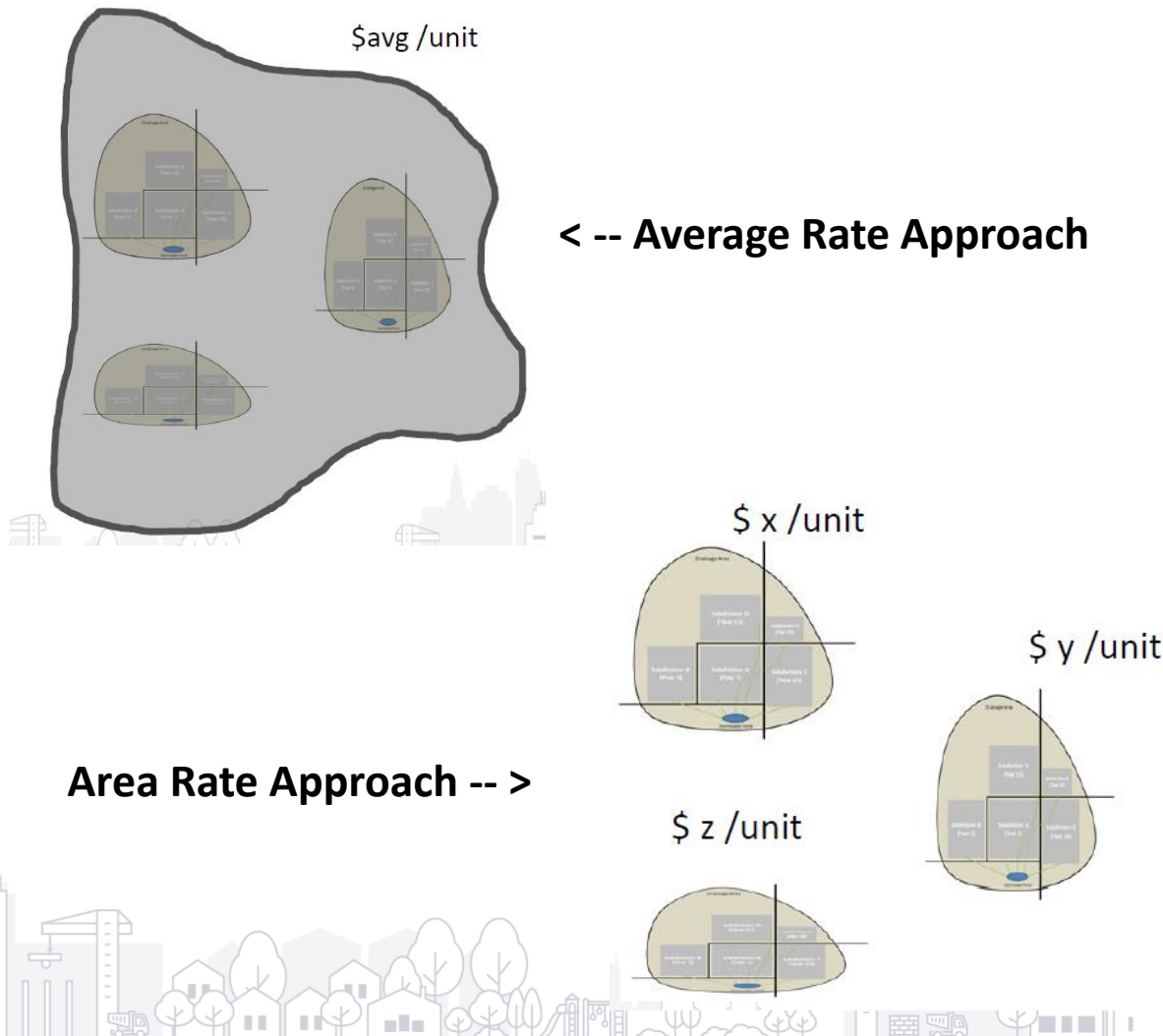
- DCs are a tool to:
  - generate funding necessary to pay for infrastructure required for new homes and businesses;
  - ensure that existing homeowners and business are not paying through taxes or water/sewer rates for growth infrastructure costs they are not benefitting from;
  - enable servicing to be provided for all growth areas city-wide and to provide an equal access to municipal servicing for all lands; and,
  - provide a plan for investment in services and infrastructure to facilitate growth at a pace that the municipality can afford.



# What rules govern DC collection?

- Development Charges collection must be compliant with the Development Charges Act and the Act requires a municipal by-law to stipulate the rules for the payment of DCs
- There are two important sections of the DC Act related to area rating:
  - *5 (6) 2. If the rules expressly identify a type of development they must not provide for the type of development to pay development charges that exceed the capital costs [...] that arise from the increase in the need for services attributable to the type of development. However, it is not necessary that the amount of the development charge for a particular development be limited to the increase in capital costs, if any, that are attributable to that particular development.*
  - *10 (2) (c.1) The development charge background study shall include an examination, for each service to which the development charge by-law would relate, of the long term capital and operating costs for capital infrastructure required for the service; [...] consideration of the use of more than one development charge by-law to reflect different needs for services in different areas.*
- DC By-laws are appealable to the Ontario Land Tribunal

# What is Area Rating (in theory)?



- The “Average Rate Approach” takes growth costs from all areas of the city and divides the cost by city-wide growth to establish a rate that is charged equally for all areas.

- The “Area Rate Approach” looks at the infrastructure and costs for specific areas and establishes separate charges for each area based on their unique infrastructure costs.



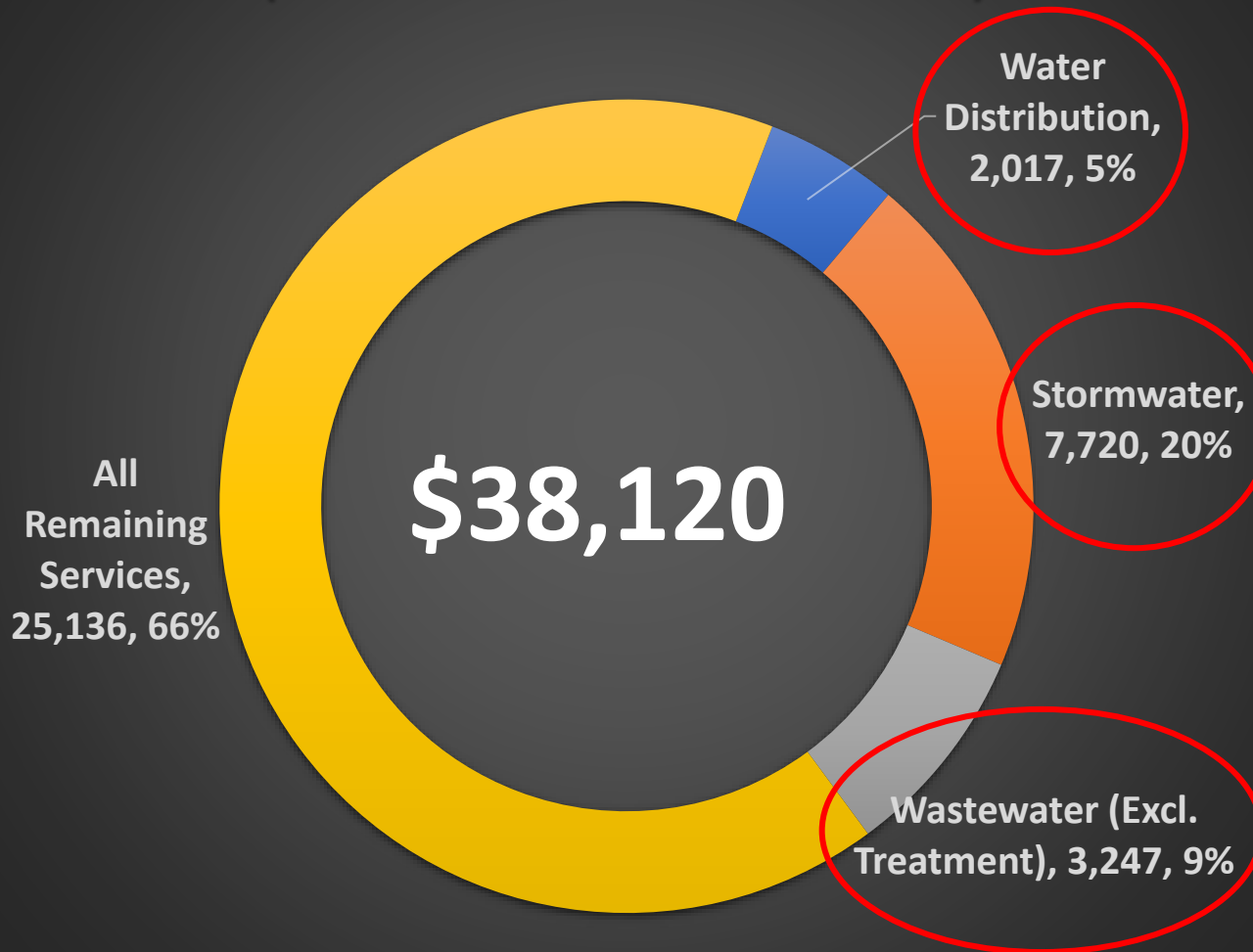
# How does London's existing area rating framework work?

- London uses area rating to have differing DCs for development outside of the Urban Growth Boundary (UGB) and development inside the UGB
- Outside of the UGB, new homes and businesses are not charged for wastewater, water or stormwater servicing as these services are not municipal and are provided by the individual property owner
- Inside the UGB, an average rate approach is used to calculate and charge DCs
  - All areas within the UGB require services and infrastructure to accommodate new development and everyone pays the same DC rate no matter where they are located
  - London's present approach is long-standing and defensible in the event of an appeal
  - Administration of an average rate approach is manageable and ensures that sufficient funding is available to make infrastructure investments, avoiding the need to borrow amongst reserve funds

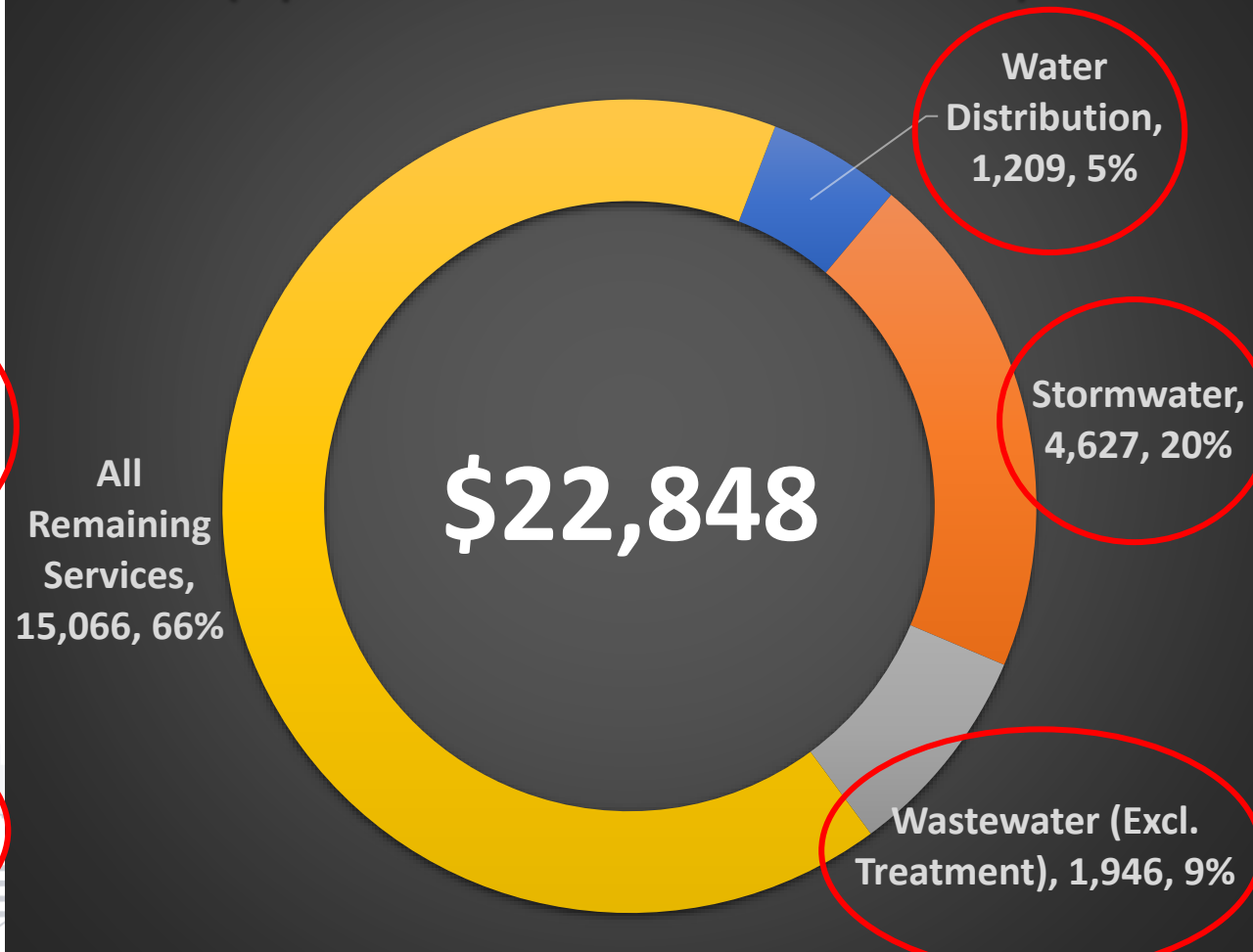


# How Much of the DC Rate Would Be Impacted by Area Rating?

## 2022 DC Rate Breakdown (Detached & Semi-detached)



## 2022 DC Rate Breakdown (Apart. Two or More Bedrooms)



# Hemson Area Rating Review

- Previous Council direction (2021) scoped the area rating review to the following services:
  - Water distribution
  - Wastewater collection (i.e., sanitary sewers)
  - Stormwater Management



London  
CANADA

# Hemson Area Rating Review

- To inform their review and recommendations, Hemson employed the following area rating options criteria:
  - Services for area rating consideration should be of sufficient geographic scale
  - There should be meaningful cost/rate differences between the service areas
  - Any additional administrative burden should be minimized



# Water Distribution: Good Fit for Area Rating?

- Water supply for the City of London only comes from two sources:
  - Elgin Area Primary Water Supply System – 21% of water supply
  - Lake Huron Primary Water Supply System – 79% of water supply
- Since there are only two sources feeding the entire City of London water supply, the linear piping system is highly interconnected
- Delineating benefitting areas is exceptionally difficult
  - Some municipalities have their water systems structured into distinct areas vs London's interconnected system (e.g., those that use water wells)



# Wastewater: Good Fit for Area Rating?

- Wastewater treatment capacity driven by overall population and employment
  - Increased population/employment results in increased capacity (1 for 1)
  - Not suitable for area rating (unless it involves a new plant and associated sewers)
- Pumping stations are designed to allow flexibility (swing stations) so that sanitary can be directed to multiple treatment plants
  - Linear infrastructure from multiple developments that feed into a pumping stations make it not feasible to clearly define a benefitting area
- Hemson Consulting conducted mapping of sanitary linear infrastructure and determined that many projects cross drainage boundary areas
  - Projects that cross drainage boundary areas create challenges for defining benefitting areas



# Stormwater: Good Fit for Area Rating?

- Stormwater ponds are designed to provide drainage to a defined area, but also provide system-wide quality and quantity benefits for the city as a whole
- Area rating based on minor stormwater catchment areas
  - Involves a large number of highly localized service areas with varying costs and benefits
  - Does not meeting guiding principle of service area being of sufficient geographical scale
- Area rating based on sub-watershed areas
  - Approach meets guiding principle of being sufficient geographical scale
  - While most projects fall within sub-watersheds, there are some projects that cross boundaries
- All areas of the city have storm sewer improvements required to accommodate growth
- Low Impact Development solutions are becoming the preferred stormwater management solution and are being installed in all geographic areas of the city

# What are the implications of changing your area rating approach?

- Most Ontario municipalities have the same approach to area rating presently used by the City of London
- Municipalities that choose a different approach to area rating generally do so because they identify new growth areas that require new services distinct from other geographic areas
- Servicing boundaries often do not match targeted growth areas and/or boundaries for other services (i.e., a sanitary sewer may have a different drainage area than the distribution area of a watermain)
- DCs are calculated at a high level and calculating servicing costs associated with individual parcels or small areas is difficult to accurately determine and model for cost recovery



# What are the implications of changing your area rating approach?

- Adopting area rating for locations beyond where services are not required (e.g., outside the UGB) involves the use of professional judgement that can be challenged and tested at the Ontario Land Tribunal
- Area rated DCs may only result in a total DC that is reduced by \$200-\$300 for the targeted area (1% - 2% of the apartment rate) – this may not be a strong draw for development location decisions
- Servicing needs and associated costs can shift over time as growth areas build out and other growth areas require increasing investment

