

--	--

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES & POLICY COMMITTEE FEBRUARY 20, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	DEVELOPMENT CHARGES REVIEW 2014: DRAFT RATE CALCULATIONS

RECOMMENDATION

In light of the draft single family unit development charge rate (\$31,021), Council **BE REQUESTED** to provide Staff direction related to the following matters:

1. Inclusion of the Water Supply component in the 2014 Development Charges Background Study at a cost of approximately \$589 per single family home, it being noted that the growth costs associated with Water Supply are currently being funded by water user rates;
2. Inclusion of a new Operations Centres component in the 2014 Development Charges Background Study at a cost of approximately \$234 per single family home, it being noted that this is the first opportunity to incorporate a rate for a new operations centre; and
3. Revisions to the Transportation Master Plan schedule of approximately \$115 million in projects beyond the twenty (20) year period; thereby reducing the draft single family residential rate by approximately \$1000 per single family home.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
--

Civic Works Committee - October 7, 2013 - Transportation Infrastructure Gap

Strategic Priorities and Policy Committee – July 29, 2013 - Development Charges Policy Review: Major Policies Covering Report

Strategic Priorities and Policy Committee, April 30, 2012 - Initiation Report 2014 Development Charges Background Study and DC By-Law Update

EXECUTIVE SUMMARY

The 2014 Development Charges Consultation process has included an unprecedented level of consultation from the various development industry stakeholders and community representatives. Through the Development Charges Stakeholder Committee and Technical Subcommittee, Staff have shared the results of the Development Charges study process on a continual basis over the past two (2) year period. As outlined in this report the Development Charges rate has evolved over time based on input from both the Development Charges Consultant and input from the various Development Charges Stakeholder Committee members.

The following report provides a high level overview of the process to date that has resulted in the draft Development Charges rate calculation. To date, Staff have developed a draft Development Charges rate which reflects the Council approved Transportation Master Plan and the requirement of the *Development Charges Act*. It is the position of Staff that no further reduction in the rate can be achieved without a major change to the Council endorsed Transportation Master Plan. Through this report, Staff are requesting further direction from Council related to the magnitude of the Development Charges rate and the need for a major cut in the growth roads program.

--	--

Staff are also requesting direction on two other service components – Water Supply and Operations Centre rate.

BACKGROUND

London’s 2014 Development Charges Consultation Process: The Most Comprehensive Process in Ontario?

The 2014 Development Charges Consultation Process has included an unprecedented level of consultation with development industry stakeholders and community representatives appointed to the External Stakeholder Committee. A brief summary of the process to date is outlined below:

- Sixteen (16) Development Charges Stakeholder Committee Meetings (average duration 2 hours) including, at most meetings, 4 Managing Directors.
- Seven (7) Meditation/Facilitation meetings related to major changes in Development Charge (DC) policies.
- Eight (8) Development Charges Stakeholder Committee - Technical Sub-committee meetings (average duration 2 hours) including engineering staff including Directors and Division Managers.
- Nine (9) Reports to the Strategic Priorities and Policy Committee to date on Development Charges By-law and Background Studies matters, and
- Many other offline meetings to promote understanding and to receive opinions.

Staff have worked closely with the various stakeholders and ensured that they have been heard and their comments reflected in the preparation of the Background Study while making certain that the requirements of the *Development Charges Act* are satisfied. The consultation process will continue until the point that the final DC By-law is passed by Council.

During the December 2013 and February 2014 Development Charges Stakeholder committee meetings draft Development Charges were presented to the various stakeholders and these calculations were provided for comment. The following section will provide a discussion of the calculation process to date and discuss the proposed strategy for moving forward.

DISCUSSION

Draft Rate Calculations

Municipalities in Ontario use legislation that allows them to recover growth related costs through Development Charges. The DC legislation in Ontario requires that municipal Development Charge By-laws be reviewed every five (5) years at a minimum. The City must also address possible changes to its growth financing policy, to ensure our policies on sharing of growth costs are prudent. Over the last two (2) years City Staff and the City’s appointed master servicing studies consultants (AECOM and Delcan) have developed a comprehensive twenty (20) year servicing strategy for growth in London based on the Council approved growth forecast. This servicing strategy includes a mixture of green-field and infill/intensification related growth servicing projects. Projects that serve community growth and industrial areas have been identified. The costs related to the various servicing projects were then consolidated and provided for the basis of the draft Development Charges calculations. Additionally, growth infrastructure needs for Fire, Police, Transit, Libraries and Parks & Recreation have been prepared by City and local board staff for inclusion in the DC rate.

Consideration for Additional DC Rate Components

Council provided staff direction in April 2012 to consider including various additional components in the 2014 Development Charges Rate to address future growth costs that at present lack DC recovery. Having undertaken research of the rate components of various other municipalities in Ontario, two rates (Water Supply and Operations Centres) appear to be relatively common in the DC rates of other municipalities.

Staff have obtained growth-related capital needs, applied adjustments and determined net

--	--

eligible costs.¹ The draft calculated rates are as follows:

- Water Supply: \$589 per single family home.
- Operations Centres: \$234 per single family home.

Draft Calculation

Since November of 2013, City Staff have been collecting the relevant information in order to calculate the 2014 Development Charges rates. As part of the Development Community engagement process, draft rate values have been provided to the Development Charges Stakeholder Committee for comment. The figure below outlines that various iterations of the draft calculation. For simplicity the single family residential rate has been used for comparative purposes.

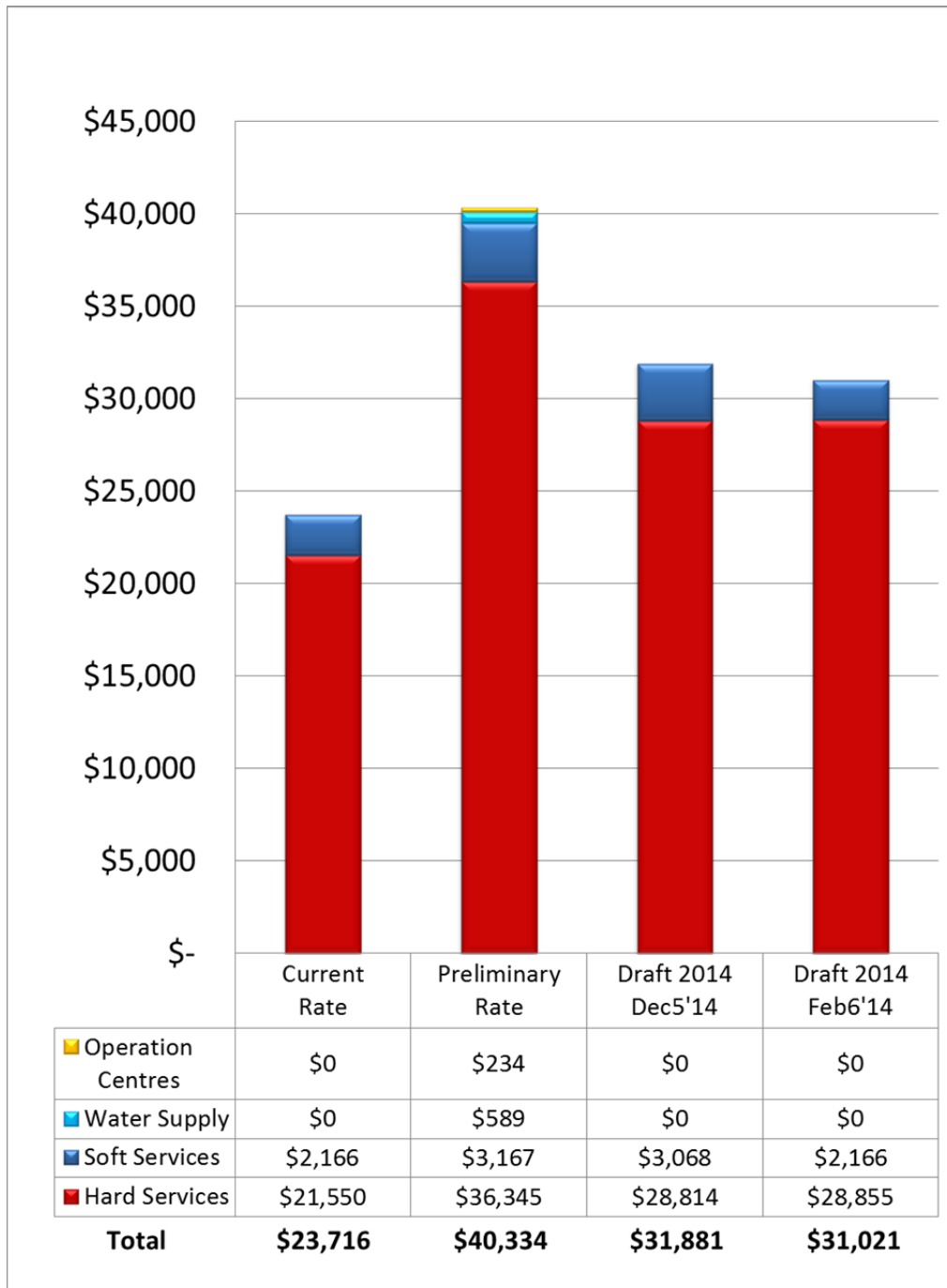


Figure 1: Development Charges Draft Single Family Rate Comparison.

A variety of factors have impacted the reduction of the DC rate since the “Preliminary Rate” calculation prepared in November. These factors included:

- Including an assumption that Provincial and Federal funding for Bus Rapid Transit works will be received.

¹ For Operations Centres, 10 year historic service standard information has been prepared to comply with the requirements of the Development Charges Act.

--	--

- Feedback from the London Development Institute regarding the following issues:
 - A substantially higher benefit to existing cost (tax supported cost) for several project which rectify long-term transportation constriction points;
 - A change from the 2009 methodology for calculating the post period benefits for major roads projects.
 - Consideration of post period benefit for Bus Rapid Transit road works;
 - Change to the benefit to existing methodology for two lane arterial roadways.
 - Increase in Wastewater Treatment Plant benefit to existing cost (sewer rate supported cost) and post period benefit, and
 - Deferral of several Stormwater Management Facilities.
 - Providing for a 7-year collection for all remaining Urban Works Reserve Fund liabilities.

It should be noted that it is the position of City Staff that the suggested changes align with the provisions of the *Development Charges Act*. The most recent draft rate is summarized in Table 1:

Table 1: Draft Development Charges Calculation (as of February 6, 2014)

	Single Family Rate	Commercial ² (per m)	Institutional ² (per m)
Hard Services	\$27,853	\$359	\$148
Soft Services	\$3,167	\$15	\$6
Total	\$31,021	\$374	\$154

Draft Rate Calculation Analysis

A chart and table outlining the relative changes of the proposed Development Charges rate from the current rate has been included as Appendix ‘A’. Take particular note that the table highlights a portion of the rate that covers the collection of the Urban Works Reserve Fund Retirement funding and the move of work currently funded by the Urban Works Reserve Fund to the City Services Reserve Fund.

a) Deferral of 2009 Transportation Program

As shown in the table the Roads component of the rate has increased considerably over previous Development charge rate. This is primarily the result of the deferral of transportation works as part of the 2009 Development Charges OMB settlement and the increased program needs outlined in the Council adopted Transportation Master Plan. These impacts were discussed in a recent report to the October 7, 2013 meeting of the Civic Works Committee titled “Transportation Infrastructure Gap” noting specifically the discussion regarding growth transportation infrastructure.

b) Inflationary Increase in Infrastructure Costs

The current magnitude of the increase in the overall single family rate is 31%. As a key deliverable of the hard services growth studies the inflationary increase in costs from 2009 to 2014 was calculated. This calculation was based on the analysis of tenders from London and the surrounding area. The master planning consultants found that this increase was 22% (4% per year compounded) over the 5 year period. As such, a substantial portion of the increase in the draft Development Charges rate is attributable solely to increasing cost of hard infrastructure construction.

c) Wastewater Treatment Servicing Strategy

The table shows no net change in the sanitary sewerage component of the rate; however, when the substantial inflationary impacts are considered the overall drop in the wastewater rate is approximately 22%. This is primarily due to a revised treatment servicing strategy which intends to maximize the use of capacity at the existing plants and in the existing conveyance system while deferring the need for large scale projects treatment project (Southside Pollution Control Plant).

--	--

Commercial Rate Analysis

Consistent with the method used for the 2009 DC Study, required commercial space projections provided by Altus Economic Consulting were allocated city-wide to form the basis for identifying servicing needs associated with new employees/new commercial space. The Altus commercial space projection also is the denominator for the calculation of DC rates for each service component.

The Altus projections for commercial space needs are significantly different than previous studies, and the resulting preliminary DC rates have triggered a discussion with Altus on the basis for clarification and potential revisions. We expect to have conclusions about the commercial space factors and resulting commercial space needs in the coming weeks and will report further to Committee on this matter next month.

Inclusion of New Rate Components

As outlined in the reports recommendation, Staff have requested direction from Council regarding the inclusion of the new rate components. It should be noted that if Council does not include the Operation Centres rate at this time that there will be an opportunity to include the rate in the next scheduled DC Background Study (2019) as the Operation Centre construction date is targeted for the year 2020. At the time of the next DC study more capacity in the rate may be available once the remaining required Urban Works Reserve Fund retirement payments have concluded.

It should be noted that the growth-related capital costs associated with Water Supply and Operations Centres will remain even if DCs are not collected to pay for portions of the projects. Other sources of financing will be required to pay for these growth costs (i.e., taxes, water/sewer rates). Based on draft rate calculations, the amount of net DC revenues that would not be recovered as a result of continuing to recover these costs from water rates and taxes:

- Water Supply: \$7.0 million total over the next 5 years (\$1.4 million annually), and
- Operations Centres: \$2.5 million total over the next 5 years.

According to the 2014 Water Operating and Capital Budget anticipated water usage charges revenue will be in the magnitude of \$45 million annually.

Further Rate Reductions

It is staff’s position that further reductions to the Development Charges rates are not possible without making significant changes to the proposed growth infrastructure programs. Staff have reviewed the various proposed capital infrastructure plans and identified the most acceptable projects for deferral beyond the 20 year period. The following projects, all included in the Council approved Transportation Master Plan, have been identified for possible deferral at the discretion of Council:

--	--

Project	Limits	Timing	Cost (\$ Millions)
Fanshawe Park Road	Adelaide Street to Highbury Avenue, 4-6 lanes	2029	\$11.6 M
Fanshawe Park Road	Phase 2 - Richmond to Wonderland, 4-6 lanes	2032	\$17.2 M
Wonderland Road	Phase 3 - Sarnia to Fanshawe, 4-6 lanes	2033	\$16.9 M
Wonderland Road	Phase 2 - Commissioners to Southdale, 4-6 lanes	2022	\$8.1 M
Wonderland Road	Phase 3 - Southdale to Exeter, 4-6 lanes	2027	\$10.3 M
Highbury Avenue	Fanshawe Park Road to Oxford Street, 4-6 lanes	2030	\$25.1 M
Byron Baseline Road	Commissioners Road West to Colonel Talbot (3 to 4 through lanes with centre turn lane)	2029	\$2.9M
Clarke Road	VMP Extension to Fanshawe Park Road , 4-6 lanes	2033	\$11.2 M
Gainsborough	973 Gainsborough to Aldersbrook (Arterial upgrade)	2023	\$5.4M
Hyde Park	North of Fanshawe Park Road (Arterial upgrade)	2028	\$6.4M
Total Cost			\$115 M

Appendix 'B' includes a figure highlighting the proposed projects in the 20 year program and the proposed removals.

The overall financial impact of the deferrals is outlined below:

- \$1052 reduction in the single family home rate;
- \$16 reduction in Commercial rate; and
- \$7 reduction in Institutional rate.

The resulting draft rate calculation is as follows:

- \$29,969 ⁽¹⁾ per single family home rate;
- \$348 ⁽¹⁾ per meter square Commercial rate; and
- \$147 ⁽¹⁾ per meter square Institutional rate.

⁽¹⁾ Note these calculations are draft. The final calculation will be presented to Council at a public meeting in April 2014. This rate does not include the Water Supply and Public Works Facilities components.

It is the opinion of staff that these deferrals can be made with tolerable impacts on the overall City Transportation network. As such Staff seeks direction on this issue from Council.

Comparison with other Municipalities

Many municipalities are currently going through Development Charges Review process. Of the municipalities that have updated their rates in the last year the average increase has been on the order of 25%. Appendix 'C' Figure C1 and C2 "Development Charges Inter-municipal Comparison" provides information on how Development Charges fees related to the single family rate compare to those of other municipalities. The following are notable:

- As shown on the figure several components have been broken out for comparison purposes. For example, the City of London rate includes funding for Major Stormwater Management works within its Development Charges rate; while in many other municipalities this cost is directly borne by the developer. In addition, when comparing the City of London to smaller area municipalities the road component of the City charge has been highlighted separately.
- As would be expected to be the case, small municipalities have a very small road

--	--

component of their rate as they have very few road widenings triggered by growth. As the City of London has a more complex transportation network the roads rate is substantially larger. A large roads component of the rate is consistent with other major cities.

- Through this analysis it was determined that the amount of the proposed draft Development Charges rate is consistent with the charges levied by other municipalities.

Next Steps

The following step will follow upon the direction of Council on the recommendations discussed above:



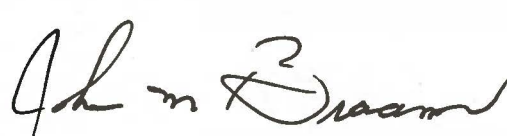

- Finalize the engineering master planning studies and report to the Civic Works Committee.
- Finalize the Development Charges Background Study, develop a new Development Charges Bylaw and present back to the Strategic Priorities and Policy Committee in April.

CONCLUSION

The Development Charges policy framework discussed above reflects a collaborative effort between multiple stakeholders undertaken over the last two years. It is staff's opinion that the agreed upon Development Charges policy principles are a substantial improvement over London's previous Development Charges framework and aligns London's policies with those of Ontario's other major cities. Staff will continue to work with and consult with the Development Community over the coming months to ensure the DC charge reflects the infrastructure needed to provide for the anticipated growth without compromise to the City's future financial sustainability.

Acknowledgements

The Development Charges draft calculation report was completed with assistance from Environmental and Engineering Services and input from the Development Charges Stakeholder Committee.

PREPARED BY:	SUBMITTED BY:
	
SCOTT G. MATHERS MANAGER, DEVELOPMENT FINANCE	PETER CHRISTIAANS, C.A. DIRECTOR, DEVELOPMENT FINANCE
CONCURRED BY:	RECOMMENDED BY:
	
JOHN BRAAM, P. ENG. MANAGING DIRECTOR, ENVIRONMENTAL & ENGINEERING SERVICES AND CITY ENGINEER	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER

February 10, 2014

- cc. John Fleming, Managing Director, Planning and City Planner
 George Kotsifas, Managing Director, Development & Compliance Services & Chief Building Official
 Edward Soldo, Director - Roads and Transportation
 John Lucas, Director - Water and Wastewater

--	--

Alan Dunbar, Manager of Financial Planning

Attach/

Appendix 'A' Development Charges Rate Analysis:

- Table A1 - Development Charges Rate Analysis
- Figure A1 - Development Charges Rate Analysis –Single Family Residential Rate

Appendix 'B' Transportation Master Plan Projects and Proposed Removals

Appendix 'C' Development Charges Inter-municipal Comparison

- Figure C1 - Development Charges Inter-municipal Comparison (Large Cities)
- Figure C2 - Development Charges Inter-municipal Comparison (Small Local Municipalities)

Agenda Item #

Page #

--

--

APPENDIX 'A'
Development Charges Rate Analysis

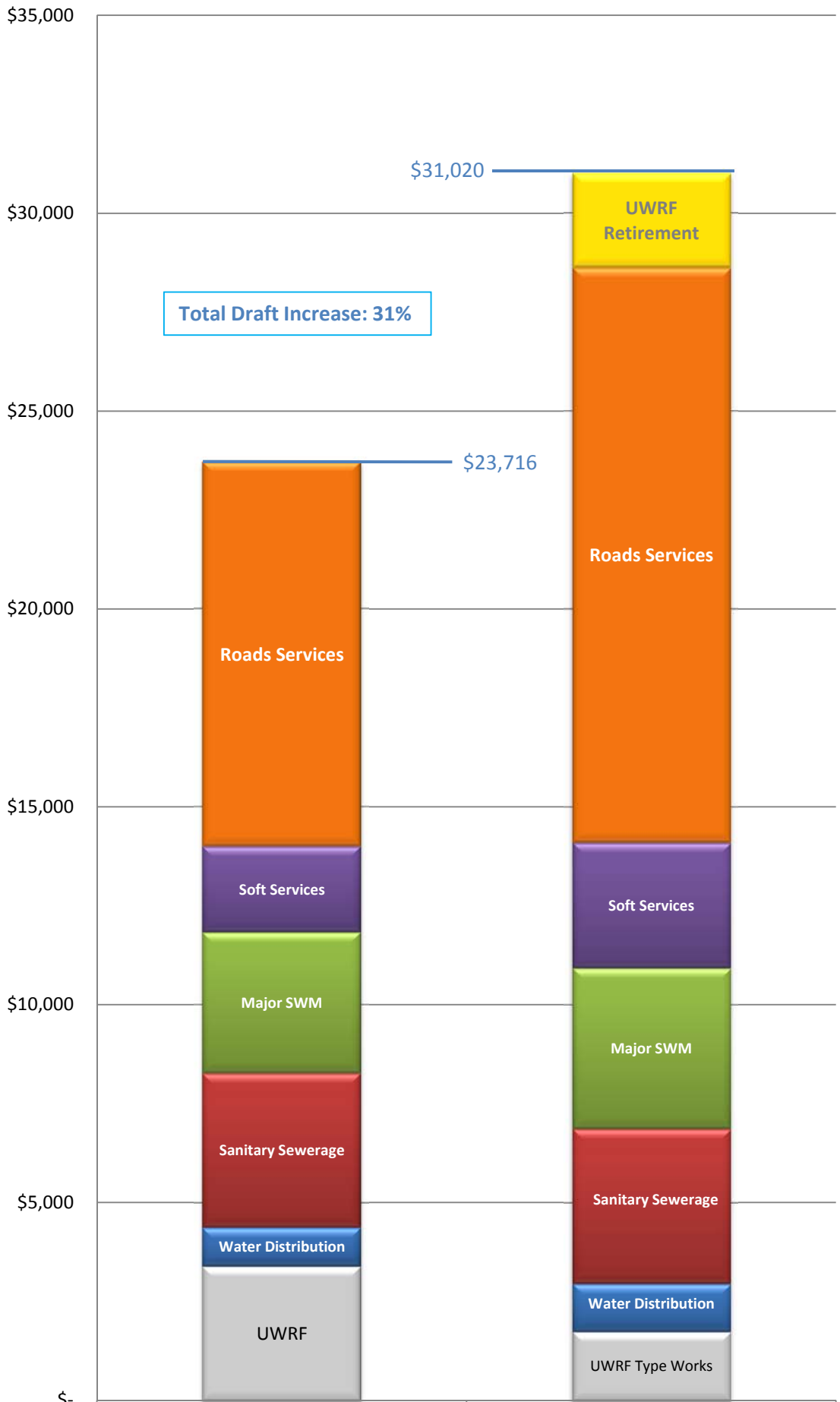
Draft 2014 Development Charges Rates

E&OE 2/6/2014

Service Component:	Single & Semi Detached (per dwelling unit)						Commercial (per sq. m. of gross floor area)			Institutional (per sq. m. of gross floor area)			
	Jan 2014	Draft 2014		Difference (%)	Jan 2014	Draft 2014	Difference (%)	Jan 2014	Draft 2014	Difference (%)	Jan 2014	Draft 2014	Difference (%)
		CSRF	Formerly UWRP										
City Services													
Fire Services	\$ 37.25	\$ 72.91	\$ 72.91	96%	\$ 1.71	\$ 1.38	-19%	\$ 1.28	\$ 0.32	-75%			
Police Services	\$ 136.58	\$ 318.08	\$ 318.08	133%	\$ 0.12	\$ 0.43	247%	\$ 0.09	\$ 0.10	13%			
Growth Studies	\$ 261.78	\$ 486.31	\$ 486.31	86%	\$ 2.74	\$ 8.69	217%	\$ 1.03	\$ 3.24	213%			
Library Services	\$ 35.18	\$ 0.00	\$ 0.00	-100%	\$ -	\$ -		\$ -	\$ -				
Parks & Recreation	\$ 1,451.68	\$ 1,987.99	\$ 1,987.99	37%	\$ -	\$ -		\$ -	\$ -				
Transit Services	\$ 243.15	\$ 302.07	\$ 302.07	24%	\$ 4.19	\$ 4.41	5%	\$ 1.77	\$ 2.51	42%			
Roads Services	\$ 9,710.56	\$ 14,525.30	\$ 14,896.99	50%	\$ 79.71	\$ 235.60	196%	\$ 52.85	\$ 102.52	94%			
Sanitary Sewerage	\$ 3,892.52	\$ 3,909.84	\$ 3,967.81	0%	\$ 16.29	\$ 20.04	23%	\$ 13.12	\$ 7.47	-43%			
Water Supply	\$ -	\$ -	\$ -	-	\$ -	\$ -		\$ -	\$ -				
Water Distribution	\$ 980.89	\$ 1,217.73	\$ 1,217.73	24%	\$ 4.20	\$ 8.43	101%	\$ 2.80	\$ 2.62	-6%			
Major SWM	\$ 3,561.42	\$ 4,061.35	\$ 5,382.42	14%	\$ 34.22	\$ 65.12	90%	\$ 21.10	\$ 26.56	26%			
Minor Roadworks	\$ 1,349.06	\$ 849.07	\$ 849.07		\$ 13.16	\$ 10.02	-24%	\$ 7.35	\$ 2.73	-63%			
Minor San. Sewers	\$ 569.08	\$ 376.25	\$ 376.25		\$ 2.78	\$ 4.44	60%	\$ 1.54	\$ 1.21	-22%			
Minor Storm Sewers	\$ 439.74	\$ 319.08	\$ 319.08		\$ 4.22	\$ 3.77	-11%	\$ 2.60	\$ 1.02	-61%			
Minor SWM	\$ 1,047.11	\$ 843.80	\$ 843.80		\$ 11.09	\$ 11.91	7%	\$ 6.87	\$ 3.53	-49%			
Total UWRP rate (applied within Urban Growth Area)	\$ 3,405.00	\$ -	\$ 2,388.20	22%	\$ 31.26	\$ 30.13		\$ 18.36	\$ 8.49				
Total CSRF rate (applied within Urban Growth Area)	\$ 20,311.00	\$ 26,881.59	\$ 28,632.32		\$ 143.18	\$ 344.11		\$ 94.05	\$ 145.34				
TOTAL RATE - CSRF+UWRP	\$ 23,716.00	\$ 26,881.59	\$ 31,020.52	31%	\$ 174.44	\$ 374.24	115%	\$ 112.41	\$ 153.83	37%			

(1) Subject to Council direction on Water Supply rate, Operations Centres rate, and TMP deferrals.

Draft DC Rate Calculation - Single Family (E&OE)



	Jan 2014	Draft 2014
■ UWRF Retirement	\$0	\$2,388
■ Roads Services	\$9,711	\$14,525
■ Soft Services	\$2,166	\$3,167
■ Major SWM	\$3,561	\$4,061
■ Sanitary Sewerage	\$3,893	\$3,910
■ Water Distribution	\$981	\$1,218
■ UWRF	\$3,405	\$1,751
Total	\$23,716	\$31,020

Agenda Item #

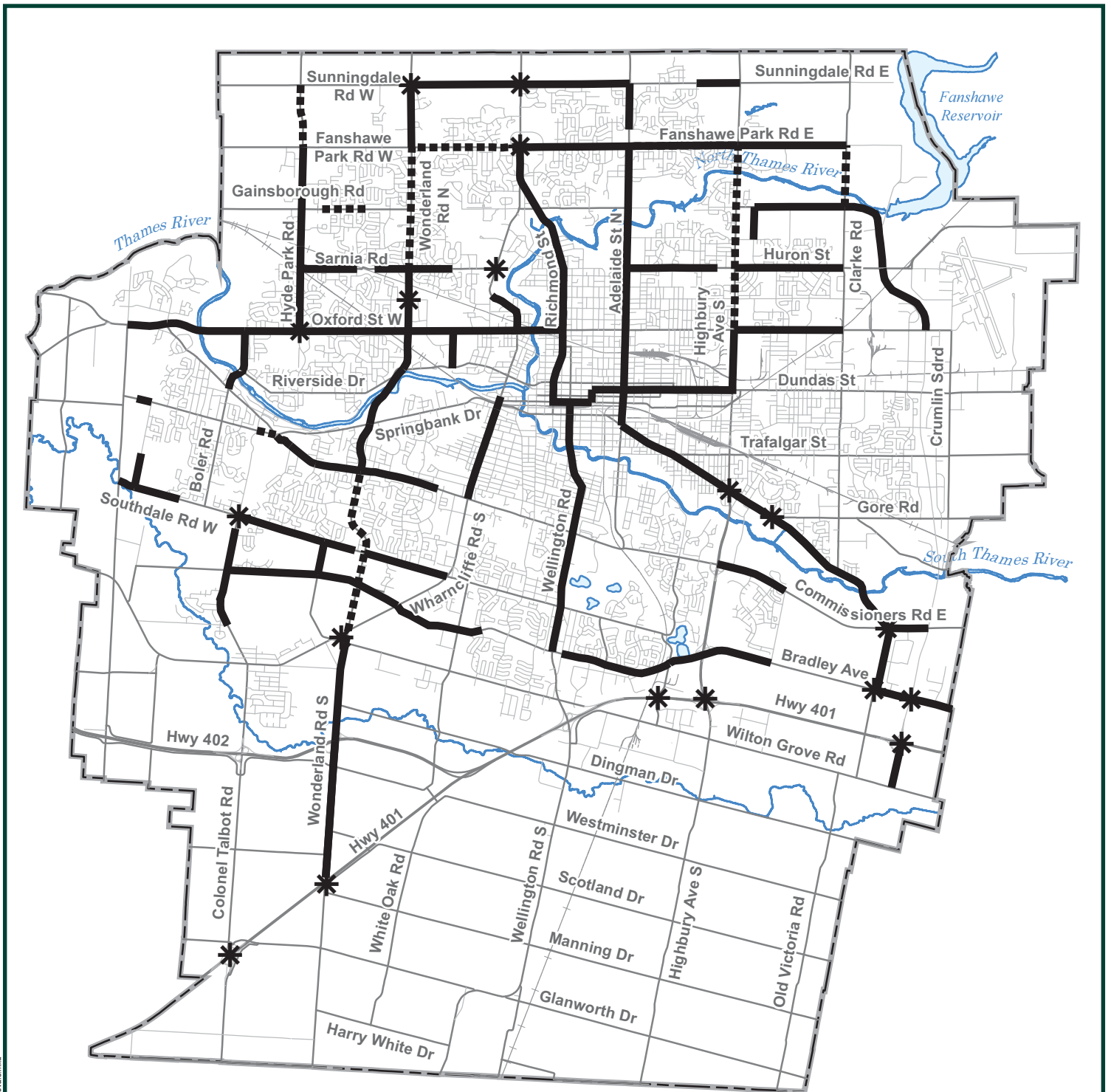
Page #

--

--

Appendix 'B'
Transportation Master Plan Projects and
Proposed Removals

--	--



Proposed Growth Infrastructure Program

- Intersection/ Interchange Projects
- Major Road Projects
- Projects Removed From Program



1:125,000



Planning, Environmental & Engineering Services - Geomatics, February 07, 2014



300 Dufferin Avenue,
PO Box 5035
London, Ontario
N6A 4L9
General Inquiries: 519-661-4500
www.london.ca

**GROWTH INFRASTRUCTURE PROJECTS
PROPOSED PROGRAM**

Agenda Item #

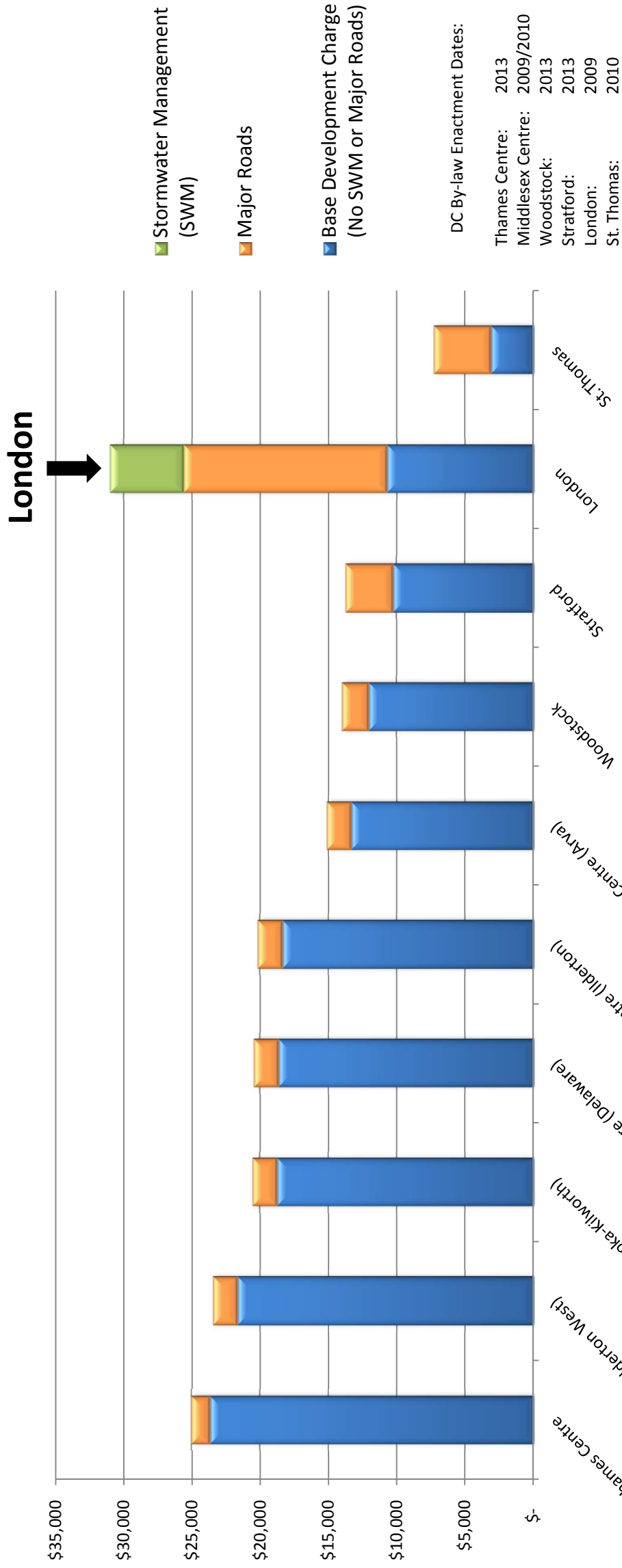
Page #

--

--

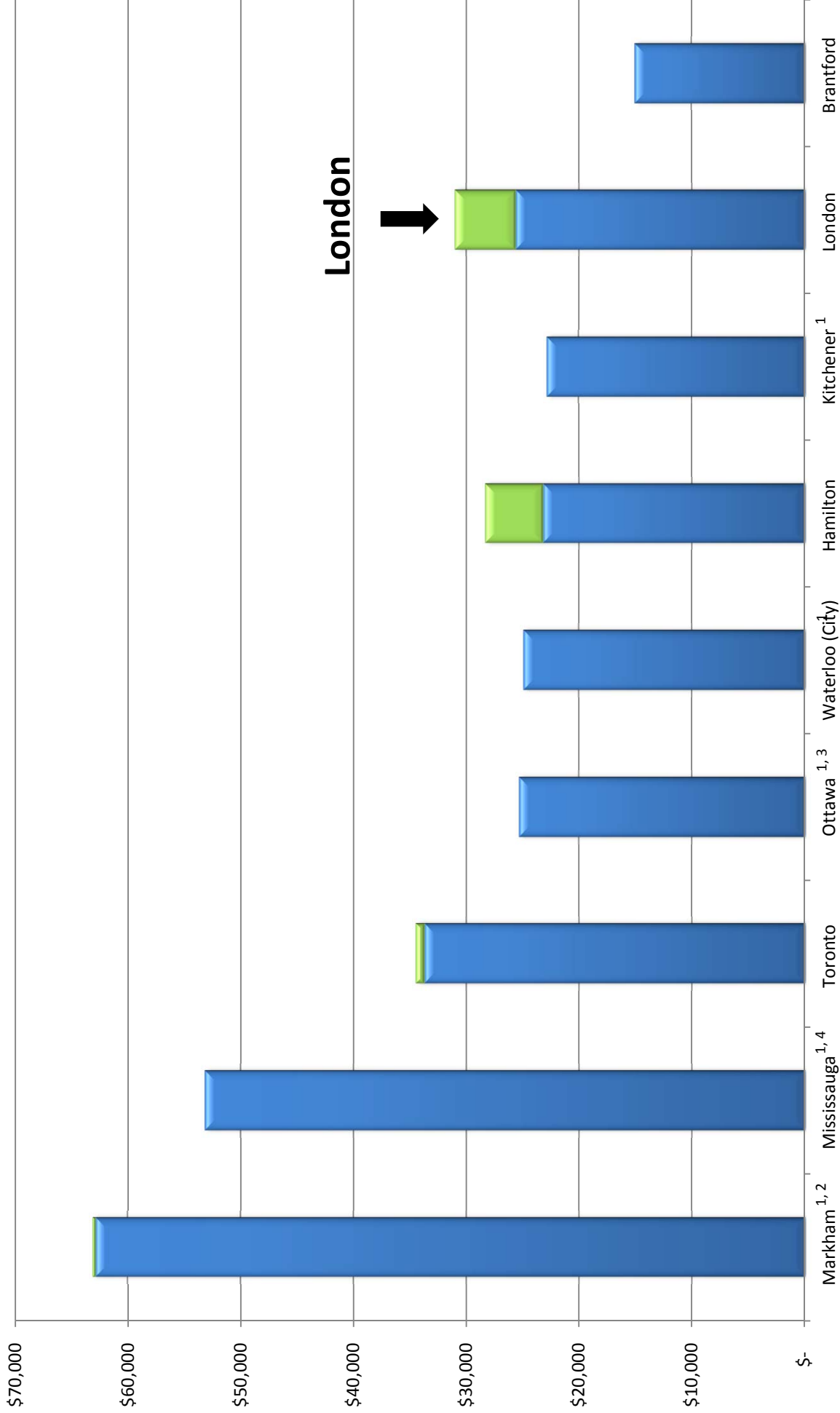
Appendix 'C'
Development Charges Inter-municipal
Comparison

**Figure C2 - Development Charges Inter-Municipal Comparison
(Single Family Units -- Small Local Municipalities)**



Notes:
 (1) St. Thomas does not have a charge for water distribution.
 (2) Woodstock includes DC rates for Oxford County.

Figure C1 - Development Charges Inter-Municipal Comparison (Single Family Units -- Large Cities)



Notes:

- 1) Includes upper and lower tier DC rates
- 2) Markham has additional area-rated SWM charges of approximately \$14,000/sfu
- 3) Ottawa has area-rated SWM charges ranging from \$1000-\$7000/sfu
- 4) Mississauga DC rate also includes a SWM charge of \$81,000/hectare

- Stormwater Management (SWM)
- Base Development Charge (No SWM)

DC By-law Enactment

Dates:

Markham:	2013
Mississauga:	2009
Toronto:	2013
Ottawa:	2009
Waterloo:	2012
Hamilton:	2009
Kitchener:	2009
London:	2009