Agenda Item #	Page #

TO:	**CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE JUNE 9, 2014**
FROM:	**MARTIN HAYWARD, MANAGING DIRECTOR, CORPORATE SERVICES & CITY TREASURER, CHIEF FINANCIAL OFFICER**
SUBJECT:	**RESPONSES TO MAY 5, 2014 PUBLIC PARTICIPATION MEETING**

RECOMMENDATION

That on the recommendation of the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer, the following actions **BE TAKEN**:

a) details of options and implications of removing the water supply charge from the proposed 2014 DC By-law as discussed in this report **BE RECEIVED** for information;

b) details of options and implications of placing a cap of 25% on the calculated Commercial DC rate as discussed in this report **BE RECEIVED** for information; and,

c) responses to correspondence and oral submissions received from stakeholders at the May 5, 2014 public participation meeting **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

- Strategic Priorities and Policy Committee, May 5, 2014: "Revisions to the Draft 2014 Development Charges By-law and Background Study"
- Strategic Priorities and Policy Committee, April 14, 2014: "2014 Development Charges Covering Report and Draft DC Rate By-law"

BACKGROUND

On May 5, 2014, a public participation meeting under the Development Charges Act was held to receive stakeholder comments regarding the proposed 2014 Development Charges By-law and Background Study. Arising from comments made by stakeholders and a desire by Committee for further information related to elements of the Development Charges (DC) rates, the following resolution was adopted by Council on May 20, 2014:

f) the draft DC By-law and Background Study BE REFERRED back to staff to:

i) further refine the recommendations, giving consideration to:

A) the input to date, including the comments provided at the public participation meeting held on May 5, 2014, as well as input received through further consultation with the External Stakeholders Committee;

B) the incorporation of the recommendations contained in the staff report dated May 5, 2014 entitled "Revisions to the Draft 2014 Development Charges By-law and Background Study";

C) inclusion of two additional recommendations as follows:

a) in accordance with the Development Charges Act, 1997, it BE CONFIRMED that Municipal Council has expressed its intention that excess capacity of the works identified in the Development Charges Background Study be collected from development charges; and,

b) it BE CONFIRMED that the Municipal Council has determined that no further notice or public meetings are required pursuant to Section 12 of the Development Charges Act, 1997";

ii) further refine the DC Background Study dated April, 2014, giving consideration to the amendments outlined in Appendix B to the staff report dated May 5, 2014, in order to reflect comments provided by members of the Strategic Priorities and Policy Committee on April 14, 2014, and comments received from the Development Charges External Stakeholders Committee members;

iii) report back at a special meeting of the Strategic Priorities and Policy Committee, to be held immediately following the Investment and Economic Prosperity Committee scheduled for June 9, 2014, in order to accommodate final adoption at the Council meeting to be held on June 24, 2014, with:

A) revised recommendations as noted in f)i) and f)ii), above, subject to any further refinements that may arise from B) and C) below;

B) details of options and implications of removing the water supply charge from the proposed 2014 DC By-law; and

C) details of options and implications of placing a cap of 25% on the calculated commercial DC rate as identified in the proposed 2014 DC By-law;

This report responds to items i) A), iii) B) and iii) C) above.

DISCUSSION

Options and Implications of Removing the Water Supply Charge

At the May 5, 2014 Strategic Priorities and Policy Committee, Staff was requested to provide the Committee with further information on the impact on water rates for institutional, commercial and industrial (ICI) users that would result from introducing the calculated Water Supply component into the DC rate structure.

The benefit to water users of including water supply growth costs in the DC rate would vary depending on the scale of operations and the amount of water consumed. A sample of ICI customers and associated benefits of including the water supply rate in the DC is provided in Appendix A. It should be noted that water users would begin to experience favourable impacts once water supply growth projects have commenced construction (2019). For large-scale water users, the annual benefit would be as follows:

- Heavy water user industrial plant: $26,104
- Large industrial building: $10,378
- Hospital: $9,771
- Large commercial (big box store): $1,151

The benefit to a small commercial building has been approximated at $16/year. As previously reported, the benefit to the average residential user is approximately $6/year.

As noted in the May 5, 2014 staff report regarding the water supply rate, DC recovery could amount to approximately $22.7 million over the 20 year period to fund growth infrastructure costs associated with the Lake Huron Water Supply System and the Elgin Area Water Supply System. The rate would be re-evaluated with each DC rate review (required at minimum, every 5 years). The costs upon which the calculated DC rate is based result from residential and non-residential growth city-wide and are not attributable to the maintenance of the existing system. If water supply is not included in the DC, water supply growth costs will continue to be borne by water rate payers.

There are two options available for Council consideration: inclusion of the water supply DC rate or exclusion of the water supply DC rate. Should Council determine not to charge a water supply DC rate, the amount of the reduction in the calculated DC rates is as follows:

- Single & Semi-detached Unit: $400.03
- Rowhouse Unit: $302.01
- Apartments with < 2 Bedroom Units: $186.77
- Apartments with ≥ 2 Bedroom Units: $251.68
- Commercial Buildings: $1.70/sq.m.
- Institutional Buildings: $2.48/sq.m.
- Industrial Buildings: $6.36/sq.m.

Options and Implications to Reducing the Commercial DC Rate

In response to Council's request for options to reduce the calculated DC commercial rate, Staff has reviewed a number of different scenarios including :

- Growth project deferrals,
- Policy changes related to the overall DC rate structure, and
- Minimizing Commercial DC rate impacts through a rate phase in (ie. a gradual increase in rates up to the calculated rate).

Details associated with the alternatives and an assessment of benefits/challenges associated with each alternative are provided in Appendix B. In summary, the alternatives are as follows:

- **Alternative 1: Charge the Calculated Commercial DC Rate** – reflects the present Staff recommendation of full cost recovery for infrastructure costs associated with commercial development;
- **Alternative 2: Defer Roads** – would result in the removal of 10 years (2024-2033) of roads projects from the DC capital plan;
- **Alternative 3: Remove Future Servicing and Extend UWRF Retirement** – does not provide for any further pipe/pond servicing for greenfield development and extends UWRF retirement by 3 years;
- **Alternative 4: Combination of Servicing Deferrals and UWRF Retirement Extended** – omits 5 years of road projects, removes servicing for the Southwest Area from the 20 year plan, and extends UWRF retirement by 3 years;
- **Alternative 5: Adoption of a combined "Non-Residential DC Rate"** – blends capital needs and forecasted growth in space for commercial and institutional to create a combined rate; and,
- **Alternative 6: Commercial Rate Phase-in/Subsidy** – the full impact of the increase in commercial rates could also be deferred for a time with the shortfall funded from taxpayer sources.

All of the above alternatives have significant implications associated with their adoption.

- Alternatives 2, 3 and 4 would result in drastic reductions in funding from all sources (Residential, Commercial, Institutional and Industrial) available to support future growth infrastructure and challenges the City's ability to finance forecasted residential and non-residential growth needs.
- Alternative 5 requires considerable policy research, would result in a large increase in DC cost to institutional development, which in turn, would result in increased taxpayer-supported funding for statutory and non-statutory exemptions/discounts ($5.7 million incremental cost of discounts over 5 years).
- Finally, Alternative 6 involves subsidization of the commercial DC rate (to lessen the impact of the increase) financed from tax sources at a cost of approximately $2.6 million over 5 years (ie. average cost of approximately $500k per year).

None of the above alternatives include further adjustments to the commercial floor space projection. As noted by Altus Group Economic Consulting, the revised commercial space forecast contained in their memorandum reflects the "high" scenario for the amount of anticipated space based on their detailed modelling of future economic conditions and population and employment growth. Staff is of the opinion that the already revised Altus projection is neither overly ambitious, nor overly conservative, and are mindful of the implications for future DC revenues of a commercial floor space projection that is not achievable.

Staff has also not recommended that the amount of vacant space used to reduce the amount of future space be deemed to be "unleasable," and for the commercial space forecast to be increased further. If the vacant space was deemed to be "unleasable" the result would be a commercial DC rate increase (as servicing would be required for both the additional space and the additional employees that are currently expected to be absorbed by the vacant space).

The options outlined above were presented to a stakeholder consultation meeting on May 15, 2014 attended by members of the development community, Urban League representatives, and development consultants. Staff described the alternatives and the implications associated with the alternatives (as described in Appendix B). Significant concerns were raised by those in attendance about potential infrastructure project deferrals limiting growth opportunities (Alternatives 2)-4)), increased DC costs for institutional development (an outcome of Alternative 5), and the impact of DCs on small businesses. The group also expressed an interest in further exploration of the commercial rate alternatives (Alternative 5 and variations of this alternative) following the adoption of the 2014 DC Study.

Staff continues to recommend the calculated commercial DC rate that is based on the recovery of infrastructure costs associated with commercial growth (i.e., Alternative 1). This approach reflects the Official Plan policy that "growth pays for growth." However, concerns associated with the City's commercial DC rate are recognized by Staff and a further exploration of policy alternatives will be undertaken following the completion of the 2014 DC Study in order to inform future DC studies.

Despite the staff recommendation, should Council wish to adopt one of the alternatives provided in this report, Staff are of the opinion that a commercial DC rate phase-in that gradually implements the calculated DC rate (Alternative 6) is the least problematic alternative presently available. This alternative would avoid the drastic modifications to the DC capital program implicit in Alternatives 2 through 4, it would ensure the Development Charge funds are "made whole," and can be implemented within the available implementation timeframe (i.e., prior to the expiration of the present DC By-law). The rate phase in described in Alternative 6 would require taxpayer contributions estimated at $2.6 million over five years (see Appendix B for further details). Any phasing in of commercial DC rate will result in immediate operating budget impacts.

<u>Additional Stakeholder Discussions Arising from Correspondence</u>

Staff has compiled responses to the comments and questions raised by members of the public at the May 5, 2014 Strategic Priorities and Policy Committee meeting (Appendix C). The responses also address comments received through the additional stakeholder engagement session (May 15, 2014) undertaken specifically with respect to the calculated DC commercial rate. Stakeholder comments are a valuable and important part of the DC By-law and Background Study review process. As noted in Appendix C, Staff has reviewed various aspects of the DC Background Study and have not identified any further essential changes to the By-law and Background Study that was under review by Committee on May 5, 2014.

CONCLUSION

Staff has considered the submissions – both written and oral – and have found no basis to alter the calculation methods or principles applied. We are limited by the DC legislation and by sound rate development principles (which work against arbitrary reallocations of costs from one category of development to another).

As directed by Council, Staff have developed several alternatives and assessed their benefits and consequences. All of the alternatives have significant implications associated with their adoption :

- The options to reduce the capital program, would significantly limit growth opportunities.
- The option to change DC policy related to rate structure (ie. grouping of all commercial and institutional development) should not be undertaken without further review. This alternative would also have significant cost implications for taxpayers (who by legislation and by City policy, subsidize a substantial portion of the growth costs allocated to Institutional growth).

- A reduction in the commercial rate may be accomplished through reduction in the number of projects possible within the plan. While this promotes affordability, flexibility as to where we grow, is also reduced.
- The concept of "someone pays" is also real. To phase-in the commercial increase would result in taxpayers paying more over the next 5 years to subsidize commercial rates.

An increase in Commercial DC rates can be avoided through a subsidized, phase-in of the rate increase. This alternative comes at a cost to taxpayers, but avoids extensive reduction in the growth capital program and reduces the possibility of adverse economic consequences on commercial development activity.

PREPARED BY:	**PREPARED BY:**
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REVIEWED AND SUBMITTED BY:	**RECOMMENDED BY:**
PETER CHRISTIAANS, CA, CPA **DIRECTOR, DEVELOPMENT FINANCE** **FINANCE AND CORPORATE SERVICES**	**MARTIN HAYWARD** **MANAGING DIRECTOR, CORPORATE SERVICES & CITY TREASURER, CHIEF FINANCIAL OFFICER**

June 3, 2014

c.c. John Braam, Managing Director, Engineering and Environmental Services & City Engineer
John Fleming, Managing Director, Planning & City Planner
James Barber, Managing Director, Corporate Services & City Solicitor
George Kotsifas, Managing Director, Development and Compliance Services & Chief Building Official
John Lucas – Director, Water and Wastewater
Edward Soldo – Director, Roads and Transportation

Appendix A: "Options and Implications of Removing the Water Supply Charge"
Appendix B: "Options and Implications of a 25% Commercial Rate Cap"
Appendix C: "Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting" & input subsequent to Public Meeting"

Appendix A: Options and Implications of Removing the Water Supply Charge

Customer Type	Meter Size(s)	Annual Consumption m^3	Total Annual Water & Wastewater Charges: 2014 Rates As Approved	With Proposed Water Supply Charge	Net Annual Benefit of Water Supply in DC Rate
Average High Rise Residential Building	50mm	8,650	$ 20,303	$ 20,133	**$ 170**
Small Commercial Building	19mm	350	$ 1,857	$ 1,841	**$ 16**
Average Commercial Building	25mm	1,750	$ 5,935	$ 5,891	**$ 44**
Medium Commercial Building	50mm	26,500	$ 56,840	$ 56,384	**$ 456**
Large Commercial Building	76mm	65,000	$ 142,686	$ 141,535	**$ 1,151**
Small Institutional Building	25mm	2,750	$ 8,264	$ 8,203	**$ 61**
Average Institutional Buidling	40mm	6,300	$ 19,299	$ 19,174	**$ 125**
Hospital Institutional Building	150mm	625,000	$ 1,127,825	$ 1,118,054	**$ 9,771**
Small Industrial Building	50mm	6,400	$ 20,194	$ 20,053	**$ 141**
Medium Industrial Building	100mm	180,000	$ 334,970	$ 332,048	**$ 2,922**
Large Industrial Building	150mm	700,000	$ 1,187,418	$ 1,177,039	**$ 10,378**
High Water User Industrial Building	200mm	1,900,000	$ 2,973,530	$ 2,947,426	**$ 26,104**

Notes:

1) The annualized benefit of including Water Supply in the DC rate reflects $1.1 million in savings.

2) Benefits to water rate will begin to be realized with the commencement of Water Supply growth projects (2019).

3) The degree of benefit for including Water Supply in the DC rate is dependant on the water consumption of the user.

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #1: Charge the Calculated Commercial DC Rate – No rate cap (status quo)

Description: The calculated commercial DC rate ($265.54) is charged to all commercial development.

Increase in DC rates (from January 1, 2014 current DC rate):

Commercial		Institutional		Residential (SFD)	
Alternative	Calculated	Alternative	Calculated	Alternative	Calculated
52%	52%	23%	23%	19%	19%
$265.54	$265.54	$138.57	$138.57	$28,122	$28,122

(Note: Industrial DC rate increase not provided as no industrial DC rate was calculated in 2009).

Taxpayer cost over 5 years: $0

Benefits	Consequences
• Does not require deferral/removal of capital projects or a rate subsidy • Commercial growth pays for its share of infrastructure costs ("growth pays for growth") • Minimizes chances of a sizable percentage increase in the DC rate in the next DC Study resulting from discounted DC rates. • Aligns with the *Development Charges Act,* - defensible at an Ontario Muncipal Board appeal.	• Perceived unaffordable DC rate for commercial development • Does not meet suggested commercial rate 25% increase "target"

"Maximizes flexibility, no cost to taxpayer, but perceived to be unaffordable."

Agenda Item # Page #

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #2: Deferral of Roads

Description: All roads presently scheduled in the last 10 years of the DC program (2024-2033) are shifted out of the 20 year DC recovery period.

Increase in DC rates (from January 1, 2014 current DC rate):

Commercial		Institutional		Residential (SFD)	
Alternative	Calculated	Alternative	Calculated	Alternative	Calculated
25%	52%	-1%	23%	2%	19%
$218.17	$265.54	$110.88	$138.57	$24,113	$28,122

(Note: Industrial DC rate increase not provided as no industrial DC rate was calculated in 2009).

Taxpayer cost over 5 years: $0

Benefits

- Meets suggested commercial rate increase target. Perceived affordable DC rate for commercial development
- Reduces calculated DC rate increase for residential and institutional development
- No financial contributions required from City taxpayer/ratepayer

Consequences

- Unable to meet servicing needs for roads program in the long term. Results in increased roads congestion
- Adds to previous $115M deferral of projects identified in Transportation Master Plan.
- Leads to intergenerational inequity (passing costs recoverable from current growth onto the future generations for the sake of a better DC rate for the present
- Exacerbates the transportation infrastructure gap
- The needs of growth misaligned with servicing costs. Difficult to defend at an Ontario Muncipal Board appeal.

“Minimizes DC impact on commercial development, but ‘kicks the can down the road’ ”

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #3: Remove Future Servicing and Extend UWRF Retirement

Description: Removal of all future greenfield servicing (2014-2034) from the DC capital program (all trunk sanitary sewers, watermains and stormwater management facilities. UWRF retirement also extended from 7 years to 10 years)

Increase in DC rates (from January 1, 2014 current DC rate):

Commercial		Institutional		Residential (SFD)	
Alternative	Calculated	Alternative	Calculated	Alternative	Calculated
25%	52%	4%	23%	-9%	19%
$217.45	$265.54	$116.53	$138.57	$21,672	$28,122

(Note: Industrial DC rate increase not provided as no industrial DC rate was calculated in 2009).

Taxpayer cost over 5 years: $0

Benefits	**Consequences**
• Meets suggested commercial rate increase target. Perceived affordable DC rate for commercial development	• Future servicing of greenfield lands would not be fundable from development charge revenues (DCs collected would only be used to pay for roads, soft services, treatment plant expansions and existing debt)
• Reduces calculated DC rate increase for residential and institutional development	• Unable to meet servicing needs for development-related growth
• No financial contributions required from City taxpayer/ratepayer	• Further extension of UWRF retirement
	• The needs of growth misaligned with servicing costs. Difficult to defend at an Ontario Muncipal Board appeal.

"Minimizes DC impact on commercial development and freezes growth at the edge of the City."

Agenda Item # Page #

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #4: Combination of Servicing Deferrals/Removal and UWRF Retirement Extended

Description: The DC roads program would be reduced by 5 years. All servicing supporting the development of the Southwest Area Plan (SWAP) would be removed from the 20 year recovery period. UWRF retirement extended from 7 years to 10 years.

Increase in DC rates (from January 1, 2014 current DC rate):

Commercial		Institutional		Residential (SFD)	
Alternative	Calculated	Alternative	Calculated	Alternative	Calculated
25%	52%	0%	23%	-4%	19%
$218.27	$265.54	$112.84	$138.57	$22,680	$28,122

(Note: Industrial DC rate increase not provided as no industrial DC rate was calculated in 2009).

Taxpayer cost over 5 years: $0

Benefits	**Consequences**
• Perceived affordable DC rate for commercial development	• Results in increased roads congestion
• Meets suggested commercial rate increase target	• Reduced locations/opportunities for future growth (including commercial development)
• Reduces calculated DC rate increase for residential and institutional development	• Challenges accomodating forecasted single family residential units without SWAP
• No financial contributions required from City taxpayer/ratepayer	• Further extension of UWRF retirement
	• The needs of growth misaligned with servicing costs. Difficult to defend at an Ontario Muncipal Board appeal.

"Minimizes DC impact on commercial development, but makes no one happy."

Agenda Item # Page #

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #5: Non-Residential/Non-Industrial DC Rate

Description: Commercial and institutional allocations of infrastructure costs are combined into new DC rate structure featuring a "non-residential/non-industrial" growth category. Similarly, 20 year growth in space for commercial and institutional combined as forecasted "non-residential/non-industrial" space.

Increase in DC rates (from January 1, 2014 current DC rate):

Commercial		Institutional		Residential (SFD)	
Alternative	Calculated	Alternative	Calculated	Alternative	Calculated
10%	52%	71%	23%	19%	19%
$191.67	$265.54	$191.67	$138.57	$28,122	$28,122

(Note: Industrial DC rate increase not provided as no industrial DC rate was calculated in 2009).

Taxpayer cost over 5 years (estimated): $5.7 million

Benefits	Consequences
• Perceived affordable DC rate for commercial development	• Significant increase in institutional rate (well beyond May 5th calculated rate increase of 23%)
• Significantly below suggested commercial rate '25% increase target'	• Large increase in taxpayer contributions to support institutional buildings exempted by legislation and the City's 50% Institutional discount
• A single DC rate is charged to both commercial and institutional buildings	• Limited policy analysis re: introduction of a new DC rate structure
• Does not require the deferral/removal of any growth infrastructure from DC capital program	• No opportunity for public meeting to receive comments on this proposal
	• Limited policy analysis completed at this time therefore more difficult to defend at an Ontario Muncipal Board appeal.

"Lower rate for commercial development, but a big jump in costs for institutional buildings and the City taxpayer."

Agenda Item # Page #

Appendix B: Options and Implications of a 25% Commercial Rate Cap

Alternative #6: Commercial DC Rate Phase-in (Subsidy)

Description: Taxpayer-supported funding used to phase in the commercial DC rate increase. Each year, the commercial rate would increase until the full calculated DC rate is reached (January 1, 2019).

Increase in DC rates (from current DC rate):

DC Rate Period	August 4, 2014 – December 31, 2014	January 1, 2015 – December 31, 2015	Commercial January 1, 2016 – December 31, 2016	January 1, 2017 – December 31, 2017	January 1, 2018 – December 31, 2018	January 1, 2019 – August 3, 2019
% Increase from Current Rate	0%	25%	32%	38%	45%	51%
Commercial DC Rate Applied	$174.44	$218.05	$230.31	$241.49	$252.66	$263.84
Taxpayer Cost to Off-Set DC rate Phase In	$642,300	$789,500	$578,000	$385,400	$192,700	$0

Taxpayer cost over 5 years (estimated): $2.6 million

Benefits	**Consequences**
• Defers any increase in Commercial DC rate until January 1' 2015 and reduces the impact through gradual phase-in of the commercial rate increase over the next 4 years • Provides short-term DC cost reductions to stimulate the economy • Incents development to proceed in the immediate to short-term to spur economic activity. • Does not require the deferral/removal of any infrastructure from DC capital program.	• Taxpayer contributions required to fund the rate phase-in (an estimated $642k 2014 budget impact) to be funded by Operating Budget savings. • Potential for increased pressure to accelerate infrastructure supporting commercial development and avoid DC rate increases (a double hit to DC funds) • The needs of growth remain aligned with servicing costs. Defendable at an Ontario Muncipal Board appeal. • Does not represent "growth paying for growth"

"Gives a break to commercial development, but at the cost of the taxpayer for next four years."

Agenda Item # Page #

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

York Developments – May 2, 2014	
Issue	*Response*
"single largest issue" : size of commercial rate increase	• The objective of the DC rate calculations is to calculate the DC rates that recover the growth costs of the capital program that they finance. Rate calculation methods are set out in the DC Act. The Act sets out rules that limit the ability of the municipality to reassign costs amongst different categories of development simply for the purpose of achieving desired rate levels. • Staff have attempted to mitigate commercial DC rates within: o the bounds of the DC Act, and o defensible assumptions and cost allocation methods • Calculations, allocations and DC policies have been vetted with External Stakeholders over a 2 year period • the Growth Capital Program that produces rates is strictly a capital cost recovery proposition
Increases in lease rates likely as a result of increased DC rates	• We recognize that DC rates increase the cost of investment in commercial space. However, according to the information presented by Jamie Cook, CN Watson, City of London annualized development costs (ie. which include construction costs, DC costs and other annual costs), the occupancy costs in London remain competitive (after including DC rate increase) with like sized urban centres.
Accepts overall scope of work	• There is a fundamental conflict between providing the "flexibility" (ie. acceptable scope and timing of works) and the "affordability" (the DC rates that result from the works needed for development to proceed). In order to provide the scope of the work contained in the DC Background Study, sufficient DC revenues are required which are attainable through recovery of the calculated commercial DC rate. Rate calculations cannot maximize "affordability" and "flexibility" without compromising cost and/or revenue estimates.
Increased commercial space allocations are still too low	• The revised Altus Economic Consulting commercial forecast added 120,000 m^2 over the 20 year period to the original commercial space forecast. This additional space represents 30,000 m^2 per 5 year period (6000 m^2/year). An increase to the commercial projection of 30,000 m^2/year (stated by York as not being overly generous) would produce 600,000 m^2 in additional space from the original projection –more than 2.5 times the original Altus forecast! No information is provided in the submission for the basis of this suggested space forecast, nor is it supportable based on a review of past growth.
Allocation of Commercial DC rates on roads should take into account relative land uses by each category	• The RICI allocation of Road costs is based on 20 year forecasted population and employment by category. The method used is typical for many municipalities in Ontario. The allocation method was adopted in 2009, and resulted in a significant reduction in Commercial cost allocations at that time.

Goodman's LLP (on behalf of Smart Centres, Calloway REIT, Greenhills Shopping Centres) – May 2, 2014

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Issue	*Response*
Summary by lawyer – issues highlighted are addressed in the responses to consultants' comments below) Concerns about the Municipal Service and Financing Agreements (MSFA) Policy caps ($3M/component; $10M total) and the limitation of project acceleration within the 0-5 year period may be too restrictive/limit Council's ability to accelerate on a flexible and timely basis.	• There have been significant Council-approved improvements to the Growth Management Implementation Strategy (GMIS) to discuss annual growth infrastructure needs with stakeholders. The GMIS is based on examining the amount of infrastructure that the City can afford based on DC revenues generated by new development. MSFAs are intended to be used on a limited basis to supplement GMIS timing where there is a short-term identified need. The Council-approved project cost caps are intended to ensure that the City is able to re-pay the front-ending developer, to mitigate the City's financial exposure and impacts on the debt ceiling, and reflect the intent of the MSFAs being used on a limited basis. Staff are of the opinion that the MSFA policy strikes the appropriate balance of providing an alternative financing mechanism for growth projects, while ensuring that the tool can be used sustainably into the future.
Smart Centres – BA Group review	
<u>1.1 Non-growth share calculation</u> – recommend an approach to how to calculate the NG share	• Recommended approach does not indicate which number the % is applied to determine the deduction for non-growth share. This is critical to determining the legitimacy of the assertion. • Administration believes that the rate calculations are correct, and that there may be some confusion related to the order in which the deductions are applied to the rate calculations which has NO IMPACT on the final result (ie. determining net costs recoverable through DC rates). The non-growth calculation has also been reviewed and confirmed to be correct by the City's DC consultant, Watson & Associates.
<u>1.2 Benchmark Costs – review of unit costs from other municipalities indicates that the City of London's assumed unit costs may be too high</u>	• Prior to the May 5, 2014 SPPC meeting, Staff conducted a detailed review of Road Services unit costs based on recent 2013 and 2014 project tenders. Based on this analysis, unit costs used for the 2014 DC Study were reduced, resulting in a lower DC rate for all categories. The assumed unit costs are as low as Staff can comfortably recommend without potentially jeopardizing the funding of future roads projects. It is the opinion of Staff that recent project costs for London roads projects are a better estimate for unit costs than those used by other municipalities.
<u>1.3 Deferred / Removed Items – question regarding removal of Wonderland Rd widening project from 20 year horizon</u>	• Removal of 4to6 lanes Wonderland from Commissioners to Exeter Road was part of $115M project deferral by Council. This recommendation resulted from staff identifying what it believed could be deferred with a tolerable impact on the overall City Transportation network.
<u>2.1 BRT Inclusion</u> • not appropriate to be included • raises transit level of service	• BRT projects are an alternative to expansion of Road lane capacity. • BRT construction projects listed in the Road Services section reflect the Development Charges Act identification of "services related to a highway," and therefore, are not soft services to be recovered through the Transit category (unlike buses and transit facilities). • The BRT projects identified in the Roads Services are

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Goodman's LLP (on behalf of Smart Centres, Calloway REIT, Greenhills Shopping Centres) – May 2, 2014	
Issue	*Response*
	high occupancy vehicle (HOV) lanes, rather than dedicated BRT-only lanes. EA will determine nature of Rapid Transit Option.
2.2 Land Acquisition (BRT) • Seeking clarification on how BRT Land Costs were determined by AECOM	• The BRT land acquisition and stormwater cost estimates were derived using a thorough road-by-road analysis to determine requirements. The analysis was more in-depth than a high-level modelled cost calculation.
2.3 Drainage and Storm Sewer • Significant storm sewer costs in BRT projects – how were these determined?	• See above.
Smart Centres – Development Engineering review	
Storm Water Management (SWM) cost estimates are high • Others have used 10% contingency and 15% engineering whereas SWM used 20% contingency and 20% Engineering • Price index used to adjust cost estimates was 5% per year – this is too high • Private Permanent Systems (PPS) to SWM– there is a duplication of costs in the DC rate study and the costs incurred for on-site PPS	• Stormwater Management project contingency percentage is consistent with other DC services. The assumed 20% engineering value was developed based on the average actual costs of engineering on developer (UWRF) and City (CSRF) constructed SWM facilities. • The cost inflation for stormwater management was 1.7%, compounding (9% for 5 years) not 5% per year as noted in the submission. • The Private Permanent Systems (PPS) stormwater management policy requires on-site stormwater controls for institutional, commercial, industrial and multi-family residential forms of development. However, the policy does not eliminate the need for regional stormwater management. The increase in the commercial Stormwater Management DC rate is 8% less than the residential increase. The SWM costs identified are based on approved Environmental Assessment (EAs) solutions, where applicable. In the future, new EAs for stormwater management will consider the City's PPS policy and the DC may be amended in the future based on final stormwater management EAs.

London Development Institute – May 2, 2014 - re: Water Supply charge	
Issue	*Response*
Water supply rate should not be included in DC rate structure (for either Residential or Non-Residential development)	• The DC legislation provides for the recovery of costs resulting from growth. The Water Supply Boards project a need to incur further growth costs in the future, and that is what the DC rate calculation is based on. • The calculated Water Supply rate is provided for Council's consideration, consistent with the last three DC studies. • There is some merit in the argument that utility charges are a more predictable source of income than DC revenues. However, it is also true that if the growth we expect is not occurring, then it is likely that the costs of expansion of the water supply capacity can also be deferred, providing more time to collect the water supply infrastructure expansion costs. • Water Supply rates have been calculated and presented for Council's consideration because they are

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

London Development Institute – May 2, 2014 - re: Water Supply charge	
Issue	*Response*
	not specifically precluded from collection under the DC Act, they are substantial in amount and consistent with the Official Plan principal that 'growth pays for growth'

London Development Institute – May 2, 2014 - re: request for further discussions	
Issue	*Response*
LDI submissions leading to changes in Master Plan studies need more time to make the appropriate revisions	• Input provided by the LDI in the last few weeks of April have already been reflected in the rate calculations and reflected in the revised May 5th DC rate schedule (approximately $20 reduction in the single family residential rate). These adjustments were made based on comments provided from development stakeholders in regards to the hard services master plans. • AECOM is currently making a number of changes to the Master Plans. The final master plans are expected to be available in early June.
Commercial Rate increase of 52% will result in business locating outside of London	• Based on the CN Watson submission on Economic Impact, the location of commercial development may or may not be flexible. The location of retail development, which has significant impacts on peak period road capacity needs, is more likely to locate in the urban centre it draws customers from, for sake of customer convenience. However, other commercial entities are not likewise anchored to the London location, depending on the customer volumes they attract from the local residents. • DC rates recover the cost of the growth program needed to supply the services to anticipated growth, and are not calculated with a particular "target rate" in mind. In other words, the benefit of encouraging less costly development through lower DC's is not a driving factor in calculating the same. It may however be the subject of Council supported lunches.

London Home Builders Association – May 2, 2014	
Issue	*Response*
Detailed Background Studies only recently available, therefore more time required to complete review.	• Staff have engaged Stakeholders to discuss the methods and inputs for DC rate calculations over the past 2 years. Information and adjustments to rate calculations were provided as the information became available throughout the process. The bulk of the detailed information upon which DC rates were calculated was made available over the course of the last couple of months through Technical Committee meetings. The DC rate calculations are based on information already presented in prior discussions with External Stakeholders. • Staff have received comments from stakeholders related to the servicing master plans. Subsequent changes and amendments have been minor in nature. Changes made to the DC rate calculations have become progressively more minor as the information is reviewed and refined.` • Comments to the rate calculations have been submitted

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

London Home Builders Association – May 2, 2014	
Issue	*Response*
	and processed as recently as the May 5th report to SPPC and resulted in minor amendments to the rates in the DC By-law and Background Study. • Comments received after the Jun 9th meeting date will be too late to process as the time for passage of the by-law is imminent.
Commercial Rate increase of 52% will result in business locating outside of London	• Based on the CN Watson submission on Economic Impact, the location of commercial development may or may not be flexible. The location of retail development, which has significant impacts on peak period road capacity needs, is more likely to locate in the urban centre it draws customers from, for sake of customer convenience. However, other commercial entities are not likewise anchored to the London location, depending on the customer volumes they attract from the local residents. • DC rates recover the cost of the growth program needed to supply the services to anticipated growth, and are not calculated with a particular "target rate" in mind. In other words, the benefits of encouraging less costly development that might lower DC rates is not a driving factor in calculating those rates. If lower rates are desired, then less costly ways of delivering services or more efficient use of the services constructed need to be explored.
Comparably priced homes in London with those in surrounding satellite communities pay relatively less in taxes	• We understand and appreciate the desire to be competitive with surrounding communities. However, there are factors like commuting time, locational convenience, and urban amenities that offset some of these financial impacts. • The notion that less taxes are paid in surrounding communities may be a reflection of lower operating costs of infrastructure and social programs in those communities and not a reflection of the capital costs of growth. • In any event, we do not believe this is a comment that can impact the calculation of DC rates.
The % impact of the increase in the DC rates on a lower end home is greater than on a higher end home	• We agree with the mathematical reality : that in terms of percentage, the effect of a DC rate increase will translate into a higher percentage on a lower price home…..and, a lower % on a more expensive home. This is true where any fixed numerator (ie. the $ change in DC rate) is divided by a variable denominator (the $ price of new home of varying size and finish). • The only way to achieve equivalent % increases across all price levels of homes is to adjust the DC rate charged by the type or size or finish of new homes. At present, DCs cannot be charged at different rates in relation to the price segment of homes constructed. Although Staff are mindful of the larger impact DCs have on value-priced single detached homes, the persons inhabiting these homes trigger virtually the same growth costs as those reflected for higher priced homes. DC rates are not calculated, nor is there provision in the legislation, to consider affordability of a rate increase on various types of homes.

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Urban League of London – May 5, 2014	
Issue	*Response*
A delay in Council approval of Staff's May 5th recommendation may result in an inability to approve the DC by-law by August 4th, 2014	• Given that a special Strategic Priorities and Policy Committee meeting has been scheduled for June 9th, Staff anticipate being able to achieve timelines for DC by-law approval by the August 3rd, 2014 expiration date.
Growth should pay for growth, but taxpayers pay for a large number of DC exemptions to subsidize growth.	• In the April 14th SPPC report, Staff indicated that the projected cost to taxpayers associated with DC exemptions and discounts (both statutory and non-statutory) was $14.7 million/year. In the absence of growth program reductions and deferrals, further contributions would be necessary in order to subsidize reduced commercial DC rates. One of the options considered in this report, is a Commercial DC rate phase-in.
Water Supply should be included in the DC rate as the water rate savings for industrial, commercial and institutional sectors are likely to be much higher than residential water rate savings.	• Staff have been directed to provide further information on the anticipated water rate savings for ICI sectors made possible by including Water Supply in the DC rates. This information is provided for both the Committee and stakeholders as part of the June 9th, 2014 SPPC report.
Increasing the growth forecasts will lower the DC rate, but historically we have not achieved our forecasts (and therefore have not brought in sufficient revenues).	• The City of London engaged a recognized and respected consulting firm with extensive experience in preparing growth forecasts. The forecasts with respect to commercial growth has been reviewed and upon review, increased. • Forecasts rely on a number of informed assumptions about the future and are best estimates of future conditions. • Staff are mindful of the implications of increases to growth forecasts that may not be defensible or realizable. Although higher growth forecasts may decrease the DC rate, the City may not be able to garner sufficient revenues to pay for their capital works program contained in the DC Background Study. Staff propose to monitor the actual activity against growth forecasts and provide recommendations to defer growth projects should these forecasts appear unattainable.
Road program reductions were made to lower DC rates in the past and have resulted in delays in needed roads projects. Concerns about inconveniences to residents and businesses.	• The February 20th report to SPPC identified reductions to the roads program resulting in $115M in projects being taken out of the DC capital program. The removal of these projects did not impact the servicing of growth areas over the 20 year period. It was the opinion of staff that these deferrals could be made with tolerable impacts on the overall City transportation network. As such Staff sought the direction of Council on the Road Program reduction, and were directed to proceed with the removals presented. • Staff do not believe there are any additional projects that can be removed from the roads program without negatively impacting the future road network and future growth opportunities.
Potential for higher construction costs in the future due to stimulus projects. Need to be mindful in suggestions to lower cost estimates.	• Further review of 2013 and 2014 tender costs resulted in adjustments to projected cost estimates. These revised estimates were reflected in a slightly reduced DC rate in the May 5th report to SPPC. Staff believe that the revised estimates are supportable, but are mindful that additional reductions in cost estimates are likely to produce insufficient revenues to pay for growth

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Urban League of London – May 5, 2014	
Issue	*Response*
	infrastructure contained in the DC plan.
Comparing DC rates amongst municipalities is difficult due to what is included and not included in their calculated rates.	• When providing comparative DC rates, Staff attempt to clarify how rates in other municipalities are similar/differ from the composition of the London DC rates.

Extra Realty (P Sergautis) – May 5, 2014	
Issue	*Response*
Request to move Sunningdale Road construction timing from 2025 to 2017	• Staff has reviewed the requested project timing and change would result in an increase in $103 to the Single Family residential DC rate. It is important to recall that the timing of infrastructure projects are based on detailed engineering models, and the suggested timing does not reflect the modelled need. Additionally, there are other roads within the City that have a higher priority from a network perspective.
Requests related to the Applewood Subdivision application	• Request related to the storm sewer extension associated with the Applewood Subdivision is not a DC-related discussion, but rather a private matter between Extra Realty and the abutting developer. It should be noted that the need for the external storm sewer will not hold up a draft subdivision plan application by Extra Realty.
Request related to external storm sewer funding	• As outlined in the 2014 DC By-law, funding for the storm sewer referenced by Extra Realty would be eligible for oversizing (partial) funding. This policy is a continuation of that which exists in the present DC By-law. The request by Extra Realty to claim 100% of the cost of the storm sewer from the DC funds is counter to the existing and proposed DC oversizing policies. As a result, Staff cannot support the request by Extra Realty.

Phil Masschelein, Sifton Properties (Oral Submission) – May 5, 2014	
Issue	*Response*
Sifton is interested in developing an innovative mixed use community based on sustainable development principles and infrastructure. Would like a Community Improvement Plan to help fund sustainability initiatives and language in the DC By-law supportive of this proposal.	• As previously approved by Council, future incentives for desired forms of development will not be included in the DC By-law. Should a Community Improvement Plan be considered for sustainability-type initiatives, any new incentive programs would require funding through increases to the City's operating budget.

Nadio DiPardo (Oral Submission) – May 5, 2014	
Issue	*Response*
DCs levied on buildings constructed in existing built-up areas seem unfair as they are essentially subsidizing bigger projects in greenfield areas. Development in the existing built up City is beneficial as all of the infrastructure needed to support	• As with previous development charges background studies, the City continues to combine all growth infrastructure costs and projected growth throughout London in calculating development charge rates. In the coming years, Staff will examine options for Council consideration that provides for area rating of services for differing DC rates for portions of the city. • Where redevelopment of an existing site in a built up

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Nadio DiPardo (Oral Submission) – May 5, 2014	
Issue	*Response*
these buildings exists and has been paid for in the past. Council should continue to support infill projects in the future.	area of the City occurs, a conversion or demolition credit is available to offset part, or all of the cost attributable to the new building. • Infill projects that take advantage of existing infrastructure are desirable from a financial point of view.

Mike Inglis (Oral Submission) – May 5, 2014	
Issue	*Response*
Commercial DC rates are too high to make the construction of a new, purpose-built commercial recreation facility financially viable. Requesting relief from DCs or a reduced rate as his proposed business (a gymnastics centre) is not a traditional commercial venture like a retail store.	• Following the Council-approved policy regarding DC rate exemptions, Staff do not recommend creating an exemption in the DC By-law for commercial recreation facilities. Staff understand the concerns raised by small business owners of the impacts that DC costs have on the viability of their enterprises. This effect is especially prevalent where the space is large, but the intensity of the use does not support the recovery of high initial DC costs (eg. commercial recreation facility). However, new space (whether it be in a large or small format) is what produces the need for new infrastructure to support that growth. The legislative authority for collection of growth costs is upon the establishment of the new space, and therefore, it is critical that the City use that opportunity to collect the costs of growth. • Currently, there is no method in the DC legislation or in practice, to incorporate an "intensity of use" factor in the DC rate calculations – all commercial space is treated equally under the by-law. • In isolation, a small commercial building may have minor impacts on infrastructure demands; but, the cumulative effects of multiple small buildings results in the increased servicing needs which DC rates finance. • The City's conversion credit policy allows a credit for the full value of the commercial space in the event of building being converted in the future. Therefore, intensity of use may change in future. • As a result, from the perspective of collecting growth costs, this space needs to be included in DC rate calculations and assessed a charge as with all new commercial space. • In August, 2013 Council directed Staff to prepare a Community Improvement Plan for small businesses/minor commercial expansions. The request regarding incentives related to commercial recreation establishments may be considered as part of that policy review. Staff are mindful of affordability concerns, and will examine potential DC grants/discounts through future incentive program discussions. It should be noted that any new incentive programs will result in increases to the City's operating budget.

Agenda Item #	Page #

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Stakeholder Comments from May 15, 2014 Meeting re: DC Commercial Rate	
Issue	*Response*
Concern about options for 25% commercial rate cap that involve deferral/removal of growth servicing	• DC rates are derived from the cost of infrastructure required to support future growth. In order to reduce the rate to address concerns about affordability, infrastructure must be deferred or removed from the capital program. Rate calculations cannot produce a result that simultaneously provides both maximum affordability and maximum flexibility in infrastructure investments. Options that involve the deferral/removal of infrastructure projects from the DC Study provide for a reduced DC commercial rate without the need for taxpayer subsidization.
Potential for other alternatives that defer infrastructure projects having less impact on commercial development	• Staff has reviewed dozens of permutations within the alternatives provided to Council. The options presented represent the "best" scenarios, given that all potential alternatives have negative consequences. No "silver bullet" is available to address the commercial rate. See discussion of Alternatives and Options considered in the body of this report.
Road Services unit costs are too high in comparison to other municipalities	• Both the DC Road Services consultant and City Staff have conducted detailed reviews of recent roads project tenders. This review resulted in decreases to the cost of roads projects and these adjustments are reflected in the 2014 Development Charges Background Study. In order to ensure that sufficient funds are available to undertake the identified roads projects and based on recent roads project costs that are trending higher than past tenders, Staff cannot support further reductions in unit costs. The unit costs from other municipalities provided to Staff do not reflect the costs of construction in London.
Adoption of a combined non-residential rate has potential for large cost increases to institutional buildings and requires further study	• A change to a non-residential DC rate for both institutional and commercial buildings is a major policy change from the existing City of London DC rate structure. A significant amount of policy research and analysis is required to fully understand the benefits and implications of adopting a blended non-residential rate (for example, a rate that combines some or all of commercial with institutional). This has been identified by Staff as a priority project for completion following the adoption of the 2014 Development Charges Study. The policy review will involve consultations with stakeholders in both the commercial and institutional sectors.
Costs associated with the Bus Rapid Transit system should be part of the Transit recovery and not split between Roads Services and Transit	• Roadworks associated with the BRT have been included for recovery in the Roads Services section of the DC Study. The BRT lanes are works on a public highway, and are not "soft services" as described in the Development Charges Act. The BRT road improvements will be High Occupancy Vehicle (HOV) lanes as opposed to dedicated, BRT-only lanes. The inclusion of BRT-related road costs in the Roads Services section of the DC Study is consistent with numerous other Ontario municipalities and is the recommended approach of the DC Study Consultant (Watson & Associates).
Commercial rates are impacting the ability of small commercial	• Staff understand the concerns raised by small business owners of the impacts that DC costs have on the

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Stakeholder Comments from May 15, 2014 Meeting re: DC Commercial Rate	
Issue	*Response*
units to construct new premises.	viability of their enterprises. However, new space (whether it be in a large or small format) produces the need for new infrastructure to support that growth. In isolation, a small commercial building may have minor impacts on infrastructure demands; but, the cumulative effects of multiple small buildings (new or additions) results in increased servicing needs. As a result, this space needs to be included in DC rate calculations and in the charge recovered from all new commercial space. Staff are mindful of affordability concerns, and will examine potential DC grants/discounts through future incentive program discussions, it being noted that any new incentive programs will result in increases to the City's operating budget.
Commercial growth forecast should not remove the "alternative supply" – this space is likely vacant because it is unattractive for commercial enterprises	• The Altus commercial space projection included an adjustment to net out existing built commercial space that was deemed to be vacant and available. This vacant space reduced the commercial space forecast as it was assumed that this space would be consumed in the early periods of the 20 year growth forecast. If this space were deemed to be unviable/unleasable, the commercial growth space projection could be increased. However, by returning this space to the growth forecast, the employees associated with this space would also need to be added back into the forecast. This adjustment would result in a higher commercial DC rate as it would negatively impact the commercial share of Roads Services and Stormwater residential, institutional, commercial and industrial (RICI) splits.
Amount of commercial space identified in the revised projection is too low in comparison to what has been constructed in the past and what is likely to be constructed in the future	• As noted previously, a revised commercial space forecast has been provided by Altus Group Economic Consulting and was approved by Council on May 20, 2014. The revisions resulted in a significant increase in estimated future commercial space, and lowered previously calculated DC commercial rates. The consultant is of the option that the revised space projection is the highest defensible forecast that can be produced based on the overall projected growth scenario (i.e., higher population growth and higher commercial employment growth would be required to produce more space). Staff have reviewed the revised forecast and are of the opinion that it reflects a reasonable estimation of future conditions. Additionally, Staff are mindful of the negative consequences on commercial DC revenues that an unrealizable forecast can produce. The revised projection is neither overly ambitious, nor overly conservative.
Commercial development is essentially subsidizing institutional development since commercial tax dollars are being used to pay for institutional DC exemptions and discounts. Why shouldn't commercial development be subsidized as well with lower DCs paid by taxes from other forms of development?	• Institutional exemptions for schools and municipal buildings are required by the Development Charges Act. By policy, the City only charges several other forms of institutional development 50% of the City Services Reserve Fund DC rates. All of these exemptions/discounts must be funded by taxpayer sources, that include revenue generated from commercial, institutional, residential and industrial taxes. The Development Charges Act does not contain any mandatory exemptions for commercial

Appendix C: Responses to Correspondence Received from DC Stakeholders at May 5, 2014 Public Participation Meeting

Stakeholder Comments from May 15, 2014 Meeting re: DC Commercial Rate	
Issue	*Response*
	development; therefore, any discount for commercial buildings would need to be a policy decision of Council.