



LONDON



**Introduction to
Development Charges (DCs)**

Strategic Priorities and Policy Committee

April 13th, 2015



LONDON

THE CITY OF
OPPORTUNITY

Agenda

- What are Development Charges & what do they pay for?
- DC rate setting process
- Payment of DCs and incentives
- Why DCs are controversial
- Council's role regarding DCs



““ What are Development Charges (DCs)? Why are they important? ””



LONDON

THE CITY OF
OPPORTUNITY

What are Development Charges?

- The City charges a fee – a development charge - for recovery of growth costs.
- The province of Ontario has provided the legislated framework – the Development Charges Act (DCA), 1997 :
“to pay for increased capital costs required because of increased needs for services arising from development of the area to which the by-law applies”



LONDON

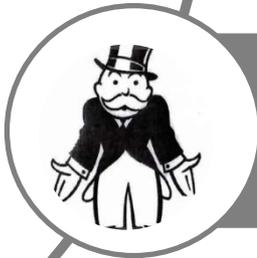
THE CITY OF
OPPORTUNITY



Build new infrastructure
supporting growth



Pay down existing debt for
past growth works



Avoid taxpayers paying for
costs that serve growth



“What do Development Charges pay for?”



LONDON

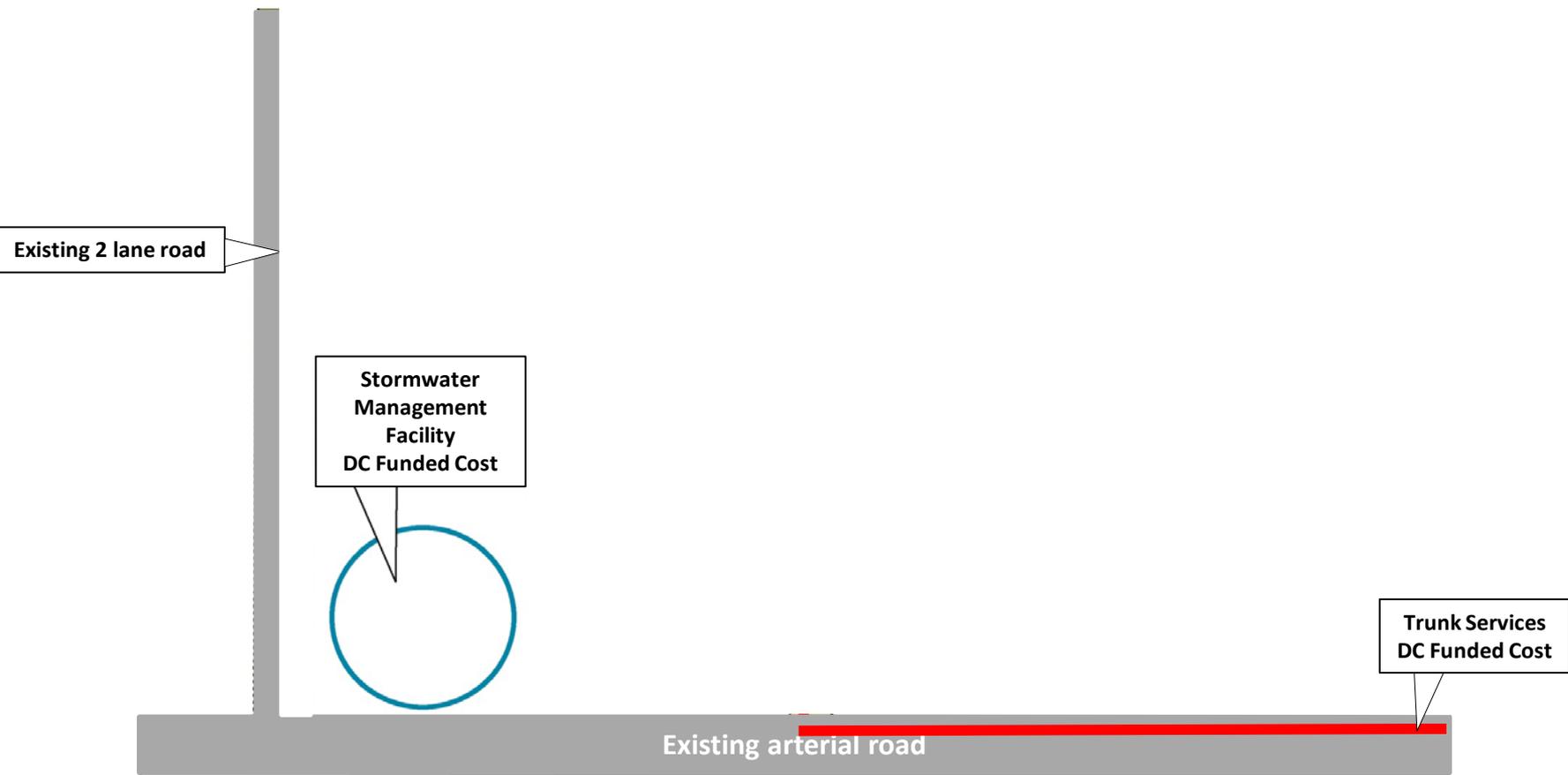
CITY OF OPPORTUNITY

Existing 2 lane road

Existing arterial road

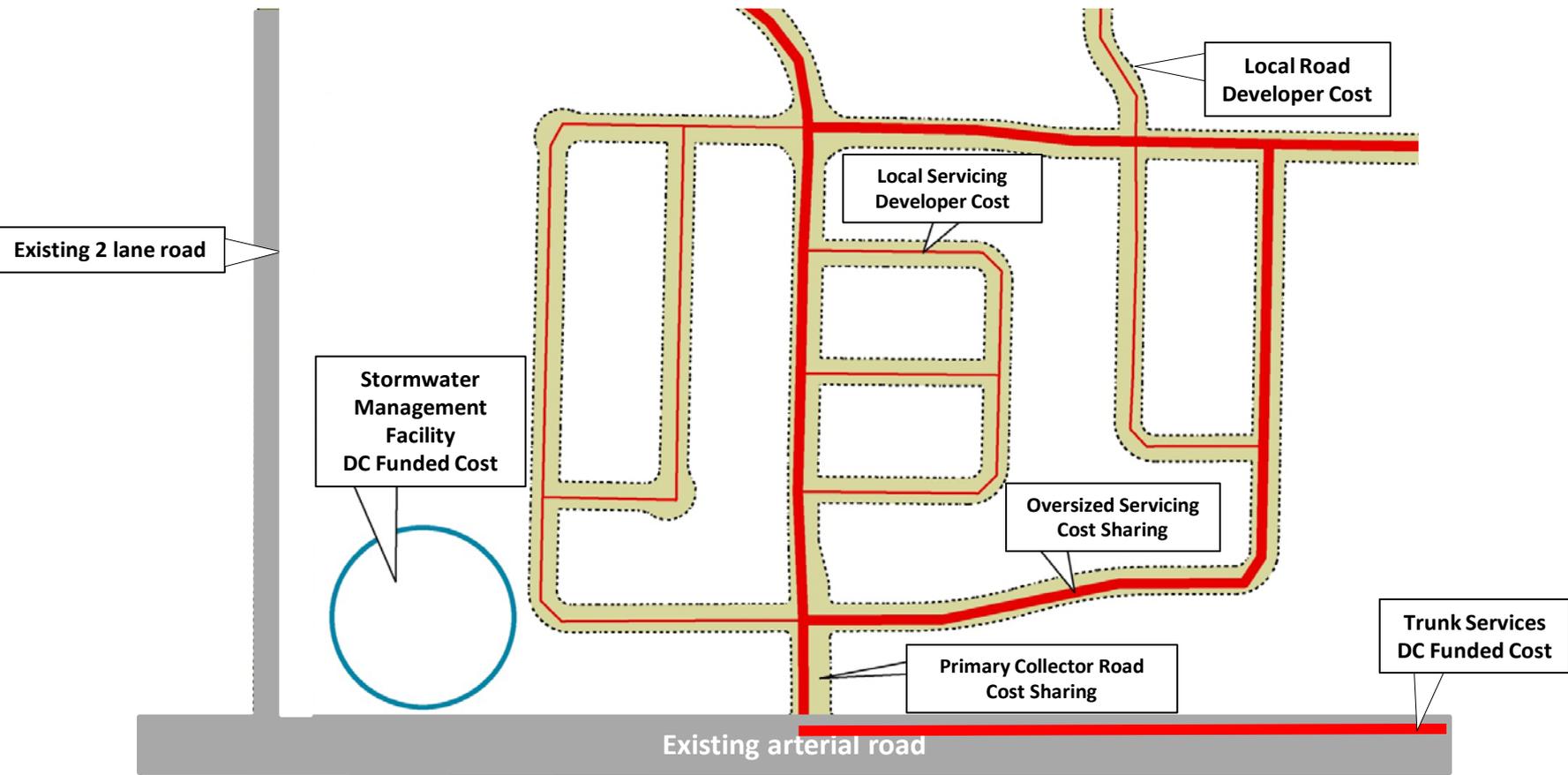


LONDON CITY OF OPPORTUNITY

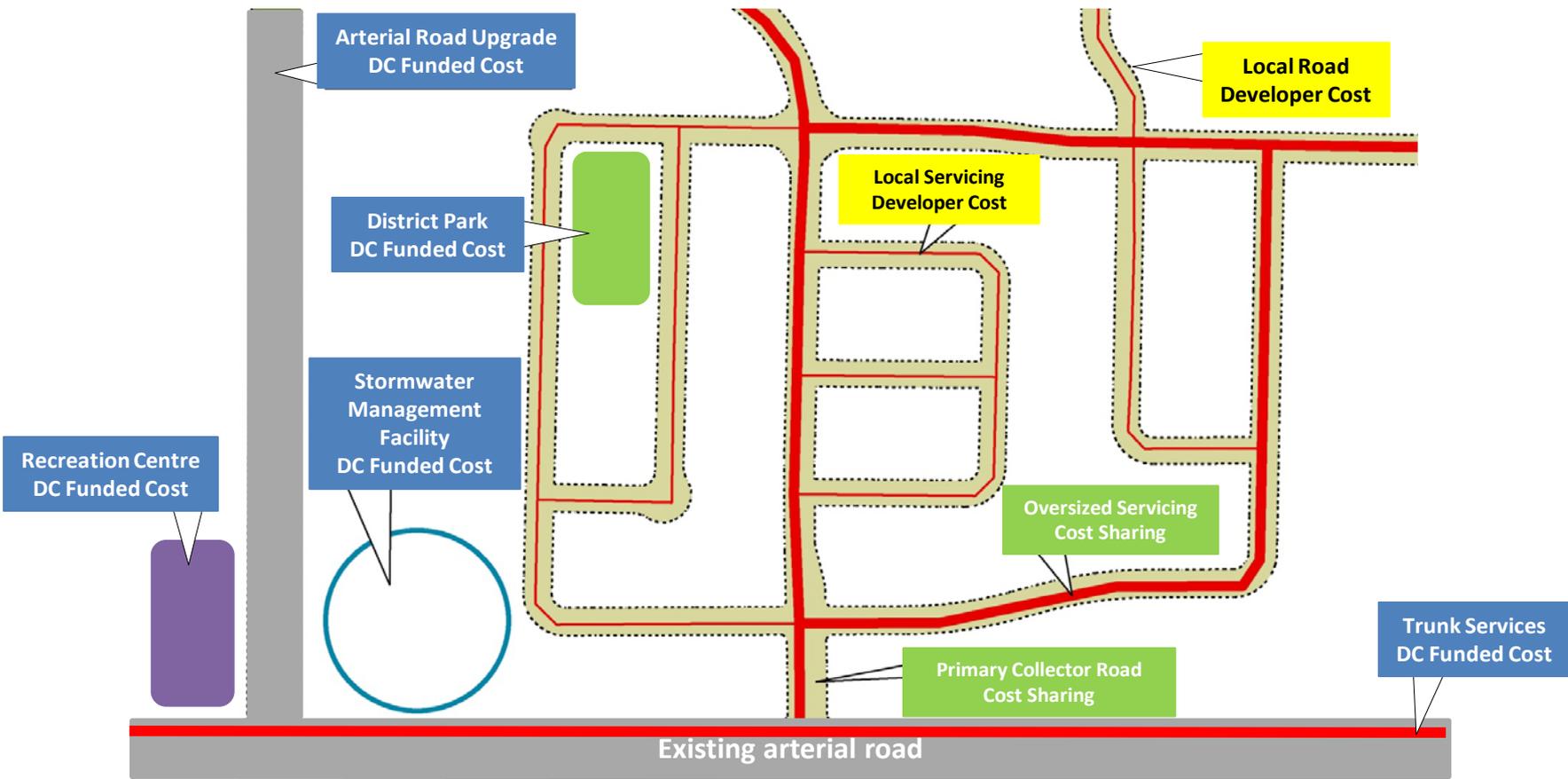




LONDON CITY OF OPPORTUNITY





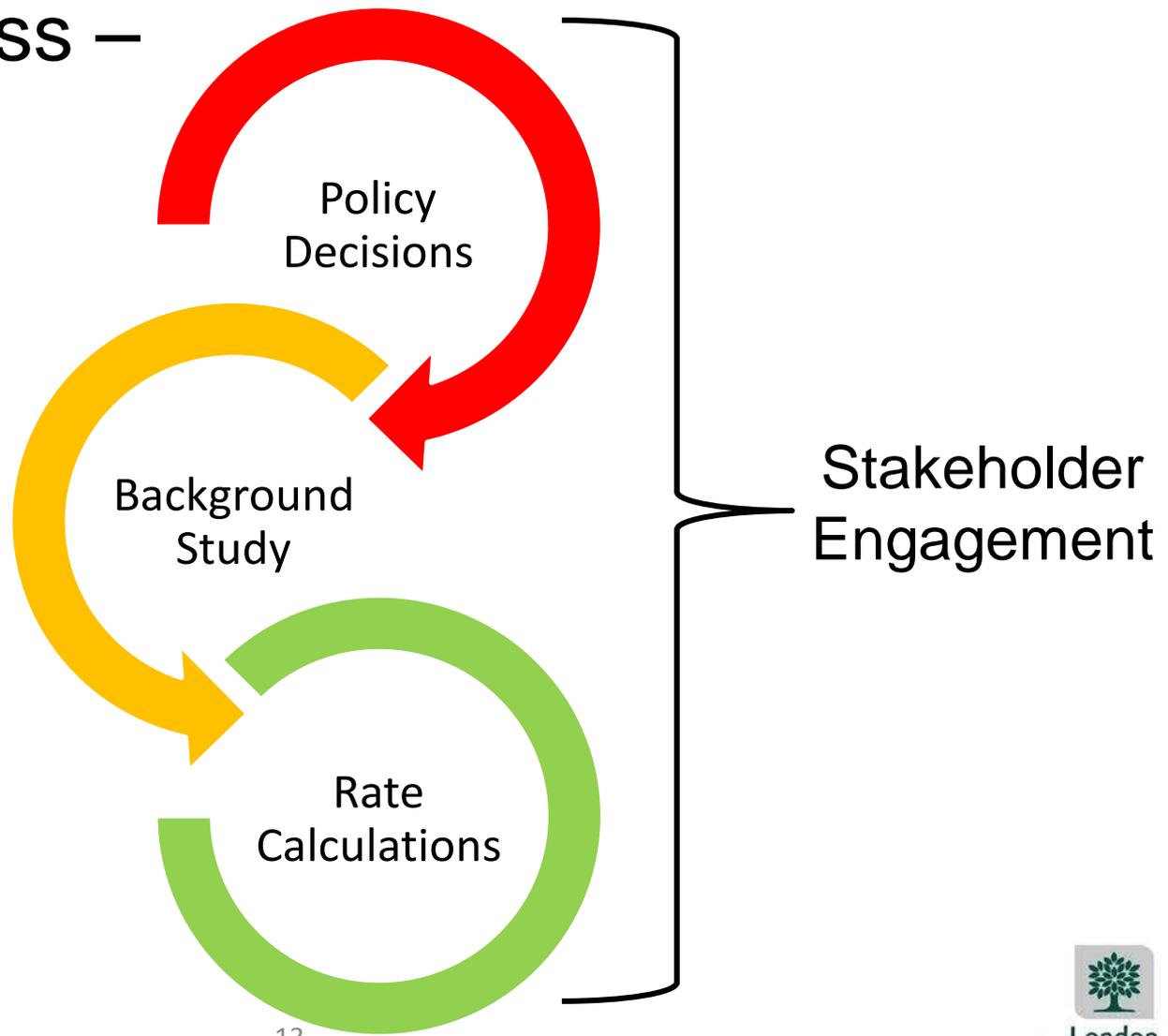




“How are the DC rates determined?”



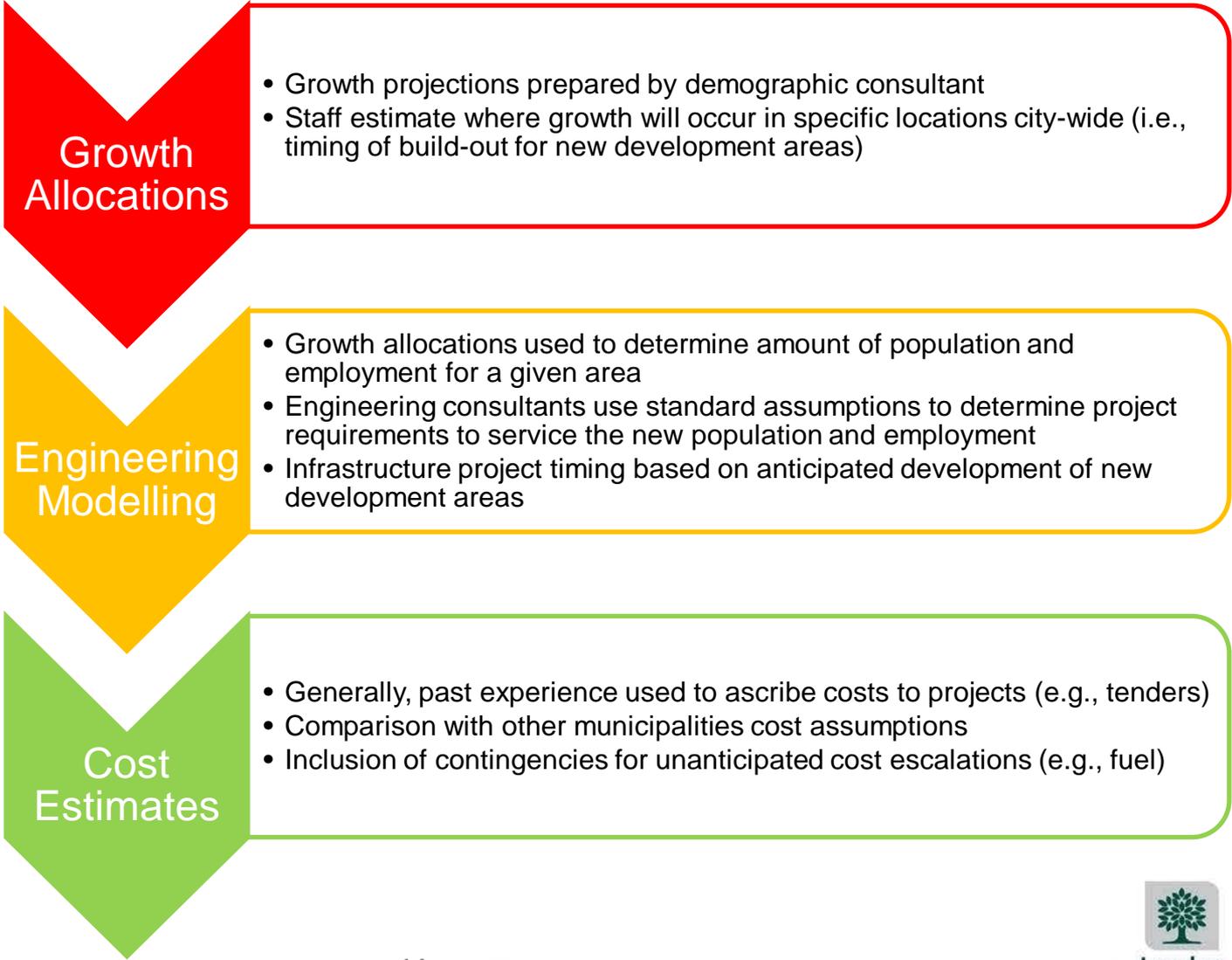
2014 DC Process – Overview





LONDON CITY OF OPPORTUNITY

How are DC Project Costs and Timing Determined?

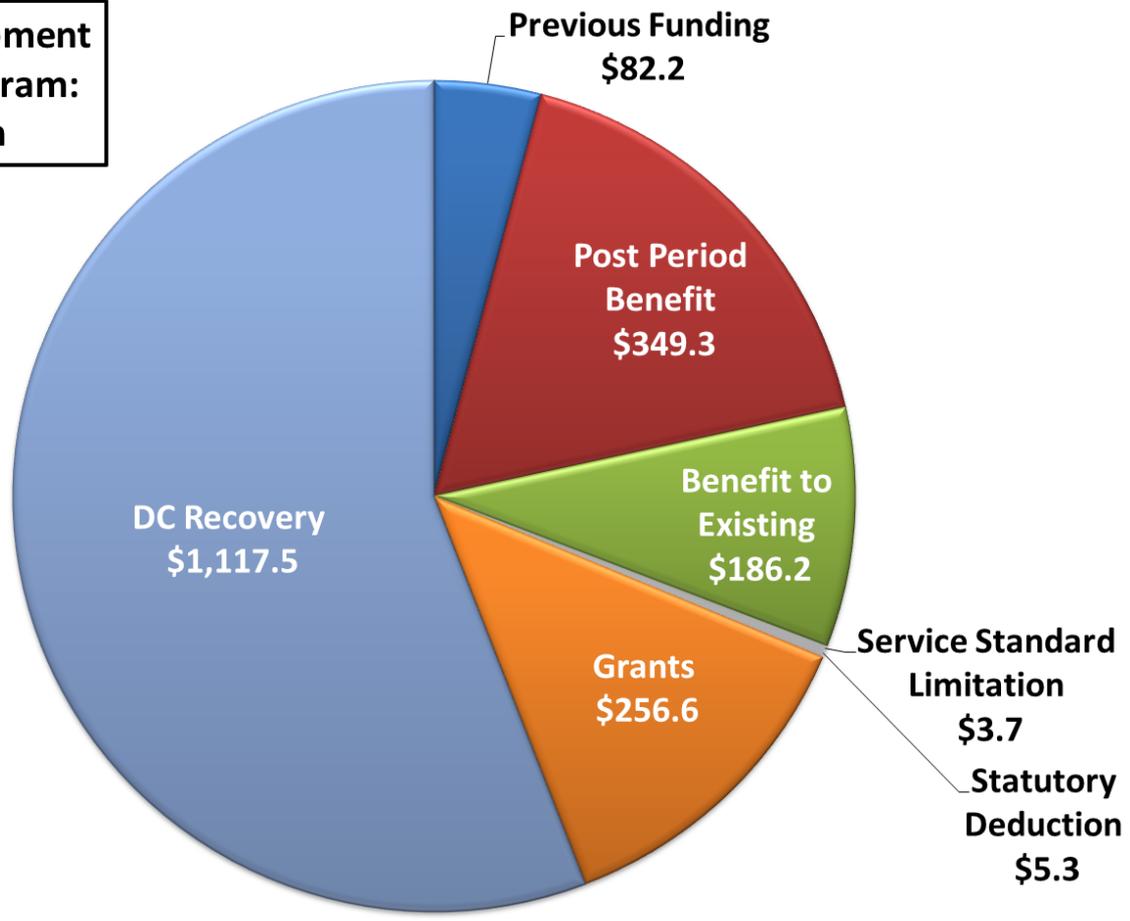




LONDON CITY OF OPPORTUNITY

Total Development Charges Program: \$2 Billion

Total DC Capital – 20 yr Plan (\$millions)





LONDON CITY OF OPPORTUNITY

Deductions Impacting Rate Calculations

	Gross DC Cost		\$\$\$
Soft Services	Less: Previous funding from past budgets	Hard Services	\$
	Less: Federal/Provincial grants		\$
	Less: Post period benefit ("future benefit")		\$
	Less: Benefit to existing development ("non-growth")		\$
	Less: 10% Statutory deduction		\$
	Less: Service standard limitation		\$
	Net DCs Recoverable		\$\$

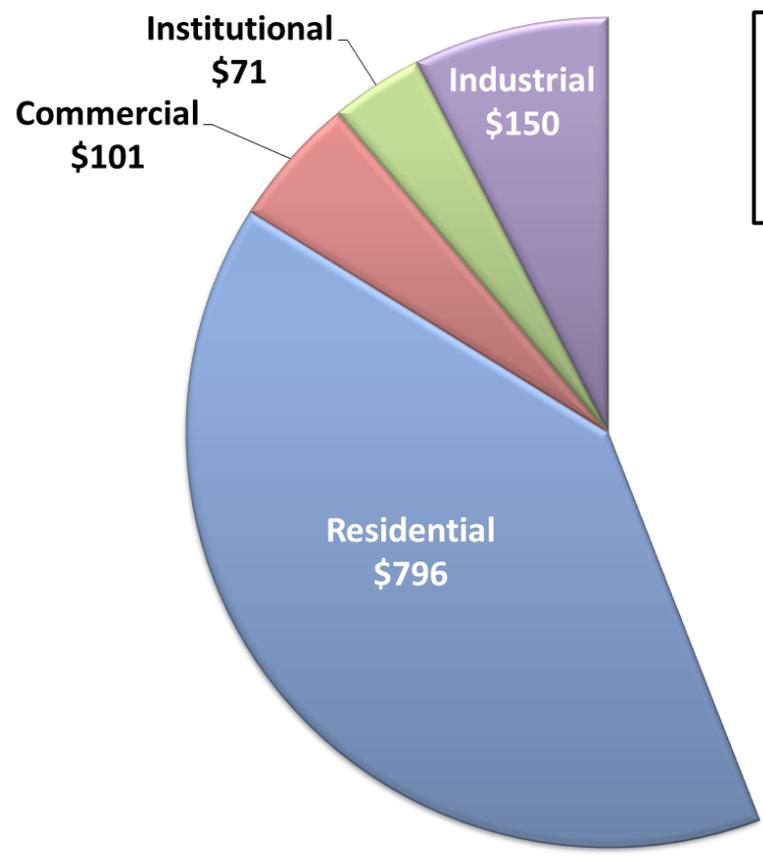
Opening balance of reserve fund is also subtracted from total net recovery





LONDON CITY OF OPPORTUNITY

DC Capital Plan by Type of Growth (\$millions)



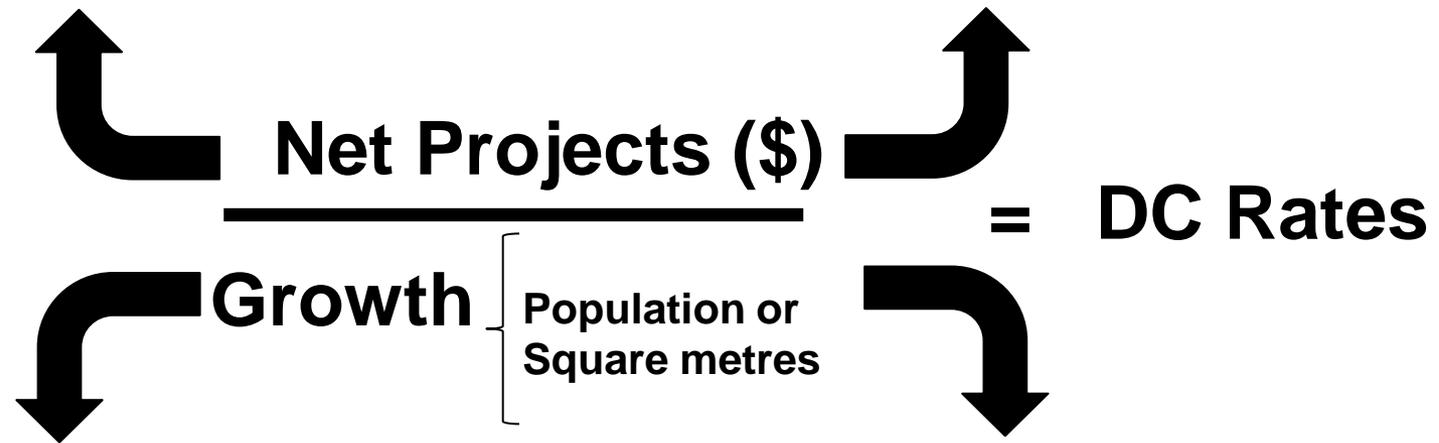
Total Development Charges Eligible Costs:
\$1,117
(values in millions)



LONDON CITY OF OPPORTUNITY

Development Charges Rate Calculation

- | | | |
|-----------------------|---|-----------------------------|
| • Number of projects | ➔ | • Scope of DC recovery |
| • Timing of projects | ➔ | • Cash flow |
| • Post Period Benefit | ➔ | • Amount of future recovery |



- | | | |
|--|---|-------------------------------|
| • Splits by type of development | ➔ | • Recovery for share of costs |
| • Amount of forecasted units and space | ➔ | • Growth triggering projects |

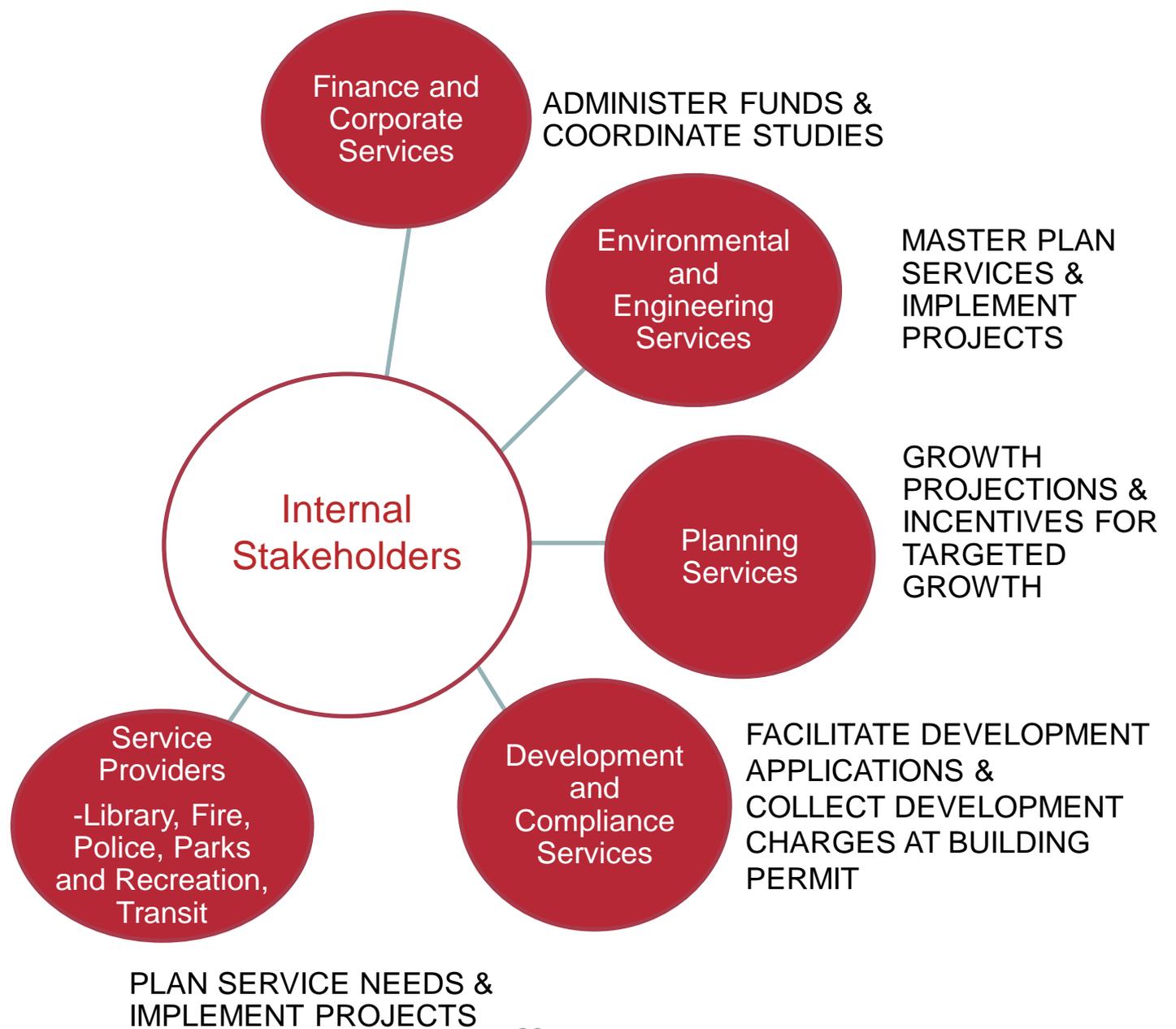
A vertical graphic on the left side of the slide features the word "LONDON" in large, white, sans-serif capital letters. The letters are stacked vertically and have a slight 3D effect. Behind the letters, a photograph of a cityscape is visible, showing buildings, a river, and a bridge. The background of the slide is white.

“Who are the stakeholders involved in DC rate setting? What are their priorities?”



LONDON

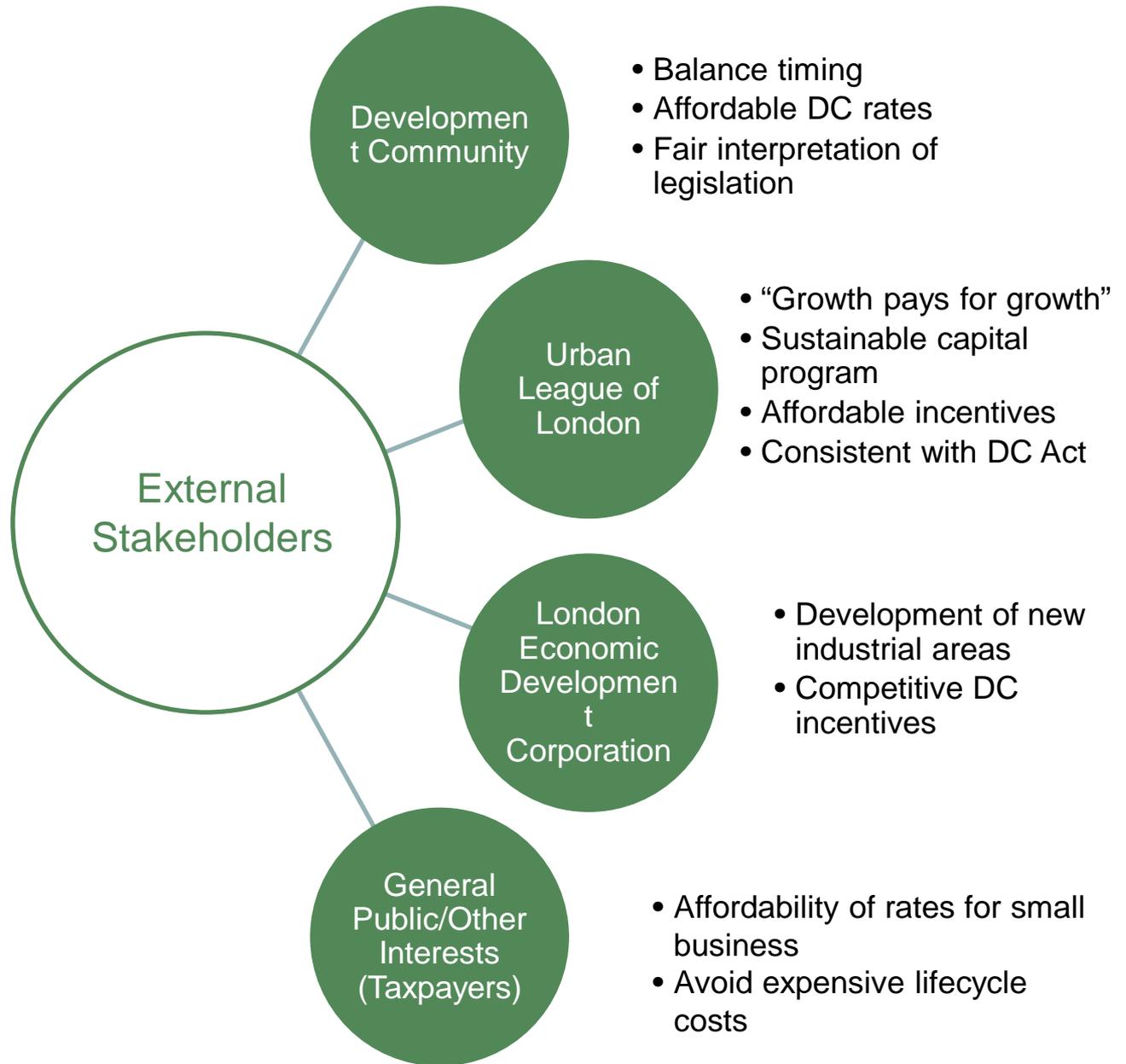
THE CITY OF
OPPORTUNITY





LONDON

THE CITY OF OPPORTUNITY





“Who pays Development Charges?”



LONDON
.....
THE CITY OF
OPPORTUNITY

- NEW BUILDINGS
- EXPANDED BUILDINGS
- CONVERTED BLDGS
(change of use)

RESIDENTIAL



COMMERCIAL



INSTITUTIONAL



INDUSTRIAL



LONDON DC INCENTIVE PROGRAMS

Downtown/
Old East Village
Residential DC Grant

Commercial DC
Rate Phase-in

50% discount for
institutions
Schools and municipal
buildings exempted by
DC Act

Industrial DC
Grant

RESIDENTIAL

COMMERCIAL

INSTITUTIONAL

INDUSTRIAL



LONDON
.....
THE CITY OF
OPPORTUNITY



LONDON

DC's – an averaging of growth costs applied equally to all development

- *DCA s5(6)2.: “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”*

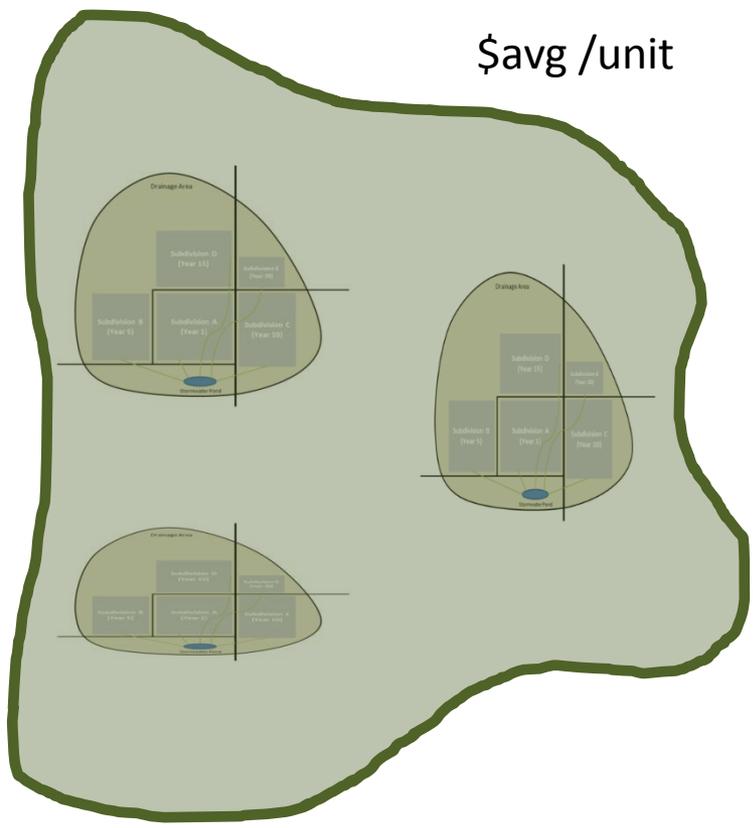


LONDON CITY OF OPPORTUNITY

'Area Rates' vs. 'Average Rate' Approach

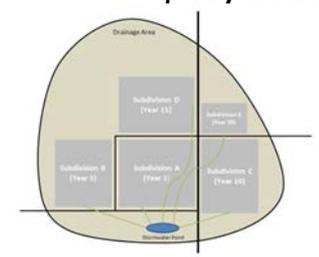
Average Rate Approach

\$avg /unit

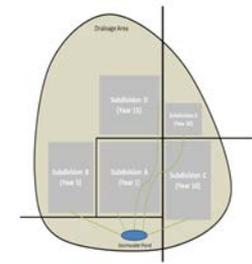


Area Rate Approach

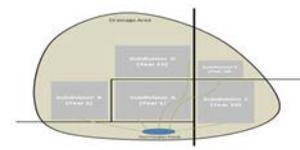
\$ x /unit



\$ y /unit



\$ z /unit





LONDON

CITY OF OPPORTUNITY

Comparison of DC Recovery Alternatives

Area Rating

Pros:

- Improved link between DC payable and service provided
- Cited as a potential incentive for intensification/infill
- Use as a strategic tool for growth management

Cons:

- Justification of area rate “networked” services – eg. roads, wastewater treatment
- Multiple DC by-laws to administer
- Potential for high costs to develop certain areas
- Transitional complexity

Average Cost

Pros:

- Everyone pays the same rate
- Avoids “winners” and “losers”
- Easier to administer – simpler calculation

Cons:

- Perceived issues re: fairness
- Potential to pay for services you don't benefit from
- Less strategic



“Why are Development Charges so controversial?”



LONDON

THE CITY OF
OPPORTUNITY

“Affordability!”

“Growth pays for growth!”

“We need contingency projects!”

“Locally competitive!”

“The cost assumptions are too high!”

“Keep administration requirements/resources low!”

“Avoid low cost estimates!”

“My business should be exempted from DCs!”

“DCs are the reason I can’t build my building!”

“True cost accounting!”

“Too much subsidy with DC Act deductions!”

“No winners and losers!”

“My property is already serviced!”

“Only recovery for development requirements, not growth impacts!”

“I’m ready to go tomorrow!”

“Can’t a smaller pipe be DC claimable?!”



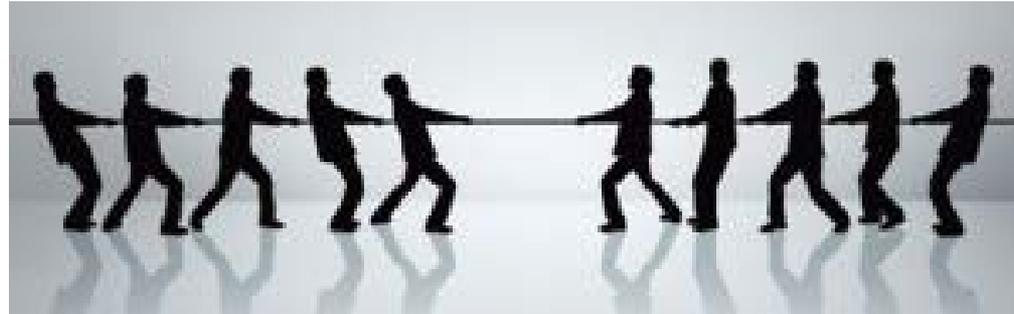


LONDON

THE CITY OF
OPPORTUNITY

“DC rates are
too high”

“Advance services
needed for my
project”



2015 GMIS Requests would have increased DCs by \$193 per single family and \$2.20 per m² commercial

With an ‘accommodating’ Growth Plan.....
..... comes higher DC rates.



“How is Council involved with DCs? What does Administration need from Council?”



LONDON

THE CITY OF
OPPORTUNITY

Council Role in DC-Related Items

Approval of Development Charges Background Study – established 20 year growth program and cost recovery (approved, summer, 2014)

Yearly DC Monitoring – examines DC revenues and project cost actuals vs. estimates (assess need to trigger a DC Study update)

Annual GMIS Updates – opportunity to adjust project timing to reflect ability to pay for projects and market conditions

Future DC Study – tweaks to previous DC Study and adding an additional 5 years of growth

Other Council Activities Related to Development Charges

Subdivision Reports



- Developer oversizing claims (subdivision agreements)
- Estimated Costs and Revenues Schedule – the notes are very important

Project Approvals & Sources of Financing



- DC funds applied to funding:
 - Environmental Assessments
 - Detailed design work
 - Servicing studies
 - Project construction

Landowner Proposals



- DCs are not “profit” to the City for development of land
- “Apples-to-apples” comparisons important when considering DC revenues and expenditures





Key Messages



LONDON

THE CITY OF
OPPORTUNITY

Development
Charges:
Key
Messages

1

DCs pay for growth infrastructure projects and past investments in growth.

2

DCs only pay for the initial capital cost of major growth-related services identified in the DC Background Study – not local services, ongoing operating costs, or lifecycle renewal costs.

3

DCs are determined by an established legislated process that identifies the servicing needs and costs for future development. ³⁵



LONDON

THE CITY OF
OPPORTUNITY

Development
Charges:
Key
Messages

4

Multiple internal and external stakeholders are involved in the DC rate setting process. Each has unique perspectives and goals regarding DCs.

5

DCs are paid by individuals constructing buildings. Certain forms/areas of development are exempted (DC paid by taxpayers). DC rates are charged uniformly throughout the City.



LONDON

THE CITY OF
OPPORTUNITY

Development
Charges:
Key
Messages

6

DC rate setting involves consideration of “affordability” and “flexibility.” Affordability is about keeping the cost of growth down by minimizing DC rates. Flexibility is about maximizing development opportunities by extending municipal services in numerous locations. The two ideals often conflict.

7

Council is ultimately tasked with balancing the desire for development with the increased investment required to facilitate growth.



WE ARE A PLACE WHERE PEOPLE ARE WELCOMED AND WANT TO BE

