

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING OF April 30, 2012
FROM:	MARTIN HAYWARD, CITY TREASURER & CHIEF FINANCIAL OFFICER
SUBJECT:	INITIATION REPORT 2014 DEVELOPMENT CHARGES BACKGROUND STUDY and DC BY-LAW UPDATE

RECOMMENDATION

That this report **BE RECEIVED** for information, it being noted that staff have initiated the 2014 Development Charge (DC) study process with a view to establishing new DC rates by expiry of the current DC rate by-law in August, 2014.

PREVIOUS REPORTS

- Board of Control Report – March 21, 2007 (2008 DC Background Study Initiation Report) <http://council.london.ca/meetings/Archives/Agendas/Board%20Of%20Control%20Agendas/Board%20of%20Control%20Agendas%202007/2007-03-21%20Agenda/Item%2028.pdf>

BACKGROUND

Municipalities in Ontario use legislation that allows them to recover growth related costs through development charges (DC's). The DC legislation in Ontario requires that municipal development charge by-laws be reviewed every five 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.

This report discusses the various elements of the proposed work and provides a preliminary work plan that will lead to reconsideration of the City's DC policy and rates early in 2014. It also provides the opportunity for Council to provide input at this critical early stage, to identify any further DC policy matters Council wishes to have addressed during the course of the study.

DISCUSSION

The provincial government regulates the setting of development charge rates through the *Development Charges Act, 1997 (DCA)*. That legislation prescribes how development charges are to be calculated and applied.

Development charges are a critical source of revenue used to finance growth and the main instrument used to implement the City's Official Plan policy objective that "growth pays for growth". The 2009 DC study reported approximately \$1.7B in capital costs expected to service growth over the twenty(20) year time horizon of the 2009 study. In 2011 alone, development charge revenues exceeded \$30M. Good forecasts that reflect DC policy on cost sharing are important to an accurate rate calculation.

In London, DC's are collected under two broad categories:

- a) City Services Reserve Fund (CSRF) – used to finance City constructed, growth related projects, the timing and approval of which are subject to annual review in the Capital Budget;
- b) Urban Works Reserve Fund (UWRF) – used to finance minor growth projects, generally (though not necessarily) constructed by a development proponent, funded by the development proponent and reimbursed, as the fund balance permits. These growth works are authorized through approvals under the Planning process.

The different uses of the funds are reflected in **Table 1** below. The Table also identifies municipal services that are not included in London's DC rates – either by legislation or by City policy choice:

Table 1 – Growth costs recovered through DC's and Exempted Services			
Service	Growth Costs Recovered through DC's:		Exempted works:
	Urban Works funded works	City Services funded works	(L-legislative exemption or C- City has not collect a DC for these, by policy)
Fire		stations, equipment, outfitting costs	(L) – 10% exemption for "Soft Services"
Police		facilities, equipment, outfitting costs	(L) – 10% exemption for "Soft Services"
Corporate Growth Studies		growth studies which ultimately lead to provision of capital works to serve growth	(L) – 10% exemption for "Soft Services"
Library		facilities, collections	(L) – 10% exemption for "Soft Services"
Parks & Recreation		facilities, park development – neighborhood, district, sports fields, major open space, ESA's, parkway extension,	(L) – 10% exemption for "Soft Services" (L) Cultural or Entertainment Facilities, tourism facilities, acquisition of Land for Parks,
Transit		Bus garages, transit equipment, buses	(L) – 10% exemption for "Soft Services"
Roads	Minor Roadworks – traffic signals, road channelization,	Arterial Rds & Rural Rds - increased capacity, road upgrades (eg. traffic signals, sidewalks, street lights, channelization, bike paths), upgrade to urban standard	
Water		Distribution capacity only; Supply capacity rate calculated in past, but exempted in current rates	(C) –exempted by policy choice : Water Supply service DC rates have been calculated in the past, but not incorporated into the DC rates adopted
Sanitary Sewers	conveyance pipes >300mm in diameter eligible for subsidy	trunk conveyance pipes and treatment capacity	

Table 1 – Growth costs recovered through DC's and Exempted Services

Service	Growth Costs Recovered through DC's:		Exempted works:
	Urban Works funded works	City Services funded works	(L-legislative exemption or C- City has not collect a DC for these, by policy)
Storm Water	conveyance pipes >1050mm in diameter and storm water management ponds serving <50ha eligible for subsidy	trunk pipes and storm water management ponds serving ≥50ha or ponds part of drainage system or environmentally sensitive areas	
Miscellaneous			(C) –exempted by policy choice include : Social Housing, Long Term Care Facilities, Public Works Maintenance Equipment (must be expected to last ≥ 7 years to be eligible), Emergency Medical Services, (L) provision for waste management services, general administrative headquarters

Background Study

DC rates are essentially a function of two forecasts:

1. The forecasted growth over a selected growth horizon;
2. The projected cost of infrastructure and facilities required to serve the forecasted growth.

Development charge (DC) rates are determined with reference to forecasted growth (the denominator) and estimated cost of capital needs resulting from that growth (the numerator). If City's targets for growth differ from expert forecasts, capital works can be accelerated to accommodate the higher than forecasted growth when the need becomes apparent.

It should be noted that the DC rate in no way determines the pace of growth. Rather, it correlates the best estimate of what growth will be, with the estimated costs of infrastructure needed to serve that growth. Investments in growth infrastructure can be accelerated, or decelerated, to more closely match the pace of growth. In this way, investments in infrastructure, and payments on associated debts, are linked to the recovery of growth costs.

The City's entire growth financing strategy is contingent on the approval of accurate and sufficient DC rates that recover growth costs.

The legislation requires that a background study incorporating prescribed elements be completed prior to passing a DC by-law. The objective of the background study is to comprehensively explain the City of London's approach to the calculation of the DC rates and to demonstrate compliance with the legislative requirements. Upon completion of the background study, Council has the responsibility and authority (at least every 5 years) to approve a DC rate by-law.

The background study must be comprehensive (include all growth costs that the City intends to fund through development charges). It must also produce an accurate estimate of the expected future capital costs to serve growth. The Development Charges Act provides for a process that includes a public meeting on the background study and proposed by-law prior to Council's adoption of the by-law. The by-law may be appealed to the Ontario Municipal Board.

For these reasons, it is incumbent on all departments, boards and commissions whose growth costs are funded in part, through DC's, to accurately and completely forecast growth costs. These cost estimates must be:

- based on defensible growth forecasts (Land Use Planning Division lead);
- defensible projections of capital needs arising from growth (Master plans and capital forecasts);
- allocated amongst benefiting types of growth (Residential, Institutional, Commercial and Industrial);
- delivered within the time constraints set out in the project work plan.

In addition to addressing the statutory requirements of the DC legislation, London's unique approach to constructing and financing minor growth works through the Urban Works Reserve Fund (UWRF) has undergone, and will demand further refinement through our DC study review process.

DC Policy Issues

In November, 2011, Council directed :

"(g) "The Civic Administration **BE INSTRUCTED** to explore the following other considerations as part of the next Development Charges Background Study:

(A) Development Charges **BE REVIEWED** with a view to establishing a fee structure that encourages intensification and discourages "leap frog" development;

(B) capital works **BE REVIEWED** as part of the next Development Charges Background Study to establish more works related to the development as local services (Section 59(2), Development Charges Act, 1997) rather than regional services;

(C) further to recommendations to the Audit Committee from the internal auditor, the viability and future of the Urban Works Reserve Fund **BE REVIEWED**; and

(D) the Development Charges By-law **BE REVIEWED** with a view to applying section 26(1) of the Development Charges Act, 1997 which allows for payment of development charges related to water, wastewater, storm water and roads upon entering a subdivision or consent agreement; noting that while this improves cash flow to the CSRF, considerable administrative burden and cost will be incurred to effectively monitor this change;

The policy reviews listed above can be referred to as:

- A. Area Rating/support for Intensification,
- B. Local servicing policy,
- C. UWRF framework for the future,
- D. Accelerated payment of DC's.

The policy setting process will include the above DC policy issues. A preliminary list of other issues also under consideration include :

1. Industrial DC Exemptions – definition of industrial
2. Financing of DC exemptions – including accounting treatment
3. Small business exemption/discount

4. Strategies related to DC funded debt levels
5. Funding of Urban Design features from DC's
6. Alternative non-residential rate structures
7. Potential for recovery of staff time dedicated solely to growth projects

Recommendations for major changes in policy will be put before Council prior to tabling the DC rate study or by-law. All changes to policy should include specific consideration of the implementation issues and how they will be addressed prior to adoption of the policy change.

Timetable

The target for completion of the background study and proposed DC by-law has been set at February, 2014. This date allows for minimal slippage in the timetable. The process concludes with a public meeting to review the DC Background Study and proposed DC by-law. The existing by-law expires in August, 2014.

Internal DC Study Steering Committee

The internal DC Study steering committee will be led by the City Treasurer (see Terms of Reference for this committee at Appendix B). The internal study steering committee will be composed of Martin Hayward, (City Treasurer & Chair), John Braam (Acting Executive Director Planning, Environmental and Engineering Services, and City Engineer), George Kotsifas (Director of Building Controls), John Fleming (City Planner and Director of Land Use Planning), Greg Barrett (Manager Land Use Planning Policy), Peter Christiaans, Director of Development Finance and Scott Mathers, Manager of Development Finance.

For the past two studies (2004, 2009), the City has employed consultants to provide input on elements of DC policy and to complete the Engineering Master Plans. In those years, Administration has compiled the background study and DC by-law. With the 2014 study, the City intends to once again employ external consultants on areas of DC policy research and setting. We are also considering extending that engagement to include compilation of the background study. Funding for this part of the work is provided by a combination of DC revenues and taxpayer/user rates.

The conduct of the background study involves staff from various City departments, Boards and Commissions. All departments, boards and commissions with a stake in this study are being informed by copy of this report of the initiation of the 2014 DC Study. They will need to begin assessing the information they have available to feed a 2014 DC Study update.

The background study should also serve to produce the capital plan schedule for the Growth Management Implementation Strategy for 2014 and beyond.

Reporting

The process will be coordinated by Development Finance. In order for the process to culminate in a cohesive policy, and to maintain the links necessary for a study of this kind, the Director of Development Finance should have the opportunity to review reports associated with the completion of the DC study, prior to their release to the affected committee. This would include future reports on:

- growth forecasts (Planning and Environment Committee, Strategic Priorities and Policy Committee),
- terms of reference for master plan studies (Civic Works, Community Services, and Investment and Economic Prosperity Committee, Public Safety committee) and reports arising from those studies,
- DC policy matters (Strategic Priorities and Policy Committee) affecting services funded from DC revenues.

Stakeholder Input

The interests of both taxpayers and the development community are significantly affected by DC rate policy. The process and study output are improved when stakeholder input is incorporated throughout. Input from stakeholders will be sought at various junctions throughout the process. For example :

- Review of various policy direction and recommendations for changes;
- review of growth forecasts, which form the foundation of the capital needs assessments;
- review of capital needs (scope and costing), which together with growth forecasts, largely determine the DC rates.

The stakeholders that will be incorporated into the process will be the London development community, the London Home builders, and the Urban League of London. Appendix C provides the Terms of Reference for this Committee.

A final opportunity for public input will be provided at the statutory public meeting expected in the spring of 2014, prior to Council adoption of any amendments to the DC by-law.

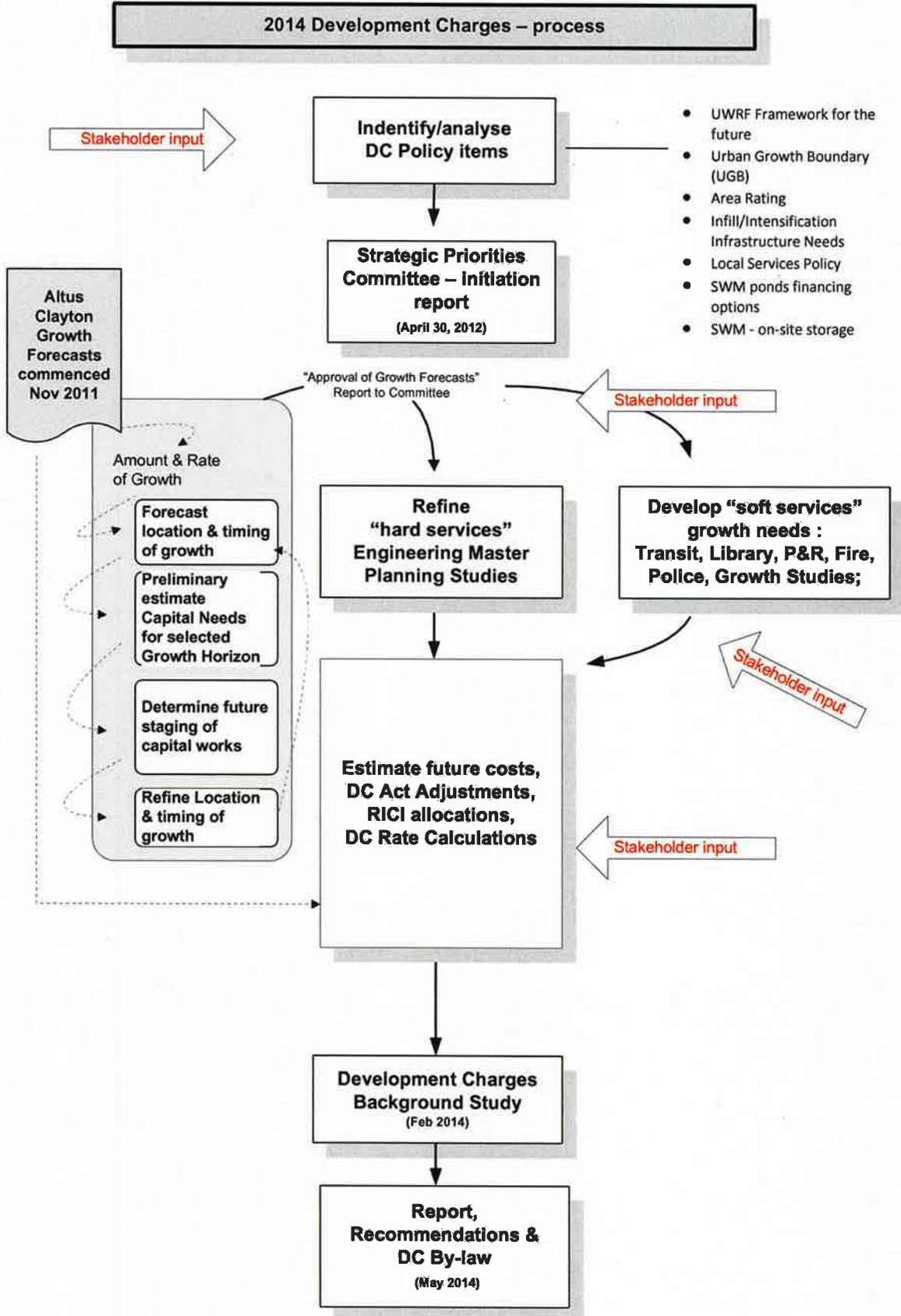
Work plan

Our objectives over the coming two years with respect to DC policy are:

1. DC Policy - Address various DC policy issues (see list above) and vet with stakeholder groups.
2. Reports and Recommendations on Policy Issues - Produce reports with recommendations on various policy matters related to development funding for consideration of Council and as a basis for compilation of master plans needed to prepare a background study;
3. Assess the timing of investments in infrastructure and implications on DC rates and debt;
4. Produce a revised background study – in accordance with the governing legislation, by early 2014;
5. Produce a revised DC by-law - to replace the current by-law (By-law C.P.-1473-212) by February, 2014;
6. Produce a revised schedule/timing of growth related capital works for the 2014 GMIS;
7. Incorporate stakeholder input into the process to promote transparency, accountability and understanding;

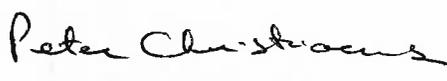
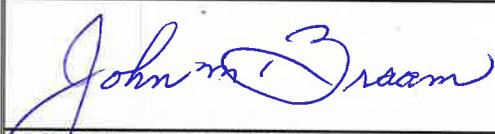
A graphic timeline for the project is also included in Appendix A. **Figure 1** below provides a graphic representation of key elements of this project.

Figure 1



Conclusion

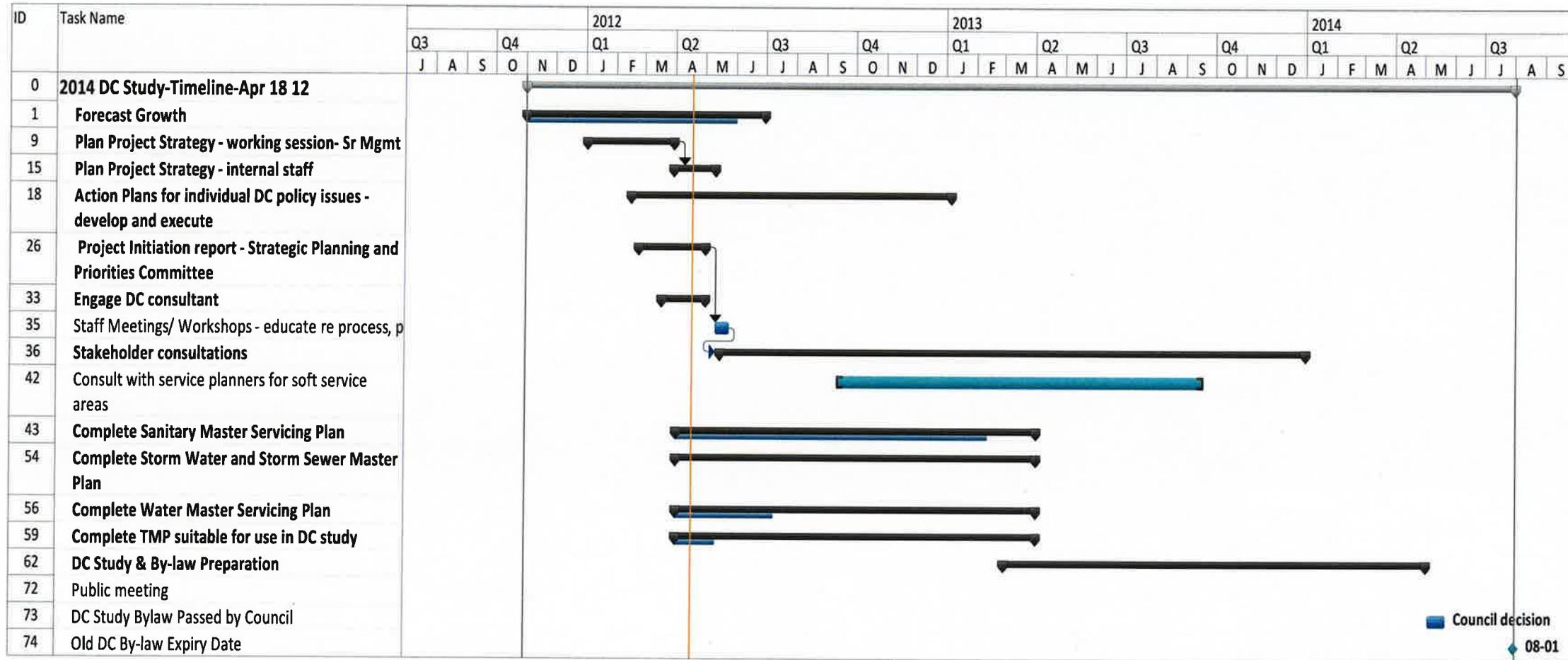
Administration intends to manage the process under the above framework, with transparency and an eye towards meeting the target completion date.

PREPARED & SUBMITTED BY:	CONCURRED IN:
	
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 Lois Langdon – London Home Builders
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Appendix A

2014 DC Background Study – Timeline



Appendix B – 2014 DC Background Study

Terms of Reference - Development Charge (DC) Internal Steering Committee

Purpose

To assist City staff and DC consultant in completing the 2014 Development Charge (DC) Background Study and By-law by :

- a) Reviewing, analysing and proposing direction on DC policy issues;
- b) Overseeing consultations with stakeholders
- c) Reporting on DC policy recommendations,
- d) Providing direction to consultants in policy review and DC background study preparation.

Timing of the Project

The Development Charge By-law must be developed and enacted by Council prior to August 3, 2014. Completion of background study and DC rate by-law in early 2014 should facilitate this process.

Membership of Internal Steering Committee

The internal study steering committee will be composed of :

1. Martin Hayward, (City Treasurer), John Braam (Acting Executive Director Planning, Environmental and Engineering Services, and City Engineer), John Fleming (Director of Planning), Greg Barrett (Manager Land Use Planning Policy), George Kotsifas, Director of Building Controls, Peter Christiaans, Director of Development Finance, Scott Mathers, Manager of Development Finance;
2. Various City managers as determined appropriate, from time to time;
3. Jim Barber, City Solicitor (or designate)

The Committee will be chaired by Martin Hayward, City Treasurer.

Roles and Responsibilities

The committee will:

- a) Address issues associated with DC Policy matters and proposed changes to same; provide input and direction over policy impasses and provide alternative solutions, within timelines of the study. Provide comment and suggestions on various components of the DC study process and its interim products, including :
 - i. Types of work to be completed through each of the CSRF and the UWRF;
 - ii. Other DC policy questions including UWRF Framework for the future;
 - iii. Allocation of growth forecasts to geographic locations, including consideration of infill locations;
 - iv. Completion of capital needs studies;
 - v. Completion of the DC rate calculations;
- b) Oversee production of reports on various policy matters related to development funding for consideration of Council;
- c) Through liaison meetings with stakeholders, and to the extent feasible, render decisions and provide direction to address stakeholder concerns and considerations (it being noted that at times, positions may be opposed from one to another);
- d) Oversee production of a revised background study - namely the 2014 Development Charge study - and produce new DC rates by early 2014;

Meetings

The Internal Steering Committee will meet as required, but no less than monthly. Materials for pre-reading should be provided as early as possible but at least two days before the meeting.

Term of Appointment

The committee will exist until the later of the enactment by Council of the Development Charge By-law arising from the 2014 DC Background Study and the implementation of major changes resulting from the DC rate study.

Appendix C – 2014 DC Background Study

Terms of Reference Development Charge (DC) Stakeholder Committee

Purpose

To assist City staff in completing the 2014 Development Charge (DC) Background Study and By-law by :

- a) Reviewing, analysing and providing justification to shape DC policy decisions from stakeholder perspective;
- b) Discussing viability of alternative policy directions,
- c) Providing suggestions on communicating policy issues,

Anticipated Outcomes

Anticipated outcomes over the coming two years with respect to DC policy are :

1. Produce reports on various policy matters related to development funding for consideration of Council and as a basis for compilation of the forecasts needed to prepare a background study;
2. produce a revised background study - namely the 2014 Development Charge study - and produce new DC rates by early 2014;
3. address various issues related to works to be cost shared through development charges, and appropriate approach to funding those works as developed and researched by staff and consultants with expertise in area (developer financed through Urban Works Reserve fund or through City Capital Budget (CSRF);
4. address the timing of investments in infrastructure and implications on DC rates and debt levels
5. DC study to result in a revised schedule of capital works (including timing of works) to serve growth;
6. incorporate stakeholder input into the process to ensure transparency, accountability and understanding;
7. Ensure the existence of an implementation plan where policy changes dictate same.

Timing of the Project

The Development Charge By-law must be developed and enacted by Council prior to August 3, 2014. Completion of background study and DC rate by-law in early 2014 should facilitate this process.

Membership of Stakeholder committee

Membership on the stakeholder committee will ideally consist of :

1. One member representing The Urban League;
2. One member representing the development community from London Development Institute(LDI);
3. One member representing the development community outside of the LDI membership;
4. One member of the London Home Builders Association executive;
5. Martin Hayward, City Treasurer; Peter Christiaans, Director of Development Finance; and the Scott Mathers, Manager of Development Finance; Jennie Ramsay, Division Manager, Engineering Review;
6. Various City managers as determined appropriate, from time to time;
7. Jim Barber, City Solicitor (or his designate).

The Committee will be chaired by Martin Hayward, City Treasurer.

Roles and Responsibilities

The committee will:

- a) Address issues associated with DC Policy matters and proposed changes to same;
- b) work expeditiously to provide input on questions and alternative DC policies, within timelines of the study;

- c) Provide assessment, comment and suggestions on various components of the DC study process and its interim products, including :
 - i. Preference amongst various funding alternatives, with reasons;
 - ii. Completion of growth forecasts,
 - iii. Completion of capital needs studies,
 - iv. Completion of the DC rate calculations

Individual members are encouraged to consult with colleagues and the process undertaken to develop the DC By-law. The changes contemplated in the City's DC Policy.

Meetings

The Development Charge (DC) Stakeholder Committee will meet monthly, or otherwise as required, at the call of the Chair. Materials for pre-reading should be provided as early as possible but at least two days before the meeting. Committee members are asked to come to the meetings prepared to discuss and provide input on issues on the agenda.

Term of Appointment

The committee will exist until the substantial completion of the 2014 DC Background Study. The committee may be requested by the Chair, to extend their involvement beyond the study period to deal with issues related to implementation arising from the DC policy initiatives.