TO:	**CHAIR AND MEMBERS** **STRATEGIC PRIORITIES AND POLICY COMMITTEE** **MEETING OF DECEMBER 17, 2018**
FROM:	**GEORGE KOTSIFAS, P.ENG.** **MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES** **& CHIEF BUILDING OFFICIAL**
SUBJECT:	**2019 DEVELOPMENT CHARGES STUDY** **NON-RESIDENTIAL RATE REVIEW**

RECOMMENDATION

That on the recommendation of the Managing Director, Development and Compliance Services & Chief Building Official, with the concurrence of the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer, the following actions be taken:

a) The Institutional, Commercial, and Industrial development charges **BE MAINTAINED** as the rate structure for the collection of non-residential development charges;

b) Conversions from one form of non-residential use to another form of non-residential use when <u>no additional floor space is being added</u> **BE EXEMPT** from development charges payable; and

c) Civic Administration **BE DIRECTED** to prepare the 2019 Development Charges Background Study and By-law incorporating clauses a) and b) above.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Strategic Priorities & Policy Committee, January 29, 2018, Agenda Item 4, 2019 Development Charges Study Policy Matters Update

BACKGROUND

In January 2018, the Strategic Priorities and Policy Committee received a report regarding an update on various policy matters pertaining to the 2019 Development Charges (DC) Study. On January 30, 2018, Municipal Council resolved the following:

That, on the recommendation of the Managing Director, Development and Compliance Services & Chief Building Official, the following additional policy matters BE ENDORSED for review as part of the 2019 Development Charges Background Study:

a) Urban Works Reserve Fund Retirement;
b) Non-Residential Development Charges Rate Review; *and*
c) Development Charges Recovery for Water Supply;

it being noted that the policy matters identified above will be subject to consultation with the Development Charges External Stakeholders Committee prior to recommendations being advanced to Council.

This report addresses clause “b)” of the resolution noted above. The purpose of the report is to seek Council endorsement to continue to implement an Institutional, Commercial, and Industrial non-residential DC rate structure and to exempt DCs payable when one form of non-residential use is converted to another form of non-residential use when no additional floor space is being added. Should Council choose to endorse these recommendations, they will be incorporated into the 2019 DC Background Study and By-law, which will be enacted in accordance with the *Development Charges Act*, at future meetings of Council.

DISCUSSION

The *Development Charges Act* provides municipalities with the authority to impose charges on new development to recover the capital costs to service those new developments. Section 2(1) of the *Development Charges Act* states:

> *"The council of a municipality may by by-law impose development charges against land 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."*

The *Development Charges Act* speaks to the development of land, but provides limited guidance regarding subcategorizing uses of the land. Some references to residential development are made in the *Development Charges Act*, and by inference non-residential, but no framework is provided to guide municipalities in the establishment of categorizing DCs. As a result, municipalities across Ontario define non-residential uses in different ways. The City's current approach to non-residential DCs is to maintain separate DC rates for Institutional, Commercial, and Industrial development.

<u>Are there Concerns with the City's Current Non-Residential Rate Structure?</u>

There are two primary concerns that have been raised by community and industry stakeholders and Council. These include the following:

1. **Commercial Development Charge Rate**
   The Commercial DC rate has historically been much higher than both the Institutional and Industrial DC rates. During the 2014 DC Background Study deliberations, significant concerns were raised by community stakeholders and members of Council that the Commercial DC rate was too high and that it would result in a disincentive for Commercial building across the City. As a result, Council mitigated the impact of the Commercial DC rate by approving a rate phase-in that was funded by one-time taxpayer sources.

2. **Building Conversions and Development Charges Payable**
   Under the current non-residential rate structure, the City has a different DC rate for Institutional, Commercial, and Industrial development. Concerns are frequently expressed that this system creates a disincentive for redevelopment of existing sites when one form of non-residential use is converted to another form of non-residential use when no additional floor space is being added. This concern is commonly raised when there is a conversion from an older Industrial building that is being renovated for Commercial uses. Under these circumstances, a DC would be payable since there are differing $/metre DC rates between the two non-residential categories and the DCs payable reflects the difference between the two charges.

<u>Non-Residential Rate Structure Review</u>

A comprehensive review and analysis was undertaken to determine if changes to the current non-residential rate structure would be warranted. In addition to a review of the current non-residential rate structure, the alternative non-residential rate structure options that were evaluated were Industrial/Non-Industrial and a Uniform rate. The scope of this review included an evaluation of the pros and cons of each alternative and a financial analysis to determine the impacts to the non-residential rate and incentive programs funded by tax payer funding sources.

Based on the results of the analysis and feedback received from the DC External Stakeholder Committee, staff are recommending that the current DC rate structure (Institutional, Commercial, Industrial) remain unchanged. Although there are benefits to alternative non-residential rate structures, changing the categories for the collection of DCs creates "winners" and "losers" depending on how the categories are grouped. For example, each of the alternatives evaluated will lower the Commercial rate, but at the expense of an increase to the Institutional rate. In addition, changing the DC rate structure would result in increased financial pressures to fund the taxpayer supported incentive programs.

The two primary concerns associated with the Commercial DC rate and building conversions can be addressed by maintaining the current non-residential rate structure. Based on the draft 2019 DC rate, the total Commercial rate is projected to decline by approximately 8.3% relative to the 2019 indexed rate that will be effective January 1, 2019. The reduction to the Commercial rate is driven by updated growth projections and allocations across the City. These Council approved growth projections are a *Development Charges Act* requirement and are a foundational element for creating a DC rate. Ultimately, the Commercial rate will be reduced without artificially making a structural change.

The issue associated with building conversions can be addressed by including exemptions in the DC By-law so that no DC is payable when one form of non-residential use is converted to another form of non-residential use when no additional floor space is being added. Although the frequency of building conversions triggering a DC payment is limited, implementing an exemption will eliminate the additional cost and disincentive associated with conversions for these types of development. From a DC infrastructure servicing perspective, it is not anticipated that building conversions triggered by a change of use would have a material impact on municipal servicing requirements. In addition, since these types of conversions are difficult to forecast it was not accounted for in the 20 year growth projections and ultimately the DC rate. Therefore, exempting non-residential conversions will not have a negative impact on anticipated and forecasted DC revenues.

Development Charges External Stakeholder Committee

The analysis and recommended approach for maintaining the current non-residential rate structure and addressing building conversions via by-law exemptions have been discussed with the DC External Stakeholder Committee. This Committee is composed of representatives from the London Development Institute, London Home Builders' Association, and the Urban League of London that represent the interests of the community and industry. The recommended approach established in this report was supported by the representatives of the Committee.

CONCLUSION

Civic Administration recommends that the current non-residential DC rate structure consisting of separate charges for Institutional, Commercial, and Industrial development be maintained and that DCs be exempt for building conversions within non-residential categories when no additional floor space is being added. Should Council endorse these recommendations, they will be incorporated into the 2019 DC Background Study and By-law, for consideration and approval at a future meeting of Council.

PREPARED BY:	**SUBMITTED BY:**
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CONCURRED IN BY:	**RECOMMENDED BY:**
ANNA LISA BARBON, CPA, CGA MANAGING DIRECTOR, CORPORATE SERVICES & CITY TREASURER, CHIEF FINANCIAL OFFICER	**GEORGE KOTSIFAS, P.ENG. MANAGING DIRECTOR, DEVELOPMENT AND COMPLIANCE SERVICES & CHIEF BUILDING OFFICIAL**