

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 UPDATE ON DRAFT RATES

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 2019 Development Charges Study Update on Draft Rates report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Strategic Priorities & Policy Committee, July 23, 2018, Agenda Item 2.2, 2019 Development Charges Study UWRP Retirement

Strategic Priorities & Policy Committee, February 12, 2018, Agenda Item 2.3, 2019 Development Charges Study Growth Projections

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

Strategic Priorities & Policy Committee, January 29, 2018, Agenda Item 5, 2019 Development Charges: Core Area Servicing Studies

Strategic Priorities & Policy Committee, January 29, 2018, Agenda Item 6, 2019 Development Charges Study DC Area Rating Policy Review

Strategic Priorities & Policy Committee, August 29, 2016, Agenda Item 4, 2019 Development Charges Study Policy Review Scoping Report

PURPOSE

The purpose of this report is to provide Council with an update on the status of the 2019 Development Charges (DC) Study. The report also addresses the work that has been done to date, work that is outstanding, and a summary of the draft DC rates.

BACKGROUND

DCs are a critical source of revenue used to finance growth infrastructure and are the main instrument used to ensure that “growth pays for growth”, a long standing policy of the City of London. The intent is to ensure that growth related infrastructure costs do not fall on the shoulders of existing residents paying property taxes and water/sewer rates.

The Provincial government regulates the setting of DC rates through the *Development Charges Act, 1997* (DCA). Every five years (at a minimum), the City of London conducts a DC Background Study to examine the infrastructure and servicing requirements for anticipated new development over a 20 year period. The current DC By-law will expire on August 3, 2019.

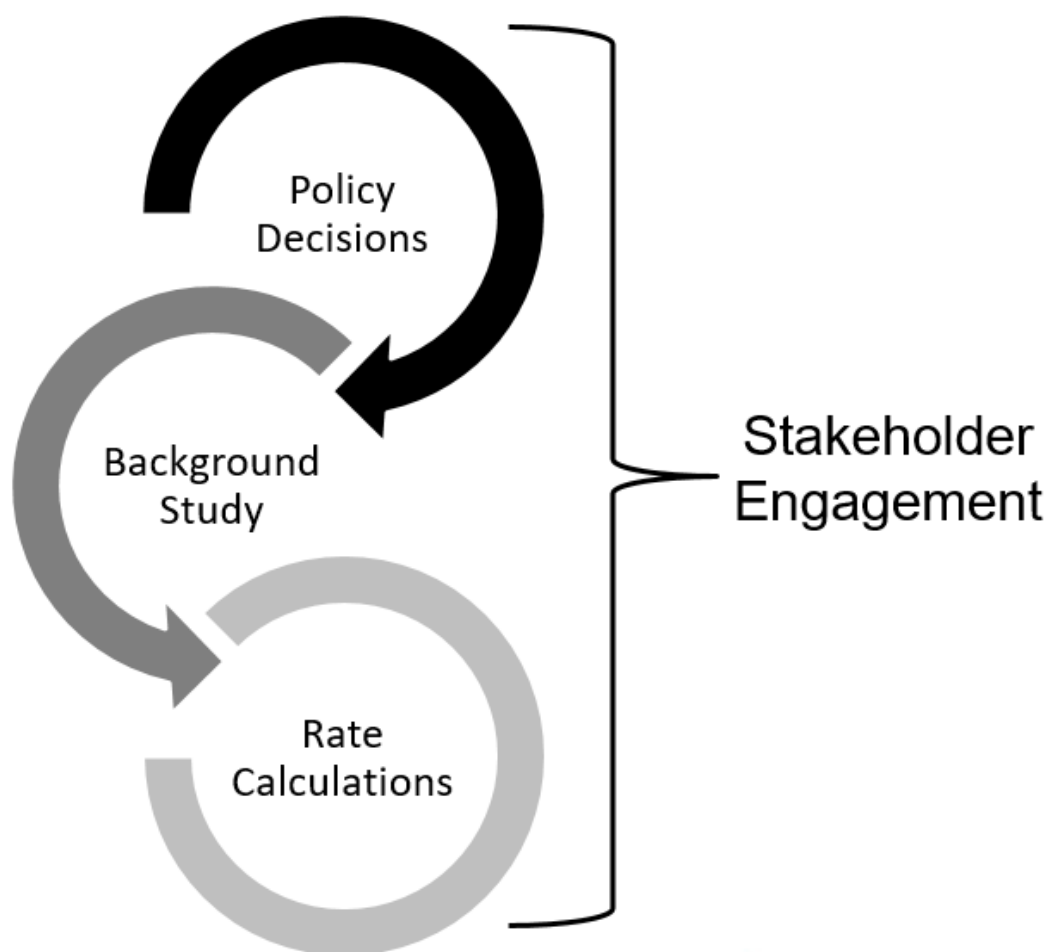
Growth forecasts are prepared for employment, population, residential units and non-residential space based on likely future conditions in the city. This information is used by engineering, planning, financial and social service professionals to project the servicing needs for the forecasted change in population and employment. The infrastructure and servicing needs are assessed to determine the cost and estimated timing of construction. Rates are then calculated based on the projected costs of the anticipated growth so fees will reflect the approximate demand that each type of development places on the City's infrastructure system.

DISCUSSION

The Development Charge Process

The DC process includes a comprehensive review of various policy matters, the creation of a background study and ultimately the setting of DC rates (Figure 1). The process commences with a policy review which includes key policy driven decisions that help shape the direction of the DC Background Study and ultimately DC rates. Throughout each of these fundamental stages in the DC process, stakeholder engagement and feedback is received. This collaborative approach helps ensure a transparent process that takes into consideration concerns raised by community and industry stakeholders.

Figure 1 – Development Charge Process



What Work Has Been Completed To Date?

A significant amount of work has already been completed. This “upfront work” was primarily policy driven and was critical to ensure that these policy decisions were made early in the process so that staff could develop the DC Background Study and draft rates that were aligned with these policies. A summary of the work completed to-date is contained in Table 1.

Table 1 – Summary of Work Completed for the 2019 Development Charge Study

WORK ITEM / SUMMARY OF WORK
<p>Growth Projections</p> <p>Section 5(1) of the DCA identifies the methodology that must be used when preparing a DC By-law. The first step requires that the “anticipated type, amount, and location of development, for which development charges can be imposed, must be estimated.”</p> <p>To satisfy this requirement, growth forecasts were prepared for population, employment, housing and non-residential construction (industrial, commercial and institutional) to the year 2039 (Council approved February 2018). The growth forecasts provide an important foundation for the 2019 DC Study and associated master servicing plans to determine infrastructure requirements.</p>
<p>Area Rating Policy Review</p> <p>Bill 73 changes to the DCA, which were enacted in December 2015, provide municipalities with the option to consider area-specific DCs or ‘area rates’. As such, the new requirements of the DCA do not compel any use of specific area rate charges. However, the DCA now includes a requirement that Council “consider the use of more than one DC by-law to reflect different needs for services in different areas” (Section 10(2)c.1).</p> <p>In January 2018, Council endorsed the current policy to distinguish DC rates inside the Urban Growth Boundary from those outside the Urban Growth Boundary. Council also directed staff to continue its analysis and review of services that are candidates for differential recovery areas and that staff work towards an area rating servicing policy to be implemented after 2019.</p>
<p>Core Area Servicing Studies</p> <p>Council awarded three engineering assignments for the completion of the Core Area Servicing Studies (CASS). These studies reviewed potential ultimate servicing needs for water, wastewater and stormwater systems and proposed an approach to fund the network expansions for infill and intensification developments in the City’s Downtown and surrounding areas. In January 2018, Council endorsed these studies to help inform the funding of growth related infrastructure projects to support infill and intensification development subject to refinement and ultimate inclusion in the 2019 DC Study.</p>
<p>Urban Works Reserve Fund Retirement</p> <p>As part of the 2014 DC Study, Council approved the retirement of the Urban Works Reserve Fund (UWRF) and the consolidation of UWRF funding under the various City Services Reserve Funds. In July 2018, Council approved the operational implementation process to wind-up the UWRF with the adoption of the 2019 DC By-law.</p>
<p>DC Master Plans</p> <p>Council endorsed the direction for City staff to undertake the One Water DC Master Plan Update (Water, Wastewater, Stormwater) in-house and recover the costs of the associated staff time from the DC reserve funds and to engage a consultant to assist in the development of the Transportation DC Master Plan Update.</p>
<p>Various Development Charges Study Policy Matters</p> <p>Several reports were brought forward for Council consideration in order to provide staff with direction related to policy matters pertaining to the 2019 DC Study. These included the following:</p> <ul style="list-style-type: none"> • A review of the non-residential DC rate structure is to be undertaken. A separate report will be brought forward to Strategic Priorities and Policy Committee on December 17, 2018 with a staff recommendation based on the outcome of the review. • There are currently ten services eligible for DC recovery through the City Services Reserve Funds. Additional services to be considered as part of the 2019 DC Study include Water Supply, Operation Centres, and Waste Diversion. • Others matters to be addressed as part of the DC By-law include reviewing the timing of DC calculation and payment and reviewing local servicing policies that provide clarity on costs that are developer responsibility.

2019 Development Charge Rate Calculations

Service areas that are eligible for DC rate recovery have been busy preparing for the 2019 DC Study. DC servicing studies (master plans) have been developed for Transportation using IBI Consulting and a One Water DC Update Study has been developed by in-house staff for Water, Wastewater and Stormwater Management. Both of these studies involved a comprehensive 20 year servicing strategy for growth in London based on the Council approved growth forecast. This includes a mixture of greenfield and infill/intensification related growth servicing projects. Projects that serve community growth and industrial areas have also been identified. The costs and timing associated with these projects were used to develop the draft DC rates. In addition, growth infrastructure needs for Fire, Police, Transit, Libraries and Parks & Recreation have been prepared by City staff and local board staff for inclusion in the base DC rate.

DCs are currently collected for residential development and non-residential development. For residential development, the number of dwelling units is applied to the DC rate for the type of development. Residential development for the purposes of DCs are categorized as follows:

- Single & Semi-Detached;
- Multiples / Row Housing;
- Apartments With Less Than 2 Bedrooms; and
- Apartments with Greater Than Or Equal To 2 Bedrooms.

For non-residential development, the total gross floor area is applied to the DC rate for the type of development and are categorized as follows:

- Commercial;
- Institutional; and
- Industrial.

Additional Services for Development Charge Recovery

Three additional services are being brought forward for consideration as part of the review of the 2019 DC Study. These include Operations Centres, Waste Diversion, and Water Supply. These additional services are being included for consideration because justification can be made that capital infrastructure requirements triggered by growth should be funded by DCs. Similar to those services contained within the base rate, staff have determined growth related capital needs and required DCA adjustments to arrive at draft rates.

Draft Development Charge Rates

Draft 2019 DC rates have been prepared based on growth servicing requirements and in compliance with the DCA. Table 2 contains the draft residential rates and table 3 contains the draft non-residential rates. These tables separate existing ‘hard’ and ‘soft’ services for a which a DC is currently collected for (referred to as “Base Rate”) and those additional services being brought forward for Council consideration. Hard services include Roads, Water, Wastewater and Stormwater and soft services includes Fire, Police, Transit, Parks & Recreation, Library and Corporate Growth Studies.

Table 2 – Draft Residential 2019 Development Charge Rates (\$ per dwelling unit)

	Single & Semi Detached	Multiples / Row Housing	Apartments < 2 Bedrooms	Apartments >= 2 Bedrooms
Hard Services	27,672	18,714	12,239	16,585
Soft Services	5,053	3,417	2,235	3,029
Base Rate	32,725	22,131	14,474	19,614
Additional Services	505	342	224	303
Total Rate	33,230	22,473	14,698	19,917

Table 3 - Draft Non-Residential 2019 Development Charge Rates (\$ per m²)

	Commercial	Institutional	Industrial
Hard Services	265.78	161.09	202.78
Soft Services	11.10	6.04	3.06
Base Rate	276.88	167.13	205.84
Additional Services	2.48	1.51	1.06
Total Rate	279.36	168.64	206.90

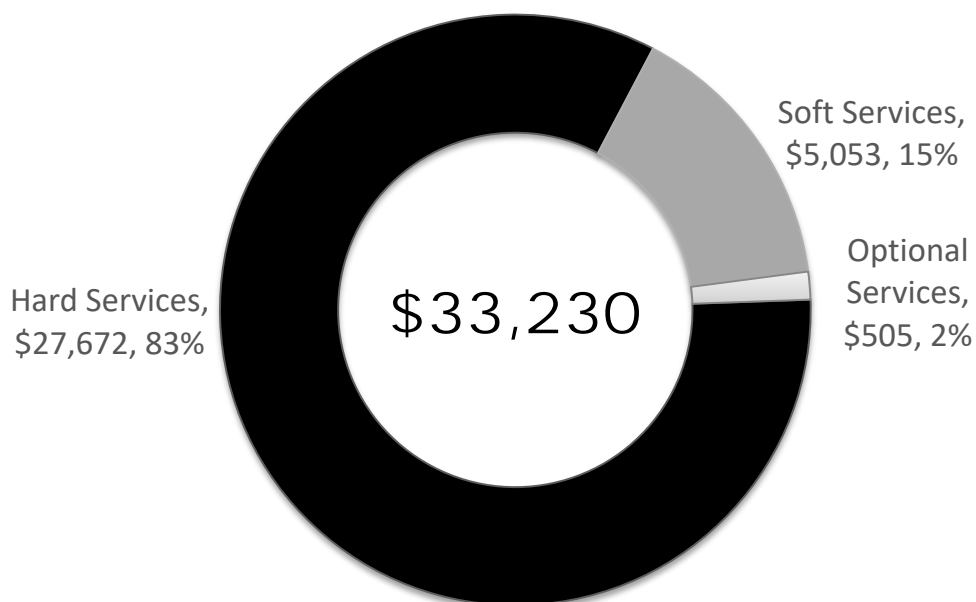
The single & semi-detached category is used for comparative purposes when evaluating the impacts to the residential rate. The draft 2019 base rate represents a 2.2% increase over the indexed rates that will be effective January 1, 2019 and a 3.8% increase if the additional services for DC recovery are also included. Table 4 contains a summary of the proposed changes to the single & semi-detached category.

Table 4 – Proposed Changes to Single & Semi-Detached Rate

	2019 Indexed Rate \$	2019 Draft Rate \$	Change \$	Change %
Hard Services	25,724	27,672	1,948	7.6%
Soft Services	3,649	5,053	1,404	38.5%
UWRF	2,638	-	(2,638)	(100.0%)
Base Rate	32,011	32,725	714	2.2%
Additional Services	-	505	505	-
Total Rate	32,011	33,230	1,219	3.8%

Figure 2 illustrates the share of the service components for the single and semi-detached draft rate. Hard services represents over 80% of the total rate.

Figure 2 –Share of Single & Semi-Detached Rate



For non-residential, the Commercial rate has historically been an area of concern because the Commercial rate has been much higher than both the Institutional and Industrial rates. During the 2014 DC Study, Council decided to mitigate the Commercial rate pressures by implementing a rate phase-in that was funded by one-time taxpayer sources. Effective January 1, 2019, the Commercial rate will be fully phased-in.

The Council approved growth projections that are used as the foundation for the 2019 DC Study is a key driver in the allocations to residential and non-residential development. These growth projections forecasted a greater amount of commercial development over the next 20 years. This has resulted in a reduction to the base Commercial rate of 9.1% and 8.3% if the additional services for DC recovery are also included.

Although the total rate for Industrial and Institutional development is anticipated to increase slightly over 7%, these types of development are subject to exemptions and incentives. Existing Industrial development benefits from an exemption if the gross floor area is enlarged by 50% or less (consistent with the DCA). For new Industrial development or enlargements greater than 50%, certain targeted types of Industrial development are eligible for incentives in accordance with the Industrial Land Community Improvement Plan.

The DC By-law contains transition provisions pertaining to Institutional development in advance of a community improvement plan being prepared. A 50% incentive is provided to certain targeted uses including but not limited to hospitals, universities, places of worship and non-profit buildings.

How Do the Draft 2019 Development Charges Rates Compare to Other Municipalities?

Appendix 2 provides information on how DC fees related to single and semi-detached dwellings compare to those of other municipalities. The following are notable:

- As shown, several service components have been broken out for comparison purposes. For example, the City of London rate includes funding for Stormwater Management works within its DC rate; while in many other municipalities this cost is excluded from the DC rate as it is directly borne by the developer.
- In addition, when comparing the City of London to smaller area municipalities the road component of the City charge has been highlighted separately. As would be expected to be the case, small municipalities have a very small road component of their rate as they have very few road widening's triggered by growth. As the City of London has a more complex transportation network, the roads rate is substantially larger. A large roads component of the rate is consistent with other major cities.
- Through this analysis it was determined that the amount of the proposed draft DC rate is consistent with the charges levied by other municipalities. It is also noted that many other municipalities DC By-laws expire and will be updated in 2019.

Stakeholder Engagement

The DC External Stakeholder Committee that was formed as part of the 2014 DC Study has remained in place for the 2019 DC Study. 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 purpose of this Committee is to provide feedback to staff on various DC issues such as policy matters, growth forecasts, capital needs studies and assessments, and DC rates. This has been a well-functioning Committee that has provided critical insight into DC matters and has provided a mechanism to ensure community and industry voices are heard. There have been a total of 23 formal meetings with this Committee since the start of the 2019 DC process and many other offline meetings to discuss and promote understanding and feedback.

Staff are currently working with the DC External Stakeholder Committee to address a number of issues that have been raised by the Committee based on their preliminary review of the draft rates and growth infrastructure servicing requirements. Some of the issues that have been raised include the following:

- Further dialogue will be required on certain projects with significant costing increases or scope changes, as well as a further explanation is required on certain projects where the non-growth share and post period benefit is different than expected.
- The schedule of works included in the Parks & Recreation service component will require further dialogue due to the increase in the value and number of projects.
- Additional programs that have been added to the Stormwater and Roads services components will require further dialogue in order to promote a better understanding of these programs and rationale for inclusion for DC recovery.
- Water Supply, one of the new services being brought forward for consideration, is not supported by the London Development Institute for inclusion in the 2019 DC Study.

The consultation process will continue until the point that the final DC Background Study and By-law are passed by Council.

Next Steps

Over the next few months there are a number of key dates associated with the 2019 DC review process (Table 5). These dates meet the requirements of the DCA, provide public input opportunities and dedicated time for Council review and approval.

Table 5 – Key 2019 Development Charges Process Timeline

Date	What
December 19, 2018	Growth Management Implementation Strategy kick-off meeting (stakeholder consultation and input)
February 25, 2019	Targeted date for publication of the draft 2019 DC Background Study and By-law to the City website
March 25, 2019	2019 DC tabling report and public participation meeting (Strategic Priorities and Policy Committee)
May 6, 2019	Review and deliberation of the 2019 DC Background Study and By-law (Strategic Priorities and Policy Committee)
May 7, 2019	Approval of the 2019 DC Background Study and By-law (Council)

CONCLUSION

The DCA requires that a background study and by-law be conducted at least every five years. The current DC By-law is set to expire in August 2019. This report provides a high level overview of the status of the 2019 DC process and draft rates. Significant policy work has already been completed that will shape the direction of the 2019 DC Background Study and By-law. Staff have been working collaboratively with the DC External Stakeholder Committee throughout the process and will continue to work closely on any outstanding issues until the Background Study and By-law are passed by Council.

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Attach/

Appendix A: Schedule of Development Charges Rates

Appendix B: Inter-Municipal Development Charge Comparison – Single/Semi Detached Dwellings

**APPENDIX A
SCHEDULE OF DEVELOPMENT CHARGE RATES**

Draft 2019 Development Charge Rates

Updated: December 17, 2018

	Service Component:	Single & Semi Detached (per dwelling unit)			Commercial (per sq. m. of gross floor area)			Institutional (per sq. m. of gross floor area)			Industrial (per sq. m. of gross floor area)		
		2019 Indexed Rate ^(Note 1)	Draft 2019 Rate	% Change	2019 Indexed Rate ^(Note 1)	Draft 2019 Rate	% Change	2019 Indexed Rate ^(Note 1)	Draft 2019 Rate	% Change	2019 Indexed Rate ^(Note 1)	Draft 2019 Rate	% Change
City Services (Existing)	Roads	14,613	15,332	4.9%	173.45	158.30	-8.7%	100.44	96.64	-3.8%	80.08	66.81	-16.6%
	Wastewater	3,892	3,818	-1.9%	19.38	24.75	27.7%	8.06	14.01	73.8%	30.88	48.24	56.2%
	Stormwater	5,929	6,897	16.3%	53.88	64.16	19.1%	29.20	38.90	33.2%	40.51	69.78	72.3%
	Water Distribution	1,289	1,624	26.0%	8.44	18.57	120.0%	2.68	11.54	330.6%	32.03	17.95	-44.0%
	Fire	80	103	28.0%	1.32	0.81	-38.6%	0.46	0.43	-6.5%	0.07	0.07	0.0%
	Police	368	525	42.7%	0.37	3.52	851.4%	0.14	1.77	1164.3%	0.01	0.34	3300.0%
	Corporate Studies	546	533	-2.4%	6.37	4.08	-35.9%	3.53	2.48	-29.7%	2.46	2.07	-15.9%
	Library ^(Note 2)	-	127	-	-	-	-	-	-	-	-	-	-
	P&R	2,302	3,530	53.4%	-	-	-	-	-	-	-	-	-
	Transit	354	236	-33.4%	3.29	2.69	-18.2%	2.81	1.36	-51.6%	2.54	0.58	-77.2%
Urban Works	Minor Roadworks	812	-	-100.0%	11.04	-	-100.0%	2.75	-	-100.0%	2.12	-	-100.0%
	Minor San. Sewers	426	-	-100.0%	5.79	-	-100.0%	1.44	-	-100.0%	1.11	-	-100.0%
	Minor Storm Sewers	352	-	-100.0%	4.79	-	-100.0%	1.19	-	-100.0%	0.92	-	-100.0%
	Minor SWM	1,047	-	-100.0%	16.54	-	-100.0%	4.44	-	-100.0%	-	-	-
BASE RATE		32,011	32,725	2.2%	304.66	276.88	-9.1%	157.15	167.13	6.4%	192.73	205.84	6.8%
City Services (New)	Water Supply	-	6	-	-	0.06	-	-	0.04	-	-	0.03	-
	Waste Diversion	-	227	-	-	-	-	-	-	-	-	-	-
	Operation Centres	-	272	-	-	2.42	-	-	1.47	-	-	1.03	-
TOTAL RATE		32,011	33,230	3.8%	304.66	279.36	-8.3%	157.15	168.64	7.3%	192.73	206.90	7.4%

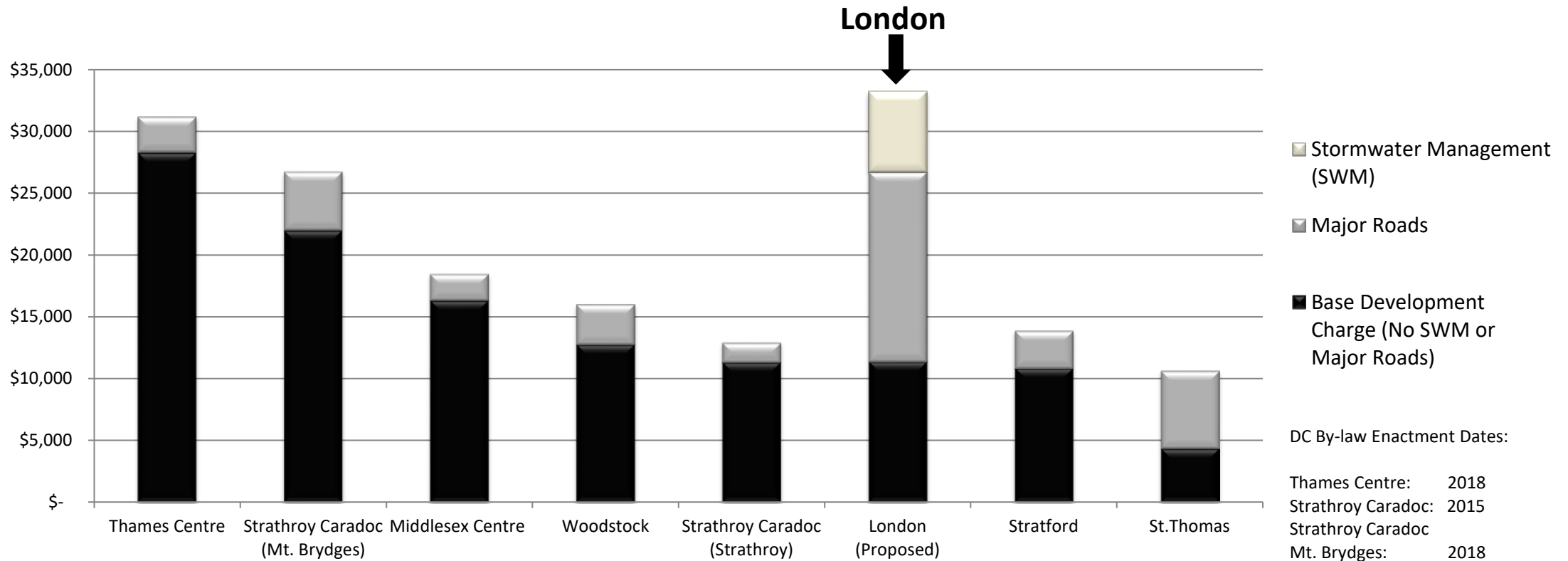
Subject to rounding

Note 1: The 2019 Indexed DC rate is effective from January 1, 2019 to August 3, 2019.

Note 2: In the 2014 DC Study for Library, growth capital costs were offset by an uncommitted reserve fund balance.

**APPENDIX B
INTER-MUNICIPAL DEVELOPMENT CHARGE COMPARISON – SINGLE/SEMI DETACHED DWELLINGS**

Local Municipalities



Notes:
 (1) Strathroy Caradoc (Mt. Brydges) has additional area-rated WW charges of up to \$2,381/sdu
 (2) Woodstock includes DC rates for Oxford County.
 (3) St. Thomas does not have a charge for water distribution.
 (4) St. Thomas has additional area-rated charges of up to \$1,804/sdu

DC By-law Enactment Dates:
 Thames Centre: 2018
 Strathroy Caradoc: 2015
 Strathroy Caradoc Mt. Brydges: 2018
 Middlesex Centre: 2015
 Woodstock: 2018
 Stratford: 2017
 St. Thomas: 2015

**APPENDIX B
INTER-MUNICIPAL DEVELOPMENT CHARGE COMPARISON – SINGLE/SEMI DETACHED DWELLINGS**

Large Cities

