

Report to Strategic Priorities and Policy Committee

To: Chair and Members
Strategic Priorities and Policy Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: 2025 Development Charge Study Initiation Report
Date: May 18, 2021

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to the 2025 Development Charge Study:

- a) The draft Committee / Council Timetable attached as Appendix 'A' **BE ENDORSED**;
- b) The following policy matters **BE ENDORSED** for review as part of the 2025 Development Charge Study:
 - i. Consideration for area-specific development charges (i.e. area rating);
 - ii. Additional services for potential development charge recovery:
 - A. Housing Services
 - B. Emergency Preparedness
 - C. Water Supply
 - iii. Service standards and future capital needs for Parkland Development;
 - iv. Growth / non-growth methodologies for development charge recoverable services;
 - v. Local service policies that establish cost responsibilities related to construction and engineered growth infrastructure;
 - vi. Municipal Servicing & Financing Agreements Council Policy;
 - vii. Development Charge planning horizon for 'soft' services;
 - viii. Development Charge rate model technical adjustments;

it being noted that the policy items above will be subject to consultation with the Development Charge External Stakeholder Committee prior to recommendations being advanced to Council.

Linkage to the Corporate Strategic Plan

This report supports the 2019-2023 Strategic Plan for the City of London through the Building a Sustainable City strategic area of focus by ensuring infrastructure is built to support future development.

Analysis

1.0 Background Information

Development Charges (DCs) are a critical source of funding 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 are funded by new development rather than these costs being borne by existing residents and businesses.

The Development Charges Act (DCA) is the legislative framework that governs DCs in Ontario. The legislation enables municipalities to impose DCs against land to be developed to pay for growth-related capital infrastructure costs. The DCA requires that municipal DC By-laws be reviewed at least every five (5) years.

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 occurs and feedback is received. This collaborative approach helps ensure a transparent process that takes into consideration concerns raised by community and industry stakeholders.

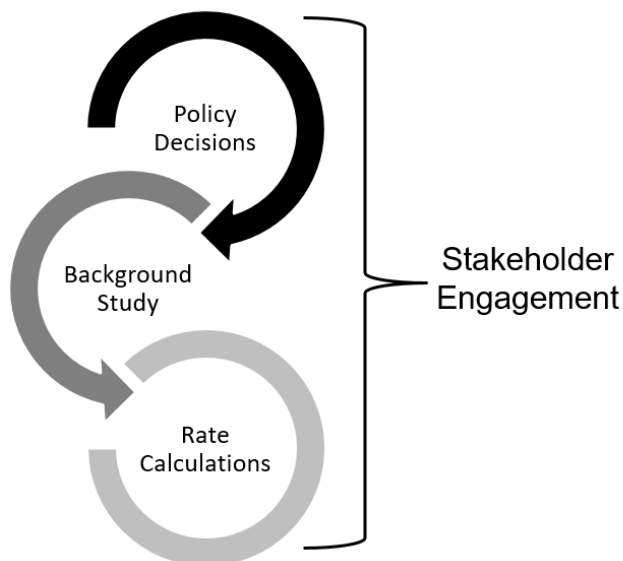
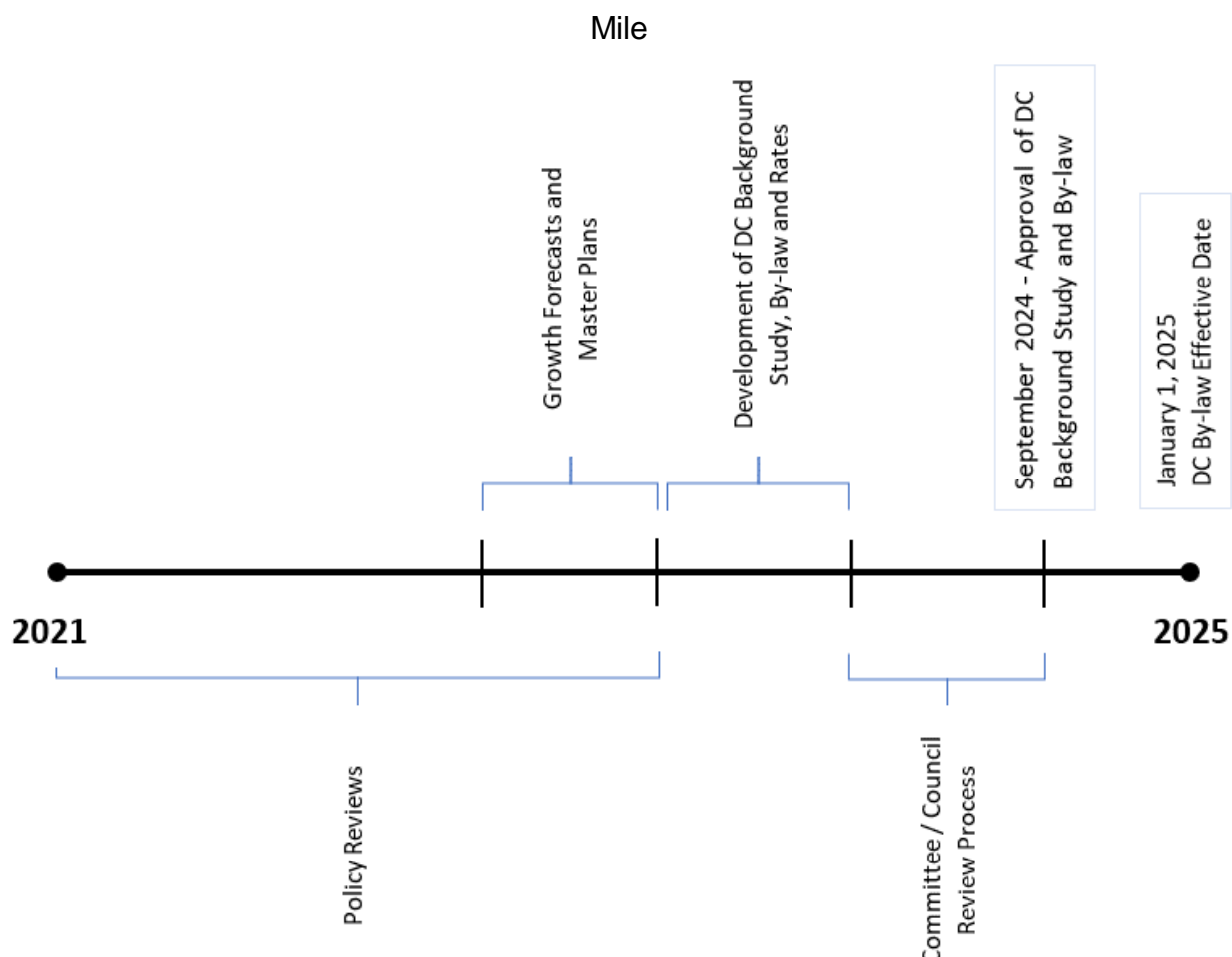


Figure 1 – Development Charge Process

2.0 Draft Timetable

Since the DC Study process spans multiple years, an illustrative timeline is contained in Figure 2 to help identify the key stages of the DC Study process.

Figure 2 – Key Stages of DC Study Process



Appendix A is a draft timetable that contains the project's major milestones and tasks for the 2025 DC Study. Council approval of the DC Background Study and By-law is targeted for September 2024 with an implementation date of January 1, 2025. Civic Administration will make every effort to keep to the timelines, however due to the nature and duration of the DC Study process, adjustments may be required that are beyond the control of Civic Administration.

3.0 2025 DC Policy Matters

Policy decisions are a critical phase of the DC Study process. These policy decisions are important because they may have a significant impact on the determination of DC eligible costs, the services for which DCs are being recovered for, the information collected to complete the DC Background Study, and ultimately the DC By-law and rates. Since these policy decisions inform the collection of information necessary to complete the DC Background Study and By-law, it is essential that most occur early in the DC Study process. Below are the key policy decisions that have been identified for the 2025 DC Study:

Area Rating

With regards to area rating the DCA states, "consideration of the use of more than one development charge by-law to reflect different needs for services in different areas" (Section 10(2)c.1). Although the use of area rating must be considered as part of the process for each DC Study, the legislation does not require area rates to be implemented. This allows each municipality with the discretion and choice to either implement or not implement an area rating structure.

As part of the 2025 DC Study process, it is recommended that Civic Administration conduct a comprehensive review of London's current area rating structure and other alternative area rating options. Since the decision on area rating will impact many other elements of the DC Study process, a Council decision on the preferred area rating approach early in the process is essential.

New Services Eligible for DC Recovery

With the changes adopted as part Bill 108, *More Homes, More Choice Act* and subsequent legislative changes, the DCA now limits the services for which DCs can be imposed. This means that if a service is not specifically listed as an eligible service then it does not qualify for DC recovery. The services that are deemed eligible that are currently not being recovered for in the London DC rates include:

- Ambulance Services
- Child care and Early Years Programs and Services
- Electrical Power Services
- Emergency Preparedness
- Housing Services
- Long-Term Care
- Public Health
- Services related to the Provincial Offences Act (including by-law enforcement services and municipally administered court services)
- Water Supply

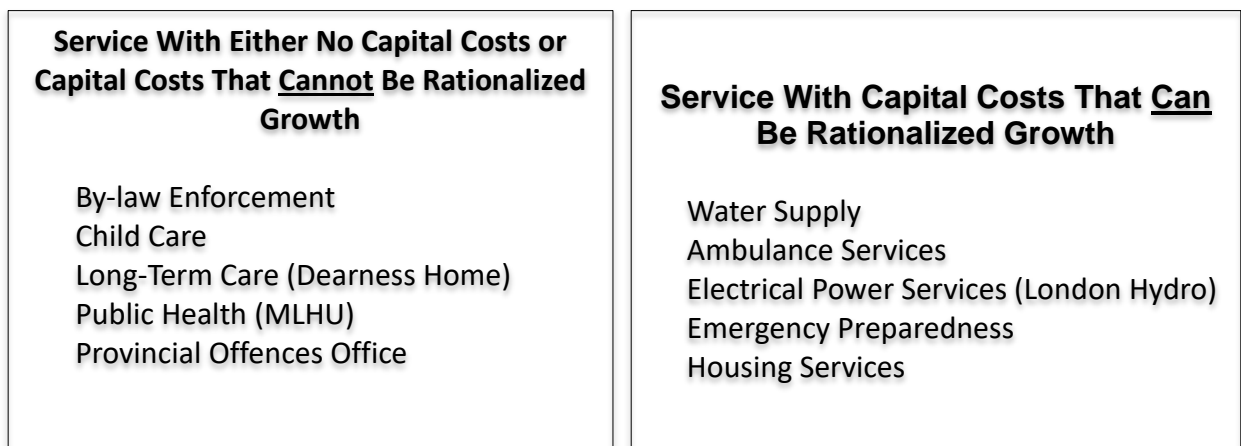
A strategic approach has been applied to determine which services are recommended for further review and analysis and potential inclusion in the 2025 DC Study. An evaluation framework has been applied to narrow the focus of the review to those services with the highest priority for DC recovery.

The evaluation framework uses a four staged approach as follows:

1. Does the service have capital costs that could be rationalized as growth needs?

The starting point for assessing those services for further review and potential inclusion in the DC Study is to determine if the service has growth related capital needs. Those services with no growth-related capital needs can be immediately eliminated from the evaluation process (Figure 3).

Figure 3 – Eligible DC Services With and Without Growth-Related Capital Needs

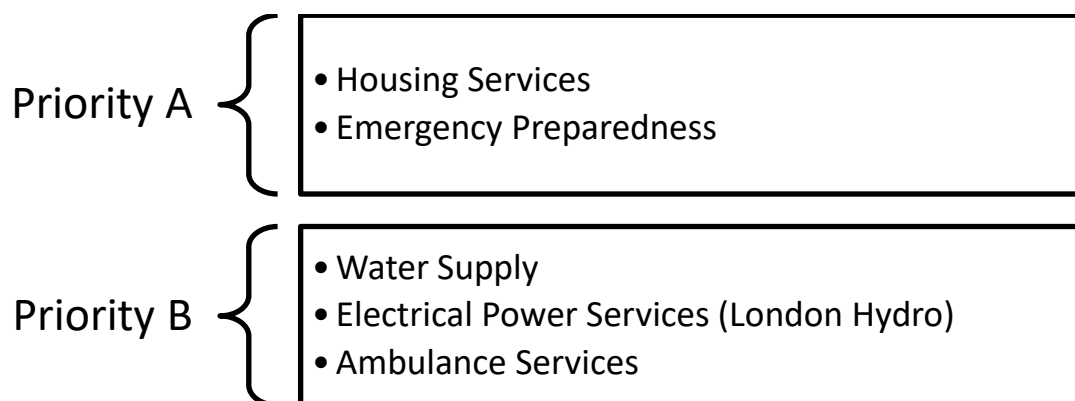


The DCA prescribes the types of capital costs that are deemed eligible for DC recovery. By-law Enforcement, Child Care, Long-Term Care, Public Health, and Provincial Offences Office are services that do not have eligible capital costs within the DC planning horizon. However, Water Supply, Ambulance Services, Electrical Power Services, Emergency Preparedness, and Housing Services have been identified as services with eligible capital costs that may be rationalized as growth needs. Since DCs can only recover for eligible capital costs, this determination is a key decision point in the DC Study process.

2. Priority given to those services directly administered by the City of London.

The services with growth related capital costs and are directly administered by the City are grouped as priority A with the remaining services with growth related capital costs grouped as priority B (Figure 4).

Figure 4 – Services With Growth Related Capital Costs Prioritized



3. Is the service a community / Council priority?

Another factor in the evaluation framework is determining those services that are a community and Council priority. Of all the priority A and priority B services, Housing Services is a clear community and Council priority. This is supported by

both Council's Strategic Plan and the Mayor's State of the City Address. This was further supported by the resolution of Council on April 13, 2021:

the Civic Administration BE DIRECTED to expedite the development of needed 3,000 affordable housing units as set out in "Housing Stability Action Plan" (HSAP) to be in place in five years, instead of ten years as set out in the Plan.

4. Does the DC External Stakeholder Committee support adding the new service for potential inclusion in the upcoming Study?

While Housing Services was identified as the highest priority services for further review and potential inclusion in the 2025 DC Study, two other services were identified and supported by the DC External Stakeholder Committee. These were Emergency Preparedness and Water Supply. Emergency Preparedness is the only other eligible DC service with growth related capital costs and is directly administered by the City.

Although Water Supply is not directly administered by the City, the service does have growth capacity infrastructure needs and the capital works are essential for supplying water to London's water distribution system. Each of these three services are supported by the DC External Stakeholder Committee for further review.

Parks & Recreation Historical Service Standards and Future Capital Needs

The Parks and Recreation (P&R) service component is composed of capital growth infrastructure split into two subcomponents. The first is Facilities and the second is Parkland Development. An opportunity for review has been identified in the Parkland Development subcomponent related to calculating historical service standards and future capital needs.

Determining a 10-year historical service standard is required as part of the DC rate calculation. The purpose is to ensure that the future capital needs do not exceed the 10-year historical service standard. Although the DCA provides a general framework for historical service standards, it is up to each municipality to determine the specific approach.

Currently, London determines the costs for each park type based on average construction costs of similar park types recently constructed. These average costs are then applied to future capital needs over the planning horizon. Civic Administration is recommending a review be conducted to assess this approach in relation to other municipalities and to determine if there are opportunities to improve the costing methodology for both historical service standards and future capital needs.

Methodologies for Determining Growth/Non-Growth Splits

A fundamental component of the DC rate calculation are growth / non-growth splits. The DCA requires that the non-growth share be deducted from the DC rate calculations. A growth / non-growth allocation is required for each discrete capital project and capital program. This deduction is required to ensure that only the growth portion of capital infrastructure is included in the DC rate calculations.

A review of the methodologies for establishing the growth / non-growth allocations is recommended. This review is typically conducted as part of the master planning process with the allocations flowing into the DC Background Study and ultimately the DC By-law and rates.

Local Service Policies

Local Service Policies provide a guideline for the cost responsibilities related to construction of engineered infrastructure. The costs of engineered infrastructure are determined to be either DC eligible or a local service cost, which is the Owner's responsibility pursuant to a registered Development Agreement.

Consistent with prior DC Studies, a review of the local service policies will be conducted to ensure that the policies are achieving their intended objectives. In addition, should any new services be included in the DC Background Study, the need and substance of a local service policy will be evaluated and developed if required.

Municipal Servicing & Financing Agreements

The Growth Management Implementation Strategy (GMIS) is conducted on an annual basis with the objective of achieving a logical and fiscally sustainable installation of growth infrastructure, while responding to changing growth demands. There may be circumstances, however, where the annual GMIS process cannot address a pressing need for infrastructure construction and where Municipal Council desires to advance a project ahead of its scheduled GMIS construction date. The Municipal Servicing and Financing Agreements Policy is a tool that could be used to advance the timing of growth infrastructure outside of the annual GMIS process.

Although not included in the DC Background Study and By-law, Civic Administration is recommending a review be conducted of the Municipal Servicing and Financing Agreements Council Policy to confirm that the policy framework remains appropriate and effective.

Review of DC Planning Horizon for Soft Services

Prior to Bill 108, certain soft services were limited to a 10-year planning horizon. However, the 10-year cap for certain soft services has now been removed. This change gives municipalities greater discretion for determining the planning horizon for all services. The current DC Background Study recovers for growth related capital infrastructure over a 10-year period for soft services and 20-year period for hard services. As a result of the legislative changes, Civic Administration is recommending a review be conducted to determine if the planning period for all DC recoverable services can be aligned.

DC Rate Model Technical Review

The DC rate model is used to calculate DC rates for the different development classifications. This model has been used for several DC Studies. Civic Administration is recommending that the DC rate model be reviewed to identify any opportunities for design improvements while ensuring that the DC model is in compliance with the DCA.

4.0 Stakeholder Engagement

For the 2025 DC Study, Civic Administration has undertaken a comprehensive review and update of the existing Terms of Reference for the DC External Stakeholder Committee. In addition, a process was undertaken for the selection of the Committee member participants to align with the updated Terms of Reference. The following organizations expressed an interest in Committee participation and have accepted membership status on the Committee:

- London Development Institute
- London and District Construction Association
- London Home Builders' Association
- Urban League of London

Each of these organizations represent a formal City-wide organization whose membership reflects a broad range of perspectives, knowledge and expertise. Having a diverse Committee composition will improve and enhance the quality of discussions throughout the process.

The Committee will play an integral role and will be engaged on numerous Study components, including but not limited to the following:

- Growth forecasts
- Various DC policies matters
- Growth capital needs and associated studies
- DC rates
- DC Background Study and DC By-law

The Committee typically meets monthly to ensure that they are involved throughout the entire DC Study process.

Conclusion

This report represents the formal kick-off of the 2025 DC Study. It is essential that the process be initiated early enough so that the various tasks and policy choices can feed into the DC Background Study and By-law that is planned for Council approval in September 2024 with a DC By-law effective date of January 1, 2025. Civic Administration along with the assistance of the DC External Stakeholder Committee will be working hard throughout the process to ensure that capital infrastructure that supports growth is appropriately planned while balancing the need for financial affordability.

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Prepared by: Kevin Edwards, Manager, Long Range Planning, Research and Ecology

Submitted by: Paul Yeoman, Director, Capital Assets and Projects

Recommended by: Anna Lisa Barbon, Deputy City Manager, Finance Supports

Appendix 'A'
Draft 2025 Development Charges Study Timetable - Key Milestones / Tasks

DATE	WHAT
May 2021 November 2021	SPPC – Area Rating Options Review SPPC – Area Rating Recommended Approach
October 2022	SPPC – Updated Growth Forecasts
June 2021 – September 2023	Various DC Policy Reviews
September 2023 – April 2024	Development of Draft DC Background Study, DC By-law, and DC Rates
May 2024	Posting of Draft DC Background Study, DC By-law, and DC Rates on City Website Prior to Holding Public Participation Meeting
June 2024	SPPC - Tabling of 2025 DC Study and Public Participation Meeting
September 2024	SPPC - Deliberation of 2025 DC Study
September 2024	Council – Approval of 2025 DC Study
January 1, 2025	Effective Date of DC By-law

Note: Dates subject to change