

Report to Strategic Priorities & Policy Committee

To: Chair and Members
Strategic Priorities and Policy Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: Development Charge Area Rating Policy Review –
Recommended Approach
Date: March 8, 2022

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken:

- a) The attached memorandum from Hemson Consulting (Appendix A) on a recommended area rating approach for the 2025 Development Charges Background Study **BE RECEIVED** for information;
- b) The Civic Administration **BE DIRECTED** to continue to implement an area rating approach of levying development charges within the Urban Growth Boundary and outside the Urban Growth Boundary for the 2025 Development Charges Background Study; and;
- c) The Civic Administration **BE DIRECTED** to continue a review and analysis of area rating where servicing needs to be extended in order to accommodate anticipated development, should the Urban Growth Boundary be expanded.

Executive Summary

The purpose of this report is to provide Council with background information regarding area rating, including a review and analysis of area rating options that may be best suited for Water, Wastewater and Stormwater services. Based on the attached memo from Hemson Consulting (Appendix A), it is recommended that London continue with its area rating approach of levying development charges (DCs) within the Urban Growth Boundary (UGB) and outside the UGB.

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

2.1 Background Information

1.1 Previous Reports Related to this Matter

May 18, 2021 – Strategic Priorities and Policy Committee – Area Rating Policy Review

January 29, 2018 – Strategic Priorities and Policy Committee – 2019 Development Charge Study Area Rating Policy Review

1.2 Background

On May 18, 2021, Civic Administration brought forward a report to the Strategic Priorities and Policy Committee to provide Council with background information regarding area rating and advice on the next steps on an area rating policy review as

part of the 2025 DC Background Study process. On May 25, 2021, Council resolved:

b) the Civic Administration BE DIRECTED to proceed with an area rating policy review that focuses on the Development Charge services for Wastewater, Stormwater and Water Distribution.

This report builds upon the review and analysis of the area rating report that was brought forward to Council in May.

Hemson Consulting was re-engaged to conduct a comprehensive review of area rating options, including the feasibility and appropriateness of implementation within the London context for Water, Wastewater and Stormwater services.

2.0 Discussion and Analysis

2.1 Area Rating Policy Review

While a comprehensive review of each area rating option is contained in the Hemson Consulting memo attached as Appendix A, a brief summary of the area rating options and recommended approach is presented below.

Option 1: Uniform City-Wide Rate (No Area Rating)

A uniform city-wide approach would result in all DCs being levied at the same rate. Since there would be no differentiation between DCs, this approach would not result in area rating. Since Water, Wastewater and Stormwater services are generally not provided for outside the UGB, this approach was determined not to be appropriate.

Option 2: Maintain Current Model (Inside UGB / Outside UGB)

Water, Wastewater and Stormwater services are levied on development within the UGB on a uniform basis, while development outside the UGB is not subject to these charges since these services are generally not provided for in rural areas. This approach is recommended for the 2025 DC Study due to the nature of service delivery in London. It is also supported by the three guiding principles:

- ✓ the service areas are of sufficient geographical scale;
- ✓ there is a meaningful cost / rate difference between the service areas; and
- ✓ is not administratively burdensome.

Option 3: Add Intensification Area Rate

This approach would maintain area rating within the UGB and outside the UGB, while adding a third intensification area rate. The Built Area Boundary was determined to be the most appropriate for a potential intensification area rate, particularly since the 2021 DC Study included Built Area Works programs for Water, Wastewater and Stormwater linear works.

After further review, it was determined that this approach is not recommended due to the highly integrated engineered services for Water, Wastewater and Stormwater making it difficult to define the benefitting area. In addition, the Water and Wastewater collection systems are designed with looping and twinning for built in redundancy and security in the event of breaks and localized system failures. It is also unknown if there are significant cost differences in the placement of Water, Wastewater and Stormwater services as infrastructure needs and cost estimates for the Built Area are still preliminary and require further review based on experience and locations of development. However, if significant cost differences should exist, then higher DCs within the intensification area would be anticipated.

Option 4: Service Area-Based

A service area-based approach may be considered relevant when the service areas are distinct, clearly delineated and where substantial cost differences exist. Generally, area rating should be limited to linear infrastructure, while Water and Wastewater treatment should be municipal wide.

A comprehensive analysis of the sanitary drainage areas, Stormwater catchment areas and Stormwater subwatershed areas was conducted. A sanitary drainage area approach presented challenges due to the number of projects crossing the drainage areas, resulting in the infrastructure benefiting multiple service areas. A Stormwater catchment area approach would result in a large number of highly localized service areas, which is not consistent with the guiding principle that the service areas need to be of sufficient geographical scale. While a Stormwater subwatershed approach would be possible, this approach creates challenges with respect to equity and fairness. Specifically, London has a long standing approach to levying DCs for Stormwater on a municipal wide basis. This approach would result in higher DCs in less established areas that are experiencing higher rates of growth versus other locations that have received similar servicing requirements that have benefitted from municipal wide DCs. As a result of challenges noted above, a service area-based approach is not recommended for the 2025 DC Study.

Option 5: Add Area Rate to Future Urban Growth Boundary Expansion Areas

This option is relevant when servicing needs to be extended in order to accommodate anticipated growth in new service areas. The cost of providing engineered services to new urban areas may be significantly higher than existing urban areas that benefit from existing infrastructure. While it is not anticipated that an UGB expansion will occur prior to the approval of the 2025 DC Study, it is recommended that this approach be considered should a UGB expansion be approved.

2.2 Stakeholder Consultation

The DC External Stakeholder Committee has been engaged throughout the area rating review process. The Committee provided insightful and informative feedback from various perspectives. The Committee is composed of representatives from the Urban League of London, London Development Institute, London Home Builders' Association, and the London and District Construction Association.

Members indicated that overall, the current model which differentiates DCs inside the UGB and outside the UGB is working well and is supportive of continuing with this approach. The Committee was also supportive of further exploring an area rate for future UGB expansion areas.

3.0 Financial Impact/Considerations

There are no direct financial expenditures associated with this report. Each of the area rating options evaluated would be revenue neutral, resulting in the same overall DC revenues for the City.

Conclusion

Hemson Consulting was re-engaged to provide assistance with the review and analysis of the area rating options for the 2025 DC Study. Five options were identified as potential candidates for area rating, however after further review it is recommended that the current approach of levying DCs within the UGB and outside the UGB be continued for the 2025 DC Study. It is also recommended that Civic Administration continue to consider area rating where servicing needs to be extended in order to accommodate anticipated growth in new service areas should the UGB be expanded.

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

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



MEMORANDUM

To: Paul Yeoman, City of London
From: Craig Binning and Julia Cziraky
Date: November 8, 2021
Re: City of London 2025 DC Study: Evaluation of Area Rating Options

This memorandum summarizes an evaluation of various area rating options for the City of London. Following an initial discussion around guiding directions and service-based considerations, five options are presented for the City of London, along with relevant examples from other jurisdictions.

To inform the options review, Hemson has worked with staff to review the Water, Wastewater, and Stormwater Management capital programs and rate calculations that were part of the City's 2021 DC Background Study, as well as detailed development forecast information, to assess the potential feasibility and appropriateness of the five area rating options.

The memorandum concludes with recommendations to assist the City in moving forward with its 2025 Development Charges Background Study.

A. BACKGROUND

In accordance with the *Development Charges Act* (DCA), a development charge background study must include:

...consideration of the use of more than one development charge by-law to reflect different needs for services in different areas (s. 10(2)(c.1))

The City's Official Plan, the *London Plan*, also requires consideration for area rating:

The City will consider, as part of a development charges study, an area rating approach to recognize that the costs of growth in certain areas of the city may be substantially different from the costs of growth in other areas of the city. (Policy 1573_7)

As part of the City's 2019 DC process, staff brought forward a report addressing area rating. At that time, Council resolved to continue with the approach of distinguishing rates inside and outside of the Urban Growth Boundary. However, Council directed administration to "continue its analysis to review services that are candidates for differential recovery areas, and that the City work towards an area rating servicing policy to be implemented beyond 2019".

City staff have moved forward with this direction as part of the early stages of the 2025 DC Background Study process. As part of this work, Hemson has assisted in setting guiding principles and directions for the consideration of area rating, identifying service-based considerations and methods employed by other jurisdictions, and reviewing the City's current approach and identifying five alternative options for London. These options have now been evaluated in the context of the City's prevailing practices with regards to planning for and providing engineered services including Water, Wastewater, and Stormwater Management.

B. SERVICE-BASED CONSIDERATIONS

This section describes key considerations and typical DC calculation approaches for each service for which DCs are currently levied in the City of London, supported by several municipal examples. Area rating is most typically restricted to engineered services, although there are several examples of area rating for general services within a small number of Ontario municipalities.

i. Parks, Recreation, and Library

These services are typically calculated and levied on a municipal-wide basis for the following reasons:

- Libraries, parks, and recreation facilities are open and accessible to all residents in the municipality;
- Needs are established and planned for based on municipal-wide population growth;
- Usage data often show that individuals use libraries, parks, and recreation facilities both close to home and close to places of work, supporting a municipal-wide approach;
- For library services, the increasing availability of online / digital material supports a municipal-wide approach;

- Different libraries and indoor recreation facilities have different functions (i.e. central libraries, pools, specialized gym or sports facilities) and are destination centres attracting residents from across the municipality; and
- Use of parks and recreation facilities by sports leagues and other specialized classes also supports a municipal-wide approach.

While area rating of these services is rare, it may be considered in municipalities with central locations that have well established facilities with sufficient capacity to meet the anticipated needs arising from intensification. This can serve as a rationale for a lower DC rate in central locations. Ottawa applies a hybrid approach, with City-wide charges for recreation and library in addition to area rated DCs for the broad areas of inside the greenbelt, outside the greenbelt, and rural areas.

For parks, municipalities may consider area rating to account for typically higher development costs of parks in urban areas. Ottawa also uses this approach, charging an additional parks DC inside of the greenbelt to fund urban parks, which is layered on top of the City-wide parks DC.

Unlike Ottawa, London does not have clear geographical areas among which there would be any significant difference in the nature of parks, recreation, and library service delivery. As such, a City-wide approach to the calculation and applications of these DCs will most likely continue to be appropriate.

ii. Protection Services (Fire and Police)

Like parks, recreation, and library, protection services are provided to all residents and employees in the municipality and are generally provided for based on municipal-wide growth.

There is potentially some basis for area rating of Fire services as stations, or groups of stations, have defined main response areas: development pressures in part of a municipality may drive the need for station relocations and expansions. Likewise, as fire services are planned for based on response times, areas of intensification can result in higher traffic congestion thereby slowing response times and requiring additional fire infrastructure needs. Ottawa layers City-wide fire DCs with additional area-specific DCs for the outside the greenbelts and rural areas. Kitchener historically did not levy a fire DC in its Central Neighbourhood, until a City-wide approach was introduced in 2019 based on new servicing needs.

Police services are generally viewed as being less sensitive to development location and density. Hemson is not aware of any municipalities that apply an area-specific approach to the calculated of police services DCs.

In London, fire and police services are planned for and delivered on a City-wide basis, and driven by overall population, employment, and household growth. As such, a City-wide approach for these services will likely continue to be appropriate.

iii. Waste Diversion

Waste diversion services are also driven by, planned for, and delivered on a municipal-wide basis, with typically no significant differences in service delivery or cost across geographic areas. Hemson is not aware of any municipalities that have introduced area rating for waste management services DCs.

iv. Transit Services

Transit services are typically viewed on a service area basis with a uniform charge across the entire service area. Some transit service providers that service large areas, or provide high-order transit, have examined area rating based on service availability. However, it is difficult to determine the starting location of all trips – park and ride lots are typically available at the “end points” of transit services allowing those that reside outside of the geographic service area to still utilize and benefit from the service. There is also some argument that non-transit users, whether by choice or location, benefit from transit service through reduction in road congestion and other environmental benefits.

There are few examples of area rating for transit services. These include the Region of Waterloo, where transit DCs are levied only within the Cities, and not within the Townships, and Ottawa, which provides a partial exemption within the rural area.

Like most municipalities, London does not have defined benefitting areas for transit services; all residents benefit from the provision of both conventional and higher-order transit. An area-specific approach to transit DCs is not likely to be appropriate.

v. Roads and Related Services

Roads & related infrastructure is typically levied on a uniform municipal-wide basis as roads are typically planned for based on municipal-wide population and employment growth (and trip rates), and transportation systems are integrated networks, with improvements in one area providing rolling benefits across the network.

There are several municipalities that levy both a municipal-wide roads charge and additional area-specific road charges. In some cases, the area-specific roads charge typically covers more localized roads works (in some municipalities these would be considered a local service and a direct developer responsibility). Some also include some collector roads within the area-specific charges. Vaughan, Markham, and Richmond Hill's DCs include area rating for roads and related services. A small portion of Ottawa's roads charges are recovered based on the three major geographic areas (inside the greenbelt, outside the greenbelt, rural). Windsor levies a separate roads and related charge for its Sandwich South Planning District, a greenfield area with distinct transportation servicing needs to enable development to occur.

Like most municipalities, London has an integrated transportation network that is planned for based on municipal-wide population and employment growth. A City-wide approach will likely continue to be appropriate.

vi. Water Supply and Wastewater Treatment

Water supply and wastewater treatment are typically levied on a uniform municipal-wide basis, as supply and treatment of water and the treatment of wastewater is not sensitive to the location of the benefitting development. There may be situations in which a municipality has different water supply sources/plants and different wastewater treatment facilities – in this situation the DC rates may vary by the service area of the facilities. An example is the Township of Springwater, which has multiple distinct, geographically separated water services areas with area-specific DCs. However, this is not the case in the City of London.

vii. Water Distribution, Wastewater Collection, and Stormwater

The majority of municipalities levy these DCs on a uniform basis as these systems are often highly integrated and looped. However, there are a number of municipalities that do use DC area rating for all, or a share, of these services to reflect differences in service needs and costs. This is generally done on the basis of:

- Multiple delineated services areas (e.g. Innisfil, Peterborough, Blue Mountains); or
- New growth areas (e.g. Windsor's Sandwich South Planning District; Brantford's proposed DCs for the boundary expansion lands).

In London, these services are provided within the Urban Growth Boundary. Outside of the Urban Growth Boundary, DCs are not charged for these services. The 2025 DC Background

Study may consider opportunities for further delineation of water, wastewater, and stormwater service areas within the Urban Growth Boundary.

C. GUIDING PRINCIPLES AND DIRECTIONS

Drawing from Hemson's experience in other jurisdictions, and in consideration of the City of London's service delivery context, Hemson recommended that area rating would be considered only for the services of Wastewater, Stormwater, and Water Distribution.

Further, through discussions with City staff, the following set of principles and directions were identified to guide the consideration of various approaches to area rating for the City of London:

- Service areas should be of a sufficient geographic scale;
- There should be meaningful cost / rate difference between the service areas; and
- Any additional administrative burden should be minimized.

These directions have informed the identification of area rating options, as well as the evaluation of each option summarized below.

D. AREA RATING OPTIONS EVALUATION

The section summarizes the five options considered for the City of London along with Hemson's evaluation of each option's feasibility and appropriateness. It is important to note that each of these options would be "revenue neutral"; they would each result in the same overall DC revenues for the City. Area rating does not include incentives such as DC exemptions or discounts, which result in foregone revenues that must be funded through other sources such as property taxes and utility rates.

Under each area rating option, relevant municipal examples are highlighted where possible. Further, a summary of London's typical comparator municipalities and their approach to area rating is appended to this document. While only three of the 14 municipalities surveyed employ a pure municipal-wide approach, many impose DCs on a primarily municipal-wide basis, with limited area rating based on the availability of engineered services (not unlike London's current approach). Two of the municipalities levy greenfield ASDCs for recently annexed areas (Windsor and Brantford), while three of the municipalities employ a more complex service area-based approach (Markham, Ottawa, St. Thomas).

i. Option 1: Uniform City-Wide Rate (No Area Rating)

The majority of municipalities in Ontario levy all development charges on a uniform, municipal-wide basis. However, in London, City Wastewater, Stormwater, and Water Distribution services are generally not provided in locations outside of the Urban Growth Boundary (UGB). In the select cases where these services are extended outside of the UGB, the benefitting properties are subject to a connection charge. Under these current practices, it would not be appropriate to levy DCs for Wastewater, Stormwater, and Water Distribution in rural locations. As such, a true uniform City-wide approach would not be recommended for the City unless there is a substantive change to service delivery.

Performance Against Guiding Principles	
Service areas of a sufficient geographic scale	✓
Meaningful cost / rate difference between the service areas	N/A - Single service area.
Minimize additional administrative burden	✓

Recommendation: Not recommended as part of 2025 DC Background Study due to lack of City Wastewater, Stormwater, and Water Distribution services outside of the Urban Growth Boundary.

ii. Option 2: Maintain Current Model (Inside UGB / Outside UGB)

The City currently levies DCs for Fire, Police, Library, Parks & Recreation, Transit, Waste Diversion, and Roads & Related Services on a uniform, City-wide basis. Wastewater, Stormwater, and Water Distribution DCs are levied on development within the Urban Growth Boundary on a uniform basis, while development outside of the UGB is not subject to these charges as those City services are not extended to rural areas. This results in lower overall DC rates outside of the UGB.

Maintenance of this approach is expected to continue to be defensible due to the nature of service delivery in London. Non-engineered and Roads & Related services in the City are driven by overall population and employment growth, while Wastewater, Stormwater, and Water Distribution services are highly integrated and looped within the Urban Growth Boundary. It is noted that Hemson’s review of the 2021 DC Background Study project listing and discussions with City staff have determined that additional benefitting areas within the Urban Growth Boundary would be difficult to define. This is discussed in greater detail in the sections below.

Performance Against Guiding Principles	
Service areas of a sufficient geographic scale	✓
Meaningful cost / rate difference between the service areas	✓
Minimize additional administrative burden	✓

Recommendation: Recommended as part of 2025 DC Background Study.

iii. Option 3: Add Intensification Area Rate

The City may also choose to maintain its current general approach to locations outside and inside of the UGB, while adding a third “Intensification Area” rate for the Wastewater, Stormwater, and/or Water Distribution DCs. This approach would be appropriate if it is determined that substantive differences existing in the cost of service delivery within the Intensification Area as compared with the remainder of the lands within the UGB.

Several municipalities take a similar broad approach to the delineation of service areas and calculation of rates:

- In **Ottawa**, most services include a component where area rates are calculated based on the broad areas of Inside the Greenbelt, Outside the Greenbelt, and Rural. The Rural category is further broken down into Serviced and Unserviced areas, based on whether City water and wastewater servicing is provided. Inside the Greenbelt, the water and wastewater DCs are lower than Outside the Greenbelt, due to available capacity within the existing system.
- Similarly, **Kitchener** maintains separate engineered services DC for its Central Neighbourhoods area and Suburban Area. Development in the Suburban Area is subject to water, sanitary, roads and related, and storm/watercourse services DCs. While the Central Neighbourhoods are not subject to these charges, an Intensification Allowance DC is levied which pays for the capital cost of additional engineering service capacity and upgrades for development and redevelopment in this area. This approach results in lower overall DCs in the Central Neighbourhoods than in the Suburban Area.
- **Brantford** has historically* taken a different approach whereby the identified Intensification Area is subject to an additional Intensification Stormwater DC. The Intensification Stormwater DC reflects that much of the stormwater servicing outside of the Intensification Area is provided directly by developers. As such, development within the Intensification Area is generally subject to higher DC rates to pay for City-emplaced infrastructure, although the costs are offset by generally lower local servicing responsibilities. It is noted that Brantford also offers discounts on engineered services

within the Infill Area: development that is located within both the Infill Area and an Intensification Area benefits from this discount, which acts as an incentive for development, but remains subject to the Intensification Stormwater charge. In addition to this area rating approach, Brantford maintains a small, defined Downtown Exemption Area within its DC by-law, where no DCs apply, in order to incentivize redevelopment and intensification in this area.

**Note: At the time of writing, the City of Brantford is in the process of eliminating its Intensification Area and Infill Area DC practices in favour of a uniform rate applying to the entire built boundary. This new approach is reflective of the City's 2021 Master Servicing Plan update. The Downtown Exemption Area incentive currently remains in place.*

In assessing the feasibility of an Intensification Area-based approach in London, Hemson evaluated whether calculation of area-specific DCs based on the City's Built Boundary would be possible. Through discussions with staff, this appeared to be the most appropriate approach as part of this area rating option, particularly as the 2021 DC Background Study Wastewater, Stormwater, and Water Distribution capital programs identified a line item for various "Built Area Works". These Built Area Works include linear works benefitting the intensification area within the Built Boundary only. City staff are tracking the progress of the various Built Area Works projects, including rates of development and the timing of need for the works.

Hemson considered whether it would be feasible to calculate Wastewater, Stormwater, and Water Distribution DCs on the following basis:

- Calculate Intensification Area DCs based on the linear works planned within the Built Boundary;
- Calculate DCs outside of the Intensification Area, but still within the Urban Growth Boundary, based on the linear works planned for those areas; and
- Calculate City-wide DCs based on non-linear works with City-wide benefit (e.g. studies; plant expansions). The City-wide DCs would be layered over the area-specific DCs described above.

An Intensification Area rate could have the potential to address any significant differences in the cost of constructing Wastewater, Stormwater, and Water Distribution infrastructure within intensification areas as compared within greenfield locations, due to potential complexities associated with upgrading and replacing infrastructure in built-up areas. It is

noted that this would result in Intensification Area DCs that are higher than the DCs applying to the remainder of the City.

Through closer examination of this area rating option, it was determined that an Intensification Area charge would not be feasible or appropriate at this time. Key considerations included the following:

- Due to the highly integrated nature of Wastewater, Stormwater, and Water Distribution infrastructure in the City, distinct benefitting areas are difficult to define. While the identified “Built Area Works” are anticipated to benefit development within the Built Boundary only, an analysis of City data showed that a significant share, approximately one third, of these projects may have benefitting areas both within and outside of the Built Boundary. These projects are either:
 - Linear projects that cross the Built Boundary, and therefore will benefit both service areas; or
 - Projects that are located in close proximity (within 1km) to the Built Boundary, and may benefit both service areas.

Further engineering input would be required to confirm the benefitting areas of each of these projects. While consideration could be given to proportionately allocating these projects to inside vs. outside of the Built Boundary, this would result in similar DC recoveries on a per-unit basis within each benefitting area – and likely similar DC rates.

- It is unknown at this time whether there are significant cost differences in the emplacement of Wastewater, Stormwater, and Water Distribution infrastructure in intensification areas. Further monitoring and analysis would be required, as the City continues to implement the Built Area Works, in order to make this determination. However, as many projects are located in close proximity to the Built Boundary, in Hemson’s view, it is likely that no substantive cost difference exists.
- Finally, if cost differences do exist, the result is anticipated to be higher DCs within the Built Boundary. This may not be desirable in the context of the City’s broader planning objectives: the London Plan identifies lands within the Built Boundary as an area of focus for future intensification and growth, and higher DC rates in this area may work counter to these planning objectives.

Performance Against Guiding Principles	
Service areas of a sufficient geographic scale	✓
Meaningful cost / rate difference between the service areas	✘
Minimize additional administrative burden	Some additional administrative work required.

Recommendation: Not recommended as part of 2025 DC Background Study due to difficulty defining “Intensification Area” boundaries in a consistent and equitable manner, likelihood of similar calculate rates inside and outside of the Built Boundary, and highly integrated engineered services. Importantly, the City’s water distribution and wastewater collection systems are designed with looping and twinning for built-in redundancy and security in the event of breaks and localized systems failures; this approach provides a service-wide area benefit even when improvements and investments are within defined geographic or service areas.

iv. Option 4: Service Area-Based

Some municipalities have a number of distinct water, wastewater, and/or stormwater service areas, and levy their engineered services DCs on this basis. This approach is appropriate where the service areas are distinct and clearly delineated, and where substantial cost differences exist between the service areas. Generally, area rating should be limited to linear infrastructure while water and wastewater supply and treatment should remain municipal-wide. It is noted that this approach can be more complex and administratively onerous than the other approaches discussed in this memorandum.

Some examples of this service area-based approach include the following:

- **Innisfil** maintains five distinct water and wastewater service areas. Water distribution and wastewater collection DCs are calculated separately for each of these areas. Supply and treatment DCs are generally charged on a Town-wide basis, as they are driven by overall population and employment growth. The exception is the Cookstown service area, which has its own wastewater treatment facility, and therefore a distinct charge is calculated and development in the area is not subject to the Town-wide Wastewater Treatment DC.
- In **Peterborough**, eight area-specific DC areas are maintained with distinct DCs calculated for the provision of sanitary trunk sewers, sewage pumping stations, planning and servicing studies, and stormwater management facilities. It is noted that some of the works funded by the various ASDCs is highly localized; in other

municipalities, these would typically be funded by director developer agreements. In Peterborough, the ASDC approach has been used to facilitate front-ending agreements for local infrastructure and in other areas with fractured land ownership to provide for efficient planning and delivery of key sanitary and water infrastructure. All general services, sewage treatment, roads, and other City-wide engineering projects are recovered for through uniform City-wide DC rates.

- Similarly, **The Blue Mountains** has 11 distinct service areas for area-specific water and wastewater DCs. All general services DCs and roads and related DCs are levied on a uniform Town-wide basis.

Servicing across the City of London appears to be more integrated and looped than in the above sample municipalities. In Hemson's evaluation of this area rating option, several scenarios were considered, including:

1. Wastewater DCs differentiated by Sanitary Drainage Areas;
2. Stormwater DCs differentiated by Minor Storm Catchment areas; and
3. Stormwater DCs differentiated by Subwatershed areas.

The first two scenarios listed above did not appear to be viable or desirable upon evaluation of City mapping and data. The Sanitary Drainage Area scenario presented challenges due to a number of projects appearing to cross the boundaries of the drainage areas, and therefore benefit multiple service areas. The Minor Storm Catchment scenario involved a large number of highly localized service areas, and did not meet the key guiding principle of services areas being of a sufficient geographic scale.

It would be possible to calculate area-specific Stormwater DCs based on Subwatershed areas. These areas are of sufficient geographic scale, and most or all of the City's planned Stormwater projects appear to benefit a single Subwatershed. Hemson was able to validate this by undertaking a high level rate test of a sample Subwatershed area. However, this option presents challenges with respect to equitability and fairness due to the London's longstanding City-wide approach to DCs: it generally results in higher DCs in less established areas that are beginning to see higher rates of growth; whereas, by comparison, other locations that have received similar City servicing in the past benefitted from City-wide DCs. Therefore, this approach could be viewed as penalizing these less established areas of the City.

The City of London had previously undertaken analyses to determine potential service area-based area rating options as part of the 2014 DC Background Study. Similar to Hemson's findings, this process determined that Transportation, Water, and Wastewater services

would not be suitable for area rating due to their generally interconnected nature, as well as the benefits of financial flexibility offered by a City-wide approach. Stormwater was considered to be a good candidate for area rating, and area rating based on the Central Thames Subwatershed was proposed, which was anticipated to result in a low or null charge within this area while surrounding, more greenfield-dominant, areas would be subject to a higher Stormwater DC. However, the City did not move forward with this approach at the time. Since the 2014 DC study, London has experienced relatively high rates of growth and development, making introduction of a new area-specific Stormwater DC increasingly challenging, particularly in regards to the potential inequity concerns noted above.

A service area-based approach is not recommended for the City of London. In Hemson’s opinion, it would be difficult and administratively onerous to delineate service areas and attribute project costs among them in an equitable and fair fashion. While an area-specific Stormwater charge could be an option for the City, this approach could be viewed as penalizing locations that are beginning to see higher rates of growth.

Finally, it is also noted that the City’s utility rates (water, sewer and storm) are all levied on a uniform City-wide approach; utility rates fund a range of expenditures from operating, general capital and state-of-good repair (or asset management) capital expenditures. The uniform nature of the City’s utility rates further supports the continued use of City-wide DCs for these services.

Performance Against Guiding Principles	
Service areas of a sufficient geographic scale	✓
Meaningful cost / rate difference between the service areas	Possible for certain subwatershed areas.
Minimize additional administrative burden	✗

Recommendation: Not recommended as part of 2025 DC Background Study due to highly integrated and looped engineered services as well as inequities due to London’s history of levying DCs on a City-wide basis.

v. Option 5: Add Area Rate to future UGB Expansion Areas

The City may consider introducing area rating within planned Urban Growth Boundary expansion areas where servicing needs to be extended in order to accommodate anticipated development. The cost of providing engineered services in new urban areas can be significantly higher than existing urban areas that benefit from existing networks of linear engineered services infrastructure. As such, the DCs calculated in these areas are typically

higher than municipal-wide rates, and ensure that development within the existing urban area is not burdened by these costs.

As no UGB expansions are anticipated in London in advance of the 2025 DC Background Study, this approach was not closely evaluated. However, the City should consider area rating of DCs as part of any future major UGB expansions with significant and distinct servicing requirements.

A number of municipalities levy area-specific DCs to support the emplacement of growth-related engineered services in new greenfield areas. Two examples are detailed below:

City of Windsor

Windsor's Sandwich South Planning District encompasses 2,530 hectares of land, transferred to the City from the neighbouring Town of Tecumseh in 2003. To date, two Secondary Plans have been prepared for lands within Sandwich South. The East Pelton and County Road 42 Secondary Plan areas are anticipated to see substantial growth in the next 20 years, in part propelled by a proposed new regional hospital. The Sandwich South lands additionally encompass the Windsor International Airport. Much of the lands remain unserviced.

In 2018, as the County Road 42 Secondary Plan and plans for the new hospital neared completion, the City of Windsor retained Hemson to undertake a DC amendment study to ensure the right tools would be in place as development pressures in the area grew. As no master servicing plans for the area had been completed, area-specific DCs were calculated using high level information from previous environmental assessment studies and discussions with engineering staff.

The resulting DC by-law includes area-specific DCs for the engineered services of Roads and Related, Sanitary Sewer, Storm Sewer and Municipal Drains, and Water, as significant infrastructure is required that will have localized benefit within the study area. Sewage Treatment DCs continue to apply on a City-wide basis as plant expansions will continue to be planned for, and broadly benefit, development across the City.

City of Brantford

Brantford recently introduced area-specific DCs for two urban boundary expansion areas. An area-specific approach was used for the calculation of water, wastewater, and stormwater servicing infrastructure. The area-specific DCs also include a small number of roads with localized benefit; the by-law may also be used by the City to facilitate front-end

funding arrangements with developers. The area-specific development forecasts, capital programs and calculation of area-specific DCs were grounded in a strong framework supported by the City’s recent Municipal Comprehensive Review and new Official Plan, Master Servicing Plan, and Transportation Master Plan.

Development in the expansion areas continues to be subject to the City-wide general services DCs, in addition to the area-specific rates. Engineered services infrastructure with broad, City-wide benefit (e.g. City-wide studies; plant expansions) is also charges City-wide and layered over the area-specific rates.

Performance Against Guiding Principles	
Service areas of a sufficient geographic scale	To be evaluated at time of UGB Expansion
Meaningful cost / rate difference between the service areas	To be evaluated at time of UGB Expansion
Minimize additional administrative burden	x

Recommendation: Not recommended as part of 2025 DC Background Study as no Urban Growth Boundary expansions are anticipated in the near term. However, in the future should the City proceed with a major UGB expansion with significant and distinct servicing requirements, area rating should be considered.

Should a UGB boundary be considered in the future, in consideration of an area rate the City should be prepared to undertake the following steps:

1. Forecast population, household, and employment growth, along with anticipated built-out timeframes, within the UGB expansion area as part of the Official Plan Amendment and/or Secondary Planning process;
2. Undertake a Master Servicing Plan / engineering studies to define infrastructure needs and costing;
3. Evaluate the appropriateness of an area-specific DCs by considering the scale of the UGB expansion area, potential for cost/rate differences, and potential administrative burden; and
4. Undertake the DC Background Study or amendment process to establish area-specific DCs.

E. SUMMARY AND NEXT STEPS

In consideration of London’s unique context and the nature of servicing in the City, it is recommended that as part of the 2025 DC Background Study, the City continue its historical

approach. All DCs should continue to be levied on a City-wide basis, with the exception of excluding development occurring outside of the Urban Growth Boundary that does not receive City Wastewater, Stormwater, and Water Distribution services from those DCs.

The City may wish to re-examine the potential for area rating in the future should a significant UGB expansion be planned (as per Option 5). However, area rating within the UGB appears to present significant challenges with respect to the delineation of service areas and calculation of charges, communication and administration of the charges, as well as equity and fairness.

It is noted that the City may also consider DC discounts, reductions or exemptions in certain locations (e.g. central or downtown areas) in order to incentivize development, while continuing to calculate DCs on a City-wide basis. However, it is noted that such an incentive or subsidy would not be revenue neutral, and the City would need to fund the revenue loss through other revenue sources, such as property taxes and utility rates. It is noted that the City currently provides full DC reimbursements in certain areas through the Downtown and Old East Village Community Improvement Plans.

APPENDIX: MUNICIPAL BENCHMARKING

	Municipal-wide or Area-Specific DCs (ASDCs)	Description / Comments
Markham	Service Area-Based ASDCs + City-wide DCs	Per-hectare engineered services ASDCs for 19 service areas, layered with City-wide hard and soft services DCs
Mississauga	City-wide	
Toronto	City-wide	
Waterloo (City)	City-wide	
Hamilton	Generally City-wide; with some Stormwater area rating	Stormwater DCs based on combined vs. separated sewer system
Ottawa	ASDCs based on broad service areas	Four broad services areas: Inside the Greenbelt; Outside the Greenbelt; Rural – Serviced; Rural - Unserviced
Windsor	City-wide + greenfield area ASDC	Introduced ASDCs for the Sandwich South Planning District (annexed area) in 2018
Brantford	City-wide + greenfield area ASDC	Introduced ASDCs for the expansion lands in 2021
Thames Centre	Generally municipal-wide; Water and Wastewater DCs apply to Urban area only	
Strathroy Caradoc	Municipal-wide with some engineered services ASDCs	Engineered services ASDCs imposed in two service areas (Mount Brydges and Strathroy) with distinct servicing needs
Middlesex Centre	Generally municipal-wide; Water and Wastewater DCs apply to Urban area only	
Woodstock	City-wide	
Stratford	Generally City-wide	Additional Stormwater charge applies in Riverbend Area for recovery of past projects.

	Municipal-wide or Area-Specific DCs (ASDCs)	Description / Comments
St. Thomas	Service Area-Based ASDCs + City-wide DCs	Eight engineered services ASDC areas. ASDCs are layered on top of City-wide general and engineered services DCs,
Summary:	<p>Various approaches are employed across the sample municipalities. Of the 14 municipalities surveyed:</p> <ul style="list-style-type: none"> ▪ 4 use a pure municipal-wide approach (Mississauga, Toronto, Waterloo, Woodstock) ▪ 3 use a primarily municipal-wide approach, with some distinct, often rural/urban treatment, based on the availability or type of services (Hamilton, Thames Centre, Middlesex Centre) ▪ 2 use a primarily municipal-wide approach with the addition of a greenfield area charge within a recently annexed area (Windsor, Brantford) ▪ 2 use a primarily municipal-wide approach, with one or two small service areas based on distinct needs or historical practices (Strathroy Caradoc, Stratford) ▪ 3 used a service area-based approach to ASDCs (Markham, Ottawa, St. Thomas) 	