

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 Planning Horizon Policy Review
Date: June 7, 2022

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, a 15-year planning horizon **BE ENDORSED** as part of the preparation and completion of the development charges 'soft service' master plans and 2025 Development Charges Background Study, it being noted that a 20-year planning horizon will be maintained for 'hard service' components.

Executive Summary

The purpose of this report is to provide Council with background information regarding a development charge (DC) policy review of the planning horizon, which is the forward-looking time period for which DCs are calculated. The City has been collecting DCs for certain services ('soft services') over a 10-year period since the Development Charges Act (DCA) previously restricted the collection of 'soft services' to a maximum of 10 years.

As part of Bill 108 (More Homes More Choice Act, 2019) and subsequent legislation, the planning horizon limit of 10-years for 'soft services' has been eliminated. With the planning horizon limit removed, Staff are recommending that the planning horizon for 'soft services' be increased to a 15-year DC collection period.

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

1.1 Background and Analysis

What is a Development Charges Planning Horizon?

DCs are fees collected to help pay for the cost of growth capital infrastructure required to provide municipal services to new development, such as roads, transit, water distribution, wastewater, community centres, fire and police facilities. In order for a municipality to collect DCs, a DC Background Study and By-law are required. The DC Background Study establishes the anticipated growth across the City, the infrastructure required to support the growing City and ultimately the DC rates.

Establishing the DC planning horizon is critical because it sets the forward-looking time period for which DCs are calculated. The growth forecasts and required capital infrastructure needs are directly influenced by the planning horizon established by the municipality.

Why is the Development Charges Planning Horizon Being Reviewed?

The City has historically set a planning horizon for which DCs are calculated over a 10-year period for 'soft services' and a 20-year period for 'hard services' (Exhibit 1).

Exhibit 1 – Current DC Planning Horizon



Previously, the DCA set a limit for certain services ('soft services') to a maximum of 10-years, while there was no limit for all remaining services. With the enactment of Bill 108 (More Homes, More Choices Act) and subsequent legislation, the planning horizon limit of 10-years has been removed. This change provides municipalities with greater discretion for establishing a planning horizon that best meets its needs.

What Options Were Considered?

As a result of the legislative changes, the following options outlining the benefits and risks of the planning horizon for soft service components for implementation in the 2025 DC Study is presented below:

Option 1: Maintain 10-Year Soft Service Planning Horizon

Benefits

- ✓ Maintaining the 10-year planning horizon will result in no changes for soft service providers. No additional training or changes to processes for the collection of future capital needs are required.
- ✓ The shorter the planning horizon, the more accurate the estimates.

Risks

- x A DC Study with a 10-year planning horizon results in the City's capital budget not containing growth capital projects in the period between DC Studies. This issue arises since the DC Study contains growth infrastructure needs over a fixed 10-year period, whereas the City's capital budget reflects capital needs over a 10-year rolling period.
- x A 10-year planning horizon results in a shorter window for recovery of growth infrastructure projects versus a longer planning horizon. A shorter planning horizon may result in greater variances in DC rates from DC Study to DC Study since any significant capital needs outside of the 10-year period would not be captured.

Option 2: Extend Planning Horizon To 15 Years

Benefits

- ✓ A 15-year planning horizon would result in the DC Study containing an additional 5-years of growth infrastructure needs. Since the City's capital budget reflects

capital needs over a 10-year rolling period, a 15-year DC Study would ensure that the City's capital budget always reflects growth capital needs.

- ✓ Better aligns with "hard services" planning horizon, which extends over a longer period of time
- ✓ Developers would have greater 'certainty' for when growth infrastructure is timed in the DC Study, since an additional 5 years of growth infrastructure needs would be captured. This may assist with their long-term planning.
- ✓ The DC Study may capture significant growth infrastructure needs in the 11 - 15 year period. A longer planning horizon would help 'smooth' DC rates from one DC Study to the next.

Risks

- x Moving to a 15-year planning horizon would require soft service providers to forecast their capital needs over a longer period of time. This may require additional training or changes to processes for the collection of future capital needs.
- x A longer planning horizon may result in reduced certainty of infrastructure needs for projects identified later in the recovery period, while being off-set by the inclusion of additional growth-related infrastructure.

Option 3: Extend Planning Horizon To 20 Years

Benefits

- ✓ A 20-year planning horizon would result in the DC Study containing an additional 10-years of growth infrastructure needs. Since the City's capital budget reflects capital needs over a 10-year rolling period, a 20-year DC Study would ensure that the City's capital budget always reflects growth capital needs.
- ✓ Developers would have even greater 'certainty' for when growth infrastructure is timed in the DC Study, since an additional 10 years of growth infrastructure needs would be captured. This may assist with their long-term planning.
- ✓ The DC Study may capture significant growth infrastructure needs in the 11 - 20 year period. A even longer planning horizon would help 'smooth' DC rates from one DC Study to the next.
- ✓ A 20-year planning horizon for soft services would harmonize the planning horizon with hard services.

Risks

- x Moving to a 20-year planning horizon would require soft service providers to forecast their capital needs over an even longer period of time. This may require additional training or changes to processes for the collection of future capital needs.
- x An even longer planning horizon may result in reduced certainty of infrastructure needs for projects identified later in the recovery period, while being off-set by the inclusion of additional growth-related infrastructure.

What is the Recommended Approach for the 2025 Development Charges Study?

It is recommended to proceed with a 15-year planning horizon for soft services in the 2025 DC Study. Since a DC Study is conducted at least every 5-years and the City presents a rolling 10-year capital budget, a 15-year planning horizon would ensure that the City's capital budget always reflects growth infrastructure needs. Moving to a 15-year planning horizon would require a longer-term view for soft service providers. This policy approach may require additional training and changes to processes for soft service providers, however staff are confident this can be achieved. While a 20-year planning horizon would harmonize the approach for both hard and soft services, many soft service providers indicated that doubling the planning horizon to forecast future infrastructure needs for an additional 10 years beyond the current practice would be challenging.

1.2 Stakeholder Consultation

The DC External Stakeholder Committee meets regularly with staff to discuss matters related to the 2025 DC Study. 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 of the Committee indicated that they are supportive of moving to a 15-year planning horizon for soft services, however some members were cautious of the potential financial impacts to DC rates as a result of the change. Staff advised the Committee that the DC rate impacts will not be known until preliminary rate modelling is complete. At that time staff will discuss the impacts to the DC rates, if any, with the Committee.

3.0 Financial Impact/Considerations

There are no direct financial expenditures associated with this report at this time, however the impact to DC rates resulting from this policy change will not be known until the 2025 DC rate models have been updated.

Conclusion

As a result of the legislative changes that have removed the 'cap' for the planning horizon, municipalities now have greater discretion for establishing a planning horizon that better suits its needs. After further review, analysis and consultation with the DC External Stakeholder Committee, it is recommended that a 15-year planning horizon for soft services be implemented as part of the 2025 DC Study.

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