STAFF REPORT
INFORMATION ONLY

Toronto Green Standard: Development Charge Refund

Date:	November 27, 2008
To:	City Council
From:	Chief Planner and Executive Director, City Planning Division
Wards:	All
Reference Number:	cc080070

SUMMARY

The proposed 20% Development Charge refund for new development achieving Tier 2 Toronto Green Standard would assist in meeting City objectives of reducing green house gas emissions and energy conservation, and avoid infrastructure costs in the service categories of water, sanitary sewer and storm water management. The 2008 Cost Benefit Study of the Toronto Green Standard identified potential economic benefits to the City of around $1.2 billion over 25 years in avoided infrastructure and air quality related health costs.

Providing an accurate estimation of the cost to the City of providing the proposed 20% Development Charge refund is difficult especially with the current state of the economy and due to the nature of the phase-in provisions of the proposed Development Charge By-law. However, it is instructive to review projects under the Better Buildings Partnership New Construction Program (BBP-NC) that have achieved 40% or better performance than that required by the MNECB, which is only one of the Tier 2 requirements. If the 20% Development Charge refund was applied in 2006 and 2008 the cost would have been $450,000 and $980,000 respectively. Annual DC revenues during the period of 2005-2007 have averaged approximately $55 million. While it is anticipated that the proposed 20% DC refund would encourage more buildings to strive to achieve the 40% target, it is difficult to predict how many would achieve <u>all</u> the Tier 2 requirements, which must be achieved to be eligible for the rebate.

Financial Impact

There is no financial impact beyond what has already been approved in the current year's budget.

DECISION HISTORY

The Development Charges – Background Study and Proposed By-law report was before Executive Committee on November 10, 2008; further consideration of the report has been deferred to the February 2009 meeting. The proposed by-law includes a provision to refund 20% of the development charges paid for buildings achieving Tier 2 requirements of the Toronto Green Standard.

At its meeting on November 13, 2008, Planning and Growth Management Committee, in considering the report on the Toronto Green Standard Update: Performance Measures for Sustainable Development requested that the Chief Planner and Executive Director of City Planning:

> Report to City Council on December 1, 2008, on the anticipated lost revenue to the City if the Development Charge refund were applied for Tier 2 buildings.

This report responds to that request.

ISSUE BACKGROUND

The Toronto Green Standard (TGS) is a two-tiered set of performance measures for new construction that promotes sustainable development. Tier 1 is mainly secured through the planning process and will be validated in-house; Tier 2 is proposed to be achieved through a Development Charge Refund and will be validated by a third party review.

COMMENTS

Proposed DC refund For Tier 2 TGS

The proposed 20% refund of Development Charges (DCs) is intended to apply across all service categories comprising the total DCs for residential or non-residential uses for any building that can achieve Tier 2 of the TGS requirements. The Tier 2 requirements pertain primarily to energy efficiency, for which there is not a direct correlation in the capital costs of services addressed through DCs. However, achieving a higher level of energy efficiency in new development is an important tool to assist the City in meeting its objectives of reducing green house gas emissions and avoiding the need for additional energy generating facilities or a 3rd transmission line into the City. The TGS also provides benefits through avoided infrastructure costs in the service categories of water, sanitary sewer and storm water management, with Tier 2 requirements providing greater benefits than those of Tier 1.
The Tier 2 energy requirements are equivalent to measures found in the Leadership in Energy and Environmental Design (LEED) credit system, and the Tier 2 requirements

include standards for water conservation and stormwater management developed through the Wet Weather Flow Management Master Plan process which are higher than the LEED system. To help provide some perspective with respect to the recommended 20% discount, the capital costs calculated in the Background Study for combined water, sanitary sewer and stormwater management services comprise 18% of the total residential DC and 31% of the total non-residential DC. These are the DC-funded services which most closely align with the Tier 2 TGS requirements.

Cost Benefit Study

A Cost Benefit Study of the TGS requirements was completed for the City in 2008, and provides some analysis of the capital cost premium for a developer and payback for higher levels for implementing the TGS, including energy efficiency 25% better than the Model National Energy Code for Buildings (MNECB). For example, for an apartment building with an energy efficiency rating 25% better than the MNECB, the capital cost premium was estimated to be approximately 2%. For a retail commercial development of one storey with 7,435 m^2 of retail and 1,859 m^2 of restaurant, the capital cost premium of complying with the Tier 1 energy efficiency rating of 25% better than the MNECB is also approximately 2%. While the study did not specifically examine the capital cost premium associated with meeting the higher Tier 2 environmental performance of 40% above MNECB, a review of a number of other similar cost benefit studies suggests that the capital cost premium could be as high as 7%.

The Study concludes by saying that over the next 25 year period, the direct economic benefit achieved from adopting the TGS is around $1.2 billion for the City of Toronto. The savings from good development practices, avoided water and wastewater expansion, and avoided air quality related health costs exceed the premium on green development. The principle of avoided costs supports the proposed Development Charge refund. As the Study notes, if the green development path is not taken these savings translate into burdens we place on future generations.

Impact on Development Charges Revenue

Providing an accurate estimation of the cost to the City of providing the proposed 20% DC refund is difficult especially with the current state of the economy and due to the nature of the proposed phase-in provisions of the DC by-law. However, it is instructive to review projects under the Better Buildings Partnership New Construction Program (BBP-NC) that have achieved 40% or better performance than that required by the MNECB. For example, in 2006 developments achieving 40% or better energy efficiency paid approximately $2.3 million in DC's. Applying a 20% refund to that amount would have resulted in a refund amount of approximately $450,000. There were no buildings achieving this level of energy efficiency in 2007 that participated in the BBP-NC.

In 2008, approximately $4.9 million has been received to date in DC payments for development participating in the BBP-NC that were designed to achieve at least 40% energy efficiency. The 20% DC refund would have been approximately $980,000. Annual DC revenues during the period 2005-2007 have averaged approximately $55 million.

While it is anticipated that the DC refund would encourage more buildings to strive to achieve the 40% target, it is difficult to predict how many would achieve all the Tier 2 requirements.

CONTACT

Joe D'Abramo
Director (Acting)
Zoning By-law and Environmental Planning
City Planning Division
Telephone (416) 397-0251
Fax: (416) 392-3821
Email:jdabramo@toronto.ca

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Gary Wright
Chief Planner and Executive Director
City Planning Division

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