TORONTO

STAFF REPORT
ACTION REQUIRED

Development Charges By-law Review

Date:	June 18, 2013
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2013\Internal Services\Cf\Ec13012cf (AFS # 17129)

SUMMARY

The City of Toronto collects development charges from new construction to pay for a portion of net municipal growth-related capital costs. The City's current development charges by-law expires on April 30, 2014. A new Development Charges Background Study has been prepared pursuant to the *Development Charges Act, 1997*. The purpose of this report is to present the 2013 Development Charges Background Study and the proposed development charges by-law for consideration at a statutory public meeting.

Development charges rates, as set out in the background study, are calculated on a cost recovery basis and represent the maximum charges that can be imposed. These represent notable increases over current levels and are primarily the result of revised growth forecasts, updated capital programs, and discounts in the current charges.

If the recommended charges are adopted by Council, at the end of the proposed phase-in period, residential development charges would increase by about 90% and non-residential development charges (i.e. primarily retail charges) would increase by approximately 30% over current levels.

The proposed by-law continues many of the current policies, including exemptions for affordable rental housing, industrial development and employment uses qualifying under the Imagination, Manufacturing, Innovation and Technology Financial Incentives Program. The non-residential charge would continue to apply to the ground floor only of non-exempt, non-residential development (primarily retail). In addition, the Tier 2 Toronto Green Standard development charges incentive program is proposed to be continued at the levels approved in the 2009 by-law. These and other definitional changes in the proposed by-law are unaffected by the transition provisions, which apply

only to the level of the charges, and shall be effective from the date that the by-law comes into force.

Proposed transition provisions implement the changes in the rates over a period of time in order to mitigate the impact of the new rates on development applications that are well along in the development approval process and to allow for an orderly implementation of the new by-law. The change in the rates would be phased-in over a nine month period with full implementation by July 1, 2014.

After the statutory public meeting, it is proposed that staff report to the October 8, 2013 meeting of City Council on the results of the public meeting and any recommended changes to the by-law.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council adopt the development charges by-law, attached to this report as Appendix 1, in accordance with the transition provisions described in this report;

2. Council adopt the development charges background study, dated June 14, 2013, including the development-related capital program, attached to this report as Appendix 3, for the purposes of complying with the *Development Charges Act, 1997*;

3. Council direct the Deputy City Manager and Chief Financial Officer to report to City Council at its meeting on October 8, 2013 on the results of the statutory public meeting, including any recommended changes to the proposed by-law;

4. Council determine that no further public meeting is needed; and

5. Council direct that the City Solicitor, in consultation with the Deputy City Manager and Chief Financial Officer, be authorized to make such housekeeping and minor amendments to the by-law as necessary to give effect to the recommendations contained herein.

Financial Impact

The development charges background study identifies approximately $3.4 billion in net costs attributable to new development that is forecast to occur within the City over the 10-year study period (2013-2022). These costs are eligible for potential cost recovery from new land development through development charges. To the extent that development charges are not fully implemented, a portion of these growth-related costs would need to be funded from other non-development charges sources, such as, for example, property taxes or utility rates.

Council, in deciding whether to impose the fully calculated charge, or some reduced amount, should consider the City's overall capital financing needs, its broader economic development and long-term financial planning objectives and the trade off that an increase in the rates may have on the rate of development in the City, as well as the significance of such impacts.

The proposed by-law attempts to balance these considerations by phasing-in the change in the rates over a period of time, as well as by providing targeted relief to certain types of land development in the form of exemptions, incentives and other development charges policies.

The proposed by-law rates and policies are forecast to generate approximately $220 to $260 million annually, on average, in development charges revenues to help fund the City's growth-related capital investment needs. This represents approximately 70% cost recovery as compared to theoretical full cost recovery under the *Development Charges Act*. Actual development charges revenues may differ from those forecast depending on the amount, type and timing of development occurring in the City. Staff will continue to monitor development activity, capital requirements and development charges revenues through the annual capital budget process.

The 2014-2023 capital budgeting and planning process is proceeding concurrently with this by-law update. To the extent that Council has yet to adopt new development charges rates, there is some additional uncertainty around the amount of future development charges revenues available. To that end, conservative development charges revenue assumptions have been made for the purposes of capital planning.

DECISION HISTORY

As part of the 2012 capital budget deliberations, City Council authorized a review of the City's development charges by-law.

On October 2, 3, and 4, 2012, City Council adopted a report dated August 24, 2012, from the Deputy City Manager, Cluster B outlining the results of the Port Lands Acceleration Initiative (PLAI) and recommendations for proceeding with the next stage of the project. The Deputy City Manager and Chief Financial Officer was directed to include the "infrastructure projects required for the redevelopment of the Port Lands on the list of works considered for incorporation within the Development Charges By-law Review currently underway."

- EX22.1: "Port Lands Acceleration Initiative – Final Report"
  http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX22.1

At its October 30, 31 and November 1, 2012 meeting, City Council requested the Deputy City Manager and Chief Financial Officer and the General Manager, Toronto Water, to report to Executive Committee, in advance of Toronto Water's 2014 Capital Budget submission, with a new financing strategy to support Toronto Water's long term Capital Plan. Staff were directed to consider a number of financing options in the report, including " increasing development charge recoveries which may be realized through the forthcoming update to the 2013 Development Charges Background Study."

- EX23.3: " Toronto Water Capital Program Funding Pressures and Financing Options"
  http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.3

On February 20 and 21, 2013, City Council endorsed a number of strategies, recommendations and associated actions contained in the report from the General Manager, Economic Development and Culture, entitled "Collaborating for Competitiveness: A Strategic Plan to Accelerate Economic Growth and Job Creation in Toronto", including a commitment to "endorse in principle that all industrial development, and commercial development excluding ground floor and retail components, continue to be exempt from development charges in the upcoming development charges by-law review."

- ED19.4: "Collaborating for Competitiveness: A Strategic Plan to Accelerate Economic Growth and Job Creation in Toronto"
  http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED19.4

TABLE OF CONTENTS

ISSUE BACKGROUND

Development charges are fees collected from new development at the time of building permit issuance. The principle behind development charges is that "growth pays for growth" so that the cost of growth-related infrastructure does not fall on the existing community in the form of higher property taxation or user fees. Development charges help ensure that municipalities have adequate funding to invest in a timely manner in necessary capital improvements so that average service levels do not decline as a result of growth. This capital financing tool is integral to the City's long-term fiscal stability.

The *Development Charges Act* requires municipalities to pass new development charges by-laws at a minimum of every five years. The City's current development charges by-law was adopted by Council on February 23, 2009, came into effect on May 1, 2009, and will expire on April 30, 2014. Copies of the 2009 development charges staff reports, staff presentations, background study and by-law can be found at the following link: http://www.toronto.ca/finance/dev_charges.htm.

The revised by-law is presented now in order to update development charges rates and policies based on the 2013 capital plan and progress on major development projects and associated infrastructure needs, in advance of expiry.

Before a new development charges by-law can be passed, the *Development Charges Act* requires the completion of a comprehensive background study that, among other things, sets out a growth forecast and related growth-related shares of capital infrastructure requirements that provide the basis for the calculated development charges rates. The study and proposed by-law must be made available to the public at least two weeks prior to the statutory public meeting.

COMMENTS

1. Introduction

This report presents the findings of the 2013 development charges background study, dated June 17, 2013 and a proposed development charges by-law for consideration of Committee and Council. The by-law is attached as Appendix 1 to this report. The complete background study is available at the City Clerk's office at:

> City Hall
> 10th Floor, West Tower
> 100 Queen Street West
> Toronto, ON M5H 2N2

The background study is attached to this report as Appendix 3 and is also available online, separated into various segments so that not all need be downloaded at one time, along with other relevant development charges information, on the City's web site at the following address: http://www.toronto.ca/finance/dev_charges_bylaw_review/2013.htm

1.1. Process Overview

An external consultant, Hemson Consulting Ltd., was retained by the City through a request for proposal process in early 2012 to complete the comprehensive background study analysis. Technical teams were established for each program area that was considered eligible for potential development charges funding. Corporate Finance was the project lead, providing overall project management and direction to the by-law update process and working closely with Hemson Consulting Ltd. and program staff for the duration of the thirteen-month study period. A staff steering committee, comprised of senior representatives from Legal, City Planning, Toronto Building, Engineering and Construction and Economic Development & Culture Divisions, provided oversight and strategic direction to the review process.

A public consultation process was commenced in January 2013 that included the public release of draft development charges rates on February 14, 2013. Stakeholders were provided the opportunity for input on both technical and policy aspects of the background study calculations and by-law review. The public consultation process resulted in refinements to the rate calculations and informed the policy review. As required under the *Development Charges Act,* a background study and by-law was published for consideration at a statutory public meeting.

2. Current versus Proposed Policies

The following comparison table summarizes key provisions in the current and proposed development charges by-laws. The proposed by-law continues the majority of development charges policies and exemptions, including full exemptions for affordable housing, industrial uses and projects qualifying for the City's Imagination, Manufacturing, Innovation and Technology Financial Incentives Program. Transition assistance is being proposed, although to a more limited extent compared to the previous by-law for reasons discussed in this report.

Table 1: Summary of Key Provisions in the Current and Proposed Development Charges By-laws

Description	Current (2009 By-law)	Proposed
1. Residential charge	- 10% discount to the rates - Lower charge for small multiple dwelling units (e.g. townhouses, row houses, etc.)	- No discount - Continue lower charge for small multiple dwelling units
2. Non-residential charge	- 10% discount to the rates - Ground floor charge only	- No discount - Continue ground floor charge

<table>
<tr><th>Description</th><th>Current (2009 By-law)</th><th>Proposed</th></tr>
<tr><td>3. Transition</td><td>- Delayed implementation (approx. two months)
- Rates frozen for approx. 2 years at 2009 levels
- Increase phased-in over subsequent four years (2011-2014)</td><td>Phase-in:
- 0% of the increase - adoption
- 50% of the increase – Feb 1/14
- 100% of the increase – Jul 1/14

Further stakeholder consultation and report back in October</td></tr>
<tr><td>4. Statutory Exemptions</td><td colspan="2"><u>a) Statutory</u>
- Municipal or board of education
- Limited exemption for the addition of one or two units to existing buildings
- Enlargements to industrial developments

<u>b) Other (case law)</u>
- Crown agencies
- Provincial and Federal governments</td></tr>
<tr><td>5. Continued Discretionary Exemptions</td><td colspan="2">Continued discretionary exemptions:

<u>a) Residential</u>
- Non-profit (rental) housing
- Dwelling rooms in a rooming house

<u>b) Non-residential</u>
- Industrial uses
- All non-ground floor
- Colleges and universities
- Public hospitals
- Places of worship & cemeteries
- Projects qualifying for the IMIT Financial Incentives Program
- Temporary structures
- Accessory uses less than 10 sq. m.</td></tr>
<tr><td>6. Changes to Discretionary Exemptions</td><td><u>a) Residential</u>
- Dwelling units with residential rehabilitation assistance program (RRAP)</td><td><u>a) Residential</u>
- RRAP was cancelled by the Federal Government – exemption is no longer needed</td></tr>
<tr><td>7. Incentive Discounts</td><td>- Projects achieving Tier 2 of the Toronto Green Standard eligible for 20% development charges refund</td><td>- Continue Tier 2 of the Toronto Green Standard incentive program at 2009 approved $ value equivalent, plus indexing</td></tr>
</table>

<table>
<tr><th>Description</th><th>Current (2009 By-law)</th><th>Proposed</th></tr>
<tr><td>8. Redevelopment credits – no change</td><td colspan="2">For redevelopment of:
- Residential uses to residential or non-residential uses – Credit based on applicable charge
- Non-residential to residential uses – no credit
- Non-residential to non-residential uses – limited credit

Subject to building permit applications being submitted within 36 months of issuance of a demolition permit</td></tr>
<tr><td>9. Payment timing</td><td colspan="2">- Paid at building permit issuance</td></tr>
<tr><td>10. Indexing</td><td colspan="2">- Rates adjusted using a prescribed index annually</td></tr>
</table>

3. Public Engagement

3.1 Consultation Activity

The following public consultation activities were completed as part of the development charges by-law review process:

i) Key Stakeholders Meetings:

Three meetings were held with key stakeholders from the land development industry and business association, including representative from the Building Industry and Land Development Association (BILD), Toronto Real Estate Board (TREB), Toronto Region Board of Trade, Real Property Association of Canada (REALpac), NAIOP (Commercial Real Estate Development Association), and the Toronto Industry Network (TIN).

Table 2. Consultation Meetings with Key Stakeholders

Meeting #	Date	Topic
1	January 22, 2013	Growth Forecast and Service Levels
2	February 14, 2013	Development-related Capital Program and Preliminary Development Charges Rates
3	March 22, 2013	Development Charges Policies

Each meeting featured a presentation by staff and/or Hemson Consulting Ltd. followed by a question and answer and discussion period. Detailed draft development charges calculations were released at or shortly following the January and February meetings. Staff also had two separate meetings with BILD at the request of the association.

ii) General Public Workshops:

Two evening public consultation sessions were held on May 9 and 13, 2013. Public notification included two news releases issued on April 26 and May 9, 2013, letters directly mailed to all residents' associations registered with the City Clerk's Division, online via the City website, City Twitter feeds and podcast, as well as articles provided to City Councillors for their e-news and newsletters.

Each workshop featured a presentation by staff followed by a short questions and answer period and facilitated discussion groups. A total of 32 people registered as participants at the workshops representing a balance between development industry, community representatives and other perspectives.

3.2 Consultation - Main Themes

The major points arising from the consultation meetings with key stakeholders related to:

- request for transition provisions
- continuation of exemptions
- impact and treatment of Port Lands and related servicing costs
- amount of the increase in the quantum
- provision of additional time for review
- basis for calculations

Additional themes raised at the general public workshops related to:

- concern that service levels do not decline
- agree with some exemptions if supported by analysis of trade-offs
- need for balanced approach
- consideration of area-specific versus city-wide charges
- role of developer influence on development charges policy decisions
- range of perspectives on the level of development charges that should be implemented

Actions to respond to these themes are discussed later in this report.

3.3 Technical Review of the Background Study

Staff and Hemson Consulting Ltd. have been working in an open and transparent manner with consultants acting on behalf of the development industry to undertake its technical review of the development charges rate calculations that were released in January and February 2013. Further to development industry requests, the by-law review process was extended by two months to allow additional time for the technical review. Written responses were provided to questions and requests for further information, as available, and four technical review meetings were held between March and May, 2013.

Input received through the technical review process resulted in a 7.5% and 3.5% reduction in the calculated residential and non-residential rates respectively, as compared to the draft rates released in February.

4. Background Study

The backgrounds study has been prepared pursuant to the prescriptive methodology required under the *Development Charges Act.* Key steps for determining development charges rates are highlighted below, with full details available in study which is attached as Appendix 3.

1. Formulate a growth forecast
2. Determine historic capital service levels
3. Identify growth-related capital works
4. Conduct an analysis of gross expenditures, funding sources, net expenditures incurred or to be incurred by the City to provide for anticipated development.
5. Allocate net costs between types of development
6. Determine calculated development charges rates

4.1 Services Included and Excluded

Seventeen City services have been included in the development charges analysis as shown below.

Table 3: Services Included

- Spadina Subway Extension
- Transit
- Roads and Related
- Water
- Sanitary Sewer
- Storm Water Management
- Parks and Recreation
- Library
- Subsidized Housing
- Police
- Fire
- Emergency Medical Services
- Development-Related Studies
- Civic Improvements
- Child Care
- Health
- Pedestrian Infrastructure

A number of City services were excluded from the study due to either specific statutory ineligibility or an absence of the required development-related capital plans, including:

Table 4: Services Excluded

Statutory Ineligibility
- Parkland Acquisition
- Electrical Power Services
- Cultural, Entertainment and Tourism Facilities
- Solid Waste Management
- Hospitals
- Administrative Headquarters

No Development-Related Capital Plans
- Emergency Shelters
- Long-Term Care Homes

No Municipal Capital Spending Requirement
- Parking

4.2 Development-related Capital Program and Deductions

The background study establishes the gross development-related capital program and the deductions made pursuant to the *Development Charges Act*, as summarized in Appendix 2.

After deductions, the net development-related capital program is reduced to approximately $3.386 billion, which is the amount eligible for potential cost recovery from new development over the period 2013-2022. A local service policy provided guidance to the types of projects and costs that could be included in the study.

4.3 Development Charges Rates

Residential development charges are differentiated based on the type of dwelling unit. Non-residential development charges are calculated on the basis of the anticipated non-residential gross floor area. The calculated development charges ("2013 DC Study Rate"), current rates and previously calculated rates ("2008 DC Study Rates") are presented in Table 5.

Table 5: Comparison of Current, 2008 Calculated and 2013 Calculated Rates

Development Type	Current Rates	2008 DC Study Rates**	2013 DC Study Rates	Change from 2008 DC Study Rates		Change from Current Rates	
Residential ($ per unit)							
Singles & Semis	19,412	23,774	37,457	13,683	58%	18,045	93%
Multiples	15,695	19,276	30,648	11,372	59%	14,953	95%
Apartments 2+ Bedrooms	12,412	15,164	23,036	7,872	52%	10,624	86%
Apartments 1 Bed and Bach.	8,356	10,344	16,027	5,683	55%	7,671	92%
Dwelling Room	5,212	6,425	10,018	3,593	56%	4,806	92%
Non-residential ($ per m^2)							
Industrial/Non-ground Floor*	0.00	169.81	186.27	16.46	10%	n/a	n/a
Ground Floor	141.16					45.11	32%

*Exempted from development charges

**Rates shown in the above have been indexed to 2013

The 2013 calculated charges represent an increase over the 2008 study rates of approximately 60% and 10% for residential and non-residential development, respectively, and an increase of approximately 90% and 30%, respectively, over current levels.

The increase in the 2013 calculated charges, compared to the current charges, can be broadly attributed to the following factors:

- Discounted rates in the 2009 development charges by-law
- Higher growth in the 2013-2022 planning period
- Updated growth-related capital costs
- More comprehensive service level analysis

Composition of development charges rates

Almost 70% and 90% of the residential and non-residential charges respectively are attributed to transit, roads, water and wastewater services, which reflects the average calculated demand that new development places on the City for this type of infrastructure. For residential development, parks and recreation represents a significant component of the residential charge (approximately 20%). Figure 1 and Figure 2, below, provide the high-level composition of the residential and non-residential rates, respectively, with specific details available in Appendix 2.

Figure 1: Residential Development Charges by Key Service (%)

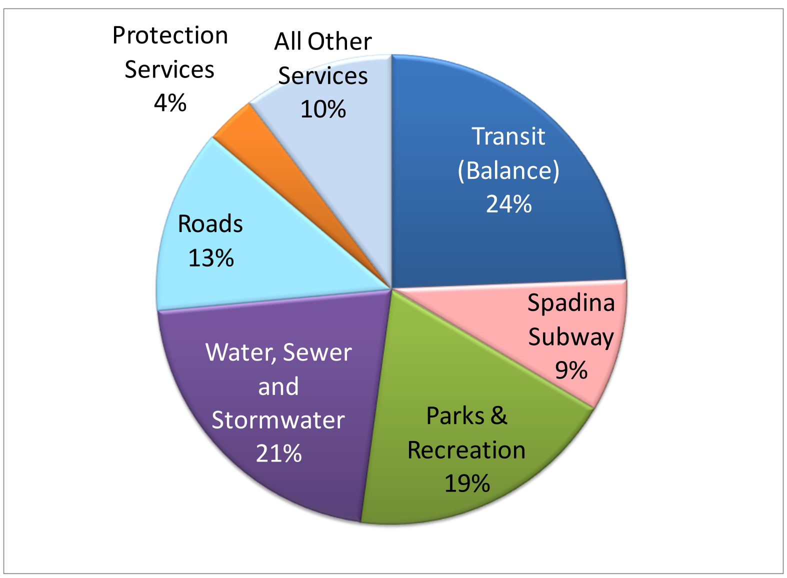
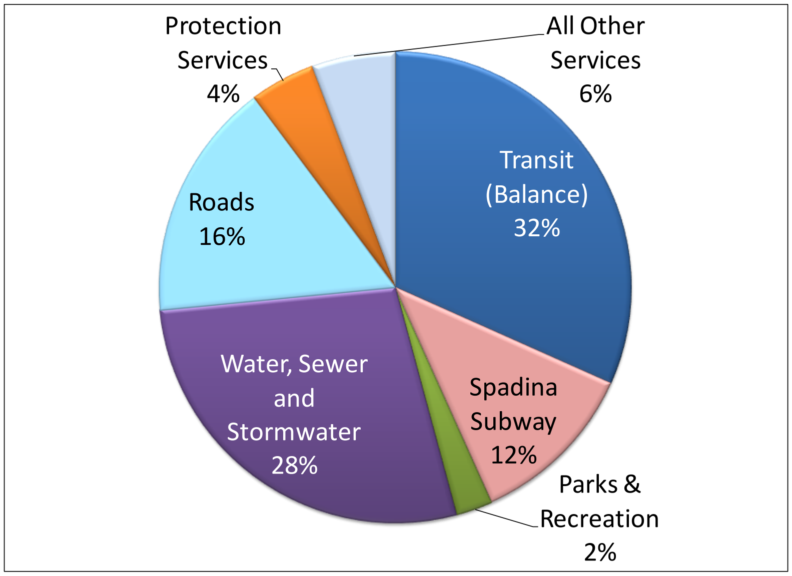


Figure 2: Non-Residential Development Charges by Key Service (%)



* "All Other Services" include: library, subsidized housing, studies, civic improvements, child care, health and pedestrian infrastructure. "Protection Services" include: police, fire and emergency medical services.

5. Development Charges Rate Comparisons

Toronto's rates remain competitive and the current rates represent the lowest charges in the region. The 2013 calculated rates bring the City's charges closer to average charges imposed in the Greater Toronto Area. Figure 3 compares the residential development charges rates in Toronto and the surrounding municipalities. A provision for municipal land transfer tax has been included in the rates for Toronto for the purposes of the comparison. Note that the development charges rate comparisons below also show the proposed phase-in of the charges, which is discussed later in this report.

Figure 3: Development Charges Rate Comparison – Large Apartment Unit

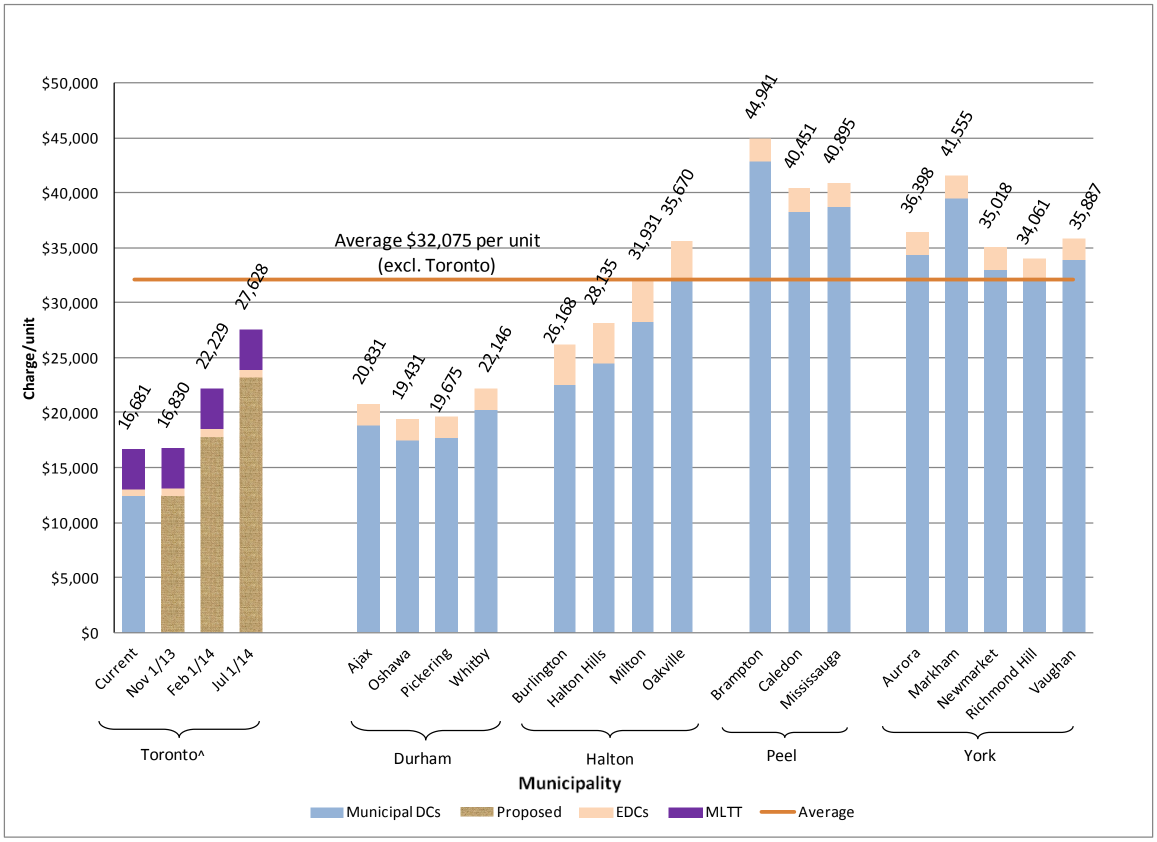
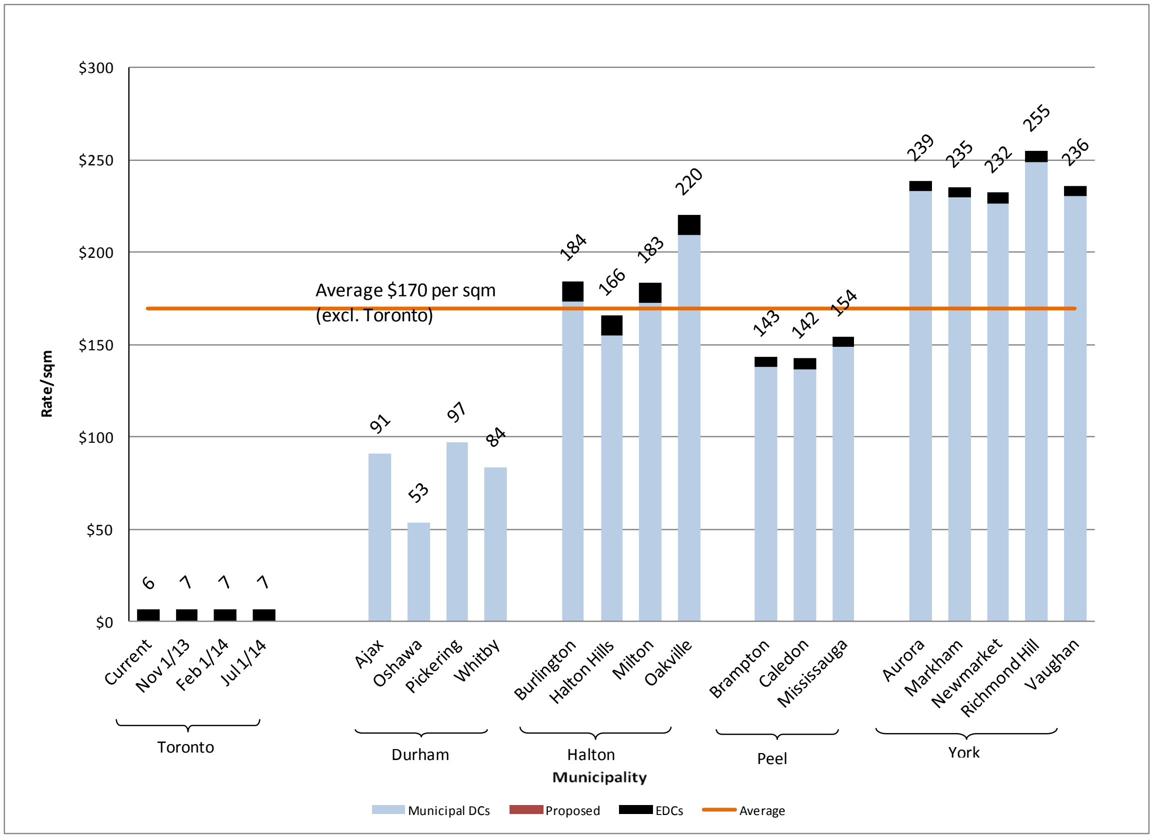


Figure 4 provides a comparison of industrial development charges rates in the surrounding Greater Toronto Area municipalities. The proposed by-law continues the existing exemption for industrial uses but the Toronto Catholic District School Board imposes an education development charges on this type of use.

Figure 4: Development Charges Rate Comparison – Industrial Uses



For other non-residential uses, the current ground floor charge is proposed to be continued. Accordingly, new non-residential floor area located above or below the ground floor would continue to be exempted.

Figure 5 and Figure 6 compare the potential development charges payable for a theoretical one storey and eight storey commercial building in the Greater Toronto Area. Again, similar to the residential comparisons, the charts include the proposed phase-in.

Figure 5: Development Charges Payable, One Storey Commercial Building

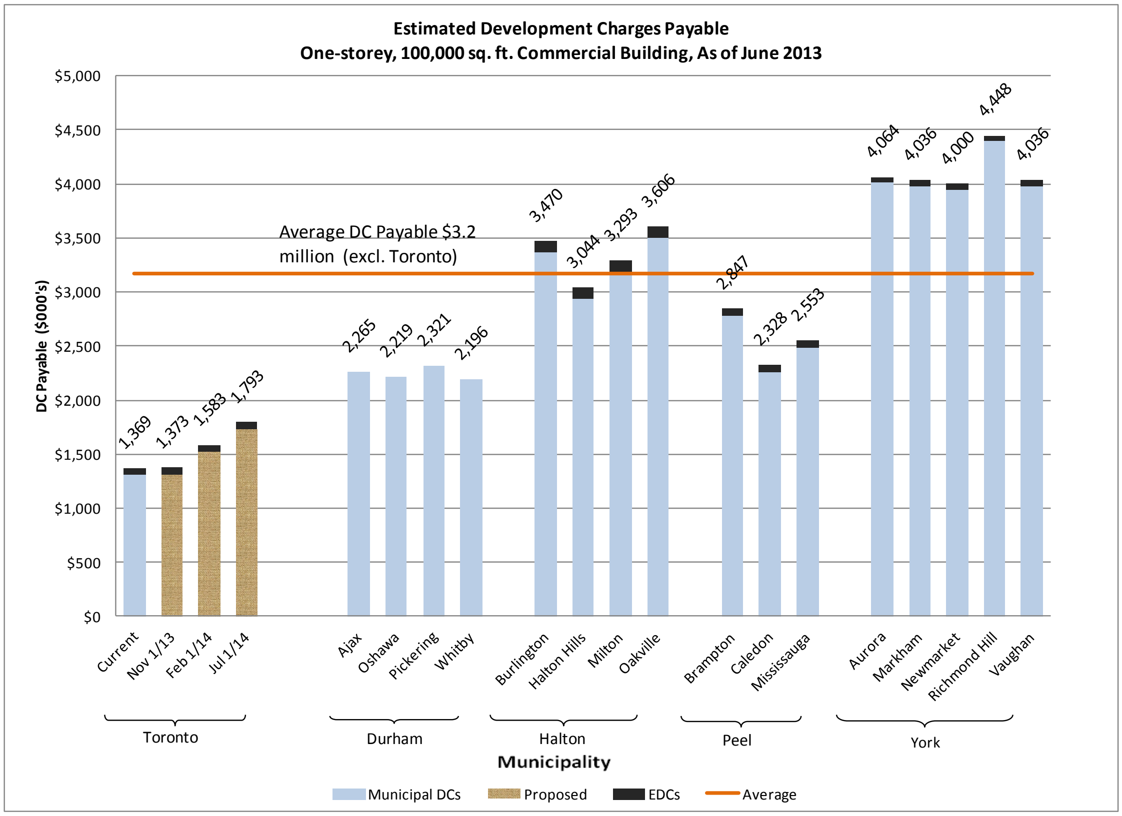
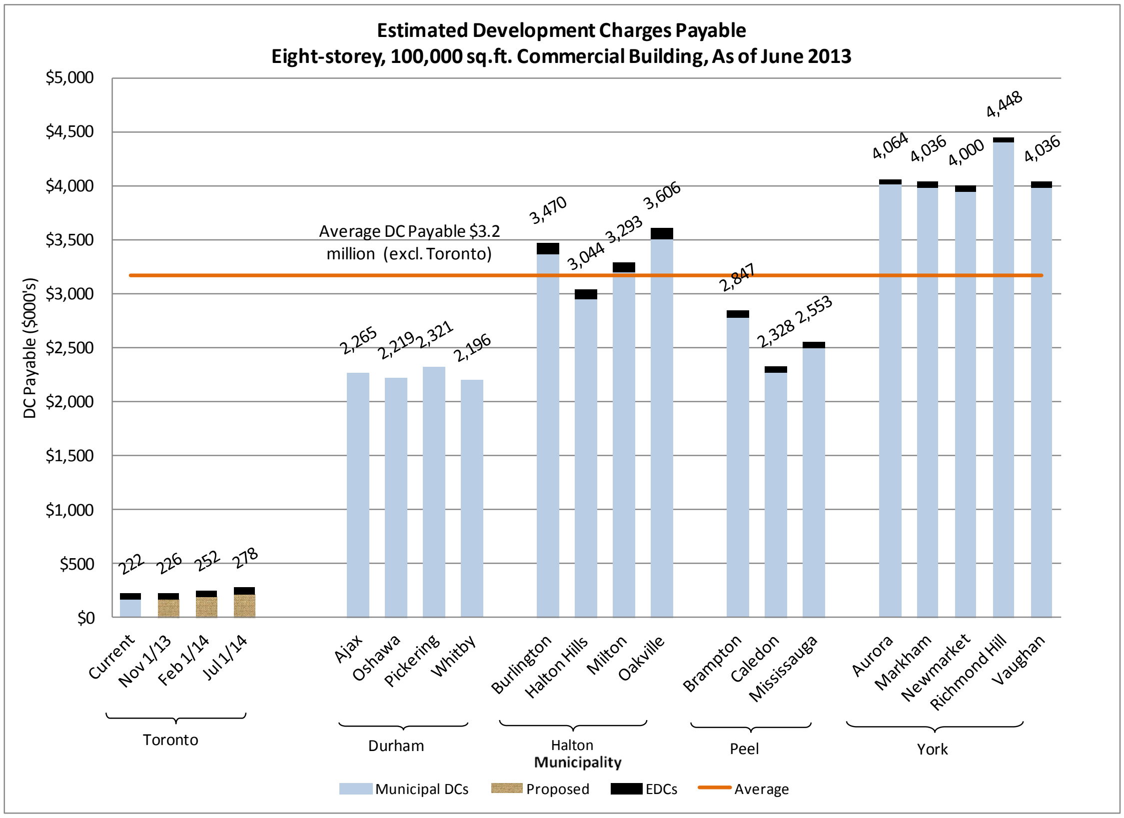


Figure 6: Development Charges Payable, Eight Storey Commercial Building



6. Proposed By-law

The proposed by-law is attached as Appendix 1 to this report. No significant changes are recommended to the City's current policies and practices with respect to development charges administration. In addition, the majority of current exemptions and other policies are proposed to be continued. Key changes in the proposed by-law, as compared to the current by-law, are discussed below. Those aspects of the by-law that remain unchanged are not discussed in this report in detail; the same rationale put forward in 2009 and previously remains applicable today, and reference can be made to the previous staff reports. A link to the 2009 staff reports is found in the background section of this report.

6.1 Level of the Charges

As discussed earlier, the background study calculates the maximum charges, or "full cost recovery charges", that Council can implement pursuant to the *Development Charges Act*. For various policy reasons, Council may discount the rates that are imposed.

As a result of the global economic uncertainty at the time of by-law consideration, the 2009 by-law included a 10% reduction from the maximum (2008) calculated charge. This reduction was made by an across the board reduction to all services, and accordingly, reduced development charges funding that could have otherwise been available to fund all projects in the growth related capital program (assuming the charge had been fully phased-in). As a result of the 10% reduction and remaining phase-in provisions, after adjustment for indexing, the current charge is still only approximately 80% of the maximum charge calculated in the 2008 development charges background study. Based on development activity between 2009-2013, it is estimated the transition support afforded in the 2009 by-law resulted in approximately $350 million in theoretical foregone development charges revenues.

The current economic climate is quite different than in 2008/2009. The residential market rebounded to well above average levels in 2010 and 2011. Concerns of an overheated residential market, particularly in Vancouver and Toronto, led the Federal Government and the Finance Minister in particular to intervene with consecutive reductions to permitted mortgage amortization terms, mortgage insurance changes, and even direct communications with lending institutions. The market is still adjusting to the impact of these changes and the large supply of new units initiated in 2010 and 2011, although at the time of writing, overall resale prices have continued to show year over year increases. Similarly, commercial development has begun to rebound in the downtown and downtown commercial vacancy rates are the lowest in the GTA.

In the meantime, the City has made a concerted effort to mitigate growth in municipal debt, and to minimize related property tax increases. A discretionary reduction in the development charges quantum increases reliance on debt financing, all else equal. It would be imprudent not to consider implementing development charges to the fullest extent feasible where appropriate, subject to reasonable transition provisions and targeted relief to certain types of development.

6.2 Implementation Options - Transition

6.2.1 Transition Overview

The *Development Charges Act* prescribes many aspects of how Council may impose development charges rates but is silent on transitional matters. A number of potential options have been identified that involve some form of transition to the proposed rates. Transition provisions are provided in recognition that some of the development applications imminently proceeding to the development approvals stage may have difficultly absorbing notable rate increases. Each option has a theoretical associated cost when compared to immediate implementation. Transition policies seek to strike a balance between mitigating the impact of the new rates on new development and, at the same time, minimizing the financial cost to the City of such transition assistance.

A key concern of the residential land development industry raised, through the consultation process, is the impact of a rate increase on projects already partially sold, but not yet at the building permits stage. The City does not have data on the number of units in this situation nor access to the financial pro formas used by particular land development projects; however, these projects are perhaps most vulnerable to a change in development charges. The rate increases must either be passed on to purchasers or absorbed by the developer. In the more extreme case, and depending on market conditions and particular project circumstances, this could lead to project delay or cancellation resulting in a slowdown or reduction in the level of development activity in Toronto.

It is important to note that the magnitude of the potential increase has been public for over four months to date, providing a clear indication of potential changes well in advance of Council consideration. Also, the development industry anticipates the final phase-in of the 2009 by-law increase to be implemented effective February 1, 2014. Any increases due to the new by-law should be considered in terms of the impact relative to this scheduled increase.

6.2.2 2009 By-law Transition

The City provided two types of transition provisions in the 2009 by-law: a 5-year phase-in of the adopted rate increases and delayed implementation. Increases in the rates were phased-in over the full five-year term of the by-law, with an approximate two year freeze at 2009 levels, and four subsequent conditional increases annually up to a maximum of 90% of the calculated charge. Three of the four increases under the 2009 phase-in provision have been implemented to date, with the final scheduled increase to take effect on February 1, 2014.

Table 6: 2009 By-law – Phase-in

			Applicable Development Charge Rates					
			Two year freeze		Phase-in			
Type	2008 DC Study Rates	2009 Adopted Rates	Jan 1 2009	Feb 1 2010	Feb 1 2011	Feb 1 2012	Feb 1 2013	Est. Scheduled Feb 1 2014
Residential ($ per unit)								
Single & Semis	23,382	21,044	12,366	11,737	14,025	16,897	19,412	21,582
Multiples	18,958	17,062	9,841	9,340	11,240	13,611	15,695	17,500
Apts - 2 or More Bed.	14,914	13,423	8,021	7,613	9,040	10,841	12,412	13,763
Apts - 1 Bed. & Bach.	10,174	9,157	4,985	4,731	5,823	7,164	8,356	9,399
Dwelling Rooms	6,319	5,687	3,195	3,032	3,686	4,496	5,212	5,835
Non-residential ($ per sqm)								
Ground Floor		150.31	99.30	94.25	107.91	125.90	141.16	153.91
Industrial / Non-ground Floor	167.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effective Discount from 2008 DC Study*								
Residential			*48%*	*48%*	*38%*	*28%*	*19%*	*10%*
Non-res – Ground Floor			*41%*	*41%*	*32%*	*25%*	*17%*	*10%*

*indexed

In addition to the phase-in provision, the by-law came into effect approximately two months after Council adoption. While the rates were unchanged at the time of by-law implementation (frozen at 2009 levels), new policies came into effect, notably that the previous retail charge was replaced with a ground floor non-residential charge and the payment of all charges was now deferred to the building permit stage (a portion of the charges were previous collected earlier at subdivision approval.)

6.2.3 Proposed Transition

Options for transition assistance are discussed below and include a proposed phase-in of the change in rates. Other types of transition provisions, discussed below but not recommended by staff, include grandparenting and prepayments. Development industry representatives have requested consideration be given to a variety of potential transition provisions, including delayed implementation to the expiry of the current bylaw, transition provisions similar to the those approved in the previous by-law (two-year rate freeze and four year phase-in), grandparenting of existing site plan and building permit applications, as well as prepayments. Each of these have been examined and recommended options are discussed below.

i) Phase-in Provisions and Delayed Implementation

Phasing-in of the charge mitigates the impact of the increase in the rates by implementing the rates on an incremental basis at selected intervals over a defined period of time. This is especially relevant in view of the notable increase in the calculated charge as compared to existing rates.

The transition provisions included in the proposed by-law provide for:

- Delayed implementation – commencing from November 1, 2013;
- Phase-in of the changes for full implementation by July 1, 2014:
    - Upon commencement of by-law – 0% of the increase
    - February 1, 2014 – 50% of the increase
    - July 1, 2014 – full rates

It is noted that implementation of the final phase-in under the current by-law was planned for February 1, 2014. The proposed phase-in is shown in the table below. The phase-in is estimated to result in a theoretical development charges revenue loss of approximately $100 million compared to immediate implementation. It is noted that foregone revenues are difficult to accurately estimate because land developers may advance applications, to the extent possible, in order to avoid the rate increase and the rate increase may, to some degree, impact the overall level, type or timing of development activity that may otherwise occur in the City.

Table 7: Proposed Phase-in

Development Type	Current	Feb 1/14 (Est. Planned)	2013 DC Study Rates	Proposed Phase-in Nov 1/13 (0% of increase)	Proposed Phase-in Feb 1/14 (50% of increase)	Proposed Phase-in Jul 1/14 (100% of increase)
Residential ($ per unit)						
Singles & Semis	19,412	21,582	37,457	19,412	28,435	37,457
Multiples	15,695	17,500	30,648	15,695	23,172	30,648
Apartments 2+ Bedrooms	12,412	13,763	23,036	12,412	17,724	23,036
Apartments 1 Bed and Bach.	8,356	9,399	16,027	8,356	12,192	16,027
Dwelling Room	5,212	5,835	10,018	5,212	7,615	10,018
Non-residential ($ per sq. m.)						
Ground Floor	141.16	153.91	186.27	141.16	163.72	186.27
Non-Ground & Industrial	$0.00	$0.00		$0.00	$0.00	$0.00
Effective Discount from 2013 DC Study Rates						
Residential				*49%*	*24%*	*0%*
Non-res – Ground Floor				*8%*	*12%*	*0%*

6.2.4 Discussion of Other Transition Options

i) Grandparenting

Grandparenting of land development projects typically involves shielding the applicant from future increases if the project has received certain status. For example, if a building permit application is being reviewed and pending issuance, such application could be grandparented at the old development charges rates. Grandparenting of applications has been applied in the past. No specific grandparenting provisions have been included in the proposed development charges by-law for two reasons:

a) it is recommended that the rates be phased-in over an approximate twelve-month period from the date of the public meeting or an approximate nine months period from the proposed date of Council consideration; and

b) the development industry has had significant notice of a proposed change – staff have communicated informally with the development industry beginning in 2012 and formally through the consultation process that was initiated in January 2013. The draft rates were released publically in February 2013.

ii) Prepayment

Prepayment of the development charges provides for an ability to pay the development charges earlier than would otherwise be required. The development industry has requested the option of prepaying the charges at subdivision approval or issuance of first permit, such as shoring and foundation.

Prepayments are not recommended in light of transition support provided through the proposed delayed implementation and phase-in of the charges and significant notice the industry has had with respect to the potential rate changes (published in February 2013). Potential costs associated with permitting prepayment of development charges are difficult to estimate, but could be significant, because the City may experience a rush of prepayments as developers attempt to avoid the rate increase.

6.3 Non-Residential Development Charges

6.3.1 Exemptions for Office and Industrial Development

The use of development charges to fund growth-related capital expenditures is generally premised on the principle that "growth should pay for growth." However, since amalgamation, the City has provided exemptions for office and industrial development in its development charges by-laws. The reasons include the following:

1. The rate of development of office/industrial space is believed to be more sensitive to development charges than other types of development;

2. The costs of providing municipal services to industrial or office developments are considered to be less than what the City collects in taxes from such development, meaning that these land uses contribute positively to the City budget;

3. There are benefits (that accrue in large part to City residents) resulting from local access to employment opportunities created directly, and through the economic multiplier effect; and

4. The City has acknowledged that its property tax rates for non-residential property are out of balance with residential rates (i.e. tax ratios are too high), and has embarked on a long-term plan to bring them into line. During this period, it seems reasonable to encourage new non-residential development with an incentive in the form of a development charge discounts.

Based on the above considerations, the proposed by-law continues the exemption for industrial uses and a charge on ground floor only for non-exempt, non-residential uses. This is consistent with Council's decision in February 2013 to continue to endorse, in principle, the continuation of exemptions for all industrial development and commercial development excluding ground floor and retail uses.

6.3.2 Other Non-residential Exemptions

Other non-residential exemptions continued in the proposed by-law include exemptions for public hospitals, colleges, universities, temporary structures, places of worship, cemeteries, development which qualifies for financial incentives under the Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentives Program and accessory parking uses.

6.3.3 Transit Funding

The City has spent considerable time and effort debating the means of funding transit expansion. A review was undertaken, as part of the by-law update process, as to the advantages and disadvantages of imposing a limited non-residential charge for transit services applied against non-exempt non-residential uses, which would relate primarily to non-ground floor commercial development (e.g. office.) Approximately 43% of the non-residential charges are related to transit services as shown below.

Table 8: Non-residential charge for transit services

Service	2013 DC Study Rate (per sqm)	% of Non-residential Charge
Spadina Subway Extension	$21.63	12%
Transit (balance)	$59.04	32%
Total Transit	$80.75	43%

Potential Advantages:

- Improving transit is important to the City's economy and competitiveness and development charges would help fund needed transit expansion
- Investment in new commercial office space has increased significantly, particularly in the downtown
- In its decision on May 7, 2013, Council did not recommend against the use of development charges by Metrolinx to fund GTHA transit expansion.
- The Metrolinx investment strategy advice to the Province, issued May 27, 2013, includes a recommendation to include GTHA development charges as one of four measures to fund its Big Move project list.
- The City continues to make significant progress toward its goal of a 2.5 to 1 tax ratio for non-residential property.
- A modest non-residential charge for transit services, even at full calculated levels, would be competitive with the surrounding region, representing approximately 23% of the average retail rate imposed in the Greater Toronto Area

Potential Disadvantages:

- A development charge could act as a potential deterrent, of unknown magnitude, to new and expanded office development in the City
- A reduction in office development would impact potential ongoing property tax revenues associated with those types of development, as compared to a one-time development charge fee
- Development charges exemptions can have a positive effect on marketing the City to new business

- While progress has been made to reduce non-residential property tax ratios, Toronto property taxes are still higher than those imposed in surrounding municipalities.
- Long-term fiscal sustainability of the City benefits from maintaining a strong office property tax base

Based on the above considerations, a non-residential transit charge is not proposed at this time. The broader economic benefits of encouraging office development are deemed to outweigh the potential benefits of imposing such a charge.

6.4 Toronto Green Standard Incentive Program

The Tier 2 Toronto Green Standard (TGS) development charges refund program was adopted by Council in 2009 as part of the development charges by-law update.

The TGS is a two-tiered set of performance measures for new construction that promotes sustainable site and building design for new development. Tier 1, mandatory performance measures, is mainly secured through the planning process. Applications that meet Tier 2, a voluntary higher level of environmental performance, may be eligible for a 20% refund of the development charges paid. 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 development charges, although there are potential avoided infrastructure costs for water, sanitary sewer and storm water management.

It is proposed that the incentive program be continued at a fixed dollar value equivalent of levels approved in the 2009 development charges by-law (20% of the 2009 adopted development charges rates) rather than a percentage of the development charges paid.

6.5 Other

The proposed by-law also includes definitional and other provisions that update the by-law and that are intended to provide greater clarity, including the following:

- The intent of the current "Places of Worship" exemption is to relieve, from the payment of development charges, floor area used for regular assembly of persons to practice religious worship, services or rites. The City has experienced some difficulties with the application of the exemption due to timing issues and determining what building, or portions of a building, should be exempt. The definition has been updated in order to provide clarity on the application of the exemption;

- The current by-law provides an exemption from the payment of development charges for dwelling units qualifying for a grant under the Residential Rehabilitation Assistance Program (RRAP). The RRAP program has been discontinued by the Federal Government as of March 2012. As such, the RRAP exemption will also be discontinued in the new by-law; and

- The current by-law contained no provision for how to recalculate development charges for residential projects where development charges have been paid and there are subsequent revisions to the number or type of units to be constructed. The proposed by-law includes a provision to determine how development charges are determined with respect to revisions.

7. Other Matters

7.1 City-wide versus Area-Specific Charges

Development charges can be implemented on an area-specific or city-wide basis. Toronto has historically adopted uniform, city-wide charges and the same approach has been taken in this by-law review. The only exception relates to a potential area-specific charge for Port Lands stormwater works, which is proceeding under a separate timeline.

From time to time, there have been arguments put forward for area-specific development charges, and inquiries regarding the advantages and disadvantages of the two approaches. It has been argued that area-specific charges attribute the true cost of servicing costs to specific areas possibly leading to more efficient land use. The rationale supporting the continuation of the city-wide approach, as discussed in past staff report and also outlined in the background study, include:

- Most City services are provided on a city-wide system basis (e.g. transit, roads, etc.)
- City-wide charges provide more flexibility to prioritize funding to growth-related capital projects
- Area-specific boundaries are contentious and more difficult to define and defend
- City-wide charges have lower administration costs
- Most Ontario municipalities have established municipal-wide charges; where area-specific charges have been used, they are generally related to “hard services” such as water, sanitary sewer and stormwater management services.

7.2 Stacked townhouses and back-to back townhouses

The development industry has asked the City to consider treating stacked townhouses and back-to-back townhouses as apartment units for the purposes of calculating development charges payable. The rationale advanced was that these types of units can achieve the same density and occupancy rates as many apartment style developments.

A review of municipal practice concluded that there is no consensus on whether stacked and back-to-back townhouses are treated as apartment units or multiple dwelling units. In addition, based on historical building permit data, more than 50% of multiple dwelling units created in the City are already subject to the lower apartment rate under the City's small multiple dwelling unit policy (multiple dwelling smaller than 55 sq.m. pay the apartment unit rate). The rationale for imposing a lower charge on small multiple dwelling units is based on a similar premise that these smaller units may have lower occupancy rates that are more similar to apartment units. As a result of the foregoing, it is proposed stacked and back-to-back townhouses continue to be considered multiple dwelling units, for the purposes of the City's development charges calculations as some of those units would be afforded relief under current City policy.

7.3 Indexing

The Development Charges Act provides for the indexing of the charges based on a prescribed index, being the "Statistics Canada Quarterly, Construction Price Statistics, catalogue number 62-007". The City of Toronto has historically used the Statistics Canada Non-residential Building Construction Price Index, Toronto, to annually adjust the development charges rates.

Municipal Infrastructure Index

An analytical price index series measuring annual changes in the cost of municipal infrastructure construction funded by development charges has been developed by Statistics Canada on behalf of the City of Ottawa. The index has been used in Ottawa since 2004 in response to development community concerns that there was no index that represents the change in municipal infrastructure.

Staff has examined the municipal infrastructure index to determine whether or not a similar index should be developed for the City of Toronto. After consideration of the pros and cons of such an index, a custom infrastructure index is not recommended for reasons discussed below:

- There is extensive use of Canada level indexes for price movement of materials and equipment representing at least half of the index. This would result in identical movements for over 50% of the index for any geographical location.
- Initial and annual costs of developing and updating the index are estimated at $43,000 and $7,500 respectively. Annual costs are adjusted for labour cost inflation in subsequent years.
- Staff resources are required to supply Statistics Canada with data initially and annually to be used by Statistics Canada to construct the index. Detailed project data is needed for each major component of development charges services, including labour, materials, equipment and other related data.
- Most municipalities in Ontario use the regular indices published by Statistics Canada index for the purposes of adjusting the development charges rates. The City of Ottawa is the only municipality to use a custom infrastructure index for adjusting the development charges rates.
- The City of Ottawa municipal infrastructure index has slightly underperformed the published Non-residential Building Construction Price index for the Ottawa-Gatineau area and the Toronto area over the period 2002 to 2011; however, future performance depends on the price movements of the underlying inputs.

8. Conclusion

The development charges background study has been carried out in accordance with the requirements of the *Development Charges Act*. In the course of completing the background study and preparing the proposed by-law, extensive consultations were conducted with stakeholders. The background study, along with the proposed by-law, are being tabled at this time with the Executive Committee for the purposes of holding the requisite statutory public meeting.

This report recommends that staff report to Council at its meeting on October 8, 2013 on the results of the public meeting and any recommended changes to the proposed by-law.

CONTACT

Joe Farag, Director Corporate Finance
Tel: 416-392-8108
Fax: 416-397-4555
Email: jfarag@toronto.ca

Robert Hatton, Director Strategic Initiatives and Intergovernmental Finance, Corporate Finance
Tel: 416-392-9149
Fax: 416-397-4555
Email: rhatton@toronto.ca

SIGNATURE

____

Roberto Rossini, Deputy City Manager
and Chief Financial Officer

ATTACHMENTS

Appendix 1: Development Charges By-law
Appendix 2: Summary Tables
Appendix 3: Development Charges Background Study

LIST OF TABLES

LIST OF FIGURES

Appendix 1: Development Charges By-law

(provided under separate cover)

Appendix 2: Summary Tables

1) 2013 Background Study – Calculated Residential Development Charge

Residential Charge By Unit Type ($)						
Service	Singles & Semis	Multiples	Apartments 2+ Bedrooms	Apartments 1 Bed and Bach.	Dwelling Room	Percentage of Charge
Spadina Subway Extension	3,399	2,781	2,090	1,454	909	9.1%
Transit (balance)	9,138	7,477	5,620	3,910	2,443	24.4%
Parks and Recreation	6,989	5,718	4,298	2,990	1,869	18.7%
Library	1,600	1,309	984	685	428	4.3%
Subsidized Housing	1,290	1,055	793	552	345	3.4%
Police	743	608	457	318	199	2.0%
Fire	347	284	213	148	93	0.9%
Emergency Medical Services	195	160	120	84	52	0.5%
Development-related Studies	266	218	164	114	71	0.7%
Civic Improvements	216	176	133	92	58	0.6%
Child Care	380	311	234	163	102	1.0%
Health	60	49	37	26	16	0.2%
Pedestrian Infrastructure	70	58	43	30	19	0.2%
Subtotal General Services	24,693	20,204	15,186	10,566	6,604	65.9%
Roads and Related	4,742	3,880	2,916	2,029	1,268	12.7%
Water	4,030	3,298	2,479	1,724	1,078	10.8%
Sanitary Sewer	2,901	2,374	1,784	1,241	776	7.7%
Storm Water Management	1,091	892	671	467	292	2.9%
Subtotal Engineered Services	12,764	10,444	7,850	5,461	3,414	34.1%
Total charge per unit	37,457	30,648	23,036	16,027	10,018	100.0%

2) 2013 Background Study – Calculated Non-residential Development Charge

Non-Residential charge per square metre ($)		
Service	Non-residential Charge	Percentage of Charge
Spadina Subway Extension	21.63	11.6%
Transit (balance)	59.04	31.7%
Parks and Recreation	4.67	2.5%
Library	1.07	0.6%
Subsidized Housing	0.00	0.0%
Police	4.80	2.6%
Fire	2.26	1.2%
Emergency Medical Services	1.28	0.7%
Development-related Studies	1.74	0.9%
Civic Improvements	1.39	0.7%
Child Care	2.44	1.3%
Health	0.39	0.2%
Pedestrian Infrastructure	3.58	1.9%
Subtotal General Services	104.29	56.0%
Roads and Related	30.48	16.4%
Water	25.87	13.9%
Sanitary Sewer	18.63	10.0%
Storm Water Management	7.00	3.8%
Subtotal Engineered Services	81.98	44.0%
Total charge per square metre	186.27	100.0%

3) 2013 Background Study – 2013-2022 Development Charges Program and Deductions ($millions)

Service	Gross Cost	Grants & Subsidies	Net Costs	Non-growth Shares	Required Service Discount	Reserve Fund Adjustment	Post-2022 Benefit	Total Eligible Costs for Recovery
Spadina Subway extension	1,124.0	0.0	1,124.0	430.9	0.0	159.2	201.7	332.2
Transit (balance)	2,064.3	593.0	1,471.3	265.7	120.6	0.0	188.7	896.4
Roads and related	1,215.0	52.4	1,162.6	236.0	0.0	94.9	364.8	466.9
Water	1,620.0	207.3	1,412.7	734.1	0.0	63.9	217.4	397.3
Sanitary sewer	2,483.8	20.7	2,463.2	1,954.9	0.0	76.8	145.1	286.3
Storm water management	1,162.3	162.8	999.5	624.9	0.0	14.9	250.9	108.7
Parks and recreation	934.3	198.6	735.7	25.7	71.0	0.0	168.4	470.6
Library	398.2	0.3	397.9	277.3	12.1	0.0	0.0	108.6
Subsidized housing	266.8	0.0	266.8	173.4	9.3	0.0	0.0	84.0
Police	167.8	0.0	167.8	94.9	0.0	0.0	0.0	72.9
Fire	33.5	0.0	33.5	0.5	0.0	0.0	0.0	33.0
Emergency Medical Services	42.7	0.0	42.7	8.7	3.4	0.0	12.4	18.2
Development-related studies	49.2	18.0	31.2	3.7	2.8	0.0	0.0	24.8
Civic improvements	27.8	0.0	27.8	4.2	2.4	0.0	0.0	21.3
Child care	43.4	0.0	43.4	0.0	4.3	0.0	0.0	39.1
Health	11.8	0.0	11.8	5.7	0.6	0.0	0.0	5.5
Pedestrian infrastructure	105.0	33.1	72.0	39.6	3.2	0.0	8.5	20.6
Total	11,750.0	1,286.2	10,463.7	4,880.1	229.7	409.6	1,558.0	3,386.4

Appendix 3: Development Charges Background Study

(provided under separate cover)