



STAFF REPORT ACTION REQUIRED

Development Charges By-law Amendment – Scarborough Subway Extension

Date:	April 8, 2015
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2015\Internal Services\Cf\Ec15013Cf (AFS #18975)

SUMMARY

At its meeting on October 8, 9, 10 and 11, 2013, Council directed staff to update the City's development charges by-law to include the Scarborough Subway Extension (SSE) project costs. This report, together with the requisite Background Study and proposed by-law amendment, are presented in response to that Council direction.

The only change resulting from the proposed by-law amendment is to add development charges relating to the SSE to the schedule of development charges rates currently in effect. The calculated SSE development charges rates represent a 10% and 11% increase to the 2013 adopted residential and non-residential development charges rates, respectively.

The amended rates are proposed to come into effect on August 1, 2015 and be phased-in in accordance with the 2013 development charges by-law (85% and 100% of the adopted increase effective August 1, 2015 and February 1, 2016, respectively). No other changes are proposed to the existing development charges by-law provisions or policies.

Even with the increase, Toronto's development charges rates are competitive and remain well below the average charges imposed in the surrounding region.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council enact the development charges by-law amendment attached as Appendix 1 to this report.

2. City Council, for the purposes of complying with the *Development Charges Act, 1997*, adopt the 2015 Development Charges Amendment Background Study: Transit Service - Scarborough Subway Extension, dated April 7, 2015, including the development charges capital program contained therein.
3. City Council determine that, pursuant to section 12 of the *Development Charges Act, 1997*, no further public meeting is required.
4. City Council express its intent that the development-related cost of post-2022 capacity identified in the Background Study be carried forward into future development charges by-law reviews for potential cost recovery from future development charges or other similar charges.
5. City Council authorize the City Solicitor, in consultation with the Deputy City Manager & Chief Financial Officer, to make such housekeeping, technical and minor amendments to the by-law as necessary to give effect to the recommendations contained herein.

Financial Impact

The total estimated cost for the SSE is \$3.56 billion (expressed in inflated dollars), with current Federal and Provincial funding commitments of approximately \$660 million and \$1.99 billion respectively. As a result, the City's net capital cost is estimated at \$910 million, which will be funded through a combination of property taxes (\$745 million, with increases of 0.5% and 0.5% approved in 2014 and 2015 respectively, and a planned incremental increase of 0.6% in 2016, for a total increase of 1.6%) and development charges (estimated at \$165 million).

The proposed by-law amendment would increase the 2013 calculated residential and non-residential development charges rates by 10% and 11%, respectively. The addition of the SSE development charges is expected to increase revenues by approximately \$20 to \$25 million annually, on average, in line with budget expectation, to help fund the City's growth-related share of the SSE as well as associated debenture financing costs.

DECISION HISTORY

At its meeting on October 8, 9, 10 and 11, 2013, Council adopted the City's current development charges by-law (By-law 1347-2013), which came into effect on November 1, 2013, and is in force for a maximum of five years.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX34.1>

Also, at the same meeting, during consideration of the Scarborough Subway Rapid Transit Options, Council directed staff to prepare a development charges by-law to include the City's share of capital costs in respect of the SSE.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CC39.5#>

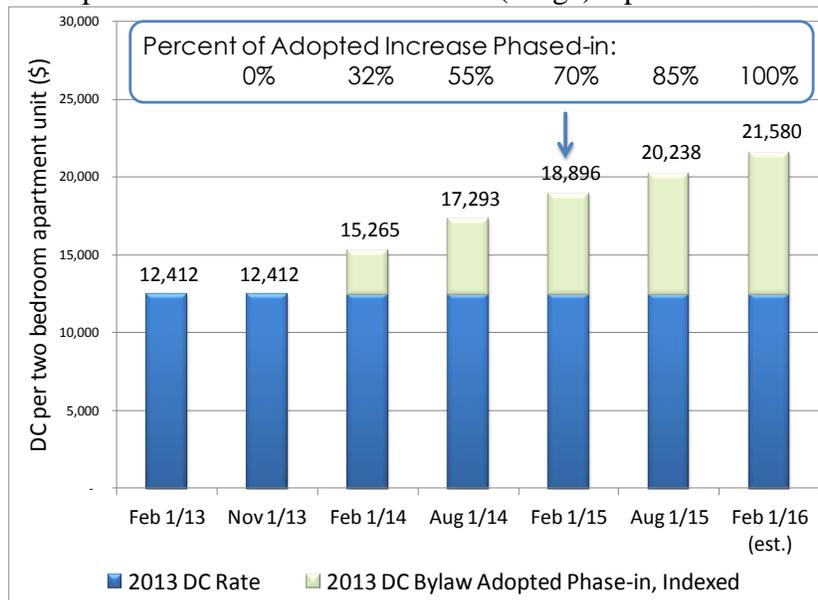
ISSUE BACKGROUND

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 City's current development charges by-law ("2013 DC by-law") was enacted by Council at its meeting on October 8, 9, 10 and 11, 2013 and came into effect on November 1, 2013. The 2013 DC by-law imposes uniform city-wide development charges rates on residential and non-residential land development proposals across the City, with certain exemptions (e.g. affordable housing, industrial uses, non-ground floor non-residential gross floor area).

Adopted rate increases in the 2013 DC by-law were implemented over a period of time, with delayed implementation (0% increase on November 1, 2013) and a two-year incremental phase-in of the adopted increase in the rates (February 1, 2014 to February 1, 2016). Currently, 70% of the adopted increases have been phased-in (as of February 1, 2014), and the final increases are scheduled for August 1, 2015 and February 1, 2016, respectively. The 2013 adopted phase-in is illustrated below in Figure 1 for two-bedroom apartment units. More information about the City's 2013 DC by-law is available at www.toronto.ca/devcharges.

Figure 1: 2013 Development Charges By-law
Adopted Phase-in for Two-bedroom (Large) Apartment Units



Legislative Requirements

Legislative requirements for amending a development charges by-law are set out in the *Development Charges Act, 1997* ("DCA"). A municipality must complete a background study that, among other things, provides the basis for the calculated development charges rates that can be imposed. The study and proposed by-law amendment must be made available to the public at least two weeks prior to the statutory public meeting.

A development charges by-law amendment can be appealed to the Ontario Municipal Board ("OMB"); however, only the section(s) of the by-law that are amended or added is subject to appeal and consideration at the OMB. This allows the amendment to be passed without exposing the unaltered portions of the by-law to appeal.

COMMENTS

This report presents the City of Toronto 2015 Development Charges Amendment Background Study: Transit Service - SSE, dated April 7, 2015 (the "Background Study") and a proposed development charges by-law amendment (the "proposed by-law") for consideration of Committee and Council.

The proposed by-law and Background Study are attached as Appendix 1 and Appendix 2 to this report, respectively, and are available on the City's website (www.toronto.ca/devcharges), and at the City Clerk's office:

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

Process Overview and Scope

The City retained an external consultant, Hemson Consulting Ltd. ("Hemson"), to complete the requisite Background Study. Corporate Finance was the project lead and worked closely with Hemson and technical program staff, including TTC, City Planning, City Legal and Toronto Building. A public consultation process was commenced in early 2015 that included the public release of draft Background Study calculations and rates, and proposed by-law policies to key stakeholders.

It is proposed that the development charges recovery of eligible SSE project costs be implemented by way of an amendment to the 2013 Development Charges Background Study and 2013 DC bylaw. The process of undertaking a new background study to reflect other program changes was considered; however, it was deemed most appropriate at this time to limit the scope to the SSE project costs only. This is discussed in more detail later in this report.

Public Engagement

Ongoing consultation has been a central component of the study process. Staff have consulted with key industry stakeholders from the land development industry and

business associations, including representatives 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 Greater Toronto Chapter (Commercial Real Estate Development Association), and the Toronto Industry Network (TIN).

These discussions provided valuable opportunities to exchange perspectives on Background Study calculations, as well as proposed by-law policies. Three meetings were held with key stakeholders as follows:

Table 1: Consultation Meetings with Key Stakeholders

Meeting #	Date	Topic
1	March 6 and 9, 2015	Draft SSE Development Charge Calculations and Rates, Proposed Policies and Phase-in
2	March 31, 2015	Questions & Responses on Study Calculations Draft By-law
3	April 8, 2015	Additional Questions & Responses Final Background Study and Proposed By-law

Key themes arising from the consultation activity include:

- allocations of benefit to existing development, ridership and post-period capacity
- eligibility of various component of project costs
- timing of rate increases

Input received through the consultation process has been considered in preparing the Background Study and proposed by-law amendment. In particular, certain costs were deemed to be not development-related (i.e. SRT Life Extension) and removed from the calculations. This resulted in a 9% reduction (e.g. \$209 per two-bedroom apartment unit) to the draft rates released in March.

Development Charges Amendment Background Study and Proposed Amending By-law

As noted previously, the 2015 Background Study amends the recently adopted 2013 Development Charges Background Study. Specifically, the Transit development charges service category is amended to add the City's portion of eligible growth-related SSE project costs. No other changes were made to the Study (e.g. development forecast, historical service levels, or other growth-related capital costs that were included in the 2013 Development Charges Background Study).

Scope and Timing

The proposed implementation date of August 1, 2015 allows the City to begin recovery of growth-related project costs for the SSE. The longer the implementation is delayed, the greater the necessary reliance on further property tax increases, beyond the increases already adopted and planned. In addition, a 2015 implementation date allows the

previous Study to be used and amended before it becomes too out of date. Furthermore, the proposed increases can be incorporated seamlessly in the final scheduled increases under the 2013 by-law. This will provide an orderly transition to the increased rates.

The Background Study has been undertaken under prevailing DCA legislation and does not incorporate the proposed legislative and/or regulatory changes introduced under Bill 73 of the Province of Ontario, which received first reading on March 5, 2015. Potential implications of proposed legislative changes are discussed in a companion report that is before Committee. The proposed legislative changes, as currently drafted, would permit slightly larger increases in transit rates, but would significantly delay implementation of the proposed Scarborough Subway development charge. A full review and update of the City's development charges by-law is required by no later than 2018, and rates will be adjusted then to reflect updated legislation and capital spending plans at such time.

Continuation of Uniform City-wide Approach

As discussed in the Background Study, the recovery of the SSE eligible capital costs has been undertaken on a uniform city-wide basis, consistent with current and historic City practice, for various reasons, including:

- The SSE is considered a system-wide improvement, thereby enabling cost recovery on a uniform city-wide basis
- The 2013 DC Study calculations were made on a City-wide basis and the Study amendment ought to be consistent
- The Spadina Subway Extension and Sheppard Subway charges are also calculated on a uniform city-wide basis in the 2013 DC Study, and
- Implementing an area-specific development charge along the transit corridor would have potential negative impacts on the rate of development along the transit corridor and would be counter to City planning objectives.

Background Study Calculations

The total estimated cost for the SSE is \$3.56 billion (expressed in inflated dollars), with an estimated City share of \$910 million (expressed in inflated dollars). After excluding the SRT Life Extension costs, which were determined to be not development-related, and expenditure timing considerations, the eligible City share is reduced to approximately \$826.5 million. This amount, along with eligible associated debenture financing costs of \$793 million, for a total potential recovery amount of \$1,619.5 million, has been included in the development charges analysis.

As required by legislation, a number of deductions have been made, including deductions for benefit to existing (39% or \$636.7 million), 10% statutory (\$98.2 million), and costs benefitting growth beyond the study planning period (\$629.5 million). After statutory deductions, a total of \$255.1 million (\$130.1 million development-related project costs, plus \$125.0 million in associated debenture financing costs) have been determined to be potentially eligible for cost recovery through development charges within the Background Study planning period (mid-2015 to mid-2022).

The resultant calculated development charges rates are shown in Table 2, which represent a 10% and 11% increase to the 2013 adopted residential and non-residential rates, respectively.

Table 2: 2013 Calculated and 2015 Scarborough Subway
Calculated Uniform City-wide Development Charge Rates

Type	2013 Background Study Calculated DC*	2015 SSE Amendment Calculated DC**	Total	Change (%)
<u>Residential (per unit)</u>				
Singles & Semis	\$35,095	\$3,357	\$38,452	10%
Multiples 2+ Bedrooms	\$29,559	\$2,827	\$32,386	10%
Multiples 1 Bedroom and Bachelor	\$21,113	\$2,019	\$23,132	10%
Apartments 2 Bedrooms & Larger	\$21,582	\$2,064	\$23,646	10%
Apartments 1 Bedroom and Bach.	\$15,014	\$1,436	\$16,450	10%
Dwelling Room	\$9,384	\$897	\$10,281	10%
Non-residential (per m ²)***	\$178.91	\$20.55	\$199.46	11%

*2013 calculated rates have been indexed to 2015

** 2015 SSE calculated DC represents an additional rate applicable to the Transit DC

***Non-residential charge applies to the non-residential floor area located on the ground floor only

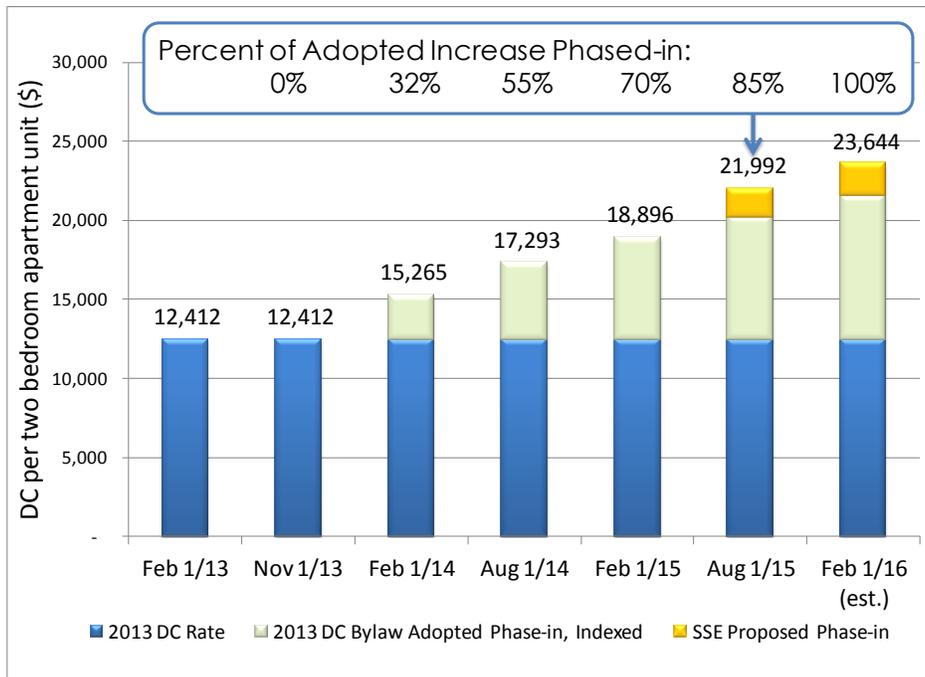
Transition Provisions

The DCA prescribes, among other things, the calculation of development charges rates but it is silent on transitional matters. Transition allows for the orderly implementation of rate change. However, such provisions have an associated cost in terms of foregone revenue when compared to immediate implementation.

The key concern of the residential land development industry, raised through the consultation process, is the impact of the rate increase on projects already sold, but not yet at building permits stage. The City does not have data on the number of units in this situation nor access to the financial pro formas of such development projects. The extent to which land developers and buyers will absorb the increase is governed by the terms of agreements of purchase and sale entered into and general real estate market conditions. It is also worth noting that the land development community was informed as far back as 2013 of the pending introduction of the SSE development charge.

The proposed by-law seeks to strike a balance between mitigating the impact of the new rates on new land development projects and, at the same time, minimizing the cost to the City of such transition assistance. The amended rates are proposed to come into effect on August 1, 2015 and be phased-in in accordance with the 2013 DC by-law (85% and 100% of the adopted increase effective August 1, 2015 and February 1, 2016, respectively). The phase-in is illustrated in Figure 2 for two-bedroom apartment units.

Figure 2: Proposed Scarborough Subway Phase-in*
Two-bedroom (Large) Apartment Unit

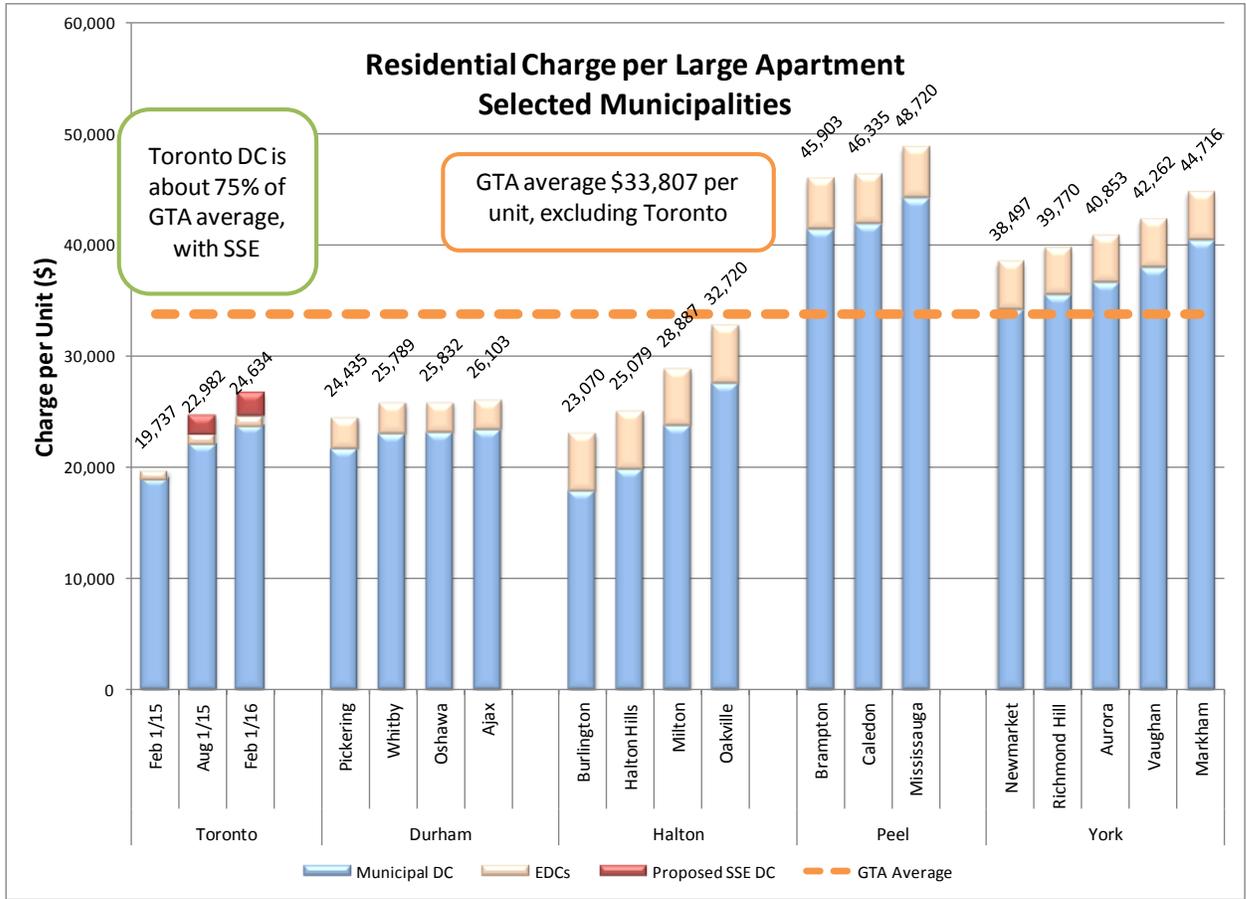


*rates subject to indexing in accordance with the by-law

Development Charges Rate Comparisons

As illustrated in Figure 3, even with the addition of the SSE development charges, the City's development charges rates will still remain considerably lower than the average rates imposed in the surrounding region (approximately 75% of the average residential rates imposed).

Figure 3: Development Charges Rate Comparison
Two-bedroom and Larger Apartments



Notes: Rates as of February 2015. Municipal Land Transfer Tax for Toronto (not shown in chart) is estimated at \$3,725 based on a \$400,000 value of consideration.

CONCLUSIONS

The 2015 Development Charges Amendment Background Study: Transit Service – Scarborough Subway Extension has been carried out in accordance with the requirements of the *DCA, 1997*. In the course of completing the Background Study and preparing the proposed by-law, input received through consultations with key stakeholders was considered. The Background Study, along with the proposed by-law, are being tabled at this time for consideration at the requisite statutory public meeting.

CONTACT

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SIGNATURE

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ATTACHMENTS

Appendix 1: Proposed Development Charges By-law Amendment
Appendix 2: 2015 Development Charges Amendment Background Study: Transit Service – Scarborough Subway Extension