

REPORT

TO: MAYOR AND MEMBERS OF COUNCIL
FROM: TRACEY PILLON-ABBS, MANAGER OF PLANNING SERVICES
DATE: AUGUST 6, 2009
SUBJECT: 2009 DEVELOPMENT CHARGE
BACKGROUND STUDY
DATED JULY 27, 2009

AIM:

To report upon the 2009 Development Charge (DC) Background Study dated July 27, 2009 for the Municipality of Leamington.

BACKGROUND:

Municipalities may by by-law impose development charges against land to pay for increased capital costs required because of increased needs for services arising from development of the area to which the by-law applies. The areas of service considered in the calculated development charge under the current study include roads and related, fire, police, transit, outdoor recreation, indoor recreation, library, administration, water and wastewater.

A development charges by-law is only valid for 5 years. Council passed the last by-law on August 30, 2004 (bylaw # 540-04) that came into force on September 1, 2004. The by-law affects the entire area within Municipality of Leamington. The by-law will expire on August 31, 2009.

As part of the 5 year review, a Background Study is required to be prepared. Council retained the services of CN Watson & Associates Economist Ltd to prepare the Background Study, which is dated July 27, 2009. The Background Study is a requirement of the *Development Charges Act* (DCA) and outlines the methodology used in determining what development charge to impose at the time of a building permit.

Currently, development within the Municipality of Leamington is assessed a development charge of \$12,075 per single detached dwelling unit, \$1.30 per sq ft of gross floor area for non-residential (industrial, commercial, institutional) and \$3,770 per acre for greenhouse development; all based on rates held at a 2007 level. If indexing had been applied in 2008 and 2009, in accordance with the DCA regulations, the DC rates as of January 1, 2009 would have been \$14,338 per single detached dwelling unit, \$1.54 per sq ft of gross floor area for non-residential (industrial, commercial, institutional) and \$4,477 per acre for greenhouse development.

This Background Study has undertaken a recalculation of the charge based on future identified needs on a municipal-wide basis for services as a result of growth. The new recalculated development charge for a single-detached unit in the urban area is \$13,019, non-residential development charge for urban-wide services is \$1.09 per sq ft of gross floor area, and greenhouse development charge is \$19,649 per acre.

A public meeting is scheduled for Monday August 10, 2009 at 7:00 pm as a requirement of the DCA. The purpose of the public meeting is to obtain comments from the public and key stakeholders. The Background Study has been available for viewing at the front counter at Town Hall and on the website since July 27, 2009.

COMMENTS

Administration has had an opportunity to review and discuss the Background Study and generally support the methodology used, the rates proposed and the recommended policies, subject to public comments.

Supplementary to the Background Study, Administration provides the following comments for Council consideration:

Greenhouses

The calculated greenhouse development charge in the Background Study is \$19,649 per acre. However, to provide a comparative rate consistent with the 79% rate discount applied in the 2004 DC Study, the consultant has used a greenhouse DC of \$4,049 in the DC rate table/proposed by-law for consideration by council. It is notable that the greenhouse DC rate is calculated based only on a proportionate share of the estimated cost of growth-related water services.

Council may wish to consider the following options in determining the appropriate greenhouse DC rate at this time:

1. Continue to discount the greenhouse DC rate (at 21%) and fund the balance (79%) through user rates and/or taxation. Under this option it is notable that greenhouses pay a special water rate that was developed on the basis of contributing toward the infrastructure requirements for their service demands; however, recovery of growth-related costs through special water rates is not assured. Should greenhouse water usage decline significantly or the water rates not cover the full cost of growth related service demands, the shortfall would impact other rate and/or tax payers.
2. Charge the calculated greenhouse DC rate. This option does not consider the special water rate paid by greenhouse operators.
3. Phase-in an increased greenhouse DC rate. Council may consider phasing in increases in the greenhouse DC rate toward a higher percentage growth-related cost recovery.
4. Apply a 'municipal wide' greenhouse DC rate that would include consideration of the cost of incremental service demands beyond water, such as police, fire, roads, etc. similar to commercial/industrial DC rates.

Should Council opt for a discounted greenhouse DC rate, funding for the cost of growth-related services will need to be identified through user rate and/or tax rate sources.

Indexing

DC by-law rates provided for consideration have been calculated based on 2009 cost estimates for growth related capital service requirements. The final rates adopted by council under by-law will be applied starting September 1, 2009. Then, the first indexing of those rates will be effective January 1, 2010 based on the index under development charge regulations on the basis that project/asset costs to be funded from DC rates will increase over 2009 estimates. The failure to index DC rates means that the funding source is not keeping pace with the growth-related service cost and is a form of discounting, which means that the incremental cost must be paid through other sources (user/tax rates). For example, a road project at an estimated cost of

\$1 million in 2008 would be estimated at a cost of \$1,116,000 in 2009 based on the non-residential construction index increase of 11.6% year over year. If the related DC rate is not indexed in 2009, then the \$116,000 increase in estimated cost for the growth-related road project would require funding from other sources (e.g. taxation).

Policy Recommendations and By-law Rules:

The Consultant made several policy recommendations and outlined a number of By-law Rules in section 7 of the Background Study. The consultant's recommendations in this section are generally supported by Administration and final recommendations will be incorporated into the 2009 Development Charges By-law and/or a further report to council following the public consultation process.

Northeast Sewer

Appendix F to the Background Report outlines a potential area-rated development charge for the north east sanitary trunk sewer; which does not form part of the DC rate schedule/by-law provided for consideration. This incremental DC rate would be applied for development within the defined area in addition to the base DC rate.

Administration has been asked to consider the impact of undertaking construction of this sanitary trunk sewer at this time on the potential Development Charge under both full cost and partial grant funding scenarios. The consultant has included calculations as part of this study for discussion purposes.

Under existing policy for oversizing sewers, the private developer would be required to install and pay for sewers up front and at their own expense, with recovery from future development that will use the excess capacity through development agreements.

Should Council opt to include the cost of growth-related sewer services in the DC, the Municipality would be required to construct and fund the cost of the sewer, with cost recovery through DC charges as development occurs over time. If council opts to continue exclusion of sewers from the DC rates current policy would apply.

It is notable that the DC by-law may be amended within one year of its adoption without requiring a new Background Study, which allows further time to consider policy in this regard beyond the deadline for adopting the by-law.

Discussion and or direction from Council is required in regard to this matter.

By-law Implementation

Section 8 of the Background Study outlines the process for By-law implementation. It should be noted that, as set out in Appendix E, a DC exemption will be granted (one time, effective September 1, 2009) where an existing industrial building is enlarged by 50 percent or less based on the gross floor area of the building, calculated as of the date of passing this by-law. If the enlargement exceeds 50 percent, the DC is charged based on the incremental gross floor area in excess of 50% of the gross floor area of the building calculated as of the date of passing this by-law.

Further, it should be noted that a new Special Care/Special Dwelling charges had been added to the By-law as part of the residential component. This will include retirement homes and lodges, nursing homes, charitable homes, group homes (including correctional group homes) and garden suites. New definitions have also been added.

FINANCIAL IMPACT

The policy decisions made by council in relation the development charges will have a financial impact on the financing and funding models for the municipality overall.

The purpose of development charges is to have service requirements relating to growth/resulting from new development, such as additional police/fire services, new roadways, sewage capacity, etc., paid for by growth. If growth does not occur, then additional services will not be required.

As council considers recommendations relating to development charge rates, it is essential to consider the balance between funding options to pay for the growth-related service requirements in relation to existing demands on user and tax rates. The service level calculations in the Background Study ensure that future users of incremental services are only charged based on the average service level that has been in place for existing users over the past 10 years.

The calculated DC rates in the current Background Study are intended to attribute the cost of growth to new development, with any portion of the service increase that is attributable to existing users to be paid for by other means (shown as 'existing benefit'). In addition, any portion of the cost that is expected to benefit users beyond the scope of the study (i.e. 10 years, 20 years, urban build out) will be considered under future development charge studies/calculations.

Where DC rates are discounted the portion of the cost of the services required by that growth not funded by the DC will be borne by user rates and/or property taxes. The transfer of that cost will be in direct competition for dollars against legacy costs for existing infrastructure/asset maintenance and renewal.

Administration recommends that in determining development charge policy council consider the overall impact of that policy on municipal finances.

CONCLUSION

After the public meeting, Administration will prepare a report to council for August 25, 2009 (a special meeting of Council) summarizing the outcome of the public meeting and providing final recommendations, at which time Council will be asked to consider the approval of the development charges by-law.

RECOMMENDATION:

THAT Council receives information pertaining to the 2009 Development Charge Background Study dated July 27, 2009, as outlined in PLA 24/09.

Respectfully submitted,

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Planner

Douglas E. Morrish,
Director of Development Services

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