Clause 5 in Report No. 3 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on February 16, 2017.

5
Draft 2017 Development Charge Background Study and Proposed Bylaw

Committee of the Whole recommends:

1. Receipt of the presentation by Bill Hughes, Commissioner of Finance.

2. Adoption of the following recommendations, as amended, in the report dated January 25, 2017 from the Commissioner of Finance:

    1. Council receive the draft 2017 Development Charge Background Study and proposed Bylaw (Attachment 1).

    2. A report be brought forward to the May 18, 2017 meeting of Regional Council recommending the 2017 Development Charge Bylaw, taking into consideration the input received at the public meeting, to be held on March 9, 2017.

    3. New revenue sources be sought for unfunded roads and transit projects in the Transportation Master Plan.

    4. The Region not offer transition policies for the 2017 bylaw.

    5. The Regional Clerk circulate this report to the local municipalities.

    6. The Regional Clerk circulate this report to the Building Industry and Land Development Association – York Chapter (BILD).

Report dated January 25, 2017 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that:

1. Council receive the draft 2017 Development Charge Background Study and proposed Bylaw (Attachment 1).

2. A report be brought forward to the May 18, 2017 meeting of Regional Council recommending the 2017 Development Charge Bylaw, taking into consideration the input received at the public meeting, to be held on March 9, 2017.

3. New revenue sources be sought for unfunded roads and transit projects in the Transportation Master Plan.

4. The Regional Clerk circulate this report to the local municipalities.

5. The Regional Clerk circulate this report to the Building Industry and Land Development Association – York Chapter (BILD).

2. Purpose

The *Development Charges Act, 1997* (the "Act") sets out the legislative framework governing the establishment of development charges, which are used to pay for growth-related infrastructure. This report tables the Regional Municipality of York's 2017 Development Charge Background Study and draft Bylaw. It highlights changes to the development charge rates, bylaw and accompanying policies, complementing a previous report to Council on November 17, 2016.

3. Background and Previous Council Direction

A new development charge bylaw must be passed in order to continue to levy development charges

The Act requires that a municipality pass a new bylaw at least every five years to impose development charges, and that the bylaw must be supported by a background study. The background study provides an estimate of the anticipated growth and infrastructure costs to support that growth. A new development charge bylaw must come into effect on or before June 17, 2017 for the Region to continue to levy development charges.

The 2017 Development Charge Bylaw and Background Study will be made publicly available on February 16, 2017

The Act requires that a background study must be made available a minimum of 60 days prior to passing the bylaw. In addition, it must be made available at least two weeks prior to the statutorily required public meeting. Both the draft bylaw and the background study will be publicly available on the Region's website on February 16, 2017.

The public meeting to receive feedback on the 2017 Background Study and Bylaw will precede the meeting of the Committee of the Whole on March 9, 2017. Feedback from the public meeting will be considered for inclusion in the 2017 Bylaw.

The 2017 Bylaw, as amended, will then be brought to Council for anticipated approval on May 18, 2017, with a coming-into-force date of June 17, 2017. Table 1 describes the statutory requirements, Council engagements, and the applicable dates.

Table 1
Key Dates in Regional Bylaw Process

Deliverables	Proposed Dates		Time Elapsed
Notice of public meeting	February 2, 2017		
2017 Background Study and Bylaw publicly released	February 16, 2017		
Report to Council on the 2017 Background Study and Bylaw	February 16, 2017	21 days	91 days*
Public meeting at Committee of the Whole	March 9, 2017		
New Bylaw to Council for anticipated approval	May 18, 2017	70 days	
2017 Development Charges Bylaw comes into force	June 17, 2017		

*The amended *Development Charges Act, 1997* requires that a background study be available to the public at least 60 days prior to passing the Bylaw

Stakeholder consultation has been key to the 2017 Bylaw update

Since June 2016, staff have consulted representatives from local municipalities and the Building Industry and Land Development Association – York Chapter (BILD). Staff met with representatives of the local municipalities on six occasions and the BILD working group on seven occasions. Topics discussed include:

- Growth forecast used for the background study
- Development charges calculation methodology and assumptions for water, wastewater, roads, and transit infrastructure
- Area-specific development charges
- Hotel development charges
- Apartment occupancy and size study
- Asset management plans

The Region will update the bylaw following completion of the Municipal Comprehensive Review

Due to proposed amendments to the Provincial Growth Plans, the Region's Municipal Comprehensive Review, intended to address growth to 2041, was put on hold. Consequently, the 2017 Background Study was prepared with a forecast horizon to 2031.

It is anticipated that the Region will update its development charge bylaw after the new Growth Plan policies have been finalized and the Municipal Comprehensive Review is complete. The new background study will address growth beyond 2031. This will likely occur before the statutory maximum period of five years lapses in 2022.

Development charges fund vital growth-related infrastructure throughout the Region

Development charges fund growth-related infrastructure projects required to accommodate residential and non-residential development and are the primary source of funding for the growth-related portion of the Region's capital plan. The 2017 Development Charge Bylaw will help recover a significant portion of the Region's capital program from 2017 – 2031.

Infrastructure services that will be funded under the 2017 Bylaw are listed in Table 2.

Table 2
Infrastructure services funded under the 2017 Development Charge Bylaw

Classification of Infrastructure	Service
Hard Services	Water
	Wastewater
	Roads
General Services	Transit
	Toronto York Spadina Subway Extension
	Police
	Paramedic Services
	Public Health
	Public Works
	Waste Diversion
	Social Housing
	Growth Studies
	Court Services

Development charge rates are levied against new residential and non-residential development in the region

Development charges are levied against new development in the region. A development charge rate is the end result of a calculation that starts with forecasting the growth anticipated in the region and determining the infrastructure needed to service that growth. A number of deductions are made to the estimated cost of infrastructure to determine the costs that are eligible to be recovered through development charges (e.g., level of service cap, post-period benefit, grants and subsidies, benefit to existing and 10 per cent statutory deductions where applicable).

The cost eligible to be recovered through development charges is then apportioned to the growth in the Region by class of development. A municipality has limited discretion in apportioning the charge among classes of development. For the 2017 Background Study, the residential rates are calculated on a per unit basis, and are differentiated among four dwelling types: singles and semi-detached, multiple dwellings, large apartments and small apartments. The non-residential development charges are calculated on a per square foot basis, and are differentiated among three classes of development: (1) retail, (2) industrial, office and institutional, and (3) hotels.

4. Analysis and Implications

The 2017 background study anticipates that the Region will add 136,250 new homes

From 2017 to mid-2031, the draft background study anticipates that the Region will add 136,250 new homes. The housing growth forecast is based on a 2031 mid-year population forecast of 1,545,700 (excludes institutional population). Schedule 3 of the Growth Plan provides population and employment forecasts to 2041 for York Region. The mid-2031 population forecast for the 2017 Background Study is on a trajectory to meet the 2041 Growth Plan forecast.

In addition, this population forecast takes into consideration demographic trends, the timing of servicing infrastructure, market demand, and intensification policy targets. Over the forecast period, there is a shift in the Region's housing mix to higher density forms of housing (see Table 3).

Table 3
Forecast Residential Growth

Year-End	Population (excluding institutional population)	Housing Units			
		Single and Semi-Detached	Multiple Unit Dwellings	Apartments	Total Households
2011	1,074,700	239,145	52,325	37,739	329,209
2016	1,177,900	256,270	61,524	50,641	368,435
2026	1,418,000	294,138	85,270	80,433	459,841
2031 (mid-year)	1,545,700	308,273	97,729	98,683	504,685
2016-2026 Growth	240,100	37,868	23,746	29,792	91,406
2016-2031 Growth	367,800	52,003	36,205	48,042	136,250

Source: Long Range Planning

The 2017 background study anticipates 79 million square feet of new non-residential space between 2017 and mid 2031

The employment forecast for mid-2031 is 780,000, with growth of approximately 177,800 over the forecast period. The non-residential floor space forecast is derived by first estimating the share of the employment growth that would generate new space, and then applying a floor space per worker factor (i.e., density assumption) to each development type.

It is estimated that the Region will add 79 million square feet of non-residential floor space feet over the forecast period (see Table 4). This is substantially less than assumed in previous development charge bylaws, due to:

- lower assumptions for floor space per worker (higher density), and
- a higher portion of employment growth that is not expected to generate new floor space. This share of employment growth is attributable to working from home, contracting out, non-fixed place of work, and re-occupation of existing buildings

The population and employment forecasts are consistent with the forecasts underlying the Region's Water and Wastewater and Transportation Master Plans.

Table 4
Floor Space per Worker and Gross Floor Area Assumptions

Employment Type	Square Feet per Employee*	Gross Floor Area Growth 2017 to mid-2031 (Square Feet - Millions)
Industrial	800	32.0
Office	275	13.2
Institutional	900	16.3
Retail	430	16.0
Hotel	2,000	1.5
Total		**79.0**

Source: Long Range Planning
* The 2012 background study included the following assumptions for floor space per worker:
- Industrial: 950 sqft
- Office: 300 sqft
- Institutional: 1,000 sqft
- Retail: 500 sqft

The total cost eligible to be recovered through development charges is $3.7 billion over 15 years

Over the forecast period, it is estimated that $3.7 billion in growth-related costs is eligible to be recovered through development charges. Table 5 lists the deductions that the Region is required to make to determine the development charge eligible share.

Table 5
Development Charge Eligible Cost Calculation

	Components	Funding Source
Gross Growth-Related Project Costs		
Less	Grants and Subsidies	Other Levels of Governments
Less	Benefit to Existing	Tax Levy/User Rates
Less	10 per cent Statutory Deduction	Tax Levy/User Rates
=	**Total Development Charge Eligible Growth Costs**	
Less	Post-period Benefit and Level of Service Cap	Debt/Future Development Charges
=	**2017-2031 Development Charge Eligible Growth Costs**	Proposed Development Charges

Table 6 outlines the gross growth-related project costs and the various deductions made to derive the costs eligible to be recovered through development charges under the 2017 bylaw. It is estimated that $6.4 billion in capital investments are needed to support growth to 2031. Of this amount, 58 per cent, or $3.7 billion is recoverable through development charges under the 2017 bylaw.

The Background Study estimates that approximately $1.5 billion in costs would need to be funded by other revenue sources. Of this amount, $654 million is anticipated to be funded by grants and subsidies from other orders of government. The remainder, which relates to benefit to existing deduction and the 10 per cent statutory deduction will be funded from tax levy and/or user rates.

Post-period benefit and level of service deductions account for approximately $1.2 billion or 19 per cent of gross costs. Deductions resulting from service level caps are expected to be partially recovered in subsequent bylaws. This is because, as a municipality invests in its infrastructure, the historic service level grows, resulting in some or all of the ineligible portion from the previous bylaw becoming eligible for recovery in the next bylaw.

Finally, deductions due to post-period benefit reflect the extent to which a capital project benefits growth occurring beyond the forecast period of the bylaw (2031). These deductions likely can be recovered through future development charge bylaws, as long as growth takes place at the expected level, and as long as the legislative regime remains the same.

Table 6
2017 Development Charge Background Study Gross Nominal Capital Expenditure*

Category	Gross capital cost ($ Millions)	Less Recovered through other sources** ($ Millions)	Nominal development charge eligible costs ($ Millions)	Less Partially recovered through future bylaws*** ($ Millions)	Cost eligible to be recovered under the 2017 bylaw ($ Millions)
Water	603	8	595	389	206
Wastewater	1,793	83	1,710	726	983
Roads	2,782	797	1,985	2	1,983
Transit	382	228	154	0	154
Subway	282	90	191	0	191
Other General Services****	595	326	269	73	196
Total	**6,436**	**1,532**	**4,904**	**1,191**	**3,713**

*Related to period to 2031
**Includes grants, subsidies, benefit to existing and statutory deductions
***Includes post-period benefit and level of service cap deductions
**** Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services. Excludes GO Transit
Note: Numbers may not sum due to rounding

Table 7 outlines the share of costs to be recovered under the 2017 Bylaw by service.

Table 7
2017 Development Charge Recovery*

Category	Percentage Recoverable in Current Period (%)	Recovered through other sources (%)	Expected to be Recoverable in Future Bylaws (%)
Water	34.13	1.28	64.59
Wastewater	54.85	4.63	40.52
Roads	71.28	28.64	0.08
Transit	40.21	59.78	0.01
Subway	67.98	32.02	0.00
Other General Services**	32.99	54.76	12.25
Total	57.70	23.80	18.50

*Related to period to 2031
**Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services. Excludes GO Transit

A portion of the new development charge rates will be used to pay off $2.42 billion in outstanding development charges debt

Development charge debt is issued to pay for growth-related infrastructure, which is often required before growth occurs. As development occurs, that debt is serviced with development charges. The Region currently has $2.4 billion in development charge debt (principal only) that will need to be repaid through ongoing and future development charge collections (Table 8). A portion of the development charge rates under the 2017 Bylaw will be used to pay down outstanding development charge debt.

Table 8
Outstanding Development Charge Debt

Category	Outstanding Development Charge Debt ($ Millions)
Water	833
Wastewater	1,097
Roads	271
Transit	2
Subway	160
Other General Services*	57
Total	**2,421**

*Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services. Excludes GO Transit
Note: Numbers may not sum due to rounding

Compared to the 2012 Development Charge Background Study, the 2017 Development Charge Background Study projects $3.0 billion less in capital expenditures to be recovered through development charges

Under the 2017 bylaw, $3.7 billion in growth-related expenditures over 15 years can be recovered through development charges. This is a significant reduction compared to the 2012 Background Study, which anticipated that $6.7 billion in growth-related costs could be recovered through development charges over 20 years (Table 9). Projected growth-related expenditures are lower in the 2017 Background Study due to:

- Reduced requirements for water and wastewater infrastructure due to a reduction in flow generation rates and due to considerable built capacity (as reflected in the current outstanding debt)
- A 15-year planning horizon, as opposed to a 20-year planning horizon, results in less growth-related expenditures being required for some services
- The full extent of the road infrastructure program envisaged under the Transportation Master Plan has not been included in the draft 2017 background study

Table 9
Development Charge Eligible Costs: 2017 versus 2012

Category	2017 Net Development Charge Capital Expenditure (2017 to 2031) ($ Millions)	2012 Net Development Charge Capital Expenditure (2012 to 2031) ($ Millions)*	Difference ($ Millions)
Water	206	1,257	(1,052)
Wastewater	983	2,060	(1,077)
Roads	1,983	2,934	(951)
Transit	154	99	55
Subway	191	214	(23)
Other General Services**	196	160	36
Total	**3,713**	**6,725**	**(3,012)**

*Reflects the final 2012 Development Charge Bylaw. Changes were made after the 2012 Background Study was made public in February 2012. The costs listed above are different from the printed version of the 2012 Background Study.
**Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services .Excludes GO Transit.
Note: Numbers may not sum due to rounding

Some projects from the 2016 Transportation Master Plan Update have not been included in 2017 Development Charge Background Study

In 2016, the Region updated its Transportation Master Plan. A key focus of the plan is to build a seamless, interconnected system of mobility to address the Region's growth targets to 2041. The recommended networks and related programs will require $8.9 billion for transit and $7.6 billion for road-related capital expenditures to 2041. This is in addition to $5.6 billion in estimated State of Good Repair needs over the same period.

However, funding the full Transportation Master Plan with Regional revenue sources would result in significant tax levy and debt pressures. Preliminary estimates indicate that annual tax levy increases of approximately 6 per cent per year, every year to 2031, would be required to fully fund the initial emplacement and ongoing capital and operating requirement of infrastructure envisaged by the 2016 Master Plan.

In addition, the Region would need to accumulate considerably higher debt to finance these investments. In short, the Region cannot afford to fund the full master plan with current revenue sources.

Due to these challenges, many of the projects in the Transportation Master Plan and in the 2012 Development Charge Bylaw were not included in the 2017 development charge rate calculation. Additional revenue sources will be necessary to fully fund 2016 Transportation Master Plan. The Region should continue to advocate for additional revenue sources to fund these projects.

Changes to the Act allow for greater growth-related cost recovery for transit

In 2015, the *Development Charge Act, 1997* was amended in several significant ways with respect to the recovery of transit-related costs through development charges:

- Removal of the 10 per cent statutory reduction; and
- Permission for municipalities to use a forward-looking planned level of service (rather than historic average).

Transit is still restricted to a 10-year planning horizon for calculating development charges.

For the 2017 background study, the planned level of service for transit is defined as the Region's approved capital plan. This includes approximately $382 million in gross capital costs for transit fleet and facilities over 10 years. This is in addition to the Toronto York Spadina Subway extension, which is defined as a separate and discrete service under the Act.

In addition, it is assumed that the new Bus Rapid Transit projects and the Yonge North Subway extension will be fully funded by the federal and provincial governments. The costs for these projects are not included in the development charge calculation.

Through its approval of the capital program, Council has indicated that it intends to ensure that the increase in need for transit service due to growth will be met. In addition, the transit investments in the capital plan are needed to meet York Regional Transit and Viva's service guidelines in the 2016-2020 Strategic Plan, as adopted by Regional Council.

Owing to the changes in legislation, no deduction for service level cap was made. In addition, the Region will no longer apply a 10 per cent statutory deduction to transit service costs. The benefit to existing share is estimated to be approximately 17 per cent of the gross project cost. Overall, the 2017 Bylaw will recover approximately 40 per cent of transit-related capital costs through development charges. Approximately 43 per cent will be recovered through third party grants and subsidies, with the remainder being funded through tax levy.

Waste diversion services has a growth-related capital program of $9.72 million

Waste diversion is now an eligible service for development charges recovery under the Act. As with most general services, waste diversion is subject to a 10 per cent statutory deduction and limited to a ten-year planning horizon. Landfill sites and incineration, including energy from waste, remain ineligible.

The growth-related capital program for waste diversion is $9.72 million. The portion that can be recovered under the 2017 Bylaw is $4.25 million. The remainder will be funded through the tax levy.

Court services will be included in the 2017 Development Charge Bylaw

Court services is a permitted service under the Act and accompanying regulations. It is being included for the first time due to significant capital expenditures associated with the courts service portion of the Annex building. Court services is subject to a 10 per cent statutory deduction and limited to a 10-year planning horizon. Other municipalities that recover the growth-related component of Court Services include: County of Grey, City of Brampton, City of Guelph, City of Mississauga and the City of Hamilton.

The court services growth-related capital program is $38.17 million. The portion that can be recovered under the 2017 Bylaw is $3.88 million.

Senior Services – Capital Component (previously Long Term Care) will be included on the contingency list under the 2017 Bylaw.

Currently, the Region operates two long term care facilities (Maple Health Centre and Newmarket Health Centre). Construction of new long term care facilities is subject to provincial approval. Recently, the Province shifted its focus away from constructing new long term care facilities, to providing more support and services to help seniors “age in place”.

For the draft 2017 Bylaw, growth-related costs for Senior Services – Capital Component will be placed on a contingent items list. A contingent items list is a schedule of proposed capital projects with associated development charge rate increases should certain conditions be met (the trigger event). The trigger event in this case would be the province indicating they would build/fund new senior services facilities in York Region.

However, even if the trigger event occurs, no development charge rate increase for senior services is expected. This is because the amount collected for the service to date would be sufficient to fund the Region's share of the estimated cost of growth-related senior services projects. Further details can be found in Attachment 1.

Proposed residential development charge rates for single-family detached have increased by approximately 13 per cent

Table 10 summarizes the current residential development charge rates and the proposed rates under the 2017 Bylaw. Further information detailing the methodology used to calculate these rates is in the 2017 Development Charge Background Study (Attachment 1).

Table 10

Residential Development Charge Rates: Current versus 2017

	Current Development Charge Rates ($ per Dwelling Unit)	**Proposed 2017 Development Charge Bylaw Rates ($ per Dwelling Unit)**			
	Single & Semi-Detached	Single & Semi-Detached	Multiple Unit Dwelling	Apartment >= 700 Sqft	Apartment < 700 Sqft
Water	9,817	9,263	7,457	5,419	3,959
Wastewater*	17,221	18,708	15,060	10,945	7,996
Roads	12,129	14,240	11,463	8,331	6,087
Subtotal	39,167	42,211	33,980	24,696	18,042
Transit	801	1,215	978	711	519
Subway	999	2,547	2,051	1,490	1,089
Other General Services**	1,328	1,824	1,468	1,067	779
GO Transit***	342	342	269	198	125
Total	**42,637**	**48,139**	**38,745**	**28,161**	**20,555**

*Nobleton wastewater rates are levied under a separate bylaw (No. 2016-40)
**Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services
***GO Transit development charges are levied under the GO Transit development charge bylaw and only apply to residential development
Note: Current rates for multiple unit dwellings, apartments greater than 650 square feet (inclusive) and apartments less than 650 square feet are: $37,300, $26,414 and $17,928 respectively.
Note: Numbers may not sum due to rounding

Based on the Background Study, the development charge rate for new single and semi-detached homes will be $48,139, a 12.9 per cent increase over current rate of $42,637.

The increase in the rate can be broken down into two parts:

- A 9 per cent increase in the residential share of development charges eligible cost on a per capita basis
- An increase in the persons per unit assumptions for single and semi-detached home

The rate increase for multiple unit dwellings and large apartment is 3.9 per cent and 6.6 per cent respectively. The lower rate of increase is due to the reduction in average occupancy observed in these dwelling types. The development charges rate for new small apartments (less than 700 square feet) is 14.7 per cent. This is largely due to a higher assumed average occupancy in small apartments.

Proposed non-residential development charge rates have increased by 0.16 per cent for retail and decreased by 12.59 per cent for non-retail

Non-residential development charges will see a reduction compared to current levels. This is largely due to changes in the projected composition of residential versus non-residential development in the Region, as well as changes in the methodology for allocating transportation-related costs. These changes result in a smaller share of costs being allocated to non-residential development compared to the 2012 background study.

Table 11 summarizes the current non-residential development charge rates and the proposed rates under the 2017 Bylaw. Further information detailing the methodology used to calculate these rates is in the 2017 Development Charge Background Study (Attachment 1).

Table 11
Non-residential Development Charge Rates: Current versus 2017

	Current Development Charge Bylaw Rates ($)				**Proposed 2017 Development Charge Bylaw Rates ($)**					
	Per Square Foot of Gross Floor Area		Per Square Metre of Gross Floor Area		Per Square Foot of Gross Floor Area			Per Square Metre of Gross Floor Area		
	IOI*	Retail	IOI*	Retail	IOI*	Retail	Hotel	IOI*	Retail	Hotel
Water	4.94	6.15	53.17	66.20	3.43	5.57	0.97	36.93	59.93	10.49
Wastewater**	8.69	10.81	93.54	116.36	6.93	10.53	1.95	74.61	113.31	21.00
Roads	5.50	19.55	59.20	210.43	5.33	18.15	3.73	57.42	195.39	40.15
Transit	0.31	1.10	3.34	11.84	0.48	1.64	0.36	5.16	17.63	3.90
Subway	0.45	1.61	4.84	17.33	0.91	3.11	0.71	9.84	33.53	7.67
Other General Services***	0.43	0.53	4.63	5.70	0.67	0.82	0.22	7.21	8.77	2.39
Total	**20.32**	**39.75**	**218.72**	**427.87**	**17.76**	**39.81**	**7.95**	**191.18**	**428.56**	**85.61**

*IOI = Industrial, Office and Institutional development charges
**Wastewater development charges for the Village of Nobleton are levied under Bylaw No. 2016-40
*** Other General Services include: Police, Waste Diversion, Public Works, Paramedic Services, Public Health, Social Housing, Court Services, Court Studies and Senior Services. GO Transit development charges are levied under the GO Transit development charge bylaw and only apply to residential development
Note: Numbers may not sum due to rounding

Hotel development charge rates are down by 80.27 per cent for a typical hotel

Under the proposed 2017 Bylaw, hotels are in their own class and are levied a per square foot hotel charge of $7.95. Under the 2012 Bylaw, hotels were charged a blended rate, where the rooms were charged the small apartment rate, and 25 per cent of the total gross floor area was charged the retail rate. This blended rate structure resulted in a hotel charge of roughly $40.31[1] per square foot.

[1] Note: Hotels were not identified as a separate rate under the 2012 Regional Bylaw (No. 2012-36), but rather used a blended rate. The blended rate was to charge hotels based on the sum of two factors. The first factor was to levy the small residential apartment charge on each overnight room or suite of rooms. The second factor was to levy the gross floor area for the entire hotel at 25 per cent of the retail charge. The per square foot/metre rate for hotels has been calculated using the blended rate and applying it to an ‘average hotel’ in the Region (approximately 124 units and 73,200 square feet).

York Region now joins the City of Brampton and Niagara Region in putting hotels in their own class. Charging a separate hotel rate has no adverse effect on development charge collections. This is because hotels are not being given a discount or an exemption. Rather, hotel developments are simply being allocated their portion of the Region's growth-related capital program (put another way, the pie is being split into one more piece – hotels). Because hotels tend to have fewer employees per square foot of space, hotel rates are lower compared to other non-residential development. As Table 12 shows, hotel development charges in the Region are now significantly lower than any of the Region's neighbouring municipalities.

Table 12
Hotel development charges comparison

Municipality	Hotel development charge rate ($ per square foot)
Halton Region*	23.11
City of Toronto	19.28
Peel Region	18.81
Durham Region	13.55
City of Brampton**	8.66
York Region	7.95
Niagara Region**	3.65

*Note: Total urban (built boundary)
**Note: Put hotels in their own class

The Region has prepared an asset management plan for all projects funded by the 2017 Bylaw

The amended Act requires municipalities to prepare an asset management plan as part of their Background Study that will demonstrate that all assets funded by development charges are financially sustainable over their lifecycle. The intent of this requirement is to ensure that municipalities do not include growth projects in their background studies that are not financially sustainable. While the regulations to the Act provide detailed requirements for asset management plans for transit, the same guidance was not provided for other services.

The asset management plan, as prepared under section 10 of the Act, can be found in Attachment 1.

The draft 2017 Bylaw changes the threshold to delineate small and large apartments from 650 square feet to 700 square feet

Through the consultation process, Regional staff worked with representatives from the Building Industry and Land Development (BILD) York chapter to analyze the relationship between apartment size and average occupancy. The result of this analysis informed the proposed delineation between small and large apartments for the 2017 Bylaw.

Staff analyzed Census data to determine occupancy and RealNet data to determine apartment size. Study findings were supplemented by a sample of apartment size data from recently completed or sold projects provided by BILD representatives. This study concluded that a 700 square foot threshold is an appropriate threshold to delineate small and large apartments. In addition, the 700 square foot threshold recognizes one bedroom plus den as a small apartment. In the past, this unit type was considered a large apartment.

Staff will provide Council with a proposed 36-month deferral policy for private purpose-built rentals in May 2017

Currently, the Region offers development charge deferrals for high-rise condominiums, high-rise office and retail developments. Table 13 provides further detail of current development charge deferral policies.

Table 13
Existing deferral policies

Type of development	Duration of deferral	Security taken	Additional details
Retail	36 months	Letter of Credit	Payment will be deducted from the Letter of Credit through three equal yearly payments
High-Rise Condominium	18 months	Letter of Credit	Payment will be deducted from the Letter of Credit at whichever of the following comes first: • 18 months after the building permit is issued • When the condominium is registered
High-Rise Office	18 months	Letter of Credit	Payment will be deducted from the Letter of Credit 18 months after the building permit is issued.

In 2013, Council authorized a pilot project to defer development charges for a private, purpose-built, rental at 212 Davis Drive in the Town of Newmarket. Staff are now proposing to use the tenets of this Council-approved agreement to establish a Region-wide deferral policy for private purpose-built rentals. Key elements of the 212 Davis Drive agreement that will be part of the proposed policy are;

- 36 months deferral with development charges being calculated at building permit
- No interest will be charged
- Twenty-year change of use covenant registered on title
- Security taken is a charge against land
- Local municipal participation is required
- Region gets first choice of up to 10 per cent of units

Staff intend to bring the proposed policy for Council approval as part of the planned May Council Report on the final development charge bylaw.

A number of policies remain unchanged after review

Table 14 summarizes the policies that were reviewed but remain unchanged. Further details can be found in Attachment 1.

Table 14
Areas reviewed but unchanged

Area	Reason for review	Reason for no change
Region-wide versus area-specific development charges	Change to statute	Region’s services are regional in nature Proposed provincial amendments to the Growth Plan affect spatial distribution of growth
2013 Development Charge Credit Policy	Change to statute	Policy was in compliance with prohibition against “additional levies” (section 59.1(1) of the Act)
Development charge treatment for LEED certified buildings	Previous appeals	Change to Building Code has contributed to narrowing of savings between LEED and non-LEED buildings

Administrative changes were made to the 2017 Development Charge Bylaw

Staff are also proposing two administrative changes to the Bylaw, shown in Table 15. Further details can be found in Attachment 1.

Table 15
Administrative changes made to the Bylaw

Area	Reason for review	Change
Definition of building permit	Change to statute	Building permit is defined Clarifying when development charges are to be paid if a development consists of one building but requires more than one building permit (section 26(1.1) of the Act)
Timing of payment for future development blocks	Stakeholder concern	Where there are future development blocks, development charges for those blocks are payable on the day on which a building permit is issued

5. Financial Considerations

It is estimated that $6.4 billion in infrastructure will be needed to support planned growth to 2031; of that amount, $3.7 billion could be recovered through development charges under the 2017 Bylaw.

The development charge bylaw is designed to ensure that growth-related capital costs are borne by the development creating the need for the infrastructure to the extent possible. Other funding sources such as the tax levy will be needed to cover the portion of growth-related infrastructure costs that cannot be recovered through development charges.

Growth rates in York Region have been lower than the Provincial Growth Plan forecast over the past decade

The development forecast underlying the 2017 Background Study reflects provincially mandated growth targets. If actual growth in the Region falls short of provincial targets, so too will development charge collections.

York Region was expected to make up 27 per cent of the Greater Toronto Area's population growth between 2006 and 2016, based on the Growth Plan. According to Statistics Canada, the actual population growth in the Region from 2006 to 2015 was 25 per cent of the GTA total. The Ministry of Finance’s Spring 2016 forecast to 2031 projected that this trend could continue. Slower-than-forecast growth could lead to stranded infrastructure, stranded debt and tax levy pressures.

No transition provisions or discounts are proposed for the payment of new Regional development charges

Under the Act, a municipality has the option to collect development charges before or after they would otherwise be payable. Municipalities also have the ability to offer development charge discounts and/or exemptions.

In the past, the Region provided transitional provisions to bridge one bylaw to the next. Transitional provisions could include phasing-in of development charge rate increases, or allowing qualified developments to pay at old rates. These provisions resulted in significant lost revenues that must be made up through other sources (e.g., the tax levy).

Staff are not recommending any transitional policies with the 2017 Bylaw.

6. Local Municipal Impact

Development charges fund vital growth-related infrastructure. The infrastructure that the Region builds with development charges helps local municipalities manage growth and development. The roads, water and wastewater, transit and general services all benefit future residents and businesses in the entire Region.

The Region’s development charge bylaw also influences the bylaws of our local municipalities. This is why the Region has engaged with its local municipalities on many occasions, soliciting feedback and incorporating ideas into the development of the draft 2017 Development Charge Bylaw.

7. Conclusion

This report, accompanying the tabling of the 2017 Development Charge Background Study and Bylaw, highlights proposed bylaw and policy changes. It also provides Council with information relating to the development charge rates proposed in the 2017 Bylaw.

Subsequent to a public meeting on March 9, 2017, staff will analyze all feedback and will bring a final background study and bylaw for consideration by Council on May 18, 2017, with a proposed coming-into-force date of June 17, 2017.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at 1-877-464-9675 ext.71644.

The Senior Management Group has reviewed this report.

January 25, 2017

Attachment 1 is available for viewing on York.ca

7267826

Accessible formats or communication supports are available upon request

York Region

2017 Development Charge Background Study

Presentation to Committee of the Whole

February 9, 2017

Bill Hughes

Outline

1. Overview
2. Introduction to the Rate Calculation
3. Growth Forecast
4. Growth-related Costs
5. Highlights of Policy and Methodological Changes
6. Development Charge Rates in Context
7. Fiscal Considerations
8. Process
9. Summary of Recommendations

OVERVIEW

Proposed development charge rates

Rate Class	$ Rate / Unit
Singles and Semis	48,139
Multiples	38,745
Large Apartments (≥ 700 sqft)	28,161
Small Apartments (< 700 sqft)	20,555

Rate class	$ Rate / Sqft
Retail	39.81
Industrial/Office/Institutional	17.76
Hotels	7.95

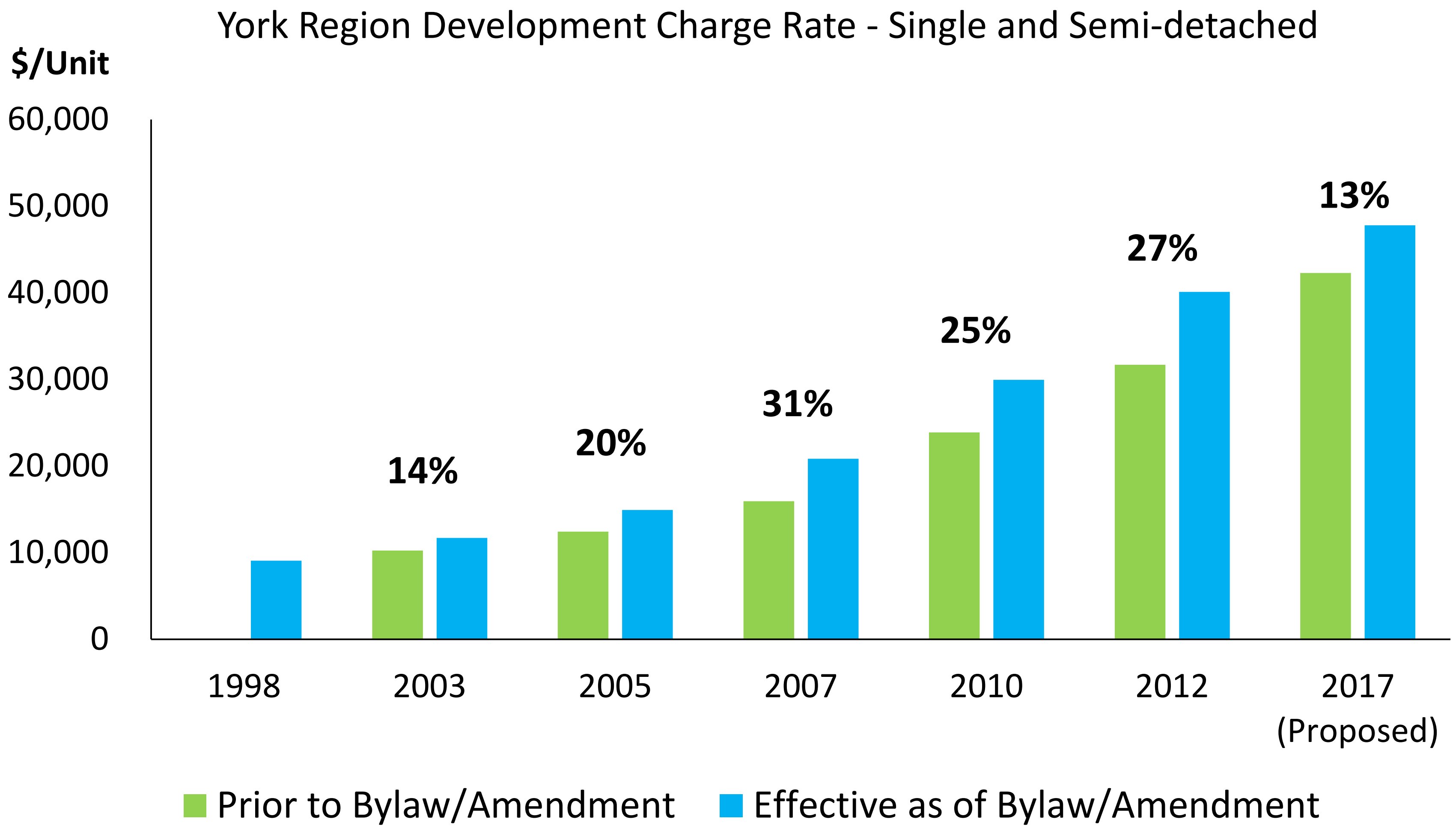
Residential rates are going up

Rate Class	$ Change /Unit	% Change	
Singles and Semis	5,502	13%	⬆
Multiples	1,445	4%	⬆
Large Apartments (≥ 700 sqft)	2,627	7%	⬆
Small Apartments (< 700 sqft)	1,747	15%	⬆

Non-residential rates are declining or staying the same

Rate class	$ Change/ Sqft	% Change	
Retail	0.06	0.16%	
Industrial/Office/Institutional	-2.56	-13%	
Hotels	-32.35	-80%	

These rate increases are the lowest in the Region's history



INTRODUCTION TO THE RATE CALCULATION

What is a development charge background study?

- Before passing a development charge bylaw, municipalities are required to complete a background study
- The background study provides the justification for the development charge rates for each class of development

Calculating development charge rates

$$\text{Development charge rate for a class} = \frac{\text{Eligible growth costs} \ \textbf{less} \ \text{Deductions}}{\text{Units of growth}}$$

Most growth-related infrastructure services are eligible

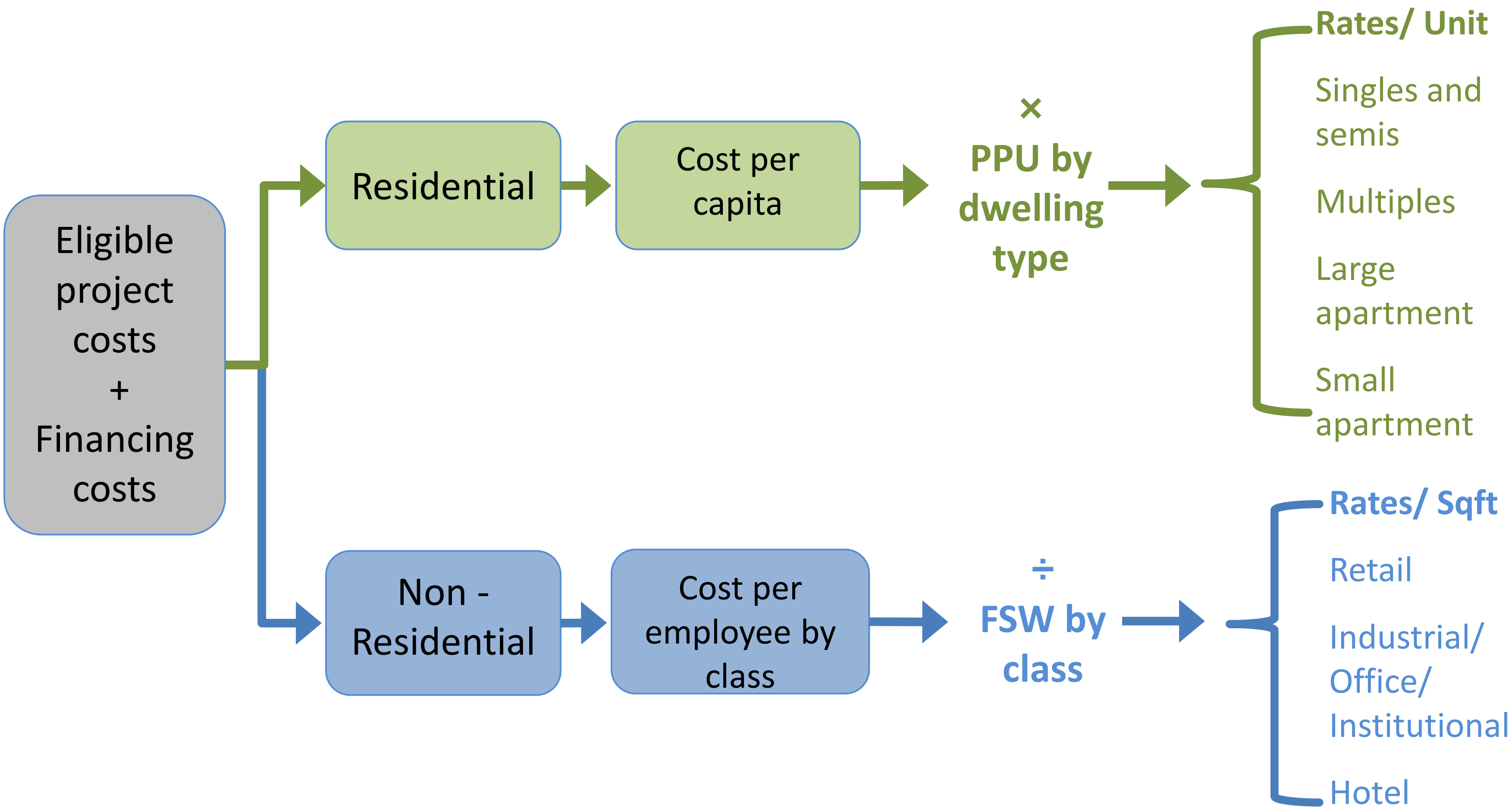
Eligible Infrastructure	
Hard Services	**General Services**
Water Wastewater Roads	Transit Subway Police Other general services (e.g., social housing, waste diversion, courts etc.)

Ineligible Infrastructure
Cultural and entertainment facilities Landfill sites and waste incineration Municipal administrative facilities

Deductions significantly reduce the amount that can be recovered

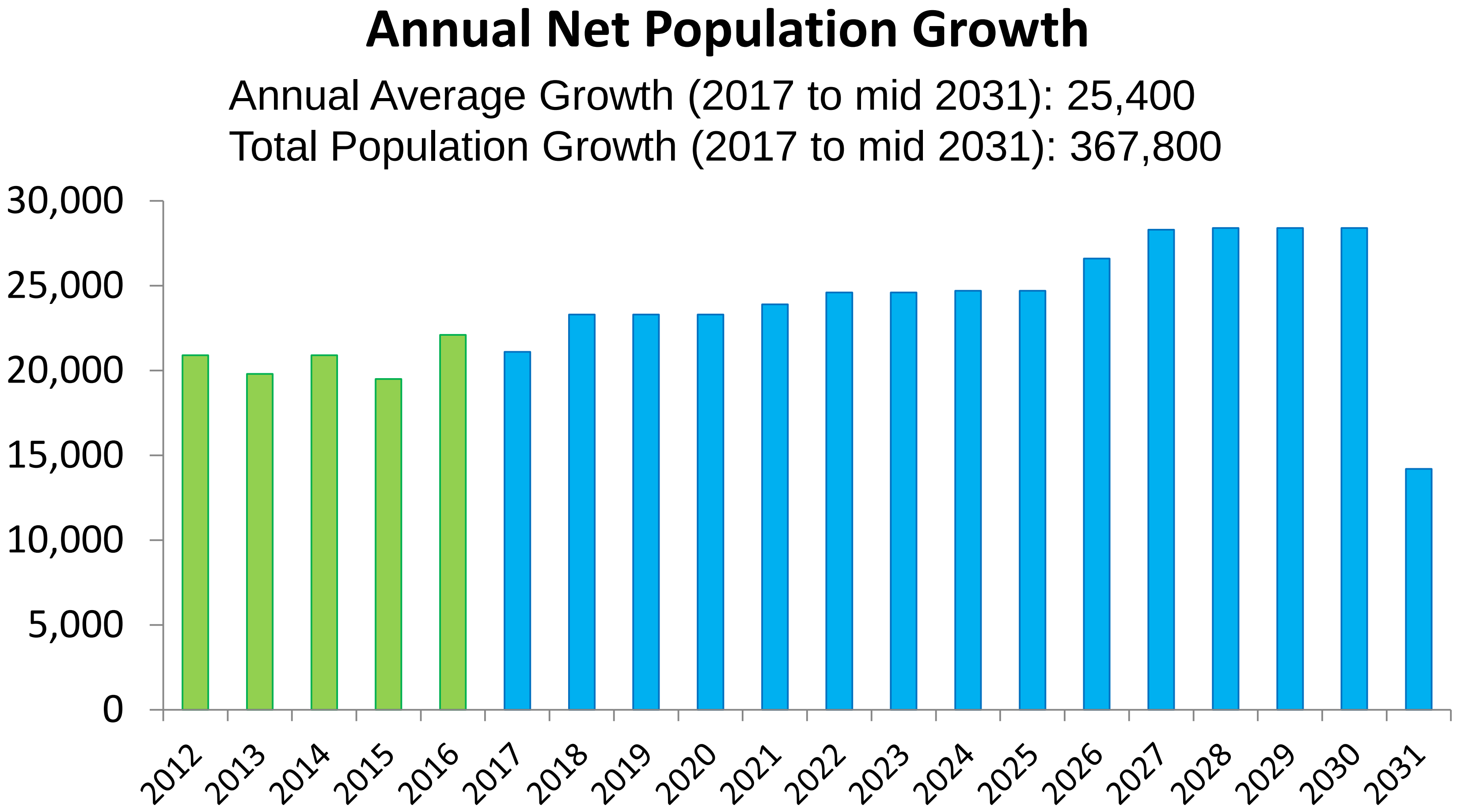
Permanently Lower DC-Recoverable Costs	Temporarily Lower DC-Recoverable Costs	Direct Offset
Benefit to existing	Post-period benefit	Grants and subsidies
10 per cent statutory deduction (applies to some services)	Historic level of service cap (applies to some services)	

The rate calculation is relatively straight forward

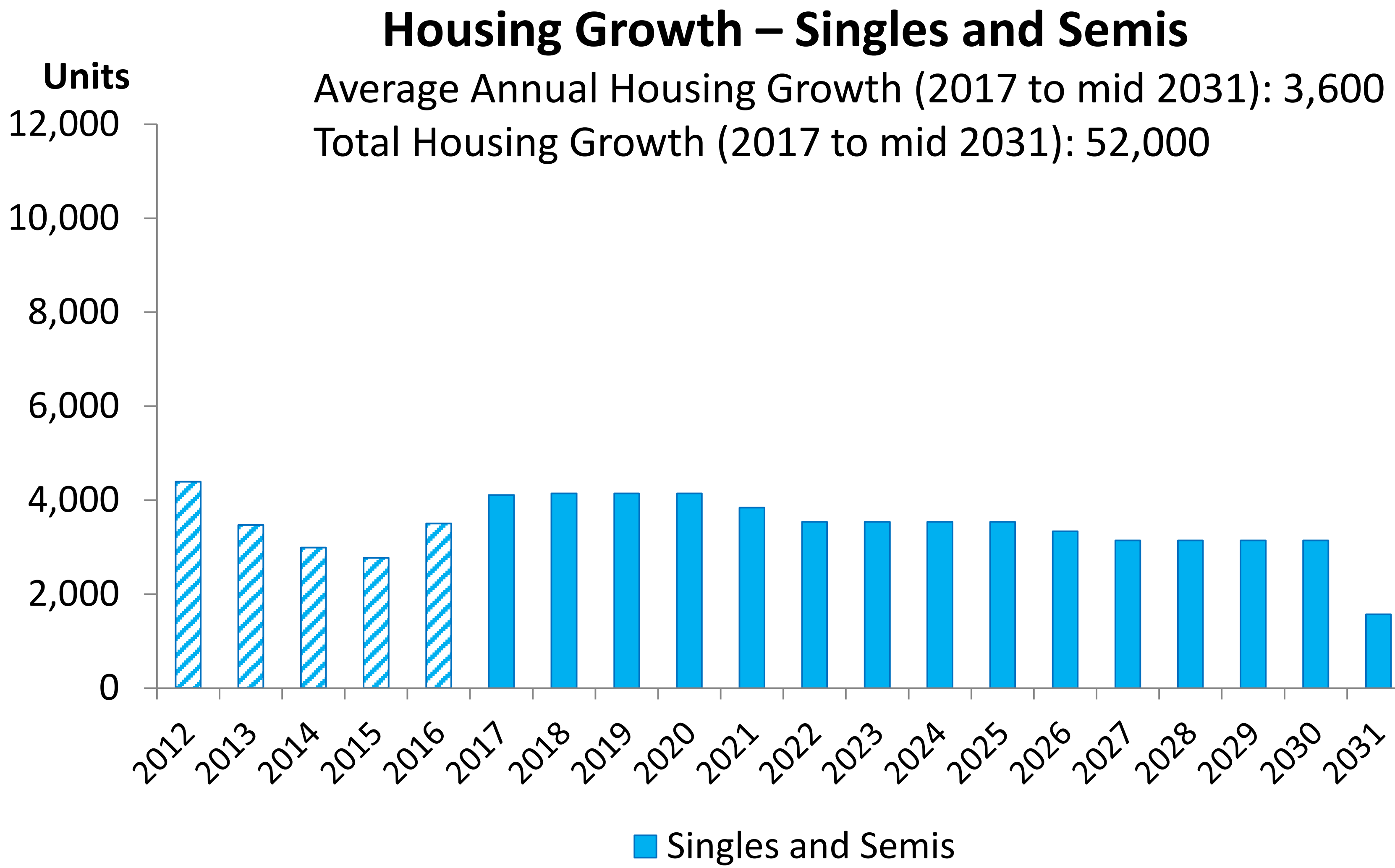


GROWTH FORECASTS

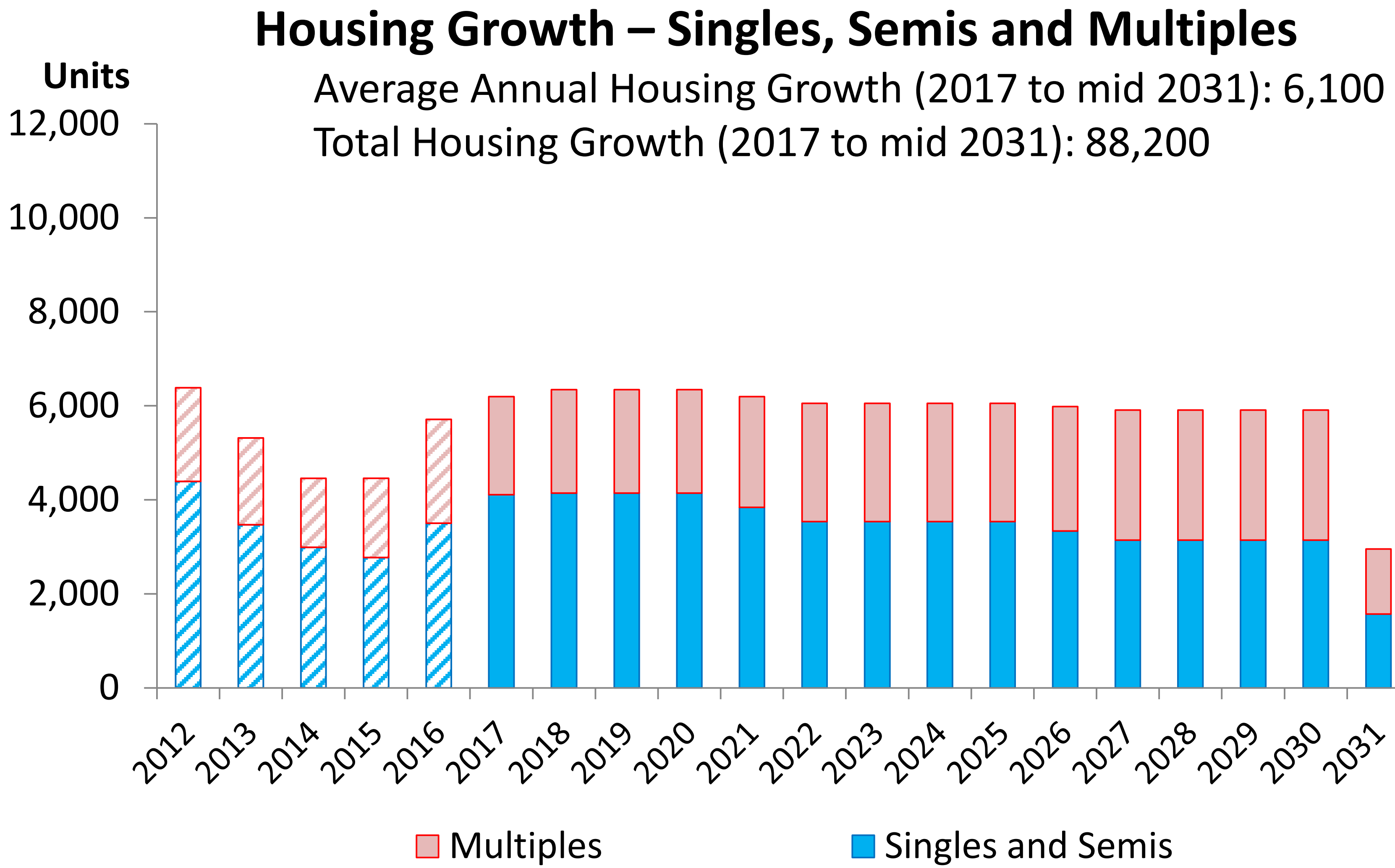
Population growth forecast is based on Growth Plan targets



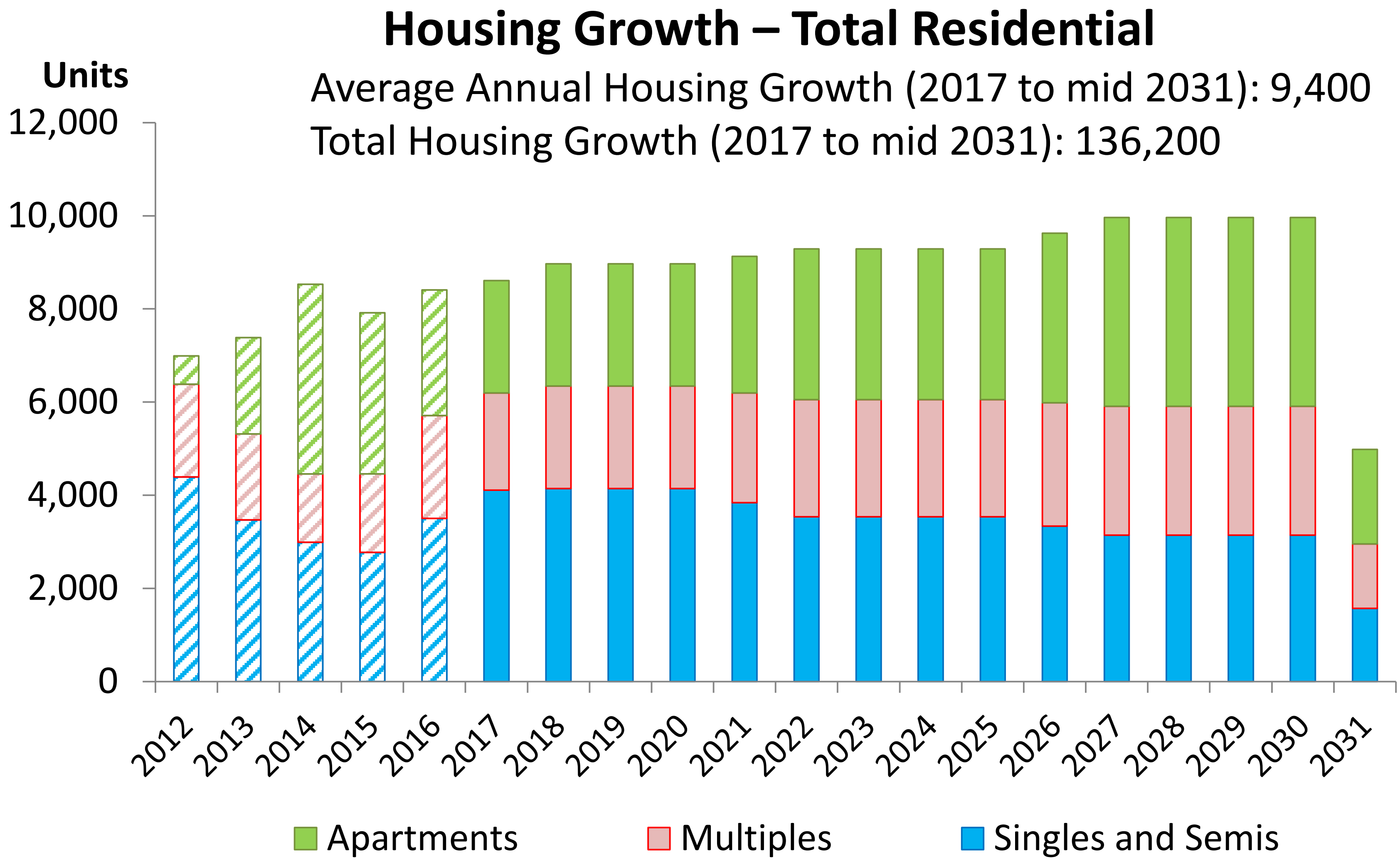
Housing mix will vary over time



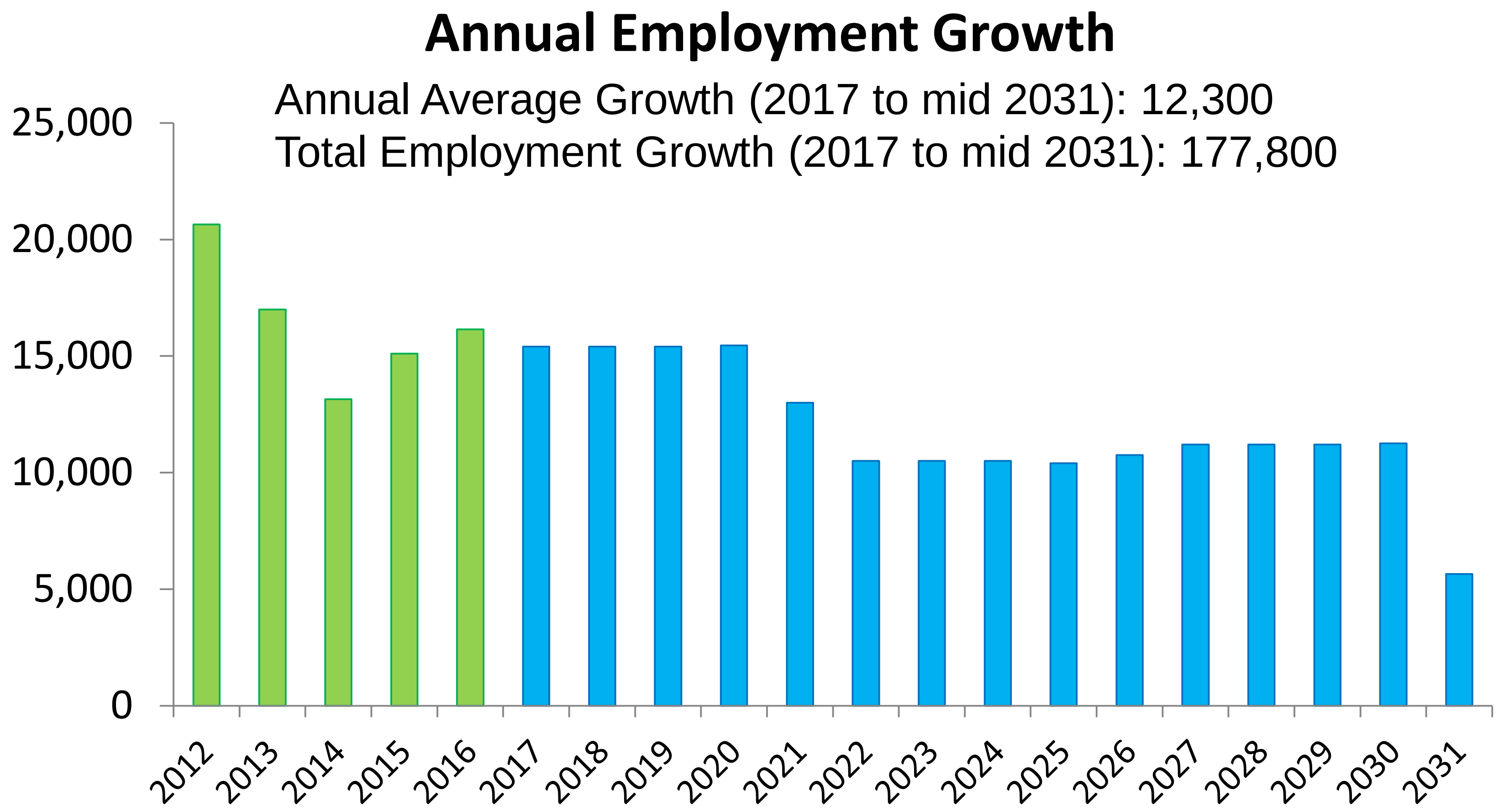
Housing mix will vary over time



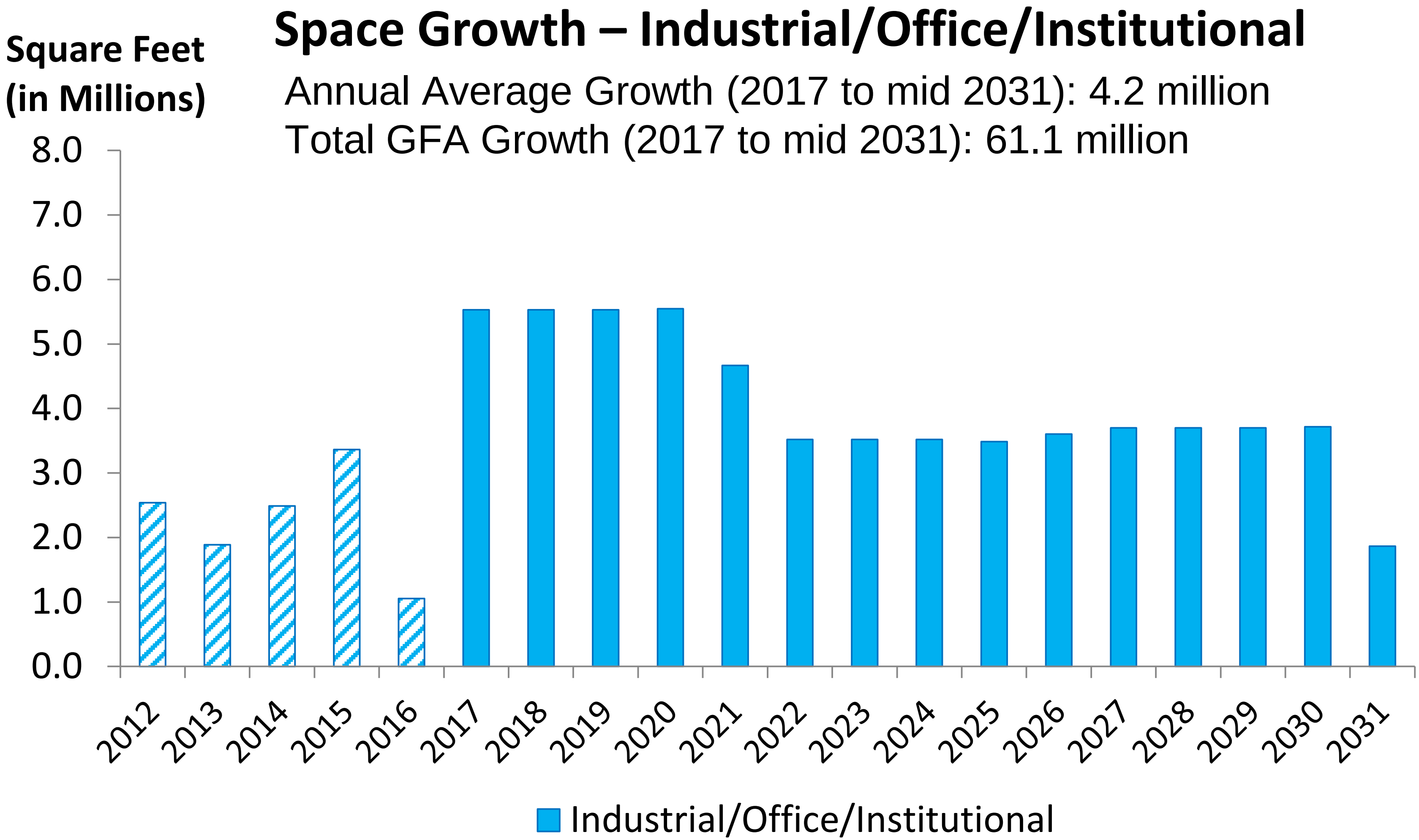
Housing mix will vary over time



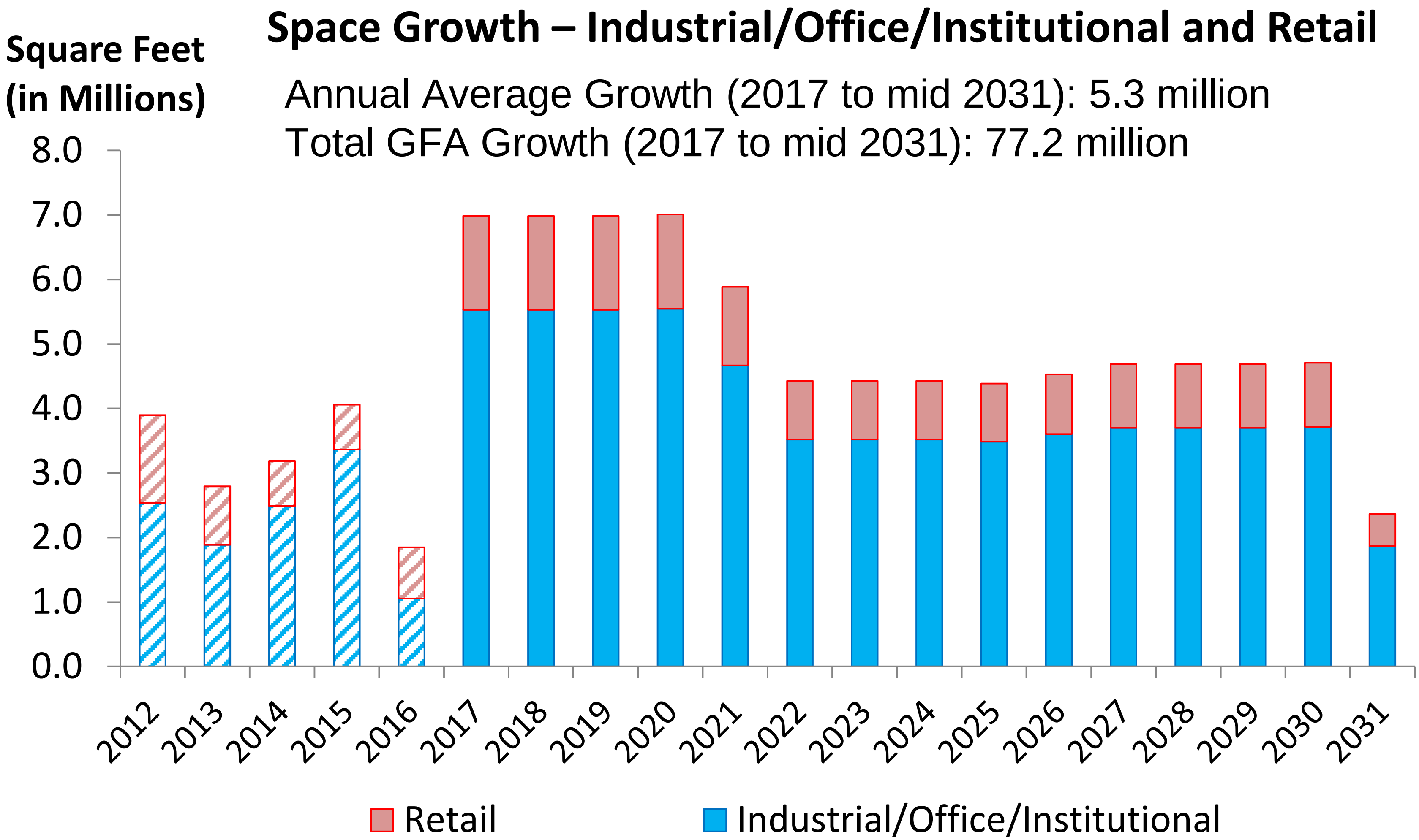
Employment forecast is also based on Growth Plan targets



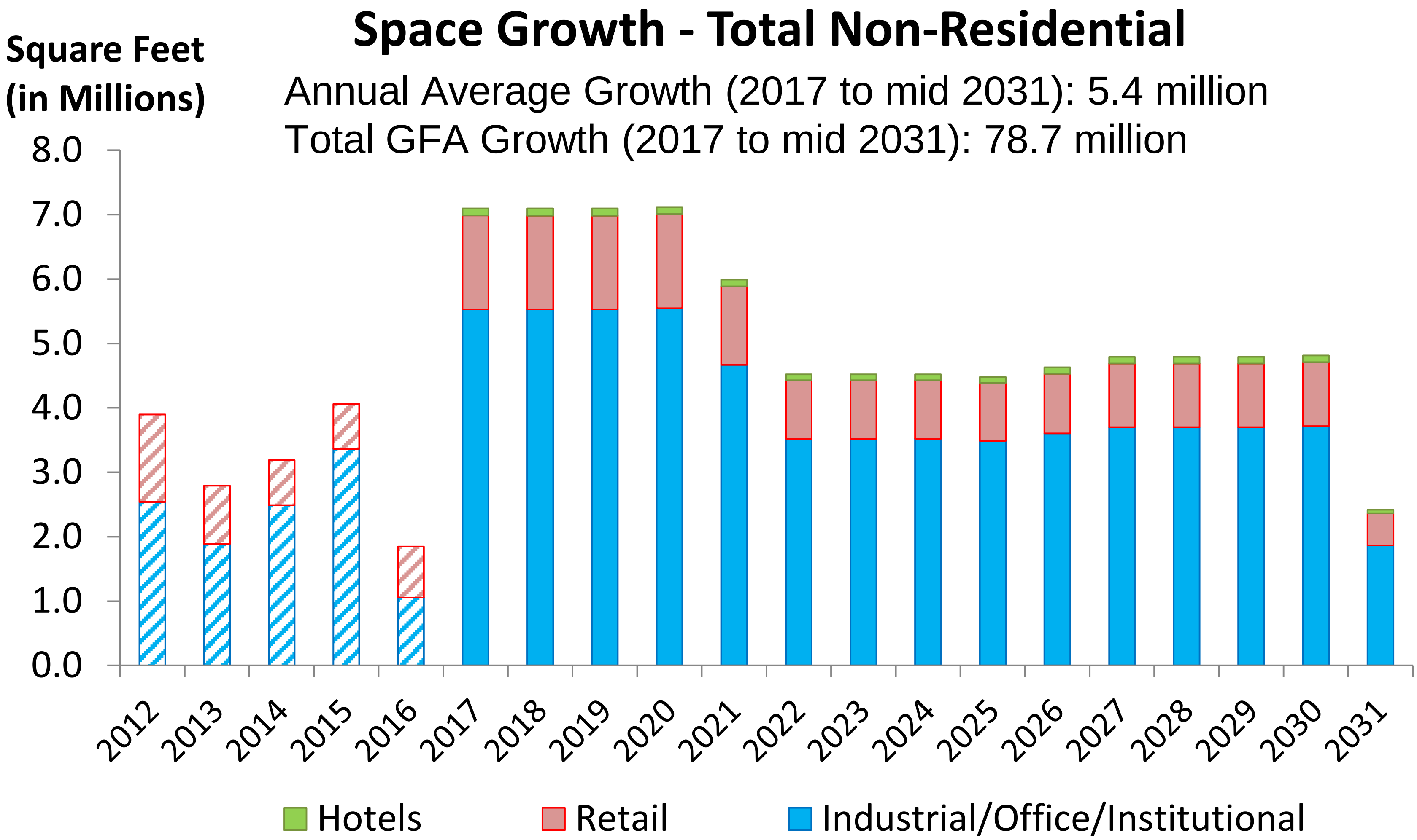
Near-term non-residential growth expected to be strong



Near-term non-residential growth expected to be strong



Near-term non-residential growth expected to be strong



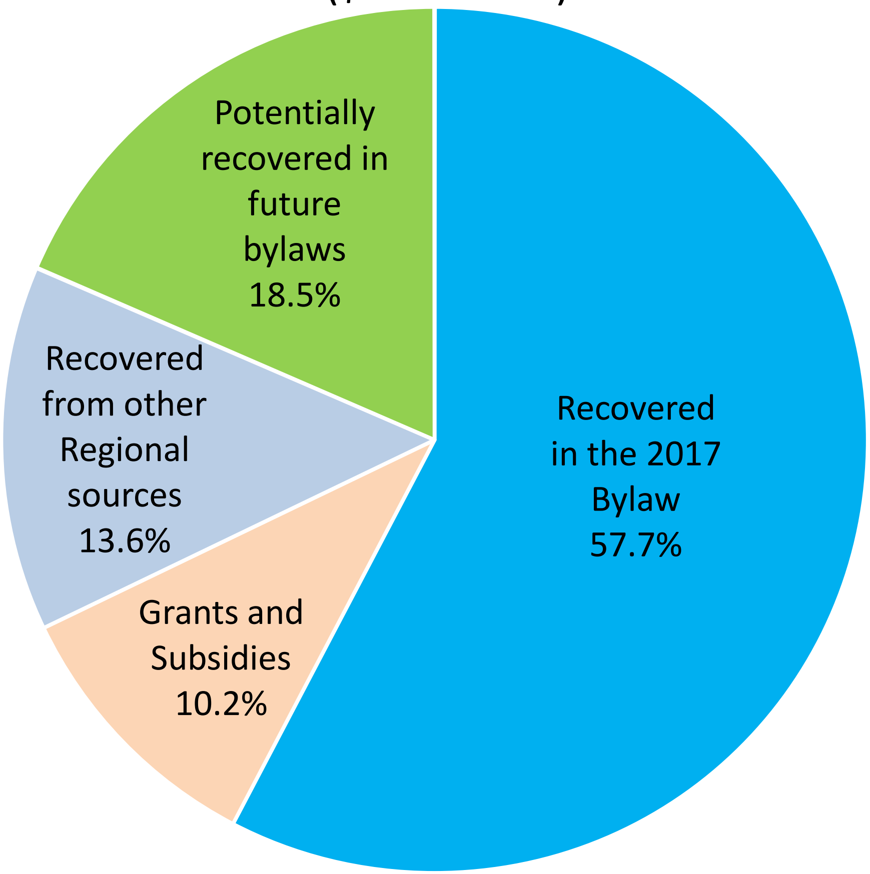
Key Points

- The growth forecast used in the development charge calculation has to be consistent with the Growth Plan and the Official Plan
- The forecasts used for the development charge calculation are somewhat higher than the growth rates experienced recently

GROWTH-RELATED COSTS

Background Study includes $6.4 billion of growth-related investment

Share of Gross Costs to be recovered
2017-2031
($6.4 Billion)



Category	$ Millions
Recovered in 2017 Development Charge Bylaw	3,713
Potentially recovered in future bylaws	1,191
Recovered from other Regional sources	877
Grants and Subsidies	655
Total	**6,436**

Development charges also include the cost of debt

Service	Net Interest Cost for New Development Charge Debt ($ Millions)	Principal and Interest on Existing Development Charge Debt ($ Millions)
Hard Services	283.9	3,153.2
General Services	24.9	310.4
Total	**308.8**	**3,463.6**

Not all Master Plan costs are included

$ Millions	Transportation Master Plan growth-related costs (2017-2041)	Transportation Master Plan growth-related costs (2017-2031)	Included in Background Study
Roads	7,586	5,592	2,782
Transit	8,888	7,170	382

Key Points

- Approximately 58 per cent of the $6.4 billion in growth-related costs identified in the Background Study can be recovered through development charges under the 2017 Bylaw
- The cost of growth-related debt – both existing and new – can be included in the development charge rate

HIGHLIGHTS OF POLICY AND METHODOLOGICAL CHANGES

The draft bylaw features a number of policy changes

Area	Change
Threshold to delineate small and large apartments	Threshold moved to 700 square feet from 650 square feet
Deferral for private purpose-built rentals	36 month deferral policy proposed (similar to 212 Davis Drive in Newmarket)
Hotel Development Charge	Separate class for hotels, with charge levied on a per square foot basis
Transition provisions	No transitional provisions

Changes in methodology helped enhance cost recovery

Service	Changes
Roads	Recognizing projects that are triggered by growth as 100 per cent growth-related
Transit	Using a planned level of service instead of historic service level cap No longer subject to the 10 per cent statutory deduction
General Services	Inclusion of waste diversion and court services for the first time Deducting the historic level of service cap after all other deductions instead of before; this allows for more cost recovery in the current bylaw

Persons per unit assumptions have changed

Development Type	2012 Study (19.5-year assumption)	2017 Draft Study (14.5-year assumption)
Single and Semi-detached	3.59	3.74
Multiple Unit Dwelling	3.15	3.01
Large Apartments*	2.23	2.19
Small Apartments*	1.51	1.60

*In the 2012 Background Study the threshold is 650 Sqft. In the 2017 Draft Background Study the threshold is 700 Sqft

And so have floor space per worker assumptions

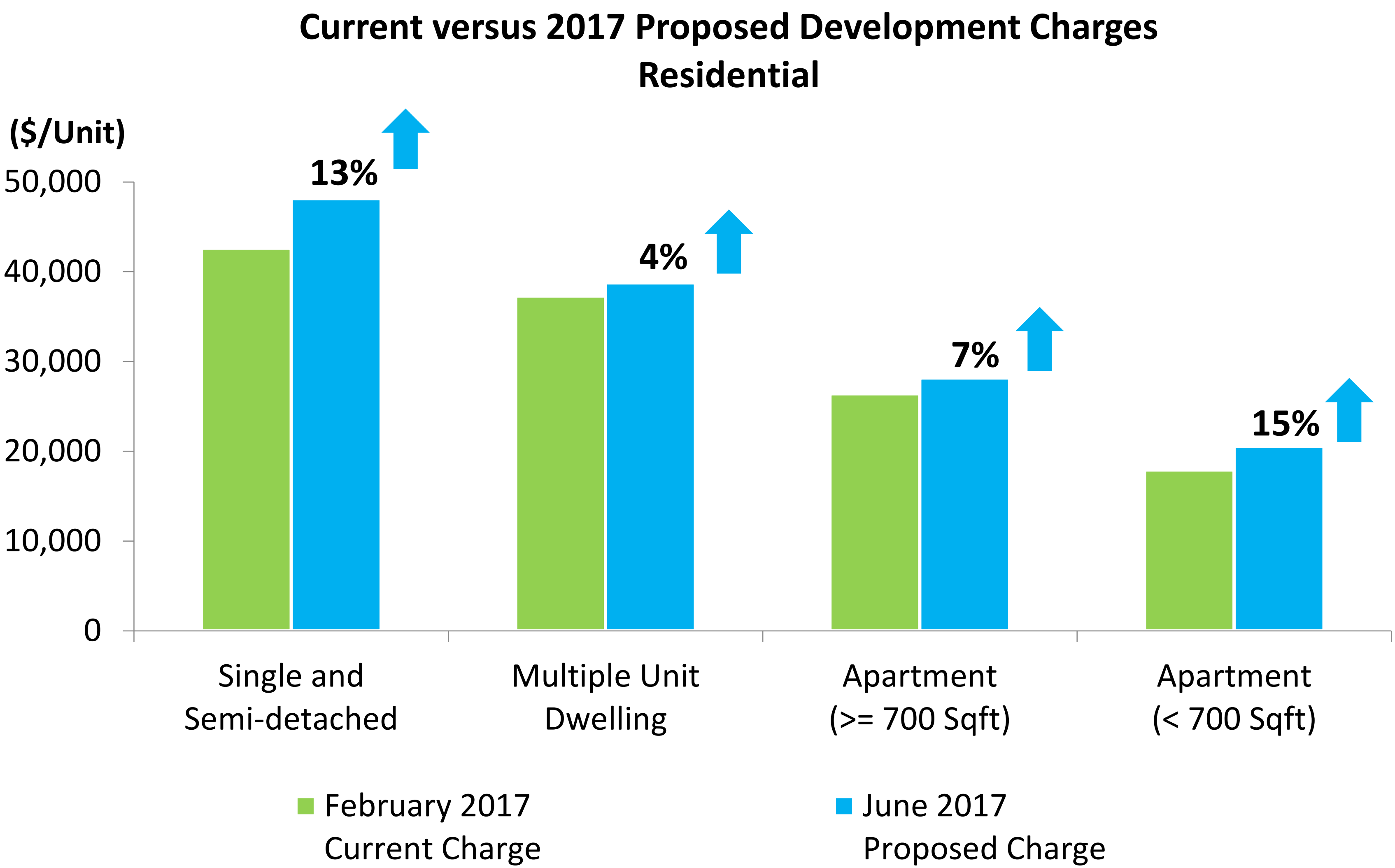
Development Type	2012 Background Study (Employee per Sqft)	2017 Draft Background Study (Employee per Sqft)
Industrial	950	800
Office	300	275
Institutional	1,000	900
Retail	500	430
Hotel	N/A	2,000

Key Points

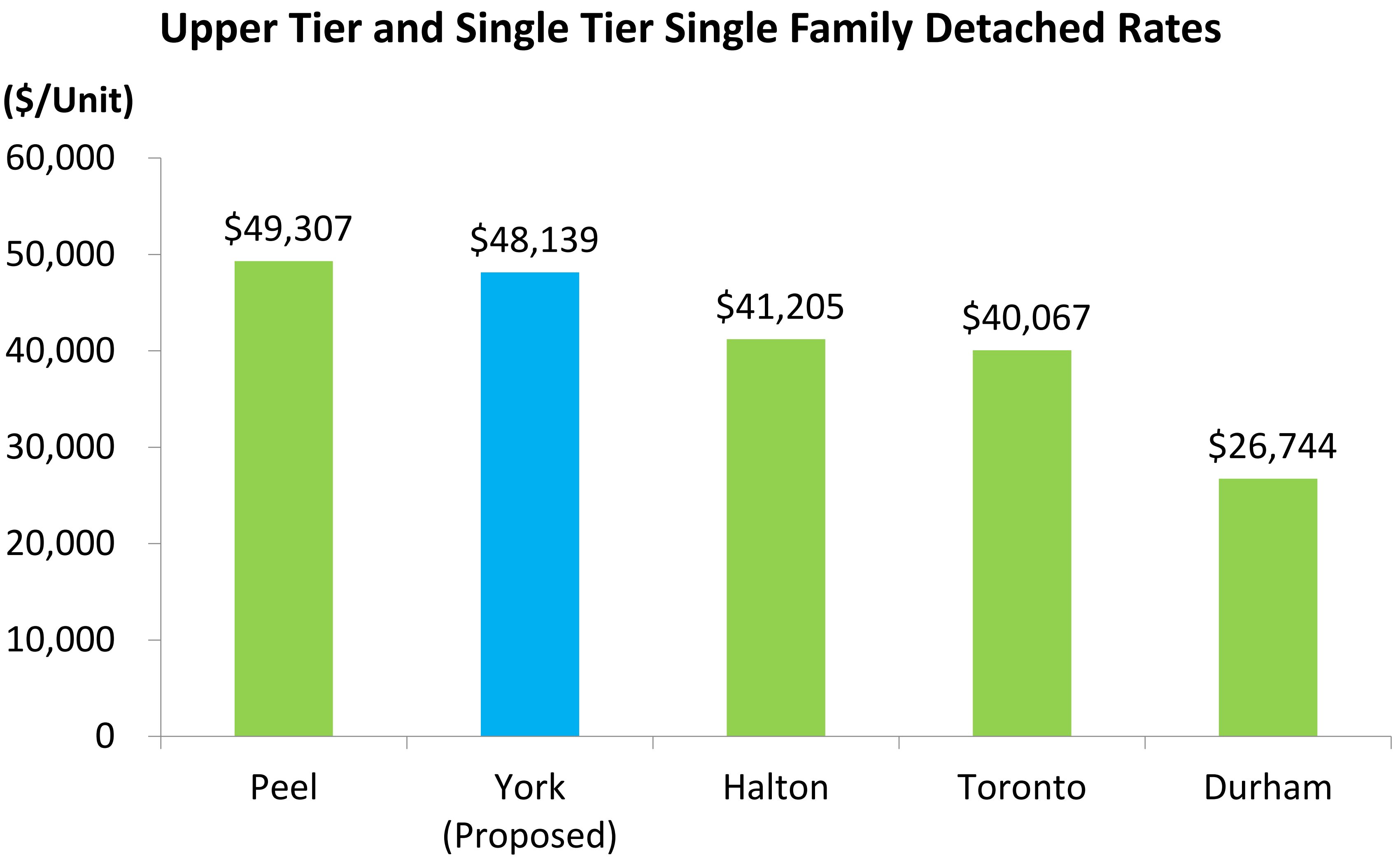
- Policy changes respond to changing circumstances:
  - Apartment size threshold based on a study carried out with BILD
  - Hotel and private purpose-built rental policies respond to Council direction
  - No transition measures, given the moderate rate changes and revenue losses from previous transition polices
  - The methodological changes generally have the effect of distributing costs more fairly among classes and increasing cost recovery

DEVELOPMENT CHARGE RATES IN CONTEXT

Moderate increases in proposed residential rates



York Region's single family rates will be the second highest



Residential development charges are a declining share of new housing prices

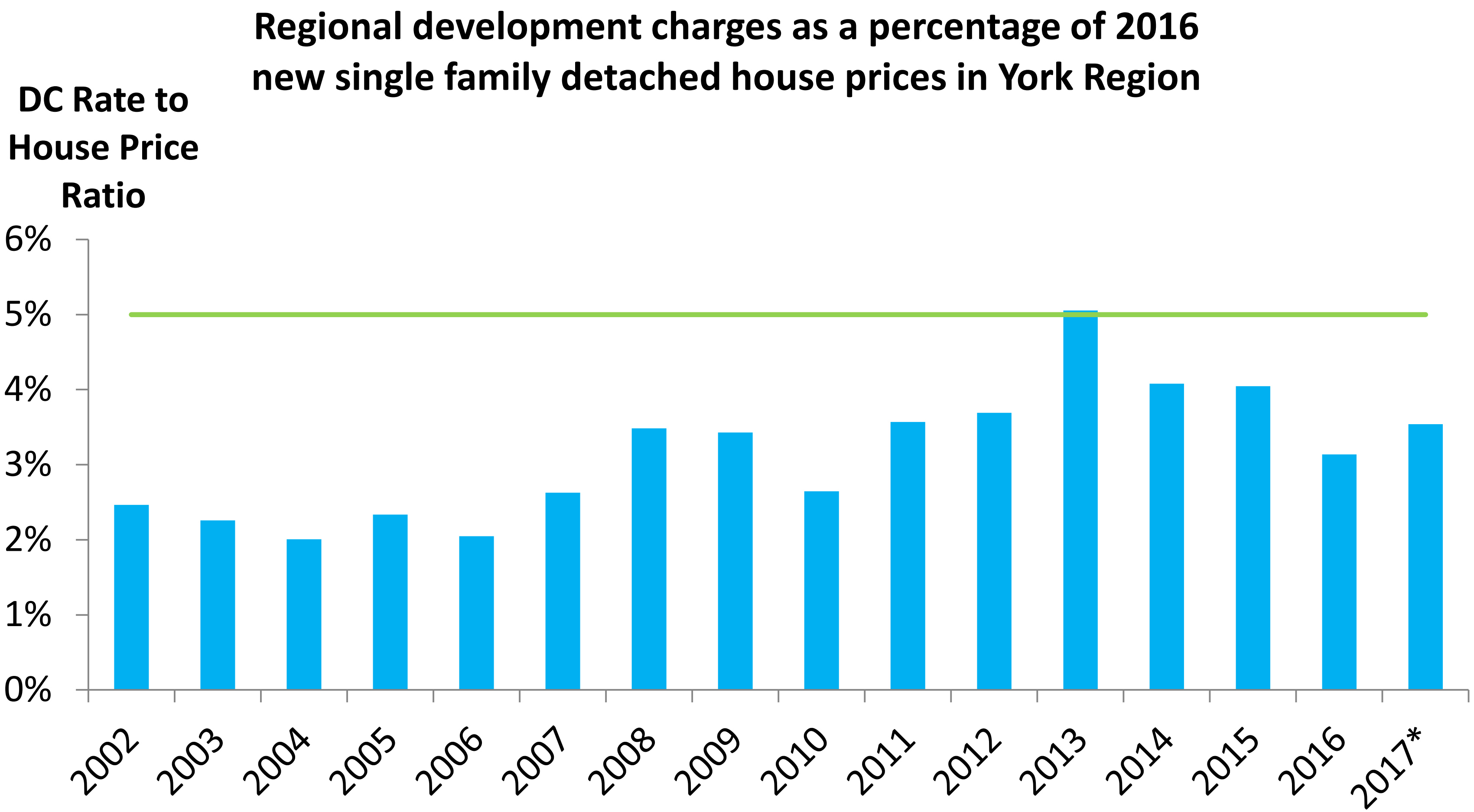
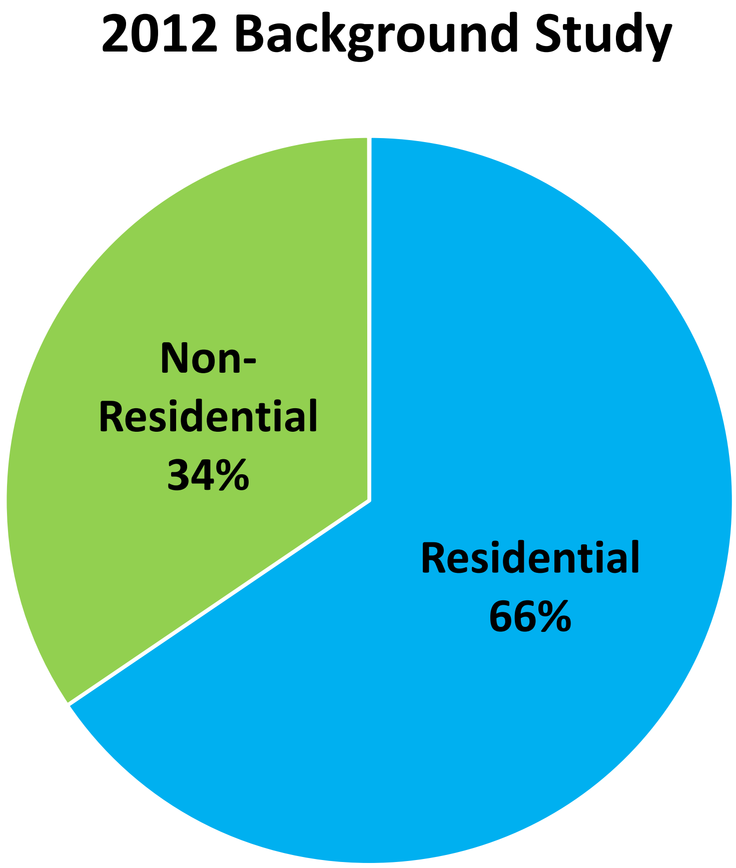
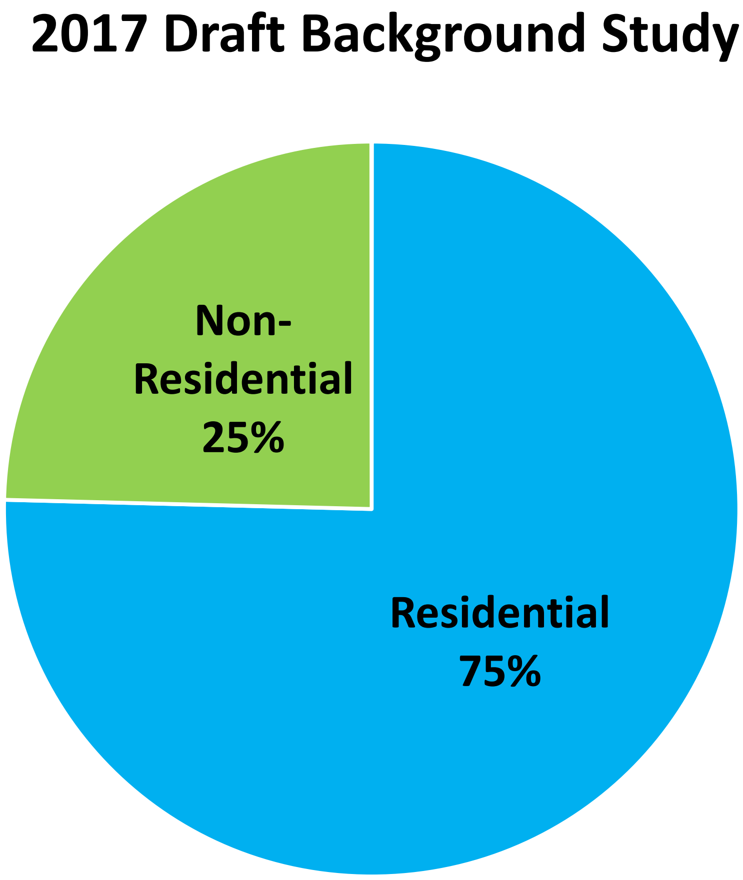


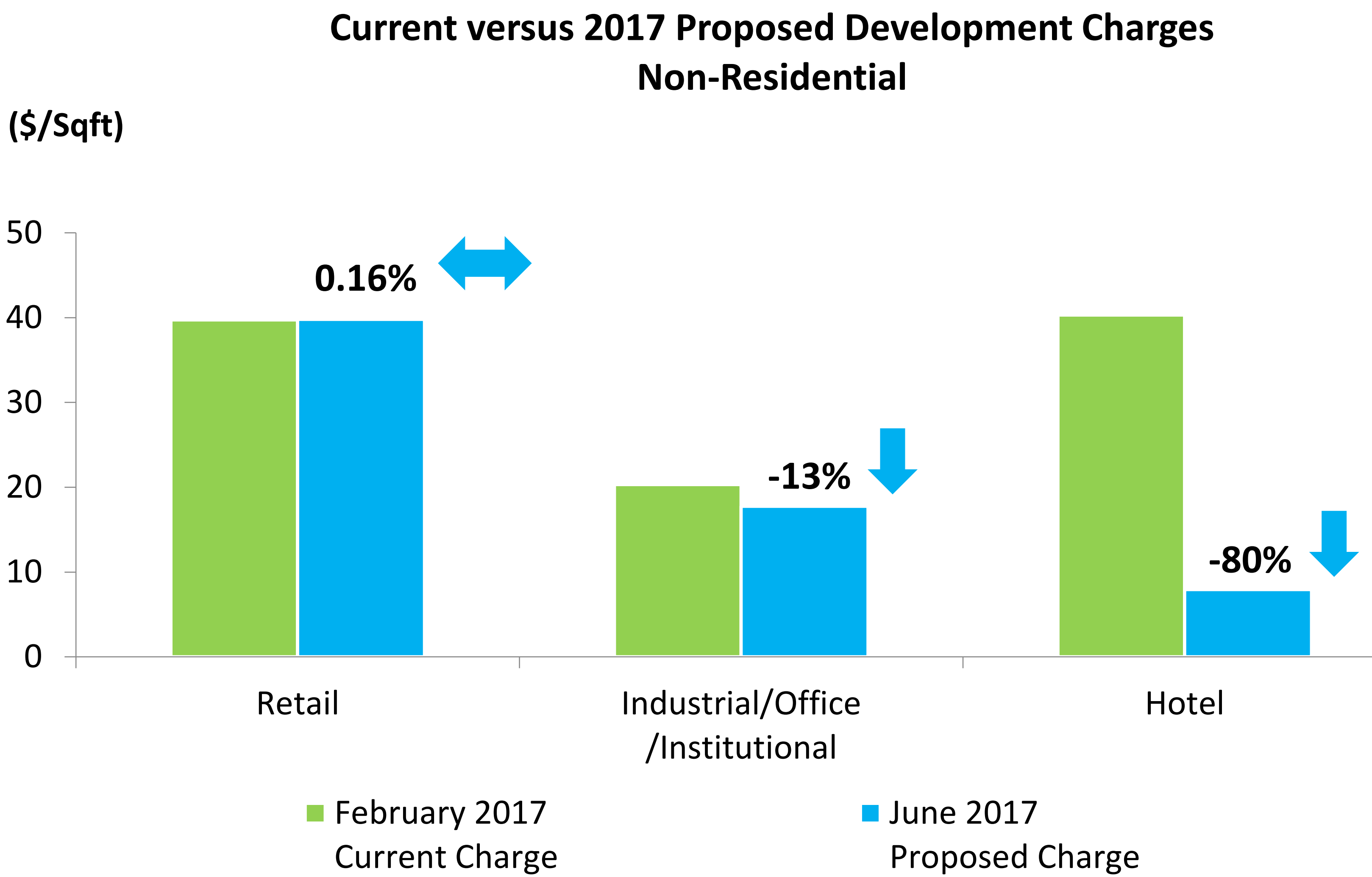
*Figure is based on rates in the 2017 draft Background Study and 2016 new single family detached house prices

A greater share of the cost will be born by the residential sector

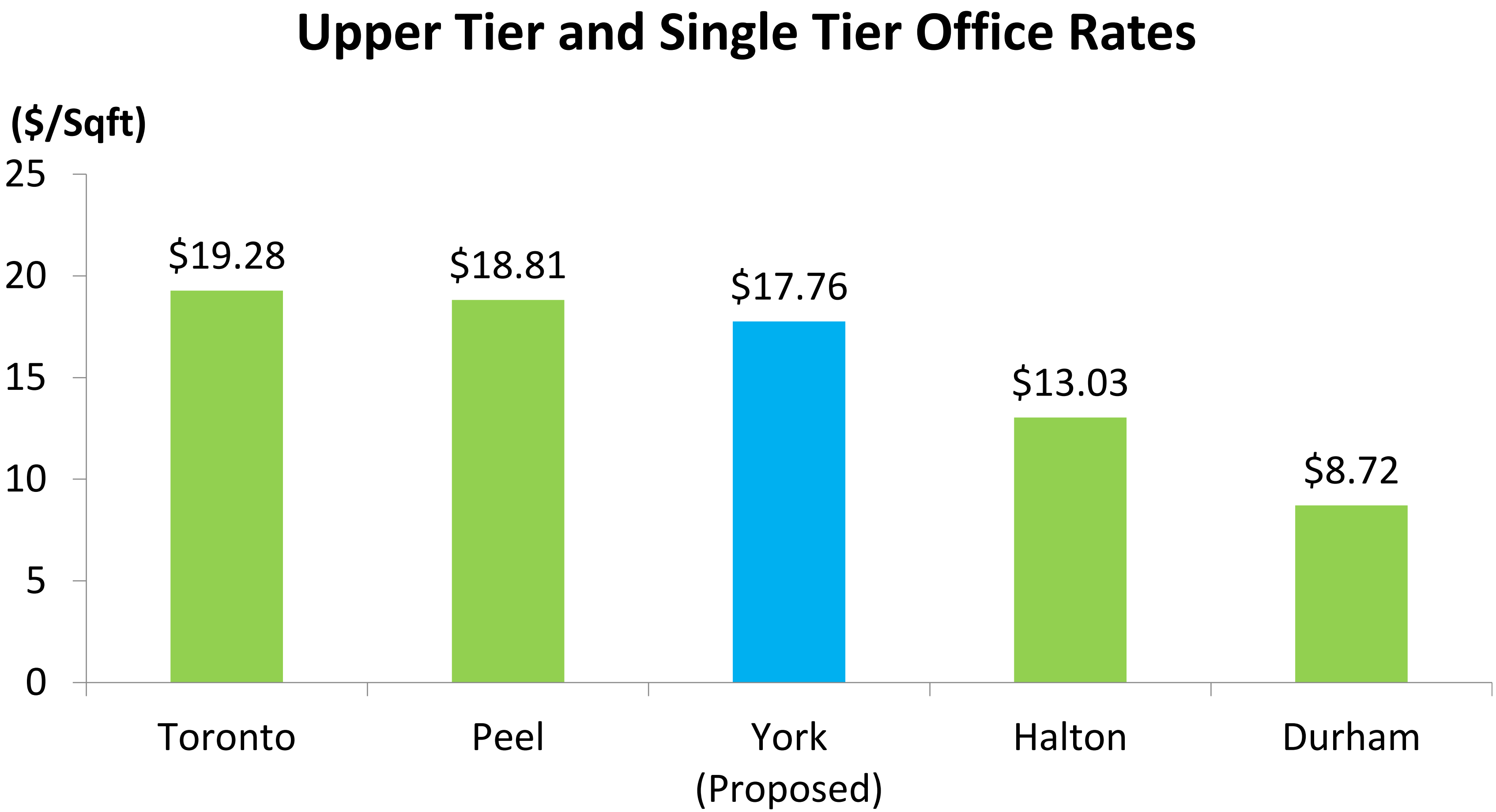




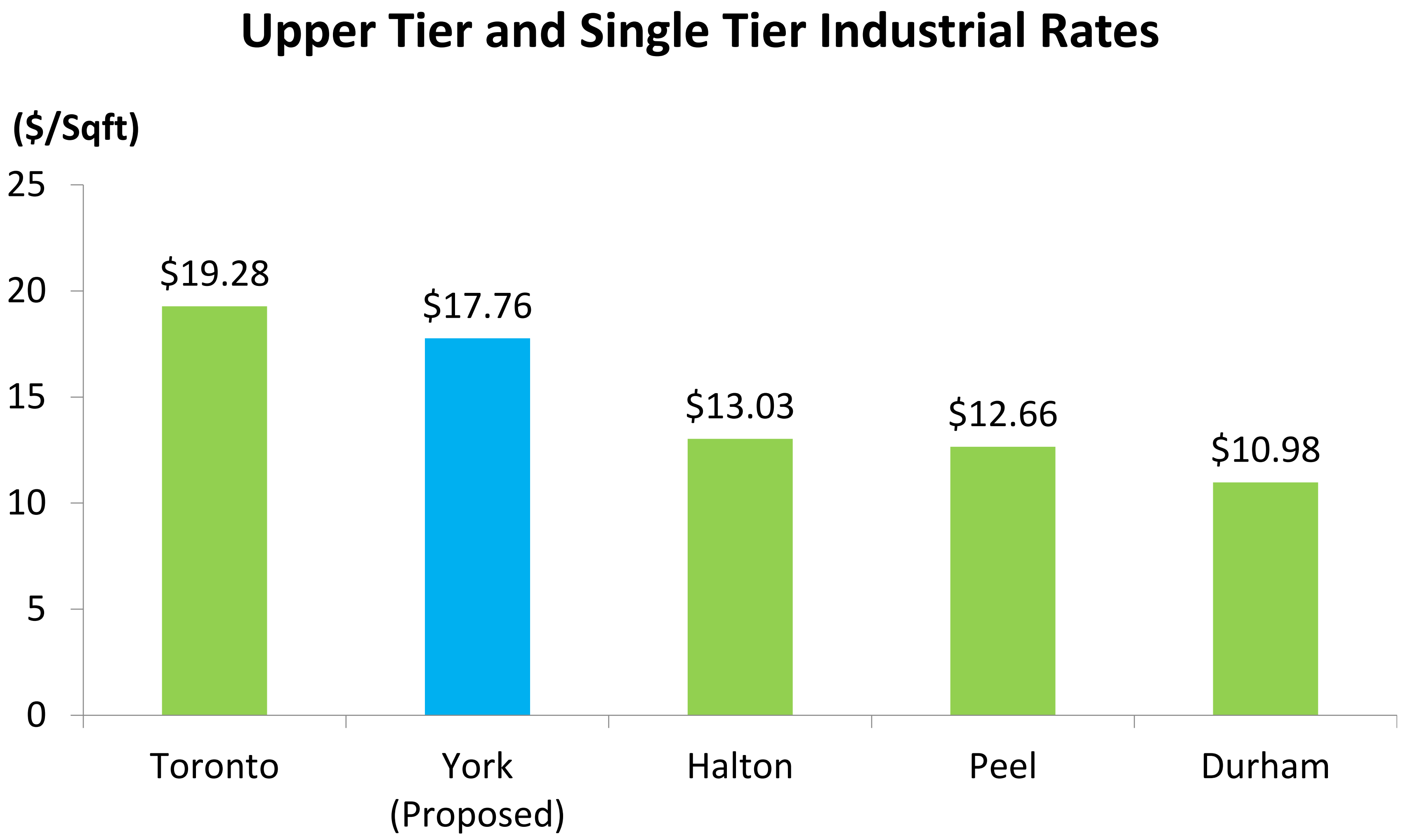
Non-residential rates have stayed the same or fallen



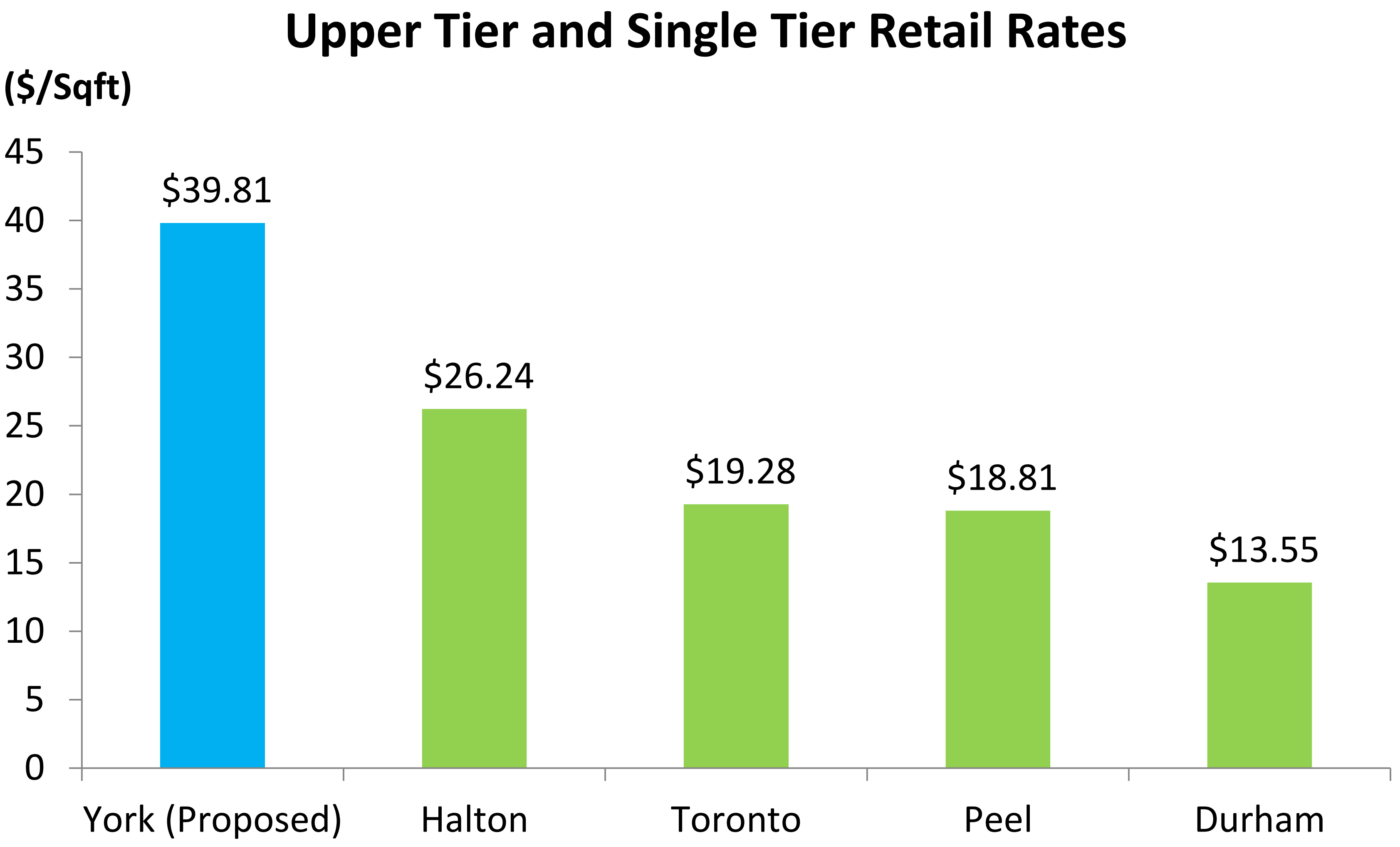
York Region's office rates are competitive



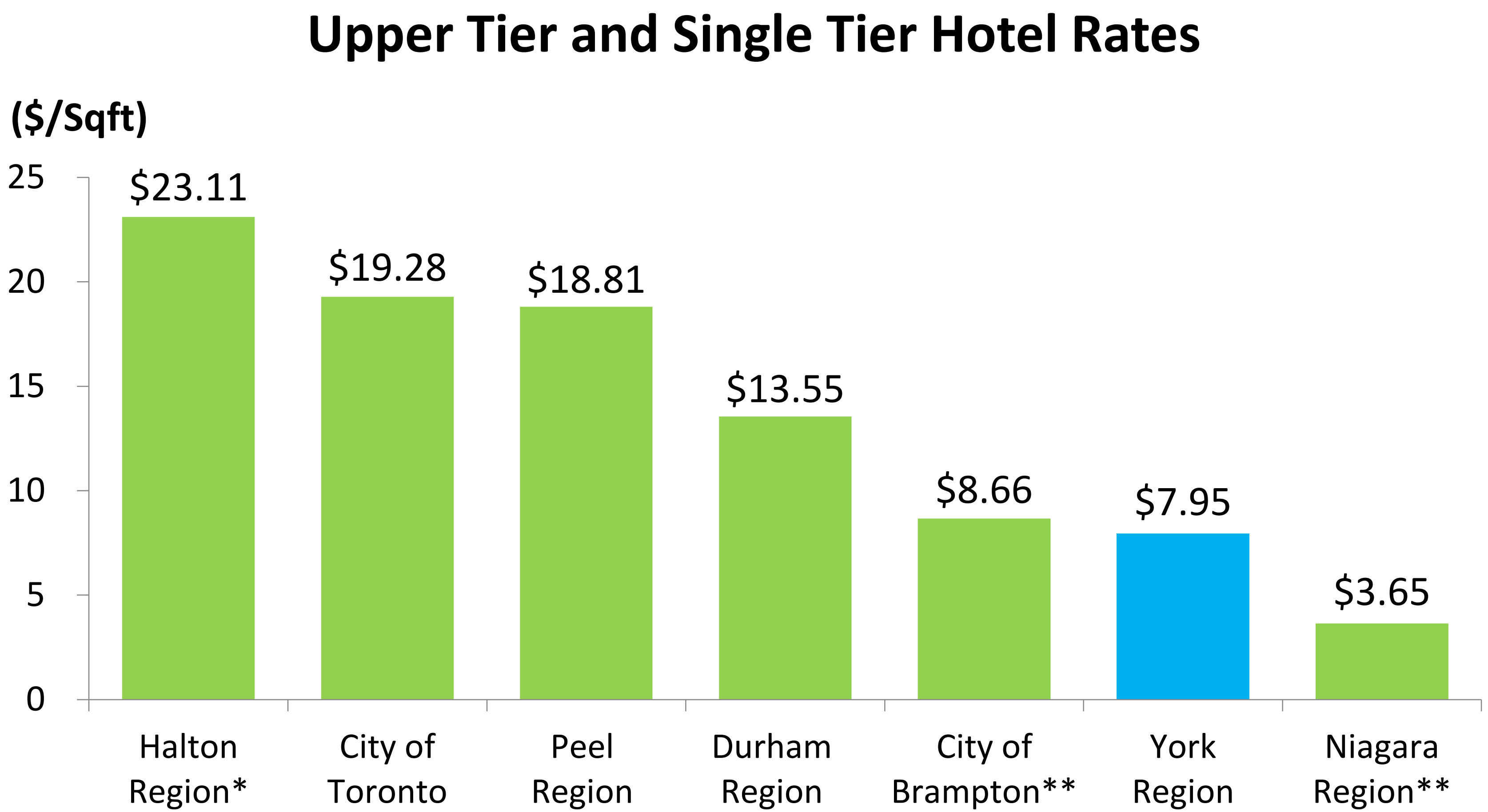
York Region’s industrial rate is relatively high



York Region's retail rate remains relatively high



York Region's hotel development charges will be among the lowest



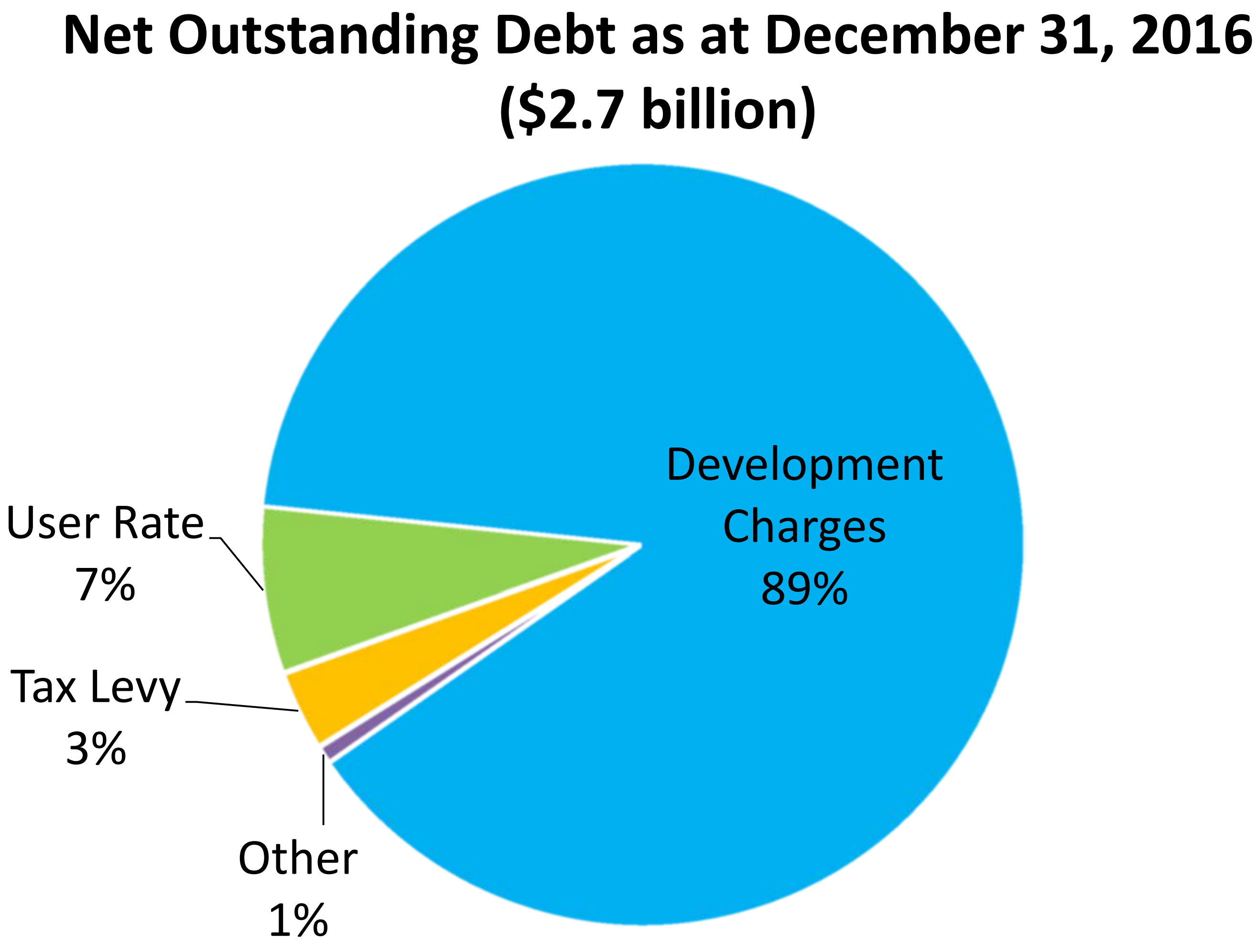
*Total urban (built boundary)
**Put hotels in their own class

Key Points

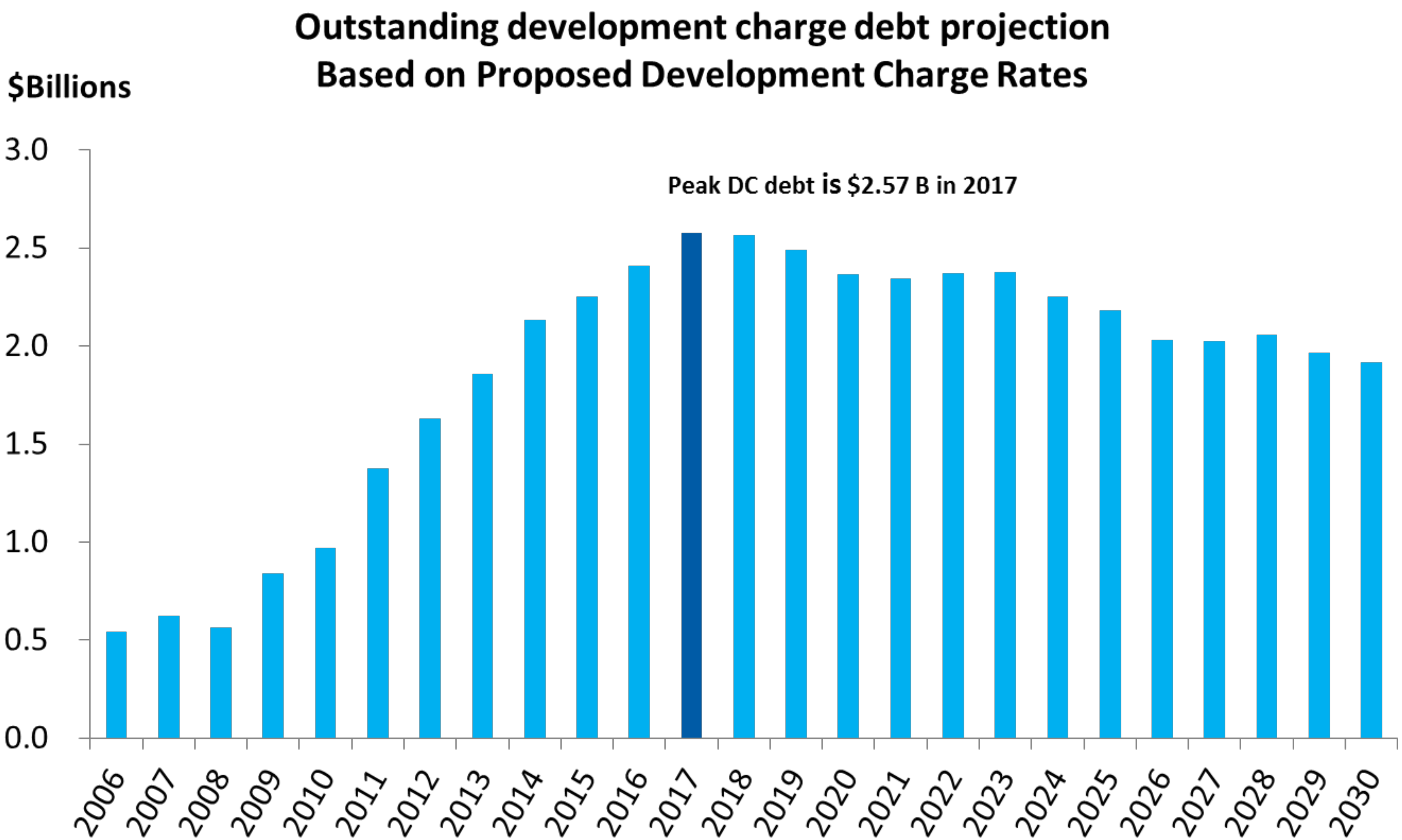
- The shift to residential will improve the likelihood of realizing the development charge collections forecast
- The proposed non-residential rates take into account the Region’s policy to separate retail from industrial/office/institutional

FISCAL CONSIDERATIONS

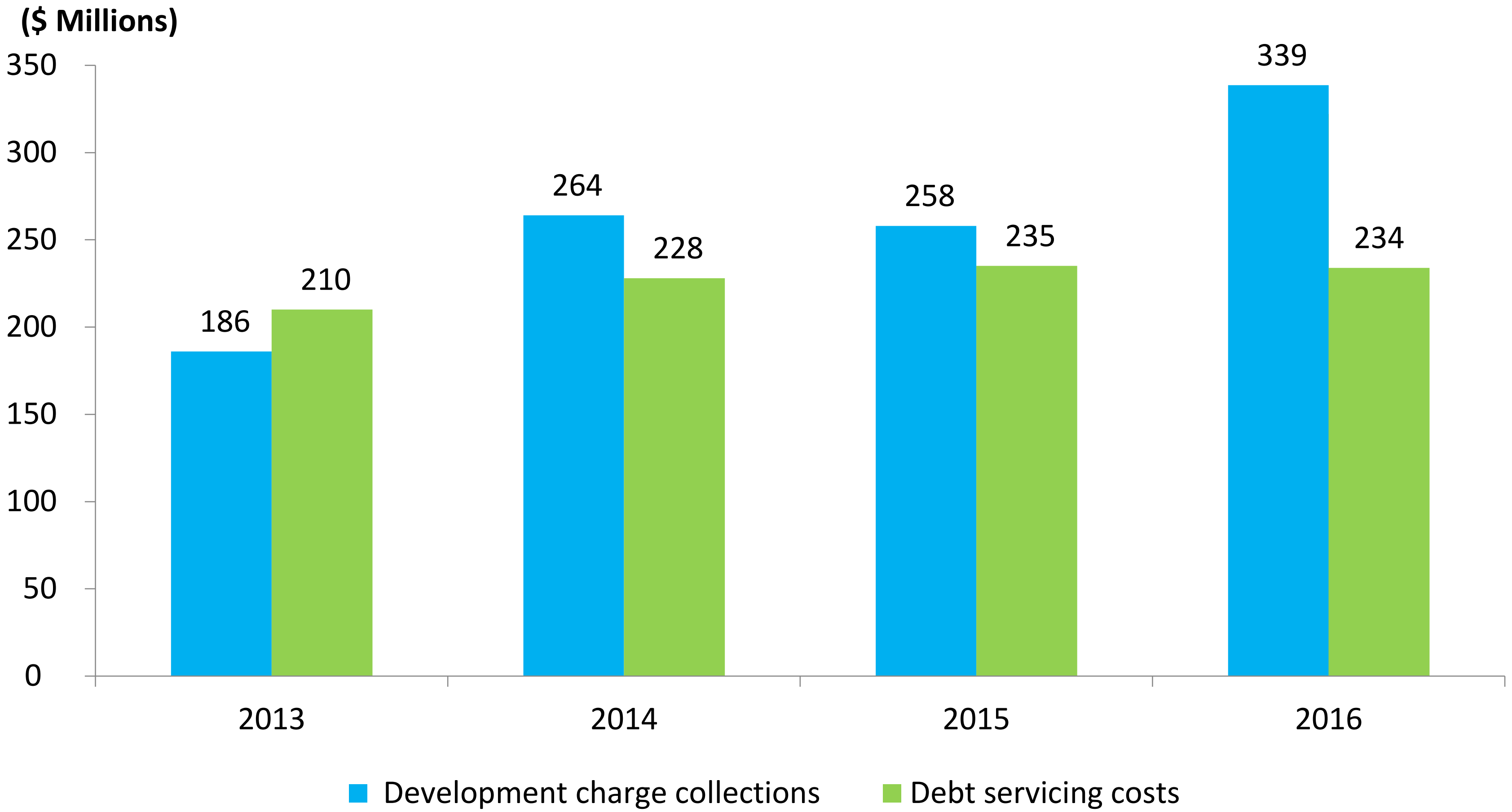
Almost 90% of the Region's debt is development charge debt



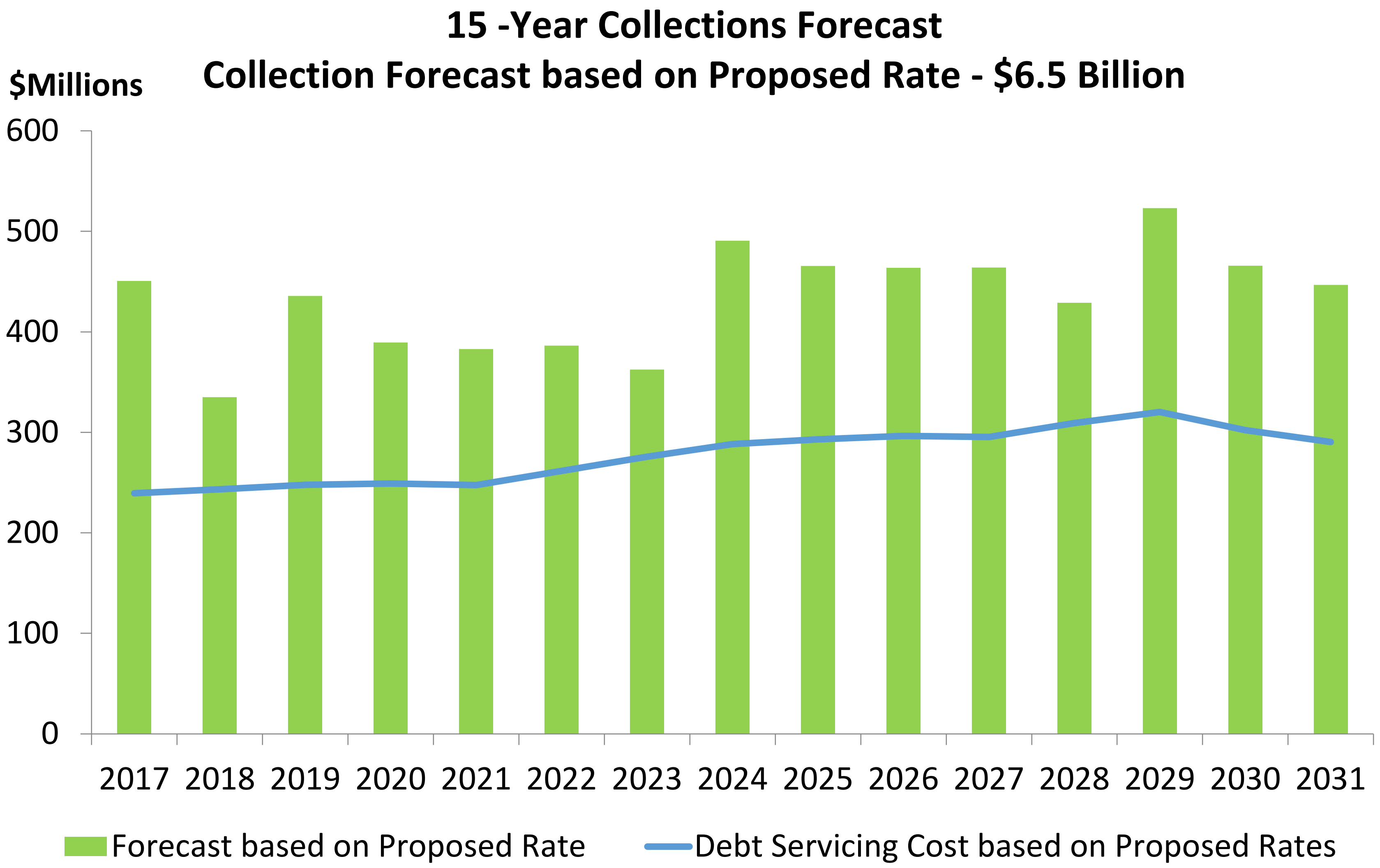
Development charge debt will peak in 2017 and then fall



Development charge collections need to be above debt servicing costs



Capital plan depends on realization of development charge revenue



Key Points

- The relationship between development charge collections, the capital plan and the debt management plan will need to be carefully managed

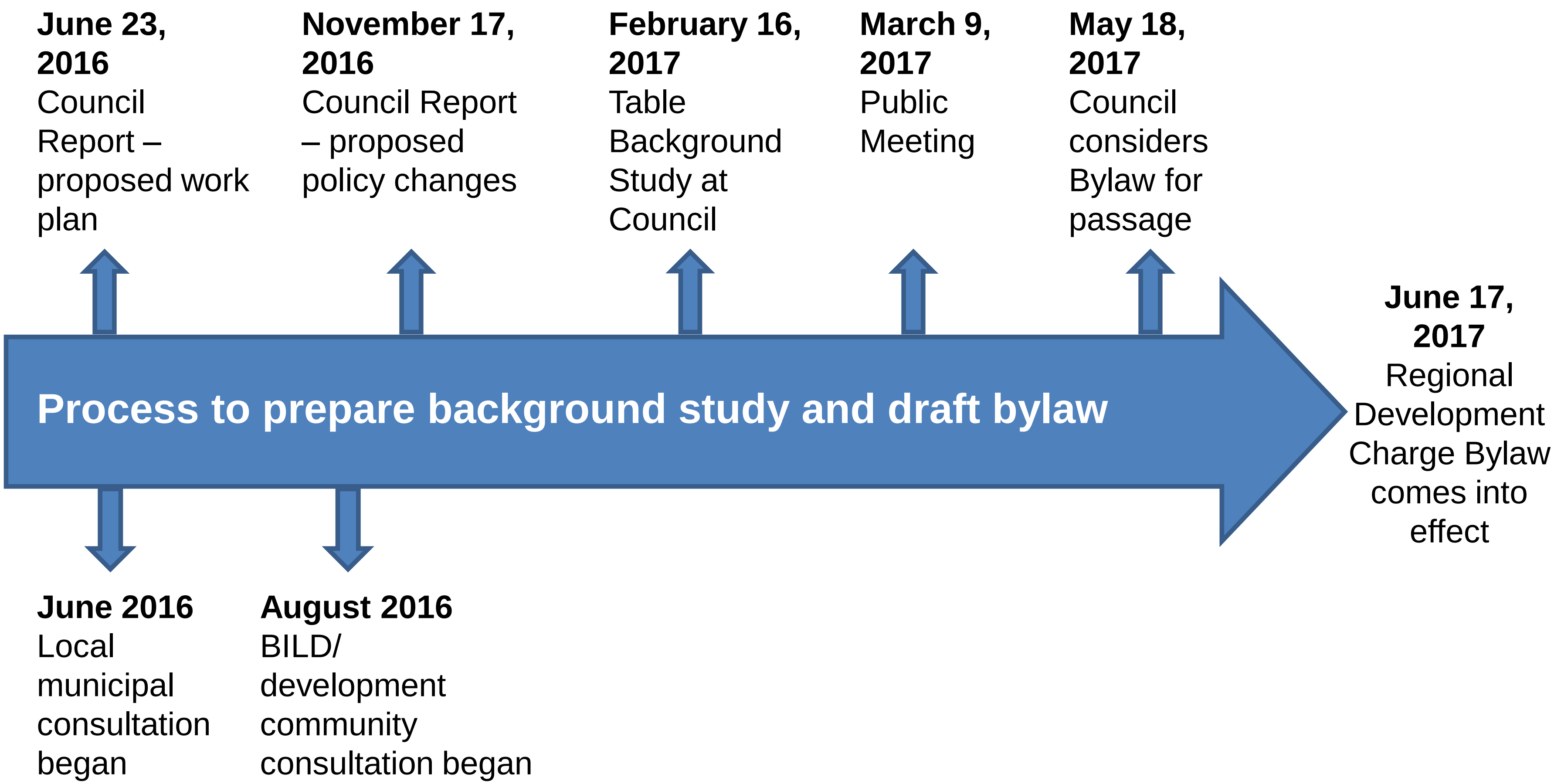
PROCESS

Stakeholder engagement process has been robust

- Number of meetings with local municipalities: 6
- Number of meetings with the BILD working group: 7

Topics discussed with BILD
Growth forecast
Development charges calculation methodology
Potential for area-specific development charge
Hotel development charge rate structure
Apartment occupancy and size study
Asset management plans

Milestones in the development charge bylaw update process



SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

It is recommended that:

1. Council receive the draft 2017 Development Charge Background Study and proposed Bylaw

2. A report be brought forward to the May 18, 2017 meeting of Regional Council recommending the 2017 Development Charge Bylaw, taking into consideration the input received at the public meeting, to be held on March 9, 2017

3. New revenue sources be sought for unfunded projects in the Transportation Master Plan

4. The Region not offer transition policies for the 2017 bylaw

5. The Regional Clerk circulate this report to the local municipalities

6. The Regional Clerk circulate this report to the Building Industry and Land Development Association – York Chapter (BILD)