



## REPORT

### Council

**Meeting Date: July 12, 2022**

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**FROM:** Finance Department

**DATE:** June 28, 2022

**SUBJECT:** 2022 Development Charges Background Study

**LOCATION:**

**WARD:** Town-wide

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#### **RECOMMENDATION:**

1. That the Development Charges Background Study dated May 13, 2022 be approved;
2. That the capital project listing set out in Chapter 5 of the Development Charges Background Study dated May 13, 2022, subject to further annual review during the capital budget process, be approved;
3. That the 2022 approved capital budgets be amended to reflect the project financing adjustments as identified in the Development Charges Background Study dated May 13, 2022;
4. That reserves and reserve funds be set up for the collection of By-law Enforcement development charges and By-law Enforcement development charges exemptions;
5. That Council, whenever appropriate, request that grants, subsidies, and other contributions be clearly designated by the donor as being to the benefit of existing development (or new development as applicable);
6. That the assumptions contained in the Development Charges Background Study dated May 13, 2022 be adopted as an anticipation with respect to capital grants, subsidies and other contributions;
7. That Council determine that no further public meetings are required under Section 12 of the *Development Charges Act, 1997*;
8. That Council indicate its intention that development related costs identified in the Development Charges Background Study dated May 13, 2022 as providing post period benefit (future excess capacity) shall be paid for subsequently by development charges or other similar charges; and
9. That Development Charges By-law 2022-068 be adopted; and that the new by-law shall take effect at 12:01 am on July 13, 2022.

**KEY FACTS:**

The following are key points for consideration with respect to this report:

- The Development Charges (DC) Background Study was made available to the public on May 13, 2022.
- A meeting was held with the DC Steering Committee on April 22, 2022.
- A meeting with the development community for consultation on the proposed DC Background Study and by-law was held on May 27, 2022.
- In accordance with the *Development Charges Act, 1997* (DCA) a public meeting was held on June 20, 2022. At the public meeting, Gary Scandlan of Watson & Associates Economists Ltd. provided a comprehensive overview of the DC Background Study;
- Development Charges By-law 2022-068 is included as an appendix to this report. Council consideration of the by-law will take place at the meeting on July 12, 2022. It is recommended that the by-law take effect at 12:01 am on July 13, 2022.
- The residential development charge for a single or semi-detached dwelling will decrease from 45,925 to 45,331 under the new by-law and the non-residential charge will decrease from 13.64 per sq. ft. to 12.48 per sq. ft.

**BACKGROUND:**

The town's current Development Charges (DC) By-law expires on February 28, 2023. As growth forecasts beyond 2031 are still being finalized, a technical update to the DC Background Study has been prepared. The growth forecast and capital requirements for all DC services have a ten-year time period to 2031, consistent with previously completed service area master plans and the 2018 DC Background Study. A full update to the DC Background Study that extends beyond 2031 will take place in the next few years, once population targets and new service area master plans are completed. The focus for the technical update has been to ensure that project costing and timing is up to date so that DC rates are collected appropriately to pay for the land and infrastructure required to support growth.

Beginning in October 2021, staff worked with Watson & Associates Economists Ltd. to update inputs to the development charges calculation and policies for the purpose of approving a new DC By-law. The chart below outlines key dates in the development charge process. Adoption of the by-law is anticipated to take place on July 12, 2022 with an effective date of 12:01 am July 13, 2022.

October 2021-March 2022	Data Collection
April 22, 2022	Meeting of DC Steering Committee
May 13, 2022	Release of DC Background Study
May 27, 2022	Stakeholder Meeting
June 20, 2022	Public Meeting of Council
July 12, 2022	Council Consideration of DC Background Study and By-law

At the public meeting held on June 20, 2022, Gary Scandlan of Watson & Associates Economists Ltd. provided a comprehensive overview of the 2022 DC Background Study. The Background Study is posted on the town's website at the following location: <https://www.oakville.ca/townhall/development-charges-bylaw.html>

### **COMMENT/OPTIONS:**

The DC Background Study considers the anticipated growth forecast to 2031, which includes minor updates to the total residential units and unit type mix based on updated census data. The development-related capital requirements for DC eligible services over the ten-year planning period have been included, with updates to capital needs, project costs and timing. DC eligible services for the Town include Services Related to a Highway, Transit, Fire Protection, Parks and Recreation, Library, Growth Studies, and By-law Enforcement. As a result of legislative changes to the DCA through Bill 108, the More Homes, More Choice Act, 2019, and Bill 197, the COVID-19 Economic Recovery Act, 2020, By-law enforcement became an eligible DC service and has been added. However, municipal parking has been removed as it is no longer an eligible service; growth-related capital requirements for municipal parking will be considered as part of the Community Benefits Charge Strategy.

In accordance with the DCA, each service component was evaluated based on the average historical ten-year level of service calculation, which puts a cap on the DC funding available over the growth forecast period. Based on the revisions to the DCA in 2016, Transit is required to use a forward-looking approach in which needs are assessed based on growth, benefit to existing and existing capacity.

### **Development Charges Rate Update**

The proposed Development Charges By-law 2022-068 included in Appendix A, is based on a uniform municipal-wide development charge calculation for all eligible municipal services. The following table provides the proposed DC rates calculated through the DC Background Study. For comparison purposes, the table also includes the current DC rates as of April 1, 2022.

	RESIDENTIAL					NON-RESIDENTIAL
	Single and Semi-Detached Dwelling	Multiples	Apartments - 2 Bedrooms +	Apartments - Bachelor and 1 Bedroom	Special Care/Special Dwelling Units	(per sq.ft. of Gross Floor Area)
<b>Municipal Wide Services/Class of Service:</b>						
Services Related to a Highway	21,993	16,280	11,038	8,322	6,567	10.08
Transit Services	856	634	430	324	256	0.39
Fire Protection Services	1,524	1,128	765	577	455	0.70
Parks and Recreation Services	18,593	13,763	9,332	7,035	5,552	0.96
Library Services	1,779	1,317	893	673	531	0.09
Growth Studies	568	420	285	215	170	0.25
By-law Enforcement	18	13	9	7	5	0.01
<b>Total Municipal Wide Services/Class of Services</b>	<b>45,331</b>	<b>33,555</b>	<b>22,752</b>	<b>17,153</b>	<b>13,536</b>	<b>12.48</b>
<b>Current Charge (as of April 1, 2022)</b>	<b>45,925</b>	<b>33,459</b>	<b>24,681</b>	<b>14,885</b>	<b>13,994</b>	<b>13.64</b>
<b>% Change</b>	<b>-1.3%</b>	<b>0.3%</b>	<b>-7.8%</b>	<b>15.2%</b>	<b>-3.3%</b>	<b>-8.5%</b>

As shown in the table above; for all services combined; the proposed DC rate for residential single family detached units is \$45,331. This represents a \$594 (1.3%) decrease from the current residential DC. For non-residential, the charge for all services combined, is \$12.48 per sq. ft. representing a \$1.16 (8.5%) per sq. ft. decrease in the non-residential DC. There are varying updates to the dwelling unit type charges as a result of changes to the overall population that are forecast to reside in these unit types.

Through the technical update to the DC Background Study, DC rates have been calculated for each service so that collections from development will provide the funding needed to deliver growth-related capital projects. Since the 2018 DC Study, there have been major cost pressures associated with the construction industry and larger market conditions. Beginning in 2018, increased tariffs on products resulted in higher construction costs. Global supply shortages and commodity price volatility, caused by the COVID-19 pandemic continue to persist as a result of the war in Ukraine and trade restrictions. With the goal of keeping up with inflation, DC rates are indexed annually based on the Statistics Canada non-residential buildings construction price index. As a result of this indexing, and the removal of the 10% mandatory deduction for soft services through the 2021 DC Amendment, April 1, 2022 residential DC rates have increased by 36.3% (32.8% for non-residential) since the 2018 DC Study.

The annual indexing measure provides a reasonable estimate of changes to projects costs; however, the technical update to the DC Background Study allowed for a thorough update to projects costs with consideration of specific project components and drivers, including land acquisition needs. Through this detailed review, there have been further increases in capital needs for the various services, which are reflected in the proposed DC rates. While the proposed DC rates are slightly lower compared to current DC rates for most development types, the shift of

the Wyecroft Road extension and bridge (\$70 million in DC inflated dollars) from the Town's capital forecast to Halton Region, the removal of municipal parking, along with some updates to project timing beyond 2031, have decreased DC eligible capital needs over the ten-year period. In the coming years, a full update to the DC Background Study will be completed and any project costing beyond 2031 will be recovered from development charges.

#### Financial Implications

Development charges are the major source of financing for growth-related capital costs, minimizing the financial impact of development on existing residents. Chapter 6 of the DC Background Study identifies the gross capital expenditures and sources of revenue for works to be undertaken during the five-year life of the by-law. Of the total capital costs, 80% is to be funded through DCs. There is a benefit to existing development of 15% to be funded from town sources, while the remaining revenue will come from anticipated grants, subsidies and other contributions. The majority of the costs considered a benefit to existing development are associated with the transportation capital program. Each type of improvement was assessed as part of the 2012 DC Background Study Transportation Technical Report, and an allocation of the extent to which the improvement benefits new growth and existing development was made. Benefits to existing range from 0% for new roadway construction, and 5% to 20% for roadway widenings depending on the number of new lanes and requirements for reconstruction. Included in the DC Background Study are a number of minor financing adjustments to 2022 capital projects, mainly as a result of changes to the residential and non-residential share for development charges, as well as new DC financing for specific projects such as by-law enforcement vehicles.

The DC Background Study also considers the future implications to the Town as a result of the capital works identified with respect to the operating budget (Appendix C of the DC Background Study), and asset management planning (Appendix F of the DC Background Study). These needs will continue to be updated and defined through the updates to the Asset Management Plan and the annual budget process.

#### Development Charge Collections

Changes to the DCA now allow for deferral of the payment of DCs until occupancy (rather than at building permit) for developments that meet the definition of rental housing, institutional, and non-profit housing. Further, these development types may pay in six annual instalment payments over five years (rental and institutional) and 20 annual instalment payments over 21 years (non-profit housing). The legislation provides the authority to charge interest to cover the costs associated with the rate freeze and deferral of payment, with the goal of revenue neutrality. The DCA includes the ability for the Province to prescribe a maximum interest rate; however, they have not done so at this time. Council approved the use of prime lending rate of the town's financial institution (currently 3.70%) as the interest rate for the

development charges through Development Charges Interest Policy F-FPC-007 and related Development Charges Interest Procedure F-FPC-007-001.

Concern was raised about the financial risk of deferrals through the DC process, and the appropriateness of the interest rate. The goal from the province is to support a range and mix of housing options; however, deferrals do result in cash flow pressures when delivering capital projects, which could increase the need for development charge supported debt financing. While the legislation doesn't allow for the town to take securities or register agreements on title, agreements are executed outlining the details of instalment payment arrangements with the owner. Should an instalment payment be missed, the town has the authority to add the full outstanding DC payable (including interest) to the tax roll and collect in a manner similar to taxes. The impact of DC deferrals to date are \$4.6 million in development charges that have been deferred, for which \$130K in interest has been accrued. It is anticipated that instalment payments of \$518K will be received related to these deferrals in 2022.

There was also input from stakeholders that purpose built rental housing should be exempt from DCs, in order to assist with affordability. Rental housing is eligible for instalment payments; however, an exemption for these types of development would require tax supported funding in place of DCs.

There are no proposed changes to the approved DC policies at this time. The town has issued debt for various growth and non-growth capital projects in each of the past three years, for which the cost of borrowing has been slightly lower than the DC interest rate (prime lending rate). Should the cost of borrowing exceed the DC interest rate, these costs would be recovered from development charges and would not be added to the tax levy. The interest rate will continue to be monitored for appropriateness, with the goal of collecting interest in an equitable manner while limiting financial risk.

## **CONSIDERATIONS:**

### **(A) PUBLIC**

In accordance with the Development Charges Act, 1997, the town advertised notice of its Development Charges Public Meeting on May 18, 2022 and May 26, 2022. The background study was made available to the Public on May 13, 2022. The public meeting was held June 20, 2022 and council adoption is anticipated for July 12, 2022.

### **(B) FINANCIAL**

Development charges are the main source of funding for the growth-related land and infrastructure required to maintain service levels as the town grows.

The 2022 Development Charges background study and proposed by-law allow for this financial tool to continue to be used in a fiscally responsible manner.

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

Input from various departments has been included to ensure that information in the Development Charges Study is accurate and reflects the growth-related requirements of all programs eligible for inclusion in the Development Charge.

**(D) CORPORATE STRATEGIC GOALS**

This report addresses the corporate strategic goal(s) to:

- Be accountable in everything we do
- Be fiscally sustainable

**(E) CLIMATE CHANGE/ACTION**

N/A

**APPENDICES:**

Appendix A – Development Charges By-law 2022-068

Prepared by:

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Recommended by:

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Submitted by:

Nancy Sully

Commissioner, Corporate Services and Treasurer