



OAKVILLE

REPORT

COUNCIL MEETING

MEETING DATE: MARCH 29, 2021

FROM: Finance Department

DATE: March 16, 2021

SUBJECT: Development Charges Update Study and By-law Amendment

LOCATION:

WARD: Town wide

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RECOMMENDATION:

1. That the new Development Charges Interest Policy F-FPC-007 and related Development Charges Interest Procedure F-FPC-007-001 be approved;
2. That the Development Charges Update Study dated January 28, 2021 be approved;
3. That Council determine that no further public meetings are required under Section 12 of the *Development Charges Act, 1997*;
4. That Development Charges By-law 2021-016, a by-law to amend By-law 2018-001, Town of Oakville Development Charge By-law, 2018, be passed; and that the amended by-law shall take effect at 12:01 am on April 1, 2021.

KEY FACTS:

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

- The Development Charges Update Study was made available to the public on January 28, 2021
- In accordance with the *Development Charges Act, 1997* (DCA) a public meeting was held on February 22, 2021
- At the public meeting, Gary Scandlan of Watson & Associates Economists Ltd. provided a comprehensive overview of the 2021 Development Charges Update Study
- By-law 2021-016, a by-law to amend By-law 2018-001, Town of Oakville Development Charge By-law, 2018, is included as an appendix to this report. Council consideration of the amending by-law will take place at the meeting of Council on March 29, 2021. It is recommended that the by-law take effect on April 1, 2021

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- The amended by-law reflects the changes to the DCA that are now in force from various pieces of provincial legislation
- Interest is now chargeable under Sections 26.1 and 26.2 of the DCA. Development Charges Interest Policy F-FPC-007 and related Development Charges Interest Procedure F-FPC-007-001 are included as appendices to this report.
- The residential development charge for a single or semi-detached dwelling will increase from \$37,667 to \$39,970 and the non-residential charge will increase from \$11.49 to \$11.87 per square foot. The increase in rates reflect the by-law amendment and the annual indexing of development charges on April 1, 2021.

BACKGROUND:

Development Charge By-law 2018-001 was passed and came into effect on February 28, 2018. Since By-law passage, numerous pieces of legislation have amended the DCA. The changes to the DCA were provided through Bill 108, the *More Homes, More Choice Act, 2019*, Bill 138, the *Plan to Build Ontario Act, 2019*, and Bill 197, the *COVID-19 Economic Recovery Act, 2020*.

Over the past two years, staff have provided updates to Council, and submitted comments through Council to the province regarding Bill 108. With the changes to the DCA now in force as of September 18, 2020, staff have been working to amend the current by-law to reflect the legislation in force.

As required by the DCA, a statutory public meeting must be held before Council can formally consider the final development charge policy recommendations and by-law. In addition, the proposed by-law and background study must be made available to the public and posted on the municipalities website at least 60 days prior to passing the DC By-law. In order to meet this requirement, the Development Charges Update Study was available to the public and posted on the town's website on January 28, 2021, and a public meeting was held on February 22, 2021.

At the public meeting Mr. Gary Scandlan of Watson & Associates Economists Ltd. provided a comprehensive overview of the legislative changes, and the policy and DC calculation changes included in the 2021 Development Charges Update Study.

Among the policy changes were a number of adjustments to the way municipalities calculate and collect development charges, these include:

- Deferral of the payment of development charges to 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).

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- Calculation of development charges at the date of a complete application for site plan or zoning amendment, for developments or redevelopments proceeding through either of these applications. This rate will be frozen for two years after the approval of the application, and applies to applications received since January 1, 2020.
- The authority to charge interest to cover the costs associated with the deferral of payment and the rate freeze.
- Further exemptions for additional dwelling units in prescribed classes of existing residential buildings. Exemptions are also now applicable for the creation of second dwelling units in new residential buildings and structures ancillary to new residential buildings.

There are also changes to eligible services, and eligible costs that can be collected for under the DCA. These include:

- Removal of the mandatory 10% reduction of capital costs for soft services including parks and recreation, libraries, and municipal parking and general studies that apply to these services.
- Removal of the 10 year planning horizon for all services except transit
- Removal of municipal parking as an eligible service. Collections must cease by the end of the transition period of September 18, 2022.

COMMENT/OPTIONS:

Development charges allow municipalities to collect funds from development and redevelopment to be applied towards increased capital costs driven by growth, minimizing the impact on the existing taxpayer. The main objective of the legislative changes now in force is to increase the amount and range in type of housing supply, while making housing more affordable. Among other effects, the legislation aims to increase cost certainty for the development community, while providing revenue neutrality for municipalities. While numerous statutes are impacted, the following sections of this report will discuss the varying financial implications for the town regarding development charges, which are reflected in the By-law amendment.

Development Charge Recoverable Costs

The removal of the 10% mandatory deduction will allow for the town recover 100% of the growth-related costs from development charges for the soft services of recreation, parks, libraries, parking and general government studies. Previously, the town could only collect and fund growth-related costs for soft services at 90% from development charges, requiring 10% of funding to come from town reserves. Based on the 2021 Development Charge Update Study, this results in an additional \$15.4 million in capital costs that could be funded by development charges over the 10 year horizon. This change will reduce the amount that the existing taxpayer subsidizes growth, and make available additional funding from town reserves for the renewal of existing infrastructure and strategic initiatives.

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Municipal Parking has been removed from the list of eligible services under the DCA. The town will continue to collect for parking until September 8, 2022, which is the end of the transition period for the legislative changes. The DC Update Study shows \$7.2 million in growth-related capital costs for parking.

The DC Update Study reflects the changes to the development charge calculation and amended development charge rates, in accordance with the requirements of the DCA. The amended rates in the By-law have increased as a result of the removal of the 10% mandatory reduction for soft services. The amended rates are in 2017 dollars, and in accordance with the Development Charges By-law, rates are indexed annually on April 1st by the Statistics Canada Quarterly, Construction Price Statistics. If passed, the amended by-law will take effect on April 1, 2021 and the amended rates will be indexed for the years 2018, 2019, 2020 and 2021.

The following tables summarize the change in residential and non-residential rates, by service. Development charge rates will be indexed on April 1st by 2.5%. As a result of the amendment, residential rates will increase by an additional 3.5% and non-residential rates will increase by an additional 0.8%.

Service	RESIDENTIAL - SINGLE DETACHED UNIT		
	Current Rates: By-law 2018-001 (2020\$)	Indexed Rates: By-law 2018-001 (2021\$)	Amended Rates: By-law 2021-016 (2021\$)
Municipal Wide Services:			
Services Related to a Highway	19,375	19,860	19,860
Fire Protection Services	1,003	1,028	1,027
Public Transit	732	751	751
Municipal Parking	369	378	458
Parks and Recreation	14,557	14,921	16,041
Library Services	1,033	1,059	1,271
General Government	597	612	562
Total Municipal Wide Services	\$ 37,667	\$ 38,609	\$ 39,970

*Rounded to the nearest dollar for presentation purposes

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Service	NON-RESIDENTIAL (per sq.ft. of Gross Floor Area)		
	Current Rates: By-law 2018-001 (2020\$)	Indexed Rates: By-law 2018-001 (2021\$)	Amended Rates: By-law 2021-016 (2021\$)
Municipal Wide Services:			
Services Related to a Highway	9.46	9.70	9.71
Fire Protection Services	0.49	0.50	0.50
Public Transit	0.33	0.33	0.34
Municipal Parking	0.15	0.16	0.19
Parks and Recreation	0.73	0.75	0.80
Library Services	0.06	0.06	0.06
General Government	0.27	0.28	0.27
Total Municipal Wide Services	\$ 11.49	\$ 11.77	\$ 11.87

Development Charge Collections

Prior to the changes to the DCA, development charges were collected in full at the time of building permit issuance. Collections were at current rates based on the by-law in force, and including annual indexing in order to reflect the impact of inflation on the cost of providing growth-related services. The rate freeze and deferral of payment for certain development types will provide cost certainty for the development community, and should support a range and mix of housing options. However, these changes will directly impact the amount and timing of collections to pay for growth-related capital needs. Deferrals will result in cash flow pressures which could increase the need for debt financing, and the rate freeze adds risk that collection rates do not keep pace with growth-related costs and needs. These changes also result in increased administrative costs and changes to processes. The impacts to date include \$3 million in development charges that were deferred in 2020. Development charge rates have been “locked in” as of the date of application for all Zoning By-law Amendment and Site Plan applications received since January 1, 2020, and will continue to be set until two years following the applications approval.

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. At the April 23, 2020 meeting of Council, Council approved the use of prime lending rate of the town’s financial institution as the interest rate for the development charge rate freeze and deferrals. The prime lending rate is currently 2.45%. As the town collects development charges on behalf of Halton Region, staff have worked together with regional staff to align interest collection calculations and procedures in order to provide for effective administration and customer service. The new Development

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Charges Interest Policy F-FPC-007 and related Development Charges Interest Procedure F-FPC-007-001 are attached to this report, and outline the details of development charges interest collection.

The purpose of the policy and procedure is to authorize development charges interest to be collected as allowable in the DCA, and that interest be collected in a fair and equitable manner, with the purpose of limiting financial risk associated with the deferral of development charges payments and development charges rate freeze. The interest rate will be monitored for appropriateness in connection with the cost of these changes.

The increase in exemptions for additional dwelling units and ancillary units in new residential developments will reduce the cost for builders to provide these type of units, with the intent of increasing the range and mix of housing, and increasing affordable housing options. Exemptions are funded by town reserves based on the development charges that would otherwise have been payable; therefore, the additional exemptions will increase the amount that the existing taxpayer subsidizes growth. These exemptions are reported on annually through the Development Charges annual report to Council. In 2020, there were \$0.54 million in secondary unit exemptions.

Cost of Growth

Development charges are the major source of financing for growth-related capital costs, minimizing the financial impact of development on existing residents. Due to exemptions and deductions that are required as part of the DCA, development charges do not cover 100% of growth-related capital costs, and there is a portion that is financed by the existing taxpayer. The legislative changes described in this report increase the amount recoverable through development charges, thereby reducing the cost of growth to the town. As shown in the below chart, the town will recover an additional \$7.1 million over the 2017-2026 time period from development charges based on the 2018 DC Study.

Total Growth-Related Projects	<u>2018 DC</u> <u>Study</u>	<u>2021 Update</u> <u>Study</u>	<u>Net Impact</u>
Total Gross Expenditures (\$Millions)	\$ 699.8	\$ 699.8	
Less Grants and Subsidies	(104.7)	(104.7)	
Less Development Charge collections	(392.3)	(399.4)	(7.1)
Town Share of Growth	\$ 202.9	\$ 195.8	(7.1)

The major impact to the town share of growth is the removal of the 10% mandatory deduction, which is partially off-set by municipal parking becoming ineligible and an estimated increase in additional unit exemptions. The below chart summarizes these impacts.

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Town Share of Growth (\$Millions)	<u>2018 DC</u> <u>Study</u>	<u>2021 Update</u> <u>Study</u>	<u>Net Impact</u>
DC Deductions			
Mandatory 10% deduction, other deductions	15.6	0.2	(15.4)
Benefit to Existing	136.1	136.1	
Ineligible Services	-	7.2	7.2
Post planning period benefit	25.1	25.1	
Total DC Deductions	176.8	168.6	(8.2)
DC Exemptions ¹			
Mandatory Exemptions	26.0	27.1	1.1
Discretionary Exemptions	0.1	0.1	
Total DC Exemptions	26.1	27.2	1.1
Total Town Share of Growth	202.9	195.8	(7.1)
Town Share of Growth - Annualized	20.3	19.6	(0.7)

¹ Exemptions are based on historical averages, plus an estimate of the impact related to additional exemptions for secondary units

It is important to note that the benefit to existing is a deduction made for the portion of a project that directly benefits existing residents. The post planning period benefit reflects the portion of a capital project that benefits growth in the post period growth forecast, and as such, may be included in a subsequent DC Study and recovered for. Further, growth-related costs for municipal parking may be included in a future Community Benefits Charge.

Future Updates

The Development Charges By-law amendment strictly updates the by-law for the legislative changes, and allows for the town to begin collecting 100% of the growth-related capital costs for soft services. The amendment does not change the by-law expiry date of February 2023, and a full Background Study will begin this year in order to pass a new by-law in 2022, which will include service standard updates, project costing and project timing updates, and maintain the growth time period to 2031. The current by-law collects for costs related to hard services (roads, fire) to 2031; however, it only collects for transit, recreation, parks, libraries and general studies to 2026. The new background study to be completed in 2022 will include projects and growth to 2031 for all eligible service areas, utilizing previously completed service area master plans.

As discussed in a report to Council in December 2020, Halton Region is currently in the midst of its Municipal Comprehensive Review, and future growth scenarios, in consideration of future population distribution. As a result of a recent amendment to

the Growth Plan in mid-2020, the review must now establish population targets to the 2051 timeframe and be completed by July 2022. Once population targets beyond 2031 are approved, comprehensive master plans will commence and incorporate the time period to 2051, informing future development charge background studies. A timeline of the next steps, including master plans and studies related to parkland dedication and the new community benefits charge, are included as an appendix to this report.

CONSIDERATIONS:

(A) PUBLIC

In accordance with the *Development Charges Act, 1997*, the town advertised notice of its Development Charges Public Meeting on January 28, 2021. The update study was also made available to the public on January 28, 2021. The public meeting was held on February 22, 2021 and Council adoption is anticipated on March 29, 2021.

(B) FINANCIAL

Development charges are a significant source of financing used to fund growth-related capital works. Amending the By-law for the changes now in force will allow the town to recover the maximum allowable under the *Development Charges Act, 1997*. The establishment of a development charges interest policy and related procedure will aid in minimizing the financial risk associated with development charges deferrals and freezing of rates.

(C) IMPACT ON OTHER DEPARTMENTS & USERS

Input from various departments has been included to ensure that information in the Development Charges Update Study and amending By-law is accurate.

(D) CORPORATE AND/OR DEPARTMENT STRATEGIC GOALS

This report addresses the corporate strategic goal to:
be fiscally sustainable

(E) COMMUNITY SUSTAINABILITY

Development charges provide an important source of funding for new capital infrastructure required as a result of growth; ensuring facilities and infrastructure is built to maintain the existing standards within the community.

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APPENDICES:

Appendix A – By-law 2021-016

Appendix B – Development Charges Interest Policy F-FPC-007

Appendix C – Development Charges Interest Procedure F-FPC-007-001

Appendix D – Growth Study Timeline

Prepared by:
Matt Day
Manager, Development Financing &
Investments

Submitted by:
Nancy Sully
Treasurer and Commissioner, Corporate
Services