

# STAFF REPORT



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TO City Council

SERVICE AREA Finance & Enterprise Services

DATE January 27, 2014

**SUBJECT 2013 Development Charge Background Study and 2014 By-law**

REPORT NUMBER FIN-14-01

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## EXECUTIVE SUMMARY

### PURPOSE OF REPORT

The purpose of this report is to provide Council with an update on the 2013 Development Charge Background Study, present responses to the additional information requested at the November 18<sup>th</sup> Council meeting, and seek Council approval of the proposed 2013 DC Background Study and 2014 DC By-law.

Since Council's initial review of the proposed 2013 DC Background Study and 2014 DC By-law on November 18, 2013, a technical review of the Outdoor Recreation service category and the Services Related to a Highway category has been completed resulting in an overall decrease in residential rate of \$26 per single detached dwelling unit and a \$.06 per square foot increase to the non-residential rate.

After continued consultation with the Developer selected Peer Review Team, the City received a final summary of project completion on the 2013 Background Study.

At the November 18<sup>th</sup> DC Presentation and Public Delegation Meeting, Council requested Staff follow up on several development charge related items. Finance staff have coordinated responses from various departments and summarized the

# STAFF REPORT



findings in the Appendices attached.

### KEY FINDINGS

The key findings discussed in this report are as follows:

1. A revised rate of \$27,232 per single detached unit and \$9.09 per non-residential square foot
2. Further scoping and policy development is required before Social Services and Homes for the Aged can be added to the Development Charge
3. City support of Affordable Housing initiatives should continue to be administered on a case-by-case basis until a formal policy is approved
4. The external Peer Review Team selected by members of the development community provided a final summary
5. A detailed review of the recent non-residential development trends reinforced staff's recommendation to have a blended non-residential rate
6. The implications of a lower than anticipated growth rate can be reduced with comprehensive DC reserve fund policies and the City's thorough annual capital budgeting process

### FINANCIAL IMPLICATIONS

The 2013 Development Charges Background Study identifies \$546,693,527 in DC eligible capital infrastructure that is required to accommodate the City's growth targets. This results in the following development charge rates:

Table 1 Proposed 2014 Development Charge				
	Current	New	Change	% Change
<b>Residential (per dwelling)</b>				
Single and Semi Detached Dwelling	\$24,208	<b>\$27,232</b>	\$3,024	12.5%
Apartments – 2 Bedroom	\$14,568	<b>\$16,389</b>	\$1,821	12.5%
Apartments-Bachelor and 1 Bedroom	\$10,164	<b>\$11,430</b>	\$1,266	12.5%
Other Multiples	\$18,232	<b>\$20,508</b>	\$2,276	12.5%
<b>Non-Residential (per sq ft)</b>				

# STAFF REPORT



Commercial/Institutional	\$12.27	<b>\$9.09</b>	-\$3.18	-25.9%
Industrial	\$9.97		-\$0.88	-8.8%

**ACTION REQUIRED**

Council is being asked to:

- Receive and approve report FIN 14-01 2013 Development Charge Background Study and 2014 DC By-law

## RECOMMENDATION

1. That Council approve the 2013 Development Charge Background Study dated November 1, 2013 as amended on January 7, 2014;
2. That Council has determined, in accordance with the Development Charges Act, 1997, that no further public meeting is required in respect of the proposed 2014 Development Charges By-law;
3. That Council approve the 2014 Development Charge By-law in the form set out in Appendix F of the 2013 DC Background Study, to come into force on March 2, 2014;
4. That Council approve the capital project listing set out in Chapter 5 of the 2013 Development Charges Background Study, as amended, and subject to further annual review during the capital budget process;
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); and
6. That Council adopt the assumptions contained herein as an 'anticipation' with respect to the capital grants, subsidies and other contributions.

## BACKGROUND

On November 18, 2013, Council referred the development charges report, "FIN-13-48, 2013 Development Charges Background Study and 2014 DC By-law" to the

# STAFF REPORT



January 27, 2014 Council meeting for consideration. The report recommended key policy items including:

- a blended non-residential rate,
- continued DC exemption for the University of Guelph,
- a new Health Services charge, and;
- the elimination of industrial phasing.

The report also detailed the background study work plan, processes and stakeholder involvement including the retention of a Developer selected, external Peer Review Team.

At the November 18 public meeting, Council requested Staff follow up on the following 9 items:

- Social Housing and Homes for the Elderly
- Affordable Housing
- History of the University of Guelph Relationship
- Service Standard Ceiling Scenario
- The Implications of Including Health Services
- Blended Non-Residential Rate
- Implications of a Lower than Expected Growth Rate
- Service Category Changes
- Transit Spine Infrastructure

Detailed responses to the 9 items have been prepared by City staff that explain the relevance to the Development Charge Background Study, the implications to the City and the recommendation of staff.

## REPORT

### Changes to the Rate

New information and input from the Peer Review Team lead to a detailed review of the Services Related to a Highway and Outdoor Recreation Service categories that resulted in adjustments to the cost allocations between growth and the existing

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# STAFF REPORT

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population. The impact of these changes resulted in a \$184 reduction to Outdoor Recreation and a \$158 increase to Services Related to a Highway. These updates are reflected in a 2013 Background Study addendum that can be found in **Appendix A**.

## **Peer Review Team Sign Off**

Over the past 9 months, the City has worked with the Peer Review Team with the intention of bringing forward a Development Charge Background Study and By-law that is comprehensive, fair and balanced for both existing and future citizens of the City. On January 8, 2014, the external Peer Review Team (PRT) submitted a final summary that, while acknowledging the retention of the PRT was a worthwhile endeavor, only focused on the areas of disagreement between the City, project consultants and the opinions of the PRT (see **Appendix B**). Staff had hoped the PRT would have reported on both the areas where the PRT provided advice that improved the quality of the background study and the contentious items where the City, consultants and the PRT have agreed to disagree.

While not highlighted in the summary included in Appendix B, in the City's opinion, some of the most influential Peer Review Team contributions included:

- Ensured all potential grants and subsidies were accounted for and deducted appropriately;
- Undertook significant work with respect to linking the projects identified in the Background Study to Council approved Master Plans and Studies and questioning material differences, additions or removals of projects from the 2008 Background Study;
- Provided feedback and advice on service standard calculations that appeared materially different or inconsistent with industry norms;
- Challenged capital infrastructure costings and ensured all necessary deductions (benefit to existing and post period benefit) were considered;
- Strengthened the Local Service Policy with improved clarity regarding developer responsibility, City standards and corporate policies

- Ensured consistent assumptions were used in the modelling and forecasting of water, waste water and linear infrastructure, particularly with regard to conservation targets;
- Reviewed assumptions used in determining the growth forecast. The Peer Review Team undertook a detailed review of the City's growth forecast and questioned the feasibility of the intensification targets and adequacy of the land supply available to accommodate the forecasted growth. The City believes that the work undertaken through its various Council approved policies supports the growth forecast that has been utilized in the development of the Development Charge Study.

While the PRT summary did not focus on the positive outcomes of the PRT review, staff feel the input from the PRT resulted in significant improvements to the background study. As a result of the PRT process, staff are confident that the 2013 background study is fair, accurate and in compliance with the Development Charges Act, 1997.

### **Development Charge Policy Items**

At the DC presentation and public meeting, Council directed staff to analyze, research and prepare formal responses to 9 DC related topics.

Each topic is discussed at a summary level below with additional information included in the attached Appendices.

1. **Social Housing and Homes for the Elderly:** Council has identified a need for more investment in Social Housing and Homes for the Elderly in the City due to changes in populations and demographics. **Appendix C** details how the role of the County of Wellington, the absence of a corporate policy or plan, lack of clear intent to participate in or lead any capital works related to facilities that would support these services and the significant waiting list for the existing units represent significant obstacles for adding this service to the 2014 development charge. If Council would like to pursue Social Housing or Homes for the Elderly

# STAFF REPORT

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programs, than direction should be given to staff to begin program scoping and policy development. Staff recommend omitting Social Housing/Homes for the Elderly in the 2013 DC Background Study and 2014 By-law until a clear direction has been established.

2. **Affordable Housing:** The City currently supports Affordable Housing construction on a case-by-case basis through grants and early and late payment agreements. Council requested information about the City's Affordable housing policy, reserves and the role of the County. **Appendix D** has been provided by the Planning Department and addresses the City's role in this program. Staff recommend that the administration of Affordable Housing projects continue to be managed through other corporate programs such as grants and early/late payment agreements.
  
3. **History of the University of Guelph Relationship:** The 2014 DC By-law includes an exemption to the University of Guelph for developments that support a University purpose. In light of this exemption, Council has requested a summary explaining the relationship and history of the City and the University. Staff undertook a thorough investigation of all relevant legal financial agreements with the University and discovered that since 1958, the City and the University have worked together to collaboratively build and share infrastructure (**Appendix E**). This relationship has allowed Guelph residents to use many of the University's amenities (sports facilities, the library and parks/trails) and the benefit of the City/University arrangement outweighs the benefit of future development charge revenues from the University. Staff support the recommendation to continue to exempt the University from Development Charges for any project that serves a University purpose.
  
4. **Service Standard Ceiling Scenario:** The DCA requires that the 10 year average service standard be calculated and used to limit the charge on most service categories. Council asked Staff to follow up with a rate that represented

# STAFF REPORT

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a complete maxing out of all the service standard caps. **Appendix F** details the scenario by service category that result in total rate of \$30,007/single detached unit and \$9.41/square foot non-residential. While this rate represents the highest amount the City could legally charge, without an approved capital plan to support that rate, the City would be vulnerable to challenge from the development community. Staff recommend the approval of the defensible residential rate of \$27,232 and non-residential rate of \$9.09/square foot.

5. **The Implications of Including Health Services:** The 2014 DC By-law introduces a new charge for Health Services. In response to Council's expressed concern about adding the Service, Legal Services has prepared a response in **Appendix G** outlining the implications of adding Health Services to the Development Charge based on decisions made by the Provincial Superior Court and the City's obligation to contribute to the facility.
  
6. **Blended Non-Residential Rate:** In the 2009 DC By-law, the non-residential development charge rate was split into two rates (Industrial and Commercial/Institutional) with the intention of encouraging industrial investments in the City. However, because the incentive did not generate the intended results, the 2014 DC By-law recommended returning to the single non-residential rate. Council expressed concern about maintaining a competitive position and asked for more information to support Staff's decision. **Appendix H** was prepared by Economic Development and presents evidence that shows the split DC rate did not stimulate new "industrial" investment and reveals the emerging trend in non-residential development is mix use facilities that involve a blend of both industrial and commercial activities. A single non-residential rate would be optimal for these investments.
  
7. **Implications of a Lower than Expected Growth Rate:** The projected growth rate used in the DC Background Study is relatively high compared the actual growth experienced by the City in recent years. Council requested staff

# STAFF REPORT

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report on the implications and risks associated with calculating a development charge based on an optimistic growth target. Finance, Planning and Engineering worked together to prepare a detailed response (see **Appendix I**) that explains how the City's annual budgeting process, coupled with the legislative requirements prescribed in the DCA regarding DC reserve fund management, ensures the City only builds what is necessary to accommodate the immediate growth, and any collections for services not yet required will be held in that service category until enough growth has been realized to justify that infrastructure.

8. **Service Category Changes:** The change to the development charge is the result of increases and decreases in all 15 service categories. Council asked for a summary that explained the driving factors behind each service category change. **Appendix J** provides a high level explanation of the changes between the 2008 Background Study and the 2013 Background Study and provides insight into the key assumptions or capital items that are influencing the rate.
  
9. **Transit Spine Infrastructure:** Investment in Transit is an important part of the City's and Province's policy direction. Council was concerned that they could not easily identify Transit Spine related infrastructure costs. Through communications with Transit and Engineering, the Transit costs related to the spine infrastructure were found in Complete Street Modifications (RD0268) which is included in the Services Related to a Highway category.

The 2013 Background Study and 2014 DC By-law supports a well-balanced and competitive rate that will allow the City to sufficiently collect for the infrastructure required to accommodate the forecasted growth. The policy recommendations identified in the November 18 report, including: a blended non-residential rate, a continued exemption to the University of Guelph, the introduction of a Health Services charge and elimination of the industrial phasing will support the City's goal to attract growth while minimizing the burden on the existing taxpayer.

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# STAFF REPORT

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## **CORPORATE STRATEGIC PLAN**

2.1 Build an adaptive environment for government innovation to ensure fiscal and service sustainability

2.2 Deliver Public Service better

3.1 Ensure a well designed, safe, inclusive, appealing and sustainable City

3.2 Be economically viable, resilient, diverse and attractive for business

## **DEPARTMENTAL CONSULTATION**

All City service areas were consulted throughout the Background Study process. Responses to the Council requested Development Charge Policy Items were prepared by:

- Planning
- Engineering
- Economic Development
- Legal Services
- Finance
- Community Engagement and Social Services Liaison
- Communications
- CAO Office

# STAFF REPORT

## FINANCIAL IMPLICATIONS

The Background Study has identified \$546,693,527 in DC eligible growth related capital investment to accommodate the projected growth targets.

<b>Table 8 Schedule of Development Charges</b>					
	<b>Single &amp; Semi-Detached Dwelling</b>	<b>Apartments 2+ Bedroom</b>	<b>Apartments Bachelor and 1 Bedroom</b>	<b>Other Multiples</b>	<b>Per ft<sup>2</sup> of Gross Floor Area</b>
<b>Municipal Wide Services</b>					
Services Related to a Highway	\$3,411	\$2,053	\$1,432	\$2,569	\$1.44
Transit	505	304	212	380	.24
Parking	686	413	288	517	.32
Fire Protection Services	284	171	119	214	.12
Police Services	399	240	167	300	.17
Outdoor Recreation Services	3,341	2,011	1,402	2,516	.14
Indoor Recreation Services	2,556	1,538	1,073	1,925	.11
Library Services	540	325	227	407	.02
Administration	318	191	133	239	.15
Provincial Offences Act	9	5	4	7	.00
Health Services	64	39	27	48	.01
Ambulance	29	17	12	22	.01
<b>Total Municipal Wide Services</b>	<b>\$12,142</b>	<b>\$7,307</b>	<b>\$5,096</b>	<b>\$9,144</b>	<b>\$2.73</b>
<b>Urban Services</b>					
Stormwater Services	121	73	51	91	.05
Wastewater Services	6,344	3,818	2,663	4,778	2.67
Water Services	8,625	5,191	3,620	6,495	3.64
<b>Total Urban Services</b>	<b>\$15,090</b>	<b>\$9,082</b>	<b>\$6,334</b>	<b>\$11,364</b>	<b>\$6.36</b>
<b>Grand Total</b>	<b>\$27,232</b>	<b>\$16,389</b>	<b>\$11,430</b>	<b>\$20,508</b>	<b>\$9.09</b>

# STAFF REPORT



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## COMMUNICATIONS

October 24, 2013 –Development Charge Public Meeting Advertised in Local Paper and on the website

November 1, 2013 – DC Background Study and proposed By-law posted to City Website

November 18, 2013 – Development Charge Public Meeting

January 8, 2014 – DC Background Study Addendum #1 posted to City website

## ATTACHMENTS

Appendix A – **2013 Background Study addendum**

Appendix B – **Peer Review Team Summary**

Appendix C – **Social housing and Homes for the Elderly**

Appendix D - **Affordable Housing**

Appendix E - **History of the University of Guelph Relationship**

Appendix F - **Service Standard Ceiling Scenario**

Appendix G - **The Implications of Including Health Services**

Appendix H - **Blended Non-Residential Rate**

Appendix I - **Implications of a Lower than Expected Growth Rate**

Appendix J - **Service Category Changes**

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