

2018 Development Charges Background Study – The Cost of Growth

Council Workshop #2

June 27, 2018



Agenda

- Review of development charges, legislated requirements and influencing factors
- City's DC study schedule and progress to date
- City's approach to budgeting and paying for growth related infrastructure
- DC Exemptions
- DC Policy Considerations
- Draft Capital Needs Summary
- Draft rate and key drivers
- Next Steps



DC Overview

Development Charges (DCs) are revenues that the City utilizes to pay for growth related capital infrastructure.

A Background Study is required every five years in order to support the new rate. The Study is based on the Council approved Official Plan, Secondary Plans and Master Plans which embrace the provincial jobs and population targets.

DCs are highly regulated and prescriptive in how they are calculated and what services and costs can be included.

2018 DC Study Impacts

- Changes to Development Charges Act - Bill 73
 - Solid Waste Diversion is a new allowable service
 - Transit is now a forward looking calculation
 - “No additional levies” language required updates to the Local Service Policy and DC capital needs
 - Considered Area Rating
- Clair-Maltby Secondary Plan
- 2018 Municipal Election is impacting the DC Study timing – approval of new By-law is required by March 2, 2019

Project Schedule

	Jun 2017	Dec 2017	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019
Project Kick off	Blue										
External Stakeholder Meetings		Purple		Purple		Purple		Purple			
Service Standard Calculation			Yellow								
Growth Forecast			Dark Blue								
Local Service Policy			Light Blue	Light Blue	Light Blue						
Council Workshops			Red				Red		Red		
Capital Needs				Blue	Blue	Blue				Light Grey	
Background Study & Bylaw complete								Dark Blue		Green	Green
Council Meetings				Red						Red	Red



Progress to Date

- Growth Plan completion – assumptions tie to the City's Official Plan.
- Service Standard completion - 10 year historical level of service which is used to set the ceiling for the amount of capital the City can include in the rate.
- Revised Local Service Policy (LSP) – staff continue to work through the policy revisions with the stakeholders.
- Capital needs identification – all the infrastructure required to accommodate the growth identified in the City's Official Plan.
- Policy Review – preliminary conversations and investigation has started regarding exemptions, definitions and payment timing.



Community Engagement

Working with our stakeholders as partners through this process continues to be a priority.

Staff have been working with an external stakeholder group since the fall of 2017. The external stakeholder group is comprised of:

- Residents;
- members of the development community and their representatives (legal and consultants); and
- School Boards.

Further stakeholder meetings will be planned from July to October to review policy recommendations and LSP.

Stakeholder Engagement Summary

Title	Description	Date
Stakeholder DC Kick off meeting	<ul style="list-style-type: none"> • Provided an overview of Development Charges and the Stakeholders role in the DC By-law development process 	December 13, 2017
Update Correspondence	<ul style="list-style-type: none"> • Draft Local Service Policy • Treasurer’s Statements (DC Reserve Fund activity) • Summary of completed capital from 2013 DC Study • Summary of Stakeholder Input received to date 	February 2, 2018
Stakeholder Meeting #2	<ul style="list-style-type: none"> • Growth Forecast • Review of Service Standard information 	March 23, 2018
Local Service Policy Review	<ul style="list-style-type: none"> • Reviewed the City’s draft Local Service Policy with the a proposed local service policy that was created by the Guelph & District Home Builders Association (GDHBA) and the Guelph Wellington Developers Association (GWDA) 	April 17, 2018
City responses to Input	<ul style="list-style-type: none"> • First draft responses to Stakeholder Input • Responses to the information requested by IBI (the consultants working on behalf of GDHBA and GWDA) 	April 23, 2018
Update Correspondence	<ul style="list-style-type: none"> • First draft of service area capital needs • Minutes from April 17 Local Service Policy Review Meeting 	May 11, 2018
Stakeholder Meeting #3	<ul style="list-style-type: none"> • Review of draft capital needs 	May 28, 2018

Planning for the Cost of Growth

Growth is a good thing!

- Job creation and economic health
- Enhanced programming
- Tourism and related economic impacts
- Renewal of dated infrastructure
- Community building
- Economies of Scale

Long-term Financial Planning is critical to delivering services in a sustainable, affordable and efficient manner.

A known cost of capital is growth-related infrastructure due to legislative limitations and exemptions.

- Responsible financial planning
- Informed decision-making
- Transparent communication

How the City Budgets and Pays for the Capital Cost of Growth

In 2018, Council approved 13.4% or \$31.6 million of the total property taxes levied to fund capital reserve funds:

1. Infrastructure Renewal & Contaminated Sites	81%
2. City Building	10%
3. Growth	9%
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Total	100%

Further, through the non-tax budget, an additional \$32.4 million was transferred to non-tax capital reserve funds which funds non-tax related growth.

Growth Reserve Fund

Growth Reserve Fund usage:

1. Legislated 10% deduction on soft services
2. DC exemptions

	2013	2014	2015	2016	2017
Growth Reserve Funds					
10% Deduction	\$ 255,300	\$ 305,460	\$ 183,700	\$ 594,000	\$ 600,500
Exemptions Tax	\$ 288,300	\$ 226,955	\$ 132,260	\$ 55,158	\$ 2,161,000
Exemptions Non-tax	\$ 636,747	\$ 514,326	\$ 299,717	\$ 125,089	\$ 2,879,119



Growth Reserve Fund

What is not funded from the Growth Reserve Fund to date:

1. Growth related costs for exempt services
2. Capital costs beyond the legislated Service Standard calculation
3. Equipment and vehicles (with a useful life of less than seven years)
4. Some exemptions (other levels of government)

We are on a path of continuous improvement, enhanced capital planning and more transparent communication.

Growth Funding Limitations

Non-DC Recoverable Costs	Delayed Recovery of DCs	Asset Management Costs	Operating Costs of new infrastructure
Ineligible services	Post-period benefit	Rehabilitation and replacement costs	Operating and maintenance costs
10% statutory deduction	DC deferrals from CIP / Special Council motions		
Level of Service deductions			
Benefit to Existing deduction			
Exemptions			

Source: York Region Fiscal Sustainability Report: https://guelph.ca/wp-content/uploads/info_items_060118.pdf#page=17

Funding Example – New Park

Example: New Park within Service Standard	Total Project Cost	Max eligible DC funding	10% statutory deduction
New Park	\$1,000,000	\$900,000	\$100,000
Funding Source		DC Reserve Fund	Tax Growth Reserve Fund

Example: New Park over the Service Standard	Total Project Cost	Max eligible DC funding	10% statutory deduction	Cost considered a service enhancement
New Park	\$2,000,000	\$900,000	\$100,000	\$1,000,000
Funding Source		DC Reserve Fund	Tax Growth Reserve Fund	City Building Reserve Fund

Funding Examples - Linear

	Total Project Cost	Max eligible DC funding	50% Benefit to Existing
Road Widening from two to four lanes	\$1,000,000	\$500,000	\$500,000
Funding Source		DC Reserve Fund	Infrastructure Renewal Reserve Fund

	Total Project Cost	Max eligible DC funding	Benefit to Existing – Road	Benefit to Existing – Linear Pipes
Full Road Reconstruction with widening	\$3,000,000	\$1,500,000	\$500,000	\$1,000,000
Funding Source		DC Reserve Funds (Roads, Water, Wastewater)	Infrastructure Renewal Reserve Fund	Water and Wastewater Capital Reserve Fund

Cost of DC Exemptions

	2013	2014	2015	2016	2017	Total
University*	\$10,834	\$664,904	\$37,314	\$71,825	\$273,943	\$1,058,820
Industrial–use Expansion	\$377,674	\$701,053	\$418,277	\$180,287	\$479,410	\$2,156,701
Accessory Apartments **	\$3,573,807	\$3,527,376	\$3,268,269	\$3,496,680	\$4,286,859	\$18,152,991
Total	\$3,962,315	\$4,893,333	\$3,723,860	\$3,748,792	\$5,040,212	\$21,368,512

*Council-directed (other categories are legislated)

**Funded only in 2017 as this was a newly tracked exemption

Other levels of government / local board exemption:

- There is a further exemption for other levels of governments and local boards which will be a focus to enhance tracking in 2019.

University DC Exemption

The history of the University DC Exemption dates back to 1958. The City's current DC By-law reflects the 1993 settlement agreement between the City and the University. Please refer to the 2014 DC By-law Council report:

http://guelph.ca/wp-content/uploads/council_agenda_012714.pdf

for more information and reasoning for this Exemption.

The total cost of this Exemption has been \$1M over last five years.

Applies only to University-related purposes in defined area.

University exemption is consistent with other nearby municipalities (City of Toronto, City of Waterloo, City of Mississauga, Region of Peel, City of Hamilton, City of Windsor).

Industrial-use Property Expansion DC Exemption

The Development Charges Act, 1997 introduced an incentive to Ontario businesses by legislating a DC exemption for enlargements of existing industrial buildings. Enlargements up to the first 50% of the gross floor area of an existing industrial building are exempted from the payment of DCs.

The current bylaw defines what is considered to be an existing industrial building, and specifically excludes 'Retail Warehouses' from that definition. The City has consistently interpreted Retail Warehouses to mean a warehouse that is not directly associated with an active industrial business such as manufacturing or production on the same site.

Over the past five years, industrial development that would have otherwise required approximately \$2.15M in DCs to be paid has qualified under this mandatory exemption.

Industrial-use Property Expansion DC Exemption (cont'd)

Challenges:

Questions have been raised about whether the City should consider changing its interpretation of 'Retail Warehouse' and allow a greater number of warehouses to qualify for this exemption. Expanding businesses often look for these types of incentives when considering whether to expand or relocate in Guelph.

There has been some suggestion that other municipalities have taken a more relaxed interpretation that allows a greater number of warehouse expansions to take advantage of this incentive, which may affect Guelph's competitiveness in attracting and retaining those types of businesses.

Industrial-use Property Expansion DC Exemption (cont'd)

The DC By-law review offers an opportunity to review Guelph's application of this exemption. However, the potential impact of expanding the exemption should also be recognized:

Warehouse expansions can be quite large, and expanding this exemption would mean forgoing a potentially large amount of DCs that would be payable under the current By-law.

For example, if the exemption applied to an existing 200,000 square foot warehouse, the DCs payable on the first 100,000 square feet of any proposed expansion would be reduced to zero.

Currently, such an expansion would require the payment of approximately \$998,000 in DCs. This would instead be paid for by the rate/tax base.



DC By-law Policy Considerations

Staff are also considering other DC Exemptions that we would like highlight:

- Adding an exemption for parking structures City-wide
- Affordable Housing
- DC late payment agreements for Brownfield developments

Are there other areas of Council interest?

Capital Needs Summary

Staff from each service area have been working diligently to plan and project out all growth-related capital needs for the City.

Themes of cost drivers included in the following slides include:

- Inclusion of land valuation in Service Standard calculation;
- Increases to costs due to changes in Bill 73;
- Increases to costs due to changes in the proposed Local Service Policy (still subject to changes as the stakeholders work through this);
- Inclusion of costs related to developing the GID lands;
- Increases to costs for facilities that have moved through a greater design stage since the past study;
- Inclusion of projects and refinement of project costing through the increased sophistication of the City's capital planning practices; and
- Inclusion of costs being directed from Council approved master plans.

Cost to Accommodate Growth

**In millions*

Gross Capital Cost	LESS		Net	LESS			DC Amount
	Post Period	Other Deductions*		Benefit to Existing	Grants/ Contributions	10% Statutory Deduction	
\$1,370	\$391	\$45	\$934	\$398	\$9	\$10	\$517

*Other deductions include costs over the legislated Service Standard

Services Related to a Highway

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS★	Utilized 2018	Change in Amount Utilized
122,644,814	82,848,718	222,633,397	116,532,601	33,683,884

★ Note: 2018 Service Standard without land is \$191,293,597

Drivers

- Road infrastructure in the GID
- Added provisions for intersection improvements, signals and turning lanes to comply with changes to DC legislation
- Updated project costing based on recent tender prices
- New Public Works facility and additional salt dome

Fire Services

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
8,386,203	6,815,158	10,987,398	6,149,176	(665,981)

Drivers:

- Includes two new Aerial / Pumper Aerial trucks compared with three in the last study
- A provision for a new facility

Police

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
10,099,258	9,368,848	10,946,665	10,941,133	1,572,285

Drivers:

- Post period amount for HQ reduced from 2013 study
- Offset by reduction in debt commitment relating to Clair Road Emergency Centre

Parking

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
10,532,440	10,531,952	10,484,602	10,484,053	(47,899)

Drivers

- Reflects updated cost of Wilson Parkade and associated debt servicing costs as well as a second parkade in the downtown

Parks

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
55,386,845	33,405,445	57,892,313	30,648,572	(2,756,873)

Drivers

- Evaluation of capital priorities resulted in an updated list of projects and funding allocations
- Updated forecast for park requirements in the GID
- Proposed Local Service Policy change: Basic trail development included in DC

Recreation

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
26,742,916	26,251,319	43,659,890	33,223,031	6,971,712

Drivers

- Value of the land associated with recreational facilities increased based on recent property sales, which has resulted in an increased Service Standard
- The forecasted cost of the new South End Community Centre has increased based on updated design work

Library

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
5,441,864	5,441,840	6,781,459	6,779,730	1,337,890

Drivers

- Service standard increase due to transfer of land value in the standard
- The forecasted cost of the Main Branch Library has increased based on updated design work – DC applicable amount capped by the service standard

Ambulance

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
434,220	399,944	1,248,295	1,248,259	848,315

Drivers

- Ambulance vehicles included in the Service Standard calculation based on an hourly equivalency approach to determining useful life
- Amount reflects funds required to payback reserve fund for Clair Road Emergency Centre

Provincial Offences

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
720,895	123,222	1,203,843	73,232	(49,990)

Drivers

- Amount reflects reduction in debt servicing commitments

Health

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
673,116	673,065	1,569,396	883,916	210,851

Drivers

- Amount reflects debt servicing commitments relating to the City's share of the new Health Unit facilities in Guelph and Orangeville

Waste Diversion

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
		9,869,931	5,095,175	5,095,175

Drivers

- New eligible service as per Bill 73
- Includes the eligible component of four new collection vehicles (including one multi-res collection vehicle) and a portion of a new vehicle storage facility

Stormwater

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
	2,955,063	-	4,934,926	1,979,863

Drivers

- Updated information for the City's Stormwater management systems have resulted in better identification of the infrastructure needed to accommodate growth

Water

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
-	209,285,912	-	134,129,253	(75,156,659)

Drivers

- The planning horizon has decreased from 19 years to 13 years
- Costs have been updated to reflect recent tender prices

Wastewater

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
-	153,785,546	-	126,769,782	(27,015,765)

Drivers

- The planning horizon has reduced from 19 years to 13 years
- Costs have been updated to reflect recent tender prices

Administration

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
-	4,313,678	-	8,514,433	4,200,755

Drivers

- Addition of Waste Diversion and Library Master Plans
- Updated costs for planning studies
- The repayment of past growth related studies completed in advance of the growth

Transit

2013 DC Study		2018 DC Study		
Max Ceiling	Utilized 2013	Max Ceiling LOS	Utilized 2018	Change in Amount Utilized
9,170,860	7,454,549		19,660,945	12,206,396

Drivers

- To be on track to reach 13% modal share by 2031, Transit will need 32 additional conventional buses, two specialized transit vehicles and one supervisor vehicle
- A portion of a new Transit facility has been included

Proposed Rates - Residential

	Residential (single/semi unit)						
Service	Current	Proposed	% Change	Service	Current	Proposed	% Change
Services Related to a Highway	\$3,637	\$6,052	66%	Studies	\$340	\$762	124%
Transit	539	1,760	227%	POA	9	7	-22%
Parking	732	999	36%	Health	68	105	54%
Fire	302	316	5%	Ambulance	31	112	261%
Police	425	662	56%	Waste Diversion	0	495	100%
Parks	3,562	3,454	-3%	Stormwater	129	254	97%
Recreation	2,726	4,360	60%	Wastewater	6,765	6,516	-4%
Library	576	724	26%	Water	9,192	6,892	-25%
Total					\$29,033	\$33,470	15%

Proposed Rates – Non-Residential

	Non-Residential (per sq ft)						
Service	Current	Proposed	% Change	Service	Current	Proposed	% Change
Services Related to a Highway	\$1.53	\$2.74	79%	Studies	\$0.16	\$0.37	133%
Transit	0.26	0.85	231%	POA			
Parking	0.34	0.48	41%	Health	0.01	0.01	-2%
Fire	0.13	0.15	18%	Ambulance	0.01	0.05	389%
Police	0.18	0.30	66%	Waste Diversion		0.11	100%
Parks	0.15	0.19	27%	Stormwater	0.05	0.12	123%
Recreation	0.12	0.23	96%	Wastewater	2.85	2.95	3%
Library	0.02	0.04	87%	Water	3.87	3.13	-19%
Total					\$9.68	\$11.72	21%

Changes Impacting Rate

Legislative Changes

Waste Diversion
\$5.1M

Transit Increase
\$12.2M

Removal of Direct
Developer
Contributions \$3.35M

Local Service Policy

Road Design \$2M

Intersection
Improvements and
Turning Lanes \$3.5M

Basic Trail
Development \$2.4M

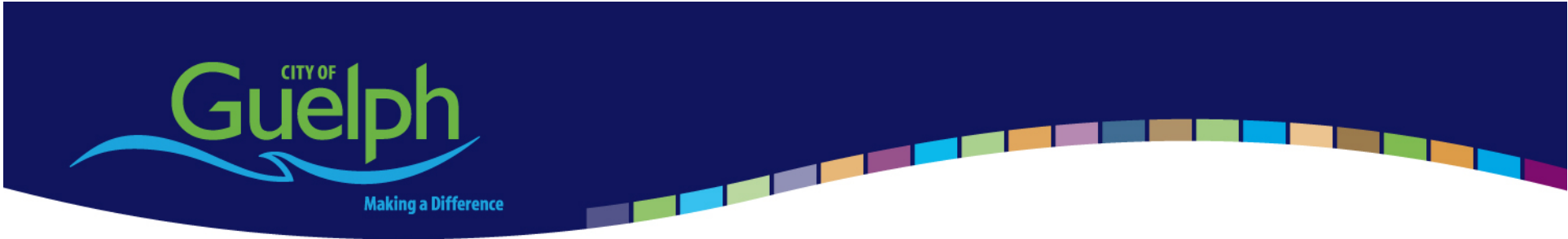
Inflation

Projects from last
study yet to be
completed



Next Steps

- Engagement with our stakeholders
- Finalize staff recommendations for the DC Policy
- Stakeholder Meeting (October/November 2018)
- Final Background Study and draft By-law released (November 2018)
- Council Public Meeting (January 2019)
- Council consideration / approval of By-law for adoption (February 2019)



Questions