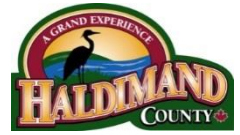

HALDIMAND COUNTY

Report FIN-08-2019 Development Charges Rates and By-law Adoption For Consideration by Council in Committee on May 7, 2019



OBJECTIVE:

To obtain Council approval of revised Development Charge rates and the associated by-law before the expiration of the County's current Development Charges By-law.

RECOMMENDATIONS:

1. THAT Report FIN-08-2019 Development Charges Rates and By-law Adoption be received;
2. AND THAT Haldimand County Development Charges Background Study, dated March 5, 2019, be received and approved, as amended;
3. AND THAT the Residential Development Charges, as included in the Development Charges Background Study, dated March 5, 2019, as amended by Addendum #1 and Addendum #2, be approved and take immediate effect upon the date of passage of the Development Charges By-Law;
4. AND THAT the Non-Residential Development Charge Rates, as included in the Development Charges Background Study, dated March 5, 2019, as amended by Addendum #1 and Addendum #2, be approved and take immediate effect upon the date of passage of the Development Charges By-Law;
5. AND THAT the By-Law be passed to authorize new Development Charges as set out in Report FIN-08-2019;
6. AND THAT the capital budgets be amended for projects included within the Development Charges Background Study, to reflect the appropriate Development Charges funding as identified;
7. AND THAT any necessary changes to the existing Development Charges Reserve Funds to conform to the reporting requirements of the Development Charges Act be enacted;
8. AND THAT staff develop a Front-Ending Agreement policy, under the Development Charges Act, based on the parameters outlined in FIN-08-2019;
9. AND THAT the Clerk provide the appropriate notification of the passing of Haldimand County's Development Charges By-law as required under the Development Charges Act.

Prepared by: Charmaine Corlis, Treasurer

Respectfully submitted: Mark Merritt, CPA, CA, General Manager of Financial & Data Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

Development Charges are a key revenue source to ensure the County has the required funding to provide the necessary infrastructure to support new development. The County's existing Development Charge by-law expires May 19, 2019. The Background Study released March 5, 2019, including subsequent amendments, provides the basis for new development charges revenues to be collected over the next five years. This most recent Development Charges update, along with the growth forecast development, began in 2018 with staff review of the development charges service standards and calculations for all services.

In January 2019, a Council workshop was held to review the policies and principles as well as draft development charge rates. After the release of the Background Study in early March, staff held a Stakeholder information session on March 21, 2019, and Public Meeting on April 16, 2019.

As a result of public consultations and feedback, Staff reviewed various concerns, and have recommended a reduction to the costs included for Recreation Services. It should be noted that the lower the amount, the more funds from alternative revenue sources will be required to fund any future recreation facility.

Additional comments were received that identified a lack of projects to provide servicing for wastewater to the North Caledonia area within the 20 year time period covered for wastewater services within the development charges study. It was determined by staff that an additional project for a pumping station and forcemain be added to facilitate industrial development, resulting in amended rates for wastewater services.

The updating of the Development Charge by-law and rates also provides the opportunity to update/revise the County's Local Service Policy. Staff have proposed refinements/improvements that better segregate infrastructure related to the identified services, clarify when Local Services apply to multiple benefitting properties, provide for new "Best Efforts Recovery", and provide new clarification of responsibility for growth related infrastructure required for Industrial Development.

To date, the County does not have a formal policy, with respect to growth related costs funded from development charges, to address the use of Front End Financing agreements with developers for DC eligible capital; or limits on individual service area DC reserve negative balance; or limits on DC debt to be issued. Staff are recommending establishing a Front-Ending Agreement Policy, under the Development Charges Act, with the following items used to form the basis of a formal County policy:

- Magnitude of Infrastructure
- Percentage of proposed initial development in relation to potential development area
- Portion of up front costs the developer will pay
- Up Front costs to be recovered from future proportionate DC receipts
- Timeframe/length of front end agreement

Approval of the Development Charge By-law and related rates is recommended for May 13, 2019, with new rates being in effect on May 14, 2019.

BACKGROUND:

The Development Charges Act (the "Act") provides a legislative framework for municipal development charges and front-end financing agreements. Development charges are a critical and integral funding source of growth related infrastructure costs. The Act provides that municipalities must update and complete a background study to determine development charges within a five year period following the approval of the existing development charges by-law. Haldimand County completed a development

charges background study in 2014 and passed a new development charges by-law on May 20, 2014. As a result, the County's existing Development Charges By-law is set to expire on May 19, 2019.

The annual Development Charges brochure (which is a statutory requirement) has been on the County's website and available at all County satellite offices since May 20, 2018. The brochure indicates the current by-law is effective from May 20, 2018 until a new by-law is enacted.

The approved 2018 Capital Budget included funding for the completion of a Development Charges Background Study and Population Forecast Study. In accordance with the Purchasing Policy, a Request for Proposals (RFP) was issued in 2018 and the project was awarded to Watson & Associates Economists Ltd (Watson). To assist Watson in developing the Draft Development Charges By-law and applicable rates, a Steering Committee for the joint project was established comprised of the Treasurer, General Manager Financial & Data Services, Director of Planning & Development, General Manager Engineering & Capital Works, Manager Facilities Capital & Asset Management, Chief Building Official, and the Manager of Water & Wastewater Engineering & Compliance. The Steering Committee assisted Watson in compiling the information required and reviewing all draft policies and calculations in developing the Draft Development Charges Background Study and proposed rates.

A kick-off meeting was scheduled in June 2018 to develop the applicable timelines to ensure a Development Charges By-law would be in place prior to the expiry of the County's current by-law on May 19, 2019. As a result, the following timeline was developed and has been followed to date:

Action/Meeting	Applicable Dates	Status
"Kick off" meeting to determine timelines and work plan	June 8, 2018 (part day)	Complete
Staff review of DC Calculations and rules – all services	November 15, 2018; November 23, 2018; November 28, 2018.	Complete
Notice to developers and consultants of pending review, including dates for Council workshop, background study release date, Stakeholder information session, Public meeting, and meeting for Council review of final by-law.	January 9, 2019	Complete
Council in Committee meeting to review policies/principles; Council in Committee meeting to review draft development charges and calculations.	January 15, 2019-11:00 a.m.	Complete
Release DC Background Study, dated March 5, 2019, and Proposed By-law on Municipal website (at least 60 days prior to passage of DC by-law); notification included reminder of upcoming Stakeholder information session and Public meeting.	Notification of release - March 6, 2019 (last available day March 7, 2019)	Statutory Requirement - Complete
Stakeholder information session with Development Community	March 21, 2019 1:00 p.m. to 4:30 p.m.	Complete
Notice of Public meeting at Council in Committee of April 16th (provide 20 clear days-within newspaper with sufficient general circulation); also included on website.	March 27, 2019	Statutory Requirement - Complete

Additional Notification to developers and consultants for Public meeting	April 3, 2019	Complete
Public Meeting	April 16, 2019 1:00 p.m. during Council In Committee meeting	Statutory Requirement - Complete
Council in Committee meeting to review final rates and draft by-law (adoption of by-law at following Council meeting)	May 7, 2019 11:00 a.m. (Council in Committee meeting)	Confirmed and booked
Development Charge By-law approval by Council	May 13, 2019 (Council Meeting)	Confirmed and booked
Notice of Passing of By-law	Within 20 days of by-law passage; last day for appeal is 40 days after the day by-law is passed	Statutory Requirement

At the January 15, 2019 Council in Committee meeting the following resolution was adopted:

1. *THAT the Development Charge presentation tabled by Watson & Associates Economists Ltd. at the January 15, 2019 Council in Committee meeting be received;*
2. *AND THAT the recommended principles, as presented by Watson & Associates, to develop the required Draft Development Charge Background Study (including area rating, draft rates, applicable by-law), be approved;*
3. *AND THAT the required statutory public meeting be held during the scheduled Council in Committee meeting of April 16, 2019.*

As a result, the Development Charges Background Study, dated March 5, 2019, was publicly released on March 6, 2019 with some amendments. Included within the recommendation section of this report is a motion to receive and approve the final Development Charges Background Study, as further amended.

The public consultation session and statutory meetings were held as indicated. Summary of attendance is shown as Attachment #1, and public feedback from these meetings are shown as Attachment #2. Written submissions as received are included as Attachment #3.

At this time, all the legislative steps have been properly undertaken, save and except the approval of the new Development Charge rates and the applicable By-law. It should be noted that the County's notification process exceeds the statutory requirements in an effort to ensure developers and stakeholders have significant advance notice of any changes.

ANALYSIS:

The draft development charge rates were presented by Watson in conjunction with a review of the underlying principles and associated policies at the January 15, 2019 Council in Committee meeting. Based on input from Council at that time, the rates were amended to reflect additional costs related to Recreation Services. Additional eligible capital costs of \$6 million were added to the growth related projects for the study period.

The following charts outline the current development charge rates, in comparison to the preliminary rates presented at the January 15, 2019 Council in Committee meeting and the rates as included in the draft Development Charges Background Study, dated March 5, 2019, as well as the proposed rates now being recommended for Council approval, which incorporate Addendum #1 and Addendum #2 to the background study.

Table 1: Comparison of Single Family Residential Rates

Service	Current	Council Workshop (January 15, 2019)	Development Charges Background Study (March 5, 2019)	Recommended Development Charges
Municipal Wide Services:				
Services Related to a Highway	1,455	1,981	1,970	1,970
Public Works - Building & Fleet	217	238	238	238
Parking Services	83	91	91	91
Fire Protection Services	976	690	690	690
Indoor & Outdoor Recreation Services	4,294	7,096	9,386	7,150
Library Services	714	1,101	1,132	1,132
Administration	211	225	225	225
Cemeteries	122	70	70	70
Ambulance	126	231	235	235
Waste Diversion	-	132	163	163
Total Municipal Wide Services	8,200	11,855	14,200	11,964
Area Specific Services:				
Stormwater Drainage and Control Services	284	121	121	121
Wastewater Services	1,947	4,777	4,776	5,930
Water Services	1,694	1,966	1,966	1,966
Total Area Specific Services	3,926	6,864	6,863	8,017
Grand Total - Urban Area	12,125	18,719	21,063	19,981

The “Grand Total Urban Area” rate has increased by approximately \$7,900 per unit (or 65%), but the relevant components are impacted differently. The municipal wide services have increased by approximately \$3,800 per unit (or 46%), due to the expanded growth related projects affecting Roads, Recreation and Library Services, as well as the inclusion of Waste Diversion services. The area specific services (water, wastewater and stormwater services) have increased by \$4,100 per unit (or 104%). This is due primarily to growth related projects for wastewater services.

Table 2: Comparison of Non-Residential Rates

Service	Current	Council Workshop (January 15, 2019) per sq.ft.	Development Charges Background Study (March 5, 2019) per sq.ft.	Recommended Development Charges per sq.ft.
Municipal Wide Services:				
Services Related to a Highway	0.63	0.80	0.78	0.78
Public Works - Building & Fleet	0.09	0.10	0.10	0.10
Parking Services	0.04	0.04	0.04	0.04
Fire Protection Services	0.41	0.29	0.29	0.29
Indoor & Outdoor Recreation Services	0.40	0.43	0.57	0.44
Library Services	0.07	0.07	0.07	0.07
Administration	0.10	0.09	0.09	0.09
Cemeteries	0.05	0.03	0.03	0.03
Ambulance	0.05	0.10	0.09	0.10
Waste Diversion	-	0.06	0.02	0.02
Total Municipal Wide Services	1.85	2.01	2.08	1.96
Area Specific Services:				
Stormwater Drainage and Control Services	0.10	0.05	0.05	0.05
Wastewater Services	0.60	1.84	1.83	2.27
Water Services	0.52	0.76	0.76	0.76
Total Area Specific Services	1.22	2.65	2.64	3.08
Grand Total - Urban Area	3.07	4.66	4.72	5.04

Note: D.C. by-law will include charges on a per sq.m basis as well

Although the recommended Single Family Residential Rate is proposed to decrease from the original Development Charges Background Study release, the Non-Residential rate is reflecting an increase. This results because the increased costs for additional wastewater services have a greater impact on the non-residential charge.

Public Feedback

Revised rates were included in the Background Study released to the Public on March 6, 2019. The draft rates and applicable by-law were reviewed at the Stakeholders Meeting on March 21, 2019 as well as the statutory public meeting on April 16, 2019. Public in attendance at both meetings expressed concern over the overall rate increase, but mainly related to the Indoor & Outdoor Recreation Services increase. Staff reviewed these concerns, and have recommended a reduction to the costs included for Recreation Services. The provision for additional recreational facility space included in the background study for \$14 million has been amended to \$7.5 million. It should be noted that the lower the amount, the more funds from alternative revenue sources will be required to fund any future recreation facility. Based on the provisions of the Development Charges Act, after the mandatory 10% reduction, the reduction to \$7.5 million will reduce the potential development charges recovery by approximately \$6 million (from \$12.6 million to \$6.8 million).

Comments were also received regarding whether developments already in process could pre-pay based on the old rates. Our current by-law provides for normal payment to be at the time of issuance of the building permit – consistent with the provisions of the Development Charges Act. It should be noted that the annual Development Charges brochure (which is a statutory requirement) has been on the County's website and available at all County satellite offices since May 20, 2018. The brochure

indicates the current by-law is effective from May 20, 2018 until a new by-law is enacted, providing notice that rates are expected to change.

As well, there was question as to whether the rates could be phased in over time. During the Public Meeting, Gary Scandlan, Watson & Associates, clarified that calculated rates can be phased-in over the period of the by-law (or a shorter time-frame), but that the difference between the calculated rates and the rates imposed would need to be funded from taxes (for tax-supported services) and rates (for water and wastewater services). Given the recommended increase in DC rates, this impact could be substantial. Based on the proposed increase of approximately \$7,900 per single family home in the urban area, even a minor delay (i.e. 6 months) would result in approximately \$1 million to be funded from non-development charges sources (i.e. taxes or water rates). Any delay in the implementation of the revised DC rates would undermine the County's financial principle of "growth pays for growth". For these reasons, it is recommended that the rates be implemented immediately as calculated to avoid any funding shortfall for the identified growth related infrastructure.

Further, comments were received identifying the lack of projects to provide servicing for wastewater to the North Caledonia area within the 20 year time period covered for wastewater services within this development charges study. The lands within this area are predominantly designated industrial and employment uses in the Haldimand County Official Plan. It was determined by staff that, given the identified need for industrial and employment land development within the County and the likelihood that the majority of the planned development in this area will occur within the 20 year timeframe, an additional project for a pumping station and forcemain be added to facilitate industrial development. This has resulted in the amended wastewater services charge as noted above. Given the anticipated uptake on development in this area, it is also anticipated that this infrastructure will require a Front Ending agreement with the first benefitting developer in this area. Recommended principles to develop a Front End Financing Policy under the Development Charges Act are included below.

Local Service Policy

The updating of the Development Charge by-law and rates also provides the opportunity to update/revise the County's Local Service Policy. In 2014 during the enactment of the County's current Development Charges by-law, Council approved a comprehensive Local Service Policy. This Policy provides staff and developers with the guidelines to identify growth related infrastructure costs that are the developers' responsibility. The guidelines outline, in general terms, the nature of the growth related infrastructure that is to be included in the Development Charges Background study and as such, collected through development charges versus infrastructure that is considered a local service to then be financed solely by the benefitting landowner(s). The determination between local services and DC eligible costs is critical in defining who funds the underlying infrastructure.

The current Local Service Policy provides guidelines for various service categories both in verbiage and schematic (picture) format. Although best efforts were utilized to make the guidelines as comprehensive as possible, as they are only guidelines, various interpretations can sometimes lead to confusion or ambiguity. As such, a concerted effort was made to update the Local Service Policy to align with the intended and historical application. This has led to amended wording and refined layout to clarify the responsibility to pay for growth related infrastructure related to the identified services.

Although the underlying principles remain consistent with previous application, some notable refinements/improvements include:

- *Better segregation of infrastructure related to the identified services:* The revised policy better articulates the types of growth related services covered by the Policy including the addition of Parkland Development.

- *Clarification when Local Services apply to multiple benefitting properties:* For all underground services (water, wastewater and storm water management), the revised policy better clarifies when these service are considered Local Service, despite servicing multiple developments.
- *New – “Best Efforts Recovery”:* Although the first developer is still responsible for providing the Local Services, in cases where external underground services benefit more than one development, the County will include “Best Efforts” clauses in subsequent development agreements to recover the applicable portion of the upfront infrastructure costs from future development. This will provide potential recovery from other benefitting developers and hopefully make the original investment more attractive.
- *New - Clarification of responsibility for growth related infrastructure required for Industrial Development:* Given the identification of growth related infrastructure to support future industrial development in specific areas of the County, new provisions have been added to clarify these costs are DC eligible when the infrastructure services primarily industrial lands.

Staff are of the opinion, and based on the feedback from both developers, stakeholders and the public, that the revised policy is less ambiguous and easier to follow. Having said that, senior staff will continue to work with developers to ensure the policy is fairly and equitably administered.

Front Ending Agreement under the Development Charges Act

As noted during previous capital related budgets and the annual Development Charge reports, certain service areas have growth related costs identified before the applicable development charges have been received. This will in turn, cause that particular service area reserve fund to be negative until the DC receipts are received or, if the project meets the County’s debt principles, DC debt will have to be incurred with repayments to be recovered through future DC receipts.

To date, the County does not have a formal policy, with respect to growth related costs funded from development charges, to address:

- Use of Front End Financing agreements with developers for DC eligible capital; or
- Limits on individual service area DC reserve negative balance; or
- Limits on DC debt to be issued.

Given the large scale underground services proposed in the DC Background Study (specifically wastewater), it is now warranted to develop a policy to determine when it is appropriate to require Front End Financing Agreements, as provided under the Development Charges Act, with Developers.

Through discussions with our consultants and review of other local municipal policies, the following principles are recommended to be used to form the basis of a formal County policy:

- *Magnitude of Infrastructure:* The timing and scope of the project should be significant enough to warrant entering into an agreement.
 - *Recommendation:* Consistent with the County’s debt policies, it is recommended that the underlying project must be a minimum of \$1 million.
- *Percentage of proposed initial development in relation to potential development area:* If the initial development does not cover a significant portion of the developable area, there is the risk that future development will not materialize to warrant the need for the infrastructure nor will the cost be recovered from future development.
 - *Recommendation:* Similar to the Non-Residential Local Service Front End Policy, if the proposed initial development is less than 33.3% of the total area serviced by the proposed infrastructure, the initial developer must front end the costs of the infrastructure.

- *Portion of up front costs the developer will pay:* Based on the first two parameters, there is significant up front capital costs with substantial future development pending to cover the growth related costs. Given these circumstances, in the absence of 100% developer funding, it would not be financially warranted to undertake the required infrastructure project at the current time.
 - *Recommendations:* Given the above circumstances, it is recommend that the developer front end 100% of the required growth related capital costs. If there are portions of the project that benefit existing users of the service(s) (i.e. the County would have ultimately funded the replacement of the existing infrastructure); the County would fund the relative percentage/proportion of the amortized cost and the developer would fund the remaining portion of the costs (i.e. the unamortized portion).
- *Up Front costs to be recovered from future proportionate DC receipts:* If the DC eligible costs meets the above eligibility requirements, the County will enter into an Front End Agreement with the developer and will collect and remit to the developer the proportionate share of future DC receipts relative to the underlying front ended infrastructure.
- *Timeframe/length of front end agreement:* Given it could be many years before the balance of the development occurs and the DC collections pay for the underlying infrastructure, most Front End agreements have a time limitation imposed.
 - *Recommendation:* Given the post benefit period under the Development Charges Act for under-ground services is 20 years, it is therefore recommended that the maximum term for any front end agreement be the lesser of full repayment or 20 years, whichever comes first.

The inclusion of a Front End Financing policy will allow growth related infrastructure to be developed that may have been delayed due to lack of imminent development in a specific area. This policy will address the immediate financing needs related to projects identified in the Background Study, as amended. Staff will review the need for other Development Charge related financing policies in the future as the need arises.

Recent announcements by the Provincial government are recommending some legislative changes to the Development Charges Act. The intent of these changes is to support the affordability of housing in Ontario. Although these changes have not been enacted, it appears there is continued support by the Province to ensure growth pays for growth, however there are changes to support certain types of development and to make Development Charges more predictable for developers. Staff will update Council on the potential future impacts as more information is available.

FINANCIAL/LEGAL IMPLICATIONS:

The underlying principle of adopting development charges is to ensure the capital costs associated with growth are funded by new development. If development charges are not updated within the prescribed 5 year timeline, the funding necessary to pay for the required infrastructure for new growth will not be available. This will impact the County's ability to support new development and fund the necessary infrastructure for this new growth. In the absence of the required development charges revenues, the County would be forced to delay infrastructure improvements and their associated development or fund these infrastructure requirements from current taxpayers.

The proposed reduction in the capital costs included for Recreation Services will result in additional funding being required from other revenue sources, such as taxation.

STAKEHOLDER IMPACTS:

All departments of the Corporation are impacted. The Development Charges Study Steering Committee consists of a cross-departmental representation of staff.

As well, the development community is actively encouraged to participate in all discussions related to the Development Charges process, beginning with the Council Workshop in January. Several comments were received, and have been incorporated into the recommended rates, when possible.

REPORT IMPACTS:

Agreement: No

By-law: Yes

Budget Amendment: Yes

Policy: No

ATTACHMENTS:

1. Sign-in Sheets from the Consultation Session with the Development Community and Public Meeting
2. Summary of Comments from the Consultation Session with the Development Community and the Statutory Public Meeting
3. Written Submissions
4. Addendum #1 and Addendum #2 to Development Charges Background Study, dated March 5, 2019
5. Draft Development Charges By-law