

Staff Report

Report To: Corporate Services Committee
Report From: Kate Allan, Director of Corporate Services
Meeting Date: September 14, 2023
Report Code: CR-23-071
Subject: Development Charges Update

Recommendations:

THAT in consideration of Staff Report CR-23-071 respecting Development Charges Update, the Corporate Services Committee recommends that City Council direct staff to:

1. Bring forward a by-law to:
 - a. repeal Development Charges By-law No. 2020-112; and
 - b. replace it with the by-law attached to the report, including the revised Schedule 'B' as outlined in the report; and
2. Prepare an annual development charge brochure detailing total phased-in charges and discounts as required in the *Development Charges Act* and regulations.

Highlights:

- Development Charges (DC) are a fee charged to developers to pay for the cost of growth-related infrastructure such that the existing tax base will not bear these costs.
- Bill 23 More Homes Built Faster Act, 2022, will significantly impact the Municipality's ability to collect Development Charges on new residential developments.
- The City's current Development Charges By-law will expire on March 1, 2024

- Under the City's current deferral and exemption clause for purpose-built rental, over 1.2 million in Development Charges have been waived, and a further \$1.2 million has been approved.

Strategic Plan Alignment:

[Strategic Plan](#) Priority: Clear Direction - KR2 - Align total municipal levy to Council's directed threshold each year while maintaining capital increase of 1 per cent annually

Development Charges are a funding source in the capital budget that, when applied to growth-related capital projects, reduce the burden on the tax levy.

Climate and Environmental Implications:

There are no anticipated climate or environmental impacts.

Previous Report/Authority:

[CR-21-119 Development Charges Update](#)

[CS-22-149 Bill 23 - More Homes Built Faster Act - Changes proposed to the Ontario Planning Act and Heritage Act](#)

[Development Charges Update CR-23-036](#)

Background:

Development Charges are one-time fees charged by municipalities on new residential and non-residential properties to help pay for all or a portion of growth-related capital costs. Without development charges in place or where insufficient development charges are collected, the cost of growth-related capital must be raised through taxation and/or water, wastewater, or stormwater rates.

The *Development Charges Act* requires that the City undertake a background study before passing a new Development Charges by-law. The City last completed a background study on October 7, 2019, and the by-law was passed on September 28, 2020. The current by-law expires on March 1, 2024.

The 2020 by-law includes an exemption from Development Charges for Rental Housing Developments, often referred to as Purpose-built Rental. To

qualify as a rental development, a property must add more than four new units. To date, \$1,209,000 in City Development Charges have been waived under this new exemption. A further \$6M in foregone development charge revenue could be realized if the existing by-law with full deferral and exemption remains in place based on pre-circulated development plans.

At the special meeting held on November 12, 2021, the following resolution was carried:

S-211112-002 Moved by Councillor Thomas

"THAT in consideration of the draft 2022 Capital Budget, City Council directs staff to bring forward a report on Development Charges that includes recommendations on potential changes to address lost revenue stemming from Development Charge exemptions."

Since the resolution and follow-up report on December 1, 2021, Bill 23, More Homes Built Faster Act, 2022, was introduced. The Act was introduced for First Reading on October 25, 2022. The bill was passed on November 28, 2022, and received royal assent the same day, deeming it in effect. Bill 23 made fundamental changes to Ontario's land use planning system through changes to the Development Charges Act, Planning Act, Municipal Act, and other legislation, including mandatory and wide-ranging development charge exemptions, discounts, and phase-ins. These new exemptions, discounts and phase-ins would apply over and above any exemptions and discounts in the current City by-law.

This update to the Development Charges by-law has focussed on two priorities:

1. Maximizing Development Charge Revenues to reduce the tax burden on the City of Owen Sound taxpayers for growth related capital projects, and
2. Integrating and aligning the by-law with the changes imposed by Bill 23.

Since the last DC by-law was passed in 2020, the City has experienced increases in the cost of capital construction projects well beyond what had previously been forecasted. As such, a third priority was added to the update to the Development Charges by-law in that future estimates for the cost of construction be updated to capture changes in construction price indices and new inflation levels.

Analysis:

A public meeting was held on Monday, May 29, 2023, pursuant to the Development Charges Act, 1997, regarding the proposed amendments to By-law No. 2020-112. Several developers and members of the public attended and spoke at the meeting. Comments received at that meeting and received directly by staff are attached to this report. Common themes discussed included extending the exemption on purpose-built rental developments already in progress, limiting the increases to the Development Charges Rates and capturing actual anticipated growth in the rate calculations. Since the meeting, staff met one-on-one with each of the developers interested in discussing the changes. Resulting from those meetings, the following changes have been made to the Development Charges By-law presented for Council's approval:

Definitions

Various definitions have been updated for clarity but do not change the application of charges or the calculation of fees. See Schedule A -12. discussed below.

A definition for 'Bedroom' has been added on which the legislated discounts on rental housing developments will be calculated. The definition matches the property standard by-law enforced on rental housing properties:

Bedroom means a habitable room within a dwelling unit, except a kitchen, bathroom, toilet room, storage room and den, which has a window or windows, skylights, translucent panels or glass area of an outside door that faces directly to the outside at least 0.15 metres above adjoining finished grade, or above an adjoining room, and that admits as much natural lights as would be transmitted through clear glass equal in area to 5 percent of the floor area of the room.

Calculation of Development Charges – Residential Uses

Language was added for clarity to paragraphs 11 and 12. Both paragraphs capture the legislation under the Regulation and resulting from changes under Bill 23.

Schedule A – 11. Pursuant to subsections 2(3), (3.1), (3.2) and (3.3) of the Act, no development charges are payable with respect to the following:

- a. the enlargement, renovation, or repair of an existing dwelling unit;
- b. additional units in an existing rental residential building;
- c. the creation of additional residential units as prescribed by table in Section 2(1) of O.Reg 82/98 (the Regulation), subject to any restrictions set out in the Regulation, in prescribed classes of existing residential buildings or prescribed structures ancillary to existing residential buildings as set out in the Regulation; or
- d. the creation of a second and third additional dwelling unit and a new ancillary structure in prescribed classes of proposed new residential buildings as set out in the Regulation, including structures ancillary to dwellings, subject to any restrictions as set out in the Regulation.

Schedule A – 12. In the case of rental housing development, as defined in the Act, the development charges payable shall be reduced:

- a. by 25 percent for a residential unit intended for use as a rented residential premises with three or more bedrooms;
- b. by 20 percent for a residential unit intended for use as a rented residential premises with two bedrooms;
- c. by 15 percent for a residential unit intended for use as a rented residential unit not referred to in subsection (12a.) and (12b.)

Exempt Buildings

16. f. Rental housing development, as defined in this by-law, provided:

- ii. the development received approval for a zoning by-law amendment under s. 34 of the Planning Act or site plan approval under s. 41 of the Planning Act prior to March 1, 2026; and
- iii. the first building permit is issued for the development within two years of the development receiving approval defined in 16.f.ii above; and
- iv. subject to a written agreement pursuant to s. 35 of this by-law.

The updated clause allows for a phase-out of the purpose-built rental exemption, allowing any development with approvals before March 1, 2026, to continue to be eligible for exemption, provided that the first building permit is pulled within two years of receiving site plan approval.

For clarity, any development will have until March 1, 2026 to obtain site plan approval to be eligible for exemption. However, once site plan approval is obtained, the first permit must be pulled within two years. For a development that obtained site plan approval in the summer of 2023, the first permit must be pulled by the summer of 2025 to be eligible for exemption under the Development Charges bylaw. All phases of the development must be completed by the fall of 2033 for eligibility to continue in multi-phase scenarios.

Development Charges Fee Schedules

For context, the Charges per the existing in-force DC by-law are below:

Service	Residential Single & Semi-Detached	Residential Other Multiple	Residential Apartment	Non Residential Charge Per Sq.M.
Indoor Recreation Services	\$3,700	\$2,878	\$2,275	\$0.00
Roads & Related Services	\$2,096	\$1,630	\$1,289	\$14.16
Stormwater Drainage & Control	\$34	\$27	\$21	\$0.23
Wastewater Services	\$918	\$714	\$564	\$8.18
Water Services	\$1,252	\$974	\$770	\$8.47
TOTAL DEVELOPMENT CHARGE	\$8,000	\$6,223	\$4,919	\$31.04

When the Development Charges By-law was updated in 2019, the fully calculated charge on a single-family home was determined to be **\$11,959** for the services to be included in the by-law. Council directed staff to bring forward a by-law capping the maximum charge at \$8,000, which was consistent with the charge under the previous 2014 by-law.

Supported by the background study completed in 2022, the new fully calculated charge provided by Hemson in the draft by-law presented at the public meeting is as follows:

Service	Residential Single & Semi-Detached	Residential Other Multiple	Residential Apartment	Non Residential Charge Per Sq.M.
Library	\$1,411	\$1,242	\$847	\$0.00
Fire Protection Services	\$1,116	\$982	\$670	\$4.65
Police Services	\$1,208	\$1,063	\$725	\$5.03
Outdoor Recreation	\$4,954	\$4,360	\$2,972	\$0.00
Indoor Recreation	\$8,589	\$7,559	\$5,154	\$0.00
Transit Services	\$126	\$111	\$75	\$0.52
Waste Collection	\$299	\$263	\$179	\$1.24
Services Related to Highway – Roads and Related	\$11,293	\$9,937	\$6,776	\$46.37
Wastewater Services	\$1,616	\$1,422	\$969	\$8.02
Water Services	\$3,639	\$3,202	\$2,183	\$15.01
Stormwater Drainage & Control	\$662	\$583	\$397	\$2.74
TOTAL DEVELOPMENT CHARGE	\$34,913	\$30,724	\$20,947	\$83.57

Per legislation, these new charges are to be phased in over five years. However, even with the phase-in, the total charges in year one would be \$27,930, a significant increase from 2019.

Council and staff heard from developers with a few concerns about the calculation of the charges:

1. The calculated charges utilized growth forecasts which differ from development plans in circulation. With the growth anticipated from plans in pre-approval, the fully calculated fee would be less.
2. The new development charge fees should reflect a reasonable index over time that accounts for inflation.

- The supporting construction projects should reflect a realistic plan for the future.

To address the concerns of developers, staff reviewed the growth figures used and, with the help of Hemson, developed calculated charges utilizing the unit numbers from plans in progress. With a higher unit number, the resulting total charge per unit is less than the fully calculated charge in the background study. Consistent with the last by-law, staff have also recommended collecting charges only on "hard services," including Roads, Water, Wastewater and Stormwater infrastructure and the existing debt payment on the Julie McArthur Regional Recreation Centre. The proposed maximum fees for the new by-law (revised Schedule 'B'), along with the annual phase-in, are as follows:

Service	Residential Single & Semi-Detached	Residential Other Multiple	Residential Apartments	Non-Residential Charge Per Sq.M
Indoor recreation	\$3,429	\$3,017	\$2,057	\$0.00
City-Wide General Services	\$3,429	\$3,017	\$2,057	\$0.00
Services Related To A Highway - Roads & Related	\$7,680	\$6,759	\$4,608	\$32.36
Wastewater Services	\$1,319	\$1,161	\$791	\$4.90
Water Services	\$3,094	\$2,722	\$1,856	\$12.46
Stormwater Drainage & Control	\$699	\$615	\$420	\$2.76
City-Wide General Services	\$12,792	\$11,257	\$7,675	\$52.48
Total Development Charge	\$16,221	\$14,274	\$9,732	\$52.48
year 1 2023	\$12,976.8	\$11,419.2	\$7,785.6	\$42.0
year 2 2024	\$13,787.9	\$12,132.9	\$8,272.2	\$44.6
year 3 2025	\$14,598.9	\$12,846.6	\$8,758.8	\$47.2
year 4 2026	\$15,410.0	\$13,560.3	\$9,245.4	\$49.9
Year 5 2027-2033	\$16,221.0	\$14,274.0	\$9,732.0	\$52.5

The recommended rates for the Area Specific Development Charge remain consistent with the background study.

It is important to acknowledge that the Province has a legislated exemption from DCs for affordable and attainable housing subject to an agreement similar to the City's current treatment for purpose-built rental properties. The determination of eligibility and the program's structure has not been defined to date. However, it is quite likely that under that new legislation, a purpose-built rental that meets the affordable criteria will continue to be exempt through the life of the by-law. New homes under the affordable threshold will also be exempt from DCs.

While the thresholds have yet to be known, Grey County complied with PPS Data tables and determined that 20% less than Average Resale Price would be anything below \$570,000 for a free-hold house. The amount representing 20% below Market Area Rent for rental units would be anything below \$815 per month. Considering the impact of the affordable and attainable exemption, it is reasonable to utilize these figures for current estimates.

Financial Implications:

Development Charges collected are held in a separate interest-bearing reserve and may be utilized to fund growth-related projects as identified in the background study. When there are insufficient funds in the reserve when a project is undertaken, the amount estimated to be covered by DCs must be funded another way, most commonly through the capital tax levy, water rates or wastewater rates.

The current reserve balances totalling \$1,181,000 at the end of 2022 are as follows:

Roads and Road Related	\$403,000**
Waste Diversion (recycling)	\$74,000
Police	\$31,300
Fire	\$48,100
Transit	\$16,800
Outdoor Recreation	\$75,900
Indoor Recreation	\$1,700
Library	\$40,400
Storm Sewer	(\$22,800)
Water	\$422,000
Wastewater	\$90,400

** \$200,000 is committed in the 2023 Capital Plan

The multi-year water capital plan anticipates utilizing \$821,500 in DCs, while the multi-year wastewater capital plan anticipates \$48,400 over the next five years.

Communication Strategy:

Notice of passing a new DC By-law will be issued pursuant to the Act.

Consultation:

Department heads responsible for the development of Capital Plans

Hemson Consulting

Grey County Planning Department

Attachments:

Development Charges By-law (R2020-112)

Development Charges By-law Comments

Recommended by:

Kate Allan, Director of Corporate Services

Submission approved by:

Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan, Director of Corporate Services at kallan@owensound.ca or 519-376-4440 ext 1238.