AGENDA
of the
DEVELOPMENT CHARGES TASK FORCE
Friday, March 27, 2015
1:30 p.m.
Council Chambers, 3rd floor, City Hall

CALL TO ORDER

2. **DECLARATIONS OF CONFLICT**

3. **ADOPTION OF THE MINUTES**

Adoption of the minutes of the meeting of the Development Charges Task Force held on March 11, 2015- ***(to be e-mailed).***

4. **BUSINESS ITEMS**

4.1 2015 Development Charges - Administrative Recommendations

The report of the Deputy City Treasurer and the Executive Initiatives Coordinator dated March 20, 2015 entitled "2015 Development Charges - Administrative Recommendations" - ***attached.***

5. **OTHER BUSINESS**

6. **ADJOURNMENT**

Item No.

THE CORPORATION OF THE CITY OF WINDSOR
Office of the City Treasurer - Finance Department

LiveLink REPORT #:	**Report Date: March 20, 2015**
Author's Name: Tony Ardovini & Stephen Cipkar	**Date to Task Force: March 27, 2015**
Author's Phone: 519 255-6100 ext. 6223 519-255-6100 ext. 6477	**Classification #:**
Author's E-mail: tardovini@city.windsor.on.ca scipkar(Q),city.windsor.on.ca	

TO: **Members of the Development Charges Task Force**

SUBJECT: **2015 Development Charges - Administrative Recommendations**

1. RECOMMENDATION: **City Wide: X Ward(s): __**

THAT the Development Charges Task Force **RECOMMEND TO CITY COUNCIL** that the new 2015 Development Charges (DC) Bylaw be approved on the basis of the following main parameters:

1. **Phased-in implementation of the new DC rates calculated by Hemson Consulting (detailed in Appendix A) in accordance with the governing legislation.** More specifically, that the new rates be phased in over the five year life of the bylaw with one quarter of the increase to be implanted at the inception of the new bylaw, followed by annual increases at the bylaw's anniversary dates based on a formula that takes into account the percentage of actual building activity compared to the forecasted building activity for the 5 year period of the DC Bylaw.

2. **Continuance of the area specific discounts policy.** The currently defined Areas and corresponding discount rates (Area 1: 25%, Area 2: 50% and Area 3: 75%) should continue with their currently defined boundaries and exemption rates until such time as any future comprehensive planning studies may recommend changes based on a thorough review of all the factors that can impact on development activity in the various City neighborhoods.

3. **Differentiated non-residential DC charge.** The practice of the 2010 bylaw of differentiating between "Industrial," "Retail" and "Other" non-residential development should continue. The "Retail" and "Other" non-residential

Categories should be included in the phased-in increase process as well as in the area specific exemptions as detailed in Recommendations 1 and 2.

4. **Industrial development exemption policy should continue.** The current practice of exempting all industrial development from development charges should continue in the 2015 bylaw.

5. **The council approved DC rates should continue to be adjusted annually based on the CPI index.** This will allow the DC revenues purchasing power to keep pace with the increasing costs of development expenditures.

EXECUTIVE SUMMARY

Development charges are a very important component of a municipality's capital budget funding strategy. Capital projects relative to roads, sewers, libraries, community centers, etc., can be projects that aim to maintain the existing infrastructure in good condition or expand the existing infrastructure for growth related needs.

If development charges are inadequate to pay for the growth related capital costs, the only alternative is to subsidize that growth by increasing the property taxes of existing taxpayers or to reduce expenditures (which then results in a degradation of service, as roads aren't maintained as well, etc.). In reality, both of these scenarios normally play out. The 2015 Capital Budget details projects costing hundreds of millions which are unfunded and have a significant growth component. (e.g. Walker Rd, Grand Marias, Riverside, Cabana, Howard, Lauzon Parkway, County Road 42, Banwell and the Provincial/Division corridor to name just a few projects in the roads category only).

Higher property taxes and/or lower service levels (inadequate infrastructure, etc.) will also negatively impact the ability to attract new investment or retain existing ones.

The rates being recommended (subject to a 4 year phase-in tied to growth levels) are shown in the following table in the fully calculated column. **The 2015 recommended rates are shown in the 2015 Rate column.** The recommendation for the industrial rate is to maintain at zero. The table also shows the recommended exemptions for three core areas See Appendix D for a map)

Table 5 - Summary of Proposed Area Specific Exemptions

	Fully Calculated	Current Rate	Phase-in 25%	2015 Rate	Area 1 Exemption (25%)	Area 2 Exemption (50%)	Area 3 Exemption (75%)
Residential - Single Detached	$26,874	$18,291	$2,146	$20,437	$6,209	$12,417	$18,626
Residential - Semi, Row, Townhouse	$18,057	$13,798	$1,065	$14,863	$4,172	$8,344	$12,515
Residential - Apartment	$12,846	$9,141	$926	$10,067	$2,968	$5,935	$8,903
Commercial - per square meter	$120.99	$48.33	$18.17	$66.50	$29.60	$59.20	$88.79

The body of the report contains Administration's views relative to the impacts of the proposed rates as it relates to the City's competitiveness with neighboring municipalities.

It is noted that these recommended rates are 49% below the fully calculated allowable rates, which is a significant concession based on past practice, and an acknowledgement of the input received through the consultation process with the development community.

Appendix F is a summary of the revenues received through development charges in the last decade. It totals $30.5 million or approximately $3 million per year. It is noted that this timeframe generally coincides with one of the worst recessions on record. As the economy improved in the last couple of years the revenues from this source are in the $5 million range. It should also be noted that at times developers construct and pay for infrastructure that the City would be responsible to construct. In return, developers get exemptions from paying DC's of a similar amount. Therefore, the revenue figures noted above understate the real value of the DC's to the city.

Based on even the current generally lower development activity levels, it would be expected that once the recommended DC rates are fully phased in, the City could see an increase in annual revenues in the range of $2.0 million to $3 million. The actual amount will depend on the actual level and type of development.

2. BACKGROUND:

At its meeting on March 17, 2014, City Council approved the following resolution:

"CR74/2014

1. *That Council **ACCELERATE** the timelines as soon as reasonable for the 2015 DC Background Study and **APPROVE** the engagement of a consultant and a report to Council as soon as reasonably possible with timelines;*

2. *That Council **APPROVE** the hiring of a consultant consistent with the City's Purchasing Bylaw with an upset limit of $80,000 and that this engagement **BE CHARGED** to the DC Study & Bylaw Update capital project approved as part of the 2014 Capital Budget and funded from DC Reserve Fund #121;*

3. *That Council **APPROVE** the continued denial of the waiving of DC Fees for private developers;*

4. *That the request from the Greater Windsor Home Builders Association (GWHBA) to revert back to 2005 DC Fees **BE DENIED;** and*

5. *That, similar to the last process in 2010, Council **INVITE** the GWHBA to participate on the DC Task Force (as a non-voting member) when the committee is established at the beginning of 2015, and provide input on the next DC Background Study and its related policies, along with the new DC Bylaw. "*

The Development Charges (DC) Task Force was established with Councillors Payne, Sleiman, Bortolin, Borrelli, and Holt being appointed by the Striking Committee. Councillor Borrelli subsequently resigned due to a declared conflict. Additionally, the Striking Committee appointed five non-voting members from the community. These five members are: Evangelo Kalmantis (Integral Architecture), Shane Mitchell (Architect), Tony Rosati (Rosati Group), Albert Schepers (GS Engineering) and Pietro Valente (Valente Corporation).

An initial meeting of the Task Force was held on January 16, 2015 during which Craig Binning of Hemson Consulting provided the members with an overview of development charges in general and the *Development Charges Act, 1997* in particular. A second meeting was held on February 20, 2015 during which Mr. Binning presented the preliminary inventories of both general and engineered services as compiled by Hemson Consulting. A third meeting was held on March 11, 2015 during which Mr. Binning presented draft development charge rates based on the completed general and engineered services inventories as well as Hemson Consulting's ten year development forecast for Windsor.

The final meeting of the Development Charges Task Force is scheduled for March 27, 2015. At this meeting, in addition to considering the administrative recommendations contained in this report, the Task Force shall consider recommendations made in the submissions from the DC Task Force Members. The voting members of the Task Force can then make fully informed recommendations to City Council.

3. DISCUSSION:

Background Study

At the last meeting, Hemson Consulting presented the DC rates which were calculated as part of the Background Study and based on the legislative parameters.

The Background Study, required by the *Development Charges Act, 1997 (the DCA),* provides a forecast of development activity in Windsor over the 2015 - 2024 period and also calculates the cost of completed, in-progress and planned capital projects associated with the provision of both general (parks, recreation, police, fire, library, general government, indoor recreation, public works, fleet, parking and transit.) and engineered (roads and related, sanitary sewers, storm sewers, municipal drains, water storage and distribution structures) services. These calculations remove any third party funding for these projects, as well as the percentage estimated to provide replacement or benefits to existing development.

Additionally, the Background Study discusses the role that development charge policies play in the context of larger planning policies and objectives and how other Planning policies and tools, such as Community Improvement Plans (CIP's) can be used in tandem with development charges to potentially influence development activities in the City.

Development Forecast Contained in the Study

Hemson Consulting, in consultation with administration, adopted a conservative development forecast for 2015 - 2024. This forecast assumes 3,500 additional residential units over that time period, or 300 units per year for the first 5 years and 400 per year for the last 5 years. The figure of 300 units per year (i.e., the projection of the units during the 5-year lifespan of the new by law) will be the basis for calculating the percentage increases in the phase-in of the calculated rates (see detailed discussion below). Similarly, the projected square footage of new development will be the measure used to phase in the non-residential charges.

Calculated Rates per the Background Study

The rates calculated by Hemson Consulting based on the Background Study work are contained in Table l below. Please see Appendix A for a detailed breakdown of the calculated rates by the general and engineered services categories.

Table 1 - 2015 Calculated Development Charge Rates

Category - City Wide	Currently Charged	2010 Calculated Rates	2015 Calculated Rates
Residential - Single Detached Unit	$18,291	$30,353	**$26,874**
Residential - Semi, Row, Townhouse	$13,798	**$18,848**	$18,057
Residential - Apartment	$9,141	$13,661	**$12,846**
Commercial (per square metre)	**$48.33**	**$92.27**	$120.99
Industrial (per square metre)	$0	$75.39	**$72.24**

It should also be noted that in the development of the engineered services inventory, Hemson, in consultation with administration, opted to remove from the inventory approximately $40 million of eligible engineered services that were constructed in the past but are still contributing to ongoing growth and development. The removal of these costs from the calculations obviously prevented the calculated rates from being higher than are being presented in this report and Hemson's Background Study. The impact of removing these costs to the calculated rates is significant. For example, the fully calculated rate for a Single Detached Residential Unit with the $40 million of eligible past engineered services costs included would be $39,966, or 49% higher.

Development Charges rate comparison

The current DC rates are well below the provincial average based on the 2014 BMA Municipal Study, which shows that across the province, the **average** fee for **residential-single family** detached homes is **$27,614.** This is much higher than Windsor's current $18,291 and slightly higher than the new calculated rate of $26,874.

The BMA provincial **average** for **commercial** properties is **$164.05** per square meter. Windsor's rate is currently $48.33 and even at the newly calculated rate of $120.99, it will still be considerably lower.

Finally, the **average** provincial fee for **industrial** development is **$101.50** while Windsor's is currently NIL and is recommended to remain at that level.

It **is noteworthy that according to the 2014 BMA Municipal Study, Windsor's current development charges are the lowest in the province of any municipality of similar or larger size.**

Table 2 below provides a comparison to a sample of some specific peer municipalities.

Table 2 -Windsor & Peer Cities Development Charges

	Residential - Single Detached	Commercial (per square meter)
City of Windsor - Current	$18,291	**$48.33**
City of Windsor - Fully Calculated 2015	**$26,874**	$120.99
City of Vaughan	**$61,157**	**$455.24**
City of Oakville	$50,917	**$346.53**
City of Barrie	**$41,385**	**$299.34**
City of Kitchener	**$28,564**	$159.93
City of London	**$27,722**	**$174.44**

For purposes of completeness, a comparison to the much smaller local municipalities is also presented in the following table, although as discussed later in this report, administration believes that this type of comparison is much less valid than the foregoing comparison to peer municipalities.

Table 3 - Windsor & Essex County Development Charges

	Residential - Single Detached	Commercial (per square meter)
City of Windsor - Current	$18,291	$48.33
City of Windsor - Fully Calculated 2015	$26,874	$120.99
Town of Tecumseh	$12,406	$40.90
Town of Lasalle	$12,604	$26.48
Town of Lakeshore	$16,278	$64.05
Town of Amherstburg	$12,139	$68.14
Town of Kings..,,;11e	$8,086	$15.61
Town of Essex	$9,953	$41.23

It **should be noted that care should be taken to compare Windsor's newly calculated rates to the existing rates of other municipalities. Given that the legislation requires a new**

Background study be done every five years, other municipalities will also have to calculate new rates. Inflationary cost increases relating to the underlying capital projects generally tend to push rates higher as new studies are undertaken.

The differing points of view

The process undertaken to date as part of the new DC background study has been a very open and inclusive one. The development industry representatives, administration and the City's elected representatives have all provided significant input into the process, which should be helpful as the Task Force deliberates on its recommendations to Council.
There are many points of view that have been expressed by the development industry representatives relative to the best course of action to take in approving a new development charges bylaw. There has also been significant debate in the media and the community in general. The following are some of the main views expressed:

a. Development is moving to neighboring municipalities because Windsor's DC fees are too high in comparison.
b. Decreasing fees will lead to more development in Windsor thus increasing the amount of property tax revenues to the City.
c. The 2015 calculated rates reflect too much of an increase for the industry to absorb.
d. Multi-residential development should be encouraged by lowering those rates because those developments aid in the desired goal of intensification.
e. There should be incentives for the core area of the city.
f. Development charges should not be collected at the building permit stage, but at the occupancy stage to save on the costs of carrying the expenditures.

The following are administration's comments relative to those views.

View: Development is moving to neighboring municipalities because Windsor's DC Fees are too high in comparison.

The disproportionate growth of the suburbs compared to the city cores is a long standing national trend that is not in any way unique to Windsor, or in administration's opinion, caused by the higher development charges in Windsor.

The attached paper *Boomtown in the Backyard: Suburban Growth in Ontario,* published by The Martin Prosperity Institute at the University of Toronto's Rotman School of Management provides some interesting insights into this phenomenon (see Appendix B).

The study looked at the following cities: Hamilton, Kingston Kitchener Waterloo, London, Oshawa, and Windsor. They state that *"from 2001-2006... Most of the population growth taking place in these municipalities occurred in outer suburbs"*. There are many reasons for these trends but the paper goes on to state: "....when analyzing the effectiveness of Smart Growth policy, University of Waterloo professor, Pierre Filion (2010) found that much of the middle class still has a preference for dispersed development, which is mirrored by developers who adamantly advocate sprawling subdivisions."

Also attached (see Appendix C) is a graphic presentation from an article written by Ren Thomas (PhD, Planning) titled *Most Population Growth in Canadian Suburbs,* which presents similar findings from the 2011 census.

Also countering this point of view is data that shows that some of the fastest growing municipalities in the province also have some of the very highest development charges (for example, Milton at $48,335). There are many reasons why people choose to live where they do. The data does not support the view that relatively lower development charges is one of the main reasons.

View: Decreasing fees will lead to more development in Windsor thus increasing the amount of property tax revenues to the City.

As indicated above, some of the fastest growing municipalities also have some of the highest DC rates. Therefore, it can be inferred that development charges are generally not the deciding factor relative to where growth will take place. Therefore, it follows that reducing the charges, all else being equal, will not likely be a major deciding factor in the decision to develop in a certain municipality. More important considerations appear to be related to lifestyles, socio-economic circumstances, cultural trends, amenities in the city core, etc.

Additionally, development charges are typically one of the smallest components of the cost of a home as can be seen in Figure 1 below, an illustrative pie chart which itemizes, in rounded general figures, the main cost components of a typical $325,000 home.

Even if the charge in a neighboring municipality was, say, less than half of the noted $25,000 development charges, it would account for a difference of only 3.8% of the total price. This type of difference would most likely be of secondary importance to the other noted reasons that drive development in a particular municipality or neighborhood. In other words, it is not likely to be

The driving reason for a decision on the location of the development. Similar comments apply to the other development categories.

There is another interesting dynamic at play. Economic theory and research suggests that if the development charges in the above illustrative case were to be cut in half (i.e. reduced by $12,500), the price of the home would not likely decrease by a similar amount (which would make the home more affordable and likely lead to greater demand and development). Rather, the value of the land would likely increase by $12,500 and the price of the home would remain unchanged. This is because no rational person would sell a home that has a market value of $325,000 for $312,500.

Generally, even if two sides of the street had different development charges fees, it is expected that the market would dictate that similar properties be sold at the same price. This would drive down the value of the land on the side of the street with the higher development charges in order for the overall price to stay competitive in the market.

It is possible that lower land values could at times reduce the urgency of the owner to sell the land or to develop it. However, this would have to be weighed against the ongoing costs of maintaining the undeveloped land (property taxes, etc.). It is not likely that the decision to potentially delay the development or sale of the land would be a long term decision. And, of course, once the property is sold (at the presumably lower price), the market would be reset as the new owner would have a cheaper property on which to develop; therefore, the new owner would have just as much incentive to develop as the previous owner had prior to the development charges increase. **This concept illustrates that the greatest impact of a development charges increase will be borne by the existing land owners.**

View: The 2015 calculated rates reflect too much of an increase for the industry to absorb.

As noted in the rate comparison section of the report, the calculated rates are almost exactly at the average rate for Ontario for residential and below average for commercial. They are recommended to be NIL for the industrial category. As well, as indicated above, the market is likely to factor the increase into land values. Therefore, it is not expected that demand will be constrained by the higher development charges.

However, it is normally a good practice to phase in increases where possible in order to allow the market to adjust in an orderly fashion. Therefore, administration is recommending a phasing in of the calculated rates over the 5 year life of the bylaw as discussed later in the report.

View: The multi-residential development should be encouraged by lowering those rates because those developments aid in the desired goal of intensification.

As previously indicated, the location and types of development are impacted by a myriad of factors. Certainly, the multi-residential sector has faced challenges from the declining population and the high vacancy rates. It is unlikely that any potential benefits from lower DC's could have made any significant difference.

The rates for multi-residential development have been calculated to be significantly lower than residential development on the basis of the lower per unit average occupancy. Additionally, if built in the designated zones they will also be eligible for up to 75% reduction of the of the engineered services portion of the fee.

However, administration believes that if intensification is to be successfully encouraged, it will need to be done in a coordinated fashion based on thorough and comprehensive studies that look at multiple mechanisms to achieve the desired goals. It is unlikely that the development charges policy alone can achieve those goals.

View: There should be incentives for the core area of the city.

Similar to the response to the multi-residential issue above, administration believes that development charges alone are not likely to be the full solution that can by itself encourage significant development in the core. The issue needs to be approached on a broad front based on detailed planning studies aimed at specific areas and complementary policies.

Nonetheless, the current reductions in three core areas (see the map attached as Appendix D) surrounding the downtown and the BIA's are recommended to remain at the 25%-75% levels.

It is also important to note that developments get credits for existing structures on which a new one is built; this is generally more prevalent in the core.

View: Development charges should not be collected at the building permit stage, but at the occupancy stage to save on the costs of carrying the expenditures.

While this would certainly be a savings to developers (and a cost to the City) it would be very difficult to enforce. The current method of collecting at the building permit stage is meant to ensure that there is a reliable method to enforce payment (i.e. denial of the permit).

Collection at the occupancy stage would pose significant administrative challenges, and potentially put the City in a dispute between the developer and the new owner. This is the reason that virtually all municipalities collect the fees at the permit stage.

Administrative Recommendations

The recommendations of administration (which are largely based on the factors noted in the earlier part of this report) concerning key elements of the 2015 Development Charges Bylaw are as follows:

Phase-in of the rates as calculated in the Background Study - Administration recommends that the calculated rates as presented in Table 1 be phased-in over the life of the bylaw (five years). A phased-in approach would allow all participants in the development industry to gradually adjust to the new rates. The phase-in approach would also be tied to actual development activity versus forecasted growth in the Background Study.

The phase-in recommendation implements an immediate increase by using the current rate as the base and calculating an immediate ¼ of the increase (new calculated rates less current rates

Multiplied by 25%). Increases in each of the four subsequent years would be contingent on the growth in the Background Study forecast actually taking place. For the residential rates, such growth based increases would be based on the cumulative percentage of the number of residential building permits issued as of the end of the previous year as a percentage of the total building permits forecasted for the 5 year period. Similarly, the annual adjustments for the commercial rate would increase based on the commercial square meter floor area built in the previous year as a percentage of the projected total square meters to be built for the period. All development charge rates would also be subject to automatic annual Construction Price Index (CPI) indexing. In each case, the cumulative percentage used to calculate the increase would be adjusted upwards each year by 25%, as the increase has to be allocated over four years because in the fifth year the bylaw would expire.

A theoretical example illustrates how the phase-in calculation would work for a single detached residential unit. See Table 4 below. Moving from the current charge of $18,291 to $26,874 would require an increase of $8,583. The phase-in would increase the charge in 2015 by 1/4, or $2,146. That would leave $6,437 of the increase to be recovered over four years if the forecasted growth takes place.

Table 4 - Example of DC Increase Implementation

	DC Fee	Annual Growth (units)	Cumulative Growth (units)	Cumulative % of 5 Year Projected Growth Achieved	%Growth Inclusive of 25%	Calculated Increase to be Allocated	Increase to be Implemented	Fee At Next Anniversary
Current DC fee	$18,291							
DC fee at by-law inception (2015)	$20,437	200	200	0.1333	0.1667	$6,437	$1,073	$21,510
DC fee at 1st anniversary 2016)	$21,510	350	550	0.3667	0.4583	$5,364	$2,459	$23,968
DC fee at 2nd anniversary (2017)	$23,968	300	850	0.5667	0.7083	$2,906	$2,058	$26,027
DC fee at 3rd anniversary (2018)	$26,027	150	1,000	0.6667	0.8333	$847	$706	$26,733
DC fee at 4th anniversary (2019)	$26,733	200	1,200	0.8000	1.0000	$141	$141	$26,874
DC fee at 5th anniversary (2020)*	$26,874	300	1,500	1.0000			$0	

* Bylaw expires in 2020

We can see that since all the forecasted growth occurred, the development charge has increased to $26,874. Should the growth not occur, then the maximum rate would not be achieved. Therefore, apart from the initial $2,146 increase at the passing of the bylaw, the rest of the increase is tied to achieving the forecasted growth over the 5-year life of the bylaw.

Administration stands behind the calculated DC rates, and it is noted that these recommended rates are 49% below the fully calculated allowable rates, which is a significant concession based on past practice, and an acknowledgement of the input received through the consultation process with the development community.

Area Specific Exemptions - Administration recommends that the residential infill area policy adopted in the 2010 bylaw continue. The areas are defined as Area 1 (25%), Area 2 (50%), and Area 3 (75%) with each area receiving its designated exemption on the linear component of the engineered services (i.e., roads, sewers, etc.). Although there have been suggestions for revising both the rates and the boundaries of the designated infill areas, administration believes that such questions are best examined through comprehensive planning studies. Further, it is recommended that the current rates and boundaries be kept in place until such time as any recommended amendments may emerge from such studies.

The residential infill recommendations were introduced in the current bylaw as a way to encourage infill and intensification within the City core and around Business Improvement Areas. Area 1 represents an approximately 400 meter radius to a defined Business Improvement Area that is subject to 25% exemption of the engineered services component of the fee. Area 2 is the defined City core and receives a 50% reduction of the engineered services component. Should the infill development fall within both Area 1 and Area 2, the exemption is 75% of the engineered services component.

It should also be noted that although administration is recommending that the exemption rates remain the same for each area; this will still result in a proportionately larger exemption dollar amount. This is due to the fact that exemptions apply only to the engineered services portion of the development charge. In the current Background Study, the engineered services account for approximately 90% of the development charge, an increase from approximately 75% in the 2010 Background Study. See Table 5 below.

Table 5 - Summary of Proposed Area Specific Exemptions

	Fully Calculated	**Current Rate**	**Phase-in 25%**	**2015 Rate**	**Area 1** Exemption **(25%)**	**Area 2** Exemption **(50%)**	**Area 3** Exemption **(75%)**
Residential - Single Detached	$26,874	$18,291	$2,146	$20.437	$6,209	$12,417	$18,626
Residential - Semi, Row, Townhouse	$18,057	$13,798	$1,065	$14,863	$4,172	$8,344	$12,515
Residential - Apartment	$12,846	$9,141	$926	$10,067	$2,968	$5,935	$8,903
Commercial - per square meter	$120.99	$48.33	$18.17	$66.50	$29.60	$59.20	$88.79

Differentiated Non-Residential DC Charge - It is recommended that the differentiated rates between the industrial, retail and other non-residential development be continued from the 2010 to the 2015 bylaw. It is further recommended that the retail and other non-residential rate increase shown in Table 1 be phased-in in a manner identical to that of the residential categories. It is further recommended that commercial developments taking place in Areas 1, 2 or 3, as discussed in the previous section, be eligible for the same percentage exemptions as the residential categories.

Industrial Exemption - Prior development charge bylaws provided full (100%) exemptions for industrial development from the payment of development charges. Administration recommends that this exemption should continue. The reason for this position is twofold. First, the legislation does not allow the collection of development charges on industrial expansions of 50% or less. Secondly, industrial facilities can locate in virtually any part of the world these days. The zero rated development charge for this class will help keep costs down for expansion of existing facilities that are above the 50% threshold and may help retain industrial plants in the city. Revenue losses from industrial development charge exemptions will need to continue to be funded from the general property tax levy and user fees.

The Council approved DC rates should continue to be adjusted annually base on the CPI index. This will allow the DC revenues purchasing power to keep pace with the increasing costs of development expenditures.

4. RISK ANALYSIS

Please refer to Appendix E for a summary and discussion of the major risks associated with developing a new development charges bylaw.

5. FINANCIAL MATTERS:

Development charges are a very important component of a municipality's capital budget funding strategy. Capital projects relative to roads, sewers, libraries, community centres, etc., can be projects that aim to maintain the existing infrastructure in good condition or expand the existing infrastructure for growth related needs.

As a municipality grows, the infrastructure and public amenities also need to expand if the same level of service is to be maintained. For relatively minor growth, this may not be completely intuitive. However, everybody would immediately understand that if the City expanded from 200,000 residents to, say 400,000, in general terms the existing infrastructure and public amenities would need to double in order for the current service levels to be maintained.

The question then becomes, who should pay the costs of the growth related capital projects, the existing taxpayers who have already paid for their share of the existing infrastructure, or the developments that are responsible for the need for the additional infrastructure required to service them? The Development Charges Act lays out the legislative rules aimed at ensuring that municipalities can recover the reasonable growth related component's capital expenditures from the developments that cause the need for the additional capital expenditures.

If development charges are inadequate to pay for the growth related capital costs, the only alternative is to subsidize that growth by increasing the property taxes of existing taxpayers or to reduce expenditures (which then results in a degradation of service, as roads aren't maintained as well, etc.). In reality, both of these scenarios normally play out. The 2015 Capital Budget details projects costing hundreds of millions which are unfunded and have a significant growth component. (e.g. Walker Rd, Grand Marias, Riverside, Cabana, Howard, Lauzon Parkway, County Road 42, Banwell and the Provincial/Division corridor to name just a few projects in the roads category only).

These funding choices are shown in graphical terms in the following illustration.

The amount spent on infrastructure must generally come from either development charges revenue or property taxes (or other ratepayer fees). It is clear from the illustration that failure to have reasonable development charges will inevitably lead to diversion of existing property tax levy funding away from the maintenance of the existing infrastructure and amenities in order to fund the growth related projects. This will result in a worsening of the existing infrastructure deficit.

It is sometimes argued that lowering development charges will increase development, thereby increasing tax revenues which can then be used to fund the new development requirements. Though, as discussed earlier in the report, there isn't a significant amount of evidence that lowering development charges will significantly increase development (or vice versa). However, even if it did, the bulk of the growth related expenses would still fall on the majority, i.e., the existing taxpayers and ratepayers. It **should also be mentioned that higher property taxes and/or lower service levels (inadequate infrastructure, etc.) will also negatively impact the ability to attract new investment or retain existing ones.**

Appendix F is a summary of the revenues received through development charges in the last decade. It totals $30.5 million or approximately $3 million per year. It is noted that this timeframe generally coincides with one of the worst recessions on record. As the economy improved in the last couple of years the revenues from this source are in the $5 million range. It should also be noted that at times developers construct and pay for infrastructure that the City would be responsible to construct. In return, developers get exemptions from paying DC's of a similar amount. Therefore, the revenue figures noted above understate the real value of the DC's to the city.

Based on even the current generally lower development activity levels, it would be expected that once the recommended DC rates are fully phased in, the City could see an increase in annual revenues in the range of $2.0 million to $3 million. The actual amount will depend on the actual level and type of development.

6. CONSULTATIONS:

Hemson Consulting

7. CONCLUSION:

Development charges are a very important component of a municipality's capita budget funding strategy. This report recommends a phased implementation of the new calculated rates with discounts for the core and BIA areas.

Chief Financial Officer & City Treasurer &
Corporate Leader, Finance & Technology

Thom Hunt
Executive Director of Planning &
Building Services & City Planner

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NOTIFICATION:				
Name	Address	Email Address	Telephone	**FAX**
Evangelo Kalmantis	3525 Driftwood Drive, Windsor, ON, N9E4H2	ekalmantis@integral-arch.com	519-919-4770	***NIA***
Shane Mitchell	1233 Chilver Road, Windsor, ON, N8Y 2L2	williamsmitchell@gmail.com	519-258-1390	***NIA***
Tony Rosati	6555 Malden Road, Windsor, ON, N9H 2H3	Tony.rosati@rosatigroug.com	519-734-6511	***NIA***
Albert Schepers	4165 Roseland Drive East, Windsor, ON, N9G 1Y6	albert@gsengineering.ca	519-737-9162	***NIA***
Pietro Valente	2985 Dougall Avenue, Windsor, ON, N9E ISi	gvalente@valentecom.com	519-966-7777	***NIA***