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**STAFF REPORT: Finance & IT Services**



**REPORT TO:** Council  
**MEETING DATE:** June 23, 2014  
**REPORT NO.:** FIT.14.37  
**SUBJECT:** Development Charge By-law Update  
**PREPARED BY:** Renee Ouellette, Financial Accountant

**A. Recommendations**

THAT Council receive Staff Report FIT.14.37 “Development Charge By-law Update” for information purposes; and

THAT Council endorse the recommended changes contained in this report relating to Section 22, 23 and 24 of the Development Charges By-law No 2010-18, for the “Rules for the Redevelopment of Land” subject to final approval and passage of the Town Wide Development Charges By-law on July 14, 2014; and

THAT Council direct staff to bring a By-law to revise By-law No 2010-18 to the July 14, 2014 Council meeting for adoption.

**B. Background**

Council at its November 25, 2013 meeting considered Staff Report FIT.13.52 and provided direction to Staff as contained in the Development Charges Background Study and corresponding work plan schedule whereby a projected date of July 14, 2014 was desired of Council to enact an updated development charges By-law. As directed by Council, Staff has completed a comprehensive review and update of the Development Charges (DC) Background Study. In addition, the Lora Bay DC By-law 2009-56 expires on August 10, 2014, therefore, in accordance with the *Development Charges Act 1997*, in order to continue collecting development charges, Council must enact a new development charge By-law.

On June 3, 2014 a Developer Workshop led by Hemson Consulting provided an opportunity for the development community to review the draft DC Background Study and provide feedback regarding concerns prior to the By-law’s passage.

Feedback from the development community and recent comments from the Public, have identified two main concerns:

1. Rules for the Redevelopment of Land and Partial Exemptions; and
2. Definition of Gross Floor Area for the purposes of classifications of Residential dwelling units and the associated development charges calculation.

## 1. Rules for the Redevelopment of Land

### Background

As per the Town's Development Charges By-law No 2010-18 Section 22, the "Redevelopment of land" occurs when:

- (a) *A building or structure is changed in use from one type of development to another (i.e. residential to non-residential); or*
- (b) *A building or structure is demolished, with a new building or structure constructed on the land where all or part of the building or structure has previously been demolished.*

Section 22, 23 and 24 of the current By-law provides for a credit against the development charges otherwise payable when there is a redevelopment of land on which development charges or similar fees (lot levy, impost fee, or connection fee) **have been paid** in respect to municipal services provided to the land.

### Public Comments

Public comments have been received regarding the requirement to show proof of payment of a DC or similar charge, prior to a credit being issued on a redeveloped building/structure. Public comments identified that proof of payment of DC's or similar fees may be difficult to provide, especially for properties that existed prior to DC's or lot levies. Several members of the Public have requested that Council review this requirement, and automatically allow for a credit on an existing building or structure, with only a top up of DC's due on enlargement beyond the size of the existing structure.

### Review of Current Application

In response to the Public comments received, Staff reviewed the current application of the "Rules for the Redevelopment of Land", along with a review of Municipal best practices.

A review of neighbouring Municipalities determined a credit on an existing structure is typically granted, regardless if prior payment of DC's can be determined. Municipalities such as Collingwood, the Town of Caledon and Milton automatically provide a DC credit if an existing building or structure is demolished. It is assumed that a DC or equivalent charge would have been paid at some point in time in the past. Hemson Consulting has suggested that this is a standard practice among Municipalities in Ontario.

### Recommended Changes to Current DC By-law

Therefore, Staff recommend to Council that the DC By-law be amended to the following:

1. Eliminate the need for proof of payment of a DC or similar fee, and instead, automatically provide a DC credit for the redevelopment of a building or structure of similar size. Should the redevelopment result in an increase in footprint, DC's

would be due on the net increase in footprint, resulting in a “topping-up” of Town DC’s.

It should be noted that the Building Services Division do have operational policies in place which are aligned with this recommendation and municipal best practices.

2. Replace Sections 22, 23 and 24 for “Rules for the Redevelopment of Land” of the DC By-law to include:

*When a building or structure existing on the same land has been demolished in order to facilitate redevelopment, the development charges otherwise payable with respect to such redevelopment shall be reduced by the following amounts:*

- (a) in the case of a residential building or structure, an amount equivalent to the applicable development charge for the Residential Type of the existing dwelling that has been or will be demolished; or*
- (b) in the case of a non-residential building or structure, an amount calculated by multiplying the applicable development charge by the gross floor area that has been or will be demolished; or*
- (c) in the case of a mixed-use building or structure, by an amount calculated by the Residential type for the existing residential use portion and by gross floor area for the non-residential use portion, of the unit that has been or will be demolished.*
- (d) The amount of any reduction or credit permitted shall not exceed, in total, the amount of the development charges otherwise payable with respect to the re-development;*
- (e) any reduction or credit applicable there under shall only apply provided that a building permit for the re-development is issued within five (5) years of the date of the issuance of a permit for the demolition of any building or structure on the same lands; and*
- (f) if the building lot is unserviced at the time it is demolished, water or wastewater development charges will not be credited. Water or wastewater development charges (or the equivalent) will be due upon servicing.*

### Financial Impact

DC’s collected on redeveloped lands are not included as a forecasted revenue stream in determining DC rates. DC rates focus on new growth units, and only a net increase in footprint would trigger a development charge to support new infrastructure.

In 2014, the Town has received 3 requests for a DC Credit on the redevelopment of Residential property, in which the prior payment of DC’s cannot be established. Based on the Residential “B” Town Wide Uniform Charge, the DC payable on the redevelopment of a 220 m<sup>2</sup> home would be \$15,200 per unit if prior payment of a DC charge cannot be established. Following the recommended changes, the DC payable would be nil on the same sized property. Should the redevelopment result in an

increase in footprint, DC's would be due to the net increase in footprint, resulting in a "topping-up" of Town DC's, as shown in the example below.

**Table 1:**

<b>Example: Residential Re-Development Town-Wide Charges</b>		
New Residential Type "A" Dwelling	3,500ft <sup>2</sup> (325m <sup>2</sup> )	\$18,238
Existing Residential Type "B" Dwelling	1,885ft <sup>2</sup> (175m <sup>2</sup> )	\$15,200
<b>Town DCs Applicable:</b>		<b>\$3,038</b>

In the example above, the Town would recognize \$3,038 in DC Collections, compared to \$18,238 under the prior method. The "topping-up" of DC's at \$3,038 properly recognizes the net increase on infrastructure demands to the Town. Given the known 3 requests for consideration, the financial impact could total at least \$45,600 in DC Collections.

Topping up of DC's would also apply to non-residential units, such as the redevelopment of an existing Clubhouse with an increase in footprint. The financial impact of any change could be fairly significant, as showing in the example below.

**Table 2:**

<b>Example: Non-Residential Re-Development Town-Wide Charges</b>		
New Clubhouse	43,000ft <sup>2</sup> (4,000m <sup>2</sup> )	\$290,360
Existing Clubhouse	25,000ft <sup>2</sup> (2,322m <sup>2</sup> )	\$168,554
<b>Town DCs Applicable:</b>		<b>\$121,806</b>

The example above illustrates that the financial impact of the recommended change is greater on non-residential redevelopment with only \$121,806 collected in DC's rather than \$290,360. However, the recommended changes and the "topping up" approach does correctly match the increase in footprint with the demand for new infrastructure. The recommend changes also facilitate redevelopment of existing commercial and non-residential space in the local community.

## **2. Definition of Gross Floor Area (GFA)**

### Background

The 2010 DC By-law established four different residential development charges based on building footprint. The categories were established as a tool for Council and staff to initiate attainable housing in the Town. The table below outlines the Residential categories and the DC applicable to each category, with Residential B serving as the standard development charge.

**Table 3:  
Residential DC Categories**

<b>Category</b>	<b>Size of Residential Unit</b>	<b>DC Applicable</b>
Residential A	>2,400 ft <sup>2</sup> (225m <sup>2</sup> )	120% of DC Charge
Residential B	> 1600ft <sup>2</sup> – 2,400 ft <sup>2</sup> (225m <sup>2</sup> )	100% of DC Charge
Residential C	> 800ft <sup>2</sup> – 1,600 ft <sup>2</sup> (150m <sup>2</sup> )	80% of DC Charge
Residential D	< 800ft <sup>2</sup> (75m <sup>2</sup> )	60% of DC Charge

As Development Charges are typically due at the time of building permit issuance, the interpretation of “Gross Floor Area” (GFA) for the purposes of the determination of Town Development Charges should be consistent with Building By-law 2014-18. Building By-law 2014-18 calculates permit fees on the floor area (m<sup>2</sup>) of the work involved. Development Charges would be due if a dwelling indicates a finished basement in the area of work involved. An unfinished basement is not included in the GFA.

Public Comments

Public Comments have referenced the need for a review of basements in the GFA calculation for residential units. Public comments indicate that the inclusion of a finished basement in the gross floor area effectively increases the amount of DC’s payable on a standard home, from a Residential “B” to a Residential “A” DC charge.

Review of Current Application

Staff reviewed the type of residential DC’s collected and size of dwellings constructed from 2010 - 2013. As illustrated in the Table below, the majority of residential Development Charges collected since 2010 are categorized within Residential “A” at 65%, followed by Residential “B” at 28%, and Residential “C” at 7%.

**Table 4:  
Dwellings Issued by Dwelling Type**

<b>Dwelling Type</b>	<b>Total 2010-2013</b>	
	<b>Units</b>	<b>%</b>
Res. "A" (>225m <sup>2</sup> )	167	<b>65%</b>
Res. "B" (150-225m <sup>2</sup> )	72	<b>28%</b>
Res. "C" (75-150m <sup>2</sup> )	18	<b>7%</b>
Res. "D" (<75m <sup>2</sup> )	0	<b>0%</b>
<b>Total</b>	257	<b>100%</b>

Of the 257 dwellings issued, 85 (or 33%) were issued with finished basements. Of the 85 dwellings with finished basements, the inclusion of the finished basement in the GFA caused 27 units to increase in DC payable from Residential “B” to Residential “A”. Since 2010, 27 units (or 10% of total units issued), were effectively bumped up to the higher DC rate, due to inclusion of the finished basement in the gross floor area calculation. 27 units at an increase of \$3,038 per units, results in \$82,026 of DC collections generated from the inclusion of finished basements in the GFA calculation.

With only 33% of dwellings issued with finished basements, the analysis above indicates that inclusion of finished basements is not a significant factor in the majority of dwellings issued in the Residential “A” category. As such, the Building Services Division has provided further analysis in Table 5, which indicates the majority of dwellings are issued are 226m<sup>2</sup> and above.

**Table 5:**

Dwellings Issued By Area (m <sup>2</sup> )			
Area (m <sup>2</sup> )	Category	Total (2010-2014)	
75-150	Res "C"	18	7%
>150-225	Res "B"	74	29%
>225-325	Res "A"	76	30%
>325-425	Res "A"	36	14%
> 425	Res "A"	53	21%
<b>Total</b>		<b>257</b>	100%

The results suggest that over the past 4 years, dwellings with larger footprints were of higher demand than smaller dwellings. Although the Town has not issued a significant number of smaller sized dwellings, the Residential categories still serve as an important tool to promote attainable housing and intensification initiatives as desired by Council.

### Recommendation

Based on current initiatives, staff recommend maintaining the current classification of Residential dwellings, along with the inclusion of finished basements in the GFA.

### Financial Impact

Inflows from Residential DC collections are assumed to occur at the Residential B rate in the DC Background Study. It is difficult to predict the types of development that will occur; therefore the Residential “B” is established as the standard rate, with Res “C” & “D” rates discounted, and Res “A” rates at a premium. Should Attainable Housing initiatives materialize, any collections from the Residential “C” or “D” category would offset collections from the Residential “A” category.

Collections in the Town Wide Uniform Charge indicate that the majority of Residential DC collections are charged at the Residential “A” rate. As illustrated in Table 6, Residential “A” units pay a premium of \$3,038 over the Residential “B” rate.

**Table 6:  
DC Town Wide Uniform Rate Differential**

A	B	C	D	E	F
				=D - \$15,200	=C X E
Area (m <sup>2</sup> )	Category	Total Units Collected illustrates the (2010-2013)	Current TW Uniform Charge	Variance in Rate from Res B: Premium (Discount)	Total Premium Collected
75-150	Res "C"	18	\$12,159	(3,041)	(54,738)
>150-225	Res "B"	74	\$15,200	-	-
>225-325	Res "A"	76	\$18,238	\$3,038	\$230,888
>325-425	Res "A"	36	\$18,238	\$3,038	\$109,368
> 425	Res "A"	53	\$18,238	\$3,038	\$161,014
<b>Total</b>		<b>257</b>			<b>\$446,532</b>

*Note: The Total Premium Calculated is for illustration purposes based on the number of 2010 - 2013 building permits issued and may not reflect actual collections, as DC collections may vary due to DC credits, the top up of DC's on Redevelopment, etc.*

Should Council consider any changes in the Residential categories above, there could be a significant impact on the amount of DC Collections. For example, should the Residential B category be increased from a maximum of 225m<sup>2</sup> to 325m<sup>2</sup>, a loss of \$230,888 in DC Collections could occur over a four year period based on 2010-2013 figures, which could be further impacted by an increase in the discount for Res “C” or “D” units as a result of attainable housing initiatives.

### **C. The Blue Mountains’ Strategic Plan**

To ensure long-term financial sustainability of the Town of The Blue Mountains.

### **D. Environmental Impacts**

The Blue Mountains is committed to environmental sustainability.

### **E. Financial Impact**

As per above.

**F. In Consultation With**

Greg Miller, Manager, Building & By-Law/CBO  
Ruth Prince, Manager of Revenue

**G. Attached**

None.

Respectfully submitted,

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