

**STAFF REPORT: Financial & Information Services**



**REPORT TO:** Council  
**MEETING DATE:** December 14, 2009  
**REPORT NO.:** FIS.09.75  
**SUBJECT:** Town Wide Development Charges – Commercial Rates  
**PREPARED BY:** Darcy Chapman, Capital Accountant

**A. Recommendations**

THAT Council receive Staff Report FIS.09.75 “Town Wide Development Charges – Commercial Rates” for information purposes.

**B. Background**

Upon completion of the Council training session on Commercial Development Charge Rates on November 30, staff was requested to look at all possible options to potentially reduce the impact of the Development Charges Background Study on the non-residential component of the newly calculated rates. More importantly, staff was asked to go back to the 2005 Background Study methodology to establish tiered rates.

Craig Binning from Hemson Consulting has provided a letter as attached, outlining the process taken in developing the current rates and illustrates the inability to go forward using the same assumptions as the 2005 study.

After seeking advice from Hemson and having internal staff meetings, two alternative options were brought forth for further analysis.

**OPTION #1 – Official Plan Lands**

The first scenario looked at was to review all Official Plan designated lands that are slated for non-residential development. Upon completion of the review of these lands, maximum lot coverage would be applied as deemed in the Town’s Zoning By-law, in order to substantiate that the Town could in fact allow for 70,000 m<sup>2</sup> of non-residential development to build out, as is found in the current Background Study.

Maps have been attached outlining all designated lands in the Official Plan that could be developed for non-residential purposes.

Analysis of the designated lands has indicated that the Town can in fact sustain the development outlined in the 2009 Background Study as is shown in the chart below.

Land Use Code	Land Use	Total Square Meters of Land	Max Lot Coverage	Max Development Potential (m <sup>2</sup> )
BMVC	Blue Mountain Village Core	67799	30%	20339.7
COM	Commercial	178307	35%	62407.45
DD	Deferred Development	103636	35%	36272.6
HC	Highway Commercial	6787	20%	1357.4
I	Institutional	55154	40%	22061.6
IND	Industrial	159370	20%	31874
VC	Village Core	43001	35%	15050.35
<b>TOTAL</b>		<b>614,054</b>		<b>189,363</b>

After speaking with Hemson Consulting, the Town could use this data as a defensible mechanism.

There are three problems with using this methodology.

1. In most cases, non-residential lands are not developed to maximum lot coverage potential due to grading, parking, landscaping and other issues. As well, past non-residential purposes usually do not require a building of maximum size permissible under the zoning by-law.
2. Using this methodology would in fact put more pressure on the non-residential rates as the charge would be based on recovering more than twice as much from non-residential sources.
3. More importantly, staff feels that there is no indication that the Town has potential to develop 189,400 m<sup>2</sup> of non-residential development to build-out. If we were to utilize this number, the Town would find itself in a future shortfall of collected development charges such as is the problem with the 2005 Background Study and current rates.

### **OPTION #2 – Tiered Non-Residential Rate Tied to Usage**

The second option reviewed looks at establishing a tiered rate using defensible methodology and data to ensure the rates can be substantiated. Town staff have utilized a methodology that would establish three different rates:

- a. restaurants and other intensive commercial/industrial uses (high intensity)
- b. ski lodges & golf club houses (medium intensity)
- c. all other general commercial, institutional and industrial (low intensity)

The analysis of water consumption for the different groups and the assumptions made to calculate the rates can be found as Attachment 1 in the report.

Staff has used current Town water consumption data and building permit data to establish a per cubic metre of water used for each square metre of floor space. Data samples from eight restaurant/intensive use properties were used from the Craighleith and Thornbury areas to establish the average use/m<sup>2</sup> for the highest intensity group. A data sample of two golf courses and three ski clubs were used to establish the average use/m<sup>2</sup> for the medium intensity group. A data sample of eight office and retail commercial properties were used from the Craighleith and Thornbury areas to establish the average use/m<sup>2</sup> for the lowest intensity group.

From this point, we need to establish an equivalent residential unit for each of the groups. In The Blue Mountains, the average residential unit uses approximately 180 m<sup>3</sup> of water per year. Based on the water consumption per m<sup>2</sup> of floor space staff have established an equivalent use charge for new developments that fall into each different group.

Based on this analysis for every 33.4m<sup>2</sup> of new restaurant development, 210.8m<sup>2</sup> of ski club/golf club development, and 418.6m<sup>2</sup> of general commercial development there is an equivalent of one residential unit of use on the system.

To establish the development of each of these types of uses, the methodology used bases current assessment as an indicator of future development. Based on the current assessment mix, the Town can establish a split of the anticipated 70,000m<sup>2</sup> of non residential development.

To establish the non-residential equivalent units to build out, the estimated total square metres of additional floor space is divided by the equivalent unit for each development use. Based on this analysis the new residential to non-residential split would be calculated as follows;

	Units to Build-out	% of Cost Allocation
Residential	8919	94.3%
Non-Residential Equivalent Units	542	5.7%
Total	9461	100.0%

Again, staff had a conversation with Hemson Consulting to ensure that the Town could use this data as a defensible mechanism. Mr. Binning agrees with the methodology and would concur that this approach **could be** defended. The main benefit to this option is that it would establish a tiered charge similar to that found in the 2005 Background Study. The single biggest deterrent to using this system is contained in the residential to non-residential split. The 2009 Background Study indicates a 95%-5% split whereas this option now increases that split to 94.3%-5.7% therefore forcing more of the costs on to the non-residential rates. Based on the sample size and the possibility for a margin for error, it can be assumed that this split would be the same as the existing split of 95%-5% and could be utilized to establish the rates.

In that regard the rates as an estimate only, due to the fact that cash flow projections may change this once input into the long term model, would be calculated as follows;

Service Area	Proposed 2010 Rate	Restaurant, Intensive Use	Ski Clubs & Golf Course Club Houses	General Commercial, Institutional & Industrial
Craigleith	\$ 117.56	\$ 406.16	\$ 123.66	\$ 97.23
Camperdown	\$ 162.92	\$ 502.93	\$ 139.00	\$ 104.95
Castle Glen	\$ 150.24	\$ 398.64	\$ 122.47	\$ 96.63
Swiss Meadows	\$ 70.44	\$ 70.44	\$ 70.44	\$ 70.44
Lora Bay	\$ 177.54	\$ 526.64	\$ 142.76	\$ 106.84
Clarksburg	\$ 373.91	\$ 983.70	\$ 215.21	\$ 143.31
Osler	\$ 330.83	\$ 166.43	\$ 85.66	\$ 78.10
Thornbury East	\$ 117.86	\$ 316.73	\$ 109.48	\$ 90.09
Thornbury West	\$ 185.36	\$ 584.09	\$ 151.86	\$ 111.42
All Other Areas	\$ 70.44	\$ 70.44	\$ 70.44	\$ 70.44

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

Providing a strong, well managed municipal government.

### **D. Environmental Impacts**

N/A

### **E. Budget Impact**

The 2009 Background Study will provide the Town with the ability to better manage capital works and will ensure more accurate costing of future projects. As well the growth related numbers are more in line with current conditions and will provide a better understanding of the Town's cash flow requirements in relation to Development Charge eligible projects.

Any major change in philosophy that alters the methodology in calculating rates could potentially harm the Town's ability to collect enough Development Charges to fund necessary projects. If growth projections or unit yields are not defensible and legitimate, the Town could find itself in a deficit position in the future with no option but to increase rates substantially to recover the necessary funds or reduce service levels for future growth units.

### **F. Attached**

1. Option # 2 - Tiered Non-Residential Rate Tied to Usage Analysis
2. Hemson Consulting letter, December 9, 2009

### 3. Official Plan Designated Land maps

Respectfully submitted,

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Signature

For more information, please contact:

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519-599-3131 ext 274

## **OPTION #2 – Tiered Non-Residential Rate Tied to Usage Analysis**

The following chart illustrates the average water use per square metre of floor space for each of the three groups.

Usage Group	m <sup>3</sup> Water per Year	m <sup>2</sup> Floor Space	m <sup>3</sup> Water/m <sup>2</sup>
Restaurant, Intensive Use	1325.9	246	5.388
Ski Clubs & Golf Course Club Houses	2329.4	2727	0.854
General Commercial, Institutional & Industrial	131.4	305.7	0.430

Based on the water consumption per m<sup>2</sup> of floor space staff have established an equivalent use charge for new developments that fall into each different group as shown in the chart below. This is based on the assumption that the average residential unit uses 180m<sup>2</sup> of water each year.

Usage Group	Equivalent Residential Unit (m <sup>2</sup> )
Restaurant, Intensive Use	33.4
Ski Clubs & Golf Course Club Houses	210.8
General Commercial, Institutional & Industrial	418.6

To establish the development of each of these types of uses, the methodology used bases current assessment as an indicator of future development. The most current data from November 2008 as supplied by MPAC has been outlined below. The Golf Course and Ski Club Assessment has been weighted by 50% as the ability for additional development within this sector is minimized due to the lack of developable lands for these uses. Based on the current assessment mix, the Town can establish a split of the anticipated 70,000m<sup>2</sup> of non residential development.

	2009 Phased in Assessment	% of Overall Assessment	Development Potential (m <sup>2</sup> )
Restaurant Use	\$ 19,039,951	15.06%	10544
Golf Course & Ski Resorts	\$ 64,765,750	51.24%	35867
General Commercial including, office, retail, motels, banks, warehousing, service stations, etc.	\$ 42,594,514	33.70%	23589
TOTAL	\$ 126,400,215		70000

To establish the non-residential equivalent units to build out, the estimated total square metres of additional floor space is divided by the equivalent unit for each development use as follows;

Usage Group	Development Potential Floor Space (m2)	Equivalent Unit (m2)	Total Equivalent Units
Restaurant, Intensive Use	10544	33.4	316
Ski Clubs & Golf Course Club Houses	35867	210.7	170
General Commercial, Institutional & Industrial	23589	418.6	56
Total	70000		542

Based on this analysis the new residential to non-residential split would be calculated as follows;

	Units to Build-out	% of Cost Allocation
Residential	8919	94.3%
Non-Residential Equivalent Units	<u>542</u>	<u>5.7%</u>
Total	9461	100.0%

Affected change on non-residential rates;

Service Area	Proposed 2010 Rate	Restaurant, Intensive Use	Ski Clubs & Golf Course Club Houses	General Commercial, Institutional & Industrial
Craighleith	\$ 117.56	\$ 406.16	\$ 123.66	\$ 97.23
Camperdown	\$ 162.92	\$ 502.93	\$ 139.00	\$ 104.95
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Thornbury West	\$ 185.36	\$ 584.09	\$ 151.86	\$ 111.42
All Other Areas	\$ 70.44	\$ 70.44	\$ 70.44	\$ 70.44

# HEMSON

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## MEMORANDUM

**To:** Darcy Chapman, Town of the Blue Mountains

**From:** Craig Binning and Janet Lee

**Date:** December 9, 2009

**Re:** Development Charges Background Study - Allocation of Growth-Related Costs Between Residential and Non-Residential Benefit

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Further to our conversations, I am pleased to provide this memo outlining the approach used in the Town's 2009 Development Charges (DC) Background Study for the allocation of growth-related costs between residential and non-residential benefit.

Under the section 5(6) *Development Charges Act (DCA)*, when calculating development charges it is necessary to allocate the growth-related net capital costs between the different types of development that will benefit from the works, namely the residential and the non-residential development. For all services, except Public Library and Parks and Recreation, the growth-related costs have been determined to be 95 per cent residential and 5 per cent non-residential.

The 95:5 ratio is based on projected changes in household and employment growth over the planning period. The household growth was converted into a population based on an average assumed typical occupancy (approximately 3 persons per unit) which was added to the project employment growth. The shares of population and employment growth yields a ratio of approximately 95:5. This is the standard approach used in DC Studies across the Province to allocate growth-related costs between residential and non-residential land uses.

We have examined alternative approaches to allocating the growth-related costs between residential and non-residential development, such as shares of assessment (used in some studies) and forecast demand for water and wastewater, and a ratio of 95% residential to 5% non-residential is yielded. These are other approaches that have been used in other DC studies and it is noted that all yield an allocation ratio in the range of 95:5 residential: non-residential.

The growth-related costs associated with Public Library and Parks and Recreation have been allocated 100 per cent to residential growth because the need for these services is driven entirely by residential development.

The residential growth-related costs are then divided by the growth in housing units. This gives the unadjusted residential development charge per capita. The non-residential growth-related costs are divided by the forecast increase in non-residential gross floor area (GFA). This yields a charge per square metre of new non-residential GFA.

The Town's 2005 DC Background Study used a similar approach to allocate costs and established similar ratios. However, the determination of the non-residential charge was undertaken in a different manner. As accurately outline in your staff report of November 30, 2009 (Report No. FIS.09.68), the 2005 Study non-residential approach involved the estimation of the potential non-residential GFA development based on an evaluation of development potential of non-residentially zoned and designated lands developing at, or near, maximum permissible coverage levels. As part of the 2009 DC Study a review of the historic non-residential rates of development and an itemization of known and anticipated projects determined that the 2005 forecast was significantly overstated.

We, and Town firmly believe that the 2009 DC Study non-residential forecast of non-residential GFA and employment is reasonable and realistic in the context of the Town's current and anticipated development activity.

Furthermore, in the 2005 DC Study the non-residential rate was structured and differentiated based on various types of land uses. The differentiated was based on a complex and dated weighting system that we understand was developed using an engineering servicing allocation study from the early 1980s. Neither current Town staff or Hemson are in a position to validate, support or update the weighting system used in the 2005 DC Study.

The non-residential charges in the 2009 DC Study are based on a more simplified approach and on levying a uniform charge against all types of non-residential development within a specific service and planning area. This approach is

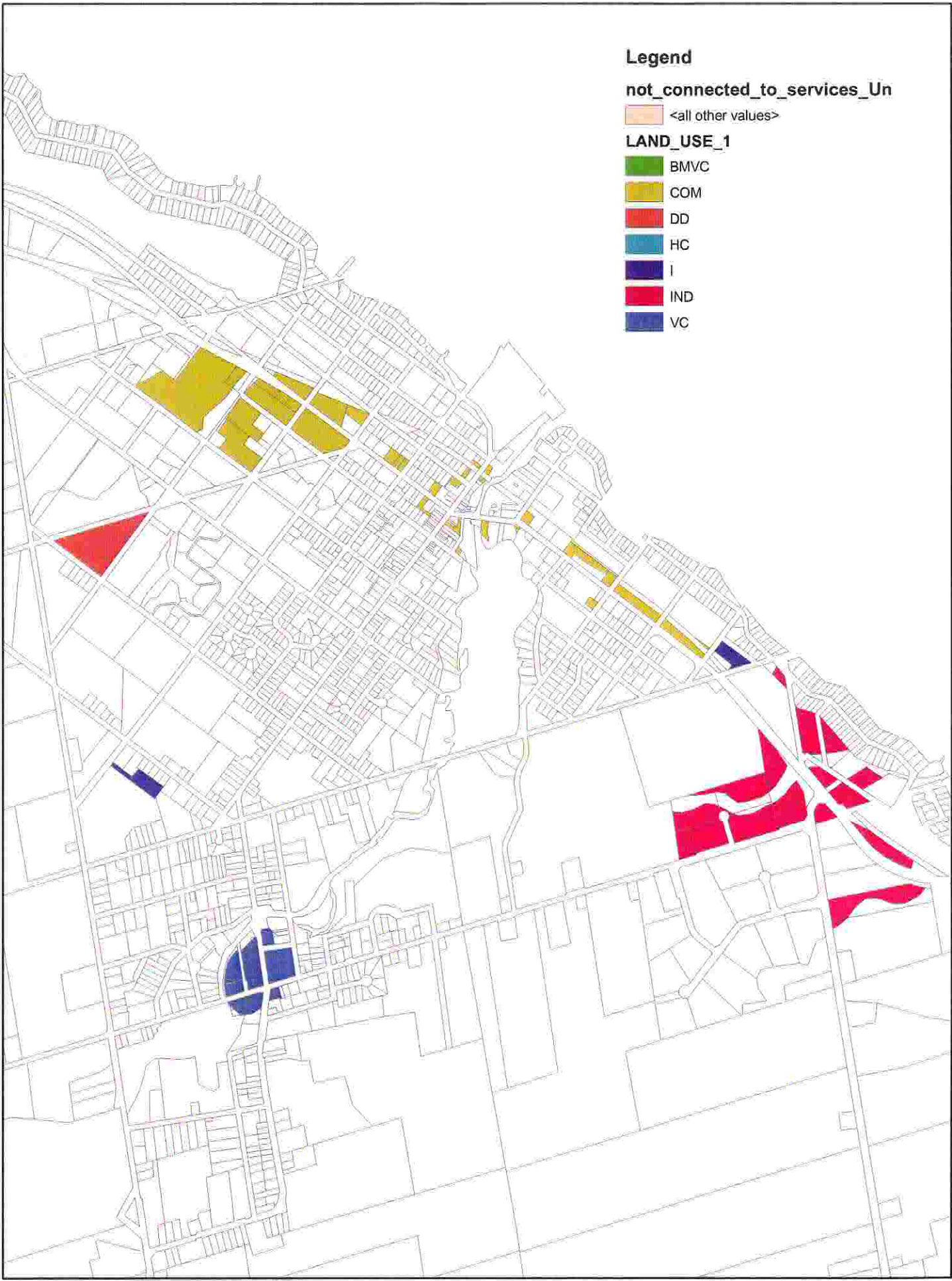
consistent with most municipalities that levy non-residential charges in the Province.

Some municipalities differentiate non-residential charges based on high-level categories, for example industrial, commercial office, and commercial retail. These differentiations are based on the demand for engineered services, mostly roads but also water and sewer, and typically result in a higher allocation of costs to the commercial retail sector.

It is recognized that the approach in the 2009 DC Study has resulted in an increase in the DC rates applicable to certain non-residential land use types. However, In our opinion, the approach used to establish the non-residential charges in the Town's 2009 DC Background Study is a reasonable and defensible and consistent with the requirements of the *DCA*.

If Council is concerned about the impact of the change there are a number of phase-in or transitional measures that can be incorporated into the by-law, including; phasing in the non-residential rates over a period of time or provide a discount for certain types of uses. The phase-in or discounted rates can be structured on a geographic basis, for specific non-residential uses only, and/or based on certain building size limitations. However, if Council chooses to provide for such transitional provisions, the resulting loss in development charge revenues must be funded from non-DC revenue sources, most notably property taxes or utility rates, and cannot be shifted to the DC recovery from other land use (ie residential) types.

If you have any questions or require further clarification, please contact us.



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