



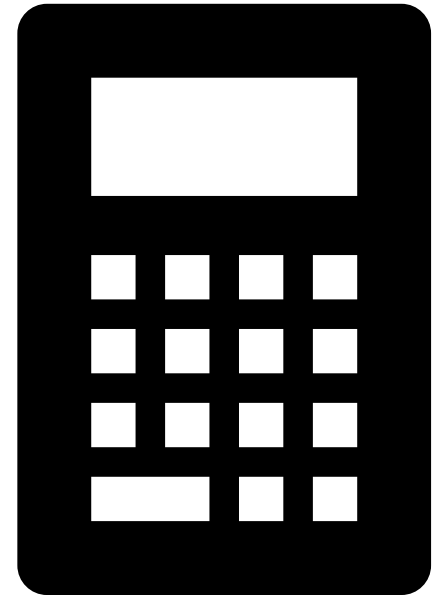
# Development Charges 101

MUNICIPALITY OF ARRAN-ELDERSLIE

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# What are Development Charges (DCs)?

- ▶ A tool available to allow municipalities to recover **capital costs** associated with infrastructure and services put in place **that benefit growth**. This includes:
  - ▶ New infrastructure and services that support growth; and
  - ▶ Pay down existing debt for past growth works or services;
- ▶ General idea is that 'growth pays for its share' so that the existing tax-payers are not bearing the cost of servicing growth
- ▶ **Development charges cannot be collected for operating or maintenance costs.**
- ▶ Development charges are only collected from new development (not existing residents/businesses)
- ▶ Have existed in Ontario since 1989.



# Development Charges

- ▶ DCs are based on a capital works plan set out in the DC Background Study that sets out what projects are being paid for through DCs.
  - ▶ Lots of rules around DCs – especially how they are calculated, what can be collected for
  - ▶ Calculating DCs is a mix of accounting, planning and engineering
  - ▶ DC money must go towards DC projects.
- ▶ DCs are ultimately set by Council.

# How is servicing needed for new growth funded?

- ▶ Developers are generally responsible for costs of servicing (i.e. putting in sewers, watermains, roads, etc.) within their property.
- ▶ Who funds the expansion to the water/wastewater treatment plants? Larger trunk sewers/watermain? Equipment for new parks?
  - ▶ Municipal user rates, taxes, reserves
  - ▶ Development charges
  - ▶ Grants
- ▶ Often service capacity must be built **before** the growth occurs for a few reasons:
  - ▶ Engineering reality – expansions to major facilities provide all-or-nothing capacity (can't buy half a snowplow).
  - ▶ Costing – it is usually more cost effective to do major expansions or replacements with other projects (e.g. expand trunk sewer when the road is being reconstructed)
  - ▶ Legislative requirements – municipal water and wastewater systems are subject to regulations requiring advanced expansion (i.e. cannot provide capacity beyond rated limits)



# Development Charge Theory

- ▶ Development charges are one-time fees levied on development to pay for new or expansions to infrastructure and services.
- ▶ Municipalities incur the costs to service new growth, the development that requires that capacity may take years or decades to build out.
  - ▶ Municipal revenue through taxes/user fees is only generated when that development materializes.
  - ▶ If you need to recover all costs through taxes/user fees – the burden is shifted onto the existing tax base and taxes/user fees would likely significantly rise.
    - ▶ Becomes an issue for existing taxpayers: ‘Why am I paying for that capacity, when I’ve already paid for mine?’
- ▶ Development charges are utilized to collect money from those benefiting



# The arguments against DCs

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- ▶ Development charges impact house prices
  - ▶ Yes – generally DCs are passed along to buyers in the house price.
  - ▶ However...
    - ▶ Housing prices are also influenced by land prices, housing production costs.
    - ▶ Housing prices have risen significantly and not just in the places with development charges, and these rises are often out of step with the increases to development charges.
    - ▶ Without DCs, the costs for new servicing must be paid through the existing tax base (either through property taxes or user fees) and significant taxes can reduce overall housing affordability.
- ▶ Development charges make us less competitive
  - ▶ Little evidence to show development charges impact the amount of new development
    - ▶ Developers build in communities where they think they can sell houses. Many external factors drive development.

# Development Charges in Practice



DCs are calculated for residential and non-residential growth



Residential DCs are typically charged on a per unit basis (e.g. per single detached unit or per apartment unit)



Non-Residential DCs are typically charged per sq. ft. (or sq. m) for new commercial, institutional and industrial growth



Where projects have specific benefiting areas (e.g. a sewage treatment system), the DC should be area-specific.



In many other communities, there is often a different DC in urban areas vs. the rural area, because of area-benefiting services like water and wastewater.

Different categories of development are split so residential development isn't paying for the non-residential share of growth and vice-versa.

# The Rule Book (Development Charges Act)

- ▶ The *Development Charges Act* sets out the rules and requirements for enacting a Development Charge By-law and collecting DCs.
  - ▶ Sets out what types of projects can be collected for
  - ▶ How DCs are calculated
  - ▶ Requirement for a new Background Study and By-law **every 10 years**
  - ▶ Reporting requirements
- ▶ Originally put into place in 1989, the Act has been amended many times since then.
  - ▶ Amendments have changed what types of projects can be collected for, how development charges are collected, phasing requirements, etc.



# Process for Implementing a DC Bylaw

- ▶ Undertake a Background Study
  - ▶ Forecast of future growth
  - ▶ Review of projects for inclusion in the DCs
  - ▶ Calculation of DCs for each project
- ▶ Present calculated DCs to staff and Council. Council sets proposed DC.
- ▶ Background Study must be available for review 60 days prior to passage of By-law
- ▶ Prepare draft By-law (available 2 weeks prior to Public Meeting)
- ▶ Host Public Meeting to get feedback on proposed DC
- ▶ Council passes DC By-law
- ▶ Issue Notice of Passage
- ▶ 40-day appeal period starts immediately after by-law passed.

# What types of projects are DC eligible?

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1. Water Supply (including treatment and distribution)
2. Wastewater (sewers and treatment)
3. Stormwater services
4. Services related to a highway (transportation)
5. Electrical power services
6. Transit
7. Waste diversion services
8. Policing services
9. Fire protection services
10. Ambulance services
11. Library services
12. Long-term care services
13. Parks and Recreation services
14. Public Health services
15. Childcare and early years programs and services
16. By-law enforcement and municipally-administered court services
17. Emergency preparedness services



**Only services listed in DC Act can be included in DCs**

# Examples of eligible and ineligible DC projects

Replacement, repair, maintenance, operation type projects are generally **not** eligible for inclusion in DCs.

- Resurfacing an asphalt road – not eligible
- Replacing a fire truck with a newer fire truck – not eligible
- Replace pumps at sewage pumping station with same sized pumps

Important to remember – DC projects must be result of a need to service or benefit to new growth.

- Additional water treatment/storage capacity
- Adding additional vehicles to the fleet
- Widen a road from 2 lanes to 4 – portion would be eligible
- Replacing pumps with larger pumps needed to service growth
- Upsizing sewers or watermain

# Types of projects not eligible for DCs

- ▶ Municipal offices and administration centres
- ▶ Cultural buildings – theatres, museums, etc.
- ▶ Parking lots
- ▶ Landfills
- ▶ Cemeteries



# When do Development Charges apply?

## Situations where Development Charges would apply:

- Building a new house on a vacant lot
- Building a new office building on a vacant lot
- Converting a commercial building to apartments

## No Development Charges:

- Putting an addition on an existing house
- Changing a cottage to a permanent home
- Replacing an existing house with a new house (within a set time frame)

Note: this is not an exhaustive list

# Statutory Exemptions to DCs

- ▶ Under the DC Act, DCs cannot be collected for:
  - ▶ Enlargement of an existing dwelling unit;
  - ▶ Second and third residential units in existing dwellings and associated ancillary structures.
  - ▶ A second and third residential units in new dwellings and associated ancillary structures.
  - ▶ Non-profit housing developments
  - ▶ For industrial development where the gross floor area is enlarged by 50% or less
  - ▶ Affordable and attainable residential units
    - ▶ Affordable rental unit (2 bedroom): \$1,464
    - ▶ Affordable residential unit (single detached): \$341,000
    - ▶ Note – attainable residential units not yet defined by regulation.



**Municipalities can put their own exemptions in their bylaw.**

# 'Capital Costs' collected through DCs

- ▶ For the different types of eligible projects, you can collect against costs related to:
  - ▶ Costs to acquire land or interest in land;
  - ▶ Costs to improve land;
  - ▶ Costs to acquire, lease, construct or improve buildings or structures;
  - ▶ Costs to acquire, lease, construct or improve facilities including:
    - ▶ Rolling stock with useful life of more than 7 years;
    - ▶ Furniture and equipment (but not computer equipment);
    - ▶ Materials for circulation, reference and information purposes at a library
  - ▶ Cost to undertake studies with the above
  - ▶ Cost the development charge background study
  - ▶ Interest on money borrowed to pay for these costs.

# How DCs are Calculated

Forecast future growth and development

Determine 15-year level of service

- DCs cannot be in excess of 15-year level of service

Forecast capital needs to service future growth and development

Determine net capital costs for projects

- Need to subtract any grants/subsidies received
- Subtract portion of costs attributable to the existing population

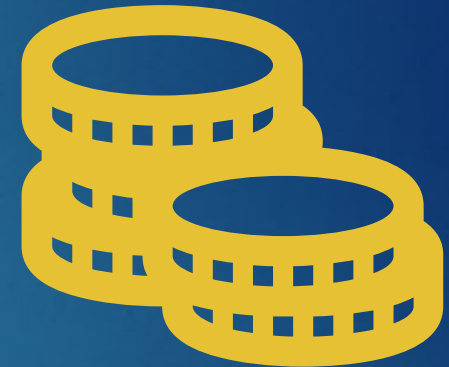


# Administration of DCs

- ▶ Most DCs are collected upon issuance of a building permit
- ▶ For developments requiring a Site Plan or Zoning By-law Amendment:
  - ▶ The DC is based on the charge the day the Site Plan/ZBA application is made.
    - ▶ If more than 2 years have passed since the Site Plan/ZBA application, the DC is based on the charge the day the building permit is issued.
  - ▶ If a Site Plan or Zoning Bylaw is not required – DC is the amount at the issuance of building permit or occupancy (whichever is earlier)

# DC Reserve Accounts

- ▶ Municipalities are required to establish a separate reserve fund for each DC service (e.g. roads, water, wastewater)
- ▶ Money collected through DCs is then put into the appropriate reserves (i.e. the portion of the DC that is for water projects goes into the water DC reserve)
- ▶ Money in the reserves can only be used for capital costs of DC projects
  - ▶ Can borrow funds from reserves, but it must be replaced with interest.



# Development Charge Bylaws

- ▶ Can now last up to 10 years
- ▶ Municipalities can include their own specific:
  - ▶ Exemptions (e.g. agricultural buildings)
  - ▶ Discounts
  - ▶ Phasing Schedules

# Bruce County Development Charges

- ▶ Development in Arran-Elderslie is subject to Bruce County DCs.
- ▶ Other municipalities that have DC exemptions in place will have those same exemptions under the County DC
  - ▶ This creates different DC situations for different municipalities in Bruce County.
    - ▶ E.g. – Saugeen Shores exempts development charges for industrial and institutional development. An industrial development in Saugeen Shores would be exempt from the County DCs but in Arran-Elderslie (where there is no DC Bylaw) an industrial development would pay the County DC.
- ▶ Each municipality makes its own decisions regarding their own DCs – must weigh who is paying for development when considering exemptions.
- ▶ DCs are not the only consideration when locating a business or home in a certain municipality.



# Questions