



**FINANCE DEPARTMENT  
MEMORANDUM**

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**TO: MAYOR J. LEHMAN AND MEMBERS OF COUNCIL**

**FROM: M. VILLENEUVE, SUPERVISOR OF DEVELOPMENT CHARGES (EXT. 4503)**  
**J. COWLES, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENT (EXT. 5347)**  
**C. MILLAR, DIRECTOR OF FINANCE AND TREASURER (EXT. 5130)**

**NOTED: A. MILLER, ACTING GENERAL MANAGER OF INFRASTRUCTURE AND GROWTH MANAGEMENT**  
**D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**  
**M. PROWSE, CHIEF ADMINISTRATIVE OFFICER**

**RE: REQUEST FOR ADDITIONAL INFORMATION – DEVELOPMENT CHARGE STUDY AND BY-LAW (MOTIONS 19-G-169 AND 19-G-170)**

**DATE: JUNE 12, 2019**

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The purpose of this memorandum is to provide members of Council with additional information with respect to the 2019 Development Charge (DC) by-law as requested at its June 3, 2019 meeting.

**Funding Discounts – the Taxpayer**

Any deduction to a development charge must be funded by other sources. Those sources are taxation and user fees, (or other reserves and grants ultimately by the tax payer/rate payer) unless the municipality has another source of funding. This means that the existing residents and business would be required to fund a greater portion of costs attributed to incoming residents and businesses that they otherwise would not need. In Barrie's case, staff are proposing that the Community Benefit Reserve (which is funded from 80% of the dividends from Alectra Inc) be used to fund Community Improvement Grants to offset a portion of the development charge grants for specific employment uses. This would reduce the impact on the taxpayer for funding the DC revenue shortfall.

Section (6) 3 of the Development Charges Act states,

“3. If the development charge by-law will exempt a type of development, phase in a development charge, or otherwise provide for a type of development to have a lower development charge than is allowed, the rules for determining development charges may not provide for any resulting shortfall to be made up through higher development charges for other development.”

The following has been written by the Association of Municipalities of Ontario (AMO):

*“A reduction in development charge collections will increase the cost of public services for all residents. This will increase pressure from taxpayers to constrain growth and to constrain demands on the already stretched property tax dollar.”*

*“Reducing DCs does not decrease the cost of growth related infrastructure. Instead, it transfers the cost to existing homeowners, which includes low income families and seniors. Significant increases in the whole cost of housing, through increased annual property taxes, would be unaffordable for many. Existing*



*taxpayers and ratepayers would have to fund the cost of infrastructure not recovered through DCs. This would result in higher property taxes and utility rates for municipalities with new development and create a disincentive for residents to support new housing.”*

*“If more municipal operating revenues are needed to cover the cost of growth, it will be at the expense of maintaining existing capital assets, services, or current property tax and user rates. Shortchanging the public services that the people of Ontario depend on is no way to build the communities people want to live in. Development charges are the right tool to fund the services needed for growth in Ontario.”*

A growing city requires investment in growth related infrastructure to service new development. Development charges are fees that are paid by new development to partially fund the capital cost of these additional services constructed throughout the City.

Development charges play an important part in how growth infrastructure is financed in Barrie and other growing municipalities. Each new home, commercial center, manufacturing plant requires infrastructure and services (e.g., sewer pipes, stormwater ponds, fire stations, road improvements, etc.) in order to function efficiently and effectively.

**Impact of proposed CIP Grant program on rates for targeted uses**

The City has recommended through Staff Reports FIN007-19, FIN013-19, PLN022-19 and Finance memo dated June 3, 2019 to use the tools available through a Community Improvement Plan (CIP) to incentivize the types of development that the City is striving to obtain.

The discounts previously contained within the DC by-law, while encouraging some of the developments that the City intended to attract, also had unintended consequences such as providing low economic return in the way of employment.

The City has recommended a more targeted focused approach to attracting the types of development with the greatest economic impact for the City. With limited amount of finances, this type of approach will get more “bang for the buck”.

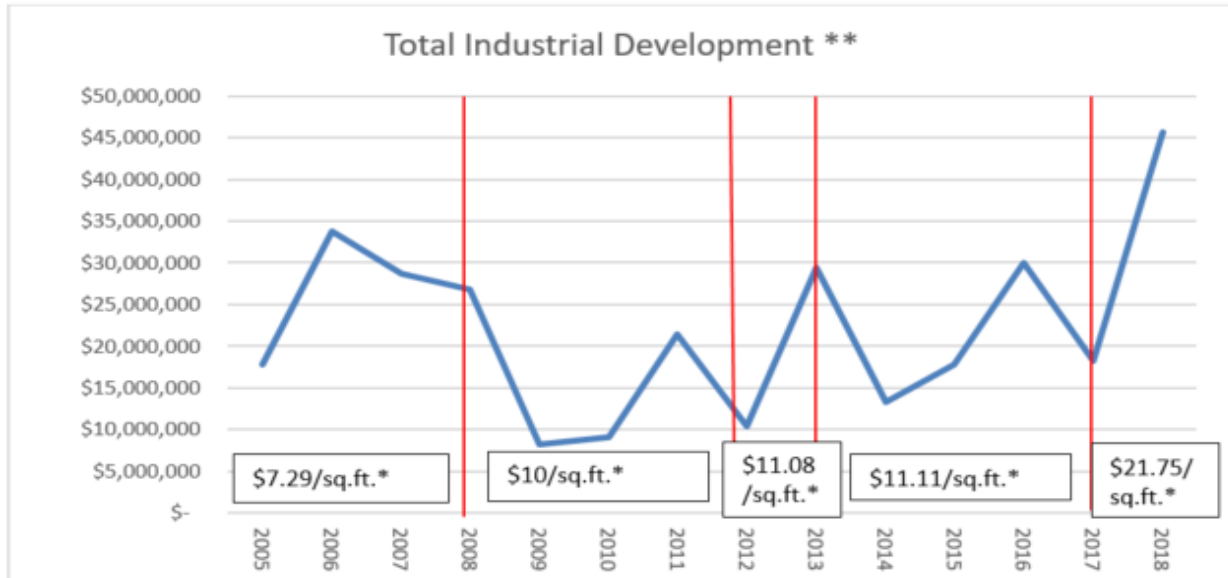
The City’s proposed cost of DC’s for these targeted uses are as follows:

	<b><u>Former Municipal Boundary</u></b>	<b><u>Salem &amp; Hewitt's</u></b>
Development Charges/Sq.Ft	\$19.38	\$21.63
Proposed CIP Incentive for targeted uses (up to 40%)	<b>(\$7.75)</b>	<b>(\$8.65)</b>
Effective Amount Paid for targeted uses	\$11.63	\$12.98

**Historical DCs – Industrial**

The City has found that in its experience and in general, there is little correlation between the DC charge and the amount of development.

The following graph shows the historical industrial building values from 2006-2018 and the corresponding Industrial DC rates.



\* subject to annual indexing

\*\* excludes City construction (i.e. Indoor Recreation)

The DC by-laws over that time period had the following Industrial DC rates:

- 2003-150 By-law: \$7.29 per sq. ft.
- 2008-111 By-law: \$10 per sq. ft. (discounted from \$14.19)
- 2013-032 By-law: \$11.08 per sq. ft. (discounted from \$13.61)
- 2014-108 By-law: \$11.11 per sq. ft. (discounted from \$18.82)
  - Impact years: 2014-2017 (Discounted Rate)
  - Impact years: 2018-2019 (full rate)

Although the charge was very stable and ranging from \$10 to \$12 per sq.ft. for the period of 2008-2017, the amount of actual industrial development varied significantly from year to year.

This would seem to indicate that there are a number of other factors impacting development such as:

- Supply versus demand of the particular use
- Costs of land, materials, construction
- The general health of the economy
- Availability of financing and interest rate levels

### **DCs – Impact on Industrial Site Selection**

Several of the below-mentioned studies that have looked at DC policy and its impacts on economic development activity have concluded that there is only a modest relationship (and in some cases no relationship) between the level of DCs and the decision to locate in one municipality vs. another. Several of these studies identified the primary site selection determinants for a business to be:

- Availability of appropriate sites or buildings
- Relative location of customers (market) and suppliers
- Access to labour force
- Transportation infrastructure
- Access to hydro, network connectivity, water, and other infrastructure-related assets
- Public transit access to business services, restaurants, and ancillary retail activities
- Livability and quality of life

For financial determinants driving site selection, one-time costs such as land price, construction cost and DCs can together have impact on a company's location decision (particularly if those costs are significantly higher than what is available in other locations with similar characteristics). However, studies have found that property tax rates are a component of the site selection process and are normally of much larger importance than DCs. The City of Barrie offers a highly competitive industrial tax rate.

The following chart provides a comparison of the 2018 Property Tax Rates (Municipal and Education) based on the Chamber's list of municipalities:

<b>Municipality</b>	<b>Industrial Tax Rate</b>
Barrie	2.8247%
Belleville	4.7902%
Brantford	4.0710%
Essa	2.989043%
Guelph	3.5476%
Innisfil	2.6209%
Kingston	4.4318%
London	3.6190%
Orillia	3.6044%
Oshawa	4.0427%
Peterborough	3.4840%
St. Catharines	4.6609%

Source: 2018 BMA Study and Township of Essa website

From the above chart, it is clear that annual tax rates, typically a more important factor in the site selection process, are lower in Barrie than all of the Chamber of Commerce comparable municipalities.

Considering these site selection determinants, Barrie is an attractive location for new business investment. The City offers businesses an attractive mix of competitive tax rates and land prices, modern infrastructure, major highway transportation access, skilled workforce, local supply chain, proximity to major markets, and quality of life.

### **Studies on Impact of DC's**

Staff were unable to find evidence to suggest industrial discounts lead to increased tax revenues. At a cursory glance, staff did find that some of the municipalities with deep discounts were also experiencing very low industrial growth despite the low or non-existent industrial development charge.

There have been a number of studies performed that review development charges and their impacts on development. Attached to this memo are the following studies:

Appendix A - Watson Development Charge Impact Policy Paper

Appendix B - Government of Ontario Development Charges System Review (Sustainable Prosperity – 2014)

Appendix C - The Effect of Development Related Costs on Housing Affordability (Hemson, NBLC – 2019)

Appendix D - Development Charges in Ontario: Is Growth Paying for Growth? (IMFG – 2019)

Appendix E - Dispelling Development Charge Myths and Misconceptions (MFOA – 2013)

**Comparison of Data Presented – Chamber of Commerce versus Watson**

A representative of the Chamber of Commerce (the Chamber) made a deputation to Council in which a number of other municipalities' DC fees were quoted and differed from the figures provided to Council by Watson and Associates Economists Limited, the City's DC consultants on May 13, 2019.

Council have requested clarification as to the differences in the amounts previously received from the City's DC consultants versus those presented by the Chamber.

The following table categorizes the municipalities as they appeared in the respective lists.

Both Lists	Watson List ONLY	Chamber List ONLY
Orillia	Vaughan	Peterborough
Oshawa	Markham	St. Catherines
Innisfil	Newmarket	Belleville
Guelph	Richmond Hill	Essa
	Aurora	Brantford
	Oakville	London
	Mississauga	Kingston
	Burlington	
	Bradford West Gwillimbury	
	Brampton	
	Milton	
	Ajax	
	Whitby	
	Springwater	
	Clearview	
	Hamilton	
	Pickering	
	Severn	

**Watson's List**

Watson's list included 22 municipalities for comparison purposes. Their methodology for the selection chosen is as follows:

- a) Simcoe County municipalities were chosen for their close proximity to Barrie;
- b) York Region municipalities were chosen for their close proximity to Barrie;
- c) Halton and Durham municipalities were selected as they are also experiencing high growth;
- d) Hamilton and Guelph were selected to represent other larger single-tier municipalities; and,
- e) Peel Region municipalities were selected as other competitive markets with access to the 400 series highways.

In Watson's list, the City of Barrie was shown to be middle of the pack for DC rates in relation to its comparable municipalities.

The City of Barrie's proposed rates are lower than municipalities such as Mississauga, Innisfil, Oakville, Newmarket, Richmond Hill, Markham and Vaughan. They are proposed to be on par with Burlington, Bradford West Gwillimbury and Brampton. They are proposed to be higher than Milton, Ajax, Whitby, Springwater, Clearview, Hamilton, Pickering, Guelph, Severn, Oshawa and Orillia.



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### The Chamber's List

The Chamber has chosen a list of municipalities that is significantly different than the list that Watson has chosen. The Chamber's municipality list included 11 municipalities for comparison to Barrie. The methodology used for selection of municipalities was not disclosed in the Chamber document left with City staff, but the City of Barrie was shown to have the highest DC rates in relation to their list of municipalities.

### Rate Variances Between Lists

Including Barrie, only five municipalities appeared on both lists and the following table explains the differences between the rates in the respective lists. The rates in the table do not include incentives through a CIP program. The effective Barrie rate for industries that receive the grant in the Former Municipal Boundary would be \$11.63 and \$12.98 in the Salem and Hewitt's Secondary Plan Area.

<u>Municipalities on Both Lists</u>	<u>Chamber #s</u>	<u>Watson #s</u>	<u>Difference</u>	<u>Variance Comments</u>
Orillia	\$0.00	\$0.47	(\$0.47)	The Chamber excluded the Education DC cost required to be paid by the developer.
Oshawa	\$0.00	\$9.96	(\$9.96)	The Chamber excluded the Upper Tier DC cost required to be paid by the developer.
Innisfil	\$10.29	\$25.46	(\$15.17)	The Chamber excluded DC costs for Water, Wastewater, Upper-Tier or Education required to be paid by the developer.
Guelph	\$12.37	\$12.37	\$0.00	No difference
Barrie	\$19.70	\$20.17	(\$0.47)	The Chamber excluded the Education DC cost required to be paid by the developer.

### Growth Projections

In compiling the growth forecast, Watson considered the following specific information sources to assess the residential and non-residential development potential for the City of Barrie over the forecast period, including:

- City of Barrie Long-Term Growth Scenarios Review – Scenario 3 (Made in Barrie) by Watson & Associates Economists Ltd., October 26, 2018.
- Historical residential and non-residential building permit data over the 2008 to June 2018 period.
- Historical Statistics Canada Census and Ontario Ministry of Agriculture, Food and Rural Affairs (O.M.A.F.R.A.) E.M.S.I. (Economic Modeling Specialists Intl.) datasets.
- Discussions with City staff regarding recent and anticipating residential and non-residential development trends

The forecasted growth included within the Study does predict a significant increase in development over the next number of years. The most significant reason being the development of the Secondary Plan Area lands. The development community in the Salem and Hewitt's Secondary Plan areas have been working closely with staff and providing their anticipated development plans over the short/medium term. Those development plans are in line with the forecasts in the Background Study. The growth scenarios reflect the Province's new targets with respect to long-term population, housing and employment growth.

Deviations for projected and actual growth are managed through the annual budget process.

### Bill 108

Bill 108 received Royal Assent June 6, 2019. The Province has advised that Bill 108 would not impact the ability of a municipality to establish development charges for soft services until the proposed community benefits charge regime was in effect and would not impact the ability of a municipality to collect development charges for soft services until it passed a community benefits charge by-law or reached the prescribed date.



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As the Master Plans and Development Charge Background Study have been prepared with the service areas identified individually, the soft services are identifiable and staff do not feel it would be necessary for the City to re-do the background study to identify the costs of the soft services in preparation of a community benefits charge by-law.

If the City waits until August, it may be after the prescribed date from the Province.

This would result in the removal of the City's ability to collect development charges (DCs) for growth-related parks and capital facilities. These DCs would be replaced with a capped community benefit charge regime in Section 37 of the Planning Act. Approximately \$196 million in DC funding is allocated to growth-related parks amenities and recreation capital infrastructure projects in the City's 2019-2028 Capital Plan (excluding carry forwards), with both the Hewitt's and Salem Community Centres and Libraries representing the largest individual projects with estimated costs of over \$90 million each (excluding the cost of land acquisition). Without this development charge revenue, Council would be forced to make decisions regarding the adjustment of City-wide service levels or consider increases to property taxes to fund these growth related community centres necessary to build a livable community.