FINANCE AND ADMINISTRATION COMMITTEE AGENDA

Finance and Administration Committee Meeting
Thursday, May 2, 2019
Tom Davies Square - Council Chamber

COUNCILLOR MIKE JAKUBO, CHAIR

Deb McIntosh, Vice-Chair

6:00 p.m. FINANCE AND ADMINISTRATION COMMITTEE MEETING
COUNCIL CHAMBER

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DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

REGULAR AGENDA

MANAGERS' REPORTS

MEMBERS' MOTION

CORRESPONDENCE FOR INFORMATION ONLY

ADDENDUM

CIVIC PETITIONS

QUESTION PERIOD

ADJOURNMENT

Presented To:	Finance and Administration Committee
Presented:	Thursday, May 02, 2019
Report Date	Thursday, Apr 18, 2019
Type:	Managers' Reports

For Information Only

Strategic Options for Development Charge Rate Reductions

Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report responds to Council's direction based on the approved resolution from the Finance and Administration Committee on March 26, 2019. It includes options for reducing development charges.

Financial Implications

This report has no financial implications.

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Executive Summary

Development charges (DCs) are an important financing tool for municipalities that minimize costs for current and future taxpayers. Virtually every city in Canada that can use DCs includes them in their financing plans because they are an effective, reasonable approach to pay for the municipal infrastructure needed to support the development of new construction.

Nonetheless, DCs are also perceived to be an economic development tool. Municipal Councils have significant discretion to adjust calculated development charges. They do so in anticipation this will improve their community's competitiveness and attract new residential and non-residential construction. Ultimately, DCs consume a relatively low share of total development costs. Several other elements influence a developer's choice about whether to develop a particular property.

There are several options described in this report. The provincial government is responsible for DC legislation, so all municipalities generally have the same discretion and range of choices available. The provincial government signals its intent to support policy objectives by requiring certain types of development to be exempt from DCs, or to have access to reduced/discounted DC rates. Municipalities have similar opportunities, although they must reflect the province's legislated requirements for discounts or exemptions.

For the City of Greater Sudbury, choices include:

- Simple rate adjustments – Council directed staff to identify a plan that includes a 50% reduction in calculated DC rates.
- Additional exemptions – beyond the requirements of provincial legislation, Council may choose to introduce further exemptions in addition to, or instead of, reduced/discounted DC rates
- Reduced rates for certain types of development – instead of an across-the-board rate reduction, reductions (or "discounts") for specific types of development can signal Council's interest in promoting specific types of growth

There is an expectation that efforts to promote development through adjustments to DC rates will increase both construction activity and property assessment values. Ultimately, this is expected to generate higher municipal tax revenues than would otherwise be experienced without DC rate adjustments. This report describes the level of assessment growth that would be needed to offset the anticipated cost of adjusting calculated DC rates. If growth levels are lower than those forecasts, current and future taxpayers will have to cover a larger share of the city's infrastructure costs.

There are also several non-financial policy elements associated with choices about DCs. Land use planning policies, economic development goals and quality of life goals all influence Council's decisions about DC rates. Clarity about Council's strategic intent and aligning resources to achieve desired outcomes will increase the assurance DC policies have the desired effect.

Background

Resolution FA2019-20, approved by the Finance and Administration Committee on March 26, 2019, directs staff to "…*come back with a plan on reducing development charges by 50 percent as well as other strategic alternatives for reduction without impacting service levels or staff, and reducing the burden on taxpayers by stimulating economic development."* This report responds to Council's direction.

Staff's analysis builds on a series of previously approved policies and analysis that address matters related to, or affected by, DC rate adjustments. This includes important background information about DC legislation and provincial requirements as included in the staff report presented on March 26, 2019 (https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=2&id=1365).

Analysis

Implementing a 50% DC Discount

Based on the DC Background Study's forecasts, which were developed in collaboration with development industry representatives, the five-year financial impact of a 50% discount in calculated DC rates for tax-supported services is $10.7M. This is equivalent to an annual financial requirement of $2.14M.

For water/wastewater services, the five-year financial impact of a 50% discount in calculated DC rates is $5.3M. This is equivalent to an annual financial requirement for rate-supported services of $1.06M per year.

This means, if all other plans remain unchanged and capital investments required to support growth occur at the same pace, the city's annual tax-supported budget needs an alternate source to replace the $2.14M that would no longer be provided by DCs. The rate-supported budget, since it is 100% funded by rates, would see an incremental rate increase that would incorporate the $1.06M revenue requirement.

Options to address the tax-supported financial requirement include:

1. Assessment growth that generates higher taxation revenues
2. Changes in non-growth capital spending plans to offset the higher level of funding required for growth projects

Assessment Growth That Generates Higher Taxation Revenues

It is reasonable to anticipate the city's assessment base will grow. Greater Sudbury's economy continues to diversify and there are clearly unique strengths about the local market that make it an attractive place to invest. There are several factors influencing such decisions. Most of these are not within the city's control.

Assessment growth is derived from two sources:

- Net increase in assessment values from existing buildings and land
- New assessment values from new buildings and land

Historically, assessment growth reduced the annual increase in the property taxes. This is appropriate because new tax revenue from assessment growth helps partially offset the additional operating costs incurred to provide services to the new households/businesses.

Experience suggests changes in DCs do not significantly influence assessment growth. As the following table shows, annual assessment changes reflect the city's cyclical economy. However, the introduction of DCs on the Industrial, Commercial and Institutional (ICI) sector in 2010 did not have a discernible effect compared to prior periods:

	Year (2019 to 2002)																	
	19	**18**	**17**	**16**	**15**	**14**	**13**	**12**	**11**	**10**	**09**	**08**	**07**	**06**	**05**	**04**	**03**	**02**
Assessment Growth (%)	1.7	0.8	0.7	0.7	0.3	0.7	1.0	1.5	2.4	1.3	1.6	1.7	1.1	1.5	0.5	0.8	0.3	(0.1)

To generate an incremental $2.14M in taxation revenues, the city's taxable weighted assessment would need to grow by, approximately, an additional $170M each year. This means growth rates need to be double than currently forecast in each of the next five years.

The chart below shows the 5 year growth forecast in the DC Study by development category along with the additional development required over the same period in order to fund the 50% reduction in DCs.

Development Type	**2019 – 2023 Five Year Growth Forecast in DC Study**	**Additional Development Required Over Five Year Period to Fund 50% Reduction in DCs**	**Total Development Required Over Five Year Period to Fund 50% Reduction in DCs**
Single Detached Dwelling Units	962	962	**1,924**
Semi Detached Dwelling Units	76	76	**152**
Apartments and Multiples	666	666	**1,332**
Industrial (square footage)	804,000	804,000	**1,608,000**
Non-Industrial (square footage)	262,390	262,390	**524,780**

Important to note that the chart above is only for the property tax levy portion and does not account for loss DC revenue for water and wastewater (w/ww). That would be funded from w/ww ratepayers.

Currently, assessment growth within the DC Background Study is forecast to be 1.6**%** or $340M in each of the next five years. This is the "reference scenario" used for the growth forecast prepared to support the DC By-law update. It is possible, although difficult to conclusively determine, that higher growth rates would drive higher-than-forecast capital investment requirements to support that growth. The assumption for this report is that capital forecasts do not change as a result of higher growth than the reference scenario.

The DC Background Study is developed to provide the same levels of service to new households and businesses based on the expected growth forecast. If DCs are reduced by 50%, then the service level will be reduced if some of the capital growth projects are not completed. Therefore, in order to maintain the same service level, the new assessment growth would be used to fund the capital infrastructure costs, as opposed to the annual operating costs to service these new households and businesses. However, this would result in higher property tax rates for all existing taxpayers through the annual budget process as the new assessment growth would be unavailable to reduce the property tax levy increase. In addition, if assessment growth does not materialize as expected, then two options exist, to either increase property tax rates or defer/cancel growth related capital projects.

Plan to Implement a 50% Discount in DC Rates

Subject to Council's direction, the plan for implementing a 50% discount in recommended DC rates would be:

- To pursue economic development strategies that increased taxable assessment by at least $170M each year
- To recommend annual property tax changes that accounted for Council's service expectations and included an amount to account for any shortfall in revenue from growth in taxable assessment
- To recommend annual water/wastewater rate changes that incorporated an additional $1.06M in rate revenue requirements to address the lower DC revenue forecast

Other Options for Reducing Development Charges

There is a substantial body of knowledge and experience available to support the view that DC policies play a relatively small part in a company's location decisions. Successful municipalities provide attractive public spaces, good quality infrastructure and lifestyle opportunities that make them magnets for workers and their families. These features interact with a variety of other influencing factors that are not within the municipality's control to produce the dynamic conditions that private companies must consider when making investment/location decisions.

To signal its intention to provide those companies with a supportive environment, municipal councils consider exemptions or reductions to DC rates using a variety of approaches. These include:

Exemption	How It Encourages Development
Designated Exempt Areas	Designated exempt areas have been established in the downtown, town centres and mixed-use commercial areas in the Official Plan. DCs would be waived on any new construction or expansion to an existing building in these areas to foster infill development. This encourages development to occur in these areas by removing the DCs from the initial cost of construction.
Affordable Housing	It is recommended that the proposed DC by-law contain revise exemptions for affordable housing projects that meet Provincial and municipal criteria. These exemptions would build on the Affordable Housing Strategy adopted by Council and complement the City's new Affordable Housing Community Improvement Plan. The proposed changes would allow for Development Charge exemptions when the developer has entered into an Affordable Housing agreement with the City. This encourages development to occur and may increase the profitability for developers to pursue this investment opportunity and provide additional affordable housing units in the community.
Secondary Units (including Garden Suites)	It is recommended that the addition of one secondary unit within an existing dwelling unit or in an accessory structure be made exempt from DCs. This encourages development to occur and creates additional affordable housing units in the community.
Hospices and Non-Profit Long Term Care Homes	It is recommended that non-profit hospices and non-profit long term care homes would be exempt from DCs if they are also exempt from property taxes. This encourages development to occur in the Institutional sector and provides additional choices for hospice or long term care home options.
Lower DC Rates for Apartments and Multiples	The DC rates are lower for apartments and multiples when compared to single family and semi-detached dwelling units. These lower rates encourage development of these housing types.
Farm Buildings	Those constructing or expanding farm buildings do not pay DCs.
Industrial Expansions	DC Act exempts the first 50% square footage expansion of an existing industrial building from DCs. This encourages the expansion of existing industrial buildings in the community to grow the businesses and related job opportunities.

Exemption	How It Encourages Development
Redevelopment of Existing Buildings	In cases where an existing building is classified in one category and converting to another category (for example, industrial to commercial), there would be a credit on redevelopment based on the DC rates on existing use of building to be applied against the DCs amount calculated on the new use. This encourages redevelopment of existing buildings in our community to new uses and new businesses.
Demolition and Rebuild	No DCs would be paid on a building that has been demolished and rebuilt within 5 years of the demolition and new building permits. This encourages development by utilizing existing serviced land by removing the existing building and constructing a new building that meets the new use/needs of a potential business. This minimizes the one time initial capital costs by removal of the DCs.
Renovations to Existing Buildings	Any renovations or upgrades to existing buildings where it does not increase square footage does not result in any DCs to be paid.
Exemption for single detached dwellings smaller than 1,000 square feet	This would be designed to encourage/support densification and promote home affordability.

Targeted Development Charge Reductions

Instead of an across-the-board reduction of 50% to DC rates, Council could elect to reduce DC rates for certain classes of development. The following list of options, accompanied by a table illustrating the financial effects of each, demonstrates the range of choices Council could consider instead of a simple 50% reduction:

Option 1 - No reduction to calculated DC rates (this is the “Reference Scenario” from the DC Background Study)

Option 2 - Reduce DC rates by 50% for all categories (residential and non-residential) – this was described earlier in this report

Option 3 - Reduce calculated DC rates by 50% for residential category only (single family dwellings; semi-detached dwellings; multiples & apartments)

Option 4 - Reduce calculated DC rates by 50% for non-residential category only (industrial and non-industrial which includes commercial/institutional)

Option 5 - Reduce calculated DC rates by 50% for industrial category only

Option 6 - Reduce calculated DC rates by 50% for non-industrial (commercial and institutional) category only

Option 7 – Eliminate all DCs

Option 8 - Reduce calculated DC rates to only collect on Engineered Services and 0% on Soft/General Services

#	Total DC Revenue Loss Per Year	Total DC Revenue Loss over 5 Years	Total DC Revenue Over 5 Years - Tax Levy Portion	Total DC Revenue Loss Over 5 Years - W/WW User Rates Portion	Property Tax Levy % Increase Impact	W/WW User Rates % Increase Impact	Weighted Assessment Growth Required to Offset Loss DC Revenue Tax Levy Portion - New Assessed Value
1	-	-	-	-	0.0%	0.0%	-
2	3,203,320	16,016,600	10,721,589	5,295,011	0.8%	1.3%	169,693,836
3	2,494,087	12,470,436	8,465,757	4,004,679	0.6%	1.0%	133,990,104
4	709,233	3,546,164	2,255,832	1,290,332	0.2%	0.3%	35,703,732
5	475,968	2,379,840	1,407,000	972,840	0.1%	0.2%	22,269,016
6	233,265	1,166,324	848,832	317,492	0.1%	0.1%	13,434,716
7	6,406,640	32,033,199	21,443,177	10,590,022	1.6%	2.7%	339,387,672
8	1,231,208	6,156,041	6,156,041	-	0.4%	0.0%	97,433,522

Conclusion

This report provides additional information to Council in relation to the resolution approved at the Finance & Administration Committee on March 26, 2019. If DCs are reduced or eliminated, this would result in either (a) higher property taxes and water/wastewater rates or (b) delay of capital growth projects being completed. If delay of these projects occurs, then it may cause the development be unable to proceed if existing infrastructure capacity is unable to accommodate the new development.

Presented To:	Finance and Administration Committee
Presented:	Thursday, May 02, 2019
Report Date	Tuesday, Apr 16, 2019
Type:	Correspondence for Information Only

For Information Only

Development Charges and Planning Policies

Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report is to outline the connections between Development Charges and land use planning policy in the City of Greater Sudbury. Specifically, the report will look at the Official Plan, community improvement plans, development cost sharing, building permit trends and the cost of growth.

Financial Implications

This report has no financial implications.

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Summary

The purpose of this report is to outline the connections between Development Charges and land use planning policy in the City of Greater Sudbury. Specifically, the report will look at the Official Plan, community improvement plans, development cost sharing, building permit trends and the cost of growth.

1. How do DCs Relate to Land Use Planning Policy in Greater Sudbury?

The City's Official Plan guides the growth and development of the City over a 20 year planning horizon. Within the Official Plan, areas of the City are designated for future residential, industrial and commercial growth. The future servicing of these areas as it relates to sewer, water, storm water and transportation, and the timing for the construction of these services, is analyzed through a number of master plans, including the Water/Waste Water Master Plan and the Transportation Master Plan. These plans recommend infrastructure improvements to accommodate the projected growth. Those infrastructure improvements are then included, depending on the timeframe, as part of the Development Charges Background Study. By including these projects as part of the Background Study, it ensures that the growth-related portion of the project is funded by the growth that it is designed to service.

2. What Financial Tools does the City Currently Use to Facilitate Land Use Planning Policy Objectives?

Community Improvement Plans (CIPs) are community planning tools that allow municipalities to revitalize areas of the city through the offering of financial programs, such as grants and loans. Under the Planning Act, Community Improvement Plans (CIPs) can be undertaken for environmental, social or economic development reasons.

The City of Greater Sudbury currently has four adopted CIPs which are intended to stimulate and facilitate private development by providing financial incentives, namely:

- The Downtown Community Improvement Plan;
- The Town Centre Community Improvement Plan;
- The Brownfield Strategy and Community Improvement Plan, and
- The Affordable Housing Community Improvement Plan.

In all cases, these CIPs are used to achieve the land use planning objectives of the City's Official Plan by:

- Directing development and intensification to existing built-up and serviced areas (downtown and town centres);
- Creating affordable housing in close proximity to existing public transit and services, and
- Fostering the redevelopment and rehabilitation of brownfield sites.

The current and proposed Development Charges By-law use a similar approach to encouraging land use planning objectives by providing exemptions to specific areas to promote infill and intensification, exemptions for affordable housing projects and exemptions for all second units. As proposed, the development charges by-law would continue to exempt the following areas from development charges:

- Downtown Sudbury
- Capreol Town Centre
- Chelmsford Town Centre
- Dowling Town Centre
- Garson Town Centre
- Hanmer Mixed Use Commercial Area
- Val Caron Mixed Use Commercial Area
- Walden Town Centre
- Flour Mill BIA

3. What is the Relationship between Development Charges and the City's Policy on Development Cost Sharing?

In July of 2009, the City of Greater Sudbury passed a new comprehensive Development Charge (DC) By-law 2009-200F.

During the process leading up to the adoption of the 2009 DC By-law, there were a number of consultations that took place with the development community in the City. One of the issues stemming from those consultations was how development costs not identified in the DC By-law would be addressed. This concern lead to the City creating a standardized approach for cost sharing between developers, the City and third party landowners for development related costs, known as the Policy on Development Cost Sharing (PDCS). The process to establish a development cost sharing policy began in 2009 and included a review of similar documents from other Ontario municipalities, drafting a policy for the City of Greater Sudbury, reviewing and agreeing on the policy with all City Departments involved in the development process, reviewing the document with a Development Liaison Advisory Committee (DLAC) subcommittee, and finally reviewing the draft policy with the full DLAC. This process culminated in Council adopting the PDCS in May of 2011. The Cost Sharing Policy was updated in 2016, based on consultation with the development community.

The intent of the PDCS is to establish a cost sharing structure between the development community and the City of Greater Sudbury. Typically, when development takes place in the City, new infrastructure, both internal and external to the development, has to be constructed. This new infrastructure can include roads, intersections, traffic signals, watermains, sanitary sewers, storm water management facilities, etc. In some cases, this infrastructure will solely benefit the developer. In other cases, the City and/or other developers may benefit from new infrastructure being installed.

The main purpose of the PDCS is to outline which party will pay for which share of the development costs using examples of some common development scenarios. Since it is not possible to cover every possible development scenario in a policy document, the PDCS instead lays out a general philosophy of how the City will share costs in some typical development situations. To accomplish this, the PDCS breaks down the sharing of development costs by type of infrastructure (e.g. road, sewer, etc.) and also by development situation (e.g. new construction, replacement, etc.) using both text and graphic examples. The PDCS defines which costs are included in different types of projects so that both the City and the Developer can enter negotiations with an understanding of what their obligations are in different circumstances.

As part of the update to the PDCS in 2016, new sections were added that provided City with the flexibility to consider whether or not development-related infrastructure projects were DC eligible if they serviced a larger area. Additionally, language was added that enabled the City to consider alternative cost sharing measures for roads identified as major future roads in the City's Official Plan.

As a result of this change, the City has approved applications for cost sharing on Silver Hills Drive and Montrose Avenue which included a DC funding component of 50%. Without the ability to use DCs as a funding source for these types of projects, the funding formula and the City's contribution would have to be reexamined and recalculated.

4. Have Development Charges Impacted Building Permits in Greater Sudbury?

In terms of the impact of DCs on building permit activity in Greater Sudbury, data showing construction value from 2007 to 2018 in the residential, commercial, industrial and institutional sectors is attached (Appendix A). The data does not display any clear trends between DCs and building permit value.

Also attached (Appendix B) is a chart displaying the number of permits issued for new residential units from 1996 to 2018. Again, the data does not show any clear trends related to development charges, with the exception of 2009, where there were an unusually high number of permits issued for new residential units. This spike may correlate to the passage of the City's then-new development charges By-Law 2009-200F in July of 2009. The spike in units in 2009 was followed by a drop in units in 2010; afterward, the number of new units returned to levels seen before the introduction of DCs.

5. Comparative Fiscal Impact Analysis of Growth Study

As part of undertaking the Official Plan review and 2014 Development Charges Background Study, the City retained Hemson Consulting to prepare a Comparative Fiscal Impact Analysis of Growth Study. The City commissioned the study to better understand the costs and revenues of providing services across the city. The study was presented to Planning Committee in January of 2018.

The intent of the Study was to build an understanding of the financial implications associated with residential land use planning decisions. It synthesizes various data sources to estimate the comparative servicing costs, and revenues, associated with various types of development. The analysis considers both the built form (single detached, rows, apartments, etc.) and the location of development (urban, suburban, rural).

It was the first study of its kind in Greater Sudbury and focused on residential development in order to estimate the cost of providing services in urban, suburban and rural areas, as well as the revenue (assessment, taxation) collected in the same areas. The study confirmed what is generally understood and accepted, that urban areas are the most efficient to service, followed by suburban and rural areas.

The key conclusions of the Comparative Fiscal Impact Analysis of Growth Study as they relate to development charges are:

- In most cases, new development contributes adequate revenue to offset additional operating servicing costs. This stems from new dwelling units having higher average assessed values than the existing community;
- The City should maximize the use of development charges, within the statutory framework, so that the City's share of funding for the initial round capital emplacement is limited to the 10% deduction for non-engineered and non protection services and service level improvements only;
- Servicing costs are typically higher in more distant areas of the City and lower in urban areas. This is particularly evident for services reliant on linear infrastructure;
- For certain services, an infrastructure funding gap can be observed when comparing the City's current capital spending to that required according to ideal asset replacement schedules. This finding is present in most Ontario municipalities and as growth occurs the gap will continue to grow;
- The City should encourage development in high density urban areas as it is generally the most cost-efficient. Practically, however, not all future growth can be accommodated by this form of development, particularly that of families. The

City should encourage the development of these units throughout the City, which would reduce cost disparities;

- Although the initial capital costs of local services infrastructure are borne by the developer, the long-term replacement of the assets is an important consideration in the analysis. The lower the amount of local infrastructure required by new development, the lower the annual replacement provisions. This is a major reason why high density developments are preferable from a fiscal standpoint;

- The City should focus growth in areas that have existing capacity (especially for water, wastewater, fire and transit services) to maximize development revenue and minimize additional infrastructure costs;

- When feasible, the City should continue make use of existing facilities to accommodate growth while looking for opportunities to combine facilities across departments (e.g. continue to combine fire and EMS stations) to reduce future upfront capital costs and replacement provisions;

- Besides capital projects identified in the City's Development Charges Study, tipping point projects (e.g. new water plants required when growth reaches a certain point) post-2023 have generally not been considered. Tipping point projects should be prioritized in the most cost effective locations identified in this report, and

- The fiscal impact of growth analysis for the City of Greater Sudbury produced results similar to those calculated in other jurisdictions.

Conclusion

This purpose of this report was to describe the relationship between DCs and land use planning policy in the City of Greater Sudbury. The report describes the linkages between areas designated for future development in the Official Plan and the need for additional infrastructure to services these areas, as determined through infrastructure master plans. The timing and financing of this growth related infrastructure is then realized through the development charges background study.

The report also draws linkages between the use of financial incentives through CIPs to realize land use planning objectives and how the use of exemptions under the DC by-law is another tool to realize these objectives.

Also discussed is the relationship between the City's Policy on Development Cost Sharing and DCs and, specifically, the use of DCs as a major funding source for cost sharing on the construction of new road infrastructure in the City.

The report examines building permit activity before and after the 2009 and 2014 DC By-laws and did not observe any particular trends.

Finally the report outlines the findings of the Comparative Fiscal Analysis of Growth Study as it relates to the cost of new development in the City.

References

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Comparative Fiscal Analysis of Growth Study, Planning Committee, January 8, 2018.
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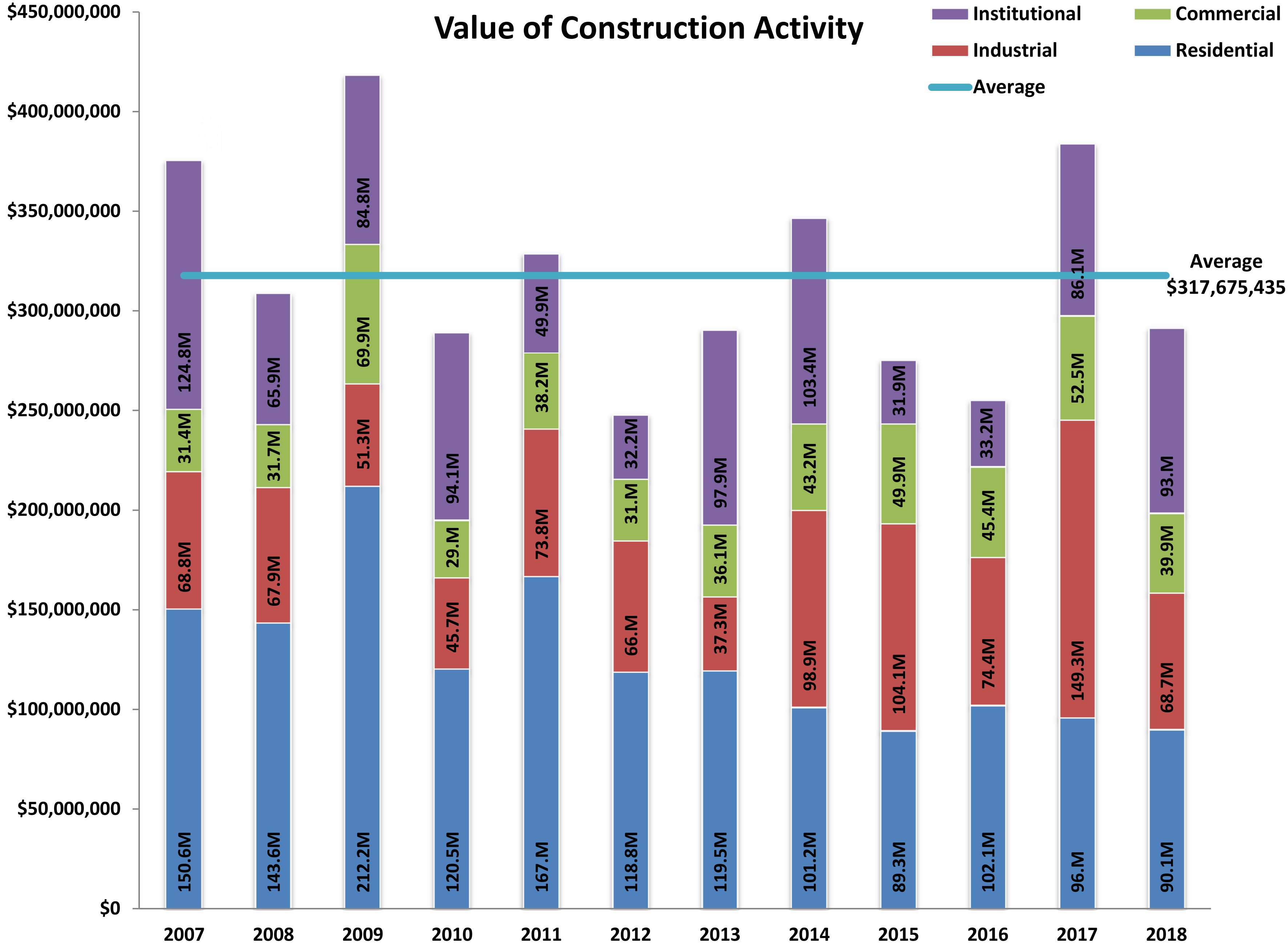
Appendix A



Value of Construction Activity
Institutional
Commercial
Industrial
Residential
Average
Average
$317,675,435
$450,000,000
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
150.6M
68.8M
31.4M
124.8M
143.6M
67.9M
31.7M
65.9M
212.2M
51.3M
69.9M
84.8M
120.5M
45.7M
29.M
94.1M
167.M
73.8M
38.2M
49.9M
118.8M
66.M
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32.2M
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37.3M
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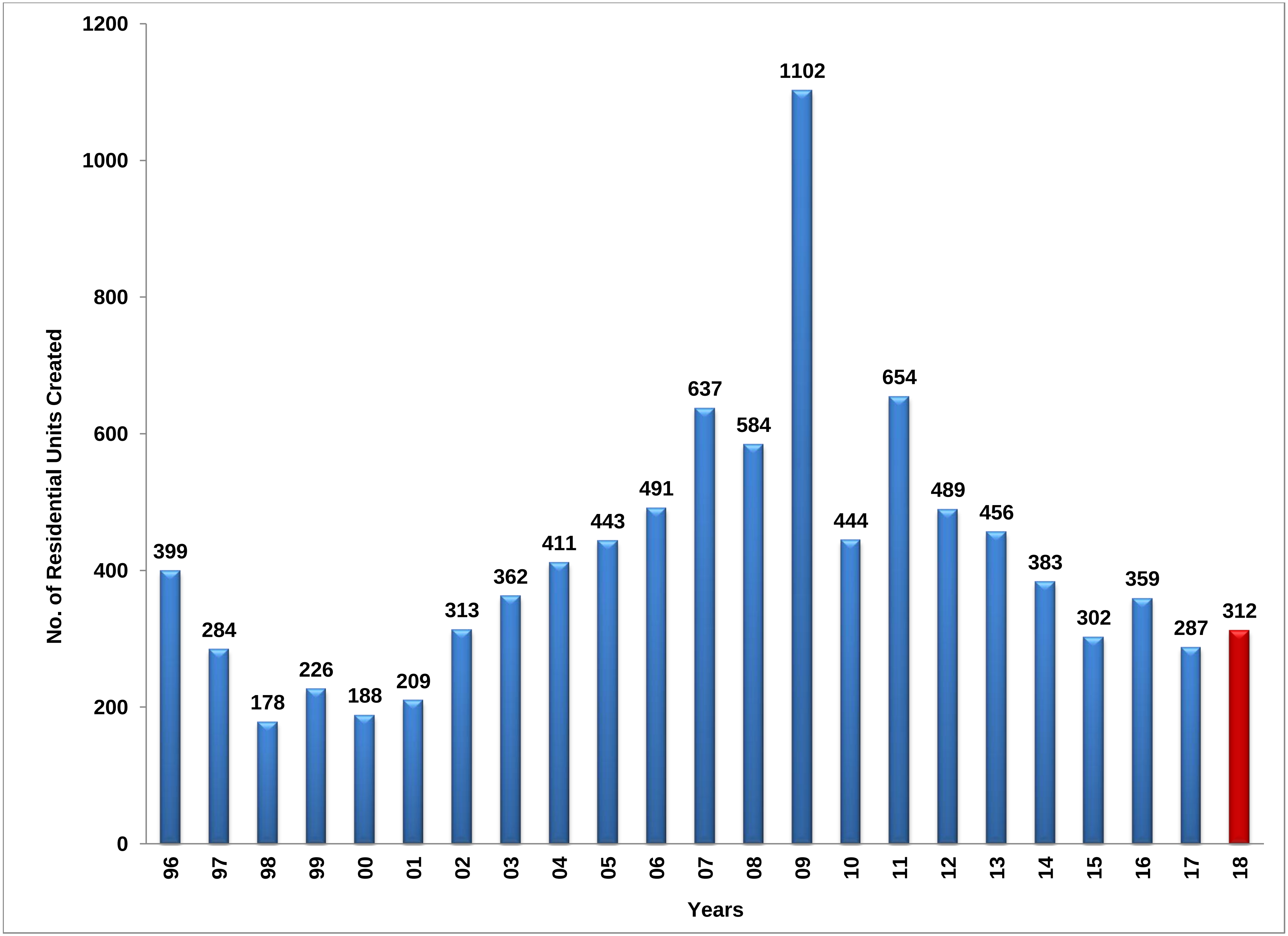
33.2M
96.M
149.3M
52.5M
86.1M
90.1M
68.7M
39.9M
93.M

Appendix B - Residential Unit Building Permits 1996 to 2018



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Economic Development Context for Development Charges Strategic Options

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Resolution

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Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

Greater Sudbury has many competitive advantages for attracting new businesses and investments while also supporting the startup and expansion of local entrepreneurs. This report outlines these advantages along with recent economic trends affecting the community, in order to provide additional perspective in the consideration of Development Charges and strategic alternatives.

Financial Implications

There are no financial implications associated with this report.

Development Charges and Economic Development

Summary

This report is to provide additional information and background from an Economic Development perspective in support of the Development Charges and Strategic Alternatives report requested by by the Finance and Administration Committee on March 26, 2019.

Generally speaking, the success of economic development is determined by striking an effective balance between attracting new investment and cultivating and expanding existing businesses. Greater Sudbury has the competitive advantage of having a clear economic driver—the mining and mining supply & services sectors—plus an innovation story that crosses multiple sectors. From an investment attraction point of view, this combination provides a solid foundation for attracting new businesses, and can be a key competitive advantage in a global investment attraction marketplace crowded with countless local, regional and national jurisdictions, many of which are not as well-equipped as Greater Sudbury.

Businesses and investors must consider many factors when making decisions about where to locate, including available talent, education levels, quality of life, supply chain & infrastructure, transportation, market access, operating and start-up costs, access to capital, business risks and support from local government and community. Development Charges are one factor in this larger picture, and research has indicated that in and of themselves, DCs are not generally an obstacle to a business's final decision on investment.

1. Association of Municipalities of Ontario (AMO) Briefing Note Relating to DCs Impacting Economic Development

Staff reviewed a briefing note prepared in 2013 by AMO (Association of Municipalities of Ontario) that outlines research compiled by the Association in response to concerns raised by stakeholders regarding development charges. These concerns suggested that:

- DCs are perceived as "high" because municipalities provide services at "gold plated" service levels that were not provided to existing residents.
- Residential DCs can increase the price of some kinds of housing.
- Non-residential and industrial DCs can make municipalities less economically competitive than they would be without DCs.
- Some growth-related capital should be paid for through property taxes

Listed below are key statements taken directly from the AMO briefing memo that are relevant to the review of DCs and impact on housing, development in our community and building construction costs. A link to the full document is included in the References listed at the end of the report.

- "Many factors influence the cost of housing. Land costs (supply and demand), construction costs, housing demand by type, real interest rates, availability of mortgage financing, speculation, income levels, consumer confidence, government regulations and broader economic conditions can all be significant drivers of house prices. One study that looked at a broad range of factors driving housing costs concluded that development charges represent a minor component of overall housing costs when compared to land and construction costs."

- “Many factors influence the affordability of new housing; it is not productive to isolate DC rates from the larger context of the economy, housing market and other influences on affordability.”

- “There does not appear to be any correlation between industrial construction activity and the development charge. An examination of the cost of land in selected municipalities does not seem to suggest any relationship to the development charge amount. The information gathered thus far would suggest that there is no correlation between the amount of development charges and location decisions.”

- “Statistical analyses have not identified any clear and direct linkage between the level of development charges and construction activity for non-residential development….Development charges are part of the overall project cost and locational decision, but rarely appear to be critical to the decision to locate in one municipality versus another. Each company’s decision is the result of an interplay of their own unique requirements, and market conditions…The municipality should consider its strengths and weaknesses with respect to the non-financial factors in competing municipalities (e.g. available well located serviced land, access to transportation, quality of life, cost and quality of labour), as these are often the most significant considerations in business location decisions.”

- “[T]he impact on location decisions is moderated by a number of more important criteria including: the relative location of customers, suppliers and employees, access to inter-regional expressways, local roads that can easily accommodate truck traffic, public transit access for employees, proximity to similar firms, attractive and visible sites, room for on-site expansion, and proximity to business services, restaurants and ancillary retail activities. The municipalities with lower development charges only benefit where there is a virtual saw-off among the other factors affecting industrial development decision making. Since development charges are a one-time charge they have little impact on the decision making of many industrial tenants except to the extent that the development charge may be capitalized in a tenant’s rent. The pattern of recent industrial development activity bears this out since some municipalities with high development charges have also high values of industrial building permits issued in recent years.”

- “There are costs of doing business in any community. If DCs were a major barrier, then we would expect to see higher rates of development in the communities that do not use DCs. The proposition that DCs could be a competitive disadvantage for a municipality can also be tested against no-residential building permit data for Ontario municipalities. The provincial Financial Information Return houses data on the number and value of building permits issued by municipality per year. Many municipalities with comparatively high non-residential charges issued many high value building permits for both residential and non-residential development in 2010. Brampton, for example, has the second highest charge in Peel Region and it has the fourth highest number of permits issued and third highest permit value in the Region.”

- “Overall, we could not find evidence indicating that current non-residential DCs are a barrier to economic development.”

- “The use of property taxes to fund growth-related capital was an issue the implementation of lot levies and DCs were meant to resolve. The adoption of DCs was intended, in part, to be an improvement upon the old way of doing things, when growth-related infrastructure was paid for out of general municipal taxation revenues. The pre-lot levy regime was seen as unfair to existing ratepayers and other municipal rates. Unit purchasers in newly developed areas, on the other hand, choose to locate in newly developed areas in full view of the costs."

- "American research has found impact fees (American version of DCs) to be more appropriate tools to fund growth –related capital than property taxes. Property tax revenues increasingly fail to cover the full costs of the infrastructure needed to service new development…Impact fees, like user fees, offer a more efficient way to pay for infrastructure than general taxes, and ensure benefits to those who pay them."

2. What Makes the City Attractive to Invest In?

Greater Sudbury is geographically the largest city in Ontario and the most populous in northern Ontario with over 160,000 residents. For more than 100 years, our economy has been rooted in the mining sector. Once dominated by operating mines and smelters, the sector has expanded to include the most dynamic mining supply and services cluster in the world, exporting Sudbury products, services and expertise. With an estimated 14,000 people employed in Greater Sudbury's mining supply and services sector at more than 300 mining supply firms producing $4 billion in annual activity, not to mention nine operating mines, two mills, two smelters and a nickel refinery, this city is arguably the hard rock mining capital of the world.

This is a community that understands and embraces mining and mineral processing, with more than 120 years of mining experience and significant talent in the field. Greater Sudbury has the expertise to ensure the smooth and efficient operations of the three global mining companies that call Greater Sudbury home – Glencore, KGHM, and Vale – collectively employing another 5,500 people.

The city is committed to environmental sustainability. Greater Sudbury is proud of its growing global reputation for environmental remediation and stewardship. The community continues to work in collaboration with the mining industry, government and academia to heal the landscape through longstanding regreening efforts.

Greater Sudbury is ideally located. Centrally located just 390 km north of Toronto, the city is a one-hour flight or four hour drive. Sudbury is the only place in northern Ontario where the Canadian National Rail and Canadian Pacific Rail main lines converge.

Greater Sudbury is no longer simply a mining community. It is home to Health Sciences North (HSN), northern Ontario's hub for health care. HSN is the city's largest employer with 3,900 employees and 250 physicians, handling over 500,000 patient visits per year. It is home to leading regional programs in the areas of cardiac care, oncology, nephrology, trauma and rehabilitation, making us the health and life sciences capital of northern Ontario.

With outstanding post-secondary institutions including Laurentian University, Cambrian College and Collège Boréal, Greater Sudbury has matured as the educational capital of northern Ontario. Laurentian University is Ontario's first designated bilingual university and the only one with a tri-culture mandate, home to the eastern campus of the Northern Ontario School of Medicine, the first school of architecture built in Canada in over 40 years, the Goodman School of Mines and the Bharti School of Engineering. Collège Boréal is the north's only French-language community college and has six satellite campuses, including Toronto. Cambrian College was recently named one of Canada's Top 50 Research Colleges, the only college in Northern Ontario to make the list. These institutions are providing training and education to more than 25,000 students, many of whom are moving here from communities across Ontario, Canada and, increasingly, from countries all over the world.

Greater Sudbury hosts the third largest French-speaking population in Canada outside of the province of Québec. A growing Indigenous population has elevated interest in traditions, values and creative expression; a complex ethnic mosaic representing every region of the world is embodied by the city's Bridge of Nations, with nearly 100 flags representing countries and nations that make up the diverse heritage and culture of our community.

Greater Sudbury is also the centre of retail activity for northeastern Ontario. In fact, the success of Sudbury's retail sector is a reflection of the city's historic position as a trading and service hub for the region. There are approximately 466,000 people living within a 160 km (100 mile) radius of Greater Sudbury. At the core of this retail hub is the city's retail nerve centre, the New Sudbury shopping district. This area encompasses the New Sudbury Centre, RioCan Centre, and the Silver Hills Centre. In total, this district includes close to 200 retail operations.

Complementing the hundreds of millions of dollars invested in Greater Sudbury since the late 1990s, the retail sector has continued to expand in New Sudbury in particular, with the establishment of such stores as Costco, Home Depot, Lowes, Best Buy and Chapters, to name just a few. Residents of communities up to 400 km outside of our area will visit Greater Sudbury due to these unique retail offerings. Investments such as these have served to solidify Greater Sudbury's position as the regional capital of northern Ontario. Greater Sudbury's retail sector is a shopping destination servicing an area that extends across the north east.

Tourism is an exciting part of the economy in Greater Sudbury with over one million visitors annually. Expansive and beautiful natural resources, including over 330 local lakes, along with world renowned attractions and vibrant arts and culture events draw guests to this region of Northern Ontario.

Film and Television productions also play an increasingly important role in local economic development, helping to attract more investment to the community annually. In 2018, Greater Sudbury attracted 15 productions, resulting in $35 million in local spending and over 580 days of filming.

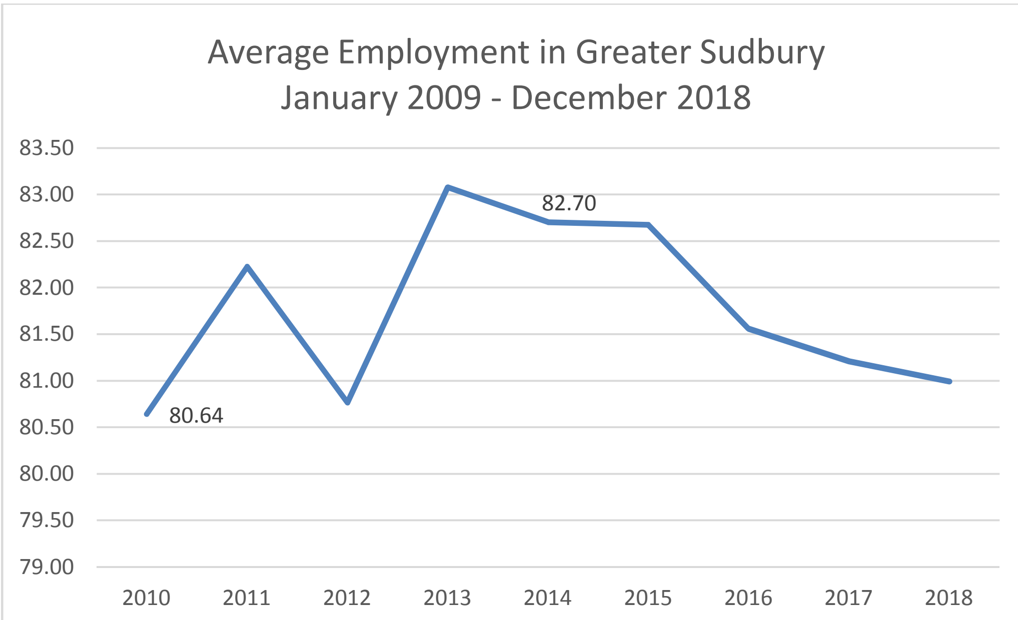
The wealth creation that will deliver jobs and economic prosperity for the city will come from the attraction and retention of entrepreneurs and businesses from elsewhere in Canada and internationally, and from the nurturing and development of startups and new businesses locally. Economic Development staff are working closely with other CGS departments in order to foster a more collaborative, holistic and team-based approach to attracting and supporting investment.

3. Past Economic Development Trends in the City

According to information provided by the Regional Business Centre, 2018 saw the launch of 60 new businesses.

Over the past decade, the Greater Sudbury economy has seen a degree of fluctuation, which can be attributed to global economic forces as well as the cyclical nature of the mining industry. To offset the challenges of the commodities cycle, an increasing number of Sudbury-based mining supply and services firms have been working to diversify their markets and reduce their dependency on local customers. This hard work has paid off in the form of increased export sales, which has contributed to employment growth.

As seen in the chart below, the number of people employed in Greater Sudbury has been in the range of approximately 81,000 to 83,000 in the last ten years.



Statistics Canada. Table null Labour force characteristics by census metropolitan area, three-month moving average, seasonally adjusted and unadjusted, last 5 months (x 1,000)

4. Available Land for Future Development

As part of the City's Official Plan Review process, a land supply analysis was undertaken in 2013 as part of a *Growth and Settlement Policy Discussion Paper*. This study found that there is a more than sufficient supply of draft approved and designated employment lands to meet the projected demand over the next 20 years. This supply included approximately 795 hectares of vacant designated industrial lands, 108 hectares of vacant designated commercial lands, 175 hectares of land in four draft approved industrial subdivisions and 160 hectares of vacant industrial lots. It should be noted that this analysis only included vacant properties and did not include expansion opportunities on existing developed properties.

5. Do DCs Impact Economic Development?

As noted previously, the Association of Municipalities of Ontario (AMO) published a report that looked at the effect of non-residential and industrial DC's and whether or not they can make municipalities less economically competitive than they would be without DCs.
The report determined that there is a lack of evidence indicating that current non-residential DC are a barrier to economic development. The report noted that a large body of literature has been devoted to investigating how firms make locational and business expansion decisions and the consensus is that factors such as the quality of services and infrastructure, access to transportation, quality of life, cost

and quality of labour among others, appear to be much more significant when firms make locational decisions. The report also noted that if DCs were a major barrier, then it would be expected that higher rates of development would be seen in communities that do not have DCs. It found that many municipalities with comparatively high non-residential DCs issued many high value building permits for both residential non-residential developments in 2010.

There is one example that staff is aware of where one business decided to invest in North Bay as opposed to Sudbury. In the fall of 2018, the Economic Development team was working to attract a steel fabrication firm to Sudbury, however they chose to establish in North Bay instead. In outreach to the company following this outcome, staff noted that

- The primary reasons cited for their decision were the lower cost of serviced industrial land in North Bay's municipally-owned industrial park, as well as lower labour costs.
- The cost of serviced M3 land in Greater Sudbury typically sells for $275,000-$350,000/acre, compared to serviced industrial land in the city-owned Airport Industrial Park at $40,000 - $60,000/acre in North Bay.
- The firm indicated that development charges were not a significant factor in the decision, but that they would have added to the already higher initial capital expenditures required to establish in Sudbury compared to North Bay.

Economic Development staff remain focused on attracting investment to Greater Sudbury with particular focus on the Industrial, Commercial and Institutional development sector, and continue to reach out to the development community and monitor the research available to support.

Conclusion

Businesses and investors must consider many factors when making decisions about where to locate. While Development Charges remain an important factor in the decision making process for investment, research indicates that they are not generally seen as the final determinant in business location and investment decisions.

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