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.