Staff Report

To	**City Council**
Service Area	Corporate Services
Date	Wednesday, July 19, 2023
Subject	**2023 Development Charge Background Study Update**

Recommendation

That the 2023 Development Charge Background Study Update report dated July 19, 2023 be received for information.

Executive Summary

Purpose of Report

The City of Guelph is in the process of updating its by-law under the authority of the Development Charges Act, 1997. Development Charges (DCs) help fund the capital costs to accommodate growth. The current by-law will expire on March 2, 2024. The City must complete a Development Charges Background Study (DCBS) and adopt a new by-law to continue to collect DCs beyond the expiry date.

This report will provide an update on the 2023 Development Charge Background Study (DCBS) and provide analysis of the impacts of the recent amendments to the Development Charges Act. This preliminary review enables the opportunity for staff to hear from Council and incorporate any feedback prior to the final DCBS being presented for the statutory public meeting later this year. Work on the DCBS will continue throughout the summer with the final proposed study to be released in October 2023. This is an early look at the work done so far to invite feedback from Council and the community that can be incorporated through the final phase of the study.

The More Homes, Built Faster Act, 2022 (Bill 23) amended the Development Charges Act. This amendment further limits the amount of DCs Guelph can collect at the same time the City is trying to create more housing in alignment with the Housing Pledge and the City's Strategic Plan.

Key Findings

Before houses, apartments, shopping centers, offices, and industrial parks are built, they need infrastructure to support them. Building permits cannot be issued unless the City deems the development as having the appropriate servicing infrastructure capacity in place to handle the new population / business. DC revenue is one of the primary capital revenue sources used by the City to build this necessary infrastructure to unlock new housing and business development.

The DCBS outlines a capital program costing $1.85 billion over the next 10-year by-law period to accommodate growth.

- $833 million is designated as fundable through DCs during the by-law period plus an additional $267 million of DCs designated as post-period benefit.
- $747 million is designated to be funded by the tax base, rate revenue, or other non-DC sources due to costs being non-growth related.

Due to infrastructure needing to be built before growth occurs and DCs are collected, the estimated DC collections from growth will be less than the DC eligible costs over the by-law period. Prior to considering any collection exemptions and discounts, the City will collect an estimated $760 million over the by-law period. However, the City will have an estimated $227 million in new mandatory discounts due to Bill 23 over the by-law period. While now required under Bill 23, the City had already exempted accessory dwelling units from DCs under the City's By-law. The estimated cost of the accessory dwelling unit exemptions is $34 million over the by-law period (included in the $227 million estimate). While parkland dedication and community benefits charges were also impacted by Bill 23, the scope of this estimate only includes DCs.

At this time, regulations have not yet been released to put into effect the affordable and attainable housing exemptions. A delayed implementation of these regulations will delay the impact of these exemptions on the City's tax and rate funded budgets. More work is required to understand the timing and staff will provide recommendations to phase-in the cost of exemptions through the multi-year budget process.

Strategic Plan Alignment

The DCBS supports the strategic theme of City Building in Council's updated strategic plan by helping the City improve housing supply. The DCBS supports the required DC by-law update to enable the continued DC revenue generation to support growth-related capital infrastructure needs. The DCBS also identifies funding gaps in the City's growth revenues to support planning. The updated by-law will be aligned with the updated Development Charges Act (post Bill 23).

Financial Implications

The recent amendments to the Development Charges Act create an estimated mandatory fiscal gap of $227 million over a 10-year period for the City in addition to exemptions previously included in the City's by-law (both mandatory and discretionary). Without an alternate funding source, growth-related infrastructure will need to be deferred, slowing the pace of growth overall.

The City's Debt Management Policy caps "Direct debt to operating revenue" at 55 per cent. As mentioned in Report 2023-159 - 2022 Long-term Financial Statement: Reserves and Debt, the City was at 29.8 per cent of its debt limit at the end of 2022. This means that the City could borrow an additional $105 million before reaching its debt limit. Further analysis on cashflow year-to-year is required and will be presented with the final DCBS later this year.

Report

The City is in the process of updating its by-law under the authority of the Development Charges Act, 1997. DCs help fund the capital costs to accommodate growth. The current by-law will expire on March 2, 2024. The City must complete a DCBS and adopt a new by-law to continue to collect DCs beyond the expiry date.

Work on the DCBS will continue throughout the summer with the final proposed study to be released in October 2023. This is an early look at the work done so far to invite feedback from Council and the community that can be incorporated through the final phase of the study.

Capital Program

The DC capital program was developed in alignment with Council-approved master plans.

The DCBS must include a list of projects to be funded in part or in full by DCs. The list must include estimated costs and estimated dates, but the DCBS is not a budget, it is a revenue generation tool. While staff make every effort to align the DCBS and the capital budget and forecast, it is recognized that changes may occur through the budget process, and this does not impact the integrity of the DCBS.

Staff will refine the timing of the capital projects through the 2024-2033 capital budget and forecast for Council consideration later this year. Staff are evaluating human resource capacity to execute these works and the fiscal capacity to fund these works.

For more information on the DCBS capital program, please see Attachment-1: Gross Expenditure and Sources of Revenue Summary.

Growth Forecast

The capital program was developed to support the City's forecasted growth.

The DCBS forecasts 24,900 new housing units and 48,900 new people joining our community from 2023 to 2051. This forecast is in alignment with OPA 80. The majority of the population growth is projected to be accommodated in the four areas below:

- Clair Maltby Secondary Plan Area: 15,615 people
- Downtown Secondary Plan Area: 12,100 people
- Guelph Innovation District Secondary Plan Area: 6,500 people
- Dolime Quarry Area: 5,000 people

The housing mix is predominantly more dense forms of housing with apartments comprising of over 60 per cent of the new units. See the table below for more details on the projected unit types.

Table 1: Projected Residential Units by Housing Type

Timing	Singles and Semi-Detached	Multiples	Apartments	Total
2023 to 2033	1,440	3,360	7,760	12,560
2023 to 2051	2,020	6,580	16,340	24,940

The DCBS forecasts 30,300 new jobs and 16.7 million square feet of new gross floor area in the City from 2023 to 2051. See the table below for more details on the projected square footage of each development type.

Table 2: Projected Non-Residential Square Footage by Development Type

Timing	Industrial	Commercial	Institutional	Total
2023 to 2033	3,049,200	2,224,000	1,906,700	7,179,900
2023 to 2051	7,084,000	5,014,700	3,975,100	16,073,800

Draft DC Rates

The draft DC rates show increases from 41 to 68 per cent from the current rates to fund the capital program and support growth.

DCs are applied to new developments when building permits are issued. Charges are applied on a per unit basis for residential developments and a square footage basis for the non-residential developments. Charges vary for residential units based on average number of people that occupy the respective type of unit. Below is a table of the current DC rates, the first year of the mandatory phase-in rate and calculated rates by development type. These updated rates keep Guelph within the middle of the price range when considered against the comparator municipalities.

Table 3: Draft DC Rates by Development Type

	Singles and Semi-Detached	Multiples	Apartments 2 bedrooms +	Apartments Bachelor and 1 Bedroom	Non-Residential
Current Rate	$47,839	$35,251	$26,547	$18,979	$16.24
Phase-In Rate (20 per cent discount)	$55,122	$39,692	$32,998	$24,182	$21.80
Calculated Rate	$68,902	$49,615	$41,248	$30,227	$27.25
Percentage Increase	44%	41%	55%	59%	68%

Development Charges Act Amendments (Bill 23)

The City engaged in a DC By-Law update in 2021 to accommodate legislative changes made after the previous by-law was passed by Council in 2018. The most recent amendments to the Development Charges Act came through the More Homes, Built Faster Act, 2022 (Bill 23).

Here is a summary of the impacts of the recent changes:

- Removes housing services as a DC eligible service.
- Removes certain studies as an eligible cost.
- Removes land as an eligible cost for some services (though the exemption is not currently in force and regulations have not yet released).
- Extends maximum by-law expiry date from five years to 10 years.

- Creates mandatory phase-in of rates over a five-year period where the discount starts at 20 per cent and decreases by five per cent per year.
- Creates exemptions for affordable residential units and attainable residential units (regulations not yet released), for non-profit housing developments and for inclusionary zoning residential units (inclusionary zoning residential units were already exempted per the City's by-law).
- Provides discounts for rental housing development by a percentage based on the number of bedrooms.

DCs provide the means for municipalities to build the infrastructure that new housing requires. With more limited funding to build infrastructure, housing will be built slower. Slower housing construction will likely exacerbate existing housing cost issues as supply continues to lag demand.

The new exemptions also create significant administrative complexity. It is unclear how a municipality would monitor if a unit remained affordable or attainable for 25 years and how a municipality would enforce its agreement with the developers of such units if it found the unit is no longer affordable or attainable. More clarity on this may be provided through forthcoming regulations. It is staff's understanding that a municipal-provincial working group has been initiated to inform the regulation development, and specifically to help define attainable and affordable housing the DC context.

DC By-law

Due to the changes in the Development Charges Act with the legislated expiry moving to a 10-year update cycle, staff will be recommending moving to a parent-child by-law format where the general terms of the by-law are in the parent by-law and the rates for each service are in separate child by-laws. The objective is to give Council flexibility to update the rates for specific services when deemed necessary while protecting the balance of DC revenues from restarting the new mandatory phase-in program for all services.

Next Steps

Staff will incorporate feedback from this preliminary review of the DCBS, as well as continuing refinements to the capital program. The mandatory public meeting to review the DCBS will be held in October 2023. Council consideration and approval of the DC By-law will be held in January 2024.

Staff are also analyzing the benefits and drawbacks of an area-specific charge for the Clair-Maltby Secondary Plan area to bring forward for consideration in October. From a qualitative perspective, there are benefits and drawbacks for area specific charges. The benefit is that it more closely follows the "growth pays for growth" principle through the lens of the Developments Charges Act. It also makes it easier to enter into alternative DC collection agreements (i.e., front-ending agreements). The drawbacks are that area specific charges are more administratively complex to collect and create financial uncertainty in a high-inflationary environment. They also require dedicated reserve funds which limits flexibility to build infrastructure quickly.

At that time, further analysis, and reporting on the level of debt or other front-ending development financing expected over the next 10 years will be included for information. Front-ending may be an option and may be necessary, but staff have more work to do to understand how front-ending interacts with established debt limits and potential risks including front-ending in a high inflation environment.

Financial Implications

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Due to infrastructure needing to be built before growth occurs and DCs are collected, the estimated development charge collections from growth will be less than the DC eligible costs over the by-law period. Prior to considering any collection exemptions and discounts, the City will collect an estimated $760 million over the by-law period. However, the City will have an estimated $227 million in new mandatory discounts due to Bill 23 over the by-law period. While now required under Bill 23, the City had already exempted accessory dwelling units from DCs under the City's By-law. The estimated cost of the accessory dwelling unit exemption is $34 million over the by-law period (included in the $227 million). The estimated impact of all non-Bill 23 related exemptions over the next 10 years is $5 million based on the actual prior three-years' experience.

The Development Charges Act contains several mandatory exemptions and discounts, including those introduced through Bill 23 and others that existed prior to Bill 23. In addition to the now mandatory phase-in of new DC rates over five years, mandatory exemptions include:

- Less than 50% industrial expansion
- Accessory units
- Affordable units
- Attainable units
- University use
- Non-profits
- Rentals

The City has additional discretionary exemptions included in the DC by-law, as follows:

- Religious institutions
- Parking structures
- Hospitals
- Temporary structures

At this time, regulations have not yet been released to put into effect the affordable and attainable housing exemptions. A delayed implementation of these regulations will delay the impact of these exemptions on the City's tax and rate funded budgets. More work is required to understand the timing and staff will provide recommendations to phase-in the cost of exemptions through the multi-year budget process.

The City's Debt Management Policy caps "Direct debt to operating revenue" at 55 per cent. As mentioned in Report 2023-159 - 2022 Long-term Financial Statement: Reserves and Debt, the City was at 29.8 per cent of its limit at the end of 2022.

This means that the City could borrow an additional $105 million before reaching its debt limit, but this includes both DC funded debt and tax and rate supported debt required to further the infrastructure renewal and service enhancement capital programs. Further analysis on cashflow is required and will be forthcoming as part of the package to be brought to Council in October and as part of the 2024-2027 multi-year budget process.

Impact of Bill 23

The estimated impacts of the changes to the Development Charges Act through Bill 23 for the 10-year period that the by-law will be in effect are outlined below.

As mentioned above, there is a risk that land will become ineligible. At this time, the risk is assessed as low.

Table 4: Impact of Bill 23 by Change

Change	Impact
Five-year Mandatory Phase-In	$38,000,000
New Exemptions	$134,000,000
Growth Studies	$9,000,000
Purpose Built Rental Discounts	$12,000,000
Accessory Dwelling Units*	$34,000,000
Total	$227,000,000

*While the City’s existing by-law provides exemptions for accessory dwelling units, the exemption is now mandatory under Bill 23.

This report does not cover the financial impact of Bill 23 on parkland dedication and community benefits charge collections.

Exemptions are funded from both property taxes and utility rates, and recommendations for increasing tax and rate funding for exemptions will be forthcoming as part of the multi-year budget.

Consultations

Staff engaged a Peer Review group to get feedback on elements of the DCBS.

Following the very successful approach of utilizing a Peer Review group to engage and consult on past DCBS updates, staff initiated a new group late last year. The group is comprised of private citizens, community representatives, developer representatives, and a Council representative. In partnership with Watson and Associates, the City’s DCBS consultant, the City hosted four sessions from November 2022 to June 2023. Topics covered included impacts of Bill 23, growth projections, historic service levels, local service policy, front-ending agreements, public engagement, draft DC rates, and the capital program.

Finance is working with Strategic Communications and Community Engagement to execute a Communications and Engagement Plan that will see the City offer education-focused engagement as the next phase of the DCBS. Communications will be developed to support both the release of the draft DCBS and the by-law to follow through a strategic mix of traditional communications tools like a media release in addition to digital and social media tactics beginning in July 2023 and extending into 2024.

Attachments

Attachment-1 Gross Expenditure and Sources of Revenue Summary for Costs to be incurred over the Life of the By-law (10 years)

Attachment-2 Development Charges Background Study – Draft

Attachment-3 Presentation of Draft Development Charges Background Study

Departmental Approval

Shanna O'Dwyer, Manager, Financial Strategy and Long-Term Planning

Report Author

Kevin Yaraskavitch, Senior Corporate Analyst, Financial Strategy

This report was approved by:

Tara Baker
General Manager, Finance and City Treasurer
Corporate Services
519-822-1260 extension 2084
tara.baker@guelph.ca

This report was recommended by:

Trevor Lee
Deputy Chief Administrative Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca