



Meeting Date: May 1, 2024

Prepared By: Tiffany Farrell, Director of Corporate Services

Report No: CPS-24-2024

Subject: Development Charge Study 2024 - Options and Direction

Recommendation:

THAT report CPS-24-2024, Development Charge Study 2024 – Options and Direction be received;

AND THAT the other non-residential development charge be calculated using the uniform method;

AND THAT there is no exemption provided for industrial development types as part of the 2024 Development Charge Study;

AND THAT staff be directed to update the Community Improvement Plan for 2025 to include a Development Charge grant related to industrial development types;

AND THAT staff are directed to provide an exemption for Agricultural development types in the 2024 Development Charge Study at 25% for Protection and services related to a highway, and 100% for parks and recreation;

AND FURTHER THAT staff be directed to continue working with Watson & Associates on definitions for exclusions for specific Agricultural development types that do not result in incremental service demands for the Development Charge Study.

Purpose:

To provide council the findings and updated timelines for the preparation and adoption of a new Development Charges By-Law. This will include information that is needed which involves different options for the calculation of the other non-residential development charge as well as options for exemptions. In addition, present to Council options on agricultural exclusions from development charges.

Background:

Development charges are fees levied by municipalities to help cover the costs associated with infrastructure and services required due to new development/growth. These charges typically fund the construction or expansion of infrastructure like roads, sewers, water systems, parks, and community facilities. The purpose of DCs is to ensure that new development contribute their fair share toward the necessary infrastructure improvements to support growth.

Middlesex Centre hired Watson & Associates Economists Ltd (Watson) in December 2023 to complete the 2024 DC Background Study and associated by-law(s) as per Report, CPS-56-2023.

Watson & Associates has previously completed the municipality's 2009, 2010, 2014 and 2019 DC background studies as well as the 2017 and 2021 DC by-law amendments. Middlesex Centre has chosen to continue to work with one consulting company with respect to the DC background studies, by-laws, and by-law amendments as they bring consistency, have a vast knowledge of Middlesex Centre's assets and growth, and are well-respected in their field. Watson & Associations has also completed the municipality's growth studies in the past.

Municipal staff and Watson & Associates have been diligently working on the information required to complete the study and by-law(s) since January 2024. Staff have held multiple meetings with Watson & Associates and provided all documentation required.

The draft information was presented by Watson & Associates in Council on March 20, 2024, based on the work completed to date. It is important to note that the information used to complete the draft findings is based on the municipality's master plans, budgets, growth forecasts, prior DC studies, and other supporting information.

Middlesex Centre's current development charge By-law expires July 17, 2024; therefore, a new By-law will need to be approved before this date.

Analysis:

With the Province of Ontario recently releasing Bill 185, Cutting Red Tape to Build More Homes Act, 2024, staff and our consultants need additional time to review options and complete analysis of the proposed changes and impacts that will affect our 2024 DC Study. At this time, we are waiting on this bill receiving royal assent and readjusting the timeline to give more time for approval of the bill so the changes related to Development Charges can be included in the 2024 Development Charge Study. The timeline has been updated below. Analysis on Bill 185 from Watson & Associates is included in Appendix A1.

Final Draft Report – week of April 29, 2024 (updated from April 1, 2024)

- Report will be reviewed by staff and comments sent back to Watson & Associates by May 6, 2024.

Final Report (DC Background Study and DC Bylaw) – posted on the municipal website May 8, 2024 (updated from April 19, 2024)

Public Meeting – May 22, 2024 (updated from May 15, 2024, due to change in Council dates)

- Council and the public will have an opportunity to ask questions and provide comments.
- Staff will present a report with information and feedback received from the public prior to the meeting.

Final Study and By-law(s) – July 10, 2024, which will be a special meeting of Council (updated from June 19, 2024)

Direction Requested

Staff are requesting Council provide direction on the following information for the Development Charge Study:

1. Exemptions for Discretionary/non-statutory exemptions
2. Non-residential development charge calculation - Differentiated or uniform calculation

Additionally, staff will be outlining the process to review exclusions from the Development Charge Study for Agricultural development.

Exclusions

Staff have been working diligently with the consultant on excluding certain types of agricultural development from the DC Study entirely. An exclusion would be applied to certain agricultural development types that do not result in incremental service demands and therefore the DC is not applicable.

1. Adding a definition of agriculture to exclude buildings which house feed, bedding, manure and equipment that support a livestock or cropping use on that property. This exclusion would apply to grain bins, silos, and drive sheds. This definition would still require uses such as commercial grain/corn handling sites and sites for farm trucking operations to pay DCs.
2. In the definitions for ag buildings, staff are reviewing implementing a cap on development charges to account for large farm buildings. Staff are working with the consultants on a reasonable size cap to implement.

Staff are recommending that exclusions for certain agricultural development types make up part of the Agricultural use definition of the DC Study and By-Law, in addition to a cap of the development charge related to the size of the building.

Exemptions

Development charge exemptions in Ontario refer to specific instances where certain developments or projects are exempted from paying DCs. Understanding and describing DC exemptions is crucial for developers, municipalities, and individuals involved in the planning and execution of projects in Middlesex Centre.

All exemptions (Statutory and Discretionary) have to be funded by the Municipality.

Types of Exemptions

In Ontario, DC exemptions can fall into the following categories:

Non-Statutory: Municipalities can establish policies that exempt certain types of developments from DCs. Middlesex Centre has two non-statutory exemptions that were included in the 2019 DC Study:

1. Agricultural Development – 77%/89%/100% exemption. In the 2019 DC Study, Council approved a resolution to exempt agricultural development to the same level of the 2014 study, which resulted in a 77% exemption for fire protection, 89% exemption for roads, and 100% exemption of public works, parks and recreation, and major studies.
2. Industrial Exemption – 60% exemption. In the 2019 DC Study, Council approved a resolution to exempt 60% of the DC for industrial development to provide an incentive for industrial development coming to Middlesex Centre. This was consistent with the 2014 DC Study.

Benefits and Implications of DC Exemptions

DC exemptions offer various benefits and implications for developers and communities.

Some benefits include:

1. Incentivizing Development: Exemptions can incentivize certain types of developments by reducing the financial burden on developers. This can lead to increased investment in affordable housing, community infrastructure, or other projects that provide public benefits. Additionally, it can encourage industrial and commercial growth with corresponding benefit of balancing tax base.
2. Promoting Affordable Housing: DC exemptions can play a crucial role in promoting affordable housing initiatives. By waiving or reducing DCs, municipalities encourage the creation of affordable housing options, making them more economically viable.

Some implications include:

1. Impact on Municipal Revenue: DC exemptions can have implications for municipal revenue. When exemptions are granted, the waived fees no longer contribute to the municipality's revenue stream. This may necessitate the exploration of alternative funding sources or adjustments to the municipal budget to ensure the continued provision of essential services and infrastructure.
2. Impact on Municipal Expenses: Shortfalls caused by DC exemptions need to be funded by the municipality.
3. Limitations and Conditions: DC exemptions are subject to limitations and conditions to ensure they are applied appropriately, and this is an administrative burden.

Options for Exemptions for 2024

Industrial

1. Exempt Industrial Development by 60%
2. Exempt Industrial Development 100%
3. No Exemption for Industrial Development in the DC Study and incorporate DC exemptions into an amended Community Improvement Plan (CIP) for 2025.

The table below shows the current calculated Industrial Development Charge and the option for a 60% exemption.

Service/Class of Service	Industrial (per sq.m. of G.F.A.)	
	Calculated	60% Reduction Option
Municipal Wide Services/Classes:		
Services Related to a Highway	\$ 21.96	\$ 8.78
Fire Protection Services	\$ 6.29	\$ 2.52
Parks & Recreation Services	\$ 4.36	\$ 1.74
Total Municipal Wide Services/Classes	\$ 32.61	\$ 13.04
Urban Services		
Wastewater Services	\$ 71.37	\$ 28.55
Water Services	\$ 24.89	\$ 9.96
Total Urban Services	\$ 96.26	\$ 38.50
Grand Total - Urban Area	\$ 128.87	\$ 51.55

Staff are recommending that there be no exemption for industrial development types in the Development Charge study. Rather, staff are recommending that any industrial property exemption from development charges be done so through an open and transparent process that are approved by Council as part of the CIP. This will result in all DCs being funded by the property tax levy and user fees are specifically approved by

Council on a case-by-case basis. This ties directly to objective 1.2 in the Municipality’s strategic plan, specifically, by developing a long-term vision for each settlement area and considering Community Improvement Plan incentives to encourage their revitalization by expanding the Community Improvement Plan to industrial development. This change would be implemented in 2025.

Agricultural

1. Exempt Agricultural Development by 25% for protection and services related to a highway, and 100% exemption for parks and recreation.
2. No Exemption for Agricultural Development in the DC Study.

The table below shows the current calculated Agricultural Development Charge and option 1 from above.

Service/Class of Service	Agricultural (per sq.m. of G.F.A.)	
	Calculated	Partial Exemption Option ¹
Municipal Wide Services/Classes:		
Services Related to a Highway	\$ 21.96	\$ 16.47
Fire Protection Services	\$ 6.29	\$ 4.72
Parks & Recreation Services	\$ 4.36	\$ -
Total Municipal Wide Services/Classes	\$ 32.61	\$ 21.19

¹ Includes at 25% reduction for Services Related to a Highway and Fire Protection Services, and a full reduction for Parks & Recreation Services

Staff are recommending that option 1 is selected and that the Municipality exempt agricultural development by 25% for protection and services related to a highway and 100% exemption for parks and recreation. Additionally, staff are recommending that specific agricultural development be excluded from the DC study based on the updated and expanded definition as outlined in the exclusion section above, in addition to a cap on the DC based on the size of the building.

Exemption Summary

As the above exemptions are non-statutory exemptions, Council can define an agricultural/industrial use as broadly or narrowly as they see fit, as discussed above in the exclusions section.

It is important to remember the lost revenue resulting from DC exemptions will need to be funded by the tax levy and/or water/wastewater rates as appropriate.

Once Council provides this direction and the DC study and by-law are approved, staff will be preparing a new DC exemption policy and associated tax levy supported reserve fund in 2024.

Differentiated Charge vs Uniform Charge

Two options for calculating non-residential development charges are being considered as part of the 2024 DC Background Study. The first option maintains a uniform rate calculation methodology for all non-residential development, which is consistent with the Municipality's historical practice. The second option calculates separate DCs for Agricultural, Industrial, and Other Non-residential (i.e. commercial and institutional) development types, based on the anticipated capital needs and development densities. The results of these two calculation options and impacts were summarized in the 2024 DC Draft Findings Information Package and presented by Watson at the Council Workshop on March 20th.

Staff are recommending that the non-residential development charge be calculated using the uniform method.

Development Type	Non-Residential (per sq.m. of G.F.A.)	
	Uniform Rate	Differentiated Rate
Industrial		
Municipal-wide Services	\$ 32.61	\$ 29.97
Water & Wastewater	\$ 96.26	\$ 73.15
Total Industrial	\$ 128.87	\$ 103.12
Agricultural		
Municipal-wide Services	\$ 32.61	\$ 11.13
Water & Wastewater	\$ -	\$ -
Total Agricultural	\$ 32.61	\$ 11.13
All Other Non-Residential		
Municipal-wide Services	\$ 32.61	\$ 66.16
Water & Wastewater	\$ 96.26	\$ 159.99
Total All Other Non-Residential	\$ 128.87	\$ 226.15

Financial Implications:

Tax levy impact for 2024 to 2034 will depend on the DC exemptions decided by Council. The cost of the non-statutory exemptions from the 2019 DC Study are \$2,266,284.29 from July 2019 to December 2023, while the cost of the statutory exemptions was \$208,886.43. The cost for 2024 and beyond is unknown at this time.

Summary

Staff are recommending the following updates for this Development Charge Study as outlined above:

- The non-residential development charge be calculated using the uniform method.
- No exemption is offered for industrial types.
- A 25% exemption for agricultural development for protection and services related to a highway and 100% exemption for parks and recreation.

Changes to the definition of agricultural development charges Strategic Plan:

This matter aligns with following strategic priorities:

- Responsive Municipal Government

This report responds to the legislative requirement under the Development Charges Act and additionally it responds directly to Objective 5.3– Foster a culture of innovation, continuous improvement, and cost-effective services by sharing information and gathering input, by continuing our timely and effective communication to the public.

- Sustainable Infrastructure and Services - Objective 4.3 – Continue with our asset management plan and apply a financial sustainability lens to all municipal assets and infrastructure.

By communicating our approach to capital projects and communicating clearly with the public on capital spending priorities in terms of costs, benefits, funding sources and timing.

- Sustainable Infrastructure and Services - Objective 4.2 – Expand existing services in accordance with the pace of new development and apply a financial sustainability lens to all municipal services and programs.

By analyzing and projecting the operating cost impacts of new residential development.

- Engaged Community - Objective 1.2 – Enhance the vitality of our villages by developing a long-term vision for each settlement area and considering Community Improvement Plan incentives to encourage their revitalization.

By expanding the Community Improvement Plan to promote and support revitalization of settlement areas throughout Middlesex Centre and expand the range of incentives offered to businesses and landowners in that plan.

Attachments:

A1 Assessment of Bill 185, Cutting Red Tape to Build More Homes Act, 2024