

Development Charges and Cost of Growth Analysis – Town of Whitby Case Study



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Overview

- The focus of today's sessions is to provide an overview of the recent updates Development Charges Act using the Town of Whitby as a case study
- We will discuss:
 - What are development charges?
 - What are the requirements of the legislation?
 - DCs in the Town of Whitby
 - Key objectives of DC Background Study
 - Cost of Growth (COG) Analysis
 - Town experience
 - Conclusions
 - Key Takeaway

What Are Development Charges?

- Fees imposed on new development to finance “development-related” capital costs
- Pays for new infrastructure and facilities to maintain service levels
- Principle is “growth pays for growth” so that financial burden is not borne by existing tax/rate payers
- In reality, development charges cannot fully fund growth due to statutory limitations

Other Municipal Revenue Sources

- Direct Developer Contributions
 - Infrastructure required as part of a subdivision agreement
 - i.e. internal roads, sidewalks, streetlights, small water/sewer mains, park elements etc.
- Property Taxes and Utility Rates
 - Long-term repair and replacement of infrastructure
 - Statutory and non-statutory reductions on DCs
 - Ineligible infrastructure
- Federal and Provincial grants
- Debt

Overview of the *Development Charges Act (DCA)*

- A background study and public process are required
- A by-law must be enacted and has a maximum life of 5 years
- Restriction on services that can be included and the level of growth-related capital costs recovered
- Charges can be municipal-wide and area-specific
- Dedicated reserve funds are required
- Credit and “front-ending” agreements are permitted

Amendments to the DCA and Associated Regulations

- Waste collection and treatment now eligible
- Asset Management Plan (AMP) must demonstrate that assets are “*financially sustainable*” over their full lifecycle
- Longer consultation period – DC Background Study made available 60 days prior to the passage of a DC By-law
- Additional reporting requirements
- Transit services are no longer subject to a 10% reduction and based on a “*planned*” level of service

Overview of the *DCA*: Ineligible Services

- The *Development Charges Act* does not allow for the inclusion of:
 - Cultural and entertainment facilities, including museums, theatres and art galleries
 - Tourism facilities including convention centres
 - Parkland acquisition
 - Hospitals
 - Headquarters for general administration of municipalities and local boards
 - Landfill sites and solid waste incineration facilities*

*As amended by Bill 73

Overview of the DCA: Eligible Services

- Eligible capital costs:
 - Costs to acquire and improve land (including leasehold interest in land)
 - Building and structure costs
 - Rolling stock with a useful life of 7 years or more
 - Furniture and equipment, excluding computer equipment
 - Development-related studies
 - Interest and financing costs

Eligible Services: 100% Cost Recovery

Service	Statutory Maximum Planning Period
Roads & Related	Build-Out
Public Works (Buildings & Fleet)	Build-Out
Water	Build-Out
Sanitary Sewer	Build-Out
Stormwater Management	Build-Out
Protection Services (Police & Fire)	Build-Out
Transit*	10-years

* Transit is now eligible for a forward-looking 10-year service level & funding envelope, and is 100% cost recoverable

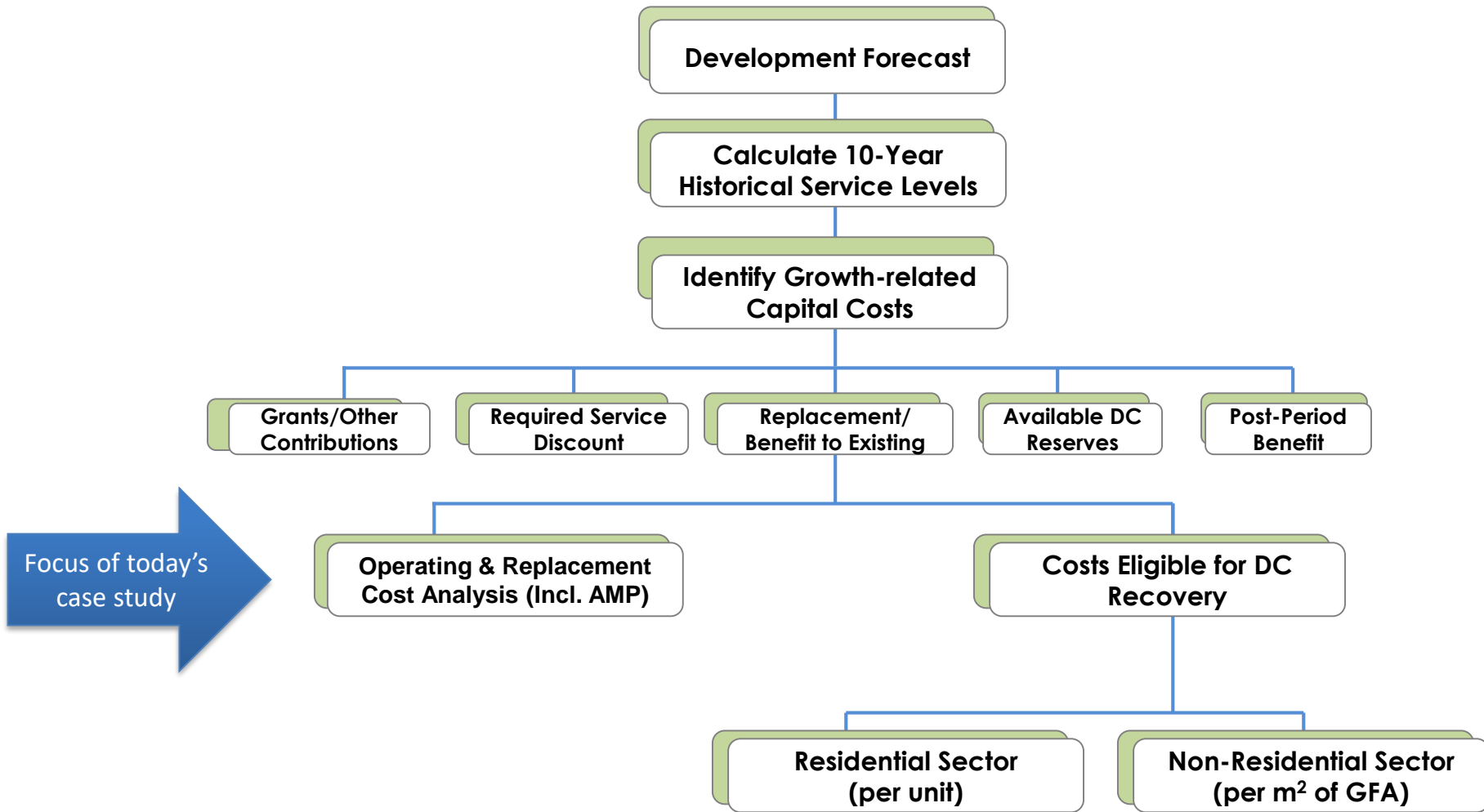
Eligible Services: 90% Cost Recovery

Typical Services (note defined by DCA)	Statutory Maximum Planning Period
General Government	10-years
Library	10-years
Parks and Indoor Recreation	10-years
Child Care	10-years
Social Housing	10-years
Transit	10-years
Paramedic Services	10-years
Long Term Care	10-years
Municipal Parking	10-years

DC Collection

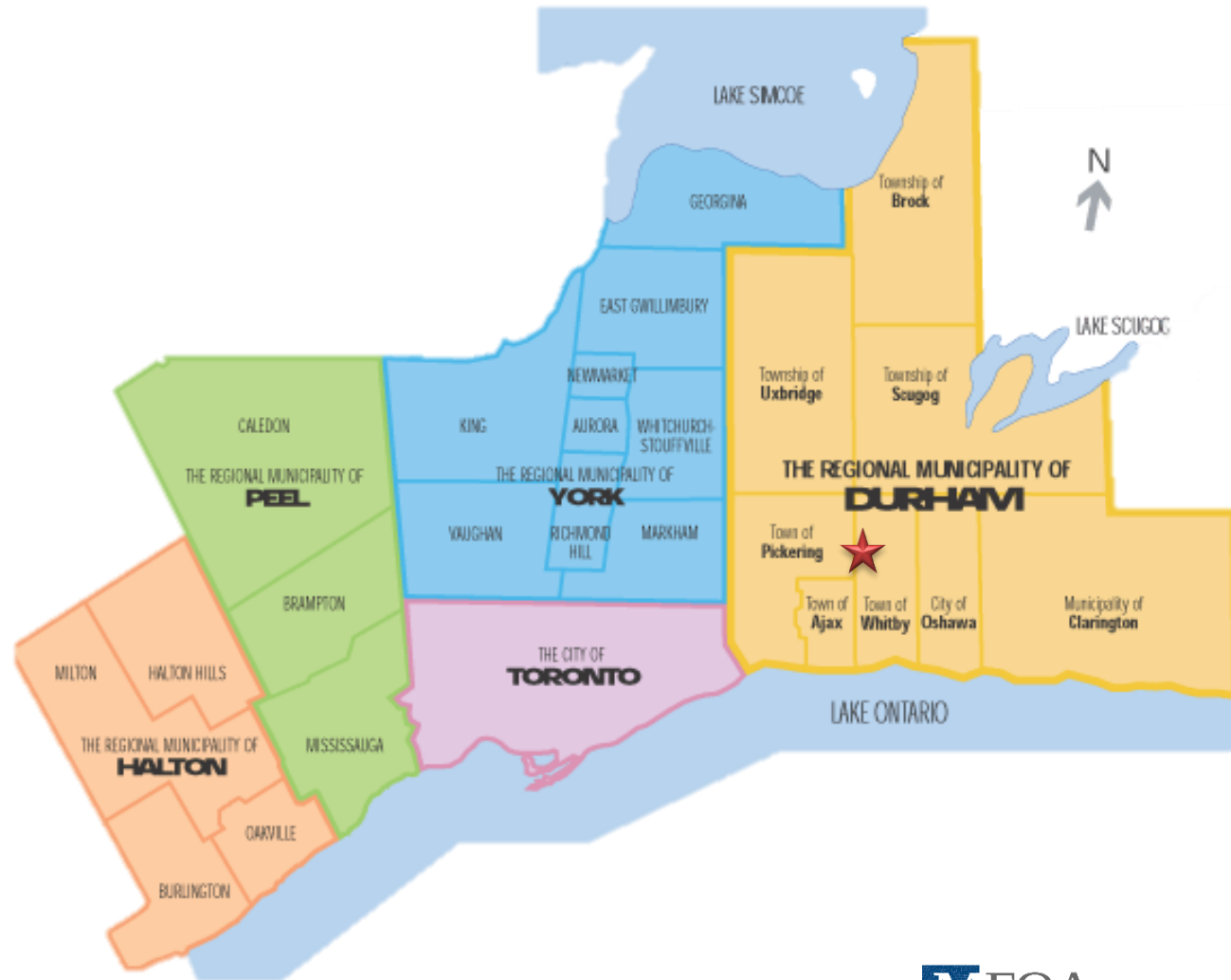
- DCs are most commonly collected at the time of building permit issuance
 - Act also permits the collection of DCs at the time of subdivision approval for engineered services
- The Act also allows, under agreement, for collection of all or a portion of charges at other times
- DC reserves/accounts must be established on a service-by-service basis

DC Study Process



Case Study: Town of Whitby

- Located in centre of Durham Region
- Strong connections to rest of GTA – influenced by recent 407 extension
- Steady growth historically anticipated to continue into the future
- Available land supply in Brooklin and West Whitby



Whitby 2016 DC Background Study: Key Objectives

- 1. Undertake a DC Background Study and By-law consistent with requirements of the amended DCA**
 - Inclusion of new service (waste management)
 - Complete Asset Management Plan (AMP) and demonstrate that the capital program is “financially sustainable”
 - Release DC Study 60 days prior to By-law passage
- 2. Address development-related capital pressures**
 - Anticipated growth in Brooklin and West Whitby resulted in increased need for growth-related capital projects

Whitby 2016 DC Background Study: Key Objectives

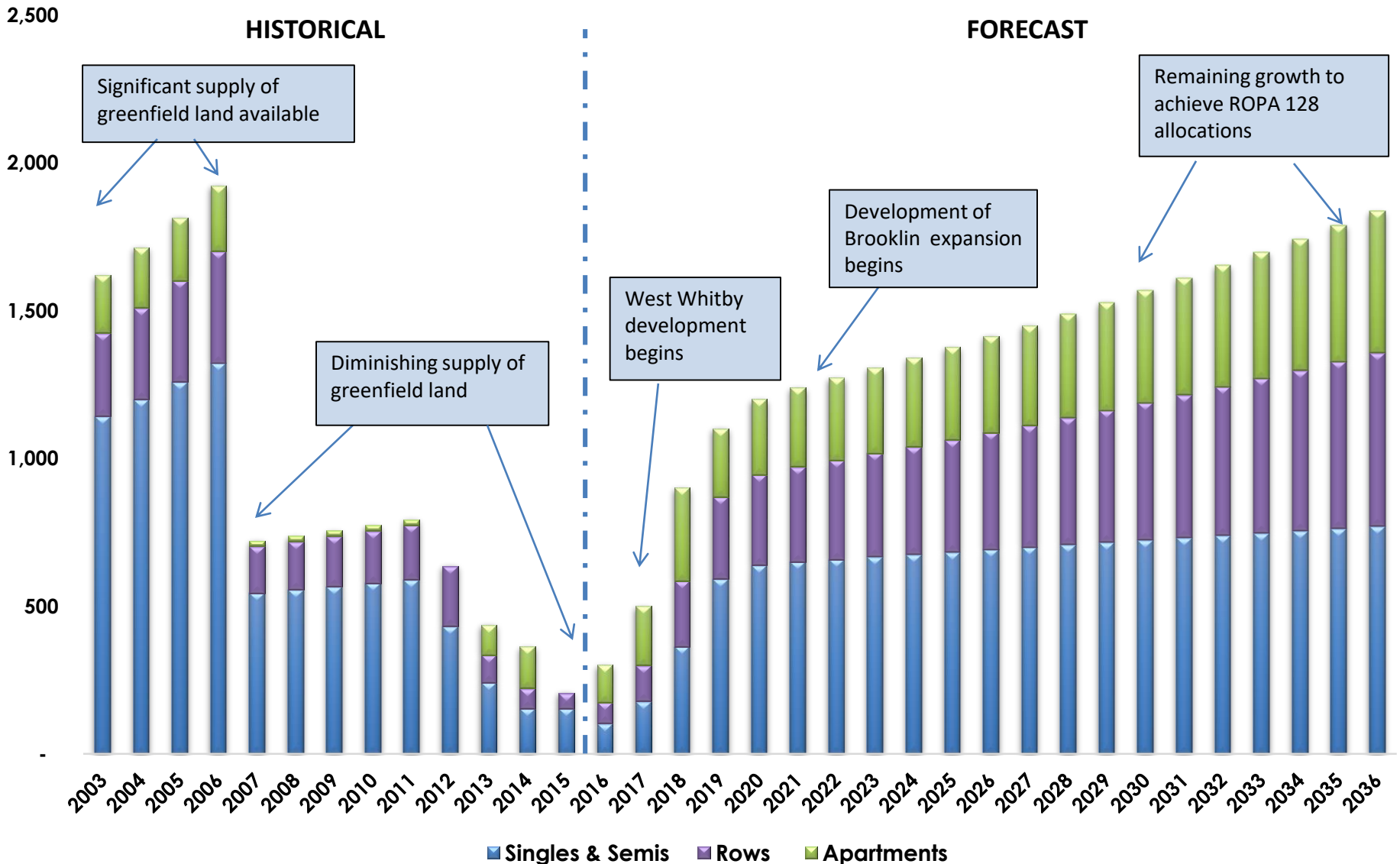
3. Review and update of existing DC policies and practices

- Understand impacts of forgone DC revenue on other sources (i.e. property taxes)

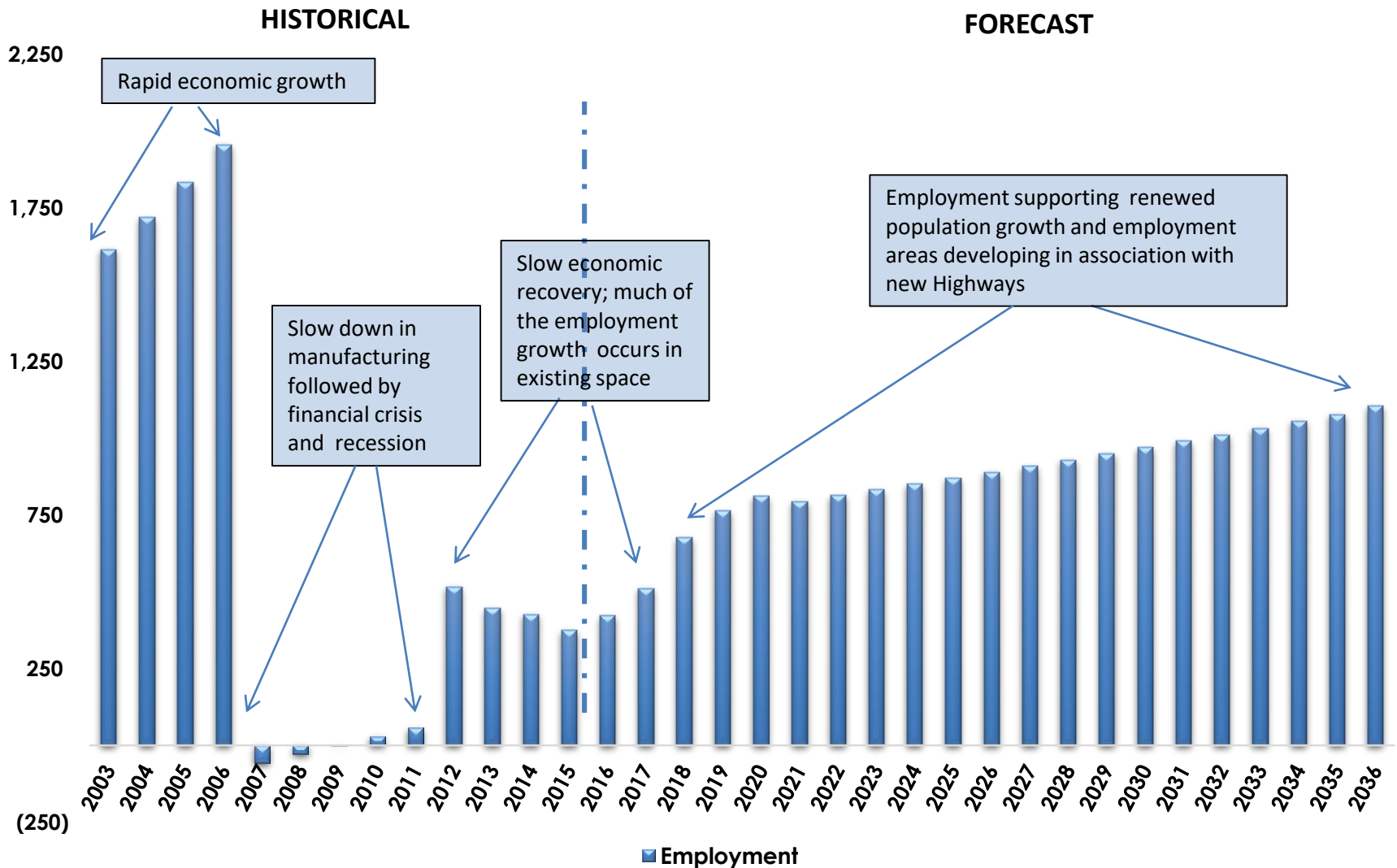
4. Complete a comprehensive consultation process

- Communication with Council, development industry and the public at critical points throughout the Study process

Housing Growth in Whitby 2003-2036



Employment Growth in Whitby 2003-2036



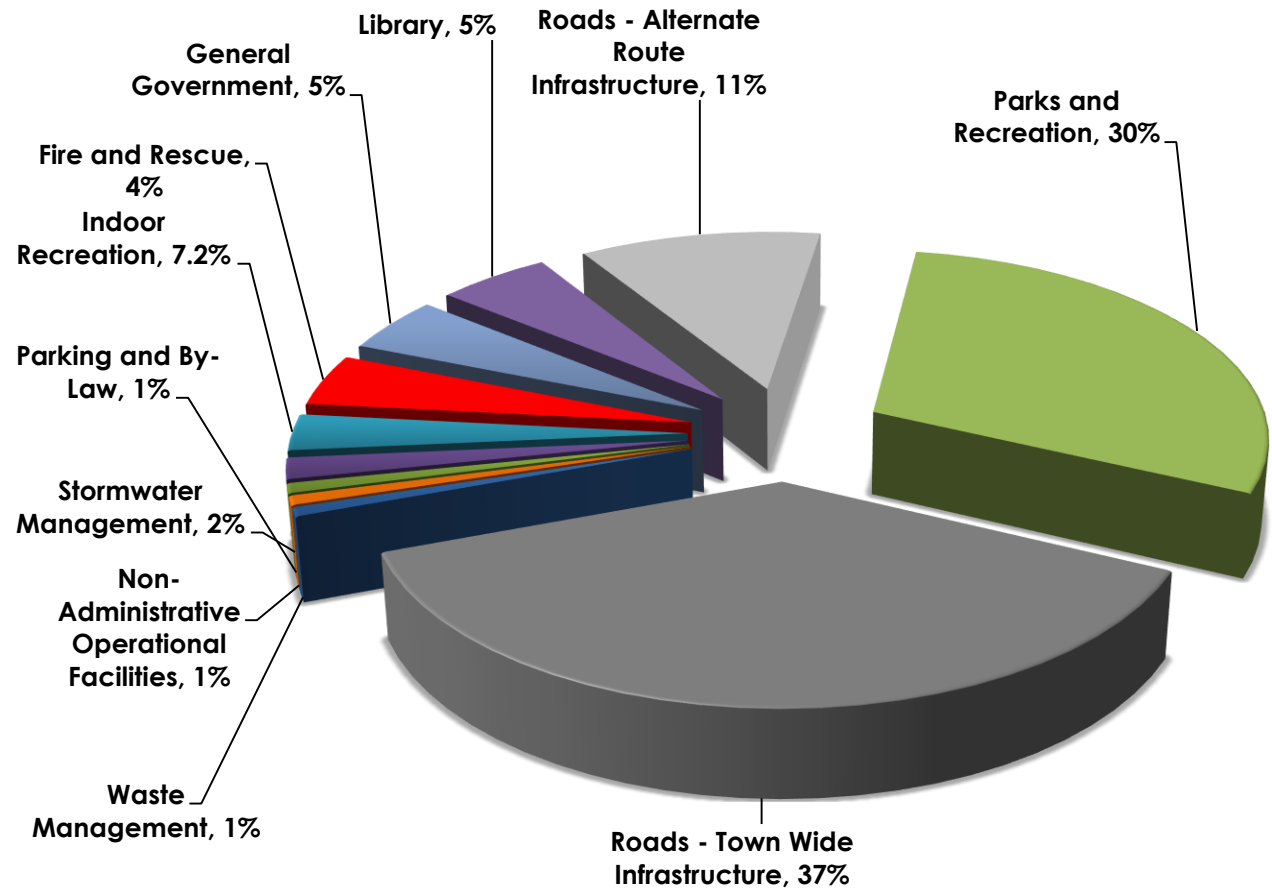
Source: Hemson Consulting Ltd. 2016, Statistics Canada Place of Work Employment, excludes work at home

What Do Development Charges Fund in Whitby?

Region of Durham
= \$27,781

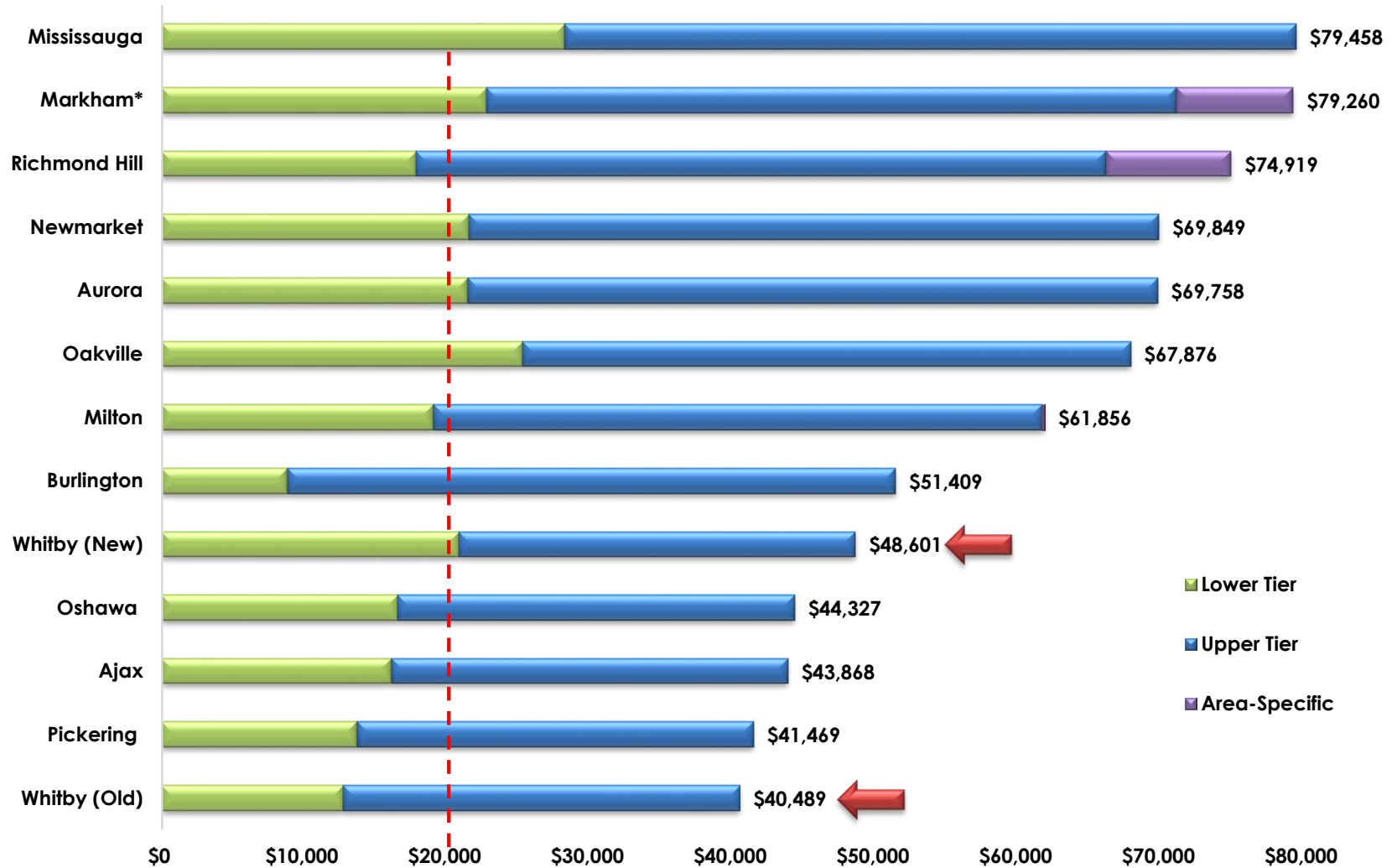
Town of Whitby:
= \$20,820

Total
= \$48,601 per
Single-Detached Unit

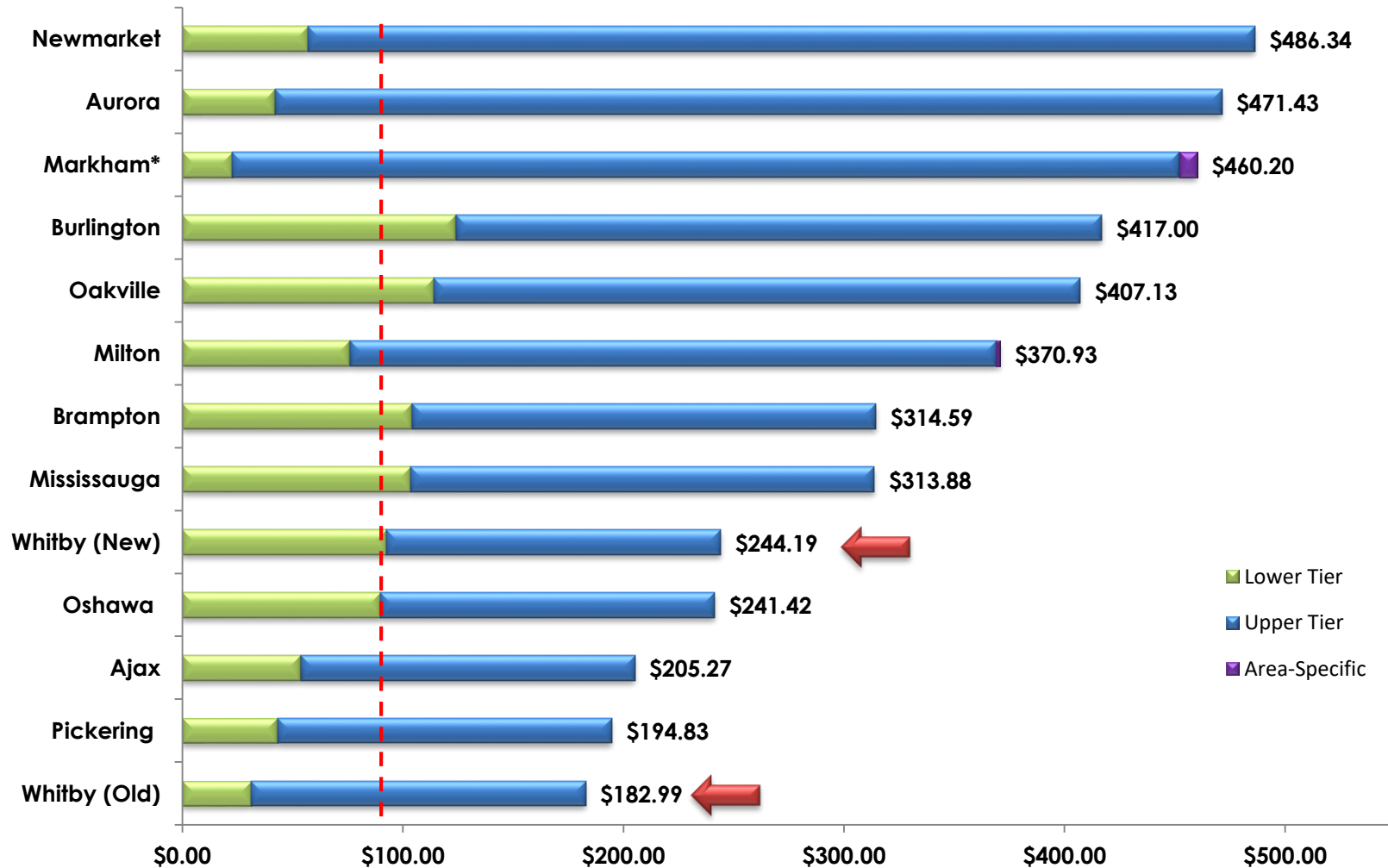


Engineered Services: 50%
General Services: 50%

Development Charges: Residential \$/Single Detached Unit



Development Charges: Non-Residential Retail \$/sq. metre



Long-term Capital and Operating Impact Analysis

- A DC Background Study shall include:
 - “an examination, for each service to which the development charge by-law would relate, of the long term capital and operating costs for capital infrastructure required for the service” (section 10(2) of the DCA)
- Analysis is typically addressed by:
 - Examining the net operating costs over the life of the capital program (10 years +)
 - Identification of the long-term capital financing needs from non-DC revenue sources



Asset Management Plan

- A DC Background Study shall include an asset management plan that:
 - *deal with all assets whose capital costs are proposed to be funded under the development charge by-law;*
 - *demonstrate that all the assets mentioned in clause are financially sustainable over their full life cycle;*
 - *contain any other information that is prescribed; and*
 - *be prepared in the prescribed manner (section 10 (3))*
- A much more detailed and onerous analysis is required for Transit services



Asset Management Plan

- Analysis is typically addressed by:
 - A technical appendix in the DC Study demonstrating all assets proposed to be funded under the DC By-law are financially sustainable over their full life cycle
 - Includes calculated tax and or rate supported annual provision at end of planning period
 - This provision is considered in the context of a municipalities anticipated growth (assessment)

Table 3 Calculated Annual Provision by 2025	
Tax Supported Assets	
Fire Services	\$25,156
Parks and Recreation	\$38,971
Cemetery	\$414
Public Works	\$23,583
Waster Management	\$5,401
Road Replacement	\$36,741
<i>Sub-total Tax Supported Assets</i>	<i>\$130,266</i>
Utility Rate Supported Assets	
Water	\$ -
Wastewater	\$90,930
<i>Sub-total Utility Rate Supported Assets</i>	<i>\$90,930</i>
Total 2025 Provision	\$221,200

Source: Municipality of Kindcardine 2016 DC Background Study

Town of Whitby

Cost of Growth Analysis

- **Purpose**

- Used to address the long-term capital and operating impact analysis and the AMP requirements of the DCA

- **Analysis included**

- Revenue impacts of proposed DC exemptions
- Included both DC eligible and ineligible costs (all development-related projects)
- Operating impacts (direct and indirect)
- Asset management requirements (straight line analysis)
 - Town Funded
 - Contributed Capital (assumed subdivision assets)
- Forecast taxation revenue

Town of Whitby

Cost of Growth Analysis

- **Why was the analysis important?**
 - Similar analysis had been undertaken as part of the 2012 DC Study
 - Allowed for better communication with Council and the public
 - Comprehensive analysis used to help staff in their decision making process
- **Analysis was to be further informed through a Long-Range Financial Plan**
 - Analysis currently underway



10-Year Funding Analysis: Capital

Capital Costs	Total Cost (2016-2025)
Total Gross Capital Program	\$482,152,000
- Less: External Costs (Grants)	\$9,056,900
- Less: Development Charges ¹	\$318,225,300
Town's Share of Capital Program	\$154,869,800

1 Available reserves and anticipated revenues net of statutory and non-statutory deductions

- **Town's share of capital program includes:**
 - DC deductions (benefit-to-existing/replacement, 10% statutory deduction, ineligible services, post-period benefit)
 - DC exemptions (statutory discounts and non-statutory)

10-Year Funding Analysis: Operating & Maintenance

Operating & Maintenance Costs (Cumulative)	Total Cost (2016-2025)
Net Operating	\$79,311,700
Capital Maintenance	\$41,027,300
Total Operating and Maintenance Costs (1)	\$120,339,000

1 Includes DC/Town funded and assumed subdivision assets

- Net Operating Costs includes:
 - Direct and indirect
 - Expenditures = salaries, wages and benefits, corporate training, administration, operating supplies, etc.
 - Revenues = licenses and permits revenue, rentals, programs etc.
 - Provision for 129 new full time equivalent employees (FTEs)
- Capital Maintenance includes:
 - AMP contributions calculate using a straight-line analysis with interest

10-Year Funding Analysis: Total Capital & Operating Impact

Expenditure	Total Cost (2016-2025)
Town's Share of Capital Program	\$154,869,800
Operating and Maintenance Costs	\$120,339,000
Total Tax Supported Expenditures	\$275,208,800



Total amount to be funded
from non-DC sources

10-Year Funding Analysis: Forecast Taxation Revenue

Total Taxation (Cumulative)	Total (2016-2025)
Residential	\$84,392,500
Non-Residential	\$22,422,900
Total	\$106,815,300

- Anticipated taxation revenue as of 2025
 - Based on residential and non-residential development forecast
 - Does not account for existing revenues
 - Used to offset costs not funded through development charges (i.e. 10%, BTE or ineligible shares)

Scenario Testing

COST OF GROWTH ANALYSIS	2016-2025	
Scenario 1: Base Case		
Capital Funding Required (1)	\$	195,897,139
Less Growth Reserve Fund Balance	\$	(22,604,660)
Less Growth Reserve Fund Contribution	\$	(32,683,086)
Operating Funding Required (2)	\$	79,311,742
Revised Capital + Operating Funding Required	\$	219,921,134
Taxation Revenue from New Growth	\$	(106,815,336)
Revised Funding Requirement	\$	113,105,798
Annual Tax Increase to Balance 10-Year Plan	2.48%	
Scenario 2: With Debt Considerations		
Capital Funding Required (1)	\$	195,897,139
Less Growth Reserve Fund Balance	\$	(22,604,660)
Less Growth Reserve Fund Contribution	\$	(32,683,086)
Less Debt Financed Capital Costs	\$	(63,865,216)
Plus Debt Principal and Interest	\$	16,879,398
Operating Funding Required (2)	\$	79,311,742
Revised Capital + Operating Funding Required After Debt	\$	172,935,316
Taxation Revenue from New Growth	\$	(106,815,336)
Revised Funding Requirement	\$	66,119,980
Annual Tax Increase to Balance 10-Year Plan	1.49%	

Scenario 1 :
No debt considerations

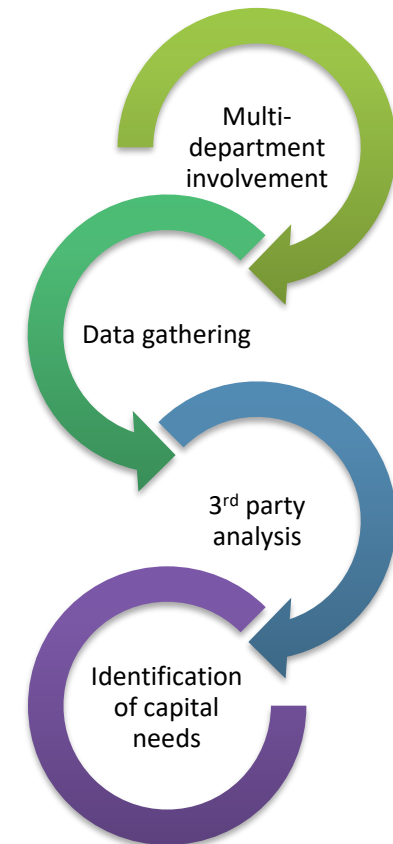
Scenario 2 :
With debt considerations

Cost of Growth Analysis: Conclusions

- Based on the analysis and scenarios the Town's capital program was deemed to be financially sustainable
- It was concluded that increased tax funded expenditures, long-term capital and operating impacts and asset management requirements can be absorbed by the tax base with increases
- COG analysis was not challenged by the development industry or public

Town's Perspective: Internal Process

- **Establishment of a Multi-Department Working Committee**
 - Ongoing participation throughout process
 - Gatherer / reviewer / recommendations
- **Departments gathered service levels**
 - Inventories and replacement costs tied to Town's AMP
 - 3rd Party Consultant Report (facilities & land values) supported analysis
- **Departments identified capital needs**
 - Tied directly to expected timing and areas of growth and long-term capital forecast (master plans/wish list)
 - Included all growth-related projects, not just DC eligible projects



Town's Perspective: Internal Process

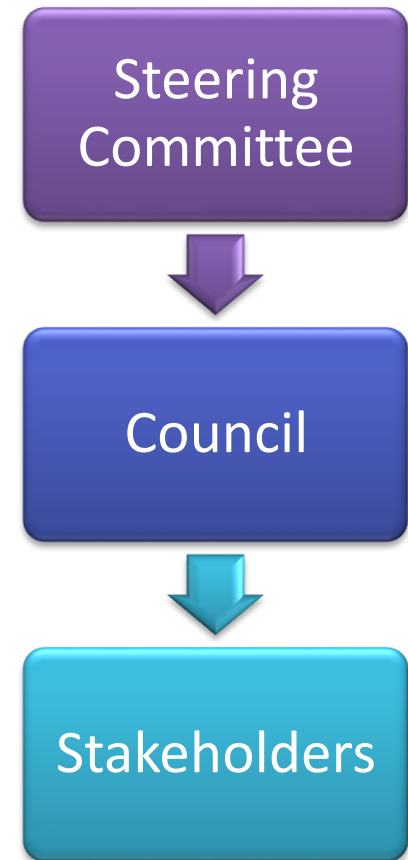
- **Preliminary analysis**
 - Initial tax based capital costs was too expensive
- **Implemented a scoring matrix to rank / prioritize projects**
 - Working Committee & Senior Management agreed on threshold line (some political changes)
 - Capital forecast was scaled back and some projects were deferred beyond the 10-year planning period



Town's Perspective: Meeting with Council

Approach to Consultation

- Early and frequent communication to discuss:
 - Development Forecast
 - Capital Forecast
 - Cost of Growth (multiple times) – required debt, required tax increase, direct and indirect impacts
 - Scale of the project increased to also include a Long Range Financial Plan (Oct 2017)
 - DC Incentives and related impact on COG analysis
 - Reports were sent at every milestone, 3 education sessions were provided by Hemson



Town's Perspective: Meeting with Council

Significance of Meetings

- Helped to reinforce that growth does not pay for growth
- Significant debt is required
- Tax increase is required
- Council can be an excellent tool to help manage Stakeholder expectations
 - Understanding COG and the impact on the taxpayer



Town's Perspective: Stakeholder Consultation

- **Historically process is to involve stakeholders from the early stages**
 - Initial meetings held to review growth forecast and preliminary capital forecast
- **2016 DC Study had more involvement from the public (other than development industry stakeholders)**
 - The public wanted to ensure that taxpayers weren't paying for growth
- **Four stakeholder meetings were held**
 - 3 during the day, 1 in the evening
- **Feedback received was incorporated into the DC Study, where appropriate**
 - Individual projects weren't questioned, just the allocation of benefit (benefit to existing %)
 - Feedback was incorporated into the DC Study based on review with staff

Town's Perspective: Result

- **Timeline 22-months**
 - Process took longer than expected (internal delays)
- **Significant DC rate increase, still mid-range for GTA**
 - Single / Semi-Detached residential increased by 63%
 - Retail Commercial increased by 194%
 - Other non-residential increased by 54%
 - No appeals and no phase in of rates
 - Complete building applications received by March 31st, had until July 1st to receive a building permit under the old rate
 - By-law adopted March 20th, new rates effective April 1st



Key Takeaway

- Cost of Growth analysis can be a useful tool to:
 - Address the long-term capital and operating impact and asset management plan requirements of the *DCA*
 - Provide greater transparency to Council, the public and industry stakeholders regarding the cost of growth
 - Undertake simple scenario testing (i.e. use of debt, increased revenues etc.)
- More complex scenario testing and financial analysis is better suited for long-range financial plans

Questions?