REGION OF OTTAWA-CARLETON | REPORT
RÉGION D'OTTAWA-CARLETON | RAPPORT

Our File/N/Réf. Your File/V/Réf.	40-97-0083
DATE	1 June 1999
TO/DEST.	Co-ordinator, Corporate Services and Economic Development Committee
FROM/EXP.	Finance Commissioner Planning and Development Approvals Commissioner
SUBJECT/OBJET	**REGIONAL DEVELOPMENT CHARGE (RDC) POLICY REPORT**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council approve the following:

a) That the Region of Ottawa-Carleton Development Charge Background Study dated May 1999, issued separately, be approved;

b) That the residential RDC be established on the basis of the three Area Specific Charge option described in Annex A;

c) That the non-residential RDC be established on a uniform region-wide basis at $2.70 per square foot ($29.06 per square metre) for all commercial and institutional development in the Region and that the RDC for all industrial development in the Region be set at 50% of the full commercial/institutional charge, for all services, with proportionate reductions outside the various service areas;

d) That the exemption policies contained in By-law 210 of 1991 be continued in the successor RDC By-law;

e) That in addition to d) all non-profit housing corporations be exempted from RDCs;

f) That RDCs be reduced in accordance with Table 6 for development in the vicinity of transitway and/or light rail stations;

g) That RDCs be indexed on an annual basis, commencing on November 1, 2000 at the maximum rate provided by the DCA;

h) That the current RDC By-law No. 210 of 1991 (as amended) be repealed and a successor By-law, the form and content of which is included in the Background Study, dated May 1999, be enacted.

BACKGROUND

On April 6, 1999 the Corporate Services and Economic Development Committee held a public meeting on the above-noted subject. The staff report dated March 23, 1999 and background study dated March 22, 1999 were tabled with the Committee. Staff were directed to circulate the recommendations contained in the staff report for public comment and input by April 30, 1999, and return to the Committee with any subsequent recommendations at the scheduled meeting of June 15, 1999.

During the consultation process a number of submissions were received and were compiled and provided to the Chair and members of the Committee (per May 17, 1999 memorandum from the Committee Co-ordinator). Copies of the submissions are available for public viewing in the Clerk's Department.

The staff report dated March 23, 1999 has been updated and is hereby being re-issued incorporating a summary of the public input along with final recommendations for Committee consideration. The background study will also be re-issued, and similar to this staff report, will incorporate the errata issued April 22, 1999.

PURPOSE

The purpose of this report is to present a proposed successor By-law to the current Regional Development Charges By-law (No. 210 of 1991 as amended). The new Development Charges Act (DCA) 1997 was proclaimed by the Province on March 1, 1998. Under the DCA, all development charge by-laws passed under the old legislation, including By-law 210 of 1991, expire no later than August 31, 1999. The Region must have a successor By-law in place prior to this date in order to be able to continue collecting RDCs. The Region has undertaken a year-long process of developing development charge policy in accordance with the new provisions of the DCA. A further public meeting required under section 12 of the Act is scheduled for the Corporate Services and Economic Development Committee of June 15, 1999, with the proposed by-law expected to go before Regional Council in late June, 1999.

DEVELOPMENT CHARGE BACKGROUND STUDY

The DCA sets out the essential steps necessary to create a successor RDC By-law. Most importantly, the DCA requires that a Development Charge Background Study be completed. Such a study has been prepared by staff and is an important companion document to this policy report. Copies of this study, entitled *Region of Ottawa-Carleton Development Charge Background Study* dated May, 1999, are available from the Regional Clerk. The Background Study clarifies the types of services for which the Region will be imposing development charges, provides detailed information on how the development charges were calculated and includes summary information regarding the long term capital and operating cost associated with facilities that are intended to be financed from development charges. It outlines sufficient background on the DCA, includes the proposed successor RDC By-law and, finally, outlines the post By-law adoption implementation requirements which are essential to the successful application of the new policy. The Background Study should be reviewed by the reader of this policy report in order to gain a clear and comprehensive understanding of the proposed RDC policies.

CURRENT REGIONAL DEVELOPMENT CHARGES

The current residential and non-residential charges for full Regional services are shown in Table 1. These charges are significantly less than the theoretical maximum charges computed in 1994 related to full growth cost recovery (which represent the maximum charges that could have been charged under the DCA in force at the time). These theoretical maximum charges are shown for comparative purposes. Section 3 of the Background Study contains a chronological summary of the Region's development charge By-laws. This section illustrates that a number of significant changes have been made post-passage of By-law 210 of 1991.

Table 1	Singles and Semis	Apt. with 2+ Bedrooms and singles, semis, rows, mobile home multiple dwelling under 1,100 sq. ft	Row Housing Multiple Dwellings	Apt. with less than 2 bedrooms	Non-Residential other than Industrial per sq. ft.	Non-Residential Industrial per sq. ft.
Current Charges	$ 7,000	$ 4,323	$ 5,970	$ 2,676	$ 1.30	$ 0.65
1994 Theoretical Maximum Charges ($1994)	$ 12,399	$ 7,439	$ 9,565	$ 4,605	$ 13.56	$ 13.56

UNIFORM REGION-WIDE VS. AREA-SPECIFIC CHARGES

The Region currently imposes uniform region-wide charges which do not vary within service areas. However, not all service areas cover the entire Region. A by-law to exempt Centretown in Ottawa from residential RDCs was passed on April 12, 1995. A by-law was passed June 26, 1996 to end this exemption, however, the Minister of Municipal Affairs and Housing has not yet approved the by-law.

The use of uniform region-wide charges in By-law 210 of 1991 was made giving due consideration to the following:

a) the Region's policy of providing similar levels of service wherever a service is provided and encouraging growth in all designated areas, based on uniform sanitary sewer and water rates on the basis of average costs; and

b) the widespread use of uniform development charges throughout Ontario by municipalities.

Staff were directed by Council to address the question of area-specific development charges, in addition to uniform region-wide charges, as part of the study process. This has been done as part of Section 8.6 and Appendices C to G in the Background Study. The consideration of the appropriateness of area specific charges versus a uniform region-wide charge is discussed later in this report.

CALCULATION METHODOLOGY

The Background Study reviewed all regional services and infrastructure requirements that will be impacted by the residential and non-residential growth projected in the Regional Official Plan (ROP). The services included are: water, sewer, roads, transit (including transitways, transit buses and buildings), police and child care.

The study methodology reviewed the capital requirements of each of the above services from 1999 to 2021 and existing projects from 1991 to 1998 that have unrecovered growth components. Staff had the benefit of the recently completed ROP integrated with the Transportation Master Plan and Water and Wastewater Master Plans. The ROP growth forecast and Master Plans provided the basis for identification of projects required to service the projected growth. The basic methodology for calculating the charge for each component, described below, is essentially the same as that used in 1994.

1. Capital project costs for the planning period (1999-2021) are based on conceptual estimates founded on service level standards as expressed in the ROP;

2. The costs are allocated between existing population and growth to arrive at the net growth-related share (with any grants, subsidies and other contributions, as well as benefit to post-2021 growth being netted off);

3. The net growth-related costs are divided between residential and non-residential sectors;

4. The net growth-related costs for the residential sector are divided by the estimated gross population increase. This per capita cost is multiplied by the person per unit values by type of housing to arrive at each residential component cost;

5. The net growth-related costs for the non-residential sector are divided by the estimated growth in gross floor area to arrive at a charge per square foot.

Summary information regarding the elements involved in the calculation is provided below. (The Background Study should be referenced for detailed information).

a) Growth Forecast - 1999 to 2021

Population	257,360
Households	135,180
Non-Residential	59,295,000 sq. ft.

b) Residential/Non-Residential Share of Growth Related Infrastructure Costs

	Residential %	Non-Residential %	Basis for Allocation
Water	74	26	Projected capacity increase
Sewer	65	35	Projected capacity increase
Roads	48	52	Auto trip information
Transitways	46	54	Transit trip information
Transit buses and buildings	46	54	Transit trip information
Police	80	20	Calls per land use
Child Care	74	26	Population/Employment Growth

c) Net Growth-Related Capital Program

The net growth related capital program was developed based on providing regional services to meet the growth forecast in Appendix A of the Background Study. The service standards (used in the cost estimates) are in accordance with the requirements of the DCA. Table 2, below, identifies the total growth-related capital expenditure by service component. The residential and non-residential allocation of this amount is then identified. This has also been done in accordance with the DCA.

Table 2 **Net Growth Related Capital Costs ($1999)**

	($000s) Total	($000s) Residential	($000s) Non-Residential
Water	211,782	157,077	54,705
Sewer	117,360	76,809	40,551
Roads	961,563	461,550	500,013
Transit	203,150	93,449	109,701
OC Transpo	98,690	45,397	53,293
Police	10,767	8,614	2,153
Child Care	5,893	4,361	1,532
RDC Study	1,500	750	750
TOTAL	1,610,705	848,007	762,698

SUMMARY OF DEVELOPMENT CHARGE CALCULATIONS AND OPTIONS

Four sets of development charge calculations are provided in Appendix G of the Background Study.

1. A Uniform Region-Wide Charge, by service components, based on the approach used in the existing RDC i.e. development costs on a region-wide basis are allocated evenly over the anticipated increase in population, housing units (by type) and non-residential floor area.

2. Nine Area Specific Charges, by service components, which is based on a calculation of development-related costs relating to nine different areas, including three inside the Greenbelt and six areas outside the Greenbelt (Map AS-9 attached to this report refers).

3. Three Area-Specific Charges, by service components, which is based on a calculation of development-related costs relating to three areas; inside the Greenbelt, outside the Greenbelt (excluding the rural area), and the rural area (Map AS-3 attached to this report refers).

4. Two Area-Specific Charges, by service components, which is based on a calculation of development-related costs relating to two areas, the urban area and the rural area.

Table 3 summarizes the maximum RDCs (in accordance with the DCA) for a residential single unit and the non-residential square foot charge that results under each option.

Table 3	**Maximum Theoretical Charge Options**		
	1994 Max. Theoretical Charge	**Per Serviced Single Detached Unit**	**Per Serviced Sq.ft. of Non-residential GFA**
1. Uniform Region-Wide Charge	$12,398	$8,898	$14.38
- Rural Unserviced	6,175	3,843	8.68
2. Nine Area Specific Charges			
• Inner Area		6,978	5.89
• Inside Greenbelt West		6,266	10.73
• Inside Greenbelt East		7,395	8.64
• West Urban Centre		9,125	23.43
• South Urban Centre - Nepean		14,175	32.93
• South Urban Centre - Gloucester		15,048	32.57
• Leitrim		11,203	27.28
• East Urban Centre		10,203	14.46
• Rural-Serviced		2,978	7.75
-Unserviced		1,898	7.38
3. Three Area Specific Charges			
• Urban - Inside Greenbelt		6,957	8.16
- Outside Greenbelt		11,658	16.98
• Rural - Serviced		2,978	7.75
- Unserviced		1,898	7.38
4. Two Area Specific Charges			
• Urban Area		9,562	13.87
• Rural Area - Serviced		2,978	7.75
- Unserviced		1,898	7.38

CONSIDERATION OF DEVELOPMENT CHARGE OPTIONS

The Regional Development Strategy (RDS) in the ROP had, as one of its objectives, the encouragement of residential development in areas that are the most cost-effective to service while supporting choice in the market. Section 2.2 of the RDS speaks to the need to plan on a development strategy that is affordable. It notes that analysis undertaken for the ROP shows there are a number of inherent advantages to encouraging development in already developed areas, especially in urban areas inside the Greenbelt. Since significant investment has already been made in sewer, water and transportation infrastructure in these areas, development should be planned to take advantage of capacities of these existing systems. The results of the calculations for the area-specific charges confirm the conclusion of the RDS that it is much less expensive to "grow in rather than out", i.e. the analysis of alternative growth scenarios concluded that the cheapest area for further development was the urban area inside the Greenbelt. Long term demographic trends suggest a gradual increase in development inside the Greenbelt.

Section 2.5 of the RDS noted that the setting of development charges by Council can be used (as one of a number of ways) to pursue objectives of the ROP. In the case of the three area specific charge, as an example, the differential of $4,701 between the inside the Greenbelt and outside the Greenbelt rate (for single residential units), would support the ROP by recognizing the lower cost of providing Regional services.

In addition to supporting the ROP, however, it is also important to maximize the equity of RDCs amongst development areas within Ottawa-Carleton. Based on this factor, the three area-specific charge option (Annex A refers) is judged to be more equitable between developing suburban areas than the 9 area specific option. It minimizes disparity between suburban growth areas while at the same time supports the development policies of the ROP.

It is important to recognise the impact of previously emplaced infrastructure on the cost of future servicing. For example, the 1988 Regional Official Plan called for servicing the East Urban Centre as a first priority followed by the West Urban Centre and then the South Urban Centre. Both the EUC and WUC have received substantial servicing to date while the SUC has been waiting (primarily for transportation infrastructure). This is clearly seen in Table 3 in the considerable difference between the EUC (at $10,203) and WUC (at $9,125) versus the SUC (at $14,175 Nepean and $15,048 Gloucester) under the 9 area specific charge approach. It is evident that there is no best time to change from a uniform Region-wide charge approach to an Area-specific approach. However, the principle of equity is best served by using the three area-specific charge option which averages the cost of servicing amongst the suburban growth areas.

A March 15,1999 letter from the Ottawa-Carleton Homebuilders' Association (OCHBA) urged the Region to continue with a uniform region-wide charge approach. The primary reason provided in support of a region-wide charge relates to the magnitude of the differences in charges for certain areas resulting from the nine area-specific charge. The OCHBA concerns would, of course, be mitigated with the three area-specific charge proposal.

In addition, the OCHBA cite the complexity of maintaining separate RDC reserve funds for each service component by area. Their implication is that, under any area specific development charge, it would be necessary to match developer contributions by area and service component with spending by area and service component. This is based on the fact that during consultation with the OCHBA this was also Regional staff's understanding. In fact, this is not required by the DCA. It is proposed by staff that, should Council select an area specific charge, that only one RDC reserve fund be maintained for each service. This would provide Council with maximum flexibility in terms of being able to finance the growth related component of individual projects from RDC funds independent of Council decisions on the timing and priority of individual projects.

ANTICIPATED IMPACT OF DEVELOPMENT CHARGES ON DEVELOPMENT

The process of creating sound development charge policy requires the achievement of a proper balance between two competing realities. High development charges are perceived to form a barrier to increased economic activity and sustained growth. However, development charges or other capital funding sources are needed so the infrastructure necessary to service growth can be paid for.

Residential Charge

It is recommended that the maximum residential RDC be imposed by the successor RDC Bylaw, whether a uniform region-wide charge or area-specific charge is employed. The three area-specific charge option being proposed represents a significant decrease from the 1994 Theoretical Maximum Charge and a decrease of $43 to the current charges inside the Greenbelt. In urban areas outside the greenbelt it represents a decrease from the 1994 Theoretical Maximum Charge of $741 but an increase of $4,658 to the current charges.

It is impossible to estimate what the impact of increasing or decreasing residential RDCs has on housing development and demand in Ottawa-Carleton. The cost of a new house is made up of a variety of components, land, materials, labour, professional services, fees and profit. Ultimately, the market will determine the price a particular house sells for. The Ottawa-Carleton housing market is relatively isolated and is not subject to competition from different Regions as is the case in GTA. What is clear is that Regional costs for services which are not recovered from growth will eventually be borne by all taxpayers (residential and non-residential). Annex B1 to B7 contains the latest comparative information on existing and proposed development charges for selected regional and area municipalities in Ontario. Most of these charges are currently under review.

Non-residential Charge

By contrast, a large increase in non-residential development charges, such as those indicated as theoretical maximum charges in the study, can be expected to create a barrier to increased economic activity in Ottawa-Carleton. Due to the competitive sensitivity of non-residential development to development charge rates across the Province, it is recommended that the non-residential rate for all non-residential uses except industrial uses, be capped at the maximum currently charged elsewhere in Ontario for regional purposes ($2.70/sq. ft. in Hamilton-Wentworth, Annex B2 refers) and that this rate of $2.70/sq. ft. be applied uniformly across the Region, for all services, with proportionate reductions outside the various service areas.

As described later in this report, the rural municipalities (Townships of Osgoode, Rideau, Goulbourn and West Carleton) expressed serious concerns about the impact the proposed uniform non-residential rate of $2.70/sq. ft. (for full services, reducing to $1.63/sq. ft. for unserviced rural) would have on non-residential (primarily industrial) development in the rural area. They stated: “the single fee structure would penalise industrial development in the rural areas and will only encourage this type of developer to locate in the serviced areas or outside the Region totally, where there are no upper tier development charges or school board development charges” (Annex B7 refers). The original proposed rate of $1.63 (rural unserviced) was noted as an increase of 343% for industrial, i.e. $0.363 vs $1.63.

Staff have reviewed the matter of service demands arising from commercial and industrial development and note that there are noticeable differences in the space utilization of the two types of development. Industrial development typically provides about twice the space per employee than does commercial development The development charge policy has been driven by the demand for services based upon persons per dwelling and the number of persons per square foot in the non-residential sector.

Although the DCA now requires industrial expansions of up to 50% of the original gross floor area to be exempted from development charges, it is recommended that there continue to be a separate rate for industrial development to be set at 50% of the non-residential rate of $2.70 to be applied across all commercial and institutional developments, for all services, with proportionate reductions outside the various service areas.

Appendix K in the Background Study provides information on current RDCs across Ontario and total DCs in Ottawa-Carleton including lower-tier and hydro commission charges. It should be noted, however, that most of these charges are also currently under review.

LONG TERM CAPITAL AND OPERATING COST EXAMINATION

The DCA states that the required Background Study shall include an examination, of the long term capital and operating costs for capital infrastructure required for each service to which the development charge by-law would relate. Appendix I of the Background Study contains statistics in this regard. The Appendix forecasts operating costs and total (growth and non-growth related) capital costs for each service over three time intervals - 1999 to 2003, 2004 to 2008 and 2009 to 2021. These costs are expressed in inflated dollars.

The operating cost forecasts take into account the system growth created by the planned growth related infrastructure spending and forecasted inflation (assumed at an average 2% over the planning period).

Of more concern, is the capital funding requirements forecasted in Appendix I. The Appendix identifies the portion of the total capital program for each service that would be funded from RDC revenues if the maximum residential and non-residential RDCs were imposed. The Appendix then forecasts the resulting residual requirement to be made available from other capital funds. Table 4 summarizes this perspective for all service components.

Table 4

	Total Capital Program ($Inflated)			
	1999-2003 $000	2004-2008 $000	2009-2021 $000	Total $000
Total Capital Program				
Roads	176,831	207,691	1,921,408	2,305,930
Transit	376,870	426,267	1,923,001	2,726,138
Water	195,472	115,106	554,197	864,775
Sewer	147,342	34,686	127,872	309,900
Police	59,208	28,171	119,839	207,218
Child Care	3,408	3,763	8,359	15,530
Total Capital Program	**959,131**	**815,684**	**4,654,676**	**6,429,491**
Funded By				
- RDCs (at full rates)	210,393	184,121	1,858,360	2,252,874
- Reserve / Debt	748,738	631,563	2,796,316	4,176,617
Total Funding	**959,131**	**815,684**	**4,654,676**	**6,429,491**

In total, $6.4B is forecasted to be spent over the 23 year period. Of this, $2.2B would be funded from RDC revenues and $4.2B would be required to be funded from future taxation and user fees.

This does not take into account the impact of reducing the non-residential RDC to the recommended rate. This action would reduce the amount of forecasted RDC revenue by $1.0B (summarized in Table 5), increasing the total requirement for other capital funds to $5.2B. This will put significant pressure on future property taxation and user rates.

Although the new ROP reduced infrastructure spending requirements by almost $1B from the 1988 ROP, the issue of affordability of the infrastructure required to implement the 1997 ROP is still significant. At the time of the approval of the ROP, the RDS (which was developed during the Fall of 1996), indicated that future taxation and user rates would, at a minimum, need to keep pace with inflation to generate the capital funds needed to pay for the planned infrastructure spending. The financial context within which that forecast was developed has worsened with the impact of the provincial Local Services Realignment and Council's response to it.

Should property tax and user fees not be increased in the future, significant alternative sources of revenue will have to be secured to provide additional capital funding, particularly in the area of roads infrastructure. Related to this issue, staff has brought forward a report to Committee and Council this spring on "User Pay For Transportation". In addition, later this year, staff will be providing a report that will review the long term financial perspective for OC Transpo with regard to the recommendations of the recent KPMG report.

The strategy for dealing with the implementation and funding of the 23 year vision of the Official Plan is an issue that is broader in scope than the RDC policy. However, RDCs are an important component of that strategy. RDC policy must flow from the plans in that document.

Table 5	**Developer Contributions ($Inflated)**			
	1999-2003 $000	2004-2008 $000	2009-2021 $000	Total $000
Full Rate				
Roads	251,441	298,226	586,925	1,136,592
Transit	126,467	150,963	546,358	823,788
Water	49,962	59,196	144,639	253,797
Sewer	28,161	33,506	72,960	134,627
Police	2,347	2,774	6,728	11,849
Child Care	2,496	2,943	8,640	14,079
Total	460,874	547,608	1,366,250	2,374,732
Discounted				
Roads	118,269	137,161	339,908	595,338
Transit	68,353	80,316	250,033	398,702
Water	36,081	42,321	114,981	193,382
Sewer	17,879	21,006	55,891	94,776
Police	1,819	2,132	5,851	9,802
Child Care	1,952	2,282	5,425	9,660
Total	244,353	285,218	772,089	1,301,660
Shortfall				
Roads	(133,172)	(161,065)	(247,017)	(541,254)
Transit	(58,114)	(70,647)	(296,325)	(425,086)
Water	(13,881)	(16,875)	(29,658)	(60,415)
Sewer	(10,282)	(12,500)	(17,069)	(39,851)
Police	(528)	(642)	(877)	(2,047)
Child Care	(544)	(661)	(3,215)	(4,419)
Total	**(216,521)**	**(262,390)**	**(594,161)**	**(1,073,072)**

Staff are recommending the maximum residential charge calculated under the provisions of the DCA and the highest non-residential charge that can realistically be imposed with regard for a competitive economic development scenario. In other words, staff are recommending the minimum realistic subsidy of growth-related capital costs that the DCA will allow. This represents a $1B subsidy over the 23 year period (see table 5). How the non-growth component and unrecovered growth-related component of future capital costs will be funded is a subject that will be dealt with by future staff reports and ten year capital forecasts that are presented on an annual basis for Council consideration and approval, but it may include property tax increases, increases in water and sewer rates and access to alternative revenue sources such as gas taxes.

EXEMPTION POLICY

Section 8 of the Background Study outlines the statutory full or partial exemption from development charges provided for by the DCA for certain types of development. In addition, it is recommended that existing Regional policy regarding non-statutory exemptions contained in By-law 210 of 1991 be continued. Accordingly, the following would continue to be exempt from RDCs: a place of worship, churchyard, cemetery or burying ground, non-residential farm building, non-residential accessory uses containing less than 10 square metres of gross floor area, non-residential development not resulting in creation of additional gross floor area, and farm retirement lots.

General Legal Discussion - Exemptions and Grants

The Municipal Act, section 111 prohibits grants to or a full or partial exemption from rates or charges imposed by a municipality for any “manufacturing business or other industrial or commercial enterprise”.

In the opinion of the legal department, an “exemption” implies an immunity from an obligation that would otherwise exist. Development charges under the *Development Charges Act* are calculated on the basis of capital costs resulting from an increased need for services due to growth. Thus where a particular type of development creates a lower demand for capital costs than a second development, a lower development charge calculated in accordance with that lower need is not an exemption but rather simply a result from the application of the *Development Charges Act*.

On this principle alone, a lower development charge rate for a particular use or area calculated on the basis of a lower demand for new capital costs does not violate the *Municipal Act,* section 111.

The second principle limitation to the application of section 111 is that it restricts benefits provided to “manufacturing business or other industrial or commercial” enterprises. Excluded from the application of section 111 are not-for-profit enterprises. Thus the Region could fully or partially exclude a particular class of or all not-for-profit enterprises from Regional Development Charges.

The *Development Charges Act* does not require a municipality to recover net capital costs to the maximum degree possible. Thus a municipality may impose a charge, even for “manufacturing business or other industrial or commercial” enterprises which is less than the maximum theoretical rate. However, given the prohibition on “assistance” by way of full or partial exemption to such enterprises it is the opinion of the legal department that a favourable rate to such enterprises, either individually, on a class by class basis or on a geographical basis, not justified by lower new capital costs for services for these enterprises, is prohibited.

In addition to the above-noted exemptions, the following exemption issues exist.

Centretown Exemption

By-law No. 31 of 1995 was passed April 12, 1995 to exempt Centretown in Ottawa from residential RDCs. By-law No. 48 of 1996 was passed June 26, 1996 to re-impose these charges in Centretown. The Minister of Municipal Affairs and Housing has not yet made a decision on the re-imposition of these charges.

The above-noted exemption was in response to a request from the City of Ottawa to assist in the residential redevelopment of these areas by matching their policy move to exempting these areas from local development charges.

In a September 15, 1997 City of Ottawa Finance Department Report to Committee and Council, staff requested that a Development Charges By-law review be undertaken. In the report, an assessment was made of the impact of the exemption in Centretown on growth in the area. The report concluded that it did not appear that the repeal of the City's DC By-law had stimulated growth to the extent experienced (city-wide) in the late 1980s. It was also not known whether the absence of the City's charges influenced the level of building activity that did occur.

During the Corporate Services and Economic Development Committee's last discussion of this issue (in the context of an RDC review) in June 1996, comments were made in support of and in opposition to the continued exemption. On one hand, proponents of the continued exemption felt that the benefits of the exemption were only beginning to surface due to project planning and construction timeframes. Further, that such exemption was in line with the support of intensification by the ROP. On the other hand, opponents of the exemption felt that adequate new development had not commenced and that as a result the exemption was not a stimulus but simply represented the loss of revenue needed for capital infrastructure. The estimated 620 units built in the exemption area from 1995 to date represented a loss of approximately $2 M in RDC revenue.

It has been suggested that the tax revenue generated by these units represents additional revenue (approximately $200,000 - $300,000 per year). However, in the municipal sector, tax revenue is generated based on the cost of providing municipal services in the community and each new unit of growth represents increased service needs, which has been provided to the new units.

Since staff are recommending the three area charge option, the Inside the Greenbelt (including centretown) charge will be less than elsewhere in the Region. The ROP anticipated and encourages residential growth not just in Centretown area but in all areas inside the Greenbelt, therefore contributing to the "grow in, not out" philosophy. Staff are, therefore, not recommending an exemption for Centretown. However, should Council adopt the recommendation to reflect a lower development charge for development in the vicinity of transit stations, this would provide a reduced development charge for much of the Central area and Centretown.

Request for Contaminated Sites Partial Exemption

In a December 3, 1998 letter from the City of Vanier it was requested that developments on contaminated sites inside the Greenbelt be exempted from RDCs up to the amount of the remediation cost. Regional staff have reviewed this matter and have identified a number of concerns that include, among other things, an appropriate definition of "contaminated site" and "remediation cost".

The Planning and Development Approvals Department is currently undertaking a "Historical Land Use Survey". This will serve as the basis for development of policy regarding development on "contaminated sites". It is recommended that this issue be considered in the context of that study and not be addressed, at this time, by RDC policy.

Development In The Vicinity Of Transit Stations

The Regional Official Plan, the Transportation Master Plan and the K.P.M.G. Report "The Way Ahead: Becoming the Best of the Best" have each set forth the benefit to the Region from the increased use of public transit. The Regional Official Plan (Section 4.1.2 Policy 15) states that Council shall promote employment growth in areas with high-quality transit service though area-specific development charges. The K.P.M.G. Report particularly recommended that the Region examine "specific regional development charges" at transitway stations. Where a lower development charge rate is put in place, it must be supported by policy rationale. In the Regional Development Charge Policy Report tabled on April 6, 1999, reference was made to the formation of a draft policy that would incorporate a recommendation with respect to development charges to be applicable to development in the vicinity of transitway stations.

The *Development Charges Act* prohibits the Region from imposing development charges based upon an increased level of service from that which was present for the average of the prior 10 years. However, it is to be noted that the afternoon peak hour transit modal share in the Regional Official Plan is forecast to increase from 15.2% to 20%. The accelerated achievement of this objective will decrease the need for new or expanded road links. Accordingly, it is the opinion of staff, that a lower development charge for development in the vicinity of transitway and light rail stations, can be justified on the premise that increased development at such stations will assist in the earlier achievement of the Region's modal share objectives and the resulting postponement of road infrastructure works that would otherwise be required.

It is therefore recommended that for development within 400 meters radius of a transitway station the development charge be reduced by an amount equal to 50% of the road component of the RDC otherwise payable. In the case of the three-area charge this would result in reductions of approximately $751 and $1,930 for a large apartment inside and outside the Greenbelt respectively, while the cost per square foot for non residential development would be reduced by $0.81 in either case.

The 400 meters is a standard commonly used in the review of development applications and is referred to in the Official Plan (Section 3.2.13(d)). Virtually all potential building sites are to be within 400 meters of a rapid transit station or bus stop, i.e. transit service to be provided within a 5 minute walking distance.

A strong indicator of a reduced demand for road infrastructure is the requirement for parking at the development in question. As a condition for the reduced RDC, a reduced parking standard is required. This is to ensure that employees and residents are encouraged to use transit and non-car modes.

With respect to the question of the parking standard at which the entitlement for a reduced rate should accrue, staff recommend an approach based upon the three categories of residential apartments, retail and all other uses. The reduced rate for residential purposes is only proposed to be extended to apartment units as it is the policy of the Region in the Official Plan to encourage the location of higher density development near transitway stations.

It is to be noted that the parking requirements set forth in Table 6 are not mandatory requirements imposed upon development but exist as an encouragement to the use of transit and a consequent reduction in the need for roads. The approved site plan will be the basis for determining compliance with the conditions of Table 6. If additional parking is made available in excess of the standards in Table 6 at a subsequent date, the full roads services component will then be payable.

TABLE 6

Regional Development Charge at Transitway Stations

Reduce the regional development charge by 50% of the road component if the development meets the following requirements:

1. That the principal enclosed entrance for the development is within a 400 metres radius of an existing or under construction transitway or light rail station and is accessible by walking; and
2. The parking requirement identified below for the proposed use is not exceeded.

USE	PARKING REQUIREMENT
Residential (i.e. apartments)	one parking space per dwelling unit
Retail	one parking space per 23 square metres of GLFA*
All others	one parking space per 37 square metres of GFA*

*GLFA = Gross Leasable Floor Area
*GFA = Gross Floor Area

Non Profit Housing

During the course of the Public Consultation on the Regional Development Charges By-Law, the Region received several submissions on non-profit housing. Requests to exempt non-profit housing corporations from development charges were received from:

1. Anglican Social Service Centre - Centre 454
2. Options Bytown
3. Taiga Non-Profit Housing Corporation
4. City Living
5. Nepean Housing Corporation
6. Gloucester Non-Profit Housing Corporation
7. Cornerstone
8. Communityworks Non-profit Housing Corporation
9. Centretown Citizens Ottawa Corporation
10. Canadian Mental Health Association

The *Municipal Act* permits the Region to provide exemptions from rates to non-profit housing entities. The original Regional Development Charges By-Law 210 of 1991, only required non-profit housing corporations to pay regional development charges if such charges had been allowed for in their funding allocation approved by the Federal Government.

The 1990s have seen relatively little new non-profit housing built. In the absence of a program by the Provincial and/or the Federal Government to encourage and fund non-profit housing, it can be anticipated that only a minimal amount of new non-profit housing will be built. Nevertheless, given the expression of concerns by the above organizations, to be on record as supporting non-profit housing and to encourage the Federal and Provincial governments to provide renewed support, it is recommended that the new Regional Development Charges By-Law exempt all non-profit housing.

OTHER ISSUES

Health Care Facilities

On May 4, 1999, the Corporate Services and Economic Development Committee received and tabled the final report from the Regional Chair's Task Force on Health. Included in the recommendations is direction to the Finance Department to review Recommendation #5 in conjunction with the Regional Development Charge Report to be considered on June 15, 1999.

Specifically Recommendation #5 contains two specific directions as follows:

this task force report be referred to regional finance staff for their review and that they report back to the Corporate Services and Economic Development Committee on June 15, 1999 regarding the possibility of including a component in the revised Regional Development Charges by-law for community health needs; and FURTHER THAT the Finance Department be directed to prepare a report on the feasibility of exempting hospitals, long-term care facilities and other non-profit health care institutions from paying development charges when they undertake new construction or expansion.

With respect to the first direction, the new Development Charge Act does permit the inclusion of a charge for recovering the growth-related costs associated with the construction of new health care facilities. However, the Act does not permit the inclusion of growth-related costs for public hospitals.

In the preparation of the Background Study, a RDC component for health care facilities was not included due to the uncertainty surrounding the current health restructuring exercise. The identification of specific health projects over the next ten years to service growth is required in order to substantiate the need for the charge component.

Staff recommend that the responsibility for identifying the health care facilities which will be required to service the future needs in the Region be assigned to the Health Department. Upon receipt of this information, staff will prepare a report outlining the RDC rate required to fund the growth related component of these projects.

INDEXING OF THE CHARGES

The DCA requires that rules must be developed regarding indexing of development charges based on a prescribed index.

It is important that the quantum of the development charge collected increases over time in accordance with the change in construction prices, in order to preserve its purchasing power. It is therefore recommended to provide for the indexing of RDCs on an annual basis. The applicable index rate is a published construction price index stipulated by the DCA - the Statistics Canada Quarterly, “Construction Price Statistics” (Catalogue number 62-007).

PUBLIC CONSULTATION

An extensive consultation process has been undertaken by Regional staff during the development of the Background Study. This consultation involved community associations, builders and developers, and area municipalities.

Staff invited the following stakeholder groups to meetings last summer to plan with them how meaningful consultation would occur throughout the review process:

1. Area municipal treasurers, development charge collectors and planners;
2. Ottawa-Carleton Homebuilders Association and Building Owners and Managers Association; and
3. Community Associations.

Policy meetings/workshops were held in early November where representatives of the stakeholder groups, as well as Members of Regional Council, were invited individually and collectively to review and provide input on each of the major components of the RDC policy. These policy components included:

- Growth forecasts and persons per unit assumptions
- Ten year average service standards
- Area specific methodology
- Current capacity assessments
- Growth related infrastructure forecasts
- Residential/Non-residential and growth/existing benefit allocations

Staff held two rounds of informal meetings in January and February with the three stakeholder groups noted above to provide information on draft uniform region-wide and area-specific initial calculations and to solicit input to these draft calculations.

More information regarding the public consultation conducted during the development of RDC policy can be found in Appendix H to the Background Study.

During the consultation process a number of public submissions from a wide variety of stakeholders were received. A high level summary of the categories of stakeholder groups and their concerns follows below, while the details of their concerns may be seen in the compilation of public submissions issued separately to Committee members May 17, 1999 and available for public viewing in the Clerk’s Department.

<u>OCHBA issues</u>

Some of the more significant issues that staff have been working on with the OCHBA are outlined in an April 21, 1999 memorandum (attached as Annex "C") to Council members.

<u>Area Municipalities</u>

The rural municipalities, (Townships of Osgoode, Rideau, Goulbourn and West Carleton) were particularly concerned with the proposed increase to rural commercial and industrial RDC's. The proposed non-residential charge is $2.70/sq. ft. for urban serviced and $1.63/sq. ft. for rural unserviced. Although the proposed rates are only a small percentage (i.e. 22%) of what the Development Charges Act (DCA) allows in order that "growth pays for growth" (i.e. $1.63.sq. ft. vs. $7.38/sq. ft. theoretical calculated charge for rural unserviced) the rural municipalities contend that the increase of 121% for commercial (i.e. $0.736 current vs. $1.63 proposed) and 343% for industrial (i.e. $0.363 current vs. $1.63 proposed) would penalise the rural industrial development with the proposed single fee structure.

As noted earlier in this report, in the section entitled "Anticipated Impact of Development Charges on Development", staff have reviewed the matter of service demands arising from commercial and industrial development. As a result of this review staff are recommending that a specific rate for industrial development be established at 50% of the full non-residential rate and be applied to all industrial development in the Region. West Carleton and Rideau Townships indicated their support for the recommended three area-specific charge as did Vanier and Ottawa.

Gloucester and Nepean noted that their support for the three area-specific charge approach was qualified. Gloucester suggested the Region's area-specific methodology for cost allocation be modified so that there is a combination of an area specific charge for underground services and a uniform charge for transportation, transit services, sewage treatment and water purification. Nepean supported the principle behind the three area-specific charge conditional on an approach similar to Gloucester's suggestion, in addition to having separate reserve funds created by service category for each of the three areas to ensure funds collected in each area are available to support the related capital works (in those areas) on a timely basis. The Regional staff position on area-specific charges is well described in this Policy Report and staff continue to maintain that it is an appropriate position.

In Nepean's submission they suggested that the future Jock River Collector Sanitary Sewer be removed from the Region's charge and left in Nepean's. Regional staff note that this facility is a Regionally significant work and therefore should be removed from Nepean's charge.

Cumberland supported the three area-specific approach but on the basis that the existing charge not be increased.

Ottawa requested that the Centretown area continue to be exempt from residential RDCs as contained in the (since repealed) Regional By-law No. 31 of 1995.

Regional staff are not recommending an exemption for Centretown for the reasons outlined earlier in this report. However, should Council adopt the recommendation to reflect a lower development charge for development in the vicinity of transit stations, this could provide a reduced development charge for much of the Central Area and Centretown.

Business Improvement Areas

The Bank Street BIA, Somerset BIA and Byward BIA requested the Centretown exemption from RDC's in order to keep a vibrant downtown through residential development. The Bank Street BIA supports the three area-specific charge approach.

Non-Profit Housing Corporations

A large number of non-profit housing corporations and other agencies interested in the provision of non-profit housing and emergency shelter requested exemptions from RDC's for non-profit housing. They noted that such an exemption would facilitate the creation of new units to start to address the massive waiting list for affordable social housing.

As noted earlier in this report, staff have considered the submissions and are recommending an exemption from RDC's for non-profit housing created by non-profit housing corporations.

Developers/Builders

In addition to the OCHBA submissions, more than a dozen submissions were received from individual developers/builders. Overall, their concerns generally center on the proposed three area-specific charge and the resultant charge quantum in the suburban areas outside the Greenbelt ($11,658 vs. $7,000 currently).

They prefer the use of a uniform Region-wide rate across the Region. One developer/builder who undertakes development inside and outside the Greenbelt, however, gave qualified support for the three area-specific charge. He stated that his "Ottawa projects are particularly price sensitive and therefore will suffer greatly from a sudden cost increase. If this differentiation is only possible through a three-area charge (rural, suburban and urban) then they would have to support such structures".

It is important to note that the current residential rates ($7,000 for a single family unit above 1,100 sq. ft.) were adopted by Council as interim rates (Corporate Services and Economic Development Report 36 dated May 1996 refers). When the by-law was adopted in 1991, it provided for full implementation of the Theoretical Maximum Charge in 1995 ($11,759 plus indexing). In 1996 the charge was reduced from $8,000 to $7,000 on an interim basis to assist the development industry in recovering from a poor 1995 that saw a 27% reduction in building starts over the previous year. The 1996 Committee report stated "with the completion of the RDS and the subsequent RDC policy report…. Council would be provided with the long term planning context with which longer term decisions regarding the setting of development charges can be made".

It appears that the current market conditions provide a more favourable position to adapt to the three area-specific charge that is recommended in this report.

Private Citizen input

Four submissions were received from private citizens who were in favour of area-specific charges - two of the residents stating a preference for the nine area specific charge over the three area-specific charge because they feel it "more closely relates RDC's to the actual costs of providing the required infrastructure."

NEXT STEPS

1. After Council adoption, notice of by-law passage to be published within 20 days.
2. Anyone interested in doing so has until 40 days after the adoption of the by-law to file an appeal with the Clerk.
3. The Ontario Municipal Board will hear and dispose of any appeals to the by-law.
4. The Ontario Municipal Board, in disposing of the appeal(s), may not:
   a) increase the amount of a development charge that will be payable in any particular case;
   b) remove, or reduce the scope of, an exemption;
   c) change a provision for the phasing in of development charges in such a way as to make a charge, or part of a charge, payable earlier;
   d) change the date the by-law will expire.

Effectively, the Ontario Municipal Board may only reduce the charge.

CONCLUSION

The three area-specific charge option is recommended as the RDC for residential development. Staff recommend that the full value theoretical residential charges for that option be adopted. Staff also recommend that the full service non-residential charges for commercial and institutional development be capped at $2.70/sq. ft. ($29.06 per square metre) and that the full service non-residential charges for industrial be established at 50% of the full commercial/institutional charge, and that these charges be applied to all three RDC areas, for all services, with proportionate reductions outside the various service areas.

Approved by
J.C. LeBelle
Finance Commissioner

Approved by
N. Tunnacliffe
Commissioner, Planning and Development Approvals

List of Annexes

Annex A	Recommended Regional Development Charges
Annex B	Comparative Development Charge Information for Selected Ontario Municipalities
Annex C	Staff memorandum dated April 21, 1999
Map AS-9	Nine Area Specific Development Charges
Map AS-3	Three Area Specific Development Charges