

The Regional Municipality of York

Committee of the Whole
Finance and Administration
February 10, 2022

Report of the Commissioner of Finance

Rate Structures for the 2022 Development Charges Bylaw

1. Recommendations

1. Council approve the use of a uniform Region-wide development charge rate structure to recover the growth-related costs in the 2022 York Region Development Charges Bylaw, with the exception of those wastewater services in the Village of Nobleton, currently recovered under Bylaw 2021-34.
2. The Regional Clerk circulate this report to the local municipalities and the Building Industry and Land Development Association (BILD) – York Chapter.

2. Summary

An update to the Region's development charges background study and bylaw is currently underway. The current bylaw will expire on June 16, 2022. The updated background study and bylaw will include the Region's share of the Yonge North Subway Extension (YNSE). This report seeks Council approval on the recommended rate structure for levying development charges in the new bylaw.

Key Points:

- Development charges rates can be either uniform across the Region, or area-specific, that is differentiated based on geography
- The Region has historically used uniform development charges and property taxes to fund growth-related infrastructure. The only exception has been the use of an area-specific development charge for the standalone wastewater system in the Village of Nobleton
- Municipalities are required to consider the use of area-specific development charges with every background study
- A uniform rate structure continues to be appropriate for all existing development charge eligible services
- YNSE will be discrete service that will be included for the first time in the 2022 Development Charges Background Study

- The YNSE is a strategic network asset that is integral to the Region's transportation network. The Region's contribution to the YNSE is estimated to be \$1.12 billion, and 75% is funded by development charges
- Three options were considered for levying development charges for the YNSE
 - Option 1: Uniform approach - All development across the Region within the same rate class would be charged the same DC rate for the YNSE
 - Option 2: Two zones, municipalities currently serviced by regional rapid transit versus those not serviced by rapid transit- All development across the Region would be charged a DC rate for the YNSE, but at different levels depending on which zone the development is in. Please see Appendix 1 for a map of each zone.
 - Option 3: Base rate with a YNSE Major Transit Station Area (MTSA) surcharge - All development across the Region would be charged a base DC rate for the YNSE. Development within the five subway MTSA's would be charged an additional DC rate. Please see Appendix 2 for a map the YNSE MTSA areas.
- A uniform rate is recommended for all regional services in the 2022 Development Charges Background Study and Bylaw, including the YNSE. The York Region Rapid Transit Corporation Board of Directors has also endorsed a uniform rate structure for the YNSE
- Private attachments to this report will be considered in private session as they relate to solicitor client privilege information and/or potential litigation involving the Region and are a specified exception as per Section 239 (e) and (f) of the *Municipal Act, 2001*

3. Background

Development charges are a cost recovery tool to fund a share of growth-related infrastructure costs

Under the *Development Charges Act, 1997* ("Act"), Council can impose development charges to recover growth-related capital costs from development within the municipality. These fees are collected from developers to help fund growth-related regional services including water, wastewater, roads, transit, policing, paramedics, public health, social housing, and other general services.

Municipalities are required to make deductions for ineligible projects, service-level caps, and the portion of the infrastructure that benefit the existing residents and employees. Furthermore, deductions are made to reflect the extent to which a capital project benefits growth occurring outside of the planning horizon of the bylaw. Due to these deductions, development charges partially recover the cost of growth over a long period of time.

Development charges can be recovered through a uniform or area-specific rate

Development charges (DC) can be levied on a uniform basis, where the same charge is applied across the municipality, or area-specific basis to reflect different needs for services in different areas.

Area-specific development charges (ASDC) can be applied to a localized area where the growth-related infrastructure provides a clear benefit to anticipated development in a clearly delineated geographic area.

ASDCs can also be applied to multiple large areas across a municipality to reflect differences in level of service. For example, Halton Region has two area-specific rates to their water and wastewater distribution services that spans the entire region. All developments would pay development charges for regional water and wastewater distribution service, but at different rates.

The Act requires municipalities to consider the use of area-specific development charges in every background study

Under section 10 of the Act, before passing a development charges bylaw, Council must consider the use of area-specific development charges. With exception of the current stand-alone wastewater project in the Village of Nobleton, the Region has historically used a uniform approach for its infrastructure, including the Toronto-York Spadina Subway Extension (TYSSE) and the Upper York Water Reclamation Centre (UYWRC).

The current Nobleton Area-Specific Bylaw is not affected by the 2022 Development Charges Background Study and Bylaw

Since 2006, the Region has levied area-specific development charges for wastewater servicing in the Village of Nobleton. This area-specific development charges bylaw was most recently updated in May 2021 and is due to expire in 2026 (Bylaw No. [2021-34](#)). Wastewater servicing for the Village of Nobleton, recovered through this area-specific bylaw, is not impacted by the 2022 Development Charges Background Study and Bylaw.

The Region's share of the YNSE will be included in the 2022 Development Charges Background Study and Bylaw as a discrete service

The YNSE will be included in the 2022 Development Charges Background Study for the first time. As per the Ontario-York Region Transit Partnership Preliminary Agreement (May 2020), the Region is expected to contribute its pro-rata share to the subway's construction. In May of this year, the federal government announced up to \$2.24 billion for the project. Based on current estimated project budget of \$5.6 billion, the Region's share is expected to be \$1.12 billion.

In the fall of 2021, the Province amended the Act, through Bill 13, *Supporting People and Businesses Act, 2021* ("Bill 13"), to treat the YNSE as a discrete service with a forward-looking planned level of service, and extending the planning horizon from 10 to 20 years. Bill 13 received Royal Assent on December 2, 2021, with the changes coming into effect on

January 1, 2022. The 2022 Development Charges Background Study and Bylaw, including the associated development charges rates, will reflect the amended Act and associated supporting regulations.

The changes under Bill 13 allow the Region to recover development charges for the YNSE faster compared to if the subway is treated as a Transit Service, which is limited to a 10-year planning horizon. However, these changes will not impact how the DC-funded share of the YNSE is determined.

Three data-driven methodologies were used to determine that a 75% share of the Region's YNSE costs will be eligible for recovery through DCs

Transportation Services developed three methodologies to estimate the DC funded share of the YNSE. These methodologies consider growth in ridership among existing versus future users, capacity of the infrastructure, and assessment of population and employment projections. These methodologies reflect land use planning and growth assumptions that consequentially underpins the development of the Transportation Master Plan. As a result, a 75% DC funded share will be used for the YNSE for the 2022 DC Background Study.

The Province announced the Transit-Oriented Communities initiative to deliver transit supportive development along priority transit infrastructure

The Province's Transit-Oriented Communities (TOC) program has the potential to create high-density communities at transit stations along priority transit lines, including the YNSE. Under the provincially led TOC program, the Province is partnering with developers to plan and deliver integrated development with transit expansion. The Province has broad powers to pursue TOC arrangements, through the *Transit Oriented Communities Act, 2020*.

Details pertaining to TOC arrangements are to be worked out through agreements, including an "Agreement in Principle", which spells out, among other things, the roles and responsibilities pertaining to TOCs overall. In addition, site-by-site TOC agreements will outline technical details. At this time, the financial implications of TOCs are unknown.

Growth proposed for the TOCs at Bridge and High-Tech stations is well beyond the planned vision of the Regional Centres and Corridors

The Province has announced two YNSE TOC sites in York Region, at Bridge and High-Tech stations located in the Richmond Hill/Langstaff Gateway Regional Centre. TOC proposals are also anticipated for Royal Orchard, Clark and Steeles stations.

The proposed densities by the Province and TOC proponents at the two TOC sites are notably higher than what is anticipated in the [Region's Draft Regional Official Plan \(November 2021\)](#). The Draft Official Plan underpins the Region's master plans and the 2022 Development Charges Bylaw. Uncertainty around the projected growth in the TOCs poses challenges to developing robust estimates for required capital costs and forecasted draw on services. Regional staff are working with the Province and TOC proponents to ensure proposals align with and advance Regional and local municipal interest.

Further details on the proposed TOCs at Bridge and High-Tech stations, including planning implications, were provided in the report entitled “Yonge North Subway Extension Transit-Oriented Communities Proposals Markham and Richmond Hill” for consideration by Regional Council on January 13, 2022.

4. Analysis

The Region has historically levied property taxes and DCs on a uniform basis

The Region has historically levied uniform property taxes and DCs for growth-related infrastructure. The only exception is an area-specific development charge for the stand-alone wastewater system in the Village of Nobleton.

In December 2021, Council approved a 1% Rapid Transit Infrastructure Levy that would help fund the non-DC eligible portion of the YNSE. This levy is also applied and collected on a uniform region-wide basis.

From 2012 to 2021, the Region invested \$7.4 billion in infrastructure to service and enable growth across all nine local municipalities, and to ensure that assets are maintained in a state of good repair. Of this amount, \$2.6 billion was funded or financed through uniform region-wide development charges, with the rest funded through region-wide user rates, property taxes, and third-party funding. Major DC-funded projects include: TYSSE, Duffin Creek Water Pollution Control Plant, York-Durham Sewage System (YDSS), West Vaughan Sewage Servicing, the South East Collector and many others.

Area-specific development charges are typically used for infrastructure with a clearly delineated benefiting area

An area-specific development charge is most appropriate when the population and employment growth benefiting from the infrastructure can be clearly delineated geographically. Area-specific development charges are most often used to recover costs for hard infrastructure or engineering projects such as water towers, water mains, sewer pumping stations, sewer mains and sometimes roads and related infrastructure.

Ontario municipalities do not typically levy area-specific development charges for “soft” services or protection services such as police, social housing, paramedic stations or others. These types of services are typically planned for and delivered on a municipality-wide basis and therefore a uniform approach would be the most appropriate.

A uniform development charge structure is the most common approach to recover costs among neighbouring upper and single-tier municipalities

A review of the development charges treatment in neighboring municipalities was undertaken by staff. Based on this scan, neighboring municipalities rely predominantly on a uniform development charge rate structure to recover growth-related capital costs.

Table 1 summarizes this interjurisdictional scan, where a check mark (✓) indicates that the municipality uses a uniform approach, and an X (✗) indicates that the municipality uses an area-specific approach.

Table 1
Municipal Peers Rely Predominantly on Uniform Development Charges

| Municipality | Water and Wastewater treatment | Water and Wastewater delivery/supply | Roads | Transit (Incl. higher order) | Police and other general services |
|---------------------|---------------------------------------|---|--------------|-------------------------------------|--|
| York | ✓* | ✓ | ✓ | ✓ | ✓ |
| Toronto | ✓ | ✓ | ✓ | ✓ | ✓ |
| Peel | ✓ | ✓ | ✓ | ✓** | ✓** |
| Halton | ✓ | ✗ | ✓ | ✓ | ✓ |
| Durham | ✓ | ✓* | ✓ | ✓ | ✓ |
| Waterloo | ✓ | ✓ | ✓ | ✗*** | ✓*** |

*York has one area-specific bylaw for wastewater service in Nobleton. Durham has one area-specific bylaw in Seaton for water supply and sanitary sewage services

**The local municipalities in the Region of Peel provide Transit services. The Town of Caledon is serviced by the Ontario Provincial Police, not by Peel Regional Police, and is therefore not levied Peel Regional Police Services DCs

***Townships of North Dumfries, Wilmot, Wellesley, and Woolwich have limited Transit service, and are not charged Transit DCs. Library DCs only apply in the Townships

Beginning in 1997, Toronto levied an area-specific development charge for the Sheppard Subway Extension. Due in part to limited DC collections, the City moved to a uniform municipal-wide rate structure in 1999. The City of Ottawa provides a non-DC funded reduction on transit DC rates in rural areas. Local municipalities in York Region levy uniform development charges and area specific development charges. Area specific development charges are typically employed by local municipalities to recover for local water, wastewater or stormwater services.

A uniform approach continues to be appropriate for all of the Region's DC-eligible services

Staff evaluated the appropriateness of the DC rate model for all of the Region's growth-related infrastructure and recommend continuing with a uniform approach for the 2022 Development Charges Bylaw for the following key reasons:

- Regional services are managed as a network and the level of service is relatively consistent across the Region

- Aligns with the use of uniform Region-wide property taxes to fund the non-DC share of costs
- Deviation from a uniform approach may set a precedent for other services or projects (e.g., Upper York Water Reclamation Centre)
- Data and robust methodologies are available to demonstrate the need for growth-related infrastructure due to projected growth

YONGE NORTH SUBWAY EXTENSION CONSIDERATIONS

The YNSE will be an integral part of the Region's Transportation network, providing transportation and societal benefits across the Region

The YNSE will be an integral part of the Region's greater Transportation network, which includes the Region's transit and roads systems. The YNSE connects riders to the Region's greater transit network serviced by conventional transit, Bus Rapid Transit (BRTs) and the GO transit network. In this way, the YNSE helps to move residents and employees from outside and across the Region.

The YNSE could also help shift people from using automobiles to transit and active transportation. It is estimated that the automobile share of trips during the morning peak period could reduce from 65% in 2016 to 61% in 2041. This mode share reduction is mainly attributable to planned transit and road improvements including YNSE, BRTs and High Occupancy Vehicle (HOV) lanes along major corridors. As a result of this mode shift, vehicle kilometres travelled during the morning peak period in 2041 could be reduced by 186,400 and Green Houses Gases (GHG) emissions may be reduced by about 77,000 tonnes annually.

The economic benefits of the YNSE are expected to span across and out of the Region. The YNSE Federal Benefit Case prepared by Deloitte showed that from 2022 to 2041, the subway could generate over 52,000 new jobs and increase Canada's GDP by \$7.8 billion. It could also result in clustering of economic activities leading up to productivity increases.

An area-specific approach for the YNSE could set a precedent for other growth-related infrastructure

Using an area-specific approach for the YNSE could set a precedent for the cost recovery approach for other growth-related infrastructure. For example, the Upper York Water Reclamation Centre, which would provide capacity to East Gwillimbury, Newmarket and Aurora, is a key piece of infrastructure to support growth in northern York Region. Currently, development charges for this project are levied on a uniform approach.

In addition, in areas where there is higher transit use, there may be lower automobile use. Implementing area-specific development charges for the YNSE could warrant consideration of complementary ASDCs for the roads service in the same areas.

Three DC rate structure options have been developed for the YNSE

Three development charge rate structure options to collect for the YNSE have been developed and are summarized in the table below. Under each of these approaches, the portion of the subway that is funded by development charges remains the same.

Table 2
Development Charge Rate Structure Options for the YNSE

| Option | Description |
|--|---|
| 1: Uniform Rate | Development within the same rate class would be charged the same YNSE DC rate across the Region |
| 2: Two Zones, Municipalities currently serviced versus not serviced by rapid transit | All development across the Region would be charged a YNSE DC rate, but at differing levels depending on the zone Please see Attachment 1 for a map of each zone. |
| 3: Base Rate with a YNSE Major Transit Station Area (MTSA) surcharge | Development within the same rate class would be charged a common base YNSE DC rate Development within the five YNSE MTSA's would be charged an additional DC rate Please see Attachment 2 for a map of the YNSE MTSA areas. |

A uniform rate structure for YNSE is consistent with the Region's past practice

A uniform rate structure for the YNSE would be consistent with the other services in the 2022 DC Background Study and Bylaw. This approach reflects that the YNSE is integrated with the Region-wide transportation network, which provides benefits across the Region rather than contained in a clearly delineated area.

Under this approach, consistent with past practices, all development across the Region within the same rate class would be charged the same rate for the YNSE.

Private Attachment 1 provides additional material on each option for Council consideration. The attachment will be considered in private session because it contains analysis subject to solicitor/client privilege information and/or potential litigation.

The “rapid transit zone” option would allow for differentiated rates based on anticipated draw on service

This option would charge two YNSE DC rates to reflect two zones: municipalities that are currently serviced by the Bus Rapid Transit (BRT) network would likely use the YNSE more frequently compared to those that do not. A map of the zones is included in Attachment 1.

Using this approach, all development in the Region would pay a YNSE development charge, but at different levels to reflect that municipalities with access to the BRTs are likely to have higher draw on service for the YNSE.

A surcharge at YNSE Major Transit Station Area would result in the highest DC rates in areas closest to YNSE subway stations

As established through the ROP, the Major Transit Station areas are a key component of the Region's Intensification and Growth Management Strategy, delineating locations within walking distance of a higher order transit stations, suitable for higher density and mixed-use TOC development. Each MTSA is unique with its own growth potential and will be planned based on local context and conditions.

Currently, the ROP includes five Subway MTSA's that are used for determining the benefiting areas for the YNSE surcharge: Richmond Hill Centre Subway Station, Langstaff-Longbridge Subway Station, Clark Subway Station, Royal Orchard Subway Station, and Steeles Subway Station. Details for these MTSA's are to be finalized upon further approvals.

This option would levy two YNSE DC rates. Development within the same rate class would be charged a common base YNSE DC rate to reflect the share of the YNSE that provides region-wide benefits of the subway. Development within the YNSE five MTSA's would be charged an additional DC rate to reflect the anticipated higher draw on service by these developments.

MTSA boundaries are not intended for the levying of development charges. A map of the zones is included in Attachment 2 for illustrative purposes. Should Council select this option, those illustrative boundaries may need to be modified.

A uniform development charge rate structure is recommended for the YNSE

It is recommended that the growth-related costs for the YNSE be recovered through a uniform approach (Option 1) in the forthcoming 2022 Development Charges Bylaw. This approach reflects the Region-wide benefits provided by the YNSE and is consistent with the Region's practice for funding Region-wide infrastructure.

The York Region Rapid Transit Corporation Board of Directors has endorsed a uniform rate structure for the YNSE

At the January 18 meeting of the York Region Rapid Transit Corporation Board of Directors ("Board"), a presentation was provided on the rapid transit projects included in the 2022 Development Charges Background Study and Bylaw. The presentation also discussed potential rate structures for the YNSE, specifically the uniform, Region-wide structure as well as the two area-specific structures provided in this report. The Board endorsed the application of a uniform Region-wide rate to recover the growth-related costs for the YNSE.

A revised workplan requires tabling of the background study in March 2022

In the [2022 Development Charges Bylaw – Status Update Report](#), Council approved a 2022 DC Bylaw process which included February 2022 tabling of the DC Background Study and

Bylaw. To provide Council additional consideration for area-specific development charges related to the YNSE, the timeline has been amended as per Table 3. This revised workplan would allow for the tabled background study to reflect Council's decision regarding the rate option for the YNSE.

This revised workplan complies with all statutory requirements.

Table 3
Key Dates in the 2022 DC Bylaw Process Timeline

| Date | Deliverable |
|----------------------|--|
| February 10 | Report seeking Council decision on uniform vs. area-specific rate structure |
| March 3, 2022 | 2022 Development Charges Background Study and Bylaw tabled at Committee of the Whole |
| May 26, 2022 | 2022 Development Charges Bylaw to Council for approval |
| June 17, 2022 | 2022 Development Charges Bylaw and rates in effect |

5. Financial

The DC rates for the YNSE would differ under each option

Table 4 below summarizes preliminary YNSE DC rates under each option. The figures below provide an order of magnitude estimate. The proposed rates pertaining to the Council approved option will be finalized at the tabling of the 2022 DC Background Study and Bylaw. Under each option, 75% of the YNSE would be DC funded.

Table 4
Preliminary Total YNSE DC Rate Estimates per Single or Semi-Detached Dwelling

| Option | Approximate Rates | |
|---|---|--|
| Option 1: Uniform Rate | Across the Region \$5,800 | |
| Option 2: Two Zones, Municipalities currently serviced versus s not serviced by rapid transit | Zone 1: Rapid Transit Municipalities \$7,000 | Zone 2: Outside of Rapid Transit Municipalities \$1,000 |
| Option 3: Base rate with a YNSE Major Transit Station Area (MTSA) surcharge | Total YNSE Rate in MTSAs \$12,000 | Region-wide Base Rate \$5,000 |

If levied on a uniform basis, the YNSE DC rate would be approximately 0.4% of the anticipated price of a new single or semi-detached dwelling in 2022

Regional development charges have consistently remained under 5% of the average new home price for a single or semi-detached dwelling in the Region since 2017. In 2021, regional development charges were about 4.6% of the average price of a new single or semi-detached dwelling in the Region, down from 6.4% in 2012. Preliminary estimates show that if levied on a uniform basis, the YNSE DC rate is approximately 0.4% of the estimated average price of new single or semi-detached dwelling in 2022.

6. Local Impact

Most of the Region's DC eligible infrastructure services are managed as a network and support growth across local nine municipalities. These services also provide local benefits by connecting residents and businesses to the infrastructure network across the Region.

Since 2017, about half of the Region's DCs were collected by local municipalities and it is anticipated that this share will grow as the Region continues to intensify. Unlike Options 1 and 2, implementing Option 3 would require local staff to consult additional schedules to determine the application development charges rate.

7. Conclusion

An update to the Region's 2022 Development Charges Background Study and Bylaw is underway and will include the YNSE for the first time. Development charges will fund 75% of the Region's share of the YNSE. This report analyzes three rate structure options for the YNSE and seeks Council's approval on the use of a uniform approach to recover for all Regional services in the 2022 York Region Development Charges Background Study and Bylaw, including the Yonge North Subway Extension.

The draft 2022 Development Charges Background Study and Bylaw is planned to be tabled in March. A final background study and bylaw would be provided for consideration of Council approval on May 26, 2022, with a proposed coming-into-force date of June 17, 2022.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.



Recommended by:

Kelly Strueby

Acting Commissioner of Finance and Regional Treasurer



Approved for Submission:

Bruce Macgregor

Chief Administrative Officer

February 1, 2022

Attachments (2)

Private Attachment (1)

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