The Regional Municipality of York

Committee of the Whole
Finance and Administration
March 3, 2022

Report of the Commissioner of Finance

Draft 2022 Development Charges Bylaw and Background Study

1. Recommendations

1. Council receive the draft 2022 Development Charges Bylaw and Background Study (Attachment 1).

2. A report be brought forward to the May 26, 2022 meeting of Council recommending the approval of a 2022 Development Charges Bylaw.

3. The Regional Clerk circulate this report to local municipalities and the Building Industry and Land Development Association – York Chapter (BILD).

2. Summary

Development charges are fees levied on new residential and non-residential development that help pay for growth-related infrastructure. The *Development Charges Act, 1997* ("Act") sets out the legislative framework governing the establishment of development charges through a municipal bylaw that is to be updated at least every five years. This report tables the Regional 2022 Development Charges Background Study ("2022 Background Study") and a draft 2022 Development Charges Bylaw ("2022 Bylaw") brought forward for consideration.

Key Points:

- The 2017 Bylaw expires on June 16, 2022, and for the Region to continue to levy development charges, a new bylaw must come into effect on or before June 17, 2022
- As approved by Council on November 25, 2021, the 2022 Bylaw is based on a 20-year planning horizon, except for Transit services, which is limited to a 10-year horizon by legislation
- In the fall of 2021, the Province amended the Act, through Bill 13, *Supporting People and Businesses Act, 2021*, to treat the Yonge North Subway Extension as a discrete service with a forward-looking planned level of service, and extending the planning horizon from 10 to 20 years. These changes came into effect on January 1, 2022

- Out of $16.2 billion in gross capital costs in the Background Study, $7.9 billion is eligible for recovery through development charges under the 2022 Bylaw. Additionally, $1.9 billion is attributed to post-period benefit and level of service deductions and will be recovered through the future bylaws. The remaining $6.4 billion of gross capital costs will be funded through other revenue sources and third-party funding
- The 2022 Bylaw will also help to recover $2 billion of outstanding development charges debt costs. This debt was previously issued by the Region for infrastructure that continues to support growth
- On February 24, 2022, Council endorsed in principle, the use of uniform Region-wide development charges to recover growth-related costs in the 2022 Bylaw, with the exception of those wastewater services in the Village of Nobleton, currently recovered under Bylaw No. 2021-34
- Compared to the current bylaw, the residential rates are proposed to increase by between 17% and 31% depending on the dwelling type. Retail rates are proposed to increase by 4% and the industrial office and institutional rates are proposed to increase by 2%. Hotel rates are proposed to decrease by 5%
- Non-statutory transition provisions or discounts are not being recommended for the 2022 Bylaw

3. Background

To continue to collect development charges, the Region must update the 2017 Development Charges Bylaw prior to its expiration on June 16, 2022

Development charges fund vital growth-related infrastructure projects required to accommodate residential and non-residential development and are the primary source of funding for the growth-related portion of the Region's capital plan.

The Act requires that a municipality pass a new development charges bylaw at least every five years to collect development charges, and that the bylaw be supported by a background study. The background study provides an estimate of the anticipated growth and infrastructure costs to support growth. A new development charges bylaw must come into effect on or before June 17, 2022 for the Region to continue to levy development charges.

In January 2021, staff, with the assistance of Hemson Consulting Ltd. began the work on the 2022 Bylaw, which has included regular meetings with the local municipalities and BILD-York Chapter.

The draft 2022 Bylaw and Background Study, identified as Attachment 1, underpins the proposed development charges rates, as detailed in Tables 3 and 5 of this report and incorporates feedback from the meetings with BILD and the local municipalities.

The Act prescribes the rules for calculating development charges

Development charge rate calculations start with forecasting the growth anticipated in a municipality and determining the infrastructure needed to service that growth. Several statutorily required deductions (e.g., level of service cap, post-period benefit, benefit to existing) are then made to the estimated cost of infrastructure to determine the costs that are eligible to be recovered through development charges.

These eligible costs are then apportioned to the growth by class of development (i.e., residential and non-residential). The residential rates are calculated on a per-unit basis and are differentiated among four dwelling types: singles and semi-detached, multiple unit dwellings, apartments greater than or equal to 700 square feet, and apartments less than 700 square feet. The non-residential development charges are calculated on a per-square-foot basis and are differentiated among three classes of development: retail, hotel, and, industrial, office and institutional.

In November, Council approved policies that guided the 2022 Bylaw, including those that support a mix and range of housing options

Through the November 2021 report entitled “2022 Development Charges Bylaw: Policy Directions”, Council approved the use of a 20-year planning horizon, to 2041, for the 2022 Bylaw. A 20-year forecast horizon balances the ability to reflect long-term infrastructure needs with risks related to accuracy in forecasting over a longer term. Where appropriate, some services have chosen to use a horizon to 2031, such as Ambulance Services (formerly Paramedic Services) and Public Health. Transit is the only service, which the Act limits to a 10-year planning horizon.

As part of the same report, Council approved other key policies to support Regional objectives on the mix and range of housing options. Where applicable, these policies have been incorporated into the 2022 Bylaw and include:

- Treating stacked townhouses as apartments
- Charging residential dwellings less than 700 square feet the small apartment rate
- Removing a four-storey minimum requirement in the “Development Charges Deferral for Purpose-Built Rental Buildings” policy

In February, Council endorsed, in principle, levying development charges on a uniform Region-wide basis for all services in the 2022 Bylaw

On February 24 through the report titled “Rate Structures for the 2022 Development Charges Bylaw”, Council endorsed, in principle, the use of a uniform Region-wide development charges rates to recover growth-related costs for all services in the 2022 Bylaw. This does not include those wastewater services in the Village of Nobleton, currently recovered under Bylaw No. 2021-34.

The Region will hold the legislatively required public meeting at March Council

Under the Act, to pass a development charges bylaw, a municipality must hold at least one public meeting to receive feedback on the proposed bylaw. A 20-day notice must be provided to stakeholders for the meeting and the proposed bylaw and background study must be available to the public at least two weeks prior to it. With these timelines in mind, the public meeting supporting the 2022 Bylaw will be held at the March 24, 2022 Council meeting.

4. Analysis

The 2022 Background Study reflects robust growth set out in the Growth Plan and the Region's Draft Official Plan

The 2022 Bylaw and Background study supports approximately 168,000 new housing units accommodating projected gross population growth of about 476,300 between 2022 and mid-year 2041, and total employment growth of 210,600 jobs during the same period.

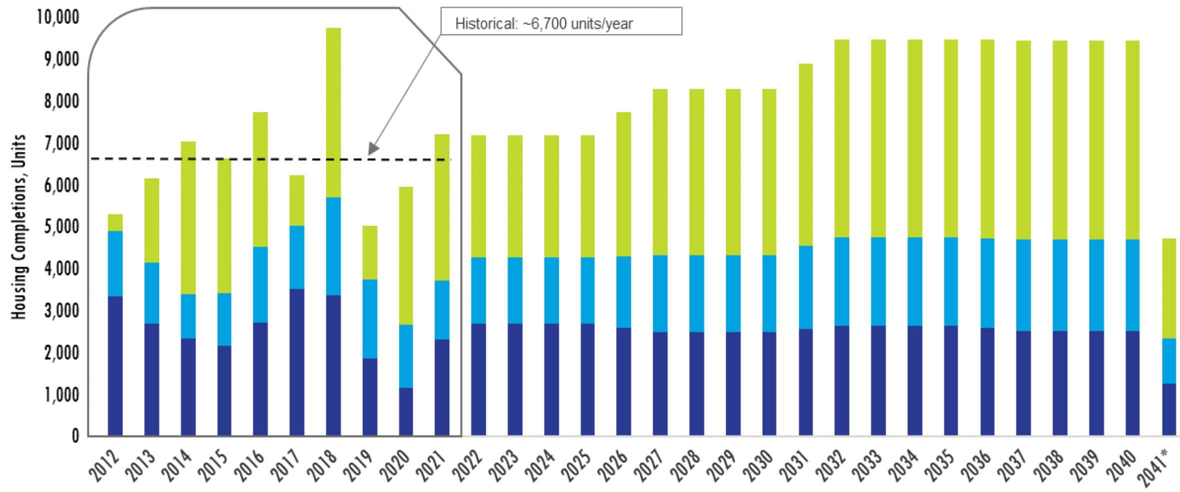
Schedule 3 of the Growth Plan for the Greater Golden Horseshoe provides population and employment forecasts to 2051 for York Region. The mid-2041 population forecast for the 2022 Background Study is on a trajectory to meet the 2051 Growth Plan forecast and is consistent with the growth contemplated in the Region's Draft Official Plan. The population and employment forecast for the 2022 Background Study also takes into consideration demographic trends, timing of servicing infrastructure, market demand, and intensification policy targets.

The Background Study anticipates a shift toward higher density forms of housing

Over the planning horizon, the Region is expected to see a shift in the housing mix to higher density forms of housing. As a result, apartments are estimated to represent 48% of the anticipated new housing units, followed by single and semi-detached units at 30% and multiple unit dwellings at 22%. For comparison, apartments represented 38% of the overall housing mix in York Region between 2011 and 2021. The housing growth forecast to 2041 estimates average annual growth of approximately 8,400 units per year, as demonstrated in Figure 1 below:

Figure 1

York Region Historical and Forecast Housing Growth



* 2041 numbers are provided for half a year

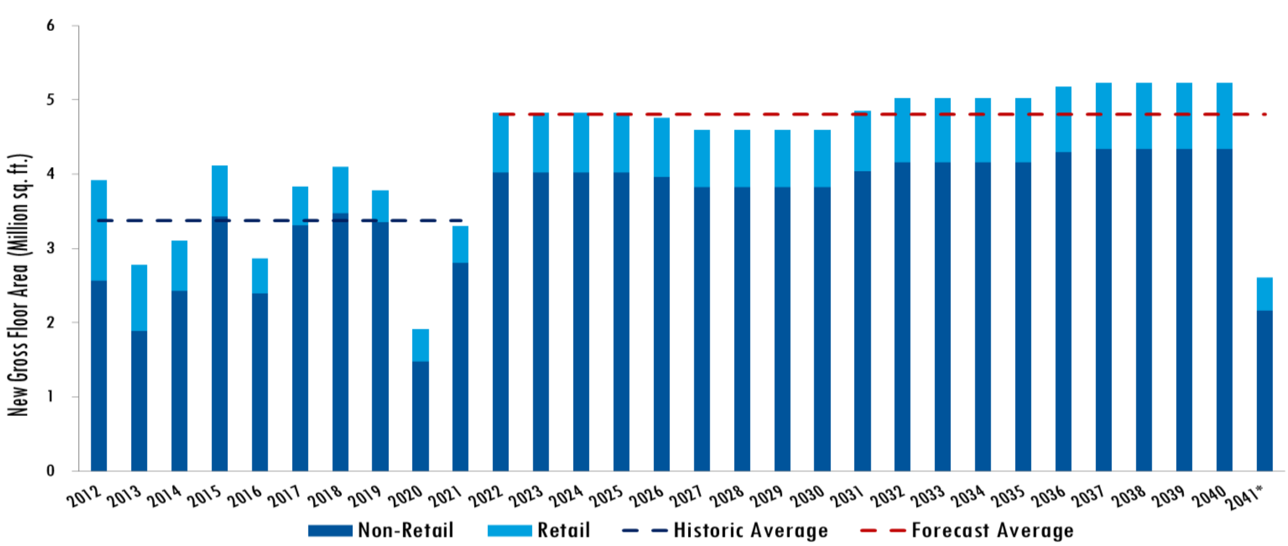
Source: Long Range Planning

The Background Study anticipates 96 million square feet of new non-residential space over the planning horizon

It is estimated that between 2022 and mid-year 2041 the Region will welcome 210,600 new jobs. To accommodate this employment growth, 96 million square feet of additional non-residential floor space would be needed over the forecast period, split between retail (15%), industrial, office and institutional (83%) and hotel (2%). As shown in Figure 2 below, average annual growth of 4.9 million square feet is forecasted between 2021 and 2041.

Figure 2

York Region Historical and Forecast Non-Residential Gross Floor Area



*2041 numbers are provided for half a year

Source: Long Range Planning

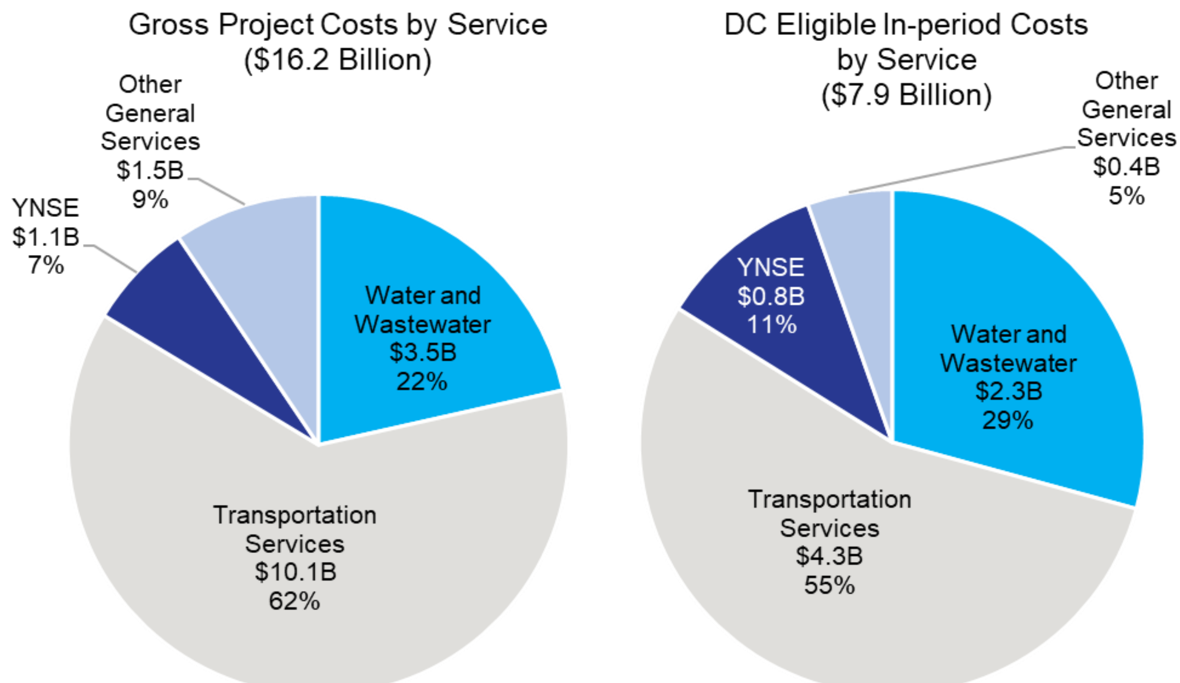
The Background Study reflects $16.2 billion in gross capital costs, of which $7.9 billion may be recovered through development charges under this Bylaw

The 2022 Background Study proposes $16.2 billion in gross capital project costs, including:

- $3.5 billion in Water and Wastewater infrastructure, including the Upper York Water Reclamation Centre
- $8.5 billion in Road Service to support multimodal travel in the Region
- $1.3 billion in Transit infrastructure projects, including future BRT expansion and support for electrification
- $1.1 billion in Region’s share of the Yonge North Subway Extension
- $0.9 billion for Housing Services
- $0.9 billion to support other general services, such as Public Health, Ambulance Services, Police, and Waste Diversion

Development charges fund a portion of growth-related infrastructure in the Region. Other funding sources include tax levy, user rates and third-party funding such as grants. Of the $16.2 billion in growth-related gross project costs, 49%, or $7.9 billion, are eligible for recovery through development charges under the proposed 2022 Bylaw, as shown in Figure 3 below.

Figure 3
Project Costs by Service



Note: Transportation services include: Roads, Transit, Toronto-York Spadina Subway Extension and Public Works
Other general services include: Waste Diversion, Police, Housing Services, Public Health, Ambulance Services, Growth Studies, Long-Term Care/Seniors Services, Court Services
Figures may not sum due to rounding

The 2022 Background Study includes $1.12 billion in costs for the Yonge North Subway Extension. This is the estimated Regional share for the project's capital construction costs. Under the 2022 Bylaw, 75% of this amount is eligible for recovery through development charges. In this Background Study, the Yonge North Subway Extension is treated as a discrete service, with a 20-year planning horizon and a forward-looking level of service.

The 2022 Bylaw reflects a shift towards transit and general services

Table 1 below shows that on an annualized basis, the development charges costs associated with the water and wastewater program is about the same as in the 2017 Bylaw. The 2022 Bylaw includes a notable increase in the Transportation program, driven primarily by increases in Transit (including Bus Rapid Transit infrastructure) and the new Yonge North Subway Extension. To support the Region's efforts to emplace more affordable housing, the 2022 Bylaw also includes increased investment for the Housing Services program. These trends reflect continued growth, maturation, and urbanization within the Region.

Table 1

Annualized Development Charges Costs*

Service Category	2017 Bylaw (As amended) ($ Millions)	2022 Bylaw ($ Millions)	Difference ($ Millions)
Water and Wastewater	181	180	-2
Transportation Services**	275	329	+54
Other General Services***	16	29	+13
Total	**472**	**538**	**+66**

* Annualized DC costs include in-period DC-eligible costs and DC debt. These costs are included in the DC rate calculation. The costs shown here have not been adjusted for inflation

** Transportation services include: Roads, Transit, Toronto-York Spadina Subway Extension, Yonge North Subway Extension, and Public Works

***Other General Services include: Police, Waste Diversion, Ambulance Services, Public Health, Housing Services, Court Services, Long-Term Care/Seniors Services, and Growth Studies

Numbers may not add due to rounding

The 2022 Bylaw will help to recover $2 billion in outstanding development charges debt

Development charges debt is issued, when necessary, to help pay for growth-related infrastructure, which is often required before growth occurs. As the growth occurs, the cost of that debt is repaid through development charge collections. The Region currently has $2 billion in outstanding development charges debt associated with infrastructure projects that continue to service growth over the planning horizon of the 2022 Bylaw (Table 2).

Table 2
Outstanding Development Charges Debt

Service Category	Outstanding Debt to be Repaid from Development Charges ($ Millions)
Water and Wastewater	1,293
Transportation Services	432
Toronto-York Spadina Subway Extension	222
Other General Services*	85
Total	**2,031**

*Other General Services include: Police, Waste Diversion, Ambulance Services, Public Health, Housing Services, Court Services, Long-Term Care/Seniors Services, Growth Studies
Numbers may not add due to rounding

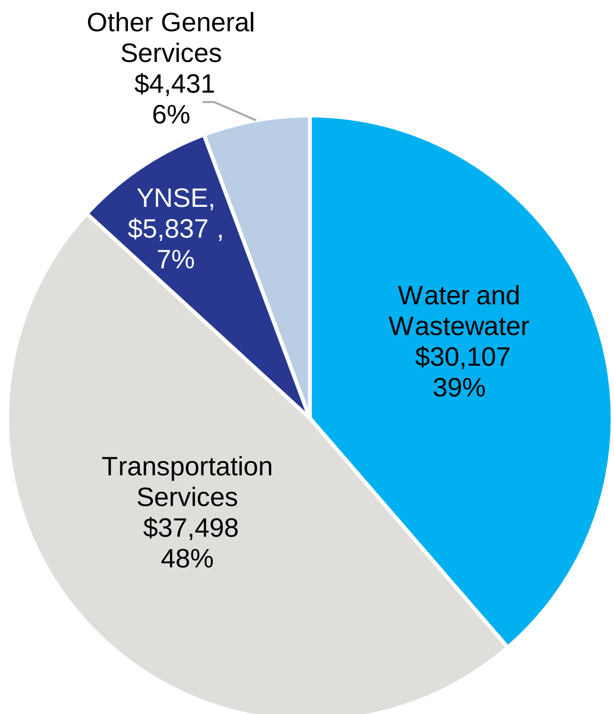
Regional development charges reflect the growth-related services in the 2022 Background Study

For each residential and non-residential category, Regional development charges rates were calculated based on the development and growth forecast, infrastructure costs , statutory deductions, outstanding debt, and opening reserve balances.

The split by service area is demonstrated in Figure 4 below for the proposed single and semi-detached dwelling rate under the 2022 Bylaw, for the total of $77,873:

Figure 4

Proposed 2022 Development Charges Rate for a Single and Semi-Detached Dwelling, by Service



Note: Transportation services include: Roads, Transit, Toronto-York Spadina Subway Extension, and Public Works
Other General Services include: Police, Waste Diversion, Ambulance Services, Public Health, Housing Services, Court Services, Long-Term Care/Seniors Services, Growth Studies.
Figures may not sum due to rounding

The Region has prepared an asset management plan in accordance with the Act

The amended Act requires municipalities to prepare an asset management plan as part of the Background Study to demonstrate that all assets funded by development charges are financially sustainable over their lifecycle. The intent of this requirement is to ensure that municipalities do not include growth projects in their background studies that are not financially sustainable. The regulations to the Act provide specific and detailed requirements for an asset management plan for Transit services.

The asset management plan, as prepared under section 10 of the Act, can be found in Attachment 1.

5. Financial

Residential rates would rise between 17% and 31%

As Table 3 indicates, the draft 2022 development charges rates for residential development would increase by 17% to 31%, depending on the structure type.

Table 3

Residential Development Charges Rates: Current Bylaw vs. 2022 Proposed

Residential ($ per unit)	Current Rates (As of Jan 1, 2022)	2022 Proposed Rates	% Change
Single and Semi-Detached Dwellings	65,608	77,873	+19%
Multiple Unit Dwellings	52,814	64,792	+23%
Apartments >=700 sq. ft.	38,382	50,280	+31%
Apartments < 700 sq ft.	28,042	32,702	+17%

The difference in the proposed rate increases among residential classes is largely due to the changing occupancy levels observed in the Region. As shown in Table 4 below, compared to the 2017 Bylaw, occupancy levels have increased for all structure types except for small apartments. Two sources were used for that analysis, namely, Statistics Canada Census information and RealNet data on the unit types and sizes. Large apartments have the highest increase at 12%. The trend of large apartments seeing a higher increase in occupancy levels is also observed in other municipalities. For example, the Region of Peel's 2020 Background Study and the Region of Halton's draft 2022 Background Study also reflect higher occupancy levels.

Table 4

Occupancy Levels: Current Bylaw vs. 2022 Proposed

Residential Structure Type	2017 Bylaw Occupancy Level (Persons Per Unit)	2022 Proposed Bylaw Occupancy Level (Persons Per Unit)	% Change
Single and Semi-Detached Dwellings	3.74	3.81	+2%
Multiple Unit Dwellings	3.01	3.17	+5%
Apartments >=700 sq. ft.	2.19	2.46	+12%

Residential Structure Type	2017 Bylaw Occupancy Level (Persons Per Unit)	2022 Proposed Bylaw Occupancy Level (Persons Per Unit)	% Change
Apartments < 700 sq. ft.	1.60	1.60	0%

If projected occupancy levels remained unchanged compared to the last Background Study, development charges rates would have increased by 17% for all residential structure types.

The proposed Regional single and semi-detached dwelling rate represents less than 5% of the price of a new home

Development charges are a necessary cost recovery tool for growth-related infrastructure, which enables housing supply and facilitates complete communities throughout the Region. The proposed 2022 Background Study and Bylaw would also help fund a portion of the capital costs for new Housing York Inc. developments.

York Region's current development charges for single and semi-detached dwellings represent 4.6% of the average price of a new single and semi-detached home in the Region in 2021, as per CMHC data. Similar levels are observed in other upper-tier GTA municipalities. For example, 2021 development charges in Peel Region for single and semi-detached dwellings are about 4.8% of the average price of a new home. With proposed 2022 Bylaw rate increase in York Region, the Region's share is expected to stay below 5% compared to forecasted new home prices for 2022.

Proposed non-residential rates would be approximately the same under the 2022 Bylaw

As Table 5 indicates, the proposed 2022 development charges rates represent a 4% increase for retail, 2% increase for industrial/office/institutional developments, and a 5% decrease for hotel. Changes in the share of growth from non-residential developments over the planning horizon, floor space per worker assumptions and changes in trip generation rates affects the non-residential development charges rates.

Table 5

Non-Residential Development Charges Rates: Current Bylaw vs. 2022 Proposed

Non-residential ($ per sq. ft. of Gross Floor Area)	Current Rates (as of July 1, 2021)	2022 Proposed Rates	% Change
Retail	58.50	60.58	+4%
Industrial/Office/Institutional	24.31	24.70	+2%
Hotel	11.44	10.91	-5%

Non-statutory transition provisions or discounts are not being recommended

Under the Act, a municipality has the option to collect development charges before (i.e., prepayments) or after (i.e., deferrals) they would otherwise be payable. Municipalities could also offer development charges discounts and/or exemptions. These provisions could result in lost revenue that must be made up through the tax levy or user rates.

Changes to the Act, through Bill 108, *More Homes, More Choices Act, 2019*, introduced the new section 26.2, which provides that development charges rates are frozen at the time of site plan or zoning bylaw amendment application. The implication of this new section, as it relates to the 2022 Bylaw, is that any new development, with a complete site plan or zoning bylaw amendment application submitted prior to the new development charges rates coming into force, would avoid having to pay the new rates.

Given the existing transition provision afforded through section 26.2 of the Act, and their possible impact on development charges collections, transition provisions or discounts are not being recommended for the 2022 Bylaw. As permitted under section 26.2 of the Act, the Region applies a 5% interest on frozen development charges, as per the Council-approved Development Charge Interest Policy.

6. Local Impact

The 2022 Bylaw will help fund vital growth-related infrastructure that will benefit all local municipalities, including the Yonge North Subway Extension, the Upper York Water Reclamation Centre, as well as a significant investment in housing services. The Region-wide rate approach will involve uniform rates to fund growth across all local municipalities within York Region.

Local municipalities have been important partners in the development of the 2022 Bylaw. Local municipal input helped inform many of the policies entrenched in the draft 2022 Bylaw. This engagement will continue, post-tabling, leading up to Council’s consideration of the 2022 Bylaw for approval in May.

Local municipalities will continue to play a vital role in the process and will help administer the 2022 Bylaw once approved.

7. Conclusion

This report supports the tabling and public release of the attached 2022 Bylaw and Background Study. It also provides Council with the information related to the development charges rates proposed in the 2022 Bylaw.

On March 24, 2022, Council will hold a public meeting to seek feedback on the 2022 Bylaw and Background Study. In May, the final Background Study and Bylaw will be provided to Committee and Council for consideration.

New development charges rates are expected to be in effect on 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 18, 2022
Attachment (1)
eDocs #13374197