INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 13, 2015
SUBJECT/REPORT NO:	Development Charge Exemption in Downtown Hamilton Community Improvement Project Area (CIPA) (Outstanding Business List Item) (FCS15022)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager Finance & Corporate Services Department

Council Direction:

General Issues Committee at its meeting of June 4, 2014 approved the following: "That staff be directed to bring an information report to the Audit, Finance and Administration Committee prior to July, 2015, providing the rationale for the recommended reduction with respect to the partial Development Charge exemption in the Downtown Hamilton Community Improvement Plan Area (CIPA)."

Information:

Executive Summary

The Downtown Hamilton CIPA exemption for Development Charges (DC's) is scheduled to decrease 5% annually from 90% commencing on July 6, 2015 as outlined in Table 1. DC policy decisions have a City wide impact since the collected revenues are used to fund growth related projects throughout the City. Exemptions place pressure on the overall property tax base and rate base on existing property owners/ratepayers by requiring foregone growth revenues (DC's) to be replaced by levy and rate funding sources.

Planning & Economic Development staff have provided input for the market justification and Financial Planning & Policy staff have detailed the financial need for the gradual reduction in the DC CIPA exemption.

In 2014, DC CIPA exemptions were extended for 658 residential units [1] and 225 thousand square feet of non-residential space and amounted to $11 million in DC exemptions.

In terms of property tax assessments, residential unit assessments in the downtown CIPA will vary depending on the unit size and other factors. A residential condo unit in the CIPA assessed at $250,000 paid $2,960 in municipal property taxes in 2014, a unit assessed at $450,000 paid $5,329 in municipal taxes in 2014. Newly constructed apartment units realize a significantly smaller increase in property taxes. The majority of the units added in 2014 were apartment units. Data on the estimated property tax increase is only available for properties which applied for a tax grant; the estimated annual property tax increase related to these properties is approximately $1 million.

In addition to the increased municipal property taxes, there are other spin off benefits associated with new development in the downtown such as:

- Utilization of former vacant, derelict or contaminated properties;
- Increasing the value and desirability of surrounding properties;
- Surrounding properties benefiting from new residents, employees, and customers;
- Stimulation of additional private sector development in surrounding properties;
- Supporting the use of existing infrastructure and transit; and
- Supporting sustainability and density targets.

The market justification for this policy direction, provided by Planning and Economic Development, comes from evidence which shows that increased demand and the resultant increased multi-residential unit prices in the downtown have partially offset the need for the DC exemption. This trend suggests that the City can begin to reduce their incentive/subsidy for the downtown CIPA. Specifically, condominium sales have greatly increased over the last 4 years, both in numbers of housing starts and the prices achieved. Four years ago the average selling price for the very few condos on the market was below $300/sq ft. Recently, projects are achieving prices of $400+/sq ft. Although these prices are still far below Toronto prices (as are the development cost parameters), there is an increased ability for developers to earn a fair rate of return on their investment with a reduced DC exemption. There is also the recurring issue of fairness to other developers who are just outside of the CIPA boundaries and receive no DC exemption.

Financially, the reduction in the DC exemption reduces the foregone DC revenues and consequential pressure on the property tax base by holding the developers responsible

[1] The number of residential units which received the DC CIPA exemption in 2014 differs from the number of units presented in PED15023 (Status of the Hamilton Downtown Multi-Residential Property Investment Program and other Urban Renewal Initiatives) due to a difference in the time of recognition.

for a greater share of the DC's, while maintaining a significant incentive in the form of reduced DC's, as Downtown Hamilton continues to be revitalized.

CIPA Development Charge History

- The Downtown Hamilton CIPA was initially 100% exempted with the first post amalgamation DC By-Law (2004).
- In August 2008, the 100% exemption was maintained when the DC By-Law was updated following Council's endorsement of expanded CIPA borders.
- In November 2011, through PED111888, Council approved an expansion of the CIPA borders.
- In February 2012, through FCS12015, the DC By-law was once again updated for the November 2011 expansion to the CIPA borders and the DC exemption was decreased from 100% to 90%.
- Urban Renewal staff is currently undertaking the Five Year Review of the Downtown and Community Renewal Community Improvement Plan and CIPA. The results of the review will be reported to Committee and Council in the third quarter of 2015.

Downtown Hamilton CIPA in the 2014 Development Charge By-law

The 2014 Development Charge By-Law (14-153) was approved by Council at its meeting of June 25, 2014 with the CIPA exemption being reduced by 5% each year annually commencing on July 6, 2015 as detailed in Table 1.

The CIPA exemptions that have been extended in the past ten years have been summarized in Table 2.

Table 1: Downtown Hamilton CIPA Exemption Reduction

Date	Percentage of exemption (%)	Percentage of development charge payable (%)
July 6, 2014 to July 5, 2015	90	10
July 6, 2015 to July 5, 2016	85	15
July 6, 2016 to July 5, 2017	80	20
July 6, 2017 to July 5, 2018	75	25
July 6, 2018 to July 6, 2019	70	30

The exemptions represent DC revenue that was eligible to be collected according to the DC background study but forfeited due to the CIPA exemption policy. The amount of the foregone revenue increases as development increases in the CIPA. These lost revenues are not able to be collected through higher overall DC's; consequently, the pressure falls on the property tax base and ratepayers.

A balance needs to be met between encouraging development in the CIPA and maintaining the sustainability of the DC reserves to fund growth related capital projects and minimizing the impact on the existing property tax base. The 5% annual reduction in the CIPA exemption recognizes that development is increasing in the CIPA and slowly shifts a greater responsibility for these costs to the developers while still maintaining a significant incentive for development within the Downtown Hamilton CIPA.

The reduction in the Downtown Hamilton CIPA was delayed one year from the implementation date of By-Law 14-153 in order to provide the developers with advance notice of the change and to allow developers to plan for the resultant increase in fees. By-law 14-153 expressly stated that the appropriate exemption rate is "based on the later of the date on which development charges are payable or the date that all applicable development charges were actually paid". In general, this statement means that any developments which have DC's that are paid after July 5 of each year are impacted by the reduced Downtown CIPA DC exemption rate outlined in Table 1.

Table 2: Downtown Hamilton CIPA Exemptions

Year	CIPA Exemptions ($)
2014	11,095,535 [2]
2013	2,814,787
2012	555,849
2011	1,425,509
2010	336,467
2009	-
2008	81,748
2007	231,782
2006	1,300,558
2005	544,794
10 year Average	1,838,703
5 year Average (2010-2014)	3,245,629
5 year Average (2005-2009)	431,776
2 year Average (2013-2014)	6,955,161

[2] The 2014 CIPA exemptions include large projects such as 140 & 150 Main St. W (Old federal building and Bella Tower - $6.5M combined), 325 Wellington St N– McMaster Children's Health Centre ($2.6M) and 137-149 Main St W – Jackson St. Apartments ($0.9M).

Amending a Development Charge By-Law

If Council decides to change the DC CIPA exemption, the process to amend a Development Charge By-law (as per the *1997 Development Charges Act*) is as follows:

- Public Meeting would need to be held concerning the amendment;
- Newspaper advertisement of the public meeting at least twenty (20) days prior to the public meeting;
- Ensure that the proposed by-law amendment is made available to the public fourteen (14) days prior to the public meeting;
- At the public meeting, citizens may make representations concerning the amendment;
- The City Clerk shall give written notice of the passing of the by-law no later than twenty (20) days after passing, and the last day for appealing the by-law, which shall be the day that is forty (40) days after the day the by-law is passed;
- The amendment would be subject to a forty (40) day appeal period whereby appeals can be made to the Ontario Municipal Board (OMB).