



City of Hamilton

Development Charges Support Review

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INTRODUCTION

In June 2019, the Province announced its Audit & Accountability Fund initiative which provides funds to municipalities to engage in a third-party review to help municipalities become more efficient and modernize service delivery. The City of Hamilton was successful in securing funding under this initiative. The City's focus is to review the use of consultants with the objective of reducing consulting costs and bringing expertise in-house.

The consultant will also use an approach that includes but is not limited to:

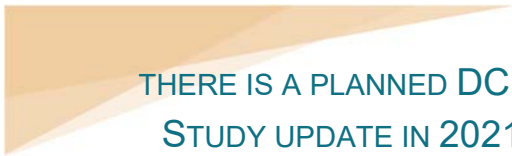
- ✓ Gather information to review each program area of focus;
- ✓ Conduct interviews and other engagement processes with staff;
- ✓ Review municipal service delivery reviews, best practices;
- ✓ Analysis of key issues and recommendations for service improvements and changes will the goal of finding service delivery efficiencies;
- ✓ Financial implications of the recommendations for consideration during 2020 Budget preparation;
- ✓ Supporting data, analysis and rationale including benchmarking or best practices; and
- ✓ The consultant will review the organizational structure of the focus divisions and identify what should be changed, maintained, modified or eliminated to best deploy internal resources to support recommendations of the review.

BACKGROUND

Development Charges (DCs) are a critical source of revenue used to finance growth-related capital infrastructure and is the main instrument used to ensure that “growth pays for growth” which is a long-standing policy in the City of Hamilton, in accordance with Provincial legislation. The intention of establishing DCs is to ensure that growth-related infrastructure costs are not borne by existing residents and represent Council policy decisions within the parameters of the legislative and regulatory requirements. The Development Charges Act (DCA) has been used across Ontario municipalities to calculate charges to support future growth.

As will be described in this report, while the establishment of DCs is a long-standing practice, the complexity of the infrastructure growth, associated calculations and reporting requirements to all stakeholders have increased. It is anticipated that external consulting services will continue to be required by the City of Hamilton, as is the case, in most, if not all urban municipalities. The focus of this review is to determine whether there is an appropriate level of internal resources to support all aspects of development charge policy and analytical work, work with the external consulting groups and to identify if there are opportunities for efficiencies.

In accordance with the DCA, the City must prepare a DC Background Study every 5 years. The most recent study in the City of Hamilton was completed in 2019. The following describes the necessity for a study in 2021:



THERE IS A PLANNED DC BACKGROUND STUDY UPDATE IN 2021 AT A COST OF \$730,800 (PRIOR TO THE 5-YEAR TIMEFRAME) AND ANOTHER \$730,800 IN 2026.

City of Hamilton

- A DC review in 2021 has been established in accordance with report FCS18034, approved by Council on April 3, 2018 which requires staff to investigate and report

back on methodology options as well as assess the financial impacts for future updates to the Transportation Master Plan (including transit services), 10-year Fire Service Delivery Plan and Waste Services Master Plan that would provide the necessary basis for a variable rate calculation as part of the next DC By-law update should Council wish to take a variable rate approach. Specifically, the motion identified the following key factors that require further review:

- DC Act requires a process to be followed which results in a calculated DC;
- That the 2019 Development Charges Background Study be prepared with the 2031 growth forecasts and that staff be directed to request approval to initiate a new Development Charges Background Study once the Infrastructure Masterplans using the 2041 growth figures are substantially complete which is expected to be in advance of the typical five-year Development Charges By-law period.
- Adoption of variable DC rates must be predicated on either a defined and defensible methodology calculation or by policy (such as providing a partial exemption to the calculated DC rate);
- The City's 2019 Development Charges (DC) By-law reflects the results of such a review for water and wastewater services, and as a result includes a variable approach in calculating the 2019 DC By-law rate for stormwater services;
- All other services are calculated on a city-wide basis; and
- The More Homes, More Choice Act, 2019 (Bill 108) will remove the discounted (soft) services from the Development Charges Act once proclaimed into force and provides a defined list of services that will remain in the Development Charges Act; and
- The City's current GRIDS 2 process will ultimately identify growth allocations by traffic zone throughout the city to 2041.

As identified in the DCA, the costs of these studies are 90% recoverable from future DCs, with the remaining 10% recovered from taxes.

The following table summarizes the Development Charge Study Costs that have been incorporated into the 2019 DC calculation, as included in the Administrative Studies.

	Year	Subtotal	Less Statutory Reduction (10%)	Net to be Recovered from DCs	Net to be Recovered from Taxes
Development Charge Study	2019	\$ 730,800	\$ 73,080	\$ 657,720	\$ 73,080
Development Charge Study	2021	\$ 730,800	\$ 73,080	\$ 657,720	\$ 73,080
Development Charge Study	2026	\$ 730,800	\$ 73,080	\$ 657,720	\$ 73,080
Total		\$ 2,192,400	\$ 219,240	\$ 1,973,160	\$ 219,240

EXISTING PROCESSES

The process commences with a policy review which includes identification and evaluation of key policy driven decisions that help shape the direction of the DC background study and ultimately the DC rates.

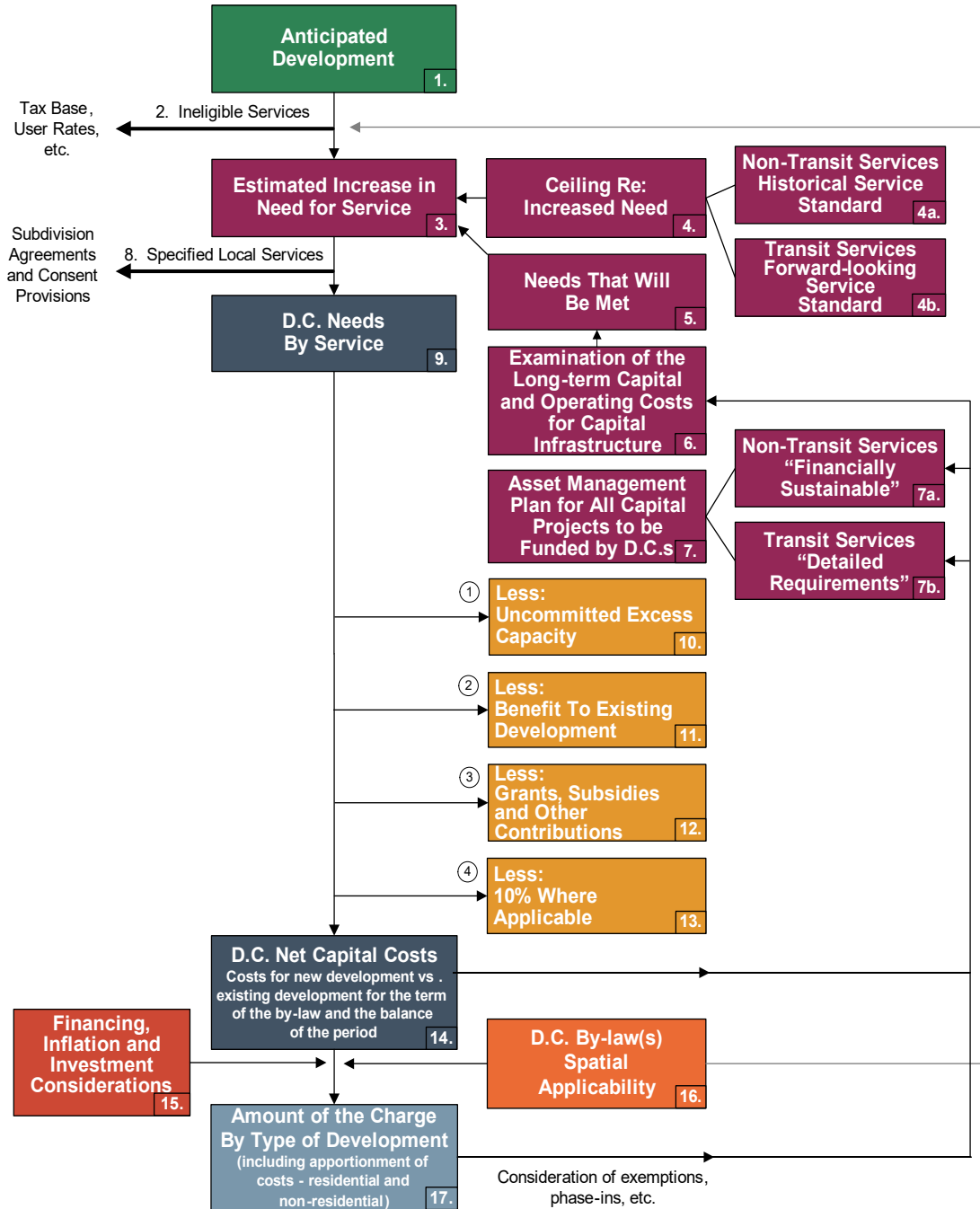
The Development Charges Act (DCA) and its regulations, provides a specified number of steps, which must be undertaken in the calculation of development charges. The City of Hamilton's D.C. process follows the methodology set out in figure 1 below for calculating the D.C. which reflects the level of complexity in the process and the need for resources to support the process.

The review process also includes reporting information to a DC Stakeholder Sub-Committee that consists of Members of Council, representation from the Chamber of Commerce, representation from the Hamilton Halton Homebuilders Association, members from the public at large and is supported by various City staff and the DC Consulting team. The DC Stakeholder Sub-Committee (DCSSC) is presented with draft findings including the draft growth forecast, the results of the calculated service standards, the capital program being considered in the DC calculations and various policy items including the Draft Local Service Policy, By-law Policies and policies related to the methodology for calculating DC on either a municipal wide basis or an area specific basis, or a combination of these dependent on the service. The DCSSC provides input required to complete all aspects of the calculations, background study and draft by-law process.

Figure 1

D.C. Calculation Methodology

The Process of Calculating a Development Charge under the Act that must be followed



NEW LEGISLATIVE REQUIREMENTS – BILL 108

On June 6, 2019, Bill 108, the More Homes, More Choice Act received Royal Assent. Schedules of Bill 108 will come into force over the coming months, with further implementation details to be finalized by regulation.

The new Act makes significant changes to the Development Charges Act (DCA) and also introduces a new Community Benefit Charge (CBC) under the Planning Act. Bill 108 regulations for implementation of the CBC have not been released to date.

The following summarizes the current DCA and future considerations in terms of the two categories of costs:

Hard Services	Soft Services
<p>Are not subject to a 10% mandatory deduction of the growth costs in the DC calculation, such as highway (roads and active transportation), public works (fleet and domes), transit, water, wastewater, stormwater, fire and police.</p>	<p>Are subject to a mandatory 10% reduction of the growth costs in the DC calculation, such as parkland development, recreation facilities, library services, ambulance, paramedic, long term care, health services, social and child services, social housing, airport services, parking services, provincial offences administration and administrative studies related to any of the above.</p>
<p>These services will continue to be included in the DCA.</p>	<p>These services will no longer be eligible service under the DCA, commencing in January 2021.</p>
	<p>However, they may be eligible for inclusion in a CBC By-law through Schedule 12 of Bill 108. Once a CBC By-law is enacted by a municipality, any By-Law passed by the municipality pursuant to Section 42 (Parkland Dedication) of the Planning Act will be of no force or effect.</p>

Requirement for 2 studies

On a go forward basis, there will be a requirement to have two studies:

1. DC Background Study – This study will also differ from previous studies in a number of areas including but not limited to the exclusion of soft services, new payment schedules which will require additional administration by municipalities and changes in cash flow forecasts.
2. CBC Study – New study focused on soft services with regulations yet to be released. The transition is to be complete by January 2021.

Before a municipality passes a CBC, municipalities will be required to develop a strategy and identify the facilities, services and matters that will be funded. The amount charged will be capped in accordance with the legislation as a percentage of land values. Eligible services and the methodology for calculating CBCs will be determined in regulation which have yet to be released.

An amendment to the DCA 1997 provides for a date prescribed in regulation that would effectively establish a deadline as to when municipalities must transition to the community benefits authority if they wish to collect for the capital costs of community benefits from new development. Beyond the date prescribed in regulation:

- Municipalities would generally no longer be able to collect development charges for discounted services.
- Municipalities would generally no longer be able to pass by-laws to collect funds under section 37 of the Planning Act.

Currently, there are limited City resources available to undertake such analysis in the existing organization.

As will be discussed, there are significant changes that will impact the City's future provision of development charge studies, revenue collections and new requirements that must be considered in the delivery of effective and efficient services in the future. The passage by the Province of Bill 108 will require an entirely new calculation and process. It is anticipated that the new processes will become more labour intensive and require additional consultation, analysis and policy decision-making.



It will take some time for municipalities to consider the new CBC methodology, evaluate the approach to these studies, collect background data (i.e. property value information), carry out the study, undertake a public process and pass a by-law.

City of Hamilton's primary DC consultant (Watson & Associates)

ANALYSIS: OPTION TO ENHANCE INTERNAL RESOURCES

The completion of the DC Background Study is almost exclusively undertaken by external consultants. This includes growth forecasting, policy research, calculation of service standards, public consultation assistance and overall development of the DC Background Study and By-law. While this is consistent with the practice in the majority of urban municipalities, there are typically additional internal staff resources to support these large projects which require ongoing updates on assumptions, tracking of forecasts and the inclusion of new master plans and studies compared with the City of Hamilton. Further, the DC By-law is subject to appeals which also requires internal support resources. The City's 2014 and 2019 DC By-laws are currently under appeal and internal resources are needed to efficiently support information gathering and analysis rather than relying exclusively on external resources.

Management and additional analysis in the preparation of the DC Background Study by internal staff was determined by management as an opportunity for efficiencies and program enhancements to improve information available to Council on a timely basis, specifically related to future policy setting and the impact of Bill 108 and associated implications.

Highlights from Performance Audit of External Consultants

A City of Hamilton performance audit report 2016-03 – Use of External Consultants was presented in 2016 which provides relevant background with respect to the use of consultants in the City. The purpose of this audit was to assess the process used to procure, manage and use external consultants operated with due regard to the **economy, efficiency and effectiveness**.

- **Efficiency** was assessed by reviewing the need for consulting services, whether alternatives were considered, knowledge was transferred to staff and if the cost will reoccur in the future.
- **Effectiveness** was assessed by determining whether deliverables were used by management to provide benefit to the City.
- **Economy** was assessed by evaluating whether the consultant's work added value to the organization, was economically justified and identifying any instances of waste.

The audit report found that on a corporate wide basis, management was not consistently preparing a business case analysis to support the need to hire a consultant. A recommendation from the auditor was that the senior leadership team identify opportunities for insourcing and cost savings.

Based on the extent to which the City relies almost exclusively on the use of external consulting resources for the preparation of the DC Background Study under the existing legislation and given that the new legislation Bill 108 will require a second separate study (CBC), Management identified an opportunity to review the existing service delivery model to determine;

- Whether there are opportunities to create efficiencies by providing some support and analytic services internally;
- Whether there are opportunities to better support Council-policy decision making through the availability of internal resources;
- Whether there is a need for additional resources to oversee and support these large and significant ongoing studies; and
- Whether there is a need for internal staff resources to assist in the transition toward the development of a CBC and ongoing support requirements, to work with external consulting services.

The City's DC policy choices and future CBC can have a significant impact on the cost and allocation of growth-related costs. Decisions on DC policy issues can impact the information gathered to complete the rate calculations and the drafting of the DC Background Study and By-law.

The following provides analysis and observations of existing consulting services that were used to prepare the 2019 DC Background Study:

- Despite the size of the external consulting services and the significant importance that DCs have for the recovery of growth-related revenues, the City has very limited resources assigned to undertake supporting analysis which could potentially help reduce the overall cost of service and to vet assumptions and options, earlier in the process.
- There are a limited number of consulting groups that provide DC Background studies to mid-large Ontario municipalities.
- The total actual invoices related to the DC Background Study and development charge policies and opinions in 2018 to Sept 2019 was \$687,000:
 - \$613,000 was related to the completion of the DC Background Study

- \$74,000 was related to the provision of development charge opinions. There is an opportunity to reduce these costs through the use of internal resources as well as gain internal expertise.
- In total, 90% of these costs are recoverable from DC fees, with the remaining 10% recovered the tax levy.
- The external consulting team includes numerous expert resources that are used to complete the DC Background Studies and to provide additional opinions, research, analysis, reports, by-law preparation and participation in the public consultation processes. These includes but is not limited to Directors, Managers, Consultants, Senior Project Coordinators, Consultants, Analysts. Additionally, there are Engineering sub-consultants.
- The minimum charge-out rates by the external consulting services to the City for an Analyst position is \$120/hour (lowest chargeable rate).
- An analysis was undertaken in the number of hours that the primary external consultant charged over this time for the Analyst level support on the team. During this time in excess of 850 hours for a cost exceeding \$100,000.
- The hourly rate of a Senior Financial Analyst that would be employed by the City, taking into consideration benefits and chargeable hours is considerably lower (30%-40% lower).
- Bill 108 introduces complexities that will require staff to review processes and policies around the development systems and processes, DC administration, DC deferral policy, DC exemption policy and the new CBC By-law strategy, calculation, adoption and administration. The transition of winding down the soft services from the DC By-law and Parkland Dedication By-law to a CBC By-law will need to be carefully monitored and the options for the City will need to be assessed.

- The addition of a separate CBC report will increase workloads and consultation efforts. Prior to the enactment of a CBC by-law, a municipality must prepare a CBC strategy which identifies the facilities, services and matters that will be funded by the by-law. Costs that would otherwise be recoverable under the Development Charges Act are to be excluded from CBC funding, and municipalities will be required to spend or allocate 60% of outstanding CBC funds at the beginning of each calendar year.
- Early identification and vetting of key policy matters is critical because implementation and associated adjustments can be difficult if introduced towards the end of the process. Further, the introduction of the CBC will require additional resources to support analysis, provide advice and administrative support.
- Given the above noted changes to the mechanism for municipalities to recover growth-related capital costs, it is prudent to determine the need for internal resources to support these new processes and studies to support Council decision-making as well as in consideration of the cost of using almost exclusively external resources versus the addition of some internal resources.

Regulations have not been enacted as yet. As such, it is unclear whether consultant costs to establish the CBC will be an allowable expense. It is prudent to review options to prepare the CBC Study. The CBS will require a great deal of additional financial analysis, consultation, forecasting and the preparation of the CBC by-law in addition to the DC Background Study.

The establishment of a Senior Financial Analyst would provide an additional internal resource to help develop and analyze various policy decisions for recovering growth-related capital costs and help ensure the City is maximizing its ability to recover eligible costs.

Although an external consulting firm will continue to be required because of the extensive work required to prepare the background studies and ensure that the analysis will be defensible, a Senior Financial Analyst could also be used to undertake certain activities required for the DC Background Study and the CBC study and associated by-law thereby potentially reducing external consulting costs and improving the timely delivery of policy options and implications.

MUNICIPAL PRACTICES

It is very difficult to compare practices in other municipalities in terms of the cost of service for external consulting services and the use of internal resources given that there are many variables in terms of issues, policies, complexity of transportation networks, roles and responsibilities, level of consultation undertaken, etc. The focus of the municipal practice research focused on large urban municipalities and the general practices and processes.

For the most part, municipalities across Ontario of similar size and scope extensively utilize external consulting resources to undertake the DC Background Study however, most municipalities surveyed have a network of supporting internal staff available to oversee the contract, provide analysis, identify and review policy options and implications and assist in stakeholder consultation.

SUMMARY OF BENEFITS

The following summarizes the benefits of establishing an internal resource to support the combined DC Background Study and new CBC Study:

- Assist in stakeholder engagement
- Impact analysis to respond to changes to the legislation and regulations and the impact to stakeholders on a more efficient and timelier basis
- Assist in the preparation of the CBC Study
- Undertake background research and impact analysis
- Could potentially reduce the cost of outside consultants
- External consultant liaison and contract oversight

RECOMENDATION

1. That the City consider the hiring of a Senior Financial Analyst to potentially reduce the cost of outside consultants in the preparation of the DC Background Study and the CBC Study subject to additional clarity once the new regulations are enacted.