



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members Development Charges Stakeholders Sub-Committee
COMMITTEE DATE:	November 9, 2023
SUBJECT/REPORT NO:	2024 Development Charges Background Study and By-law Update (FCS23040(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Carolyn Paton (905) 546-2424 Ext. 4371 Lindsay Gillies (905) 546-2424 Ext. 5491
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That the 2024 Development Charges (DC) Background Study, as prepared by Watson & Associates Economists Ltd., be released by staff prior to December 31, 2023.

EXECUTIVE SUMMARY

The City is currently undergoing the process to release the 2024 Development Charges (DC) Background Study and By-law. The current DC By-law expires end of day on June 12, 2024. The *Development Charges Act, 1997*, as amended (DC Act) requires that Council make the DC Background Study available to the public at least 60 days prior to passing a DC By-law. In addition, a draft DC By-law needs to be available to the public at least two weeks in advance of the public meeting regarding the proposed by-law.

The purpose of Report FCS23040(a) is to receive direction to release the 2024 DC Background Study. The public meeting, as required by the DC Act, will be held in February / March 2024 at the Audit, Finance and Administration Committee. At that time, Council may direct changes to the DC By-law or Background Study. In order to both provide an opportunity for staff to examine any direction provided, as well as, respect the 60-day required public consultation period, the passing of the DC By-law and Background Study will occur in May 2024 with a proposed effective date of June 1, 2024.

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Watson & Associates Economists Ltd. (Watson) are in the final stages of the 2024 DC Background Study. In order for Council to consider passing a DC By-law based on the 2024 DC Background Study, it needs to be released at least 60 days prior to the consideration of a by-law by Council. Report FCS23040(a) recommends that staff be directed to release the 2024 DC Background Study once it is ready, prior to December 31, 2023 in order to fulfil this legislated obligation.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Releasing the 2024 DC Background Study and the draft DC By-laws is a legislatively required step before Council can consider passing new DC By-laws. Passing of the new 2024 DC By-laws will enable the City to continue collecting DCs at building permit issuance (or through instalment schedules as required by the DC Act) for new development, net new development, redevelopment or change in use of developments to recover some of the capital costs that the City will incur in order to service the increased needs arising from the new development, net new development, redevelopment or change of use of development. Table 1 outlines the estimated amount of capital costs which can be recovered by Development Charges over the expected 10 year life of the By-law.

**Table 1
Net Capital Costs to be Recovered by Development Charges**

Total gross expenditures planned over the life of the by-laws	\$ 4,610,603,829
Less:	
Benefit to existing development	\$ 1,126,958,173
Post planning period benefit	\$ 340,011,272
Other Deductions	\$ 21,732,200
Grants, subsidies and other contributions	\$ 628,766,400
Net Costs to be recovered from development charges	\$ 2,493,135,784

Table 2 outlines a comparison of current DC rates compared to new calculated draft rates. Bill 23 legislated a statutory rate phase in for all DC By-laws passed on or after January 1, 2022. The required rate phase in means that municipalities can collect:

- 80% of the calculated DC¹ in year 1 of the DC By-law,
- 85% in year 2,
- 90% in year 3,
- 95% in year 4, and
- 100% in years 5 through 10.

¹ The calculated DC is the amount calculated according to the rules in the DC Act and is the amount required to be levied in order to fund the capital costs necessary to support development, a reduction means that municipalities will not be able to afford all projects in the DC study through DC collections.

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The three columns on the right in Table 2 illustrate Year 1 rates (pre-indexing) which includes the 80% statutory phase-in.

The increase in rates is largely driven by the recent increases in construction costs, particularly, for the hard services (roads, water, wastewater and storm). These increases have outpaced the construction cost index which is used to index the DC rates annually leading to DC rates that are higher versus typical indexing.

Project costs included in the draft calculated rates are in 2023 dollars. The DC By-law will be adopted in 2024. Therefore, the rates will need to be adjusted to 2024 values at the date of implementation. Accordingly, initial indexing will occur on the date that the by-law is implemented (June 1, 2024) and annually thereafter. Recommendations on indexing policies are included in Report FCS23103, “Exemption Policy – 2024 Development Charges Background Study and By-law Update” for consideration at the DC Stakeholders meeting on November 9, 2023.

**Table 2
Current versus Proposed (Calculated) DC Rates**

	Current Rate (2023\$)			Calculated Rate (2023\$)			Year 1 of By-law (80% Mandatory Phase-in)		
	Combined Sewer System	Separated Sewer System	Rural	Combined Sewer System	Separated Sewer System	Rural	Combined Sewer System	Separated Sewer System	Rural
Single/Semi Detached (per dwelling unit)	58,127	66,964	33,469	74,640	85,246	41,871	59,712	68,197	33,497
Town and other Multiple (per dwelling unit)	41,607	47,932	23,956	54,996	62,811	30,852	43,997	50,249	24,682
Apartment - 2+ Bedroom (per dwelling unit)	34,042	39,217	19,601	47,001	53,679	26,366	37,601	42,943	21,093
Apartment - 1 Bedroom/ Bachelor (per dwelling unit)	23,287	26,827	13,407	31,031	35,441	17,408	24,825	28,353	13,926
Residential Facility (per bedroom)	18,778	21,635	10,812	23,902	27,298	13,409	19,122	21,838	10,727
Non-Residential (per square foot of gross floor area)	25.08	28.01	15.80	37.66	41.79	21.29	30.13	33.43	17.03

Staffing: There is no impact to staffing as a result of Report FCS23040(a).

Legal: The DC Act (Section 10) requires Council to release the DC Background Study for public consultation.

The draft By-laws are being prepared by Legal Services, Financial Planning, Administration and Policy Division and Watson. Once approved, the By-laws are subject to a 40-day appeal period. Any appeals to the By-laws will require further involvement from Legal Services’ staff.

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HISTORICAL BACKGROUND

DCs are fees imposed on land development and redevelopment projects to help pay for the capital costs of growth-related infrastructure that is needed to service new residential and non-residential development within a municipality. *The Development Charges Act, 1997* (DC Act) requires that the City’s new Development Charges (DC) By-law expires no more than 10 years from the date it comes into effect (was no more than five years when the 2019 DC By-law was adopted). The last DC Background Study and DC By-law for the City of Hamilton was completed in 2019.

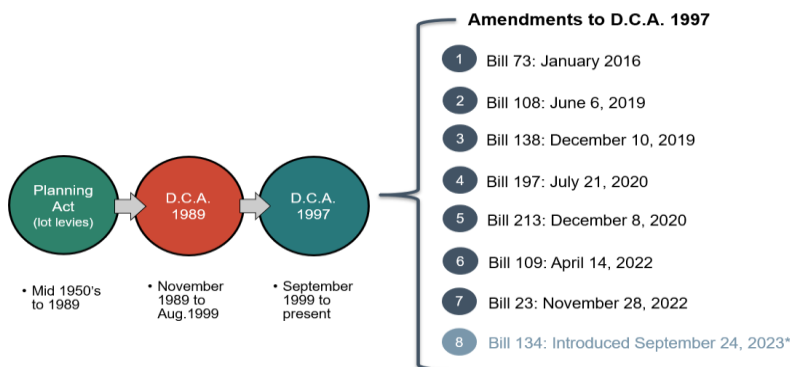
Since then, the Province has released several pieces of legislation affecting development charges, including: *Smart Growth for Our Communities Act, 2015* (Bill 73), *More Homes, More Choice Act, 2019* (Bill 108); *Plan to Build Ontario Together Act, 2019* (Bill 138); *COVID-19 Economic Recovery Act, 2019* (Bill 197); *Better for People, Smarter for Business Act, 2020* (Bill 213); *More Homes for Everyone Act, 2022* (Bill 109); *More Homes Built Faster Act, 2022* (Bill 23), and Bill 134, *Affordable Homes and Good Jobs Act, 2023*, introduced September 24, 2023 (not yet in force – see Figure 1). The impacts of these legislative changes have been addressed through previous reports as released.

The City completed a Development Charges Update Study in 2021 and amended the 2019 DC By-law via By-law 21-102 to reflect some of these legislative changes arising from the *More Homes, More Choice Act, 2019* (Bill 108) and the *Plan to Build Ontario Together Act, 2019* (Bill 138). Other changes from these Acts took effect when the legislation passed and did not require a By-law update.

A new DC By-law must come into effect by end of day June 12, 2024 for the City to continue collecting DCs. If DCs are no longer collected, the costs associated with growth-related capital projects would have to be funded from other sources, such as, property taxes and rate user fees.

Figure 1

History of D.C.’s



*Bill 134 not yet in force (second reading was held on October 3, 2023)

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Committee and Sub-Committee Reports and Presentations

Audit, Finance and Administration Committee

- October 21, 2021
 - Report FCS21085, 2023 Development Charges Background Study – Procurement Policy 11 Request

Development Charges Stakeholders Sub-Committee Meeting

- April 13, 2023
 - Report FCS23040, 2024 Development Charges Background Study and By-law Update
 - Presentation delivered by Watson & Associates Economists Ltd. - City of Hamilton 2024 DC Background Study – DC Workshop
 - Presentation – Planning and Economic Development Department – Growth Management Division – Corporate Strategic Growth Initiatives (CSGI) – Master Plan Updates and Development Charge By-law Approach
- September 18, 2023
 - Presentation delivered by Watson & Associates Economists Ltd. – 2024 Development Charges Background Study and By-law
- November 9, 2023
 - Presentation delivered by Watson & Associates Economists Ltd. – 2024 Development Charges Background Study and By-law
 - Report FCS23040(a), 2024 Development Charges Background Study and By-law Update
 - Report FCS23103, Exemption Policy – 2024 Development Charges Background Study and By-law Update
 - Report FCS23104, Area Specific and Local Service Policies – 2024 Development Charges Background Study and By-law Update

General Issues Committee

- Report FCS23064, June 14, 2023 - Development Charges Exemptions Sustainable Funding Strategy

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

In order to enact a new DC By-law on or before June 13, 2024, staff will continue to work with Watson to finalize a DC Background Study and ensure that the timeline requirements of the DC Act are adhered to prior to Council passing a DC By-law. Staff will ensure that the following milestone requirements under the DC Act and the planned dates related to the adoption of the 2024 DC By-law are adhered to (as identified in Table 3).

Table 3

2024 DC Background Study including Draft 2024 DC By-laws available to public	End of Q4 2023
Public Meeting ad placed in newspaper(s)	February 2024 At least 20 days prior to the public meeting
Public Meeting	February / March 2024 to be held at Audit, Finance and Administration Committee (AF&A), at least two weeks after proposed background study and by-law are available to the public
Council considers passage of 2024 DC By-law	AF&A – May 2, 2024 or May 16, 2024 Council – May 8, 2024 or May 22, 2024 (Dates dependent on outcome of the Public Meeting) No less than 60 days after the background study is made available to the public
Newspaper and written notice given of by-law passage	By 20 days after passage
Last day for by-law appeal	40 days after passage
City makes available pamphlet (where by-law not appealed)	By 60 days after passage

It should be noted that the public is able to provide comments and inquires on information released through the DC Stakeholders Sub-Committee and the DC Background Study, once released to DCBackgroundStudy@hamilton.ca.

RELEVANT CONSULTATION

Internal

- Planning and Economic Development Department
- Public Works Department
- Healthy and Safe Communities Department
- City Manager’s Office
- Corporate Services Department – Legal and Risk Management Services

External

- Watson & Associates Economists Ltd.
- GMBLueplan
- Arcadis IBI Group
- The City receives feedback and correspondence through the City's email address below:

DCBackgroundStudy@hamilton.ca

ANALYSIS AND RATIONALE FOR RECOMMENDATION

DC Background Study and DC By-laws

The DC Act outlines the requirements for a municipality to pass a DC By-law. Municipalities are required to undertake a background study no less than every 10 years to support the DC rates (was no more than five years when the 2019 DC By-law was adopted). A municipality may choose to impose less than the calculated rate but must express so through the DC By-law and cannot make up the lost revenues by increasing the development charge for other types of development.

The following components are included in the City's DC Background Study:

- Determination of the City's growth forecast
- Update the 15-year historical service standards
- Capital project lists for eligibility with the DC Act and assess benefit to existing development and post period benefit as applicable
- Review other City and DC related policies such as the Local Service Policy and Area Specific Charges
- Individual DC By-laws for each service (2019 DC By-law was approved as one By-law which included all services)

The draft DC by-laws form the starting point for public consultation and is a requirement under the DC Act.

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The 2019 DC By-law, as amended, includes 18 services or classes of services². Bill 23 removed studies as an eligible service which means there are 17 services or classes of services being considered in the 2024 DC Background Study. Since fully updated 2051 Master Plans are not available for the 2024 DC By-law process. Staff has proceeded using the 2031 growth allocations until new Master Plan information is available. Therefore, staff will be proceeding to draft individual service or class of service DC By-laws. Following the completion of updated Master Plans, the City can initiate DC Background Studies as services are ready to proceed and pass a new individual DC By-law for each service.

1. Water Services
2. Wastewater Services
3. Wastewater Treatment
4. Storm Water Services
5. Services Related to a Highway
6. Transit Services
7. Public Works (Class of Service)
8. Waste Diversion Services
9. Policing Services
10. Fire Protection Services
11. Ambulance Services
12. Library Services
13. Long-term Care Services
14. Parks and Recreation Services
15. Public Health Services
16. Childcare and Early Years Programs and Services
17. Provincial Offences Act Administration

Bill 23 legislated a statutory rate phase in for all DC By-laws passed on or after January 1, 2022. The required rate phase in means that municipalities can levy:

- 80% of the calculated DC³ in year 1 of the DC By-law,
- 85% in year 2,
- 90% in year 3,
- 95% in year 4, and
- 100% in years 5 through 10.

² There are 19 lines on the current DC pamphlet. However, Parkland Development and Indoor Recreation Services are considered 1 service in the DC Act.

³ The calculated DC is the amount calculated according to the rules in the DC Act and is the amount required to be levied in order to fund the capital costs necessary to support development, a reduction means that municipalities will not be able to afford all projects in the DC study through DC collections.

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Since the full updated 2051 Master Plans were not available by the time inputs were required for the 2024 DC By-law process, staff proceeded using the 2031 growth allocations as approved in Report 2024 Development Charges Background Study and By-law Update (FCS23040).

DC Exemptions

The DC Act requires certain statutory exemptions that all municipalities must provide. In addition, a municipality may choose to provide additional discretionary exemptions and policies and must do so through an express statement in the Development Charges (DC) By-law.

The current City of Hamilton DC By-law contains a number of discretionary DC policies with full or partial exemptions. The foregone DC revenue is funded by existing tax and rate payers through funding allocations in both the Rate and Tax Capital Budgets.

Recommended exemptions to be included in the draft 2024 DC By-laws for public consultation will be considered by the DC Stakeholders Sub-Committee in Report FCS23103, “Exemptions and Policies – 2024 Development Charges Background Study and By-law Update” at its meeting on November 9, 2023.

Area Specific Development Charges (ASDC)

One of the requirements under the DC Act is for Council to consider the use of area-specific charges under Section 10 (2) (c.1) when completing a Development Charge (DC) Background Study.

As a result of consultation with Watson and relevant stakeholders, staff is recommending continuing with the City’s current approach on ASDC’s. More specifically:

- Stormwater – continue with current ASDC approach for combined versus separated sewer service areas given the difference in works required
- Water / Wastewater – continue with current approach in uniform rate for all urban areas
- Roads – continue with current approach of City-wide DC for roads
- Transit – continue with current approach in uniform rate for all areas
- All other City services – utilize City-wide DC’s

Analysis and recommendations with respect to ASDC’s will be considered by the DC Stakeholders Sub-Committee in Report FCS23104, “Area Specific and Local Service Policies – 2024 Development Charges Background Study and By-law Update” at its meeting on November 9, 2023.

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Local Service Policy

Based on discussions with staff and engineering sub-consultants, the existing local service policy has been subdivided based on location of development as follows:

- Within 'former' urban boundary and intensification corridors – traditional local service policy requirements will be adhered to (Area A – Map 1, City of Hamilton Boundary – Local Service Policy Area Specific and Local Service Policies – 2024 Development Charges Background Study and By-law Update (Report FCS23104))
- Outside 'former' urban boundary – Developer responsibility (Area B – Map 1, City of Hamilton Boundary – Local Service Policy Area Specific and Local Service Policies – 2024 Development Charges Background Study and By-law Update (Report FCS23104))
 - All roads, linear water and wastewater infrastructure (external to urban boundary) required to service the development including potential oversizing costs
 - Certain linear water / wastewater works that are oversized (post-period benefit), within the urban boundary, to accommodate flows
 - Development would be required to pay municipal-wide DCs and water / wastewater treatment DCs

The proposed rates and policies will be written into the draft DC By-laws to be released with the 2024 DC Background Study in December, 2023.

ALTERNATIVES FOR CONSIDERATION

N/A

APPENDICES AND SCHEDULES ATTACHED

N/A

CP/dt