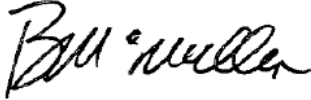




INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	February 22, 2024
SUBJECT/REPORT NO:	2024 Development Charges Background Study and By-law Feedback (FCS23103(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Carolyn Paton (905) 546-2424 Ext. 4371 Kirk Weaver (905) 546-2424 Ext. 2878
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

N/A

INFORMATION

The purpose of Report FCS23103(a) is to provide the Audit, Finance and Administration Committee (AF&A) with an update on the feedback received to date on the 2024 Development Charge Background Study and By-law. The AF&A Committee meeting on February 22, 2024 is the Statutory Public meeting under the *Development Charges Act*. Watson & Associates Economists Ltd. (Watson) are presenting a summary of the City of Hamilton's Development Charge process to date, providing additional options for AF&A's consideration, the rationale for those options and next steps.

It is anticipated that several delegations will be attending the AF&A Committee meeting on February 22, 2024 to provide input on the proposed Development Charges Background Study and By-law during the Statutory Public Meeting. Feedback from this meeting will be addressed in a final report to the AF&A Committee recommending the By-law approval which is planned for April 18, 2024.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Background

Statutory Public Meeting under the *Development Charges Act*

As required in the *Development Charges Act, 1997, as amended* (DC Act), the City of Hamilton is holding a public meeting to discuss proposed Development Charge rates, as well as Development Charge policies that will be applied throughout the City.

The two areas in the *DC Act* where Council has some discretion is in setting policies are in both DC Exemptions and Local Service Policies.

DC Exemptions

The *Development Charges Act, 1997, as amended*, (DC Act) sets out a number of mandatory DC exemptions and policies. However, under Section 5 (1) 10 of the *DC Act*, Council can enact exemptions on a discretionary basis.

The current City of Hamilton DC By-law (19-142) contains several discretionary DC policies, some with full or partial exemptions. The foregone DC revenue is funded by existing taxpayers and ratepayers through funding allocations in both the Rate and Tax Budgets.

As part of Watson's current engagement, a review of DC Policies was undertaken. It included a review of exemptions to be considered in the 2024 DC Background Study and By-laws, a comprehensive review of market feasibility, best practices in comparator municipalities and historical performance of current exemptions.

Among the recommendations proposed by Watson were the removal of the DC exemption for residential development within the Downtown Hamilton Community Improvement Plan Area (CIPA) and discontinuing a reduced DC rate for industrial developments.

Should Council choose to amend any of these draft policies or exemptions, as a result of public consultation or further information, they may do so prior to adopting the DC By-laws in 2024.

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Bill 23, *More Homes Built Faster Act, 2022*, legislated a statutory rate phase in for all DC By-laws passed on or after January 1, 2022. The mandatory DC rate phase-in means that municipalities must phase-in the calculated DC charge in the following manner:

- 80% of the calculated DC charge in year one of the DC By-law(s),
- 85% in year two,
- 90% in year three,
- 95% in year four, and
- 100% in years five through 10.

It is noted that, as of the time of writing the DC Background Study, the Province announced (on December 13, 2023) potential changes to the phasing-in requirements. It is anticipated that the details of these changes will be forthcoming in early 2024. It is unknown at this time if the Province will implement a full removal of the phase in, a reduction of the phase in, or some other option. The Ontario Legislature is not in session until late February 2024. For the purposes of Report FCS23103(a), it is assumed that the mandatory phase-ins are in place. Should the Province implement any changes, staff will assess and report back to Council.

On June 21, 2023, Council approved Report FCS23064, “Development Charges Exemptions Sustainable Funding Strategy”, that referred an overall DC exemption funding strategy including the financial impacts of Bill 23 for consideration in the 2024 Rate and Tax Supported Budget. The proposed 2024 Tax Budget presented through Report FCS24002 recommended a phased financing strategy to address these impacts.

Local Service Policy

Section 59.1(1) and (2) of the Act “No Additional Levies” prohibits municipalities from imposing additional payments or requiring construction of a service not authorized under the *DC Act*. Municipalities, therefore, implement Local Service Policies (LSP) which propose what will be included in the DC and what will be required by developers as part of their development agreements.

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

- Within the Urban Boundary as set out in the Official Plan Amendment (OPA) 167 as adopted by Council on June 8, 2022, and without the Minister modifications approved on November 4, 2022 (“Council adopted Urban Boundary”) – traditional local service policy requirements (current) remain unchanged;

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- Outside the Council-adopted Urban Boundary the developer be responsible for:
 - 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 (if they will be serviced with municipal water and wastewater).

At the time of writing Report FCS23103(a), there has been no public feedback received on the proposed Local Service Policy which will form part of the 2024 Development Charges By-laws.

Public Feedback on DC Exemptions

The City held two Development Charge Open Houses for feedback on the draft 2024 DC Background Study and the proposed 2024 DC By-laws. An in-person Open House was held on January 23, 2024 from 7:00 to 9:00 pm and a virtual session was held on January 24, 2024, from 10:00 am to 12:00 pm. Both Open Houses were well attended by members of the development community (with one interested citizen at the in-person open house) representing both residential and non-residential interests. Representatives from Planning and Economic Development Department (Economic Development and Growth Management Divisions) and Corporate Services Department (Financial Planning, Administration and Policy Division) and Watson were in attendance.

The focus of the feedback from the attendees was related to the proposed removal of two existing discretionary DC exemptions being the 40% exemption for residential development within the Downtown Community Improvement Plan Area (CIPA) and the 37% discount for industrial development. Feedback received includes comments and concerns as follows.

Residential Downtown CIPA DC Exemption

- High interest rates which translate to high financing costs are impacting development;
- Increases in construction costs are resulting in higher unit prices;
- Lower demand is resulting in slow housing sales;
- A reduction in exemptions will further negatively impact desire for development in the downtown;

Industrial Reduced Rate Exemption / Industrial Building Expansion (Detached) DC Exemption

- High interest rates which translate to high financing costs;
- Hamilton's ability to compete in industrial development market as it relates to surrounding municipalities;
- A reduction in exemptions will further negatively impact desire for development;
- Productivity of land needs to be considered.

Other Feedback

Farm Labour Residences have been charged Residential DC Rates in every City of Hamilton DC By-law since amalgamation. As these types of buildings are being encouraged on working farms (Farm Labour Residences Discussion Paper (PED22002(a))), staff has requested Watson to review options related to the DC treatment of Farm Labour Residences to ensure policy alignment. A review on how other municipalities treat these residences in terms of Development Charges is also being undertaken.

As a result of the feedback and additional information received from the development community since the Open Houses, staff has requested Watson to review their initial recommendations and prepare alternative exemption scenarios for consideration including pros and cons. The additional information points to uncertainty in the current residential development market in downtown Hamilton, in part, due to higher interest rates. Given this uncertainty a gradual reduction of DC exemptions may be considered by Council. Watson will also be reviewing DC rates with surrounding municipalities to ensure competitiveness.

Community Improvement Plan (CIP) Grant Program Consideration

Staff is working to determine if providing a grant program through a CIP is a more desirable approach to managing these type of incentives. Should this option be beneficial for both the City and the development community, a report with the appropriate recommendations will be prepared for Council's consideration.

Providing for grants through a CIP Grant Program has many advantages over including exemptions in the DC By-laws such as:

- Provides greater flexibility with respect to establishing parameters for eligible developments;
- Allows the City greater flexibility in responding to market trends;
- Allows Council to review each development and eligibility on a case-by-case basis, if desired;

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- Allows Council to establish an upper limit on the dollar amount of exemptions that can be provided in any given year.

The disadvantage of a grant program outside of the DC By-laws would mean additional resourcing requirements to establish, administer and monitor such a program. In addition, a grant program would require funds to be budgeted for the anticipated level of grants annually.

As establishing a CIP Grant Program will take several months, it may be necessary to maintain exemptions desired by Council within the DC By-law until such time as a CIP is adopted by Council.

Next Steps

Feedback from the February 22, 2024, Statutory public meeting, in addition to feedback heard from the development community will be addressed in a final report to the Audit, Finance and Administration Committee recommending By-law approval in April 2024. While Council has the ability to make changes to exemption policies without triggering an addendum to the DC Background Study, should other amendments be required to the DC Background Study and draft By-laws, a DC Background Study addendum will be prepared and made available to the public. If necessary, an additional public meeting may be held.

APPENDICES AND SCHEDULES ATTACHED

N/A

CP/dt