2024 Development Charges Discretionary Exemptions Policy Options

The purpose of Appendix “B” to Report FCS23103(b) is to outline a range of discretionary Development Charge (DC) exemption policy options. Section 1 of Appendix “B” outlines the DC exemption policies recommended by staff through Report FCS23103(b). Section 2 of Appendix “B” outlines the impact of a selection of policy options available to Council based on feedback received throughout the DC Background Study process.

Section 1: Staff Recommendations

Table 1 summarizes the staff recommendations for a few of the discretionary DC exemption policies recommended through Report FCS23103(b). These discretionary exemptions have been highlighted as they have received the most discussion throughout the DC Background Study process.

Staff estimates the annualized cost of the recommended discretionary DC exemptions proposed through Report FCS23103(b) at $71.9 M. This estimate assumes that the DC rate phase mandated by the *Development Charges Act, 1997* (DC Act), will be reversed as proposed through the *Cutting Red Tape to build More Homes Act, 2024* (Bill 185). Staff Report FCS24034, “Bill 185, *Cutting Red Tape to Build More Homes Act, 2024* as it relates to the *Development Charges Act, 1997”*, provides additional information on Bill 185.

Table 1
Staff Recommended Discretionary DC Exemptions

Discretionary Exemption Type	Recommendation	Cost of Discretionary Exemption[1]
Downtown Community Improvement Project Area Exemption for Residential Development	(e)(i) A Downtown Hamilton Community Improvement Project Area (CIPA) discretionary exemption for residential development, limited to the height restrictions Council approved through the Downtown Secondary Plan, be 40% in year one (June 1, 2024 to May 31, 2025); 35% in year two (June 1, 2025 to May 31, 2026); 30% in year three (June 1, 2026 to May 31, 2027); 32% in year four (June 1, 2027 to May 31, 2028); 10% in year five (June 1, 2028 to May 31, 2029); and 0% thereafter;	Accounts for $6.1 M of the annualized $71.9 M DC exemption cost estimate.

Discretionary Exemption Type	Recommendation	Cost of Discretionary Exemption[1]
Reduced Rate for Industrial and Manufacturing Development	(e)(iv) A reduced rate discretionary exemption be provided for manufacturing (Employment North American Industry Classification System (N.A.I.C.S.) (code 31-33), as well as, for production and artists' studios at a 37% discount; (e)(v) A reduced rate discretionary exemption be provided for industrial development (other than manufacturing) at a 37% discount in Year 1 (June 1, 2024 to May 31, 2025) with a reduction in the exemption of 5% per year until completely phased out;	Accounts for $9.7 M of the annualized $71.9 M DC exemption cost estimate.
Detached Industrial 50% Expansion Exemption	(e)(vi) An industrial expansion (detached building) 50% expansion of existing gross floor area exemption be applied only to industrial businesses with primary economic activity identified as manufacturing (employment North American Industry Classification System (N.A.I.C.S.) code 31-33);	Accounts for $454 K of the annualized $71.9 M DC exemption cost estimate.
Farm Labour Residences	(e)(xii) A 100% discretionary Development Charge exemption for Farm Labour Residences	Accounts for $150 K of the annualized $71.9 M DC exemption cost estimate.

[1] The cost of each discretionary exemption has been estimated with the assumption that the statutory phase-in of DC rates will be removed from the DC Act, as proposed through Bill 185.

Table 2 illustrates the funding for DC Exemptions that has been approved and forecasted in the 2024 Tax and Rate Capital Budgets, as well as, an estimate of the cost of the staff recommended policy as outlined in Table 1. Adoption of the discretionary DC exemptions recommended by staff would result in a lower estimated cost than the amount considered in the 2024 Budget as a result of (1) the staff recommendation assuming removal of the phase-in through Bill 185 and (2) DC rates not increasing as significantly as expected in Staff Report FCS23064, "DC Exemptions Sustainable Funding Strategy". The 2024 Budget relies on transfers from reserve and transfers from other funding sources to fund the cost of DC Exemptions. An overview of the financial implications of Bill 185, if enacted, and impacts on financing strategy included in the 2024 Tax and Rate Budgets will be included in the 2025 Budget Outlook Report.

Table 2
Budget Considerations

	DC Exemption Tax Budget[1]	DC Exemptions Rates Budget	Total
2024 Budget (1 year)	$55.6 M ($23.1 M levy, $32.5 M Reserves and other sources)	$37.7 M ($20.2 M user rates, $17.5 M Reserves and other)	$93.3 M
2024 – 2033 Budget 10 year - annualized	$61.5 M ($54.2 M levy, $7.3 M Reserves and other sources)	$42.4 M ($38.9 M user rates, $3.5 M Reserves and other)	$103.9 M
Staff recommendation 10 year – annualized	$39.3 M	$32.6 M	$71.9 M
Staff recommendation if phase-in is not removed 10 year – annualized	$47.0 M	$39.0 M	$86.0 M

[1] Amounts exclude previously approved funding dedicated towards eliminating the backlog of historically unfunded DC Exemptions

Section 2: Policy Option Alternatives

Section 2 of Appendix "B" to Report FCS23103(b) details various DC discretionary exemption scenarios that staff could be directed to adopt in lieu of the staff recommendations. Only one direction related to each exemption may be directed. For example, staff could be directed to implement scenario 1a. Staff could not be directed to implement scenarios 1a and 1b. Council may also choose to implement the staff recommendation and not to direct any of these alternatives.

1. Downtown Community Improvement Project Area (CIPA) Exemption for Residential Development

Historically, an exemption for residential development in the downtown CIPA has been provided. The 2019 DC By-Law included a phase-down of the exemption from 70% beginning in 2019 to 40% in 2021 onwards.

a. No Downtown CIPA Exemption for Residential Development

This option is consistent with the draft DC by-laws released for public consultation in December 2023. In this scenario, residential development in the Downtown CIPA would not receive a discretionary exemption in the 2024 DC By-law.

Table 1a
Scenario 1a Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
No Downtown CIPA Exemption for Residential Development	$6.1 M decrease in DC exemption cost estimate versus staff recommendation

b. Watson’s Revised Recommendation – 20/15/10/5/0

Through the DC public consultation process, Watson & Associates Economists Ltd. (Watson) updated their DC Exemption Analysis and presented a revised recommendation at the February 22, 2024 DC Public Meeting held at the City’s Audit, Finance and Administration Committee meeting.

Table 1b
Scenario 1b Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Watson’s revised recommendation – 20/15/10/5/0	$3.8 M decrease in DC exemption cost estimate versus staff recommendation

c. Maintain 40% Exemption

This option is consistent with the DC exemption that is currently provided to residential development withing the Downtown CIPA.

Table 1c
Scenario 1c Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Maintain current 40% Exemption	$10.7 M increase in DC exemption cost estimate versus staff recommendation

2. Industrial Rates

Historically, a partial exemption of DC rates for industrial developments has been provided.

a. No Exemption for Industrial (Including Manufacturing)

This option is consistent with the draft DC by-laws released for public consultation in December 2023. In this scenario, industrial development would not receive a discretionary exemption in the 2024 DC By-law.

Table 2a
Scenario 2a Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
No Exemption for Industrial (including Manufacturing)	$9.7 M decrease in DC exemption cost estimate versus staff recommendation

b. Watson's Revised Recommendation – Manufacturing

Through the DC public consultation process, Watson updated their DC Exemption Analysis and presented a revised recommendation at the February 22, 2024 DC Public Meeting held at the City's Audit, Finance and Administration Committee Meeting. The revised recommendation was to provide a 37% exemption for manufacturing developments, but not for other industrial.

Table 2b
Scenario 2b Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Watson's revised recommendation – Manufacturing	$5.1 M decrease in DC exemption cost estimate versus staff recommendation

c. Maintain 37% Reduction for Industrial

In this scenario, the existing 37% reduction for all industrial development would be maintained.

Table 2c
Scenario 2c Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Maintain current 37% Reduction for all Industrial	$5.1 M decrease in DC exemption cost estimate versus staff recommendation

3. Farm Labour Residences

In this scenario, an exemption for Farm Labour Residences would not be included in the 2024 DC By-law.

Table 3
Scenario 3 Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Farm Labour Residences	$150 K decrease in DC exemption cost estimate versus staff recommendation

4. Non-Profit Child Care Centres

This scenario is prepared in response to a motion passed at the April 4, 2024 special meeting of the Audit, Finance and Administration Committee. In this scenario, the City would include an exemption in the 2024 DC By-law for non-profit Child Care Centres operating under the *Child Care and Early Years Act, 2014*.

Hamilton's child care community-based space allocation under the Canada Wide Early Learning and Care system is 1,433 spaces. This growth is incremental and the 1,433 spaces expect to be open and operational by the end of 2026. The 1,433 spaces will be approved under a directed growth application process administered by the Children's and Community Services Division and every ward across the City will benefit. It is estimated that approximately 575 of total new daycare spaces would be non-profit.

Table 4
Scenario 4 Cost Assessment versus Staff Recommendation (ANNUALIZED)

	Total Impact
Non-Profit Child Care Centers	$213 K increase in DC exemption cost estimate versus staff recommendation

5. Full Rate / Exemption Policy Holds

These scenarios have been prepared in response to a motion passed at the April 4, 2024 special meeting of the Audit, Finance and Administration Committee.

Consistent with all other analysis for DC Exemption scenarios, these scenarios assume that the DC rate phase-in that is currently in the DC Act, will be reversed as proposed through Bill 185.

The motion requested that staff address the impact to the levy in the first year (identified in Tables 5a and 5b), as well as, the long-term financial economic uplift should either of these scenarios be adopted by Council.

The economic uplift of these rate and policy freezes can be considered in terms of development proceeding at a faster pace, employment as a result of development and the property tax assessment realized from growth.

Generally, growth will assist in achieving the City's growth targets. If development proceeds at a faster pace than it otherwise would, due to lower DCs, then progress towards these targets may be front loaded. As well, construction of buildings will have an immediate impact on maintaining / creating construction-related jobs during development. Subsequently, if development proceeds faster than it otherwise would, the new buildings and population will give rise to maintaining / creating permanent jobs for various employment sectors (maintenance trade sector, retail trade, finance / insurance, food services, etc.).

Alternatively, while new tax revenues will be generated from the new assessment associated with the development, the additional growth will also create the need for additional municipal services. From work undertaken by Watson over many years, residential growth generally creates more municipal expenditures than revenues.

In conclusion, it is challenging to quantify the long-term economic uplift as the long-term impact would be limited to development which proceed under a freeze of DC rates and policy which would otherwise not proceed. Developments which proceed at an earlier date than they otherwise would, could help achieve the City's growth targets faster, bring employment faster and could assist with maintaining construction related employment through 2024 and 2025 while CMHC is forecasting development to decline. The DC rate and policy freeze would be considered an exemption and would be passed along to all tax and rate payers.

a. Maintain Current DC By-law Rates and Exemption Policy for One Year

In this scenario, the City would continue to charge the current DC By-law rates (plus annual indexing) for the first year of the 2024 DC By-law. This would be accomplished via a discretionary exemption applied to all rates in the first year. The City would charge the lesser of the current DC By-law rates and the 2024 calculated DC rates as the City cannot charge more than the calculated DC rate.

This scenario would also maintain the following current DC By-law discretionary exemptions for the first year of the by-law:

- 40% exemption on Residential Development in the Downtown CIPA
- 37% exemption on all Industrial Development
- 50% detached Industrial Expansion exemption

After the first year, it is assumed that the 2024 calculated DC rates and the staff recommended discretionary exemption policies will commence.

Table 5a
Scenario 5a Cost Assessment versus Staff Recommendation

	Additional Cost in Year One	**Additional Cost over 10 years**	**Additional Cost Annualized**
Maintaining current DC Rate for One year	$17.6 M	$17.6 M	$1.8 M
Downtown CIPA Residential Impact	($3.8 M)[1]	$14.9 M	$1.5 M
Industrial Impact	($4.5 M)[1]	$8.2 M	$816 K
Total	**$9.3 M**	**$40.6 M**	**$4.1 M**

[1] The impact is negative (i.e., less than the staff recommendation) in the first year because the DC rate would be held at a lower rate and the exemption would be the same %.

b. Maintain Current DC By-law Exemption Policy for One Year

This scenario would move to the 2024 calculated DC rates but maintain the following current DC By-law discretionary exemptions for the first year of the by-law:

- 40% exemption on Residential Development in the Downtown CIPA
- 37% exemption on Industrial Development
- 50% detached Industrial Expansion exemption

After the first year, it is assumed that the staff recommended discretionary exemption policies will commence.

Table 5b
Scenario 5b Cost Assessment versus Staff Recommendation

	Additional Cost in Year 1	**Additional Cost over 10 years**	**Additional Cost Annualized**
Downtown CIPA Residential Impact	$0 M	$18.7 M	$1.87 M
Industrial Impact	$0 M	$12.6 M	$1.26 M
Total	**$0 M**	**$31.3 M**	**$3.1 M**

Note that there is no cost difference in year one because staff's recommendation maintains the existing discretionary exemption policy for the first year of the by-law.