Memo

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Subject: City of Hamilton, Review of Urban Area Expansion Criteria: Financial Impact Analysis

Our File: 24-7609

1.0 Introduction

1.1 Background

Ontario's planning system has changed significantly over the last several years. Changes to the *Planning Act*, the repeal of the *Places to Grow Act* and the issuance of a new *Provincial Planning Statement* (2024) have had significant implications on how the municipalities plan for future growth, in particular future potential urban area expansions (UAE).

The City of Hamilton's current Urban Hamilton Official Plan (UHOP) does not provide comprehensive guidance for large-scale, private landowner-led applications for urban boundary expansion. At the time the City completed its Municipal Comprehensive Review, private applications for urban boundary expansion were restricted under previous versions of the UHOP/*Planning Act*/PPS/Growth Plan, etc. To address gaps between the current UHOP and recent Provincial changes, the City has developed a planning framework to assess and respond to urban boundary expansion applications.

The purpose of the framework is to ensure that UAE applications comprehensively assess the implications of the proposal against relevant Provincial and municipal land use priorities including prime agricultural land preservation, efficient use of land and infrastructure, financial sustainability, planning for the impacts of climate change, protection of the natural environment, and supporting transit and active transportation network. The City's Draft Framework includes three main components:

- Part A: Submission Requirements (specific plans and technical studies required for an UBE application);
- Part B: Key Considerations (the factors the City will consider when evaluating UAE applications); and,
- Part C: Submission and Review Process (the overall application process and key steps involved within a 120-day time frame).

Dillon Consulting was retained to provide technical guidance on developing aspects of the above-noted planning framework, including how to assess impacts on growth allocation, energy and climate change as well as guidance for public engagement and subwatershed study requirements. Dillon also provided guidance on how the City should assess and consider the financial impacts of proposed UAEs.

With respect to the matter of financial impacts in particular, Dillon recommended that a Financial Impact Analysis (FIA) be prepared to support future UAE. It was recommended that the FIA include a comprehensive assessment of the growth-related infrastructure, operating and replacement costs associated with the infrastructure required, anticipated revenues, consideration of broader municipal fiscal implications and conclusions on the long-term net fiscal impact[1]. In addition to policy conformity matters, understanding the fiscal impacts of making changes to the City's approved urban structure is of significance given the City's infrastructure deficit, which is forecast to be $195.9 million annually (1.9 billion over ten years) for core assets of water, sewers, roads and engineered structures[2].

On August 16, 2024, Hamilton City Council (Council) approved the Draft Framework for Processing and Evaluating Urban Boundary Expansion Applications and directed staff to develop a public consultation and engagement program to help with finalizing and implementing the Draft Framework. As part of the August 16th decision, Council also directed Staff to undertake additional technical work on the FIA aspect of the Draft Framework. Council passed the following motion stating:

> "*that staff be requested to work with the assigned consultant to the Draft Framework for Processing and Evaluating Urban Boundary Expansion Applications under the proposed Provincial Planning Statement to ensure that the financial assessment of infrastructure extensions into greenfield areas (i.e. urban boundary expansion areas) compared to upgrades or renewals within our existing urban boundary accounts for the costs on a per hectare basis and the opportunities to generate additional property tax revenue via the enrichment of adjacent assessment property values*."[3]

1.2 Memo Purpose and Contents

The purpose of the following memo is to elaborate on our initial July 26th, 2024 memo on the subject of municipal financial impact assessments (within the context of urban boundary expansions). To properly address the request from Council, this Memo covers the broader legislative and policy context for urban boundary expansions and municipal finance in Ontario (Section 2). Section 3 provides a recommended approach for FIAs, outlining the key concepts and proposed submission requirements for future UAEs and taking into account feedback that has been received to date on the proposed framework, including feedback provided by the development industry through the West End Homebuilders Association (WEHBA). The analysis and commentary in Section 3 is informed by a review of FIAs undertaken

[1] Refer to Appendix A1 to Report PED 24109 (Dillon Consulting Memo dated July 26, 2024).
[2] Refer to Corporate Asset Management Plan Overview, City of Hamilton, June, 2022 (page 1).
[3] Refer to Council Minutes 24-015 for Planning Committee Report 24-011, August 16, 2024 (page 11 of 30, item 10).

elsewhere in the Province (including Hamilton). Section 4 summarizes conclusions and recommendations and Section 5 provides a listing of selected references.

2.0 Legislative and Policy Context

2.1 Planning Act

The *Planning Act* outlines the basis for municipal land use planning in Ontario. Section 2 of the Act identifies twenty (20) distinct matters of Provincial interest which the Province, Councils and municipalities shall have regard to when making decisions. Of relevance for this Memo are the following:

- (f) the adequate provision and efficient use of communication, transportation, sewage and water services and waste management systems;
- (h) the orderly development of safe and healthy communities;
- (i) the adequate provision and distribution of educational, health, social, cultural and recreational facilities;
- (j) the adequate provision of a full range of housing, including affordable housing;
- (l) the protection of the financial and economic well-being of the Province and its municipalities; and,
- (p) the appropriate location of growth and development;

2.2 Provincial Planning Statement (2024)

The PPS (2024) directs municipalities to plan for growth in an integrated, coordinated and efficient manner and requires planning authorities to consider the financial viability of future development. Section 2.3.2.1 provides general guidance to planning authorities around decision-making for settlement area expansion, stating that (amongst various items) that planning authorities shall consider "if there is sufficient capacity in the existing or planned infrastructure and public service facilities (item b)". The PPS also provides high level guidance for integrated growth management and infrastructure planning. Section 3.1.1 of the PPS states that infrastructure and public service facilities "shall be provided in an efficient manner while accommodating projected needs" and that "infrastructure and public service facilities shall be coordinated and integrated with land use planning and growth management so that they:

a) Are financially viable over their life cycle, which may be demonstrated through asset management planning;

b) Leverage the capacity of development proponent, where appropriate; and,

c) Are available to meet current and project needs".

Section 3.1.2 establishes the importance of leveraging existing infrastructure before undertaking major expansions, stating that “before consideration is given to developing new infrastructure and public service facilities:

a) The use of existing infrastructure and public service facilities should be optimized; and,

b) Opportunities for adaptive re-use should be considered where feasible”.

Additional sections of the PPS provide more detailed guidance for specific types of infrastructure and public service facilities, such as Section 3.6.1 which underscores the importance of planning for sewage and water services in an efficient manner that is feasible and financially viable over their lifecycle.

2.3 Municipal Act (2001) and Development Charges Act (1997)

The Municipal Act, 2001, grants municipalities broad powers to govern their affairs, including financial management. Within the context of infrastructure cost recovery, the key tools include:

- **Fees and Charges**: Municipalities can impose fees and charges for services, activities, and the use of municipal property. This includes capital cost recovery for infrastructure like water and sewage services, even for future beneficiaries.
- **Local Improvements:** Municipalities can undertake local improvement projects and recover costs from benefiting properties through special assessments.
- **Debenture Financing:** Municipalities can issue debentures to finance large capital projects, with debt levels regulated to ensure financial stability.
- **Infrastructure Ontario:** Provides access to low-cost, long-term financing for municipal infrastructure projects.

The Development Charges (DC) Act, 1997, enables municipalities to levy development charges on new developments to fund infrastructure and services needed for growth. Development charges help recover the costs of infrastructure such as roads, water, sewage, and recreational facilities required for new development. Together, the *Municipal Act* and *Development Charges Act* equip municipalities with tools to plan, fund, and manage infrastructure development, supporting sustainable growth and community well-being in accordance with provincial and City of Hamilton planning policy objectives.

Within the context of UBE, municipalities rely heavily on the combination of development charges, fees and charges and applicable provincial/federal grants/transfer payments to cover the initial round of capital infrastructure investment. As an UBE area evolves and becomes part of a broader community over time, the expectation is that the local tax base, along with user fees (such as water, sewer and stormwater fees) largely supports the need for any future improvements or replacements over the longer-term. The FIA Criteria and associated submission requirements discussed below are considered within the above-noted legislative context.

3.0 FIA Criteria and Submission Requirements

3.1 What is a Financial Impact Analysis?

The purpose of an FIA is to evaluate the financial implications of a development where there typically aren't existing or sufficient services to accommodate the envisioned growth. Typically, municipalities will undertake an FIA for new large greenfield areas or major intensification areas. This type of assessment is crucial for understanding the economic and fiscal consequences of new development on a municipality to assist Council in its decision-making.

The goal of conducting an FIA for an urban boundary expansion is to provide Council with a comprehensive understanding of the specific financial impacts of a large-scale development, enabling decision-makers to make informed choices that balance growth with fiscal responsibility and community well-being. FIAs are not usually prepared as a comprehensive City-wide assessment, rather they are typically completed as a site-specific or local area-assessment that examines the financial impacts resulting from a proposed development. The results of an FIA can be used to inform other municipal processes such as secondary planning, infrastructure master planning, development charge studies, fee/rate studies and municipal budgeting amongst others.

3.2 What should be included in an FIA?

Traditional FIAs include the following elements:

- Summary of the proposed development, including the overall amount and type of growth and its anticipated phasing over time;
- Breakdown of costs to develop and maintain the area, including both the initial capital-related costs noted above as well as longer term operating implications;
- Breakdown of the various revenue sources associated with the proposed development, typically organized around the tools currently available within the applicable municipal land use planning and regulatory powers; and,
- Overall net fiscal impact statement, including summary conclusions on whether or not the municipality (in this case the City of Hamilton) is expected to be better or worse off from a municipal fiscal perspective as a result of the proposed development.

Table 3.1 below provides a brief description and examples of these four elements:

Table 3.1: FIA Components

FIA Component	General Description
Summary of Proposed Development	• Overview of the proposed development identifying the overall area to be developed, the quantum of growth that the plan will accommodate, including the number and type of housing units, population and employment (number of jobs and gross floor area by type, etc.). • The expected phasing of growth and the overall time horizon that it will take to fully develop (e.g. 20, 30, 50 years., etc.). Phasing plans are used to describe the quantum of growth over 5 to 10 year intervals.
Municipal Costs (Capital and Operating)	• Municipal costs are broken down by several streams: capital costs, operating/maintenance costs and replacement/lifecycle costs. Examples of typical capital costs include roads, transit, trails/paths, water, sewer and stormwater, etc.). • Depending on size and complexity of the community or employment area being planned for, municipal costs should also include provision of various public service facilities, such as police, fire and emergency services, libraries, parks and recreational facilities and any other municipally operated facility associated with the planned growth. Public service facilities which are not the responsibility of the municipality, such as schools, hospitals, etc. are typically not included as part of the FIA but would be included as part of a broader secondary planning process and addressed through distinct funding mechanisms (such as. Education Development Charges, provincial funding programs, etc).
Revenue Sources	• Revenue sources are typically organized around the various municipal tools for cost recovery, including development charges, property taxes, user fees and other charges, provincial/federal funding and other potential revenue streams that may be relevant (such as development agreements, debenture financing under Ontario Regulation 403/02 of the Municipal Act, etc.).
Net Fiscal Impact Statement	• The net fiscal impact statement illustrates the overall breakdown of how the costs compare to the revenue sources over time, showing how development will be funded, along with commentary on debt impact, property taxes and user rates. Depending on the results of the net fiscal impact statement, FIAs sometimes provide policy recommendations for how the municipality should balance the overall financial pressures.

3.3 Considerations and Commentary

Traditionally, FIAs have been used to support decision-making around growth and development. FIAs enable decision-makers to plan for sustainable growth by minimizing the impact of growth on existing rate payers, providing guidance for different options and approaches to financing development and ensuring a plan is in place to maximize cost recovery. Considering the recent Provincial policy and legislative changes, the following are expected to be the main challenges for the City (in the context of using FIAs as a tool to support decision-making around future UAE applications):

- **The City's current capital and infrastructure plans do not contemplate boundary expansions and it will be a challenge to identify the full infrastructure requirements associated with any given expansion proposal.** The City's current growth management plan is to focus growth and development within the existing urban boundary. Accordingly, the City's infrastructure master planning is based on the Provincially approved Official Plan and unless there is residual capacity, in most cases there is not likely to be existing and/or planned capacity already in place to support future boundary expansions[4].
- Future applicants for boundary expansions will be in the position of identifying the infrastructure needs for a specific area but **may not be able to fully identify broader system level implications** and the associated costs related to the proposed expansion (e.g. water or wastewater plant expansions, pumping station upgrades, road widenings for facilities outside of the area, etc.). In addition, the need for community level services that are shared across a broader area will be difficult to identify as applications come forward at the site or neighbourhood level (e.g. fire and police services; arenas/community facilities; schools).
- Further, there are plausible scenarios where the **City may have to consider multiple different expansions at the same time**, which adds a layer of complexity and nuance to the decision-making process and further underscores the value of comprehensive growth management planning exercises (such as GRIDS/GRIDS 2). When assessing the completeness of an FIA the City should consider whether the applicant has identified the appropriate amount and type of infrastructure and public facilities to serve the area.
- **FIAs may produce an incomplete picture:** In most cases, FIAs form part of a broader growth management or secondary plan process that is led by the municipality. Accordingly, FIAs tend to speak directly to the fiscal pressures that a municipality can expect to face. In the context of the recent UAE changes whereby a private applicant is initiating an expansion proposal, the onus on assessing the overall fiscal impact rests with the applicant. In this scenario, applicants can be expected to speak to overall costs and revenues associated with their development but may not be able to be able to assess wider financial implications of the proposed development on the

[4] One of the PPS tests for assessing the boundary expansion is whether there is sufficient capacity in existing or planned infrastructure (Policy 2.3.2.1.b).

City's overall fiscal position and therefore are less likely to propose a fulsome range of cost recovery options (i.e. cost recovery tools are likely to focus on DCs, fees, taxes, etc.).

- To address this issue, and given the 120 day window for making a decision on a complete application, the City should consider an approach that would **have submitted FIAs peer reviewed and/or supplemented with additional technical analysis** to ensure a) a fulsome analysis of infrastructure and public service facilities needs have been undertaken (as noted above), b) that the cost estimates are appropriate and that c) reasonable cost recovery options are considered – this will position the City to have a better understanding of the overall impact of the proposed development in the City's fiscal position.
- **Development industry has provided feedback on the FIA recommendations:** As part of the consultation and engagement program, the City received feedback from the development industry with respect to several of the FIA recommendations contained in the July 26th Memo and subsequently met with representatives in January 2025 to receive additional feedback. Key concerns raised with respect to the FIA component include:
  - The recognition that FIAs are technically complex and there are a limited number of qualified experts available to properly complete this type of analysis. Accordingly, the July 26th Memo recommended that FIAs be completed by a "qualified urban land economist or municipal finance practitioner with clearly demonstrable experience in fiscal impact analysis prepared for public sector clients". Feedback from the industry suggested that the qualifications for FIAs not be limited to practitioners with public sector FIA experience for a variety of reasons including the limited number of qualified professionals available and potential for conflicts with other or related applications.
  - To address these concerns and still ensure that the City receives an analysis prepared by a qualified professional, the criteria in the study Terms of Reference should be simplified to state that the study be undertaken by a qualified urban land economist or municipal finance practitioner with clearly demonstrable experience in fiscal impact analysis" and subject to the Peer Review and supplemental analysis noted above.
  - The recommendation that the FIA include "an assessment of the ecological value of natural heritage features" would be difficult to quantify for the purposes of an FIA. The inclusion of ecological value estimates into the FIA would require additional study to properly assess how best to practically incorporate this type of information into the traditional FIA methodology. Given the novelty of the concept and the tight timeline for implementing a terms of reference for the FIA work, these comments are well taken and we would agree that there are practical advantages to having the City's FIA methodology generally aligned with current industry practices.
  - The ecological value of current features and how their function contributes to the broader sustainability objectives of the City, however, remain an important municipal planning objective and would certainly benefit from further study/testing. This type of work could

be incorporated and considered as part of a City-led secondary plan exercise to establish and pilot an acceptable methodology for assessing and incorporating ecological value; and,

- **The time horizons should align with infrastructure lifecycle timelines.** The initial Staff Report that laid out the UBE criteria had recommended "that the time horizon assess in any analysis extend past the lifecycle replacement costs of new infrastructure". Feedback from the development industry stated that the approach for FIAs needs to be clear and that the timelines reflect the general infrastructure lifecycles. The terms of reference for the FIAs should provide clear language for the expected time horizons and, as noted above, generally aligned with current industry practices.

3.4 Benchmarking Applications (Greenfield vs. Intensification Areas)

On a final and broader methodological note, it is also important to understand that **comparing the infrastructure costs and revenues between greenfield and intensification areas is a complex matter.** The Council motion referenced at the outset of this Memo is essentially exploring the notion (from a FIA perspective) that the City consider how the FIA tool can be used to better understand the different costs, revenues and resulting long-term fiscal impacts associated with development in new greenfield areas compared to development in the City's built-up area.

Our July 2024 Memo spoke generally to some of the differences in infrastructure costs and cost recovery, outlining that infrastructure costs for intensification tend to be higher relative to greenfield areas and development charges tend to favour greenfield development because they can more readily recover a higher portion of relative costs in greenfield areas compared to intensification areas as a result of the benefit to existing users discounts that apply in the built-up area. Earlier analysis from the GRIDS 2 work program prepared by Watson and Associates (2021) spoke this in more detail[5] – noting that the benefit to existing users could result in development charge discounts of between 10% to 50% for water and wastewater upgrades and improvements within the built-up area. The 2021 analysis by Watson also spoke to a range of other differences which can influence the cost profile for redevelopment, such as the presence of combined sewers vs. separated sewers, as well as cost differences for securing parks and public facilities (which tend to be higher and more challenging in the built-up area).

From a revenue perspective, the potential for generating municipal tax revenues also depends heavily on the number of tax payers living in an area, the rates and the overall land use mix. Areas with higher housing densities and larger size and number of employment uses will tend to generate higher volumes of tax revenue and vice versa for lower density areas (i.e. areas with less housing units, fewer employment uses will tend to generate lower tax revenues) other things being equal. And while intensification areas, such as downtowns, nodes and corridors would fit the profile of an area with

[5] Refer to Appendix B: Municipal Finance Reports by Watson and Associates (part of City of Hamilton GRIDS 2 / MCR Planning for Growth to 2051: How Should Hamilton Grow? Evaluation of Growth Options, Dillon Consulting, October 2021).

higher rates of revenue generation on a per hectare basis compared to a new greenfield area, there is limited data on what the overall net financial position is for different spatial patterns[6]. In absence of City-specific datasets, it is difficult to pin-point the specific density range and land use pattern that optimizes municipal finance considerations.

Intensification, like all forms of urban development, still requires expensive infrastructure and the net fiscal impacts of intensified urban environments are far more complex than simply making 'better' or more intensive use of existing and future infrastructure. To that end, there is an opportunity for the City to take a closer look at the different costs/revenue implications for various densities/mixes within the City to inform future decision-making. An audit/study on a selection of areas, for example, could help the City better understand the overall fiscal impacts of intensification and inform longer term decisions around intensification priority areas. The data and findings resulting from such an analysis would also help Staff and Council contextualize and assess UAE proposals from a financial perspective, along with the FIA materials submitted by the applicants, as the case may be.

4.0 Recommendations and Conclusions

From a process perspective, in our view it is more appropriate for the FIAs prepared by UBE proponents to be focussed primarily on the proposed expansion areas. Requesting that applicants prepare a comparative analysis between the proposed greenfield expansion area and other built-up areas from a financial perspective is of questionable practical relevance from a development review and approvals perspective and likely to yield incomplete results given the limited access to City-wide data on the net fiscal impacts of intensification compared to greenfield development.

However, we do consider it reasonable to request that applicants include a summary of the total estimated cost and revenue per hectare for the proposed expansion, as requested in the Council motion noted earlier. Applicants should provide general commentary on how the proposed development has been optimized from a municipal finance perspective in the context of the Council motion. The recommended terms of reference for FIAs are attached in **Appendix A**. The terms of reference reflect industry standards and provide general guidance to the applicant. Applicants are strongly encouraged to participate in the City's pre-consultation process and on the FIA matters noted above.

[6] While there has been a fair amount of analysis and commentary on the costs of suburban development, there has been very little detailed study on the costs of intensification. For example, studies such as the Sustainable Prosperity's (now Smart Prosperity) "Suburban Sprawl: Exposing the Hidden Costs, Identifying Innovations" (2013) tend to be general comparing initiatives from one city to another; Meaningful comparisons of costs/revenues associated with different spatial development patterns should be informed by the very real costs/revenue differences within a specific City context.

5.0 Selected References

Bolton Residential Expansion Study, Fiscal Impact Re: The Town of Caledon, prepared by Watson and Associates, June 16th, 2014.

Corporate Asset Management Plan Overview, City of Hamilton, June, 2022.

Council Minutes 24-015, Planning Committee Report 24-011, City of Hamilton, August 16, 2024.

City of Hamilton GRIDS 2/MCR – Planning for Growth to 2051: How Should Hamilton Grow? Evaluation of Growth Option, Dillon Consulting Limited, October 2021.

Development Charges Act, S.O. 1997.

Elfrida Community Area Fiscal Impact Assessment, prepared by Parcel, November 18th, 2024.

Fiscal Impact Assessment, City of Guelph, Clair Maltby Secondary Plan, prepared by Watson and Associates, April 29th, 2022.

Fiscal Impact Assessment for the Vision Georgetown Secondary Plan, Town of Halton Hills, prepared by Watson and Associates, July 8th, 2018.

Fiscal Impact Study, Alloa, Town of Caledon, prepared by KPEC Planning and Economics, July 2, 2024.

Fiscal Impact Analysis, Southeast Courtice Secondary Plan, Municipality of Clarington, date of publication not provided.

Fiscal Strategy for Settlement Expansion Lands, City of Brantford, prepared by Hemson Consulting, November 2020.

Financial Impact Analysis, Upper West Side Landowners Group, Urban Boundary Expansion Plan, Hamilton Ontario, prepared by MGP, June 2020.

Glendale Secondary Plan, Fiscal Impact Assessment, Town of Niagara-on-the-Lake, prepared by Urban Metrics, August 24, 2024.

Municipal Act, S.O. 2001.

Planning Act, R.S.O. 1990.

Provincial Policy Statement, Government of Ontario, 2024.

Report PED-24109, City of Hamilton, August 13, 2024.

Report PED-24109, City of Hamilton, Appendix A, “Draft Framework for Processing and Evaluating Urban Boundary Expansion Applications”, August 2024.

Report PED-24109, City of Hamilton, Appendix A1, Dillon Consulting Memo dated July 26, 2024.

“Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations”, Sustainable Prosperity, October 2013.

Upper West Side Secondary Plan: Financial Impact Analysis, prepared by MGP City Plan Ltd, November 2023.