Hamilton

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: December 10, 2012	
SUBJECT/REPORT NO: Industrial Development Charges – January 6, 2013, Step Increase (FCS12100) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager, Finance & Corporate Services **SIGNATURE:**	**PREPARED BY:** Joseph Spiler (905) 546-2424 ext. 4519 Adam Smith (905) 546-2424 ext. 1434

RECOMMENDATION

That the January 6, 2013, Industrial Development Charge Increase from $8.07 per square foot to $9.21 per square foot be administratively capped at $8.78 per square foot, until an Ontario Municipal Board order amending the Development Charges By-laws is received.

EXECUTIVE SUMMARY

With reference to the 2011 Water, Wastewater and Stormwater Development Charges Study and By-law, Council, on June 29, 2011, approved the calculated non-residential Development Charge Rate of $15.81 per square foot. Non-residential DC rates include commercial, institutional and industrial developments. While the commercial and institutional rates are for the most part at full recovery, the industrial DC rate is not. Due to economic and competitive reasons, Council decided to continue with the previous by-law's subsidized Industrial DC rate for one year and then increase it incrementally with the following step increases:

Effective Date:

(a) July 6, 2011 - $6.65 per square foot (unchanged)
(b) July 6, 2012 - $8.07 per square foot ($7.75 plus indexing)
(c) January 6, 2013 - $9.21 per square foot ($8.85 plus indexing)

Regarding the last step increase to $9.21 per square foot, Council approved the following motion:

> "That the January 6, 2013, development charge for industrial in the amount of $9.21 be subject to the Senior Management Team and Economic Development staff reporting back to the General Issues Committee before the end of December 2012 on increasing the development charge on the industrial sector".

Staff are recommending that the increase of the Industrial Development Charge rate to $9.21 per square foot effective January 6, 2013, be administratively capped at $8.78 per square foot. This 71 cent increase represents the amount of non-residential DC rate increase attributable to the recent settlement of the 2011 Water/Wastewater/Storm DC By-law appeals between the City and the Residential Development sector. This would only be an interim administrative measure allowing the City to collect less than the amount contained within the DC By-laws pending an OMB Board order amending the DC By-laws.

Justification for this recommendation is based on competitiveness with surrounding municipalities and sustaining the current development trends regarding new industrial growth. Staff of the Economic Development Division have suggested that the City needs to keep the Industrial DC rate as low as possible, and keeping it below the $9 per square foot mark at this time would be beneficial to their efforts.

Furthermore, the full proposed $1.14 per square foot industrial DC rate increase on January 6, 2013, was contained within the by-laws approved in association with the 2011 Water, Wastewater and Stormwater Background Study, and to remove this increase in whole from the by-laws would require an amendment to the by-laws, including advance notice, holding a public meeting, and allowing an appeal period, as outlined in the Alternatives for Consideration section of this Report.

Alternatives for Considerations – refer to page 6.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial:

Capping the Industrial DC rate increase at $8.78 allows the rate to maintain its competitiveness as it is much lower than GTA municipalities and in the middle of the pack overall:

TABLE 1 - Industrial Development Charges Rates Comparison		
Municipality	Rate	Notes
Oakville*	$ 19.28	Greenfield Development
Milton*	$ 15.81	Greenfield Development
City of Waterloo*	$ 14.34	
Burlington*	$ 12.98	Rate within Built Boundary
Brampton*	$ 12.79	
Hamilton (as of Jan 6/13)	**$ 8.78**	**New Industrial < 10,000 sq ft only $6.92/sq ft**
Hamilton (current)	**$ 8.07**	
Brantford	$ 5.25	Max of 25% Lot Coverage
Niagara Falls*	$ 5.16	No City DC
London	$ -	No Industrial DCs
Woodstock	$ -	No Industrial DCs
*includes both upper and lower tier charge		

Industrial DC collections, and similarly exemptions, are significantly impacted by major developments. In the year 2010, the Canada Bread development was a major driver of both industrial DC collections and foregone revenues. Similarly, in 2012, the Maple Leaf Foods development is responsible for a large share of industrial DC collections ($3,313,366) and foregone revenues ($4,255,050) for the year. The lower foregone revenue amounts forecast for 2013 and 2014 are related to lower industrial development expectations and a smaller proportion of the calculated DC rate being exempted:

TABLE 2 - Industrial DC Exemptions	
Year	DC Foregone Revenues from Subsidized Rates
2009	$ 1,695,144
2010	$ 7,807,375
2011	$ 1,403,596
2012 (Forecast YE)	$ 8,597,104
2013 (Forecast)	$ 1,054,500
2014 (Forecast)	$ 1,757,500

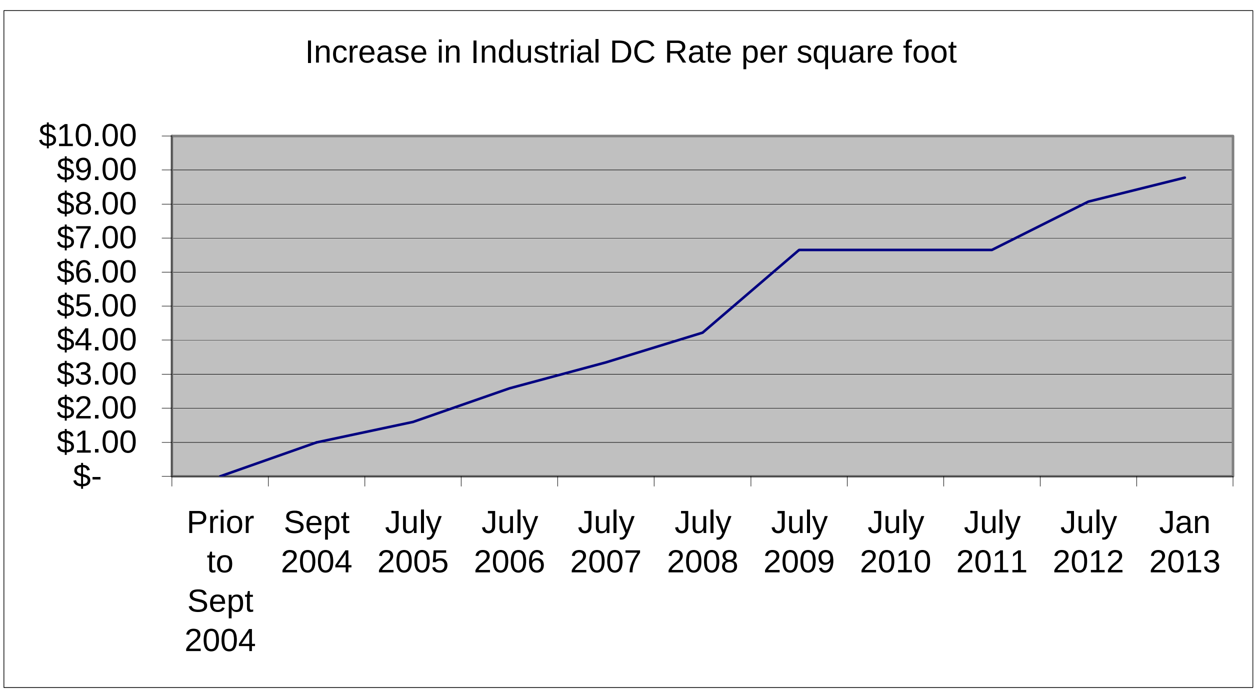
As can be seen when comparing Tables 2 and 3 of report FCS12100, the greater the DC collections, the greater the foregone revenues, as well. With the increase to $8.07 per square foot in July, 2012, and the forthcoming increase to $8.78 per square foot in January 2013, the industrial DC collections will now exceed the DC foregone revenues that resulted from subsidizing the industrial DC rate. At the $8.78 rate, the industrial DC rate will only cover 100% of the Wastewater, 100% of the Stormwater, and 45% of the Roads components.

TABLE 3 - Industrial DC Collections

Year	Industrial DC Collections
2008	$ 827,218.00
2009	$ 572,703.00
2010	$ 4,193,070.00
2011	$ 713,022.00
2012 (Forecast YE)	$ 6,723,430.00

Prior to amalgamation, the Region and former municipalities did not charge DC's on industrial development. Graph 1 of Report FCS12100 represents the phased-in increase of the industrial DC rate from implementation of the first DC Background Study post-amalgamation. Graph 1 of Report FCS12100 illustrates the steady increase and phasing-in of the rate to the level of $8.78 per square foot. At $8.78 per square foot, the industrial DC rate still only recovers approximately 56% of the calculated DC rate.

GRAPH 1



Commencing on July 6, 2011, the stormwater management pond component was removed from the DC quantum for non-residential development. As a result, the developer is now responsible for the stormwater management costs on the development site. While this was not an increase to the industrial DC rate, it did result in additional development related costs for developers. This has lowered the cost of exemptions which are funded through the rates budget.

Staffing: N/A.

Legal: The increase of the industrial rate to $9.21 ($8.85 plus indexing) is already contained within the DC By-laws. Directing staff to administratively cap the increase at $8.78 does not require any changes to the DC By-laws. In order to amend the By-laws, a public meeting would be required, including advertising of that meeting 20 days in advance and a 40 day appeal period.

HISTORICAL BACKGROUND (Chronology of events)

In 2004, the City of Hamilton passed their first DC By-law after amalgamation. This By-law introduced an industrial DC rate, which would be phased-in over the life of the By-law. The industrial rate started out at $1 per square foot in September 2004, and reached $4.22 by the time the next DC Background Study was prepared in 2009. In 2009, staff recommended, and Council agreed, to increase the industrial DC rate to $6.65 per square foot (approximately 34% of the calculated rate).

In 2011, another DC Background Study was completed for the Water, Wastewater and Stormwater Services. Staff proposed removing the Stormwater pond component for all Non-Residential Development and increasing the industrial rate to $8.85 – to be phased in over a 1 year period. In the end, Council pushed out the phase-in of the increase by 6 months, and required staff to report back to GIC before the end of 2012 regarding the January 2013 industrial DC rate increase.

POLICY IMPLICATIONS

Capping the scheduled Industrial DC rate increase at $8.78 rather then amending the DC By-laws is not a policy that has been used by the City in the past. Essentially it will mean that City staff will only collect DC’s based on a rate of $8.78 per square foot even though the DC By-laws state a rate of $9.21. This should only be seen as an interim measure to be used while awaiting orders for amendments to the DC By-laws by the OMB.

It is possible the 10% increase in the Industrial DC rate may be a deterrent to some businesses, however the City does offer Deferral Agreements to Industrial Developments, allowing them to pay the DC costs to the City over a period of up to 5 years with limited interest costs.

Policy implications of alternative options are contained within the Alternatives For Consideration section.

RELEVANT CONSULTATION

Staff of the Corporate Services and Planning and Economic Development Departments, were consulted in support of the recommendation in this Report.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Economic Development staff have cautioned we may be on the verge of a tipping point where DC costs are the difference between industrial developments locating in Hamilton or elsewhere. To date, increases in the industrial DC rate have not had such an impact, but Economic Development staff have suggested that if we haven't already hit the tipping point with the increase to $8.07, an industrial DC rate over $9 per square foot would likely exceed that point.

Increasing the industrial DC rate to $8.78 keeps the rate below the $9 threshold and allows the City to recover a greater share of growth-related costs which is an important step towards improving the sustainability of the DC reserves.

Currently, foregone revenues of Rates components are funded through the Rates budget, so the non-residential DC reserves for those services are in a strong position. However, the foregone revenues for non-rates components have no funding source and most of these DC reserves are now falling further and further into deficit positions.

Staff must balance the benefits of development (e.g., economic and property taxes) while maximizing growth revenue for the City to pay for growth infrastructure.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

(i) Maintain the current Industrial DC rate of $8.07 per square foot.
(ii) Charge the full calculated Industrial DC rate if $15.81 per square foot.
(iii) Implement the scheduled Industrial DC rate increase to $9.21 per square foot.

Financial Implications:
(i) This would result in less than 100% of the Wastewater, Stormwater and Roads components being recovered from Industrial DC's. Wastewater and Stormwater exemptions would then be recovered through the rates budget – creating an increased pressure on the rates budget. The Roads DC exemptions are not recovered and, as a result, there would be a further deficit position for the Non-Residential Roads DC Reserve.

(ii) Charging the full calculated rate of $15.81 on industrial development would mean no longer subsidizing the industrial DC rate; however, it would impede most industrial developments from moving forward in Hamilton and ultimately decreasing overall industrial DC collections. While this would lower exemptions funded from the rates budget, it would negatively impact the Non-Residential DC reserves and economic growth.

(iii) Implementing the increase to $9.21 without an administrative cap would result in an Industrial DC rate in excess of the $9 threshold discussed earlier. While the increase to $9.21 would result in collecting more of the Roads DC component, if exceeding the $9 rate threshold means a significant decrease in development activity, it would not be beneficial for any of the Non-Residential DC Reserves. The Non-Residential Roads DC Reserve currently has the largest deficit balance of all DC reserves and continues to go further into a deficit balance.

Staffing Implications: None.

Legal Implications: Alternatives (i) and (ii) of these alternatives would require an amendment to the existing Development Charges by-laws and would require at least one public meeting according to the Development Charges Act, 1997, S.O. 1997, c. 27. Twenty days public notice would be required for this meeting and all documents would have to be made public at least two weeks prior to the meeting. A forty day appeal period would also exist.

Policy Implications: Changes to the industrial DC rate have an impact on the City's rates budget as rate funded services (water, wastewater and stormwater) have their exemptions funded through the rate budget. However, if increases to the industrial

DC rates result in lower levels of development, all non-residential DC reserves, including the rates DC reserves, would be negatively impacted. If the rate should be maintained or decreased, it would result in additional pressures on the rates budget, and/or funding pressures on the Non-Residential Roads DC reserve.

If the increase to the industrial DC rate becomes a deterrent to new industrial development, the City may need to consider additional measures (in addition to Deferral Agreements) to continue to attract new development and maintain recent development levels.

These alternatives are not recommended by staff.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- More innovation, greater teamwork, better client focus
- Council and SMT are recognized for their leadership and integrity

Financial Sustainability

- Financially Sustainable City by 2020
- Effective and sustainable Growth Management
- Generate assessment growth/non-tax revenues
- Full life-cycle costing for capital
- Address infrastructure deficiencies and unfunded liabilities

Growing Our Economy

- Newly created or revitalized employment sites
- Competitive business environment

Healthy Community

- Plan and manage the built environment
- Adequate access to food, water, shelter and income, safety, work, recreation and support for all (Human Services)

APPENDICES / SCHEDULES

None