Subject: Development Charges Exemptions Policy Review
Report Number: FIN 24-010
Department: Finance Department
Submitted by: Renato Pullia, Interim Director of Finance
Meeting Type: Council Meeting
Meeting Date: Monday, April 8, 2024

RECOMMENDATION

A. THAT report FIN 24-010 titled "Development Charges Exemptions Policy Review" be received as information; and
B. Option 1: THAT the non-residential and industrial exemptions remain in the 2024 DC by-law update;
OR
C. Option 2: THAT consideration on the removal of non-residential or industrial exemptions be presented to the public for input, as part of releasing the detailed background study and part of the public meeting of Council.

BACKGROUND

This report is to provide Council with information as to whether consideration should be given to removing non-residential and/or industrial Development Charges (DC) exemptions in the DC by-law update.

DISCUSSION

Development charges are one-time fees imposed by municipalities on land developers and home builders when they develop or build upon an area of land. They are used to recover the capital costs associated with residential and non-residential growth within the municipality.

The Development Charges Act (DCA) provides for a number of statutory Development Charges (DC) exemptions:

- Upper/Lower Tier Governments and School Boards
- Development of lands intended for use by a university that received operating funds from the Government
- Existing industrial building expansions (may expand by 50% with no DC)
- Additional residential units in existing and new residential buildings (revised through Bill 23):

  - May add up to two apartments for a single detached, semi-detached or row house (only one unit can be in an ancillary structure)
  - One additional unit or 1% of the units in an existing rental residential building with four or more residential units
- Non-profit housing (Added through Bill 23)
- Inclusionary zoning affordable housing units (Added through Bill 23)
- Additional exemptions for affordable and attainable units to be exempt upon proclamation by the Lieutenant Governor units (Added through Bill 23)
- Discount for rental housing development:
  - >2 bedrooms - 25% discount
  - 2 bedrooms - 20% discount
  - <2 bedrooms - 15% discount
- Mandatory reduction of DC (Maximum charge of 80%, 85%, 90%, 95%, 100% for first 5 Years of the by-law).

The Act is specific in identifying that the revenue forgone may not be made up by increasing the D.C.s for other classes of development.

In effect, it is a loss of revenue to the Municipality which will have to be funded via taxes, user fees, reserves or other financial resources.

The following non-statutory D.C. exemptions are currently imposed in the County and Area-Municipalities:

Exemption	County of Oxford	Blandford-Blenheim	East Zorra-Tavistock	Ingersoll	Norwich	Tillsonburg	South-West Oxford	Zorra
1. Non-residential uses		✓		✓	✓	✓		
2. Industrial buildings	✓	✓	✓	✓	✓	✓	✓	✓
3. Non-residential farm building	✓	✓	✓	✓	✓	✓	✓	✓
4. Places of worship	✓	✓	✓	✓	✓	✓	✓	✓
5. Public hospitals	✓	✓	✓	✓	✓	✓	✓	✓
6. Development in Central Business District and Entrepreneurial Area	✓			✓		✓		
7. Temporary buildings and structures	✓	✓	✓	✓	✓	✓	✓	✓
8. Long-term care home	✓	✓	✓	✓	✓	✓	✓	✓
9. Affordable housing	✓	✓	✓	✓	✓	✓	✓	✓
10. Temporary dwelling units	✓	✓	✓	✓	✓	✓	✓	✓
11. Private Schools	✓							

<u>Non-statutory/Discretionary Exemptions</u>

While the DCA provides for the noted mandatory exemptions, it also gives municipalities the ability to provide their own exemptions.

Each by-law renewal provides the opportunity for consideration as to the removal of non-residential or industrial exemptions. The following survey has been prepared to assess the treatment of non-residential D.C. exemptions in 23 neighbouring municipalities.

Of the 23 municipalities, 1 fully exempts non-residential development, 5 fully or partially exempt industrial development, and one exempts only institutional development. The majority of the municipalities exempt agricultural development and 5 others provided area-specific exemptions such as in downtown cores or brownfield areas.

Non-residential exemptions have already been removed in the City of Woodstock and industrial exemptions are being considered for removal in Blandford Blenheim.

Municipality	Non-Residential	Industrial	Farm Buildings/ Agricultural	Area Exemptions
Brant County			x	
Brantford			x	and Brownfield
Norfolk		x	x	Business District
Bayham	x			
Malahide			x	
Aylmer				
Central Elgin			x	
St. Thomas		x		
Thames Centre		x	x	
London			x	
Middlesex Centre				
St. Marys			x	
Stratford		x		
Perth East			x	
Waterloo Region		x - 60% reduction	x	Growth Centre and Brownfield
Wilmot			x	
Wellesley			x	
North Dumfries			x	
Woolwich			x	
Kitchener			x	
Cambridge			x	Core Areas
Waterloo				
Woodstock	Institutional		x	Downtown Community Improvement Areas

Exemptions have both pros and cons, as follows::

Pros:

1. **Economic Stimulus**: Exempting non-residential and industrial development from development charges can stimulate economic growth by attracting businesses to the area. This can lead to job creation, increased tax revenues, and overall economic prosperity.

2. **Encourages Investment**: Development charge exemptions make it more financially viable for businesses to invest in the municipality. This can encourage existing businesses to expand and new businesses to establish themselves in the area, contributing to its economic diversity.

3. **Infrastructure Development**: While development charges are intended to fund infrastructure improvements necessitated by new development, exempting certain types of development can still lead to infrastructure upgrades. For instance, increased commercial activity may prompt the municipality to invest in improved transportation networks or utility services.

4. **Competitive Advantage**: By offering exemptions, the municipality can gain a competitive advantage over neighboring jurisdictions. Businesses may choose to locate within the municipality to take advantage of the cost savings, rather than opting for areas with higher development charges.

Cons:

1. **Revenue Loss**: Exempting non-residential and industrial development from development charges means the municipality forgoes potential revenue streams. This can impact its ability to fund essential services and infrastructure projects, leading to budget constraints or increased taxes for residents.

2. **Inequity**: Development charge exemptions may create inequity, as certain types of developments receive preferential treatment over others. This could lead to resentment among residents or other businesses who do not qualify for exemptions.

3. **Potential for Abuse**: There's a risk that developers may exploit exemptions for non-residential and industrial development, leading to speculative or unsustainable development practices that prioritize short-term gains over the long-term interests of the community.

In 2019, the Association of Municipalities of Ontario (AMO) presented a paper, attached as Appendix A, to the Ministry of Municipal Affairs & Housing on Bill 23 and DCs. The paper's main argument was "Reducing DCs does not decrease the cost of growth-related infrastructure. Instead, it transfers the cost to existing homeowners, which includes low-income families and fixed-income seniors". The Municipal Finance Officers Association (MFOA) also provided a very detailed paper called 'MFOA Submission on Bill 23' to the government on this issue, available for download here.

In conclusion, while providing development charge exemptions for non-residential and industrial development can offer benefits such as economic growth and investment, also presents challenges related to revenue loss, equity, overdevelopment, and potential abuse. Municipalities must carefully weigh these pros and cons before implementing such policies, considering the specific needs and circumstances of their community.

CONSULTATION

Commissioner of Development and Marketing, Director of Operations and Development, Senior Leadership Team

FINANCIAL IMPACT/FUNDING SOURCE

The financial impacts of the statutory (white background) and non-statutory (yellow background) exemptions and reductions over the next 10 years for Tillsonburg are summarized in the following table:

Financial Impacts of D.C. Exemptions and Reductions

D.C. Exemption/Reduction	10-Year Cost
Industrial	$2.7 M
Commercial/Institutional	$2 M
Affordable Housing	$5.2 M
D.C. Phase-In [1]	$3.8 M
Non-Profit Housing (LTC)	$0.6 M
Rental Reduction	$0.4 M
Secondary Units	$0.3 M
Other [2]	$0.3 M
Subtotal (Statutory Exemptions)	**$10.5 M**
Total Exemptions	**$15.1 M**

1. Assumes new by-laws still passed every 5-years. All other impacts are net of Phase-in revenue loss
2. Other includes Municipal Facilities, Agricultural, Places of Worship

Maintaining the current policy of exempting Industrial and non-residential (Commercial and Institutional) development would mean that $4.7M over the next 10-years will need to be raised by taxes, user fees or other revenue. If on the taxes, it would represent a 2.35% tax levy increase, on top of the 5.06% for the statutory exemptions.

CORPORATE GOALS

How does this report support the corporate goals identified in the Community Strategic Plan?

☐ Lifestyle and amenities
☐ Customer service, communication and engagement
☐ Business attraction, retention and expansion
☐ Community growth
☐ Connectivity and transportation
☒ Not Applicable

Does this report relate to a specific strategic direction or project identified in the Community Strategic Plan? Please indicate section number and/or any priority projects identified in the plan.

Goal – N/A

Strategic Direction – N/A

Priority Project – N/A

ATTACHMENTS

Appendix A – AMO's Submission to the Ontario Government on Importance of DCs