Steering Committee Meeting #6

Development Charge & Impost Fee Background Study

Summary Notes

Steering Committee Meeting #6 was held on **May 21st, 2014** in the Loyalist Room, City Hall. The following briefly summarizes the discussions at this Meeting.

**Attendees:** Andrew Grunda (Watson & Associates), Peter Simcisko (Watson & Associates), George Wallace (City), Desiree Kennedy (City), Jim Keech (UK), Jim Miller (UK), Randy Murphy (UK), Mark Van Buren (City), Lanie Hurdle (City), Pat Carrol (City), Terry Willing (City), Neal Ritchie (KHBA), Jordan Van Leuken (KHBA), Doug Haight (KCA), Harry Sullivan (KCA), Alf Hendry (Homestead), Jeff Garrah (KEDCO)

**Regrets:** Lana Foulds (City)

**Draft Policy Implementation Report**

The Draft Policy Implementation Report was attached to the Agenda as Appendix A. Watson & Associates reviewed the Report with the Steering Committee. The following specific items were noted:

**2.1 Impost Fee vs. Development Charge for Water and Wastewater Services**
- Watson & Associates reviewed the City’s rationale for maintaining separate DC and Impost Fee charges and By-laws.

**2.2 Financing Cost Impacts**
- Watson & Associates reviewed the cash flow analysis for the Roads and Related, Water and Wastewater Services;
- It was noted that there are 3 main projects that will need to be debt-financed – the Cataraqui Bay Wastewater Treatment Plant, the Point Pleasant Water Treatment Plant and the Third Crossing;
- Watson & Associates recommended that the debt financing costs should be included in the preliminary calculations;
- KHBA questioned whether the City’s interim financing cost should be lower than the market rate – in response staff advised that the City borrows from Infrastructure Ontario at 4.25% (100 basis points over the bond rating);
- It was noted that there was a need to review the Reserve Fund balances;
- KHBA inquired about the City’s internal practices for borrowing between the DC and Impost Funds;
- Watson & Associates advised that there may be some room to review the financing assumptions and City staff noted that it may be possible to review the length of the term for the treatment plants;
- In response to a question from KCA, it was confirmed that the cash flow impacts would be over and above the preliminary calculations presented to the Steering Committee in Appendix B to the Agenda.
2.3 Non-Residential Charge Structure

- Watson & Associates noted that under the current By-laws there is no differentiation on the basis of demand;
- The demand for services is lower for industrial than non-industrial (e.g. retail uses);
- For example, trip generation is usually greater for non-industrial uses than industrial;
- With a uniform charge, industrial uses are cross-subsidizing the non-industrial uses;
- With a differentiated charge, there would be a lower rate for industrial which would reduce the amount of DC/Impost revenue foregone by the City if exemptions for industrial uses continue;
- KHBA indicated that they would support maintaining a uniform non-residential charge.

2.4 Voluntary Development Charge Exemptions

- Watson & Associates noted that there are no statutory exemptions under the Municipal Act for Impost - the Development Charges Act prescribes certain statutory exemptions plus other exemptions based on legal precedent (e.g. federal government, colleges);
- It was also noted that any resulting shortfall cannot be made up through higher charges for other development;
- Further exemptions were considered for Intensification Areas, Brownfields and Affordable Housing;
- Homestead noted that some brownfields are “dirtier” than others and there may need to be a partial exemption where all clean-up costs are not fully recovered under the Brownfields Program – another option for those cases would be to extend the payback period under the Brownfields program;
- Barrie was cited as an example of partial exemptions in intensification areas;
- Office uses are becoming the new “industrial” in some municipalities and partial exemptions are offered for higher density buildings;
- With respect to affordable housing, it was noted that at the time of permit issuance it may be difficult to qualify a development as affordable – some municipalities use a rebate program for DC once affordability of units is demonstrated – concern is how to maintain units as affordable thereafter;
- It was noted that Affordable Housing is already included as a DC eligible service in the Study and the City is already investing in affordable housing;
- KHBA expressed concern with the inclusion of Affordable Housing as an eligible service and noted the potential for a double charge through DC and the requirement for inclusionary zoning (25% of units to be affordable) and stated that there is no need for a further exemption from DC;
- Homestead suggested that the City could provide for the development of affordable housing through tax incremental financing similar to the Brownfields Program;
- Watson & Associates advised that no further exemptions were being recommended for Brownfields or Affordable Housing and that partial exemptions for commercial uses in intensification areas and for higher density office buildings could be considered.
2.5 Redevelopment Credits
- Watson & Associates commented on the period of time to witness the redevelopment credit and to reserve capacity;
- Typically it is 5 years to coincide with the mandatory DC review;
- Some municipalities have shorter time periods (e.g. 2 years) while others have longer time periods (e.g. 10 years);
- No changes were recommended to the current redevelopment credit policy.

2.6 Indexing
- Watson & Associates indicated that the City’s current By-laws provide for mandatory annual indexing on the anniversary date of the By-laws (September 29th);
- KHBA requesting that indexing occur January 1st;
- It was noted that indexing may be related to the transition period / policies;
- Various options were discussed including a partial adjustment to get to January 1st and to pro-rate the increase to January 1st, 2016.

2.7 Collection Timing and Deferral Agreements
- Watson & Associates outlined various options for the collection of DCs (at building permit, at subdivision agreement or entering into a deferral agreement) and indicated that no change was being recommended to the City’s current practice (i.e. at building permit stage);
- It was noted that the options were being presented for input from the Steering Committee and Council;
- KHBA advised that it does not support payment of DCs at subdivision registration;
- KHBA inquired whether the Impost Fee could be deferred until building occupancy, noting this would be a "big help" to "small builders" and would apply to singles, semis and townhouses;
- In response, staff noted that although the impost is collected when the building permit is issued, the demand for water and wastewater services is triggered long before the building permit stage;
- Watson & Associates noted that there would be a need to look at the financial obligations of the City to install the services up front;
- KHBA stated that the City is carrying those costs now for vacant lots;
- UK staff questioned how payment could be ensured and whether the City would have the authority to add any unpaid Impost Fee to the tax roll. It was noted that any prosecutions to collect outstanding fees take time and represent additional costs;
- Watson & Associates indicated that there is the option for deferred payment agreements and KHBA stated that a guideline for "small builders" on the use of deferred payment agreements would be helpful;
- UK staff questioned how a "small builder" would be defined;
- KHBA confirmed that they would be looking for industry-wide application, not just "small builders";
- Watson & Associates indicated that deferred payment agreements are typically for
non-residential developments and require securities and the payment of administration fees – it was recommended that deferrals not be formalized in the By-law but be left to the discretion of Council based on circumstances;

- KEDCO indicated its support for the Hamilton model in terms of the use of interest payments (1% above prime) and a 0.25% administration fee for deferred payments – KEDCO suggested this would especially be appropriate where a building was constructed on spec with no tenants and would be primarily for non-residential uses.

### 2.8 Transition Policies
- Watson & Associates noted that transitional provisions are usually appropriate where there is a substantive increase in the charges and that the use of transition policies appears appropriate for Kingston given the proposed increases;
- KHBA inquired about a multi-year phase-in (2 or 3 years) to assist the industry as they may lose sales as a result of the proposed increase since any increase to the DC or Impost are passed on to the home buyer;
- Watson & Associates advised that any transition or phase-in of the DC is treated like an exemption and therefore the shortfall must be recovered from the tax base;
- Watson & Associates noted that it was not the same for Impost Fees, and that any shortfall resulting from the transition or phase-in of the Impost Fee could be funded or recovered by future Impost Fees;
- KCA noted that the 2009 costs were not as accurate as the 2014 costs and that has resulted in a much higher increment now;
- A question was raised respecting the impact of deferrals on the cash flow for UK;
- Homestead noted that any increased DC or Impost Fees go directly towards the total project cost for their buildings and deferral of the increases would be of benefit to their projects.

### 2.9 Reserve Fund Reporting
- No changes were recommended to the City’s Reserve Fund reporting;
- KHBA noted that their auditor has provided suggestions in the past which have been implemented by the City and as long as the City remains receptive to that process and makes changes accordingly, then no change is required to the reporting at this time.

### General Comments
- Homestead and KHBA requested that the cash flow analysis be provided for all of the services - Watson & Associates indicated that this would be provided;
- KHBA indicated that the water and wastewater timelines should be consistent (now 2034 and 2036) and the cash flow balances should be as close to 0 as possible.

### Updated Service Standards and Preliminary Calculations
Revised Service Standard and Capital sheets were distributed at the meeting. The revisions were made as a result of further review by City staff and Watson & Associates. The Fee comparison table presented revised DC/Impost charges and compared the revised charges to both the current charges and those presented at the last Steering Committee meeting.
Watson & Associates reviewed the updated tables and explained how the revisions impacted the preliminary charges for the various services. The following specific items were noted:

- Roads Project #5 – there was a discussion regarding the BTE for this project. KHBA indicated that it should be 50%, the same BTE as the rest of the John Counter Boulevard (JCB) project. Staff noted that this portion of JCB east of Division Street is newer construction and is treated differently from JCB west of Division Street that requires complete re-construction, including the existing 2-lane portion. As a result the BTE is 10%;
- Roads Project #8 – it was noted that the extension of Cataraqui Woods Drive east of Sydenham Road has been added;
- Transit – it was noted that the Kingston Access Bus has been added, resulting in an increase to the charge of approximately $16.00;
- Parks & Recreation – it was noted that 2 park projects and 3 trail projects were removed resulting in a decrease to this charge – these projects will be re-evaluated at the next DC/Impost review;
- Wastewater – in response to a question, it was confirmed that the Master Plan cost is 100% related to growth.

Watson & Associates noted that the changes resulted in a reduction in the overall charges (DC and Impost) for a single-detached dwelling of almost $300 ($19,811 to $19,502) from the calculations presented to the Steering Committee on May 7th. It was also indicated that the overall non-residential charge (DC and Impost) had increased by $0.02 per square foot ($14.12 to $14.14) compared with the calculations presented to the Steering Committee on May 7th. It was also confirmed that these preliminary calculations did not include the debt financing costs discussed earlier in the meeting.

KHBA indicated that they were hoping to submit the further comments/questions resulting from the review of the City responses by the end of the week. KHBA noted that they were still awaiting further information from the City (vehicle inventories, information respecting the public works and indoor recreation facilities).

**Draft Background Study**

Watson & Associates reviewed the components of the draft Background Study and noted that the Steering Committee has already been provided with most of the content. The Background Study will include chapters dealing with:

- The requirements of the legislation;
- The methodology;
- The application of the methodology;
- The calculation of the DC/Impost charges and the cash flow analysis;
- Policy considerations and policy implementation;
- The comments and findings of the Steering Committee; and
- The Draft DC and Impost Fee By-laws.

Watson & Associates advised that work on the Draft Background Study is continuing and that it will be finalized once all the numbers have been clarified.
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KHBA asked if they will receive a response to the comments that were submitted respecting the Methodology Policy Review. It was confirmed by Watson & Associates that a response will be provided.

**Next Steps in Work Plan**

Watson & Associates reviewed the next steps in the Work Program, including:

- The Council Workshop to be held May 27th, 2013 at 6:30 pm in the Council Chamber, City Hall;
- Staff/Consultant responses to the further questions/comments from the industry respecting the preliminary calculations;
- Steering Committee Meeting #7 in mid-June to discuss the input received at the Council Workshop, the further responses to the industry and the draft Background Study (date, time and place of meeting to be determined);
- Finalize Background Study and By-laws and release to public 2 weeks in advance of public meeting;
- Provide public meeting notice at least two weeks in advance of the meeting;
- Statutory public meeting on July 15th, 2014;
- Passage of By-laws (1st & 2nd Readings August 12th, 3rd and Final Reading September 9th);
- Provide Notice of Passing and date by which any appeals must be received.

**Summary Notes – Steering Committee Meeting #5**

The Summary Notes were attached to the Agenda as Appendix C. There were no comments or requested revisions respecting the Summary Notes for Steering Committee Meeting #5.

**Other Business**

There were no items identified.

**Next Steering Committee Meeting**

The next Steering Committee Meeting will be scheduled for mid-June with the date, time and place to be determined.