Steering Committee Meeting #8

Development Charge & Impost Fee Background Study

Summary Notes

Steering Committee Meeting #8 was held on July 31st, 2014 in the Councilor’s Lounge, City Hall. The following briefly summarizes the discussions at this Meeting.

Attendees: Andrew Grunda (Watson & Associates), Peter Simcisko (Watson & Associates), Gerard Hunt (City), George Wallace (City), Desiree Kennedy (City), Jim Keech (UK), Lanie Hurdle (City), Neal Ritchie (KHBA), Jordan Van Leuken (KHBA), James Selkirk (KHBA), Harry Sullivan (KCA), David Trousdale (Homestead), Bernard Luttmer (Podium Developments)

Regrets: Alf Hendry (Homestead), Doug Haight (KCA)

Review and Response to Public Meeting Submissions

Watson & Associates summarized the public input and provided a response thereto as follows:

- With respect to the concern that post-secondary students were not included in the population projections, it was noted that the growth forecast in the Background Study is consistent with the Population, Housing and Employment Projections Study that was approved by Council;
- Respecting the concern that there was no specific mention of Brownfields in the Background Study, it was noted that the existing By-laws already provide for exemptions from DC and Impost for lands located in a designated Community Improvement Plan Project Area;
- Respecting the concern about the City’s continued use of an Impost By-law and the request from the KHBA for a single charge, it was noted that this matter had been discussed at a number of the Steering Committee Meetings and was a matter still being discussed in the context of a potential legal challenge; and
- No response was deemed necessary to the comments by KEDCO which supported the By-laws as presented at the public meeting.

Further responses to Development Community

Watson & Associates reviewed the response to questions from the KHBA DC Committee and the Altus Group (response attached to the Agenda as Appendix A). It was noted that additional information had been provided to the KHBA with respect to the Cataraquai Bay Waste Water Treatment Plant. The response specifically addressed questions respecting the 50 – 50 split between residential and non-residential for the Cataraquai Bay WWTP, the Post Period benefit for Ravensview, excess capacity at the River Street Pumping Station, and the allocation of the Reserve Funds for soft services. The following discussion items are noted:

- KHBA reiterated the concern with the 50 – 50 split for the Cataraquai Bay WWTP and questioned why the split could not be adjusted to reflect the need to accommodate “stronger” influent;
Watson & Associates advised that for the sake of consistency the projects had to be looked at on a system-wide basis and if the methodology was changed for Cataraqui Bay, then all projects should be examined on an individual basis;

KHBA noted that there are already different splits for some projects and they are only interested in the Cataraqui Bay project;

Watson & Associates noted that the different splits were based on previous commitments that have been carried forward. The approach has been to look at all projects on a system-wide basis and if the split for each project was reviewed on an individual basis, the residential split may in fact be higher than 50 – 50 for some projects.

Updated Service Standards and Preliminary Calculations

Watson & Associates reviewed the Updated Service Standards and Calculations attached to the Agenda as Appendix B. The following discussion items are noted:

- The increase in the Roads & Related Reserve Fund Balance results in an overall decrease in the DC for a single detached dwelling of $73 and a decrease in the Industrial charge of $0.02 per square foot and a decrease in the non-industrial charge of $0.05 per square foot;
- The changes to the replacement values for indoor recreation facilities and the Calvin Park Branch Library have no impact on the DC or Impost Fee. There is a slight increase in the Service Level Cap, however the eligible costs were already well within the Cap;
- It was noted that the replacement value for Wally Elmer and other indoor recreation facilities (e.g. Madoma and Meadowcrest) has been increased to $378 per sq. ft. including land and site works, which is consistent with the projected cost to construct the new Rideau Heights Community Centre and the East End Community Centre, both of which will replace existing facilities;
- Watson & Associates noted that there has been an improvement with respect to the facility values from the 2009 Report as a result of the PSAB requirements and that this is consistent across the Province based on other Studies that they have done;
- With respect to Roads & Related, it was noted that the Transit Priority Measures Project name was being revised to include the words “(within roadway)” and it was confirmed that all of the Transit Priority Measures would be located within the road allowance;
- KHBA requested a formal written response regarding the Transit Priority Measures;
- It was noted that the increase to the Roads & Related Reserve Fund Balance was $895,000.

Changes to Background Study and By-laws

Watson & Associates provided a summary of the changes to the Background Study and By-laws following the public meeting. The changes included:

- The adjustment to the Roads & Related Reserve Fund Balance;
- Adjustments to the Service Standard sheets to reflect the revised replacement values for a number of indoor recreation facilities and the Calvin Park Branch Library;
- The introduction of a definition and provisions for speculative buildings. It was noted that one of the objectives for introducing this change was to encourage investment in the community. It was noted that this provision would be used infrequently and would be applicable if the DC and Impost Fee remained separate or were combined;
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- Watson & Associates indicated that a further Addendum Report would be prepared to document the changes discussed at the meeting and to update the Service Standards and calculations.

Phase-In of Impost Fees

Watson & Associates presented a proposal for a phase-in of the Impost Fee increase over three (3) years (attached to the Agenda as Exhibit C). The following discussion items are noted:

- Under the Development Charges Act (DCA), a phase-in represents lost revenue that must be made up from non-DC sources, such as taxes;
- The same rules do not apply to the Impost Fee;
- The proposal is to phase-in the Impost Fee over three (3) years;
- In response to a question from Podium, it was confirmed that the phase-in would apply to all dwelling unit types;
- In response to a question from KHBA regarding the indexing of 2%, it was noted that this was based on the same cash flow analysis as presented in the Background Study. It was further indicated that the proposal shown was for illustrative purposes only and that the indexing would be applied in accordance with the provisions of the DCA;
- It was indicated that the top table on the 1st page of Appendix C was not a phase-in, but rather was based on indexing estimates;
- In the bottom table, there is no phase-in proposed for the Development Charge. The Impost Fee is shown with a three year phase-in. In year three, the amount of the Impost Fee would be approximately $175 more for a single detached dwelling than if the entire increase had been applied in year one;
- The additional amount was calculated on the basis of an estimated cost of the phase-in to the Municipality of $4 Million which would be recovered over 18 years at the same rate used in the cash flow analysis with an internal borrowing rate of 3%. The additional amount would continue to be collected in subsequent years until the full amount of the foregone Impost Fees in the first two years had been recovered and paid into the Impost Fee Fund;
- It was noted that if the number of units constructed exceeds the current projections, then the City may not need to borrow as much and that could reduce the length of time to recover the foregone revenues;
- Watson & Associates indicated that there are a number of variables that need to be considered, which is why the charges are reviewed and recalculated every five (5) years;
- It was also noted that if the number of units do not meet the projections, the City may need to borrow more or defer some capital projects;
- The City noted that the debt requirements are monitored regularly and on an annual basis;
- Watson & Associates clarified that the cash flow analysis is a projection only and that the amount to be borrowed will be based on actual need;
- Homestead requested the inclusion of some wording respecting all of the residential category types;
- City staff noted that the phase-in is important from an investment attraction point of view and it will minimize the impacts of development projects already in the pipeline. The separate Impost By-law provides the City with the flexibility to phase-in the Impost Fees rather than applying the full amount of the increase on September 29th, 2014;
• City staff indicated that there are a number of development projects in the approvals pipeline, many of which are in the core area of the City and the phase-in of the Impost Fee will be critical to those projects;
• Podium asked if the phase-in could be more aggressive, i.e. occur over a longer period of time. It was indicated that the unit projections appear to be too low and if the number of units exceeds the projections, there may not be a need to finance the phase-in;
• The City responded that the three year phase-in is considered optimal from a risk perspective and that based on the necessary capital outlay, three years is considered appropriate;
• Podium indicated their support for the phase-in proposal and suggested that there could be even more units built if the phase-in was extended over more years;
• City staff noted that if the DC and Impost Fee were to be combined, a phase-in would still be possible, however there would be the need to go to Council seeking a tax increase to “subsidize” the phase-in of charges for new development and the required tax increase would be in the order of 1% over 2 – 3 years;
• Homestead noted that they are happy to see the phase-in as they have a number of projects in the pipeline. They are concerned with the potential 30% increase up front. The phase-in proposal would fit with the financial modeling for their projects. They would like to see it extended over five years, but felt three years would work. It was noted that they have very rigid financial models and the proposed phase-in addresses a lot of their concerns. Homestead noted that they have a lot of units planned in the next five years and asked if the number of units constructed was to exceed the projections, could the phase-in be extended to four years?
• The City responded that they will monitor the number of units being constructed and the revenue coming in from the charges;
• With respect to the potential challenge of the City’s Impost Fee By-law, City staff noted their assumption that the KHBA has done its homework and feel they have a strong case. It was noted that the City has done its homework and has a strong case to present if the By-law is challenged. In order to avoid confrontation and potentially scare off investors, the City may consolidate the charges to address the KHBA request, but if that was to happen then the phase-in proposal would be off the table;
• City staff noted that it is unlikely that there will be another water or sewer plant on the table for the next Background Study unless growth was to really take off. UK noted that the focus for their next four year plan will be on development and that they have been working closely with Planning & Development to determine where infrastructure should be planned;
• KCA commented that they feel the City has been listening to the suggestions being made at past meetings and that there has been movement and collaboration on a number of issues. It was indicated that the phase-in is more acceptable to developers and shows the City has been listening.

Summary Notes – Steering Committee Meeting #7

The Summary Notes were attached to the Agenda as Appendix D. There were no comments or requested revisions respecting the Summary Notes for Steering Committee Meeting #7.
Next Steps

The next steps in the process were summarized as follow:

- The 2014 Background Study to be presented to Council on August 12th – Council to adopt Background Study and give 1st and 2nd Readings to By-laws;
- 3rd and Final Reading of By-laws at September 9th Council Meeting;
- Notice of Passing of new Development Charge By-law to be given within 20 days of By-law passage.

Other Business

The meeting concluded with a number of remarks expressing appreciation to members of staff, the Steering Committee and the Consultant Team for their work in the preparation of the Background Study.