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Addendum #1 to the March 21, 2019 Development Charges Background Study

City of Cambridge

April 8, 2019

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Table of Contents

	Page
1. Background.....	1
2. Discussion	1
3. Process for the Adoption of the Development Charges By-law	2
 Amended Pages:	
Appendix H Core Area Exemption Options	H-1



List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
D.C.	Development Charges
D.C.A.	Development Charges Act



Addendum Report to
the March 21, 2019
Development
Charges Background
Study



1. Background

Commensurate with the provisions of the Development Charges Act, 1997, as amended (D.C.A.), the City has undertaken a Development Charges (D.C.) Background Study and released the study in accordance with the D.C.A. The following provides a summary of the key dates in the development charge by-law process:

March 19, 2019 – Notice of Public Meeting and release of study

March 21, 2019 – Release of the D.C. Background Study Update and draft by-law

April 2, 2019 – Stakeholder Meeting and Council Workshop

April 8, 2019 – Addendum to March 21st report released

April 9, 2019 – Scheduled date of Public Meeting

May 21, 2019 – Tentative Passage of Development Charges By-law

The purpose of this addendum report is to provide an additional appendix to the March 21, 2019 D.C. Background Study related to the Core Area Exemptions, based on further discussions with City staff.

2. Discussion

This section of the addendum report provides an explanation for the above-noted refinements. It is noted that the refinements have not impacted the calculated development charges.

The additional appendix will discuss the history of the exemptions within the core areas of the City (Hespeler, Galt, and Preston) and provide options the City can consider with respect to the exempted areas.

This appendix will form a new section (labelled Appendix H) at the end of the March 21, 2019 background study.



3. Process for the Adoption of the Development Charges By-law

Sections 1 & 2 provide for a summary of the additions being presented to Council. If Council is satisfied with the above changes to the Background Study and based on the public submissions made at the public meeting, then the amending pages within this addendum report #1 will be consolidated into the March 21, 2019 D.C. Background Study.



Amended Pages



Appendix H

Core Area Exemption Options



Appendix H: Core Area Exemption Options

The City has requested an examination of the Core Area Exemptions as it relates to the areas of Hespeler, Galt, and Preston. The following section provides an overview to the various potential options the City can undertake with respect to the Core Areas.

Over the past four years, the City has been funding the Core Area exemptions totaling approximately \$7.0 million in waived D.C. funds. The waiving of D.C.s in core areas acts as an incentive towards development in the City's cores, by reducing the cost incurred by developers. However, the burden is not eliminated but rather shifted to tax and rate payers. As required by the development charge act, the core area D.C. exemptions are funded through property taxes and water/sewer utility rates. The following table shows the breakdown of the D.C. exemptions funded from the core areas. Note that water rates fund the water distribution D.C.s, sewer rates fund the sewer distribution D.C.s, and all other waived D.C.s are funded from property taxes

Table H-1
Core Areas Waived City D.C. History*

Date	Property Tax	Water Rates	Wastewater (Sewer) Rates	Total
2016**	\$1,185,221	\$36,185	\$183,248	\$1,404,654
2017	\$370,992	\$34,907	\$103,671	509,570
2018	\$346,916	\$14,353	\$72,981	\$434,250
2019 to date***	\$3,494,686	\$224,383	\$889,251	\$4,608,320
Total	\$5,397,815	\$309,828	\$1,249,151	\$6,956,794
Annual Average (\$)	\$1,349,454	\$77,457	\$312,288	\$1,739,199
Annual Tax/Rate Impact of Annual Average	1.5%	0.2%	1.0%	

*Figures shown are unindexed

**2016 restated for updated waived D.C.

*** There was a significantly larger waiving of City D.C.s in 2019 due a large development project receiving approval in time to still obtain the Regional D.C. exemption prior to elimination of that exemption in February 2019.



To put these dollar amounts into perspective, a 1% impact on property tax, water and sewer bills is as follows:

- Property taxes: \$900,000
- Water rates: \$344,000
- Sewer rates: \$313,000

The average annual D.C.s waived from 2016 to 2019 (to-date), ignoring inflationary indexing, were as follows:

- Property taxes: \$1.3 million, representing a 1.5% tax impact
- Water rates: \$0.08 million, representing a 0.2% water rate impact
- Sewer rates: \$0.3 million, representing a 1.0% sewer rate impact

The Region of Waterloo also had a core area exemption for Regional Development Charges, which expired on February 28, 2019. The Region is currently preparing an update to their D.C. background study, and as part of their study it is anticipated that they will also review options for core area exemptions

Based on the historical funding requirements of the D.C. exemptions in the Core Areas, staff have identified the following scenarios to deal with the Core Areas moving forward:

1. Status Quo – Keep the current full D.C. exemption;
2. Phase out partially by 10% per year over the next 5 years;
3. Soft services (including Fire services) payment only - on the basis that the core area residents and businesses utilize parks, recreation, libraries, and fire services;
4. Hard service (excluding Fire services) payment only (services related to a highway, public works facilities and fleet, engineering studies, stormwater, water, and wastewater) - provides an alternative to the soft service payment analysis above;
5. Exemption of core area D.C. with a maximum dollar value – dollar value to be determined at a later date;
6. Phase out exemption fully over the next 5 years; and
7. No Exemption.



Scenario 1: Status Quo – Keep the Current full D.C. exemption

This scenario would keep the current exemptions within the Core Areas in place. The City would have to keep funding the exemptions through other non-D.C. sources. This option places the financial burden on the rate payers to fund the exemptions.

Scenario 2: Phase out partially by 10% per year over the next 5 years

This scenario would reduce the exemptions within the Core Areas by 10% per year. This option only partially shifts the burden over a 5-year period from ratepayers to the developers. The following table shows the % that would be exempt vs. D.C. funded:

Table H-2
Percentage of Partial Phase-out Exemptions

Date	Percentage of Exemption (%)	Percentage of development charge payable (%)	Reduced Amount to be funded from Taxes/Water & Sewer Rates ¹	Adjusted Amount to be funded from Taxes/Water & Sewer Rates (Based on calculated D.C.) ²
Year 1	90	10	\$1,565,279	\$2,707,932
Year 2	80	20	\$1,391,359	\$2,407,051
Year 3	70	30	\$1,217,439	\$2,106,169
Year 4	60	40	\$1,043,519	\$1,805,288
Year 5	50	50	\$869,599	\$1,504,407
Total			\$6,087,195	\$10,530,847

¹Based on the assumption that the average annual exemption value is equivalent to the historical 4-year average

²The adjusted amounts reflect a 73% increase in the assumed exemptions to be funded using the calculated D.C.s. (Blended % increase).

Scenario 3: Soft services (including Fire services) payment only

This scenario would allow for the exemption of some services and the collection of the following services:

- Outdoor Recreation;
- Indoor Recreation;
- Library Services;



- Fire Protection Services; and
- General Government (studies).

The City would have to continue funding the portion of D.C.s for exempted services through other non-D.C. sources (i.e. taxes and water/sewer rates). This option shifts a portion (39% for residential, 11% for non-residential) of the burden from ratepayers back to developers.

Assuming that the exemptions provided to date were related to residential, 50% of the charges would be exempt under this scenario, and 50% would be imposed.

Table H-3
Calculation of Exemption to be Funded under the Partial Services Scenario

Time Period	Annual Exemption to be Funded (Current D.C.s)	Adjusted Annual Exemption to be Funded (Calculated D.C.s) ¹
Annual	\$869,599	\$1,836,140
5-Year Total	\$4,347,996	\$9,180,702

¹The adjusted amounts reflect a 73% increase in the assumed exemptions to be funded using the calculated D.C.s. (Blended % increase).

Based on the calculated D.C., the City would be required to continue funding 61% of residential D.C.s. and 89% of non-residential D.C.s.

The D.C. payable would be:

Table H-4
D.C. Payable for Soft Services (including Fire services)

Service	RESIDENTIAL				NON-RESIDENTIAL	
	Single and Semi-Detached Dwelling	Other Multiples	Apartments	Special Care/Special Dwelling Units	(per sq.ft. of Gross Floor Area)	(per sq.m. of Gross Floor Area)
Services:						
Fire Protection Services	316	222	158	99	0.11	1.18
Municipal Parking Services	278	195	139	87	0.10	1.08
Outdoor Recreation Services	2,053	1,444	1,028	645	0.08	0.86
Indoor Recreation Services	4,811	3,383	2,408	1,512	0.19	2.05
Library Services	1,016	714	509	319	0.04	0.43
General Government (Studies)	220	155	110	69	0.08	0.86
Total Partial Services	8,694	6,113	4,352	2,731	0.60	6.46



Scenario 4: Hard services (excluding Fire services) payment only

This scenario would allow for the collection of hard services (excluding Fire services) on the basis that these infrastructure costs are significant to the City and required for developments to proceed. These services are:

- Services related to a highway;
- Public works facilities and fleet;
- Engineering studies;
- Stormwater;
- Wastewater services; and
- Water services.

The City would have to continue funding the portion of D.C.s for exempted services through other non-D.C. sources (i.e. taxes and water/sewer rates). This option shifts a portion (61% for residential, 89% for non-residential) of the burden from ratepayers back to developers.

Assuming that the exemptions provided to date were related to residential, 50% of the charges would be exempt under this scenario, and 50% would be imposed.

Based on the calculated D.C., the City would be required to continue funding 39% of residential D.C.s. and 11% of non-residential D.C.s.

Table H-5
Calculation of Exemption to be Funded under the Hard Services Scenario

Time Period	Annual Exemption to be Funded (Current D.C.s)	Annual Exemption to be Funded (Calculated D.C.s) ¹
Annual	\$869,599	\$1,168,008
5-Year Total	\$4,347,996	\$5,840,040

¹The adjusted amounts reflect a 73% increase in the assumed exemptions to be funded using the calculated D.C.s. (Blended % increase).

The D.C. payable would be:



Table H-6
D.C. Payable for Hard Services (excluding Fire services)

Service	RESIDENTIAL				NON-RESIDENTIAL	
	Single and Semi-Detached Dwelling	Other Multiples	Apartments	Special Care/Special Dwelling Units	(per sq.ft. of Gross Floor Area)	(per sq.m. of Gross Floor Area)
Hard Services:						
Services Related to a Highway	8,371	5,886	4,190	2,631	3.01	32.40
Public Works Facilities and Fleet	1,053	740	527	331	0.37	3.98
Engineering Studies	41	29	21	13	0.01	0.11
Stormwater	929	653	465	292	0.33	3.55
Wastewater Services	2,835	1,993	1,419	891	1.01	10.87
Water Services	433	304	217	136	0.16	1.72
Total Hard Services	13,662	9,605	6,839	4,294	4.89	52.64

Scenario 5: Exemption of core area D.C. with a maximum dollar value

This scenario would provide a cap on the D.C. exemption provided, up to a maximum amount within the Core Areas. The City would have to define a maximum amount and must continue funding the remaining exempted amounts through other non-D.C. sources (i.e. taxes and water/sewer rates). Under this option, ratepayers would continue to have the financial burden of funding the exemptions, up to a maximum dollar value, after which the burden reverts back to developers.

Scenario 6: Phase out exemption fully over the next 5 years

This scenario would reduce the exemptions within the Core Areas by 20% per year. This option shifts the burden over a 5-year period from ratepayers to the developers. The following table shows the % that would be exempt vs. D.C. funded:



Table H-7
Percentage of Phase-out Exemptions

Date	Percentage of Exemption (%)	Percentage of development charge payable (%)	Reduced Amount to be funded from Taxes/Water & Sewer Rates ¹	Adjusted Amount to be funded from Taxes/Water & Sewer Rates (Based on calculated D.C.) ²
Year 1	80	20	\$1,391,359	\$2,407,051
Year 2	60	40	\$1,043,519	\$1,805,288
Year 3	40	60	\$695,679	\$1,203,525
Year 4	20	80	\$347,840	\$601,763
Year 5	0	100	\$0	\$0
Total			\$3,478,397	\$6,017,627

¹Based on the assumption that the average annual exemption value is equivalent to the historical 4-year average

²The adjusted amounts reflect a 73% increase in the assumed exemptions to be funded using the calculated D.C.s. (Blended % increase).

Scenario 7: No Exemption

This scenario would remove all the current exemptions within the Core Areas and require the full payment of D.C.s. This option requires the developer to pay the full cost of development.