SUBJECT: 2009 City of Hamilton Development Charge By-laws Update – Development Charge Impact on Industrial and Commercial Development (FCS09060)(a) (City Wide)

RECOMMENDATION:

That the following information relating to the impact of non-residential Development Charge rates regarding industrial and commercial development activity be received:

1. Comparative Tables providing total development cost information, as well as, DC rates.

2. Factors impacting industrial and commercial development investment.

3. Two external reports (to be distributed to all Councillors and DC Stakeholders under separate cover):
   i. C.N. Watson’s “Development Charge Impact Policy Paper” (authored 2007); and

Roberto Rossini
General Manager
Finance and Corporate Services
EXECUTIVE SUMMARY:

On June 10\textsuperscript{th}, 2009, staff brought forward to Council, report FCS09060 “2009 City of Hamilton Water and Wastewater Development Charge Bylaw (2-year Term) and Development Charge By-law for all other growth services (5-year Term)” which contained two new proposed Development Charge By-laws for their consideration (one for water and wastewater growth infrastructure (2-year term) and another for all other growth services (5-year term). Council referred Item 4 of the Audit & Administration Committee Report 09-010, regarding the Committee’s recommended 1-year freeze of the non-residential development charges. Staff had recommended a 60% increase to the industrial DC’s (to $6.65 sq. ft.) and a 10% increase to the stepped rate Commercial DC’s. Council also requested additional information on the impact of non-residential DC’s on development activity.

The Audit and Administration Committee on June 4\textsuperscript{th}, 2009, had approved the following recommendations regarding Industrial and Commercial Development Charge rates:

b. That the industrial development charge rate be set at $6.65 per sq ft (the wastewater service component) effective July 6, 2010.

c. That the non-residential development charge rate for new commercial, institutional and office developments be set as per the following, effective July 6, 2010:

1. For developments up to 5,000 sq. ft. at 50% of the rate in effect ($9.69 sq.ft.).
2. For developments, 5,001 to 10,000 sq. ft. at 75% of the rate in effect ($14.53 sq.ft.).
3. For developments 10,001 sq. ft. and greater at 100% of the rate in effect ($19.37 sq.ft.).

Recommendations (b) and (c), of Item 4 of the Audit & Administration Committee Report 09-010, as shown above, were referred back to the Audit & Administration Committee for further consideration. Council requested additional information on factors impacting non-residential development/investment in order to make a decision on non-residential DC’s. The Audit & Administration Committee had recommended a 1-year freeze.

With respect to the Binbrook Special Area Charge, Council recommended that the existing Agreement remain in place but acknowledged that staff were looking to see if there was any justification to try and spread the cost over additional benefiting residential units. Staff are currently in discussion with the affected parties concerning the DC calculation.

Also at the June 4, 2009, Audit and Administration Committee meeting (the Development Charges Public Meeting was held immediately prior) staff received the following direction:
“A request for additional information respecting factors that were taken into account when determining the discount on industrial development charges”. C.N. Watson & Associates, advised that they would supply information that the Stakeholder Committee in the City of Guelph developed. Councillor McHattie requested additional information respecting property taxes, land values and other impacts of a development charges freeze.”

This report FCS09060(a) will address the above information requests by providing the following:

1. A list of factors impacting development investment prepared by CN Watson.
2. Comparative Tables providing development related costs, as well as, DC rates.
3. Two external reports (to be distributed to all Councillors, under separate cover, and previously distributed to DC Stakeholders).
5. Altus Group’s “Economic Impacts of Residential Construction” dated February 4, 2009, reports (to be individually distributed to all Councillors).

With respect to the deferral:

A) **Factors for Non-Residential Development (Provided by CN Watson and Associates Ltd)**

With regards to Development Charges and their impact on Industrial and Commercial development, there is no definitive answer to this issue since DC’s are only one factor in the decision to locate a business. Listed below are a summary of various factors which business must consider in determining where to locate.

1. Site Requirements
   a. Land parcel sizes available
   b. Zoning and Use Restrictions
   c. Topography
   d. Visual Restrictions
   e. Coverage and Height restrictions
   f. Outside storage restrictions

2. Development Costs
   a. Land Costs
   b. Permits and Approval Costs
   c. Development Charges

3. Construction
   a. Construction costs
   b. Material costs
   c. Site development costs
4. Transportation
   a. Access to major highways
   b. Access to Rail
   c. Access to Airport
   d. Access to Water and Ports
   e. Proximity to markets

5. Labour
   a. Training and Educated Labour Force
   b. Labour Costs
   c. Federal/Provincial Costs (i.e. UIC, CPP, etc.)
   d. Benefits

6. Taxation
   a. Income Taxes
   b. Property Taxes
   c. Water/Sewer Costs
   d. Other Utility Costs

B) Comparative Tables regarding Cost of Development and DC rates.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Municipality</th>
<th>DC 40% Coverage</th>
<th>Cost (land and DC) 40% Coverage</th>
<th>Annual loan payment (5% for 10 yrs)</th>
<th>Property Taxes at 40% Coverage</th>
<th>Annual Water WW Charge</th>
<th>Total Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oakville (N. of Dundas)</td>
<td>17.11</td>
<td>$3,410,433</td>
<td>$441,667</td>
<td>$207,003</td>
<td>$24,645</td>
<td>$673,315</td>
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<td>2</td>
<td>Mississauga</td>
<td>9.82</td>
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<td>Brampton</td>
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<td>$177,023</td>
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<tr>
<td>4</td>
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<td>13.55</td>
<td>$3,143,707</td>
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<td>$638,772</td>
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<td>$23,406</td>
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<td>6</td>
<td>Halton hills (S. of Steeles)</td>
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<td>$2,739,702</td>
<td>$354,804</td>
<td>$202,310</td>
<td>$24,645</td>
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<td>7</td>
<td>Milton</td>
<td>14.75</td>
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<td>Waterloo</td>
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<td>$341,856</td>
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</table>

Table 1 was provided by consultant, CN Watson and Associates Ltd., with regards to work done for the City of Guelph. Initially, the Table showed that looking, only at
property taxes and utility rates, Hamilton was near the top of the Table in terms of annual costs. What City of Hamilton staff have added to this Table is the debt/amortization of land and DC costs (10-years at 5%) and Hamilton now appears just below the middle of the pack in terms of the prescribed annual costs. While the debt costs of the land and DC’s would be relevant for only 10-years, it does show that Hamilton is currently competitive with it’s neighbouring municipalities in terms of the total costs.

Table 2 illustrates that Hamilton would still be very competitive even with a proposed 60% higher industrial DC (proposed $6.65 sq. ft.). The proposed charge, while increasing by 60%, has been set to recover at least the wastewater component of the DC.

Although Table 3 shows that Hamilton is near the top in terms of it’s commercial/institutional DC, the fact is that, with it’s stepped rate policy, it would fall more in the middle for the average size commercial development.
C) Summary of CN Watson’s Paper on the “DC Impact on Non-Residential Development Activity” (2007)

CN Watson’s study deduces that there is no statistical linkage between development charges and construction activity for non-residential development. The main factors for location of a business are broken into two areas, Non-Financial and Financial:

Non-Financial – Site or building availability; access to transportation infrastructure; cost and quality of labour; proximity of suppliers and markets; quality of life; image; amenity; municipal approval environment; other. These factors are usually of the highest importance.

Financial – One-time costs (land, construction, development charges, planning and building fees); annual on-going costs (rents, property taxes, utility rates).

Property tax rates and assessment are normally of a much higher magnitude than DC’s. Development charges generally account for more of the purchase price on industrial properties than commercial properties making industrial properties more sensitive to DC’s than commercial property. Development charges are part of the overall project cost and locational decision, but rarely appear to be critical to the decision to locate in one municipality vs. another. Each company’s decision is the result of an interplay of their own unique requirements and market conditions.

Retail development is a “captive” use and businesses have a limited choice of locations if they wish to serve a specific market area; the exception is Regional shopping centres which have a broader market area. In general, inter-municipal competition is not as significant a factor as with industrial development. DC’s represent a much lower share of overall costs for retail uses (than other non-residential uses) because of their high land and construction costs than industrial uses. Market considerations are also a decision factor. If the development market, for a particular use is buoyant and demand is strong, a reasonable charge is likely to have limited impact. If demand is weak, the impact of the charge could be much greater. The municipality should consider its’ strengths and weaknesses with respect to the non-financial factors in competing municipalities (e.g., available well located serviced land, access to transportation, quality of life, cost and quality of labour), as these are often the most significant considerations in business location decisions.

ALTERNATIVES FOR CONSIDERATION:

Alternatives have been discussed within each proposed policy section of the main Development Charges report FCS09060.
POLICIES AFFECTING PROPOSALS:

The following DC Bylaws would be repealed and replaced with 2 new DC Bylaws:


City of Hamilton - 06-173 (amendment to 04-145) approved June 28, 2006.

City of Hamilton - 08-221 (amendment to 04-145) approved September 24, 2008.

RELEVANT CONSULTATION:

Planning and Economic Development Department
Public Works Department
Corporate Services Department, Legal Services Division
Community Services Department
Public Health

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
Intensification

Environmental Well-Being is enhanced. ☑ Yes ☐ No
Intensification

Economic Well-Being is enhanced. ☑ Yes ☐ No
Increases assessment

Does the option you are recommending create value across all three bottom lines? ☑ Yes ☐ No

Yes (intensification)

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No