

City of Mississauga
Corporate Report



<p>Date: June 7, 2021</p> <p>To: Chair and Members of Budget Committee</p>	<p>Originator's files:</p>
<p>From: Shawn Slack, MBA, Acting Commissioner of Corporate Services and Chief Financial Officer</p>	<p>Meeting date: June 21, 2021</p>

Subject

2022 Development Charges Background Study and Community Benefits Charge Update

Recommendation

1. That the report entitled "2022 Development Charges Background Study and Community Benefits Charge Update", dated June 7, 2021 from the Acting Commissioner of Corporate Services and Chief Financial Officer, be received;
2. That the list of development charges-eligible projects provided in Appendix 1, to be used as input into the 2022 Development Charges Background Study, be endorsed;
3. That the DCs and CBCs be applied on a city-wide basis; and
4. That the approach for prioritizing projects related to public realm amenities, public art and culture, urban parks, active transportation and housing in the Community Benefits Charge Strategy be endorsed.

Executive Summary

- Staff continue to work with Hemson Consulting on the 2022 Development Charges (DC) Background Study and Community Benefits Charge (CBC) Strategy.
- A preliminary capital program for DC-eligible projects is presented in this report. Council endorsement of this project list is requested for the purposes of establishing DC rates as part of the 2022 DC Background Study.
- A number of policy issues have been evaluated. In many instances, no changes from the 2019 DC Background Study are required. More work is required for some policy issues such as establishing appropriate benefit-to-existing and post-period benefit shares. Staff recommend that the small unit rate continue to be based on the current 700 sq.ft. threshold.
- It is anticipated that the Community Benefits Charge will generate approximately \$4-6M in revenue to fund growth-related projects. A prioritization matrix has been developed to categorize projects that should be considered for CBC funding.

- Staff recommend that projects that fall within the following categories be prioritized for CBC funding: public realm amenities, public art and culture, urban parks, active transportation and housing.

Background

Hemson Consulting Ltd. has been retained as the consultant for the City of Mississauga's 2022 Development Charges (DC) Background Study and Community Benefits Charge (CBC) Strategy and related by-laws.

To date, the following work has been completed as input to the 2022 DC Background Study:

- Collection of inventories
- Establishment of service levels
- Policy benchmarking and review
- Review of capital program
- First Stakeholder Consultation (April 29, 2021)

Staff representing all departments were convened to participate in brainstorming sessions on the CBC. These discussions focused on what types of projects the old Section 37 provisions funded, review of what projects would be losing funding as a result of legislative changes and how the CBC may be used as a funding source. This report presents a priority matrix for identifying potential projects that could be eligible for CBC funding.

Comments

Development Charges Capital Projects

Staff continue to make progress on the DC Background Study and CBC Strategy work and have made slight adjustments to the typical five-year review process in order to meet the statutory deadline for updating these related by-laws.

One such adjustment is the timing of presenting the capital program to Council for endorsement which typically happens in the fall and aligns with the budget process. This year, given the timeline for Council approval of these by-laws, staff accelerated work on determining a capital program for DC eligible projects. Appendix 1 identifies a list of DC-eligible projects over a 10-year timeframe. This is an extensive list of all potential growth-related projects. Not all of these projects will be funded through DCs, as funding is dependent on DC revenues, which are determined through this DC process. Depending on the availability of alternate funding sources, some projects may not be funded.

Preliminary gross costs (whether to be funded through DCs or other sources) are identified. Staff request the list be endorsed by Council to be used in the 2022 DC Background Study.

Funding of DC projects will continue to be managed through the regular budget process. Any changes to this project list (additions, deletions or modifications) will be managed through the budget process.

Update on Development Charges Policy Issues

As part of the DC Background Study work, a number of policy issues have been examined. Most policy issues identified for review are recommended to remain as is as there have been no significant changes in best practices since the last review in 2019 to justify significant changes. For example, the small unit rate is currently established for units up to 700 sq. ft. in size. Based on recent analysis there is no basis to increase this size threshold.

There are a few policy issues that continue to be under review for the 2022 Background Study. Staff will continue to work with Hemson on establishing appropriate benefit-to-existing (BTE) and post-period benefit (PPB) shares. The City has retained Cushman and Wakefield to determine an Industrial Floor Space-Per-Worker (FSW) rate and continue to work on this analysis.

As part of the DC Background Study and a requirement under the DC Act, municipalities are required to examine area ratings. There are a number of reasons to continue with a city-wide approach. Area Specific Development Charges (ASDCs) are based on the concept that if a significant amount of development is anticipated in a given area of the city, that area will require more growth infrastructure. Generally, ASDCs are considered appropriate for “hard” services in greenfield sites where there is no existing infrastructure.

Services such as transit and roads do not lend themselves to implementing area-specific DC rates because these services are planned based on an integrated transportation network that cannot be planned in an area of isolation.

Given the city’s current state of maturity, there is no benefit to introducing ASDCs for any of the City’s services. Staff will proceed with a city-wide DC rate in preparation for the 2022 DC Background Study and By-law.

In the last year, staff have received a number of requests for DC waivers. At the moment there is no process or policy to vet these types of requests and each are dealt with on a case-by-case basis. Planning staff are working on a policy framework for Council endorsement that would prioritize these requests. A report will follow in the fall of 2021.

Update on Community Benefits Charge Approach

The City can now implement a CBC which replaces Section 37 Bonus Zoning in the *Planning Act*. The CBC is only applicable to high density developments, i.e. developments with at least five storeys and 10 units. The legislation indicates that municipalities cannot charge more than four per cent of land value. Based on a preliminary estimate, the City can expect to collect approximately \$4-6M annually.¹

A priority matrix shown in Appendix 2 identifies high-level categories for projects that may qualify for CBC funding. The priority matrix categorizes various types of projects based on lost DC funding, previously funded through Section 37 Bonus Zoning, exceeding DC funding envelopes and other services.

Given the limited expected CBC revenue, it is recommended that projects that have lost their funding source or for which their DC funding envelopes are exceeded, be prioritized. These include:

- public realm amenities;
- public art and culture;
- urban parks;
- active transportation; and
- Housing

Should alternate funding resources become available (e.g., municipal accommodation tax, provincial and/or federal grants) for these projects, those funding sources should be used first so that the CBC revenue can be freed up for those projects left with no other funding.

Projects identified under the aforementioned categories will need to meet a nexus test, that is, the projects make improvements within the communities for which the charge is incurred. This does not preclude projects being identified with city-wide benefit such as cycling.

The next step in this process is to determine which projects, within these priority categories, can be included in the CBC Strategy and map out where those projects will be located.

The CBC is intended to be collected on a city-wide basis and distributed based on the projects identified in the CBC Strategy.

¹ This is a preliminary estimate to be refined through the review and update of development forecasts. The estimate does not account for future increases in land value and is based on the average unit costs of current apartments.

Next Steps

The DC and CBC projects are proceeding as planned. Next steps include:

- Refinement of the capital program and establishing the methodology for BTE and PPB shares
- Establishment of the DC funding envelopes
- Calculation of draft DC rates
- Continued work on the 2022 DC Background Study
- Establishment of nexus test for CBC priority categories
- Identification of projects for inclusion in the CBC Strategy
- Continued engagement with the development industry and release of information as it becomes available

Engagement and Consultation

Staff hold regular meetings with the working group and Steering Committee at which time project updates are provided and discussions on various issues are held. A small working group was convened to brainstorm how the CBC could be used in the City. Meaningful feedback was obtained that has been incorporated into the priority matrix presented in this report.

A stakeholder consultation session was held on April 29, 2021. Over 40 industry stakeholders were in attendance. Hemson provided an overview of the projects, policy issues, legislative changes and workplan. Staff provided two weeks for the industry to provide written comments; no comments were received.

Financial Impact

There is no financial impact as a result of the recommendations in this report. The DC capital project list includes all projects that could be funded by development charges. Given the limitations of the funding envelopes not all projects will be funded. Funding estimates will be established once the DC rates are confirmed. Staff will report back to Council on draft rates later this year.

The amount anticipated to be collected under the CBC amounts to approximately \$4-6M annually. The projects to be funded by the CBC will be determined.

Conclusion

Significant progress has been made on the 2022 DC Background Study and preliminary CBC work. A capital project list of all DC eligible projects has been prepared and Council endorsement is required so that staff can move forward with the 2022 DC Background Study.

A number of policy issues have been reviewed. For many, no changes from the 2019 DC By-law are required. Staff have reviewed the small unit rate threshold and recommend it remain at 700 sq.ft. A city-wide application of DCs and CBCs is also recommended.

A CBC priority matrix has been established to identify which City projects may be eligible for CBC funding. It is estimated that the CBC will generate approximately \$4-6M annually. Staff recommend that projects losing Section 37 contributions or exceeding their DC envelope be prioritized, these include: public art and culture, public realm amenities, urban parks active transportation and housing.

Attachments

Appendix 1: 2022-2031 Preliminary Capital Budget – Development Charges (DC) Eligible Projects by Service Area

Appendix 2: CBC High-Level Funding Priority Matrix



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