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TORONTO PUBLIC LIBRARY

STAFF REPORT
INFORMATION ONLY

Development Charges

Date:	May 14, 2012
To:	Budget Committee
From:	City Librarian

SUMMARY

The City of Toronto collects development charges (DCs) from new construction to pay for a portion of municipal growth-related capital costs. This report provides information on development charges, which is a funding source for Toronto Public Library (TPL) building projects and collections.

FINANCIAL IMPACT

There are no financial impacts resulting from this report beyond what has already been approved in the current year's budgets.

The Director, Finance and Treasurer has reviewed this financial impact statement and is in agreement with it.

DECISION HISTORY

At its meeting on January 30, 2012, the Board considered the *2012 Operating Budget Adoption* report and requested the City Librarian to report on development charges:

> *Requests the City Librarian to report to the Board, for information, on Development Charges, including the authority under and process by which they are collected; how much the Toronto Public Library is currently accessing, how much the Toronto Public Library may access and in what circumstances.*

BACKGROUND

As a general rule, DCs are based on growth-related eligible costs included in the approved 10-year capital plan for the City and its Agencies.

COMMENTS

The *Development Charges Act, 1997* (the "DC Act") permits municipalities to pass by-laws to impose development charges on new residential and non-residential development in the City, in order to partially pay for growth-related capital costs of eligible City services. For TPL, growth-related library collections expenditures are considered capital and also eligible for DCs. This capital financing tool is integral to the City's long-term fiscal stability.

The charges are paid at the time of building permit issuance and distributed to the various DC reserve funds based on the percentages set out in the by-law. The City collects DCs under the by-law and maintains separate reserve funds for each of the services involved, including TPL. Annually, as part of the City's capital budgeting process, Council approves the development charge funding allocation to eligible capital projects.

The DC Act provides a broad methodology for calculating the development charge, making it necessary to:

- establish a new development forecast for population and housing, and for employees and floor area;
- determine and cost the additional services such new development will require and ensure that the program has Council approval;
- make the cost deductions required by the DC Act with respect to service level, benefit to existing development, excess capacity, grants and contributions, the statutory 10%, etc.;
- calculate development charges by type of use and document this in a Background Study and by-law; and
- take the study and proposed by-law through a public process, seeking Council approval thereof.

2009 Development Charge By-law

The City's current 2009 Development Charges By-Law (275-2009) was approved by Council at its meeting on February 23, 24 and 25, 2009; it came into force on May 1, 2009 and will expire in 2014 (http://www.toronto.ca/finance/dev_charges_bylaw_review/index.htm). With the global economic conditions at the time, the new by-law froze existing development charge rates until January 31, 2011 and provided for a multi-year phase-in of the adopted charges if housing construction meets certain pre-determined thresholds. It also continued to provide many residential and non-residential exemptions, including exemptions for affordable rental housing and industrial development. Highlights of the 2009 Development Charges By-Law are shown on Attachment 1, which includes the schedule of development charges and the allocation of development charges collected between the City services. TPL receives 5.7% of DC revenues raised on residential development and 0.44% of DC revenues from non-residential development.

Development Charge Calculation

For TPL, the development charge calculation is based on the cost of increasing service capacity in library facilities, as well as adding collections reflective of the needs of a growing population and business/industrial base.

- As a first step, there is a "service level cap" equal to the cost of providing service to the "anticipated development", consistent with the 10-year average level of service. For the Library, this service cap is the average cost per square foot per capita for library space and the average cost of collections per capita, which are then multiplied by the expected population growth. The service cap represents the maximum allowed eligible capital spending to meet the needs of population growth over the next 10 years.

- Growth-related eligible capital costs are identified in the approved 10-year capital plan, which are mainly new branches and expansions. In addition, approximately 10% of the cost of renovation projects with no expansions is considered eligible because with the reconfiguration of public space, the creation of flexible program rooms, and the introduction of new IT services and self-service, the service capacity is increased to meet the needs of a growing population. The total eligible capital costs are compared to the service level cap to ensure that approved expenditures for population growth can be supported.

- The eligible costs for each building project are then discounted by a factor, between 5% (high growth area) and 50% (low growth area), as "benefits to existing development". And further deductions are made such as the 10% statutory deduction.

- The remaining balance, "net costs benefiting new development", is eligible to be funded from DCs, and the amount is split 95% from residential development and 5% from non-residential share. The amounts are also split between cash flows in the first five years (the life of the DC By-law) and cash flows in the second five years.

- The net costs benefiting new development is accumulated across City services, and based on projected residential and non-residential development, a DC levy is imposed on each type of development as they occur. The Library is allocated its proportion of development charges collected, which amounts to 5.70% for residential and 0.44% for non-residential.

- There is a public review process and Council approval is required for the DC By-law, which includes the charges, as summarized in Attachment 1.

The methodology for calculating development charges is demonstrated for two projects below:

EXAMPLE DEVELOPMENT CHARGES CALCULATION

		Scarborough Centre		St. Clair / Silverthorn
		New branch		Renovation with small addition
		$000s		$000s
Gross captial cost (2008 budget)		**8,797**		**2,305**
Eligible cost				
New construction / expansion portion	*100%*	8,797	*100%*	347
Renovation portion			*10%*	196
		8,797		543
Less: benefit to existing	*5%*	(440)	*50%*	(271)
		8,357		271
Less: statutory deduciton	*10%*	(836)	*10%*	(27)
Net costs benefiting new development		7,521		244
% of gross cost funded by development charges (after full phase-in)		***86%***		***11%***
Residentail share	*95%*	7,145	*95%*	232
Non-residential share	*5%*	376	*5%*	12
Development charge recoverable cost		7,521		244
Reduction for By-law phase-in (29%)		(2,181)		(72)
Reduced development charge recoverable cost		5,340		172

Toronto Public Library Budgets

Each year, TPL submits a 10-year capital plan which undergoes an administrative and political review at the City prior to Council approval. Building projects are primarily funded by City debt, and development charges and other contributions by developers. There may also be funding from the TPL Foundation and other government funding.

The availability of development charge funding for each building project is based on the formula used in the DC Background Study. New branches or expansion projects attract higher development charge funding, up to 86% as shown in the example above. Due to strict debt targets, DC funding is a very important funding source for the building projects financing 18% of gross building costs over the 2012-2021 plan.

Over the 10-year capital plan, the budgets for the building projects are formulated maximizing non-debt financing such as DCs. By analyzing the DCs required for the building projects and using the projected DC revenues provided by the City, annual draws of DCs to fund collections are considered sustainable if there are adequate DCs to meet the building needs over the 10-year capital plan period.

City finance closely reviews the planned level of DC draws for both the building projects as well as for collections. As a general rule, if the proposed level of DC draws for collections is not sustainable, it is not recommended by City finance during the budget review process. Furthermore, because of uncertainties around future DC revenues which are largely dependent on the economy and construction activity, the approach has been to draw DCs for collections at a rate that will avoid potential negative impacts on the building program. In 2012, $1.750 million was approved to be drawn from the DC reserve to fund collections, which represents 10% of that budget and is considered sustainable as shown on Attachment 2. The current outlook, from the 2012 budget process, for DCs for the 2011 to 2021 period is shown on attachment 2 assuming that the current $1.75 million annual draw is maintained over the period. The projection shows that there are adequate DC funds available to support the building program as well as an annual $1.750 million draw for collections, projecting a DC balance of approximately $3.5 million in 2021. The use of development charges for the building program and collections is closely monitored each year.

2014 Development Charge by-law

Work has started on the development of the next 2014 DC By-law, and the process is expected to take twelve to eighteen months.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 – 2009 Development Charges By-Law - Summary
Attachment 2 – Development Charges Continuity Schedule (from 2012 budget)