



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 capital cost (2008 budget)	8,797		2,305	
Eligible cost				
New construction / expansion portion	100%	8,797	100%	347
Renovation portion				
	8,797		543	
Less: benefit to existing	5%	(440)	50%	(271)
		8,357		271
Less: statutory deduction	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%
Residential 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.

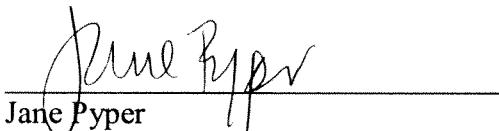
2014 Development Charge by-law

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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City Librarian

ATTACHMENTS

Attachment 1 – 2009 Development Charges By-Law - Summary

Attachment 2 – Development Charges Continuity Schedule (from 2012 budget)

ATTACHMENT 1**2009 Development Charges By-law
Summary**

March 19, 2009

A. What are Development Charges?

Development charges (DCs) are fees imposed on new residential and non-residential development in the City, with certain exemptions, in order to partially pay for the capital costs required as a result of new development. 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. Annually, as part of the City's capital budgeting process, Council approves the development charge funding allocation to eligible capital projects.

B. Key DC by-law provisions:

The following is a brief summary of the key provisions in development charges by-law number 275-2009, which was adopted by Council at its meeting on February 23, 24 and 25, 2009. Reference should be made to the by-law itself for a complete and accurate description of the by-law provisions.

	Issue	Adopted DC by-law
1.	Quantum of the residential charge	<ul style="list-style-type: none">- Up to 100% of the adopted charge implemented over the life of the by-law¹
2.	Quantum of the non-residential charge	<ul style="list-style-type: none">- Industrial uses – exempt²- All other non-residential uses:<ul style="list-style-type: none">o Ground floor - Up to 100% of the adopted charge implemented over the life of the by-law³o All other floors - exempt
3.	Transition provisions	<ul style="list-style-type: none">- <u>Delayed implementation</u> - By-law in force on May 1, 2009- <u>Two-year freeze</u> - DC rates frozen at January 1, 2009 levels until January 31, 2011⁴- <u>Four-year conditional phase-in</u> - Commencing February 1, 2011, and annually thereafter on February 1, 2012, 2013 and 2014, between 0% to 25% of the increase phased-in annually depending on the number of residential units issued building permits in the preceding year (see below for details).

¹ See transition provisions and residential exemptions

² Including self-storage uses

³ See transition provisions and non-residential exemptions

	Issue	Adopted DC by-law
4.	Residential exemptions	<ul style="list-style-type: none"> - Non-profit (rental) housing - Dwelling units with RRAP funding - Dwelling rooms in a rooming house
5.	Non-residential exemptions	<ul style="list-style-type: none"> - Industrial uses - Non-residential development qualifying under the IMIT⁵ Financial Incentives Program - All non-residential uses above or below the ground floor (i.e. only ground floor of non-exempt uses subject to DC) - Colleges and universities - Public hospitals - Places of worship & cemeteries - Temporary structures - Accessory use not exceeding 10 sq. m. of GFA
6.	Other DC relief	<ul style="list-style-type: none"> - 20% DC refund for developments achieving Tier 2 Toronto Green Standard requirements - Small multiple units (less than 55 m²) subject to the lower apartment rate
7.	Payment timing	<ul style="list-style-type: none"> - All DCs are now payable at the time a building permit is issued (i.e. No requirement for early payment of the roads, water, sewer and stormwater management service components at subdivision)
8.	Redevelopment	<ul style="list-style-type: none"> - If a demolition permit has been issued within the 36 month period prior to permit submission, a reduction in the DC payable is provided for the: <ul style="list-style-type: none"> o Demolition/conversion of a residential use to a residential or a non-residential use; or o Demolition/conversion of a non-residential use to another non-residential use (DC reduction based on applicable charge for the use that was replaced).
9.	Indexing	<ul style="list-style-type: none"> - Charges adjusted annually based on the prescribed index commencing Feb 1/10

4 Other than indexing commencing February 1, 2010

5 Imagination, Manufacturing, Innovation and Technology

C. Schedule of Development Charges

Category	Column A May 1, 2009 to Jan. 31, 2011	Column B Maximum Charge	Column C Column B Minus Column A
Residential (per unit)			
Single detached and semi-detached dwelling	\$ 12,366.00	\$ 21,044.00	\$ 8,678.00
Multiple dwelling unit	\$ 9,841.00	\$ 17,062.00	\$ 7,221.00
Apartment unit – two bedroom and larger	\$ 8,021.00	\$ 13,423.00	\$ 5,402.00
Apartment unit – one bedroom and bachelor unit	\$ 4,985.00	\$ 9,157.00	\$ 4,172.00
Dwelling room	\$ 3,195.00	\$ 5,687.00	\$ 2,492.00
Non-residential (per s. m. of gross floor area)			
Industrial	\$ -	\$ -	\$ -
Other non-residential – ground floor	\$ 99.30	\$ 150.31	\$ 51.01
Other non-residential – above or below ground floor	\$ -	\$ -	\$ -

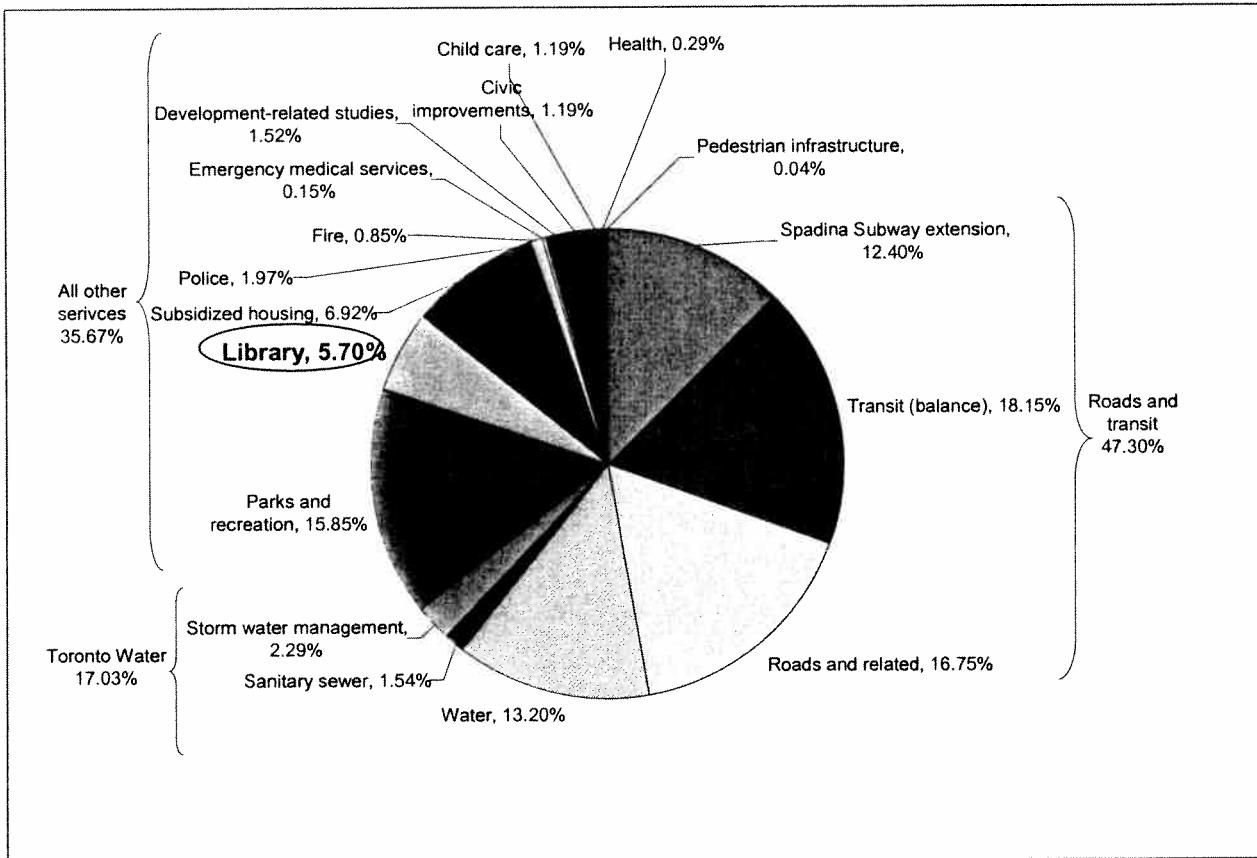
The above charges will be indexed, commencing on February 1, 2010, in accordance with section 415-11 of the by-law.

D. Unit Thresholds for Phase-in

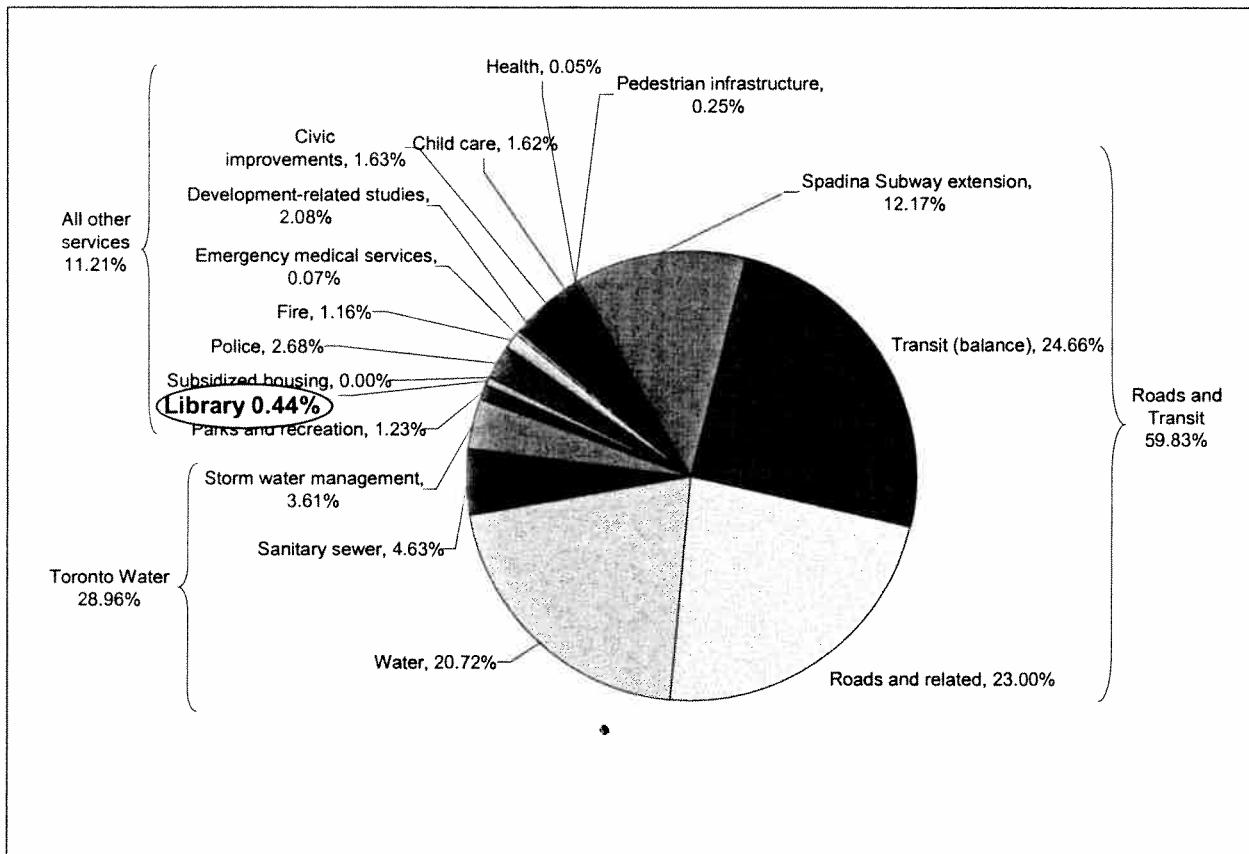
Beginning February 1, 2011, and continuing on the first day of February in each of 2012, 2013 and 2014, the amount of the development charge in effect will be increased according to the number of residential dwelling units that have been issued a building permit by the City in the preceding 12 month period ending in October, as follows:

Number of units issued building permit	Percentage of Column C to be phased-in
< 7,000	0%
7,000-7,500	5%
7,501-8,000	10%
8,001-8,500	15%
8,501-9,000	20%
> 9,000	25%

E. Services included in the by-law - residential



E. Services included in the by-law - non-residential



For more information, please visit: http://www.toronto.ca/finance/dev_charges.htm

Toronto Public Library
Development Charge Fund Continuity Schedule

ATTACHMENT 2

(from 2012 budget)

Current - 2009 DC by-law	\$000s
Balance @ 12/31/2011 - Preliminary	10,927.3
2012	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Toronto Reference Library	(1,359.0)
Brentwood	(1,024.0)
Multi-Branch	(120.0)
Scarborough Centre	(556.0)
Mount Dennis	(30.0)
Fairview	(1,194.0)
Albion	(106.0)
Estimated Contributions & Interest Projected	3,666.0
Balance @ 12/31/2012 Projected	8,454.3
2013	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(120.0)
Ft. York / Bathurst	(2,516.0)
Scarborough Centre	(2,385.0)
Fairview	(175.0)
Albion	(562.0)
Bridlewood	(350.0)
Estimated Contributions & Interest Projected	3,740.0
Balance @ 12/31/2013 Projected	4,336.3
2014	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(120.0)
Ft. York / Bathurst	(1,798.0)
Scarborough Centre	(1,165.0)
Fairview	(238.0)
Bayview	(447.0)
Sanderson	(106.0)
Estimated Contributions & Interest Projected	3,849.0
Balance @ 12/31/2014 Projected	2,561.3
2015	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
Scarborough Centre	(508.0)
Bayview	0.0
Wychwood	(115.0)
Parliament	(86.0)
Estimated Contributions & Interest Projected	3,964.0
Balance @ 12/31/2015 Projected	3,922.3
2016	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
Albion	(3.0)
Bayview	(897.0)
St. Lawrence	(94.0)
Estimated Contributions & Interest Projected	4,085.0
Balance @ 12/31/2016 Projected	5,119.3

Toronto Public Library
Development Charge Fund Continuity Schedule

ATTACHMENT 2

(from 2012 budget)

Current - 2009 DC by-law	\$000s
2017	
Library Collections - Annual Drawdown	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
Bayview	(838.0)
St. Lawrence	(506.0)
Estimated Contributions & Interest Projected	4,206.0
Balance @ 12/31/2017 Projected	6,087.3
2018	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
Bayview	(111.0)
Sanderson	(215.0)
St. Lawrence	(2,491.0)
North York Central Library	(418.0)
St. Clair / Silverthorn	(70.0)
Weston	(234.0)
Estimated Contributions & Interest Projected	4,332.0
Balance @ 12/31/2018 Projected	4,986.3
2019	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
St. Lawrence	(4,084.0)
Parliament	(300.0)
Guildwood	(109.0)
Estimated Contributions & Interest Projected	4,464.0
Balance @ 12/31/2019 Projected	3,063.3
2020	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
St. Lawrence	(1,787.0)
North York Central Library	(77.0)
Northern District	(404.0)
Ellesmere	(215.0)
Estimated Contributions & Interest Projected	4,597.0
Balance @ 12/31/2020 Projected	3,283.3
2021	
Library Collections - Annual Draw	(1,750.0)
Capital Projects	
Multi-Branch	(144.0)
Albert Campbell	(532.0)
North York Central Library	(671.0)
St. Clair / Silverthorn	(125.0)
Dawes Rd	(1,068.0)
Northern District	(72.0)
Estimated Contributions & Interest Projected	4,734.0
Balance @ 12/31/2021 Projected	3,655.3

