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**REPORT TITLE:**     **Approval of the 2020 Development Charge Background Study and By-law**

**FROM:**             Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer  
                             Andrea Warren, Interim Commissioner of Public Works  
                             Patrick O'Connor, Regional Solicitor

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## **RECOMMENDATION**

**That the Regional Municipality of Peel 2020 Development Charge (DC) Background Study dated September 18, 2020, and amended on November 26, 2020 (“the DC Background Study”) attached as Appendix I, to the report of the Commissioner of Finance and Chief Financial Officer, the Interim Commissioner of Public Works and the Regional Solicitor, titled “Approval of the 2020 Development Charge Background Study and By-law”, be approved;**

**And further, that the intention to ensure that the increase in the need for services attributable to growth will be met, be confirmed, recognizing that specific projects and project timing as contained in the DC Background Study may be revised, cancelled or discontinued from time to time at the discretion of Council;**

**And further, that the intention that the future excess capacity identified in the 2020 DC Background Study shall be paid by development charges or similar charges, be confirmed;**

**And further, that the Local Service Policy attached as Appendix II to the subject report, and other policy changes as outlined in the subject report, be approved;**

**And further, that additional costs estimated at approximately \$250,000 per year be included as part of the proposed 2021 operating budget to support the development charge partial exemption for religious organization space as outlined in the subject report and provided for in the DC By-law;**

**And further, that the existing development charge reserve fund “DC Transhelp” be renamed “DC Public Works” and be repurposed as a separate DC reserve fund for the Public Works class of service in accordance with and upon the effective date of the 2020 DC By-law;**

**And further, that the existing development charge reserve fund “DC Planning & Growth Study” be renamed “DC Growth Studies” and be repurposed as a separate DC reserve fund for the Growth Studies class of service in accordance with and upon the effective date of the 2020 DC By-law;**

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**And further, that the two existing DC reserve funds “DC Social Housing” and “DC Shelters” be merged as a single DC reserve fund “DC Housing Services” in accordance with and upon the effective date of the 2020 DC By-law;**

**And further, that a new DC reserve fund “DC Waste Diversion” be established and other DC reserve fund related matters be managed in accordance with and upon the effective date of the 2020 DC By-law;**

**And further, that no further public meeting be required prior to the enactment of the DC By-law;**

**And further, that the Region of Peel 2020 Development Charge By-law be presented for enactment, to come into force on January 22, 2021 to give effect to the recommendations outlined in the subject report.**

### **REPORT HIGHLIGHTS**

- The Region of Peel (Region) current Development Charge (DC) By-law 46-2015 must be replaced prior to its expiry on January 24, 2021.
  - The Region’s 2020 DC Background Study and the proposed DC By-law were released to the public on September 18, 2020.
  - The statutory public meeting was held on October 8, 2020.
  - Amendments to the *Development Charges Act, 1997* resulting from recent legislative changes have been taken into consideration in the addendum DC Background Study and the proposed 2020 DC By-law when appropriate.
  - Consultation and engagement with stakeholders in the development community have been ongoing since 2017.
  - Feedback received from the public and the development community has been carefully considered in the preparation of the final 2020 DC By-law.
  - Compared to the current DC rates as of August 1, 2020, the calculated DC rates set out in the DC Background Study represent a 14 per cent increase for a new single detached dwelling unit, a 13 per cent increase for new industrial development and a 2 per cent decrease for new non-industrial non-residential development.
  - The DC rate increase largely reflects the increased eligible cost on a per capita basis which is based on the updated regional infrastructure capital programs and the updated growth forecast with a planning horizon of 2041.
  - The DC Background Study identifies that the growth related capital needs to 2041 will be approximately \$10.3 billion for Water, Wastewater and Roads services; the 2020-2029 growth related capital costs for services such as Social Housing, Long-Term Care, Public Works, Policing Services, Waste Diversion and Growth Studies total \$1.2 billion.
  - The 2020 DC By-law supports Regional objectives around financial risk management and continues to support the principal that growth pays for growth.
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# Approval of the 2020 Development Charge Background Study and By-law

## DISCUSSION

### 1. Background

The *Development Charges Act, 1997* (“DC Act”), as amended, sets out the legislative framework governing the establishment of development charges, which are used to pay for growth-related infrastructure.

The Region of Peel’s current Development Charge By-law 46-2015 expires on January 24, 2021.

The Region’s 2020 DC Background Study, completed by Watson & Associates Economists Ltd. (Watson), and the proposed DC By-law were released to the public on September 18, 2020. A comprehensive information report titled “2020 Development Charge Background Study and By-law Review” was brought to Regional Council on September 24, 2020. The report tabled the Background Study and the By-law for consideration at a statutory public meeting which was held on October 8, 2020, at which point Council was informed that a final DC by-law would be available for consideration on November 26, 2020.

### 2. Analysis

#### a) Public Meeting

The statutorily required public meeting was held on October 8, 2020 to present information to the public and to provide the public with an opportunity to ask questions, provide comments and make representations on the Region’s proposed 2020 Development Charges By-law and the associated DC Background Study. At the meeting, Regional staff and Watson provided a presentation that included an overview of the development charge by-law update process, the calculated development charges rates and proposed development charges policies.

The public meeting did not receive any verbal presentation or formal delegation; a written submission was received from the Building Industry and Land Development Association (BILD). Subsequently, staff have held two additional technical meetings with BILD to discuss matters identified in the letter.

#### b) Stakeholder Engagement

At the time of the last DC by-law review, the Region initiated its current Growth Management Program which includes a deliberate, integrated and collaborative approach to manage where and how growth will be planned, serviced and financed to deliver on the overall outcome of achieving a financially sustainable and complete community.

Through this integrated approach, Regional staff have been engaged with various stakeholders to support the 2020 DC by-law update. This involved several activities including:

- The establishment of local municipal and industry working groups as forums for getting ‘real time’ input and collaboration on draft and emerging technical work;

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- Testing of several growth scenarios and Council endorsement of a draft 2041 growth allocation;
- The preparation and approval of infrastructure master plans; and,
- Collaboration and input on various emerging land use and financial policy initiatives.

Staff leveraged the Growth Management Program's municipal and industry working groups as a platform to engage key stakeholders, on matters related to planning, growth management, infrastructure planning and finance. The DC consultation and stakeholder engagement have been undertaken through the following multiple forums:

- Development Industry Working Group (DIWG) - Primary stakeholder consultation through meetings with the Building Industry and Land Development Association (BILD) and their lead consultant.
- Building Industry Liaison Team (BILT) - Supplementary consultation with broad BILD Peel Chapter members.
- Inter-Municipal Working Group (IMWG) – Supplementary consultation with local municipalities on growth allocation, infrastructure planning and financial policies.

A summary of meetings is included in Appendix III.

### c) Updated Development Charges

On July 8, 2020 the Minister of Municipal Affairs and Housing, the Honorable Stephen Clark, introduced Bill 197, the *COVID-19 Economic Recovery Act, 2020* as part of the Province's efforts and plans for economic recovery and renewal. Bill 197 amended or enacted 20 pieces of legislation including the *DC Act*. Hours after the Region released its draft background study on September 18, 2020, the Province informed the Region that certain amendments to the *DC Act* had been proclaimed.

The amendments to the *DC Act* eliminated the 10 per cent "soft service reduction". Further, the amended *DC Act* provides an expanded but more prescribed list of services while adding provisions that a service class may be composed of any number or combination of eligible services or portions of services which is deemed to be a single service with respect to development charges, reserve funds, use of monies and credits. In following the principle of "growth pays for growth" and to ensure that the Region continues to be able to collect development charges to the fullest extent and in accordance with the legislation changes, the following changes to the services and associated reserve funds are recommended:

- A class of service "Public Works" is proposed to be set out in the DC by-law for portions of the services related to water services, wastewater services or a highway. This service class is deemed to be a single service; accordingly, it is recommended that the existing DC reserve fund "DC Transhelp" be renamed "DC Public Works" and be repurposed as a separate DC reserve fund for this service;
- A class of service "Growth Studies" is proposed to be set out in the DC By-law consisting of studies with respect to all eligible services. This service class is deemed to be a single service; accordingly, it is recommended that the existing DC reserve fund "DC Planning & Growth Study" be renamed "DC Growth Studies" and repurposed as a separate DC reserve fund for this service; and,

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- “Housing Services” is proposed to be set out in the DC By-law which would combine two existing services: “Social Housing” and “Shelters”; accordingly it is recommended that the DC reserve funds “DC Social Housing” and “DC Shelters” be merged as a single reserve fund “DC Housing Services”.

Staff have been working extensively with the development community and consultants on development charge technical issues that came out of the 2015 By-law update including issues identified by the Local Planning Appeal Tribunal (LPAT) outlined in its decision on the appeal by Amacon Development (City Centre) Corp. of the 2015 By-law. Based on discussions with the development community, common ground has been identified for a number of these technical and policy inputs, a majority of which have been incorporated in the draft Background Study.

The review of the technical and policy items continued in consultation with the development community after the public meeting. Further stakeholder feedback and legislative changes have been carefully considered in the preparation of the addendum to the 2020 Development Charge Background Study and the final By-law.

The addendum to the 2020 DC Background Study is provided in Appendix I. The proposed 2020 DC By-law with rate schedules for adoption is detailed in the DC By-law presented for enactment.

A summary of the changes of the DC rates since the Public Meeting is provided in Appendix I. Table 1 summarizes the current development charge rates and the updated rates proposed under the 2020 DC By-law.

**Table 1 – Comparison of Development Charges**

DC Category	Brampton & Mississauga		Caledon		Increase (Decrease)
	Current Rates	Proposed Rates	Current Rates	Proposed Rates	
Single/ Semi-detached	\$53,510.42	\$60,750.66	\$53,083.06	\$60,093.31	14%
Apartment > 750 sq ft.	\$32,752.38	\$44,066.64	\$32,491.01	\$43,589.82	35%
Small Unit	\$21,662.28	\$23,305.57	\$21,489.21	\$23,053.40	8%
Other Residential	\$43,840.09	\$48,114.77	\$43,489.23	\$47,594.15	10%
Industrial	\$157.77	\$177.82	\$156.20	\$174.92	13%
Non-industrial	\$234.43	\$229.88	\$232.86	\$226.98	(2%)

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The DC rate increase from the 2020 DC By-law update largely reflects the increased overall eligible cost on a per capita basis, as well as expanded service eligibility allowed by legislative changes introduced since the enactment of the 2015 DC By-law.

### d) 2020 DC By-law Policies

A detailed discussion on the proposed DC By-law policy changes was presented to Regional Council on September 24, 2020 in a report titled “2020 Development Charge Background Study and By-law Review”.

These policies are reflected in the proposed DC By-law and key policy proposals are summarized herein.

**Exemptions:** Exemption for religious organization space (for worship, services, or rites) is now to be limited to not more than 25 per cent of total floor space of a new building or structure (as opposed to a limitation to one room under the exemption in the current DC by-law). In addition, the proposed DC by-law will reflect DC exemptions associated with second units as required by Provincial legislation (i.e. Bill 108). An annual operating budget of \$250,000 had been initially estimated for the existing place-of-worship exemption starting in 2019. Should Council approve the proposed exemption definition, funding to support the policy will need to be committed in the budgets for fiscal year 2021 and onward. Based on current estimates, the grant required to offset development charges revenue loss resulting from the expanded exemption is forecasted to be approximately \$500,000 per year.

**Apartment Definition:** “stacked” townhomes be defined as apartments and “back-to-back” townhomes be categorized as “other residential”. This approach is consistent with the way that Statistics Canada defines these units.

**Demolition Credit Limit:** for a residential building, the credit is available within 5 years from the date the demolition permit was issued; for demolition of non-residential buildings/structures, the credit is available within 10 years from the date the demolition permit was issued. In further considering this policy after the DC public meeting, a transitional provision has been included in the draft DC By-law to allow for demolition permits issued prior to the effective date of the By-law to begin the time limit on the day the By-law is effective.

**Industrial Definition:** The definition is refined by removing the word “raw” from the term “producing or processing of raw goods” in order to reflect the changing nature of manufacturing; in addition, cannabis growing, processing, and packaging are excluded from the definition of agricultural uses, as these are proposed to be defined as industrial.

### e) Other Policies and Considerations

#### i) Consideration of Area Specific Development Charges

The *DC Act* requires that Council must consider area rates before implementing a new DC by-law. Analysis was undertaken to allow consideration of the use of area rating techniques for this DC By-law update. This is as reported in a report titled “Financial Policy and Technical Inputs for 2041 Growth Based Development Charges By-law Update” that was received by Council on October 26, 2017.

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At present, the Region's By-law provides for water and wastewater services on a water and wastewater service area basis. Peel Regional Police is provided for the Cities of Brampton and Mississauga whereas O.P.P. is provided for the Town of Caledon. All other Regional services are recovered on a uniform, Region-wide basis.

### **ii) DC Interest Rate Policy**

On January 1, 2020, changes to the *DC Act* came into force. In responding to the requirements of the updated *DC Act*, Regional Council approved the Development Charge Interest Rate Policy in July 2020. This policy applies to development applications that are eligible for the regulated development charges freeze and/or development charges deferral provided under Section 26.1 and Section 26.2 of the *DC Act*. The policy establishes a framework that aims to strike a balance between mitigating financial risks associated with servicing growth while promoting an increase in the supply of affordable housing.

As a part of the 2020 DC By-law review, staff have reviewed the DC Interest Rate Policy and do not recommend amendments to the previously approved interest rates. Regional staff will continue to collaborate with local municipalities to implement the DC Interest Rate Policy and to enhance the development charges collection processes.

### **iii) Local Services Policy**

Some of the need for services generated by additional development consists of need for local services related to a plan of subdivision. Local services will be required as a condition of subdivision agreements or consent conditions. The Region of Peel follows guidelines and existing practices to support making determination of which infrastructure would be considered DC eligible versus what would be considered the responsibility of individual developers as local services. As a part of the 2020 DC By-Law update the Region has formalized a Local Service Policy appended as Appendix II. The Local Service Policy does not propose any substantive changes from current practice at the Region.

### **iv) Effective Date of DC By-law and Indexing Provision**

The draft Development Charges By-law released on September 18, 2020 proposed to set the effective date of the new By-law as January 1, 2021. Since the public meeting, feedback has been received suggesting that the By-law come into force at a later date that is closer to the By-law expiry date of January 24, 2021 citing that readiness to draw building permits has potentially been adversely affected by the pandemic. Staff reviewed this and recommend that the effective date of the 2020 DC By-law be January 22, 2021. Shifting the date will ease local municipal administration of the permitting process in and around the busy holiday season.

The draft development charges by-law proposed that the bi-annual indexing of the development charge commence on February 1, 2021 which is in line with the current practice. With the new effective date of the 2020 by-law (i.e. January 22, 2021) occurring only two weeks prior to February 1, 2021, Regional staff recommend revising the first index date in the proposed 2020 by-law to occur on August 1st,

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2021. The development charges will continue to be indexed semi-annually for the life of the DC By-law with the base index value being that in effect on August 1, 2020. This would help lessen the administrative confusion associated with the posting of the new schedule of indexed rates and will also provide developers and builders six months of cost certainty while they adjust to an updated development charge by-law.

### **RISK CONSIDERATIONS**

#### **a) Implications to the Peel 2041+ Official Plan Review and Growth Management Program**

On August 28, 2020, the Province released a new market-based land needs assessment methodology and new Growth Plan Schedule 3 population and employment forecast. The Provincial documents extend the planning horizon from 2041 to 2051 and add an additional 310,000 people and 100,000 jobs to be accommodated in Peel.

Staff have begun working with the local municipalities to build on the work completed to date to update the municipal allocation and land needs assessment, to demonstrate conformity with the Growth Plan and undertake capital planning to 2051. This collaboration will explore the financial impacts of various growth assumptions to support a recommended direction for accommodating growth, including through intensification and settlement area boundary expansion. Further, the outcomes will provide input into the next round of infrastructure capital plans including timing and phasing of infrastructure to meet expected growth demands.

During this next stage of work, there is a risk that infrastructure and capacity needs will shift. However, the forecast used for the development of the present DC Background Study represents the best information available for this purpose, at this time. Given the legislative time constraints to renew the DC By-law, it is prudent that Council proceed to update the By-law to ensure the Region of Peel is able to recover costs associated with growth to 2041.

Staff reports to Council on an annual basis to present the Region's growth management and development charge performance. Should a need be identified to conduct the next DC background Study sooner than the ordinary 5-year expiry time, a report to this effect will be brought to Council for consideration.

#### **b) Financial Risk Management**

Recent trends in development in the Region highlight risks of slower than anticipated development influenced by the changing nature of employment and further negatively affected by the COVID-19 pandemic. Given the inter-relationship of the growth patterns and the financial plans, risks to achieving the growth targets can easily manifest themselves as risks to the financial plans associated with growth.

As a part of the Regional Growth Management Program, great attention will continue to be applied to analyzing the connection between potential growth patterns that could be used to achieve the provincial growth targets and the corresponding infrastructure investment plans. This is being done with the intention of assuring that through the efficient use of existing infrastructure and the phasing and staging of future infrastructure construction the cost-revenue gap for growth could be minimized.



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The Region has implemented a Financial Risk Management Strategy which provides an iterative process to evaluate and adjust capital spending. The objective of the Strategy is to ensure the Region's capital program is aligned to Peel's evolving economic circumstances and balances expectations to deliver infrastructure in a timely manner without taking on undue financial risks.

### **FINANCIAL IMPLICATIONS**

The 2020-2029 growth-related capital program for soft services including Housing Services, Long -Term Care, Public Health, Public Works/Transhelp, Police, Waste Diversion, Growth Studies, and Paramedics, totals \$1.2 billion. The hard services capital program including Water, Wastewater, and Transportation to provide growth-related infrastructure to 2041 totals an additional \$10.3 billion.

The Region of Peel's capital program is funded through development charges, capital reserves, and external funding; debt has been largely used as a financing mechanism to manage the cash flow for development charges funded projects. A DC debt issuance plan in the amount of \$1.5 billion for 2020-2024 has been proposed and included in the 2020 Development Charge Study including the immediate borrowing of \$200 million in 2020. This DC debt plan helps support the Region in striking a long- term balance between debt servicing affordability and providing adequate liquidity for infrastructure capital spending.

The planned infrastructure within the growth-related capital program will come with operating and lifecycle costs requirements associated with maintaining or providing service through that infrastructure. The *DC Act* requires that a DC background study must include an asset management plan that deals with assets that are proposed to be funded, in whole or in part, by development charges. The Region uses a risk-based approach to asset management and updates its Enterprise Asset Management Plan on an annual basis. Long-term infrastructure investment forecasts anticipate major trends in the Region's infrastructure needs and include the estimated rehabilitation and replacement costs of existing assets as well as the estimated rehabilitation and replacement cost of planned asset growth.

The Region reviews and updates its Long-Term Financial Planning Strategy periodically which considers the Region's Term of Council strategic plan, growth plans, asset management plan, development charge study, and its treasury management strategies. These long term fiscal planning tools are intended to be used to analyze and recommend funding strategies, spending capacities, tax levy implications and the Region's financial affordability/resiliency and will be used to further inform the Region's annual budgeting processes and related financial policies to ensure that financial decisions are mindful of short-term and long-term financial impacts from the Region's growth.

### **CONCLUSION**

The draft 2020 DC Background Study and the proposed DC By-law were released to the public on September 18, 2020. A comprehensive report titled "2020 Development Charge Background Study and By-law Review" was brought to the Regional Council meeting on September 24, 2020. A statutory public meeting was held on October 8, 2020 as a part of the DC By-law review consultation process. The feedback received from the public and the development community has been carefully considered in the preparation of the final 2020 DC By-law.

## **Approval of the 2020 Development Charge Background Study and By-law**

Various policies have been considered in further depth to ensure that Council is presented with an updated development charge background study and by-law that is fiscally responsible, protects existing taxpayers and ratepayers, and responds to the evolving environment and economy as they affect the region and the development industry.

Regional staff remain committed to working with the development community, as well as our local municipal partners in developing policies that support Regional objectives around financial risk management and which continue to support the principal that growth pays for growth.

### **APPENDICES**

Appendix I - 2020 Development Charge Background Study and Addendum  
Appendix II - Local Service Policy  
Appendix III - DC Stakeholder Engagement Summary

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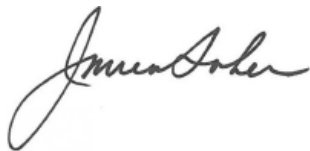
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### ***Reviewed and/or approved in workflow by:***

Department Commissioners, Division Directors, Financial Support Units and Legal Services.

Final approval is by the Chief Administrative Officer.



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J. Baker, Chief Administrative Officer