

TOWNSHIP of SOUTH FRONTENAC

**DEVELOPMENT CHARGES
BACKGROUND STUDY**

July 2014

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TOWNSHIP OF SOUTH FRONTENAC
DEVELOPMENT CHARGES BACKGROUND STUDY

INTRODUCTION

The Development Charges Act 1997 requires that a Development Charges Background Study be prepared in support of and prior to the enactment of a municipal Development Charges By-law.

A Development Charge is a fee imposed on development in the Township to pay for the increased capital cost of providing specific services as a result of new development.

This Background Study consists of two sections. The first section includes details of the Development Charges Act 1997 including a description of the prescribed methodology of calculating the charge while the second section deals specifically with the calculation of the Development Charges for the Township of South Frontenac.

SECTION I - THE DEVELOPMENT CHARGES ACT 1997

I THE POWER TO IMPOSE DEVELOPMENT CHARGES

Section 2(1) of the Act sets out the power to impose development charges. The Council of a municipality may impose development charges against land to pay for increased capital costs required because of the increase in needs for services arising from development of the area to which the by-law applies. The development charge may be applied to all residential, industrial, commercial and institutional development.

A development charge may be imposed only for development that requires a zoning by-law, a minor variance, subdivision, building permit or severance of land.

A municipality may impose either a municipal-wide (i.e. entire municipality) or area-specific development charge by-law.

II LIMITATIONS/EXEMPTIONS ON THE POWER TO IMPOSE DEVELOPMENT CHARGES

1. Ineligible Services

The Act prohibits development charges for certain listed ineligible services. Ineligible services include:

- (a) Cultural or entertainment facilities including museums, theatres and art galleries, but not including public libraries.
- (b) Tourism facilities, including convention centres.
- (c) Acquisition of lands for parks. The intention is generally to limit a municipality's powers to require developers to provide parks to the standards in the Planning Act (i.e. 5% parkland).
- (d) Hospitals as defined in the Hospitals Act.
- (e) Waste management services.
- (f) Headquarters for the general administration of municipalities and local boards.

The regulations provide further details on what constitutes parkland. Woodlots and environmentally sensitive areas are excluded from development charges. However, parkland necessary for an enclosed structure used throughout the year for public recreation, including parking and access, may be included in

development charges.

2. Expansion of Industrial Buildings

The Act specifically states that expansions of existing industrial buildings up to a maximum of 50% of the gross floor area (GFA) are exempt. Development charges are chargeable only on that portion of an expansion that exceeds 50% of the existing GFA. GFA and industrial buildings are defined in the regulations and may be included in the municipal Development Charges By-law. The definition of industrial building is broad and includes stand alone warehousing.

3. Local Services

Development charges may not be imposed with respect to local services. Local services are those services which are related to a specific development proposal (i.e. extension of services for a single benefiting landowner).

4. Limited Residential Exemption

Development charges may not be imposed on the enlargement of an existing dwelling unit or the creation of up to two additional dwelling units in circumstances to be prescribed in the regulations. These circumstances will be included in the municipal Development Charges By-law.

III SERVICES THAT ARE FULLY CHARGEABLE

The growth-related costs of the following may be fully funded by development charges:

- (a) water supply services, including distribution and treatment services;
- (b) waste water services, including sewers and treatment services;
- (c) storm water drainage and control service;
- (d) services related to roads as defined in the subsection 1(1) of the Municipal Act;
- (e) police services;
- (f) fire protection services.

IV TEN PERCENT DISCOUNT ON SERVICES

A 10% discount in the net capital cost or a cash contribution by the municipality is

required for the cost of all services other than those set out above. These services would include transit, libraries, parkland improvements, old aged homes, recreation centres and other recreational facilities.

V CAPITAL COST INCLUSIONS/EXCLUSIONS

The capital costs that are eligible for inclusion in the development charge are as follows:

- (a) costs to acquire land or an interest in land, including a leasehold interest;
- (b) costs to improve land (i.e. road, sewer/water infrastructure);
- (c) costs to acquire, lease, construct or improve buildings and structures;
- (d) costs to acquire, lease, construct or improve facilities including:
 - (i) rolling stock with an estimated useful life of 7 years or more;
 - (ii) furniture and equipment other than computer equipment; and
 - (iii) library materials.
- (e) costs to undertake studies in connection with any of the matters referred to above;
- (f) costs of the development charge background study;
- (g) interest on money borrowed to pay for costs described in paragraphs (a) to (d).

Only the capital component of leasehold costs may be included.

The Act allows capital costs to be included if they are incurred or proposed to be incurred by a municipality or local board directly or by others on behalf of, and as authorized by, a municipality or local board.

The capital costs must be reduced to adjust for capital grants, subsidies and other contributions made to a municipality or that the council anticipates will be made in respect of the capital costs.

VI CALCULATION OF THE CHARGE

The legislation provides an express methodology for calculating development charge.

In determining the amount of the development charge that may be imposed, a municipality must use the following method:

- (1) Estimate of Development - Estimate the anticipated amount and type of development for which development charges can be imposed (i.e. population/development projections for a 10 year period)
- (2) Estimate Increased Service Needs - Estimate the increase in the need for service attributable to the anticipated development for each service to which the development charge by-law would relate. There is no definition of the word "service" anywhere in the Act, and it is used in different ways at different times. For the purpose of this report, it means at least individual service categories such as water, roads, recreation, fire and library.
- (3) Council Intent to Meet the Need - This estimate may include an increase in need only if the Council has indicated that it intends to ensure that such an increase in need will be met. The determination as to whether a council has indicated such an intention may be governed by the regulations.

The regulations provide that Council has indicated its intent if the increase in service forms part of an official plan, capital forecast or similar expression of the intention of council and such has been approved by the Council. Council has not indicated a need for increase in service levels.

- (4) Average Service Levels - The service level for each service must not exceed the average level of that service provided in the municipality over the 10 year period immediately preceding the preparation of the background study.
- (5) Benefits Test - The increase in the need for service must be reduced by the extent to which an increase in service to meet the increased need would benefit existing development. The extent to which an increase in service would benefit existing development is to be determined by Council.
- (6) Cost Estimates - The capital costs necessary to provide the increased services must be estimated. They must be reduced by the capital grants, subsidies and other contributions made or that are anticipated to be made. The regulations provide that the amount of such reduction will depend on the extent to which the contributor expressed a clear intent that the contribution subsidy or grant was intended to benefit new development. Where there is no express intent, the reduction should be apportioned in the same manner as the benefits test reduction.
- (7) Capital Cost Reductions - Capital costs other than the fully recoverable listed costs must be reduced by 10%.
- (8) Rules - Rules must be developed to determine if a development charge is payable in any particular case and to determine the amount of the charge.
- (9) Exemptions Phasing, Indexing - The rules may provide for full or partial exemptions

for types of development and for the phasing in of development charges. The rules may also provide for indexing based on the prescribed index. The prescribed index is the Statistics Canada index.

VII CONTENTS OF A DEVELOPMENT CHARGE BY-LAW

The development charge by-law must set out:

- (a) The rules described above for determining if a development charge is payable in any particular case and for determining the amount of the charge.
- (b) An express statement indicating how any exemptions, phasing in or indexing of charges are provided for.
- (c) The area of the municipality to which the by-law applies.

VIII COMMENCEMENT/DURATION OF DEVELOPMENT CHARGE BY-LAW

A development charge by-law or an amending by-law comes into force on the later of the day it is passed or the day specified in the by-law. Development charge by-laws have a maximum term of 5 years. However, council may repeal a by-law within the five year period and pass a new one.

IX BACKGROUND STUDY

The regulations require a background study to include the following for each service:

- (a) The total of the estimated capital costs relating to the service.
- (b) The allocation of the total estimated costs as between those costs benefiting new development and those benefiting existing development.
- (c) The estimated and actual value of credits that are being carried forward relating to the service.

A development charge by-law may not be passed more than 1 year after the completion of the background study.

X RESERVE FUNDS AND THE USE OF DEVELOPMENT CHARGES

A municipality must establish a separate reserve fund for each service to which the development charge relates. The development charges must be paid into such reserve funds. The money in a reserve fund established for a service may be spent only for capital costs determined in accordance with the development charge methodology set out

in the Act.

There are express powers in the Act to permit a municipality to borrow money from a reserve fund, but it is required to repay the money with interest at a rate not less than the prescribed minimum interest rate.

XI RESERVE FUND REPORTING

The Act requires an annual statement which includes:

- (a) the opening and closing balances of the reserve funds;
- (b) the transactions relating to the funds; and
- (c) such other information as is prescribed in the regulation.

The regulations provide additional detail and require for each reserve fund:

- (a) a description of the service for which the fund was established. If the fund was established for a service category, the services in the category;
- (b) for credits:
 - (i) the amount outstanding at the beginning of the previous year, given in the year, used in the year and outstanding at the end of the year;
 - (ii) the amount outstanding at the beginning of the previous year and outstanding at the end of the year, broken down by individual credit holder;
- (c) the amount of any money borrowed from the fund during the previous year and the purpose for which it was borrowed;
- (d) the amount of interest accrued during the previous year on money borrowed from the fund;
- (e) the amount and source of any money used by the municipality to repay in the previous year money borrowed from the fund or interest on such money.

The regulations also require project-by-project reporting showing:

- (a) the amount of money from each reserve fund that is spent on the project; and
- (b) the amount and source of any other money that is spent on the project.

SECTION II - CALCULATION OF DEVELOPMENT CHARGES BY SERVICE

This section details the methodology and calculation of the development charges specifically for the Township of South Frontenac. It identifies the type and amount of future development based on population/dwelling unit and commercial/industrial development projections. It is based on the Official Plan for the Township. A detailed development charge calculation for each eligible municipal service is provided based on the existing service level currently provided by the Township.

The following represents the calculation of development charges for the Township of South Frontenac using the methodology prescribed in the Development Charges Act and as summarized in Section I of this report.

I ESTIMATE OF AMOUNT AND TYPE OF FUTURE DEVELOPMENT

The first step in determining Development Charges is to estimate the amount and type of development for which development charges can be imposed.

Both future residential and commercial/industrial development have been estimated based on a ten year projection to the year 2024.

The Development Charge is calculated by taking the anticipated net capital expenditure for the municipal services identified over the planning period and dividing by the projected number of new dwellings or non-residential square footage during the planning period (ten years).

The first step in determining Development Charges is to estimate the amount and type of development for which development charges can be imposed.

Both future residential and commercial/industrial development have been estimated based on a ten year projection to the year 2024.

The current (2014) population of South Frontenac Township is estimated at 19,395. The Frontenac County Population, Housing and Employment Projections Report (June 2014) prepared by Watson and Associates Economists Ltd. projects an annual average population growth rate of .7% year in the Township. Based on this growth rate, an increase of 1,976 persons (permanent and seasonal) can be expected over the next 10 years (2024). The report also projects an average of 76 new dwelling units (permanent and seasonal) per year to be constructed in South Frontenac over the next ten year. This results in 760 new dwelling units to be constructed over the next ten year period. These figures will be used throughout the calculation of the development charges for new residential development in South Frontenac Township.

Similarly, it is estimated that approximately 100,000 sq. ft. of new non-residential development will be constructed in the Township over the next ten years. These projections are consistent with the Township's Official Plan currently undergoing the mandatory five year review. The amount of the identified net capital cost used to calculate the development charge is split between residential and non-residential development based

on the existing Township assessment ratio of approximately 90% residential, 10% non-residential.

We have assumed that 100% of the growth related capital expenditures over the next 10 years will be paid for through development charges.

The capital expenditure figures were provided by department heads of the various municipal departments. The net capital expenditures are based on past and projected capital budgeting and projected into the future to maintain existing service levels in the Township.

II. CALCULATION OF DEVELOPMENT CHARGE BY SERVICE

This section provides a detailed calculation of the Development Charges for each eligible municipal service.

a) Public Works

i) Road and Bridge Construction

The Roads and Bridges portion of the Development Charges calculation includes net capital expenditures for all roads and bridges located within the Township including the Township's portion of former County Roads. The cost estimates are based on a 10 year program to correspond with the residential and non-residential growth scenarios.

Based on Township figures, the annual gross capital expenditure on road and bridge construction required to maintain the existing service level for the current population of 19,395 is \$6,100,000. Projected over a ten year period results in a gross capital expenditure of \$61,000,000

For the purposes of the Development Charge calculation we have assumed that a 8 percent increase in the population (1,976) over the next ten years would result in an 8 percent increase in the road and bridge capital construction budget in order to maintain the existing service level. This would result in an increase of \$4,880,000 in the road and bridge capital construction budget over the ten year period.

In order to determine the net capital cost to the Township, it is further assumed that the municipality will receive approximately 20% of the increased capital expenditures through ongoing gas tax and infrastructure grants provided by the provincial and federal governments. This would reduce growth related capital expenditures to \$3,904,000

Therefore, the growth related net capital cost of road and bridge construction over

the ten year planning period would be \$3,904,000

In addition we have assumed that 100% of the growth related net capital cost for road and bridge construction will be borne by new development. This could be reduced by applying the benefits test which allocates a portion of the costs to existing development on the assumption that existing development will also benefit from increased road and bridge construction. The current Development Charge By-law allocates 80% of the capital expenditure to existing development and 20% to new growth.

Applying 100% of the net capital expenditure to new growth would result in the following residential and non-residential Development Charges for road and bridge construction:

Net capital expenditure	\$3,904,000
Residential portion (90%)	\$3,513,600
Non-residential portion (10%)	\$390,400
No. of new dwellings to be constructed over the over the ten year planning period	760
Square footage of new non-residential space to be constructed over the ten year planning period	100,000
Development Charge per dwelling (\$3,513,600/760)	\$4,623
Development Charge per square foot (\$390,400/100,000)	\$3.90

ii) Public Works Equipment

The Public Works Equipment portion of the Development Charges calculation includes capital expenditures for the increased need for trucks, graders, backhoes, tractors, loaders, vans, plows and tandem trucks. Based on the information from the Public Works Department, the capital expenditure assumes a replacement schedule of 7 years for a half ton truck, 15 years for large trucks and 20 years for heavy equipment. Based on the replacement schedule and cost for the various vehicles, the net capital expenditure to maintain the existing service level for public works equipment over the next 10 years is \$777,480.

In addition we have assumed that 100% of the growth related net capital cost for public works equipment will be borne by new development. This could be reduced by applying the benefits test which allocates a portion of the costs to existing development on the assumption that existing development will also benefit from increased public works equipment. The current Development Charge By-law allocates 80% of the growth related capital expenditure to existing

development and 20% to new growth

Applying 100% of the net capital expenditure to new growth would result in the following residential and non-residential Development Charges for Public Works Equipment:

Net capital expenditure	\$777,480
Residential portion (90%)	\$699,732
Non-residential portion (10%)	\$77,748
No. of new dwellings to be constructed over the over the ten year planning period	760
Square footage of new non-residential space to be constructed over the ten year planning period	100,000
Development Charge per dwelling (\$699,732/760)	\$920
Development Charge per square foot (\$77,748/100,000)	\$.46

b) Fire Protection

The Fire Protection Development Charge calculation is based on the capital replacement and upgrade of equipment and buildings used by the Township. This includes trucks, station upgrades as well as communications and other equipment.

A 'Fire Station Study' was completed by the Township in January 2009 that identified many deficiencies in staffing levels, equipment as well as station condition and locations. Several recommendations were included with respect to rebuilding/relocating several fire stations to meet existing and future fire protection needs. It is recognized that not all recommendations can be acted upon in the ten year planning period. It has been estimated that the net capital cost of maintaining the existing fire service in the Township is \$135,000 per year.

In addition the Township has a vehicle and equipment replacement schedule that was used in calculation of the Fire Protection component of the Development Charge.

Based on the replacement schedule and cost for the various vehicles and equipment the net capital expenditure to maintain the existing service level for Fire Protection facilities, vehicles and equipment over the next 10 years is \$5,785,000.

For the purposes of the Development Charge calculation we have assumed that an

8 percent increase in the population (1976) over the next ten years would result in an 8 percent increase (\$462,800) in the Fire Protection vehicle and equipment capital budget in order to maintain the existing service level.

In addition we have assumed that 100% of the growth related net capital cost for Fire Protection vehicles and equipment will be borne by new development. This could be reduced by applying the benefits test which allocates a portion of the costs to existing development on the assumption that existing development will also benefit from increased Fire Protection vehicles and equipment.

This would result in the following residential and non-residential Development Charge:

Net capital expenditure	\$462,800
Residential portion (90%)	\$416,529
Non-residential portion (10%)	\$46,280
No. of new dwellings to be constructed over the over the ten year planning period	670
Square footage of new non-residential space to be constructed over the ten year planning period	100,000
Development Charge per dwelling (\$416,529/670)	\$548
Development Charge per square foot (\$46,280/100,000)	\$.46

c) **Recreation**

The Recreation component of the Development Charge calculation is based on the net capital replacement and upgrade of recreational facilities and equipment in the Township. This would include lights, fencing, building upgrades, parking lot improvements and arena improvements. Based on past and projected capital budgets it is estimated that the net capital expenditure for these facilities is \$90,000 per year which would result in a 10 year capital expenditure of \$900,000.

One-hundred percent of the cost has been attributed to residential development. It is assumed non-residential development does not benefit from recreational facilities and as such the total growth related net capital expenditure has been applied to residential development only.

For the purposes of the Development Charge calculation we have assumed that an 8 percent increase in the population (1976) over the next ten years would result in a 8 percent increase in the Recreation facilities and equipment capital budget in order to maintain the existing service level. This would result in an increase of

\$72,000 in the Recreation facilities and equipment capital budget over the ten year period.

In addition we have assumed that 100% of the growth related net capital cost for Recreation facilities and equipment will be borne by new development. This could be reduced by applying the benefits test which allocates a portion of the costs to existing development on the assumption that existing development will also benefit from increased Recreation facilities and equipment.

This would result in the following residential Development Charge for recreational purposes:

Net capital expenditure	\$72,000
Residential portion (100%)	\$72,000
No. of new dwellings to be constructed over the over the ten year planning period	760
Development Charge per dwelling (\$72,000/760)	\$94

d) **Library (South Frontenac Portion)**

The Library portion of the Development Charge calculation is based on the Kingston Frontenac Public Library Services Review. This study indicated a need for a new facility to be located within the borders of South Frontenac. This facility was constructed in 2010. For the purpose of this Study, we have assumed a relatively conservative figure of \$500,000 as the South Frontenac portion of the cost for the new facility. Further we have assumed that the growth related portion of this expenditure would be 8 percent of the total or \$40,000

As with recreation, the library development charge has only been calculated on the residential growth. This would result in the following development charge calculation for library services in the Township.

Net capital expenditure	\$40,000
Residential (100%)	\$40,000
No. of new dwellings to be constructed over the over the ten year planning period	760
Development Charge per dwelling (\$40,000/760)	\$53

e) **Police**

Calculation of the police protection services is based on the existing service levels provided by the Ontario Provincial Police under contract to the Township. Currently police services costs are approximately \$160 per person in the township. The projected 760 dwelling unit increase over the next ten years would result in an increase of \$316,160 in police costs to maintain the existing service levels

Residential (90%)	\$284544
Non-residential (10%)	\$28,454
No. of new dwellings to be constructed over the over the ten year planning period	760
Square footage of new non-residential space to be constructed over the ten year planning period	100,000
Development Charge per dwelling (\$65,063/1002)	\$374
Development Charge per square foot (28,454/1000)	\$.28

f) **General Government**

The General Government Development Charge calculation is based on the capital replacement and upgrade of equipment and buildings used by the Township. This includes administration buildings, office supplies including computers systems etc.

Capital expenditures on general government facilities and equipment have averaged \$154,000 per year over the past ten years.

For the purposes of the Development Charge calculation we have assumed that an 8 percent increase in the population (1976) over the next ten years would result in an 8 percent increase (\$123,200) in the General Government capital expenditures.

This would result in the following residential and non-residential Development Charge:

Net capital expenditure	\$123,200
Residential portion (90%)	\$110,880
Non-residential portion (10%)	\$12,320

No. of new dwellings to be constructed over the ten year planning period	670
Square footage of new non-residential space to be constructed over the ten year planning period	100,000
Development Charge per dwelling (\$110,880/670)	\$146
Development Charge per square foot (\$12,320/100,000)	\$.12

SUMMARY OF DEVELOPMENT CHARGES

SERVICE	DEVELOPMENT CHARGE PER DWELLING UNIT (RESIDENTIAL)	DEVELOPMENT CHARGE PER SQ. FT. (NON-RESIDENTIAL)
Public Works (Roads, Bridges and Equipment)	\$5,543	\$4.36
Fire Protection	\$548	\$.46
Recreation	\$94	
Library	\$53	
Police Services	\$374	\$.28
General Government	\$146	\$.12
Total	\$6,758	\$5.22