



Date: May 18, 2010

File: F27-2010

Subject: Development Charges – Extension of Discount Rate for Industrial & Office Development

Contact: Lloyd Noronha, Manager, Development & Capital Financing

Overview:

- **The Roads Development Charge (DC) by-law provides a discounted rate for Industrial and Office Development.**
- **This discounted rate will expire on August 5, 2010 after which time the full industrial and office DC rate will apply, unless Council approves the extension of the discount period as recommended by staff.**
- **If Council wishes to consider extending this discount, the public process as stipulated by the DC Act, must be completed over the next month.**
- **Staff has identified a need to undertake policy research to evaluate the current and future financial and planning tools available for incenting hotel and convention centre developments in the Central Area and city wide.**

Recommendations:

1. **THAT**, the report from Lloyd Noronha, Manager, Development & Capital Financing, dated May 18, 2010, re: Development Charges – Extension of Discount Rate for Industrial & Office Development, be received;
2. **THAT**, the 2010 Development Charge Background Study (Industrial & Office Discount) attached as Appendix A, in support of an amended DC by-law, be received;
3. **THAT**, subsequent to input received at the Public Meeting on June 16th, 2010 and any further direction given by Council at that time, staff present a report, including a draft amended Roads DC by-law (227-2009), for Council's consideration prior to August 5, 2010, to extend the Industrial and Office DC discount;

4. **THAT**, staff be directed to add a definition under Section 1 of the draft amended by-law, to be presented to Council in accordance with recommendation #3, for a “shopping centre” as follows: “shopping centre shall mean the premises upon which a group of at least five separate commercial uses have been developed and are managed as a unit by a single owner or tenant, or by a group of owners or tenants” and;

5. **THAT**, the “office use” definition under Section 1 of the draft amended by-law, to be presented to Council in accordance with recommendation #3, be amended to: “office use means the use of land, buildings or structures used primarily for, or designed or intended for use primarily for or in connection with office or administrative purposes, provided that the building or structure has an office or administrative component equal to or greater than 50 percent of the total gross floor area of the building or structure. For the purposes of this by-law office use excludes office or administrative uses located in a shopping centre, except where the building or structure has an office or administrative component equal to or greater than 75 percent and is equal to or greater than 3 storeys in height, and excludes office or administrative uses where such uses are accessory to an industrial use”.

6. **THAT**, staff undertake policy research to evaluate the current and future financial and planning tools available for incenting hotel and convention centre development in the Central Area and city wide, and report back to Council during the 2011 update of the Industrial/Office DC discount.

Background:

In August 2009, Council passed seven new development charge (DC) by-laws based on the major programs for which development charges are collected. Of these by-laws, the Roads DC by-law contained a clause that had the effect of offering a discounted DC rate for industrial and office development in order to attract such development to the City. The discounted rate was designed to be competitive with rates in force in neighboring municipalities and was put in place for the first year of the Roads DC by-law or until such later date as determined by Council through an amendment to the by-law.

Current Situation:

Extension of Current Industrial and Office Discount

The Industrial and Office discount contained within the Roads DC by-law expires on August 5th, 2010. If no action is taken by the City, the industrial and office rate will revert to the full Roads DC rate. This will increase the current total industrial and office rate of \$45.81 (inclusive of all DC Service Categories) by \$6.19 per sq.m. or about 14%. The new industrial and office rate, if not extended beyond the expiry of the discount, would be \$52.00 per sq.m., plus applicable indexing, as of August 6, 2010.

Staff recommends that the industrial and office DC discount approved by Council during the 2009 DC by-law review remain in place until August 5th, 2011. Given the current economic climate staff believes that an annual review of the discount would be beneficial to the City and the Development Community.

The DC Act does not provide for a specific process for dealing with minor by-law amendments, such that a full public process including the preparation of a background study to support the amendment is required. The required background study will address only the discount, not the roads capital program or any other program or their associated DC rates.

Notice has been given in the Brampton Guardian on May 26th that a Public Meeting to discuss this issue will take place on June 16th, 2010. Staff has provided a recommendation in this report that a further report, including a draft amended by-law, be brought forth after taking into consideration input received at the public meeting. Staff anticipates that this report will be brought to the City Council meeting on June 23rd, 2010. If Council wishes to consider extending the discounted rate beyond its expiry in August, this process will have to be concluded within a short timeframe. Staff has made the appropriate public notices (attached as Appendix B) and has scheduled the Public Statutory meeting, required by the DC Act, on June 16th, 2010. Depending on the outcome of the public meeting, Council may elect to pass the amended by-law at its City Council meeting of June 23rd, 2010 or during one of the tentative City Council meetings in the summer. Staff expects that the extension of the industrial and office discount will continue to be widely accepted by the public and the development community.

Amendment to the Office Use Definition

As a matter of by-law housekeeping, staff is recommending that some minor changes be made to the definition of "office use". The changes are not expected to cause

controversy and are simply being pursued for ease of administration and as clarification for both staff and the Development Community.

Currently, the “office use” definition excludes “office or administrative uses located in a shopping centre or plaza”. The “office use” definition is used directly in deciding whether or not a development qualifies for the discounted office rate. The current by-law does not contain a definition for a “shopping centre” or for a “plaza”, which has led to issues of interpretation during the last year of administration. To resolve this administrative issue, staff proposes to remove the “plaza” reference completely and add a definition for “shopping centre” to Section 1 (definitions) of the by-law as follows: “shopping centre shall mean the premises upon which a group of at least five separate commercial uses have been developed and are managed as a unit by a single owner or tenant, or by a group of owners or tenants.” This definition is consistent with the definition of a “shopping centre” in the City’s current Zoning By-law (270-2004) and should help alleviate any misinterpretation on the application of the office discount. Furthermore, a proposed amendment to the definition of “office use” has been sought to clarify that any building or structure that has an office component of 75% or greater and is equal to or greater than 3 storeys in height that is located in a “shopping centre” is still considered to be an “office use”. This clarification helps to ensure that office developers wishing to develop an office building with first floor retail and two or more floors of office above still receive the intended office discount, regardless of their location on a shopping centre site.

DC Policy Work

Staff recognizes that from a Planning and Economic Development standpoint and in keeping with the City’s recently approved Tourism Strategy as well as the desire for the City to attract a Hotel and Convention Centre to the City’s Central Area, there is a need to evaluate the current tools available to Council that aid in incenting this type of development. As such, staff is recommending that policy research over the next year be conducted to investigate how best to incent and attract Hotels to both the Central Area and city wide. Staff will also work in concert with the Region to ensure a coordinated approach is sought for the provision of incentives to Hotels.

Currently, there is one site plan application for a hotel development that is nearing building permit stage. This hotel proposal is located adjacent to the Pearson Convention Centre within the City’s Airport Road Business Corridor. There are competitive and strategic economic benefits in attracting hotel uses to this corridor, especially given its functional synergy with the convention centre. Recognizing the City’s desire for this type of development and the current economic climate faced by developers, staff will

work with this developer by utilizing the current tools available to help bring this development to fruition. Staff is currently investigating the possibility of providing an installment plan agreement for DCs for this development, which is allowable under the DC Act and the current City DC By-Laws. Should this occur then staff will report back to Council to receive approval for the execution of this agreement. Staff is also reviewing the financial securities requirement related to this installment plan as this may be another vehicle by which relief may be provided utilizing currently available tools.

Economic Development Implications:

Extension of Industrial and Office DC Discount

The Economic Development Office recommends that the City of Brampton take action to extend the current discounted DC rate for industrial/office development for another one year period.

Reasons supporting this recommendation:

- The industrial and office sector continues to experience continued challenges in recovering from the recent 2008-2009 economic recession and the accelerating challenges posed by the pressures that plant managers are under to locate manufacturing and processing operations to low-cost offshore locations
- The most recent labour force and employment reports indicate that Peel Region unemployment rates continue to be at historically high levels, and that job gains, especially in manufacturing, will be hard won.
- Economic Development staff have completed a number of recent corporate consultations with manufacturing and business services companies as part of a process to update the City's Economic Development Marketing Strategy all of which indicate a near unanimous call for local, provincial and federal governments to be cautious when implementing any new taxes, fees or regulatory measures that would impact their cost competitiveness and hasten the decision to seek lower cost locations in other jurisdictions
- While holding the line of increasing development charges may not by itself be enough to attract new industrial and office facility investment, it will demonstrate the City of Brampton's commitment to do what it can within a reasonable fiscal management framework, to encourage new and expanded manufacturing and commercial business services job creation.

- Brampton continues to attract a relatively small proportion of office development market in the GTA and this measure will help to sustain Brampton's efforts to increase our share of this important market

In summary, the considerations for extending this cost discount on the Roads DC is supported by Brampton's economic development initiatives and further by the current market realities facing the industrial-manufacturing and office economy in Ontario, the GTA, Peel and Brampton. The recommended extension will send a positive message to the industrial-commercial business community.

Policy Work on Hotels and Convention Centres

With Council approval of Brampton's new Tourism Strategy in 2009, the City of Brampton has embarked on an active economic development campaign to attract more overnight visitors in specifically defined business segments of the marketplace, namely: sports, festivals-events, and meetings/conventions.

Recently, the City of Brampton has been successful in attracting a number of major events including the IIHF World Junior Hockey Camp and Exhibition Game, competitive and training venues for the 2015 Pan-Am Games (wrestling, racquetball, soccer and a cricket festival), 2011 IIFA Festival, 2011 Art of Jazz Festival, and is now in the process of bidding for the Ontario Senior Games. Additionally, the City of Brampton is in the process of developing a new Cricket Facility at a City owned site on Castlemore and McVean in northeast Brampton to accommodate a demonstration event during the 2015 Pan Am Games and ideally serve as a legacy venue for future major cricket tournaments.

Other events in Brampton which also generate room night activity and other spending in the City include the annual Canadettes Hockey Tourney (largest female hockey tournament), Silver Stick Hockey Tourney, major events at the PowerAde Centre, Carabram, Classic Cars and so on.

In 2010, the government of Ontario announced that the City of Brampton has been included in a new provincially mandated Regional Tourism Organization with Tourism Toronto and Mississauga. While still evolving, this new regional tourism organization will significantly assist Brampton in raising its Tourism profile and its efforts to attract new visitor opportunities to the City.

With these recent announcements, it is expected that overnight stays in Brampton will increase in the years ahead and therefore help to drive demand for additional hotel rooms.

Given this economic development priority and the current economic condition, Economic Development staff believes policy research is warranted in order to provide tools to incent hotel and convention centre development. It should be noted that the Hotel Study completed in 2009 was the first step and review. This study revealed that there are distinct market opportunities for accommodation development within Brampton, but given the competitive nature of this market sector an incentive based approach to secure Brampton's share is necessary. Accordingly, the next step in the process is to undertake the necessary research to determine the appropriate planning and financial incentives necessary to support the tourism and economic development strategy. In addition, staff also believes that the City's Community Improvement Plan (CIP) should be reviewed to analyze the feasibility of adding specific financial tools in the existing Community Improvement Plan to attract more hotel and conference centre uses to the Central Area.

Planning Implications:

Planning staff have reviewed the draft 2010 Development Charge Background Study (Industrial & Office Discount) and support the proposed discount which is in keeping with City policy objectives around achieving employment targets. The exclusion of shopping centre offices less than 75% or less than 3 storeys in height from eligibility is supported consistent with encouraging the employment land and office employment component of the job market. The proposed "shopping centre" definition is consistent with the City's zoning by-laws.

Planning staff supports the recommendation to undertake policy research related to incentives for hotel development.

Financial Implications:

Once the public process is complete, Council would be in a position to approve the necessary amendment to the existing Roads DC by-law to extend the discounted industrial rate.

Based on the development forecasts contained within the 2009 DC background study, the \$6.32 per square metre discount calculated at that time would result in under collection of DCs by \$1.18 million per year or \$5.9 million over the by-law lifetime of 5 years. From August 2009 to April 2010 the industrial discount has only resulted in approximately \$30,000 of industrial DCs being foregone. This equates to approximately \$3,500 in foregone revenue per month. This rate of foregone collections is expected to

continue and to increase in the future, subject to events external to the City that may have an impact on the rate of development, such as changes in the economic climate.

While the DC Act gives municipalities the discretion to discount DC rates, any revenues foregone cannot be recovered through higher DC rates for other, non-discounted, types of development. Therefore, such discounts implicitly require eventual reduction in the growth capital program or compensating funding from another source such as the tax base.

As discussed earlier in this report, a recommendation to conduct policy research related to hotel development has been put forth. This policy research will also include an evaluation of the short, medium and long term financial implications of providing DC discounts for this type of development. This type of research and data is not currently available and therefore a balanced approach must be taken to ensure the financial position of the City is protected. A cost-benefit analysis will be conducted that considers a full financial spectrum, including DCs, tax revenue streams and wider economic benefits. Should Council approve this recommendation as well as the recommendation to continue the industrial/office discount, this policy research will be presented to Council during the next Industrial/Office discount update in Spring 2011.

Attached as Appendix A to this report is a brief DC background study, which upon Council accepting staff's recommendation, is available to the public after the Committee of Council meeting on June 2, 2010. The study is necessary to fulfill the technical requirements of the DC Act that a background study be prepared and released at least two weeks prior to Council approving or amending any DC by-law. The study does not propose any changes to the capital program from those used in the calculation of the 2009 DC by-law rates, nor does it change the current discounted industrial and office DC rates except to update the schedule for indexing. The rates schedule also continues to show the transition rates offered to the development community through the 2009 DC process and the appropriate clauses regarding transition rates, applying to qualifying developers, remains the same in this amended by-law.

Conclusion:

It is recommended that the discount for industrial and office DC rates be extended until August 5th, 2011. In addition, minor changes to the "office use" definition are proposed to provide clear interpretation of the office discount. The financial impacts have not been significant to date in comparison to the potential benefit of attracting beneficial manufacturing and office development to the City. Policy research on incenting hotel

development is also necessary to accomplish Economic Development and Planning strategies within the City.

Bonnie Eskelson
Director, Financial Planning & Budgets

Mo Lewis
Commissioner, Finance & City Treasurer

Appendices:

Appendix A: 2010 Development Charge Background Study (Industrial & Office Discount)

Appendix B: Notice of Public Meeting

Report authored by: Lloyd Noronha, Manager, Development & Capital Financing

Appendix A

City of Brampton 2010 Development Charge Background Study (Industrial & Office Discount)

Roads DC By-Law (227-2009)

May 18th, 2010

Introduction

On June 2nd, 2010 Council was asked to pass the following resolution:

That, subsequent to input received at the Public Meeting on June 16th, 2010 and any further direction given by Council at that time, staff present a report, including a draft amended Roads DC by-law (227-2009), for Council's consideration prior to August 5, 2010, to extend the Industrial and Office DC discount

This background study constitutes the necessary report that, once incorporated into the public process, will allow Council to consider an amendment to the Roads DC by-law.

Background

The City's Roads Development Charge (DC) by-law (227-2009) was passed on August 5th, 2009, came into effect on August 5th, 2009 and is not under appeal. This by-law allowed for a discounted rate for Industrial & Office development for the first year of the by-law. This discount provision is set to expire on August 5th, 2010. Staff has prepared the necessary materials such that Council can consider extending the discounted rate. Under the Development Charges Act (1997), a municipality must prepare a background study and hold a public meeting prior to considering an amendment to a DC by-law.

Amend Clause 14(4) to the following:

Despite subsection 14(1) and subsection 14(3) for the period commencing on August 5th, 2010 and ending on August 5th, 2011, or such later date as may be determined by Council through an amendment of this by-law, the development charge rate described in Schedule B to this by-law applicable to the development of non-residential office type uses of lands, building or structures, and the development charge rate applicable to non-residential industrial type uses of lands, buildings or structures, shall be discounted to the rates identified in

Schedule D to this by-law (the “discounted industrial and office rate”). The discounted industrial and office rate shall be applied for the purpose of calculating the development charges owing on non-residential office type uses and non-residential industrial type uses, subject to applicable indexing and subject to applicable exemptions.

Amendment to Schedules A, B, C and D

It is proposed that schedules A and B to the existing by-law be updated to reflect the rates as of February 1, 2010. The sole difference in these rates from those within the existing by-law schedules is a result of the indexing that has occurred. No other changes have been made to these rates. Schedules C and D to the existing by-law relate to the transition provisions for residential and non-residential development that were in place from August 2009 to September 2010 for qualifying developments. These rates have also only been updated to reflect indexing since the passage of the by-laws in August 2009 and the transition provisions still remain in full effect.

Amendment to Definitions Section of the By-Law

Currently, the “office use” definition specifically excludes “office or administrative uses located in a shopping centre or plaza”. The “office use” definition is used directly in deciding whether or not a development qualifies for the discounted office rate. The current by-law does not contain a definition for a “shopping centre” or for a “plaza”, which can cause issues over interpretation. To resolve this administrative issue, staff proposes to remove the “plaza” reference completely and add a definition for “shopping centre” to Section 1 (definitions) of the by-law as follows: “shopping centre shall mean the premises upon which a group of at least five separate commercial uses have been developed and are managed as a unit by a single owner or tenant, or by a group of owners or tenants.” This definition is consistent with the definition of a “shopping centre” in the City’s current Zoning By-law (270-2004). Furthermore, a proposed amendment to the definition of “office use” has been sought to clarify that any building or structure that has an office component of 75% or greater and is equal to or greater than 3 storeys in height that is located in a “shopping centre” is still considered to be an “office use”. This clarification helps to ensure that office developers wishing to develop an office building with first floor retail and two or more floors of office above still receive the intended office discount, regardless of their location on a shopping centre site. These revisions should help alleviate any misinterpretation on the application of the office discount.

Discussion of costs

When viewed in isolation, extending the discounted rate for Industrial & Office development for one year should result in a reduction in the amount of DCs collected. Based on the development forecasts contained within the 2009 DC background study, the \$6.32 per square metre discount calculated at that time would result in under collection of DCs by \$1.18 million per year or \$5.9 million over the by-law lifetime of 5 years. These figures should be compared with the actual revenue foregone of approximately \$30,000 from August 2009 to April 2010. It should be noted that while the DC act gives municipalities the discretion to discount DC rates, any revenues foregone cannot be recovered through higher DC rates for other, non-discounted, types of development.

Total of the estimated capital costs

The total of the estimated capital costs has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Allocation of estimated capital costs of all services that benefit new development

The allocation of estimated capital costs of all services that benefit new development has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Allocation of estimated capital costs of all services that benefit existing development

The allocation of estimated capital costs of all services that benefit existing development has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Total of the estimated capital costs incurred during the term of the amending By-law

The total of the estimated capital costs incurred during the term of the amending By-law has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Allocation of estimated capital costs incurred during the term of the By-law that benefit existing development

The allocation of estimated capital costs incurred during the term of the By-law that benefit existing development has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Estimated and actual value of the credits that are being carried forward relating to the service

The estimated and actual value of the credits (namely Section 14 credits) that are being carried forward relating to the service has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Estimated amount, type and location of development

The estimated amount, type and location of development has not materially changed as a result of the amendment proposed, from that which was used in the calculation of DC rates for the current Roads DC By-law.

Summary Statement

In summary, none of the matters required to be included in a development charge background study pursuant to the Act and the Regulations including section 10 of the Act and section 8 of Ontario Regulation 82/98 have changed or will change from that which was set out in the development charge background study (as amended) prepared

in support of the current City of Brampton Roads development charge by-law as a result of this amendment.

Conclusion

The modifications proposed in this Amendment serve to simply extend the discounted rate for industrial & office development in the current Roads DC by-law for one further year. To accomplish this, a new Roads DC by-law (including a background study) must be in force by no later than August 5, 2010. There is no change to capital costs outlined in the original development charge background study (as amended) as a result of this amendment. There are some minor adjustments of the revenues forecast to be collected, as discussed previously in this document. There are also some minor amendments to the definitions section of the by-law, but these should only serve to provide clarity on interpretive issues. Within the context of total DC revenues, the proposed amendment to extend the industrial & office discounted rate does not materially change the financial position of the City.

Appendix B

Notice of Public Meeting Re: Proposed Development Charges Background Study

Pursuant to the *Development Charges Act, 1997*, municipalities are required to complete a Background Study before passage of a Development Charges (DC) By-law.

Notice is hereby published that a Public Meeting will be held on June 16, 2010, at 9:30 a.m., at the address below, to receive public input in order to consider amendments to Development Charges By-Law 227-2009 re:

2010 Development Charges Background Study (Industrial & Office Discount)

Council will consider this study in order to allow for the amending of the current by-law (227-2009). This amendment would extend the Industrial & Office discounted DC rate to August 5, 2011.

The background study also includes a recommendation to amend the definition of “office use” and add a definition for a “shopping centre”. No substantial change in the practical application of the by-law is intended by the modification/addition of these definitions. No other changes to the by-law are included in this study.

Information will be available for review in the City Clerk’s Office at the address below, between 8:30 a.m. and 4:30 p.m.

Anyone interested in speaking to this matter at the Public Meeting or making written submissions should contact the City Clerk’s Office, no later than 4:30 p.m. on June 15, 2010.

Dated May 26, 2010

P. Fay, City Clerk
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