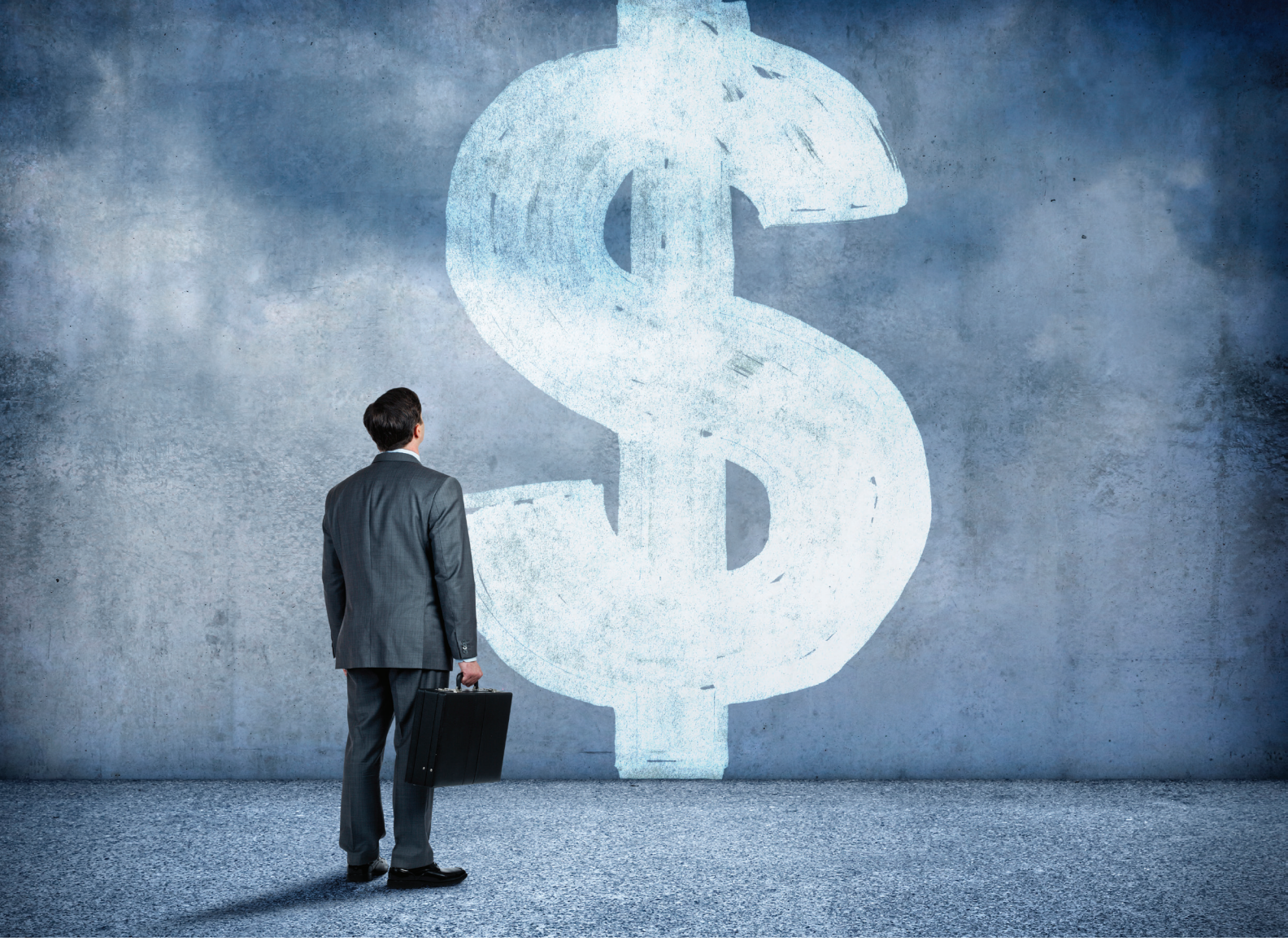

Paying for the City of Ottawa's future

By Bob Perkins

The City of Ottawa has undergone tremendous growth over the last decade and continues to expand. New projects, big and small, are always being added to the list. The question that is often raised is "how are we paying for all of this?"

The answer is not as intuitive as you may think. The assumption for the typical Ottawa resident is that "we all pay" through the property taxes levied on the homes and business that we occupy.

This would not be 100 per cent correct. The truth is that some pay a lot more of the share of capital projects than others. If you recently purchased a newly built home or occupy commercial space in a newly built building, you are the one likely paying a greater amount of the cost for the new infrastructure.

The vehicle that the City of Ottawa and other municipalities use to fund the majority of these projects is development charges. What are development charges? The City of Ottawa defines them as follows:

"Development charges pay for the growth-related portion of capital costs for new roads, water, sewers, drainage, emergency services, transit (including light rail systems), parks development, major indoor recreation facilities, libraries and growth-related studies. The charges are paid by the developer per residential unit and by square footage for commercial and industrial development."

Development charges in aggregate have increased by over 20 per cent in the last five years. This, coupled with a built-in annual inflationary increase, has created great concern in the development community as to the impact of the increase.

The industry directly and through its association BOMA (Building Owners and Managers Association) scrutinizes these charges on an annual basis in order to keep them in line with the market. While the typical taxpayer will focus on the operating budgets of municipalities (annual increases to their property taxes), very few take note of the capital budgets and their effect on Ottawa's overall affordability and competitiveness.

HOW THE PROCESS WORKS
(SIMPLIFIED)

Development charges are evaluated every five years, but have a planning horizon of 30 years.

The City will engage staff and a team of consultants to evaluate the anticipated growth for the city. This includes employment growth, population growth, housing needs, commercial accommodation needs and, of course, the direction the federal government is taking as the major contributor to all the other factors.

Concurrent with the growth analysis is an evaluation of the needs of the City from a capital investment perspective, including transportation, municipal buildings, infrastructure etc. Projects are estimated, prioritized and then mapped out on a cash flow basis in sophisticated models to determine the cash flow needs for the immediate next five years as well as the longer 30-year horizon..

DEVELOPMENT CHARGES OVER TIME

Development Charges are passed every five years and indexed each year until a new bylaw and a new charge is established. Here are the charges associated with the past three bylaws.

	Non Residential General*1		Non Residential Industrial*1
2014 Bylaw	$XX.XX*2		$XX.XX
	Non-Residential General*3	Non-Residential Commercial*3	Non-Residential Industrial*3
2009 Bylaw	$21.13 indexed to $XX.XX to 2009	$13.93 *2 indexed to $XX.XX by 2014	$9.76 indexed to $XX.XX to 2009
2004 Bylaw	$10.65 indexed to $XX.XX to 2009	$8.67 *2 indexed to $XX.XX to 2009	$4.92 indexed to $XX.XX to 2009

***1** – In the 2014 version of the DC Bylaw, the City changed the categories to reflect only two classes, Industrial and Non-Industrial (or General), effectively combining DCs for retail and office into one category.
***2** – The 2014 rate was established in March 2014, but after negotiations the City of Ottawa agreed with the BOMA position, to continue an incentive on DCs that promoted office development. Although the 2014 rate was established at $XX.XX, the effective rate became $XX.XX. The bylaw rate in 2009 was established at $17.20, but through BOMA efforts an incentive for office development was negotiated and the effective rate became $13.93 before annual indexing. The same is true for the 2004 rate which was set at $8.67, but the incentive made the effective rate $7.02 before annual indexing.
***3** – Non-Residential General is predominantly the DC associated with new retail development. Non Residential Commercial is predominantly the DC associated with new office development. Non-residential industrial is predominantly the DC associated with Industrial development

These "projections" are combined to determine the needs of the City as far as funds required for the next five years to be collected from the new buildings/homes that are constructed over that same period.

This process seems simple, but the tricky part relates to two factors:

By provincial law, development charges can only be used to pay for growth in the city, not existing infrastructure. Staff needs to attribute only the "growth" factor in capital expenditures in the calculation.

Projects need to be "amortized" to reflect their benefit period. If a project has a useful life of 50 years, only some of the cost can be recovered (or attributed) to the current period versus in the future.

This is where the grey area is found on the evaluation of development charges and where Industry often has objections to the City's calculation. These determinations can substantially affect what the charges will be on an annual basis for new homebuyers and occupants/owners of new commercial buildings. A current example of how a project can be allocated is the Light Rail Transit system.

THE LRT - AN OBVIOUS EXAMPLE

The first phase of Ottawa's Light Rail Transit is the largest municipal capital project in the City's history at just over $2 billion. You may be surprised to see how the City will be funding the vast majority of this capital project – development charges!

The cost is being shared with the federal and provincial governments, which have each provided $600 million. For the City's portion, more than 90 per cent of the cost is considered growth to be covered with development charges.

This allocation, which is heavily skewed, would conceptually have new home buyers and occupants/owners of new commercial buildings paying the vast majority of the cost for a public project which is to be used by any resident. Is this assumption unfairly attributed? Why is more of the burden of this capital project not being carried by the general tax base?

HERE'S THE RATIONALE

The current public transit system, while at capacity, services the needs of the current population. A new system is only required to service the needs of a growth in population – more population = more public transit users = need for new system. It does not necessarily disseminate who is using the infrastructure or may use it in the future but rather uses "growth" as the trigger for the need of a new system.

This sort of evaluation is done for every project that the City has contemplated. How much of the cost of the project should be borne by the general tax base versus through development costs. These are assumptions that, in the case of mega projects, can have a huge effect on the overall charge.

DEVELOPMENT CHARGES ARE POPULAR, BUT ...

Development charges are a very popular mechanism to pay for capital projects in a municipality. The reason is because they are a virtually invisible tax (charged to developers and passed along to home buyers and commercial property tenants/owners, rolled up in a sale price or lease rate). In addition, they are politically popular because, unlike property tax rates, their impact is not felt by a large percentage of the voting population.

But there are serious ramifications on a reliance on increasing the rate of development charges:

Overpricing the cost of new homes: New home production is one of the greatest drivers of Ottawa's local economy. Pricing elasticity is not indefinite. A stall in housing sales due to pricing can have a detrimental effect on the overall economy.

Overpricing new commercial building options: Businesses will decide to trigger the construction of new facilities based on many factors but cost is usually first or second on the list. Higher development fees will always have an effect on this decision.

Losing business/residents to other municipalities: Residents and businesses will move outside of the municipality to avoid higher costs. The potential addition to the tax rate is lost.

Overtaxing those who actually pay these costs (the consumer): It is the consumer who ultimately pays these charges, not the real estate developer. The consumer is also a contributor to the overall tax base once the property is leased/purchased.

WHAT IS BEING DONE TO KEEP THESE IN LINE?

Industry takes a pro-active approach to the evaluation and determination of development charges when they come up for review. BOMA, in cooperation with The Greater Ottawa Home Builders Association (GOHBA), works collaboratively with the City of Ottawa to review the projections and assumptions that are the basis for a future charge. This is a line-by-line review, done by industry experts who have volunteered their professional time to serve the needs of the greater industry/community.

Through, 1) direct advocacy of the impact of development charges on the economy and the end consumer, and 2) a careful review of the assumptions and projections made by the City in the determination of development charges, the industry has had success in ensuring that development charges are fair and equitable to all parties involved.

The development charge system is not perfect, but it is here to stay and continues to be refined and improved. Many, many projects are contained in the City's capital budget (big and small). All of these projects are worthwhile and need to be undertaken to meet the needs of our current and future residents/businesses.

But how and who will pay for them will always be debated.

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