City of Peterborough

To: Members of the Committee of the Whole

From: Jeffrey Humble, Director of Planning and Development Services

Meeting Date: September 25, 2017

Subject: Report PLPD17-044
Conduct Background Study to consider exemption of Development Charges for "Schedule J" Lands for Residential/Mixed Use Developments and Removal of Industrial Zoned Land Exemption

Purpose

A report to recommend the review of the "City-wide Development Charges Background Study" to explore impacts of exempting development charges for "Schedule J" - Central Area Lands of the Official Plan for residential developments with a minimum of 15 apartment units, and mixed-use developments with a minimum of 15 apartment units and 1,000 square metres of commercial floor space; and to review removal of Industrial zoned land from development charge exemption.

Recommendations

That Council approve the recommendations outlined in Report PLPD17-044 dated September 25, 2017, of the Director of Planning and Development, as follows:

That Council direct Staff to take the necessary steps to have a City-wide Development Charges Background Study prepared to:

a) Assess the exemption of Development Charges for "Schedule J" – Central Area Lands of the Official Plan for residential developments with a minimum of 15 apartment units, and mixed-use developments with a minimum of 1,000 square metres of commercial floor space and 15 residential apartment units; and

b) Assess the impact of removing the Development Charge exemption for Industrial zoned land within the City.

Budget and Financial Implications

Staff will engage the services of Hemson Consulting Ltd. at a net cost of $10,176 to prepare the Background Study. Hemson recently completed the work to update the Area Specific Development Charge By-laws, so are familiar with the necessary requirements and can build upon the work previous done. Sufficient funds are available from the work previously done to accommodate this additional work.

Illustrated in Table 1 are the city-wide development charges outlined in By-laws 14-134 and 14-135 for residential and non-residential uses. Respectively a single and semi-detached has a combined charge of $21,537, other multiple unit (i.e. rowhouse) dwellings are $17,111 and an apartment dwelling is $12,534. Other non-residential uses are charged on a square metre of building area basis of $85.45.

Table 1: City-Wide Development Charges (2017)

	Single and Semi-Detached	**Other Multiples (more than 2)**	**Apartments**	**Non-residential**
City-Wide Engineering Total	$21,537	$17,111	$12,534	$85.45 m²

Based on the recommendation there would be no exemption contemplated for single-family or any multi-unit development less than 15 units. In line with the objectives of the Official Plan and **Ontario's Places to Grow** legislation, the exemptions considered are for higher densities in the form of apartments or a combination of apartments and non-residential uses (i.e. mixed use).

Ontario's Places to Grow minimum requirement of 150 jobs and residents per hectare in the Urban Growth Centre (see Map 2) means significant intensification is needed for the Downtown. Of the 13,000 residential units required over the next 25 years, about 900 should be in the Urban Growth Centre, and at least another 900 in the balance of the Central Area. Approximately 60% (1,080) of these units would be in the new areas of the Schedule J proposed for the Development Charge exemptions.

Assuming all of these met the minimum unit requirement (15 apartment units) these 1,080 residential units would result in $13.5 million in exemptions over a 25 year period, plus exemptions for developments that meet the minimum mixed-use development (non-residential portion) size of 1,000 square metres of commercial space. Realistically however it will take a number of years before the City reaches the targets of 70 plus units per year given that it has historically averaged below 20.

The exemptions will result in more capital improvement costs being passed on to the City. Aging infrastructure in the Downtown which will eventually require replacement and therefore a greater burden will be placed on other forms of development to cover these expenses. However from a smart growth perspective the higher densities of the Downtown mean that greater efficiencies and use of pre-existing infrastructure outweighs this concern.

Annually this development would generate an additional $150,000 to $300,000 in tax revenue (depending on mix of use) each year over the 25 year period (excluding grants). Any residential development within the “Schedule J” is eligible for the Central Area Revitalization Grant Program which provides a redevelopment grant of 100% of the increased taxes from the improvement for years 1 to 5 and decreasing 80% - 60% - 40% - 20% in years 6 to 9. Additionally residential units may be eligible for a grant of up to $10 per square foot of new habitable space depending on funding availability. In terms of the latter however funds are set annually and have been limited.

This report also discusses the opportunity for the eventual removal of Industrial zoned lands from the development charge exemption. On average the City has been selling 6 acres (2.4 hectares) of industrial land per year. With a floor area ratio of 23% this equates to approximately 6,000 square metres in building area which is over $512,000 per year or $12,800,000 over 25 years. This does not however include Area Specific Charges which are typically another 15% or $76,800 per year. Combined this works out to $14.7 million over a 25 year period. As noted in the report however the very low lot coverage and lineal frontage of servicing for industrial areas is typically 3-4 times greater given the densities in the core. Thus over the long run the operational costs are significantly higher for industrial parks while tax revenues are significantly lower.

From a smart growth perspective this Development Charge exemption is necessary to build the core to more healthy and sustainable densities. While any development and population increase in the City increases costs for delivery of municipal services, the build-up of the core has a lower cost per unit due to existing infrastructure and higher densities overall. With development challenges and land prices many times greater in the core area then in suburban greenfields, this exemption would encourage desirable growth.

Background

At the Council meeting of June 19, 2017 Council passed the following motion:

“That staff be directed to prepare a report to explore options for exempting or discounting City-wide General and Engineering Development Charges pursuant to Section 20 of By-law's No. 12-121 and 14-135 for residential and commercial developments beyond the "Commercial Core Sub-Area" and "Waterfront Commercial Sub-Area" as defined in Schedule J of the Official Plan, with priority given to a transitional redevelopment area around the Downtown and secondary consideration to mixed-use and transit corridors worthy of residential intensification.”

Council’s motion reflects the need to explore ways to incentivizing a more desirable growth pattern in Peterborough while revitalizing the Central Area. Herein the recommended Background Study would assess the impacts of amending Schedule J – Central Area as well as Industrial zoned lands. Contemplation of incentivizing major corridors (i.e. Lansdowne Street and Chemong Road) is to be deferred until the Official Plan is updated and a fuller understanding of future growth is understood. The current need is based on clear growth trends and discussions with realtors and other developers who indicate Development Charges for the Central Area are inhibiting the pace of reinvestment and revitalization.

The City has a dual structure for Development Charges: (1) Area Specific, and (2) City-wide. The former relates to the capital costs of infrastructure servicing of new greenfield subdivisions, and the latter addresses City-wide infrastructure (roads and sewer) and essential government services. By-laws 14-134 deals with City-wide General Service Charges and Bylaw 14-135 deals with City-wide Engineering Service Charges. The By-laws were based on Background Studies prepared by Hemson Consulting Limited with percentage allocations provided in Tables 2 and 3 below:

Table 2: City-Wide Engineering Services (By-law 14-135)

Service	Percentage of Charge	
	Residential	Non-residential
Roads and Related	93.6%	93.5%
Sewage	6.4%	6.5%

Table 3: City-Wide General Service Charges (By-law 14-134)

Service	Percentage of Charge
General Government	1.58%
Library Services	12.95%
Fire Services	10.80%
Police Services	.01%
Recreation	33.37%
Parks	18.79%
Public Works	5.72%
Parking	7.45%
Transit Services	5.84%
Affordable Housing	3.48%

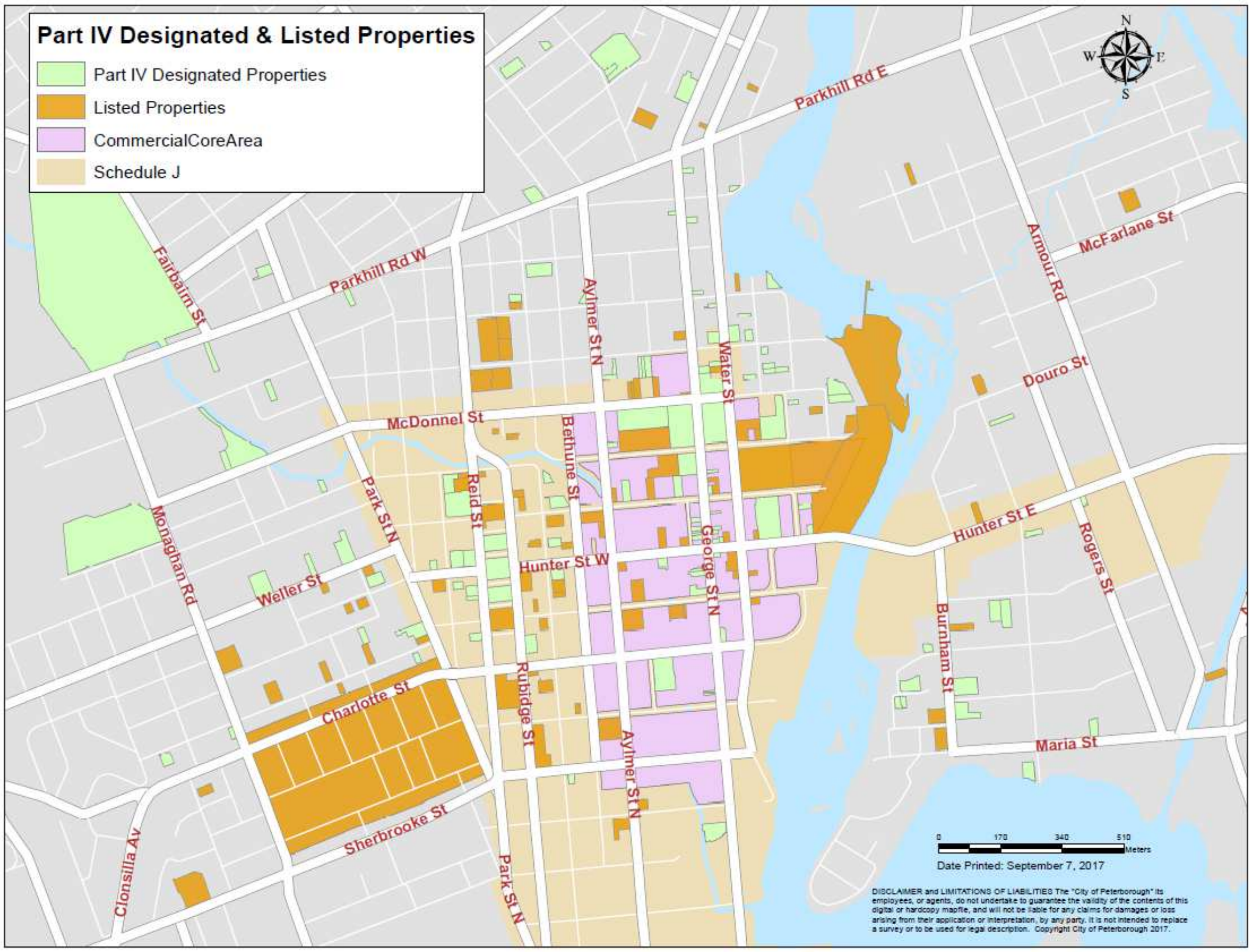
The By-laws currently exempt industrial uses, lands in the Commercial Core Sub-Area, and Waterfront Commercial Sub-area (See Figure 2), or any redevelopment of any building or structure within the Schedule J City-wide Development Charges. The By-laws also credit redeveloped lands throughout the City for conversion of existing space or where there was formerly a building or structure demolished. This credit applies to the number of residential units converted or demolished or the non-residential building floor area being converted or demolished.

Heritage Preservation

Currently By-laws 14-134 and 14-135 exempt the development or redevelopment of lands within the "Commercial Core Area" of Schedule J from development charges. This area, shown in Map 1, extending from Sherbrooke Street to McDonald Street and Bethune Street to Water Street contains a large number of designated and registered heritage properties within the City.

Only exempting Development Charges for these sub-areas is not well aligned with the objectives of heritage preservation and residential intensification. Many of the buildings within the existing Commercial Core Area and directly west of the Core have heritage significance where there is strong public sentiment against demolition. By only exempting Development Charges from this small area with concentrated heritage properties, redevelopment and intensification options will remain limited. A case in point is Parkview Home's recent plans to redevelop the Pig's Ear Tavern and Black Horse Pub. Discussions with realtors and other developers confirm this challenge is pervasive throughout the Central Area.

Figure 1: Concentration of Heritage Buildings within Central Area



Realistically, most residential intensification and redevelopment opportunities in the Downtown area exist on the fringes of Schedule J. This includes the designated Business Districts, Transitional Use Area, and Industrial Areas. Together these areas do not have the same concentration of heritage preservation constraints and therefore have the potential to garner more investment to facilitate the intensification targets for the Downtown. Exempting all of Schedule J from Development Charges will help increase residential intensification throughout the Downtown. This will support the growth and viability of businesses that reside in heritage buildings by providing a broader customer base. Without this modification the Downtown will fail to attract reinvestment and the heritage stock will continue to decline.

Downtown Revitalization

Downtown revitalization is contingent upon a vibrant commercial retail district supported by complementary uses. Attracting quality tenants and filling vacancies is dependent on expansion in other sectors. Illustrated in Table 4, the urban economics of retail growth require land use catalysts in the form of either more (1) commercial office space; (2) tourism visitors; (3) hotel rooms, or (4) additional residential units. Without these drivers, retail demand expansion in a neighbourhood is limited or non-existent.

Table 4: Retail Demand Catalysts

Retail Demand Catalyst	Additional Retail Demand
Each additional 1,000 SF of commercial offices	Approx. 11 SF (.85m²)
Each additional 5,000 visitor days	Approx. 400 SF (37m²)
Each additional hotel room	Approx. 18 SF (1.7m²)
Each additional occupied dwelling	Approx. 10 SF (1m²)

Source: Partners for Economic Solutions, 2016

To achieve balanced growth and meet the requirements of **Ontario's Places to Grow**, Peterborough will need to build at least 70 units per year in the Central Area. This would create a retail demand of 700 square feet of additional retail space in the core per year. While there are other options for driving this retail demand, residential growth is the most feasible catalyst over the next several decades.

There are numerous developers that have expressed interest in developing in the Downtown, but have found the risks, costs, and regulatory challenges too great. Ashburnham Realty is a developer that has demonstrated a willingness to invest in the Central Area. Their mixed-use development on the corner of Aylmer Street and Hunter Street, consisting of 18 residential units above and 4,500 square feet of commercial space, is a relevant case in point (see Image 1 below).

Image 1: 234 Hunter Street (Ashburnham Realty Redevelopment)

This development, which resided on the fringe of the Core Area of the Central Area, had several hundred thousand dollars in Development Charges. The boundaries were revised in April of 2013 to include this block into the Core Area. Due to the timing of the boundary amendment of the J Schedule the Developer ended up paying the Development Charges which impacted the project’s financial viability. Such charges for lands within the Central Area prevent the timely investment needed for the City to revitalize the Downtown and meet its growth targets.

Ashburnham Realty is currently considering a 5 storey mixed-use building on Hunter Street, on the east side of the Rotary Greenway trail (see Image 2). The Development could consist of some 25,000 square feet of commercial space on two floors with the potential for 32 residential units on the upper three floors. The Development Charges for this building would be in the range of $401,000 for the residential and $198,500 for the commercial. Given the land costs for this Central Area parcel however, the project is not competitive with greenfield developments and its feasibility and scope is compromised by the Development Charges.

Image 2: Hunter Street Concept (Ashburnham Realty Redevelopment)

The proposed development reflects smart growth principles and is the highest and best use of the site. The combination of commercial office and residential intensification is the most efficient land use; it increases retail demand in this Central Area Business District, and promotes it active transportation. While the development is eligible for a Central Area Revitalization Grant over the 9 year period, over the long term it will generate over $150,000 a year in municipal tax revenue. It has been indicated that the scope of the development will be compromised or delayed without the Development Charge exemption.

Such development scenarios put into context **Ontario's Places to Grow** targets where 50% of all future development will need to occur in the built-up area. In the broader growth and development context this will require several such projects to be built every year in the Downtown. Over the past five years only a fraction (20 per year) of such units have been built in the Central Area. Thus while larger greenfield subdivision approvals are in place, there is currently insufficient momentum for residential intensification of the Downtown to achieve balanced and sustainable growth targets.

Official Plan's Central Area

With the Official Plan's and **Ontario's Places to Grow** policies aiming to intensify the Central Area (Schedule J), future development in the Downtown will be made up of medium and higher density residential and mixed-use developments. The proposed recommendations are specific to residential and mixed use developments that include greater than fifteen residential apartment units, and where commercial, a minimum of 1,000 square metres of floor area.

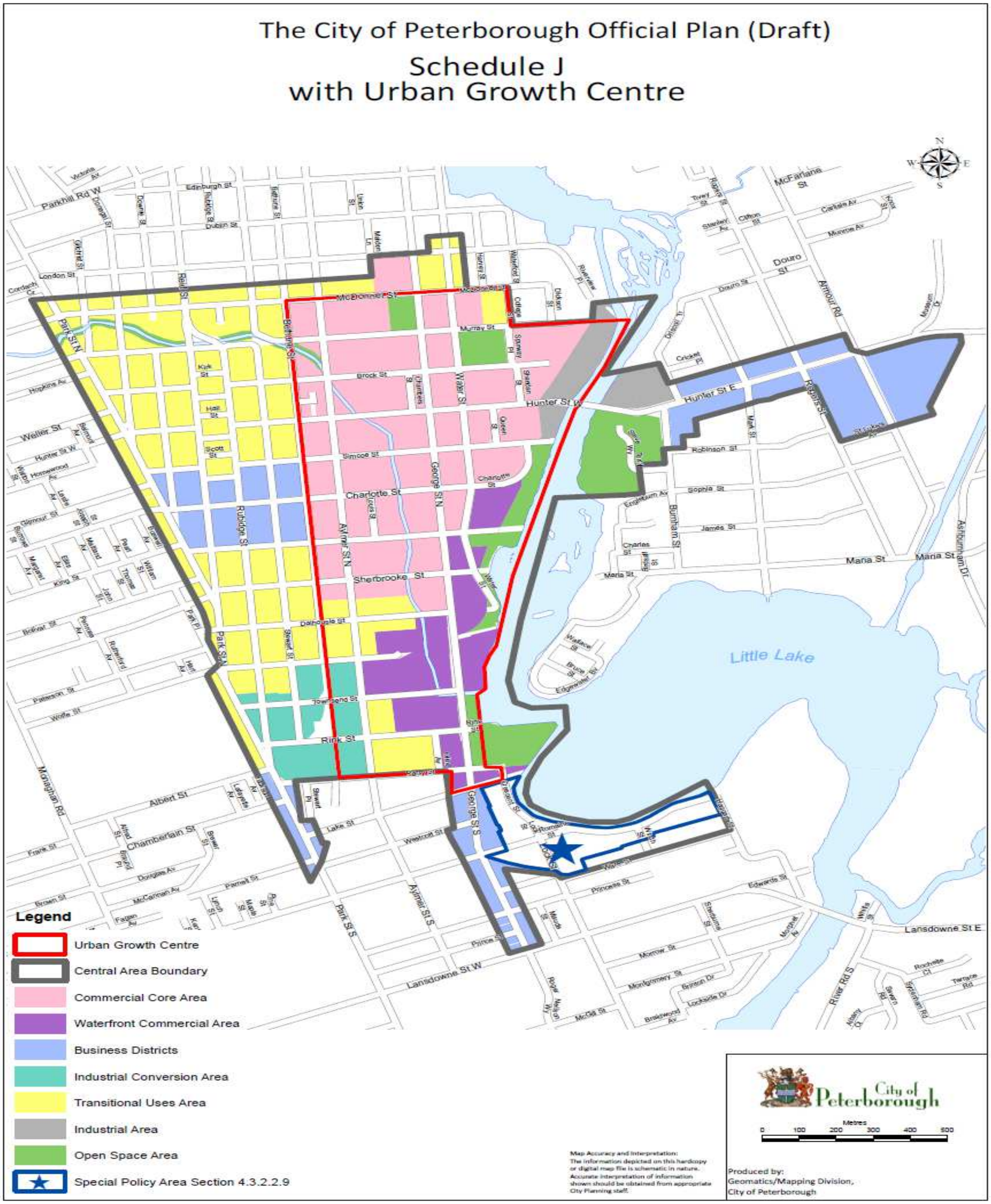
Currently the two By-laws exempt portions of the Central Area as defined in Schedule J (Core Area Commercial and Waterfront Commercial Area) from Development Charges, but the remaining portions are not exempt (see Map 2). From a redevelopment and revitalization perspective it is the latter lands which are suited for exemptions in light of the heritage preservation constraints of the Core Area Commercial. The lands on the fringes of the Central Area are attractive to developers for land assembly and development, but they present redevelopment obstacles (i.e. NIMBY, land costs, environmental issues, parking, and zoning restrictions).

For this reason new developments in the Central Area cannot as easily offset Development Charges as can greenfield subdivisions. A 50 unit apartment for example with 400 square metres of ground floor commercial would have over $660,000 in additional charges. Based on the significantly greater increased land costs a developer is not inclined to pursue a residential or mixed-use development which is what is most needed for the Downtown.

The Official Plan defines the “Central Area” or Downtown as the traditional centre of the City which accommodates the most diverse concentration of commercial, institutional, governmental, residential, and community uses. This includes the largest number of retail, office, service and entertainment uses. Illustrated in Map 2 (Schedule J) this area is divided into seven Sub-Areas and one Special Policy Area. While these areas are delineated individually, they are interdependent and create a cohesive whole from an urban form and land use perspective:

- The Commercial Core Area makes up the heart of the City and contains the highest concentration of commercial uses and heritage buildings.
- The Waterfront Commercial Area is the gateway to the Downtown core and in proximity to the waterfront.
- The Business Districts are a cluster of small scale commercial establishments along major streets including George Street, Hunter Street, Park Street, and Charlotte Streets.
- The Industrial Conversion Area, adjacent General Electric, is in the southwest Central Area consisting of old single storey buildings, vacant properties, abandoned railway lines, and industrial sites.
- The Transitional Uses Area predominantly to the west of the Core consists of a range of residential densities along with institutional and small scale commercial.
- The Industrial Area is made up of the Quaker Oats (PepsiCo) plant.
- The Open Space Area incorporates western portions of Jackson Creek, waterfront along the Otonabee River, and several urban parks.
- The Special Policy Area fronts Crescent Street on the south shoreline of Little Lake between George Street and Little Lake Cemetery.

Map 2: Schedule J of the Official Plan



The current policy regarding City-wide development charges is that only the Commercial Core Area and Waterfront Commercial Areas are eligible for exemptions. To date very limited development has occurred in these areas. The other areas are well suited for development but have significant challenges as a result of the environmental legacies such as the Industrial Conversion Area (i.e. General Electric) and Transitional Use Area. The limited development and redevelopment that has occurred in the Central Area has tended to be rental accommodations, whereas the Downtown need a mix of housing types including owner occupied dwellings (i.e. condominiums). For this reasons greater development incentives will be needed to spur growth and redevelopment in these areas.

Ontario's Places to Grow

Over the next 25 years the City of Peterborough is projected to grow by over 30,000 people, equating to demand for more than 12,500 residential units (2.4 persons per household). The Provinces **Places to Grow (Growth Plan for the Greater Golden Horseshoe)**, targets the distribution of these units between the City's designated built-up area and the designated greenfield area. As of July 2017 the Province redefined these targets to require significantly greater residential intensification in the built-up area. Table 5 reflects the shift of these breakdowns based on the population increase of 30,000 (12,500 residential units).

Table 5: Ontario's Places to Grow Revised Residential Intensification Targets

Requirement in Effect	Residential Unit Target Areas		Peterborough Context (12,500 Units)	
	Designated Built-up Area	Designated Greenfield Area	Designated Built-up Area	Designated Greenfield Area
Current	40%	60%	5,000	7,500
After Official Plan Update	50%	50%	6,250	6,250
By 2031	60%	40%	7,500	5,000

While understanding and contextualizing the growth targets for Peterborough can be largely achieved through the Official Plan, these targets will present new challenges for the City due to increasing land constraints. The City needs to begin taking actions now to start redirecting growth in a more sustainable manner. Exempting Development Charges from residential and mixed-use developments for projects of a minimum density in the Downtown will assist in this objective and ensure that Peterborough remains competitive within the Greater Golden Horseshoe.

Transportation

Transportation and land-use are interdependent and shape the future growth of the City. Peterborough’s Downtown has the highest concentration of commercial service/retail, office, institutional, and residential uses in the City, and consequently the best potential for active transportation. Most destinations are within a 10 minute walking distance which increases the potential for walking and cycling within the Central Area. This system is supported by the City’s ongoing investment in major streetscape projects (i.e. Bethune and Charlotte Streets), urban parks, the waterfront, and a cycling and pathway network which links routes to the Downtown.

Downtown’s active transportation network is further supported by the City’s transit system consisting of a dozen bus routes that converge at the City’s Bus Terminal in the heart of the Downtown. Longer term there is the potential for a rail station southwest of George Street and Dalhousie Street. The financial viability of such systems is dependent on increased ridership numbers for delineated service areas. This is typically achieved or improved through concentrated development or Transportation Oriented Development (TOD) nodes which Peterborough currently lacks.

Achieving a transportation modal split that supports walking, cycling, and improved transit will demand these higher densities and more mixed use developments. The main driver of this growth will be residential intensification of the Central Area and main commercial corridors (i.e. Lansdowne Street, Chemong Road) and key destination areas of the City (i.e. Trent University or Fleming College). The exemption of Development Charges in the Central Area is central to this initiative and will serve to redirect the City to more sustainable growth and transportation modes.

Downtown parking garages are funded by the City-wide Development Charges with the remaining funding under the municipal Capital Budget. Exemption of Development Charges for the Central Area means that Developers within will not pay any costs associated with required municipal parking facilities in the Downtown. With residential intensification, and supportive commercial development in the core, more such parking structures will likely be needed. Proposed developments are required to provide onsite parking; however intensification will remove some vacant and underutilized lots that may currently be utilized for low-cost surface parking. As visitors and tourists to the Downtown increase, the proposed exemption will mean these capital costs for municipal parking will be borne by the tax payer.

Housing Affordability

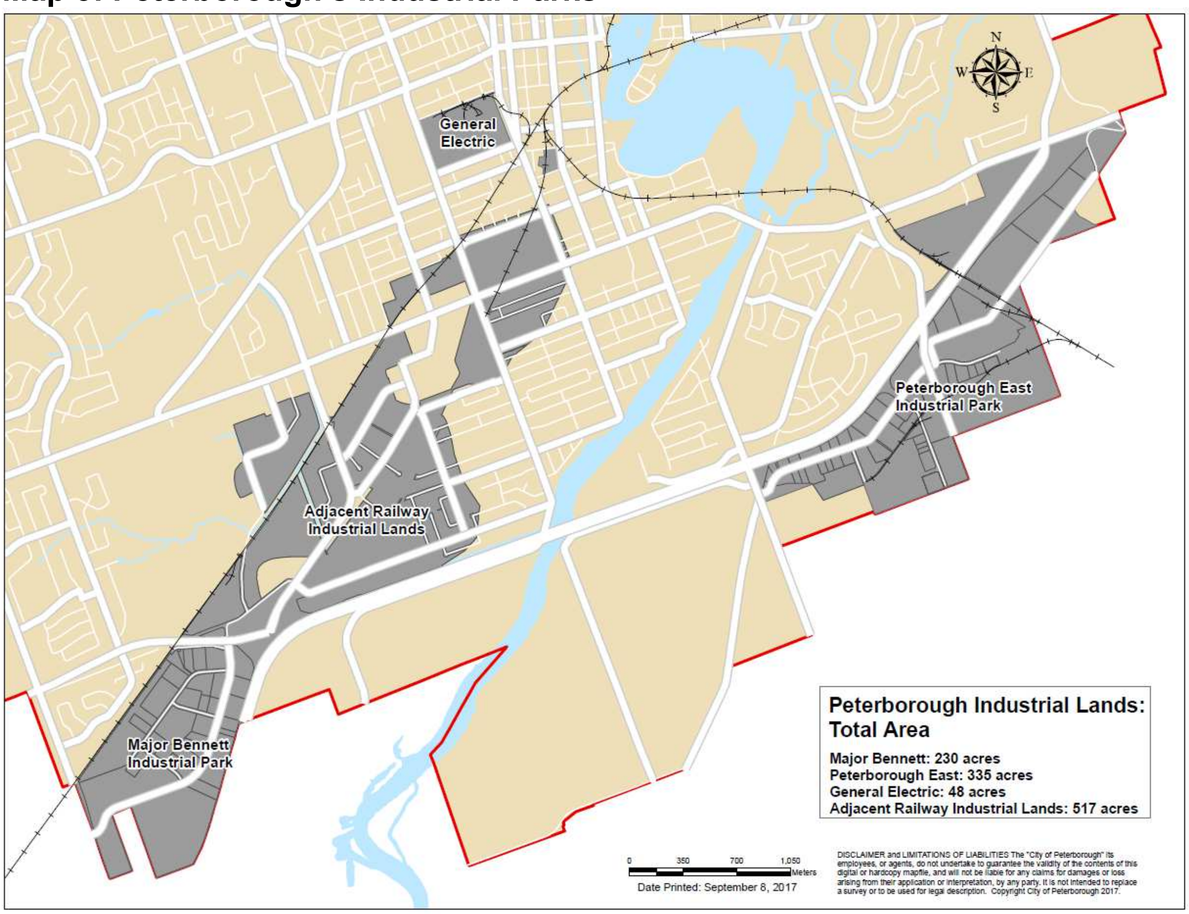
Organizations such as Peterborough Housing Corporation and Habitat for Humanity are engaged in numerous initiatives to maintain and expand housing affordability options in the city. According to the 2016 Housing and Homelessness Progress Report however, the city has only a 1% vacancy rate and rents have continually increased since 2014.

With a healthy vacancy rate in the 4 to 5% range, it is evident that there is a shortage of rental units in Peterborough. Ongoing investment from private sector developers is needed to expand housing options. Accelerating residential intensification in the Downtown helps the City address the housing diversity and affordability. As the Central Area has the highest concentration of retail, commercial offices, and services, it is best suited to concentrate additional residential diversity and growth.

Industrial Development/Brownfield Remediation

The City’s historic industries were initially concentrated in the Downtown with the most prominent site being General Electric. Overtime properties adjacent the railway line north and south of Lansdowne Street west were zoned and developed for industrial growth. Beyond this two main industrial parks were developed in the City: Peterborough East Industrial Park consisting of 335 acres, and Major Bennett Industrial park consisting of 230 acres (see Map 5). In addition to industrial developed land being exempt from Development Charges, industrial lands have been priced at $40,000 an acre for several decades. Today the development costs associated with the City servicing these lands is greater than $100,000 per acre.

Map 3: Peterborough’s Industrial Parks



Generally speaking the City currently has no more industrial land for development as the remaining lots in Peterborough East Industrial Park and Major Bennett Industrial Park have been sold or committed. While areas such as the Airport and the Trent Research and Innovation Park will continue to experience some industrial related growth, it is of a specific nature. Furthermore as these areas are governed under a lease rate structure they are better able to recover associated development costs overtime.

Looking to the future it is evident that the next major industrial park in the City will be lands that are annexed and designated as employment lands. Concurrently the City is confronted with significant brownfield remediation challenges in the south end of the Downtown in the vicinity of General Electric and toward Lansdowne Street. Incentivizing the latter along with the Central Area will need to be a priority if the City is to revitalize the core and meet the Provinces targets for intensification.

From a smart growth perspective the exemption of Development Charges within the Central Area makes more economic sense then exempting new industrial parks. This is a result of both higher development densities of the Downtown and the fact that most infrastructure already exists in the core. New industrial parks on the other hand require extension of services and the provision of infrastructure for buildings and job and residential densities that are less than one-third those of the Downtown. In this regard consideration should be given to removing the policy of exempting Development Charges for new Industrial Parks on a go forward basis. With the proposed recommendations herein this would rebalance the growth of the City to a more sustainable urban form.

Summary

Council's motion to explore the exemption of City-wide Development Charges is timely and relevant to the current development context of the City. Developers have expressed concern regarding the developing in the Downtown due to numerous constraints. **Ontario's Places to Grow** has mandated targets for residential intensification which the City must work toward. The Development Charge Background Study review will determine the financial impact of these changes. From a planning perspective it is suggested this change will spur on residential intensification, heritage preservation, Downtown revitalization, active transportation, and housing affordability.

Submitted by,

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