

AREA-SPECIFIC DEVELOPMENT CHARGES BACKGROUND STUDY – 9/21 BUSINESS PARK



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EXECUTIVE SUMMARY

A. PURPOSE OF AREA-SPECIFIC DEVELOPMENT CHARGES (ASDC) STUDY

The following summarizes the findings of the Municipality of Kincardine's Area-Specific Development Charges (ASDC) Background Study for the Highway 9 and Highway 21 (herein referred to as "9/21") Business Park lands. The development charges identified in this study are related to infrastructure needs not currently identified in the Municipality's existing development charges levied under DC By-law 2016-080. As such, the rates presented herein are in addition to the Municipality's existing development charges.

B. THE STUDY IS CONSISTENT WITH DEVELOPMENT CHARGES LEGISLATION

This study calculates area-specific development charges for the Municipality of Kincardine's 9/21 Business Park lands in compliance with the provisions of the *Development Charges Act, 1997* (DCA) and its associated regulation (Ontario Regulation 82/98) and the recently amended provisions of the legislation.

This report identifies the development-related capital costs attributable to development that is forecast to occur in the identified 9/21 Business Park lands. The costs are apportioned and calculated on a net developable land area basis that reflect the increase in the need for service attributable to development occurring within the area.

The calculated charges are the maximum charges the Municipality may adopt. Although Council can approve lower charges, this requires a reduction in the capital plan, reduced service levels, or may require financing from other sources, most likely property taxes and utility rates.

C. DEVELOPMENT FORECAST

A net developable land area forecast was prepared for the 9/21 Business Park lands and was informed based on information provided by the Municipality's engineering consultants and reviewed by staff. The total vacant land area of the 9/21 Business Park lands is 51.16 hectares (126.42 acres). After adjusting for non-developable land areas (e.g. road allowances, stormwater blocks, environmentally protected areas, etc.) and future developable lands that will not benefit from the proposed infrastructure

improvements, the total net developable land area amounts to 29.06 hectares (71.81 acres).

The following provides a summary of the total land area, non-developable land area and net developable land area.

Description	Land Area
Total Land Area of Site (less existing sites)	51.16 ha (126.42 acres)
Less: Future Developable Lands	19.51 ha (48.21 acres)
Less: Non-Developable Area	2.59 ha (6.40 acres)
Total Net Developable Area	29.06 ha (71.81 acres)

D. DEVELOPMENT RELATED-CAPITAL PROGRAM

The development-related capital program includes infrastructure costs relating to the increase in need for service arising from the future development of the identified 9/21 Business Park lands. Capital costs relating to the design and construction of the Russell Street Extension as well as the engineering and construction of the Durham Street, Millenium Way, two new stormwater ponds and water booster pumping station have been included in the calculation. In addition, the Municipality has already acquired a floating capital loan from Infrastructure Ontario to help fund the works. The financing costs related to this loan are eligible for DC recovery and are therefore included in the rate calculation.

In total, the capital program amounts to \$4.92 million, which is brought forward to the development charges calculation. The following is a summary of the development-related capital forecast for all services.

Area-Specific Costs 2020-Buildout		
Service	Gross Cost (\$000)	ASDC Eligible (\$000)
Phase 1: Extension of Durham St & Millennium Way	\$2,072	\$2,072
Additional Costs: Engineering Infrastructure	\$2,367	\$2,367
Financing Costs	\$476	\$476
Total	\$4,918	\$4,918

E. AREA-SPECIFIC DEVELOPMENT CHARGES CALCULATION

The calculated ASDC is based on a net developable land area and is applied uniformly to both residential and non-residential development. The table below sets out the identified area-specific rate calculation.

Service Area	Total Development-Related Cost	Net Developable Area	Cost per Net Developable Area
9/21 Business Park	\$4,917.99	29.06 ha 71.81 acres	\$169,236/ha \$68,486/acre

F. PROPOSED ASSETS ARE DEEMED TO BE FINANCIALLY SUSTAINABLE

In accordance with the DCA, a long-term capital and operating impact analysis as well as an asset management plan has been undertaken for the identified servicing works. In total, the net operating costs related to the proposed area-specific projects are estimated to be similar to other DC eligible services provided by the Municipality. Any increase in assessment growth driven by the forecast development will be able to offset any operating impacts and related long-term capital costs.

From an asset management perspective, the calculated lifecycle costs are considered financially sustainable as it is expected that the increased operating, maintenance and capital asset management requirements can be absorbed through the Municipality's tax and utility rates over time.

I INTRODUCTION AND BACKGROUND

A. BACKGROUND

The Municipality of Kincardine’s Area-Specific Development Charges (ASDC) Background Study for the 9/21 Business Park lands is presented as part of a process to lead to the approval of a new ASDC By-law in compliance with the *Development Charges Act, 1997* (DCA) and its associated *Ontario Regulation 82/98 (O. Reg. 82/98)*.

As designated by Kincardine’s Official Plan, the Business Park includes the first four farm lots east of Highway 21 and south of Highway 9. The northern two-thirds of the western-most lot has been serviced and developed. In the summer of 2017, a Servicing Master Plan to identify the infrastructure needs associated with the continued development of the Kincardine Business Park was completed by BM Ross. Zoning policies for the Business Park will permit highway commercial, large format retail and light industrial land uses. There is significant potential for commercial and light industrial development within the Business Park; however, development potential is contingent on the availability of municipal services. The Municipality wishes to implement ASDCs to fund development-related capital projects so that development may be serviced in a fiscally responsible manner.

B. RECENT AMENDMENTS TO THE DEVELOPMENT CHARGES ACT

On May 26, 2019, the Provincial government enacted Bill 108, the *More Homes More Choice Act*, which transfers municipal authority to impose charges for discounted services, or often referred to as “soft services”, from the DCA to a new Community Benefits Charges (CBC) authority under the *Planning Act*. Additional changes arising from Bill 108 result in the removal of s.37 density bonusing charges and the effective end to s.42 parkland dedication/cash-in-lieu contributions (municipalities are not permitted to have both a CBC By-law and a parkland dedication By-law).

The services in this Study include roads, water, wastewater and stormwater infrastructure. These services are “non-discounted” and eligible for recovery under the requirements of the DCA. Although the changes introduced by Bill 108 have not yet been proclaimed, it is anticipated that the enactment of these changes will not affect the ASDC calculation. However, Hemson will ensure any changes that come into

force during the ASDC Study process will be reflected in the calculation methodology and associated ASDC By-law.

C. KEY STEPS IN DETERMINING AREA-SPECIFIC DEVELOPMENT CHARGES FOR FUTURE DEVELOPMENT-RELATED PROJECTS

Section 10(1) of the DCA, sets out the requirement for a municipality to complete a Background Study prior to the passage of a DC By-law. Subsection 10(2) identifies what is to be included in the DC Background Study. These legislative requirements are shown in Figure 1 and are discussed below as well as in subsequent sections:

s.10(2) (a) – estimate the amount, type and location of development to which the development charge is to apply;

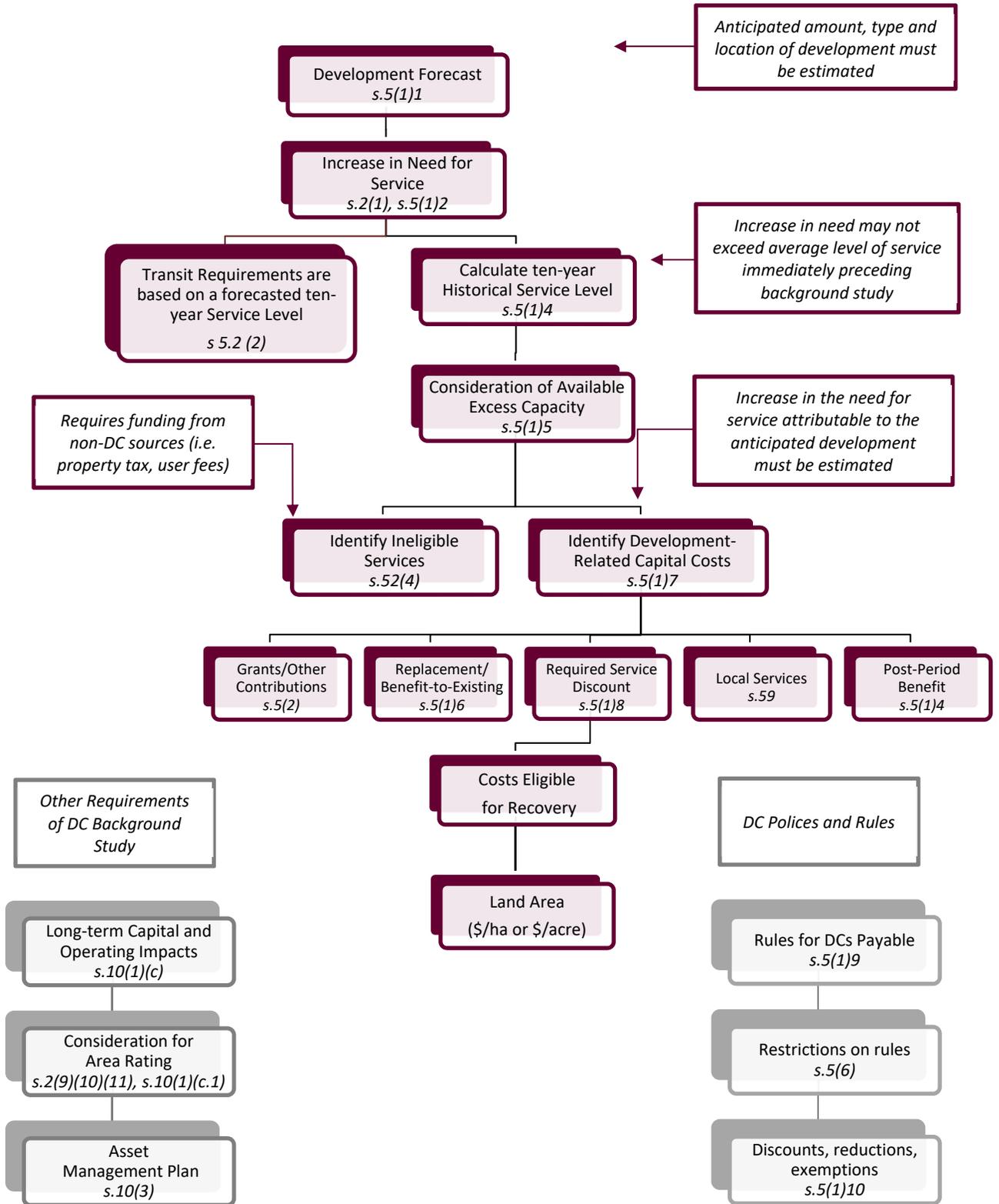
s.10(2) (b) – establish the eligible growth-related costs and services (as determined under paragraphs 2 to 8 of subsection 5(1) of the DCA) to which the development charge by-law would relate;

s.10(2) (c) – examine, for each service to which the development charge by-law relates, the long term capital and operating costs for the capital infrastructure required.

s.10(2) (c.1) – consideration for the use of more than one development charge by-law to reflect different needs for services in different areas.

s.10(2) (c.2) (3) – an asset management plan deals with all assets proposed to be funded under the development charges by-law that demonstrates that assets are financially sustainable over their full life cycle.

Figure 1: Statutory Requirements of Development Charge Calculation and Study Process



II AREA-SPECIFIC APPROACH IS USED TO ALIGN DEVELOPMENT-RELATED COSTS AND BENEFITS

Several key steps are required when calculating any development charge. However, specific circumstances arise in each municipality that must be reflected in the calculation. Therefore, Hemson has tailored the approach to the unique circumstances in the Municipality of Kincardine. The approach to the proposed ASDC is focused on providing a reasonable alignment of development-related costs with the development that necessitates them.

A. AREA-SPECIFIC DEVELOPMENT CHARGES HAVE BEEN CALCULATED

The DCA provides municipalities with flexibility to define services included in development charge by-laws, if other provisions of the Act and its associated regulations are met. The DCA also requires that the by-laws designate the areas within the Municipality for which the by-laws shall be imposed. The development charges may apply to all lands in the Municipality or to other designated development areas as specified in the by-laws.

The Municipality of Kincardine currently levies development charges on a municipal-wide uniform basis. The Municipal-wide charges recover for development-related costs for services such as Cemetery, Parks and Recreation, Public Works and Municipal Fleet, Fire Services, Waste Management, General Government as well as engineered services of Roads and Related, Water and Wastewater. This study relates to area-specific charges that would apply to the 9/21 Business Park lands to recover for various infrastructure works including roads, storm, water and wastewater. It is important to note that both the Municipal-wide development charges and the calculated area-specific development charges would apply to development on the 9/21 Business Park lands.

As the identified infrastructure requirements provide a localized benefit specific to a distinct geographic boundary, area-specific development charges are more appropriate than a Municipal-wide charge. This study and accompanying ASDC By-law, are intended to build upon the existing policies and practices identified in Kincardine's existing Municipal-wide DC By-law 2016-080.

A map of the 9/21 Business Park lands is included in Section III.

1. Developable Land Area Forecast

A land area based development charge is proposed for the purposes of calculating an ASDC for the 9/21 Business Park lands. As such, a land area forecast has been prepared with input from the Municipality and its engineering consultants, BM Ross, to determine the total available developable land from 2020 to buildout.

For the purposes of the ASDC calculation, the total developable land area, net of areas such as road allowances, stormwater blocks, environmentally protected areas etc. as well as future developable lands not contemplated in this Study, is used for the purposes of the calculation.

2. Service Categories and Historical Service Levels, If Applicable

The DCA provides that the increase in the need for service attributable to anticipated development:

... must not include an increase that would result in the level of service exceeding the average level of that service provided in the municipality over the 10-year period immediately preceding the preparation of the background study...(s. 5. (1) 4.)

This provision of the DCA is typically applicable to general services and requires a detailed review of capital service levels for buildings, land, vehicles and related facilities. For engineered services, such as water, wastewater, stormwater management and roads (including road-related works), historical service levels are less applicable as municipalities must build to minimum standards required by Provincial health and environmental requirements.

Given that the increase in need for service identified for the 9/21 Business Park lands relate to engineered services, the ASDC calculations are not subject to the same service level restrictions applied for general services, thus no funding level caps have been applied.

3. Development-Related Capital Program and DC Eligible Costs to be recovered through the ASDCs

The development-related capital program has been prepared by the Municipality's engineering consultants and reviewed by staff. The program identifies development-related projects and their gross and net costs, after allowing for capital grants, subsidies or other contributions as required by the Act (DCA, s. 5. (2)). The capital forecast provides another cornerstone upon which development charges are based. The DCA requires that the increase in the need for service attributable to the anticipated development may include an increase:

... only if the council of the municipality has indicated that it intends to ensure that such an increase in need will be met. (s. 5. (1) 3.)

The development-related capital program prepared for this Study ensures that development charges are only imposed to help pay for projects that have been or are intended to be purchased or built in order to accommodate future anticipated development. It is not sufficient in the calculation of development charges merely to have had the service in the past. There must also be a demonstrated commitment to continue to emplace facilities or infrastructure in the future. In this regard, *Ontario Regulation 82/98*, s. 3 states that:

For the purposes of paragraph 3 of subsection 5 (1) of the Act, the council of a municipality has indicated that it intends to ensure that an increase in the need for service will be met if the increase in service forms part of an Official Plan, capital forecast or similar expression of the intention of the council and the plan, forecast or similar expression of the intention of the council has been approved by the council.

For some projects in the development-related capital program, a portion of the project may confer benefits to existing residents. As required by the DCA, s. 5. (1) 6., these portions of projects and their associated net costs are the funding responsibility of the Municipality from non-development charges sources. The amount of municipal funding for such non-development shares of projects is also identified as part of the preparation of the development-related capital program.

4. Attribution to Net Developable Land Area

Once the total gross capital project costs have been identified and all necessary reductions and adjustments have been made, the ASDC is calculated based on the net developable land area and expressed as a rate per net hectare (or net acre).

B. PUBLIC AND STAKEHOLDER CONSULTATION

In accordance with the DCA, a statutory public meeting will be held to solicit feedback on this study and associated the ASDC By-law. Input received from the statutory public meeting will be considered prior to the passage of the ASDC By-law.

III AREA-SPECIFIC DEVELOPMENT FORECAST

This section provides the basis for the total net developable land area forecasts used in calculating area-specific development charges on the 9/21 Business Park lands. The total developable land area was informed based on data provided by the Municipality's engineering consultants and through discussions with Municipal staff. This practice aligns with the provisions of the DCA, which require that development charges be determined with reference to *"the amount, type and location of development for which development charges can be imposed..."* (s.5.(1)1.).

A. TOTAL NET DEVELOPABLE LAND AREA

The developable land area included in this Study excludes the development of some parcels in the 9/21 Business Park. This adjustment was made in recognition that these properties will not develop in the immediate future and that subsequent phases of the Business Park will require new infrastructure as it is built out. These lands are referenced as "future development" in Table 1 below. Lands that are already occupied in the Business Park have also been excluded from the analysis.

After this adjustment, the net developable land area is determined by removing land that is used for the purposes of roads allowances, stormwater blocks, environmentally sensitive areas etc. The total net developable land area has been determined for the purposes of calculating the total applicable ASDCs payable on a per net hectare basis.

Table 1 provides a summary of the total developable and net developable land areas. In total, the net developable land area of the 9/21 Business Park lands used for the purposes of the ASDC calculation is 29.06 hectares or 71.81 acres.

Table 1
Summary of Net Developable Land Area

Description	Land Area
Total Land Area of Site (less existing sites)	51.16 ha (126.42 acres)
Less: Future Development	19.51 ha (48.21 acres)
Less: Non-Developable Area	2.59 ha (6.40 acres)
Total Net Developable Area	29.06 ha (71.81 acres)

B. MAP OF AREA-SPECIFIC DEVELOPMENT CHARGES AREA

Figure 2 provides an outline of the area to which the proposed ASDCs will apply. As noted above, existing properties and properties related to future development are not included in the calculation and are therefore not required to pay the calculated ASDC rate.



Figure 2: Map of Highway 9/21 Business Park Lands

IV THE DEVELOPMENT-RELATED CAPITAL PROGRAM AND CALCULATED AREA-SPECIFIC DEVELOPMENT CHARGES

A. A DEVELOPMENT-RELATED CAPITAL FORECAST IS PROVIDED FOR COUNCIL'S APPROVAL

The DCA requires the Council of a municipality to express its intent to provide future capital facilities. As noted above in Section II, *Ontario Regulation 82/98*, s. 3 states that:

For the purposes of paragraph 3 of subsection 5 (1) of the Act, the council of a municipality has indicated that it intends to ensure that an increase in the need for service will be met if the increase in service forms part of an official plan, capital forecast or similar expression of the intention of the council and the plan, forecast or similar expression of the intention of the council has been approved by the council.

One of the recommendations contained in this study is for Council to adopt the development-related capital forecast related to the ASDC calculation. It is assumed that future capital budgets and forecasts will continue to bring forward the development-related projects contained herein, consistent with the growth occurring in the Municipality. It is acknowledged that changes to the forecast presented here may occur through the Municipality's normal capital budget process.

B. PROPOSED DEVELOPMENT-RELATED CAPITAL FORECAST

The following provides a detailed discussion of the analysis undertaken to establish the area-specific capital program for the 9/21 Business Park lands. The projects identified in the capital program are driven by the need to provide infrastructure to the proposed commercial, large format retail and light industrial land uses that are permitted by the Municipality's zoning policies.

The development-related capital program is based on cost estimates prepared by the Municipality's engineering consultant, BM Ross, and further reviewed by staff.

1. Summary of Development-Related Capital Program Costs

As shown in Table 2, the 2020-buildout engineered services capital program totals \$4.92 million and includes for design work, construction of roadwork, storm, water and wastewater related infrastructure as well as financing costs. The total cost of the capital infrastructure, \$4.92 million, is related to new development occurring within the 9/21

TABLE 2

**MUNICIPALITY OF KINKARDINE
DEVELOPMENT-RELATED CAPITAL PROGRAM
9/21 BUSINESS PARK LANDS
2020 TO BUILDOUT**

Project Description	Gross Project Cost	Grants/ Subsidies/Other Recoveries	Net Municipal Cost	Replacement/ Benefit to Existing		Total Growth-Related Costs	Other Non-DC Eligible Costs		Total ASDC Eligible 2020-Buildout
				%	\$		%	\$	
1.0 9/21 BUSINESS PARK LANDS									
1.1 Phase 1: Extension of Durham St & Millennium Way									
1.1.1 Design Costs	\$ 88,531	\$ -	\$ 88,531	0%	\$ -	\$ 88,531	0%	\$ -	\$ 88,531
1.1.2 Roads and Related Infrastructure	\$ 878,932	\$ -	\$ 878,932	0%	\$ -	\$ 878,932	0%	\$ -	\$ 878,932
1.1.3 Storm Infrastructure	\$ 376,803	\$ -	\$ 376,803	0%	\$ -	\$ 376,803	0%	\$ -	\$ 376,803
1.1.4 Water	\$ 352,623	\$ -	\$ 352,623	0%	\$ -	\$ 352,623	0%	\$ -	\$ 352,623
1.1.5 Wastewater	\$ 375,113	\$ -	\$ 375,113	0%	\$ -	\$ 375,113	0%	\$ -	\$ 375,113
Subtotal Phase 1: Extension of Durham St & Millennium Way	\$ 2,072,002	\$ -	\$ 2,072,002		\$ -	\$ 2,072,002		\$ -	\$ 2,072,002
1.2 Additional Costs: Engineering Infrastructure									
1.2.1 Storm Ponds 1&2	\$ 738,778	\$ -	\$ 738,778	0%	\$ -	\$ 738,778	0%	\$ -	\$ 738,778
1.2.2 Water Booster Pumping Station	\$ 846,643	\$ -	\$ 846,643	0%	\$ -	\$ 846,643	0%	\$ -	\$ 846,643
1.2.3 Russel St. Extension	\$ 784,570	\$ -	\$ 784,570	0%	\$ -	\$ 784,570	0%	\$ -	\$ 784,570
Subtotal Additional Costs: Engineering Infrastructure	\$ 2,369,991	\$ -	\$ 2,369,991		\$ -	\$ 2,369,991		\$ -	\$ 2,369,991
1.3 Financing Costs									
1.3.1 Infrastructure Ontario - Floating Capital Loan (Interest)(1)	\$ 476,000	\$ -	\$ 476,000	0%	\$ -	\$ 476,000	0%	\$ -	\$ 476,000
Subtotal Financing Costs	\$ 476,000	\$ -	\$ 476,000		\$ -	\$ 476,000		\$ -	\$ 476,000
TOTAL 9/21 BUSINESS PARK LANDS	\$ 4,917,993	\$ -	\$ 4,917,993		\$ -	\$ 4,917,993		\$ -	\$ 4,917,993

(1) The Municipality has been issued a Floating Capital Rate Loan from Infrastructure Ontario for \$4.25M (2.24% Annual Interest Rate)

Development Charge Calculation	
Total Development Related Cost	\$4,917,993
Total Net Developable Land Area (Hectare)	29.06
\$/ Net Developable Hectare	\$169,236
Total Net Developable Land Area (Acres)	71.81
\$/ Net Developable Acre	\$68,486

Business Park lands and therefore is fully attributable to future development and included in the ASDC calculation.

The following provides a brief discussion of the identified infrastructure needs to service the 9/21 Business Park lands.

- **Phase 1: Extension of Durham St & Millennium Way** – This phase includes design costs, roads and related, storm, water and wastewater infrastructure. The total cost of \$2.07 million also includes engineering fees related to construction activities.
- **Future Phases: Engineering Infrastructure** – The next phase includes the construction of storm ponds 1 and 2, a water booster pumping station and an extension of Russell Street. In total, these works total \$2.37 million.
- **Financing Costs** – In order to pay for the aforementioned infrastructure, the Municipality has acquired a floating capital rate loan from Infrastructure Ontario for a total of \$4.25 million. As part of this loan, the Municipality is required to pay back annual interest payments over a 5-year term. Assuming a 2.24 per cent interest rate, the Municipality is anticipated to incur \$476,000 in interest payments over 5-years. In accordance with the requirements of the legislation, financing costs are eligible to be included in the ASDC rate calculation.

C. AREA-SPECIFIC DEVELOPMENT CHARGES CALCULATION

As shown in Table 3, the total DC eligible share of \$4.92 million is attributed to the net developable land area of the 9/21 Business Park lands. This amount, when divided by the total net developable land area of 29.06 hectares (71.81 acres) results in an area-specific development charge of \$169,236 per net hectare (\$68,486 per net acre).

Table 3
Summary of Calculated ASDC

Service Area	Total Development-Related Cost	Net Developable Area	Cost per Net Developable Area
9/21 Business Park	\$4.92 million	29.06 hectares 71.81 acres	\$169,236 per hectare \$68,486 per acre

V LONG-TERM CAPITAL, OPERATING COSTS AND ASSET MANAGEMENT PROVISIONS

This section provides a brief examination of the long-term capital and operating costs for the area-specific capital facilities and infrastructure to be included in the ASDC By-law. This section also considers the required annual asset management provisions associated with emplacing the infrastructure.

The DCA now requires that municipalities complete an Asset Management Plan before passing a development charges by-law. A key function of the Asset Management Plan is to demonstrate that all assets proposed to be funded under the development charges by-law are financially sustainable over their full life cycle. The DCA also requires that a background study estimate the future operating cost implications of the development-related capital program contained in the study.

A. LONG-TERM CAPITAL AND OPERATING IMPACTS

As required by section 10(2)(c) of the DCA, the long-term capital and operating costs for capital infrastructure must be examined. In total, the net operating costs related to the proposed area-specific projects are estimated to be similar to other DC eligible services provided by the Municipality. Any increase in assessment growth driven by the forecast development will be able to offset any operating impacts and related long-term capital costs.

As the proposed infrastructure is required to meet the increase in need for service arising from development charges, no shares of the projects are required to be funded from non-development charge revenues.

B. ASSET MANAGEMENT CONSIDERATIONS FOR NEW INFRASTRUCTURE

Based on an analysis of the proposed infrastructure requirements associated with servicing the 9/21 Business Park lands, as shown in Table 4, the calculated annual provision amounts to approximately \$77,800.

This figure represents the amount of funding which should be contributed on an annual basis to replace the infrastructure at the end of its useful life. Of this amount, 27 per cent relates to the replacement of water and wastewater infrastructure.

Table 4
Calculated Annual Provision

Tax Supported Assets	
Roads and Related	\$33,024
Stormwater	\$23,680
<i>Sub-total Tax Supported Assets</i>	<i>\$56,704</i>
Utility Rate Supported Assets	
Water	\$16,039
Wastewater	\$5,017
<i>Sub-total Utility Rate Supported Assets</i>	<i>\$21,056</i>
Total Annual Provision	\$77,760

The Municipality has historically done a good job of contributing funds on an annual basis for the future repair and replacement of infrastructure (both tax and rate supported). In order to ensure that these assets are financially sustainable, the Municipality should continue this practice into the future.

C. THE PROGRAM IS DEEMED FINANCIALLY SUSTAINABLE

The calculated lifecycle costs are considered financially sustainable as it is expected that the increased operating, maintenance and capital asset management requirements can be absorbed through the Municipality's tax and utility rates over time.

VI OTHER ISSUES AND CONSIDERATIONS

A. DEVELOPMENT CHARGES ADMINISTRATION

No significant changes are recommended to the Municipality's current policies and practices regarding development charge administration. In this regard:

- It is recommended that practices regarding collection of development charges and by-law administration continue to the extent possible.
- As required under the DCA, the Municipality should codify any rules regarding application of the by-laws and exemptions within the development charges by-laws proposed for adoption.
- It is recommended that Council adopt the development-related capital program included in this background study, subject to annual review through the Municipality's normal capital budget process.
- It is recommended that no exemptions, other than those required in the DCA and existing Municipality-wide DC By-law, be formally adopted in the amending ASDC By-law.
- The Municipality should look to update and incorporate the resulting ASDCs into the next update of the Municipality-wide DC By-law.