BACKGROUND FOR DEPUTATION TO COUNCIL
(Review of the DCBS / Proposed DC Bylaw and related Specific Industry Impact)

October 30th

Dear Mayor Letham and esteemed Councillor's,

First, thank-you for your consideration.

My concerns as outlined in this letter are from that of a concerned Citizen, Resident and Business Owner within the City of Kawartha Lakes. I have broken the letter into 3 parts which include an general analysis of the proposed DC Bylaw which was based on the current 2019 DCBS, a general opinion on options and a specific review of the proposed DC Bylaw in relation to my business.

After participating in several DC related discussions, reviewing the 2015 DCBS, being involved in a DC Deferral for our Storage Business and meeting and presenting to both Council and the DC Task Force I have reviewed the proposed/new 2019 DC Background Study (DCBS). I have done so in large part in comparison to the current 2015 DCBS and in doing so the new Report has made some very far reaching assumptions <u>again</u> on Population forecasting and Housing builds.

Understanding that these population assumption numbers stem from a larger document (A Place to Grow – Growth Plan for the Greater Golden Horseshoe) and that the Study is building a case for 100% attainment of those numbers. The fact is that the Population Targets are not within reach and really the CKL should be working with Province to move the CKL out of the Golden Horseshoe coverage area.

Using these targets coupled with a straight line approach to the forecasting and also "moving" the existing housing unit deficits from the previous years (Mid 2014 – Mid 2019) covered under the current DCBS" into the forecast has a very dangerous trickle down effect.

As seen within 2015 DCBS over the last 4.5 years compared to what actually transpired (from a net Population increase), the population did not come, yet Infrastructure and Capital Expenditures were built out too which the result is a significant DC Reserve Deficit. This is why the CKL is in the DC Deficit position it is. A position that is being financed by 3rd party debentures that will need to be accounted for within the go forward DC Strategy for years to come.

The DCBS is not a perfect science and relies heavily if not almost all on the assumptions and projections of Population to derive, residential units and employment projections, which in turn derive the non-residential needs of the Population from a Gross Floor Area (GFA) or Building size. However, given the past "known/actual Population and Housing Unit Numbers" and the fact that the population did not come as forecasted, common sense coupled with using history as a general predictor of the immediate future would suggest the population that is being projected in this new DCBS is 1. Not attainable and 2. Irresponsibly high.

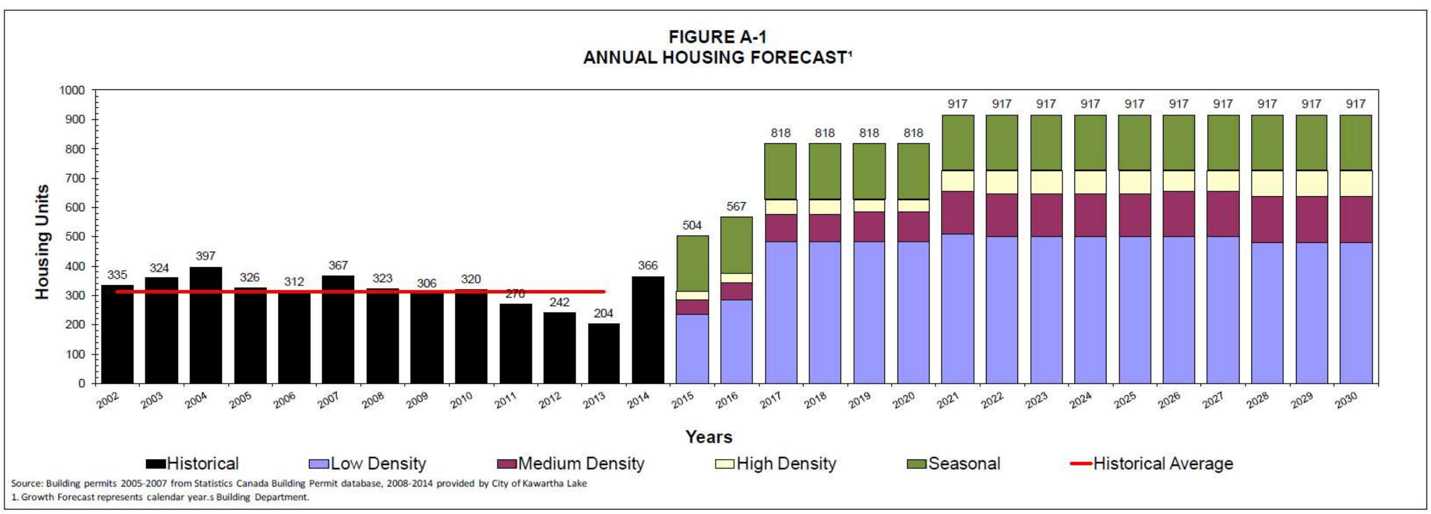
If CKL only sustained a **Permanent Population Increase of 1,619** (Schedule 3 and 9A of the New 2019 DC Background Study) from Mid 2016 to the end of the 2019 (**3.5 years**) then we should not expect and or budget for a **Permanent Population Increase of 16,236** (Schedule 9Af rom Late 2019 – Late 2029 **- 10 years**), as we will be building Budgets, Infrastructure, Soft Cost Expense (staffing, et al) and thus DC Rates based on assumptions that are being proposed at the provincial level but not being executed at a Regional or Municipal Level.

In a perfect world, on paper or in a spreadsheet these numbers should work, however, this is not the case. There are real issues regarding population growth in the CKL and why the population and or industry is and is not coming.

For a simple visual example of the problem with the rationale of Population Assumptions/New Home Unit Assumptions see the following two charts.

In the "2015 DCBS" the PROPOSED/ESTIMATED amount of New Homes projected on the related assumptions detailed that we would have

- **504** new homes in 2015,
- **567** new homes in 2016,
- Then a blanket assumption of **818** new homes from 2017 to 2020 each year.
- Then a blanket assumption of **917** new homes from 2021 through 2031.



*2015 DCBS – POPULATION FORECAST

This resembles a traditional Business Case curve whereby the customers will ramp up and then average out. In this case the customers are the Population or persons acquiring New Housing Units.

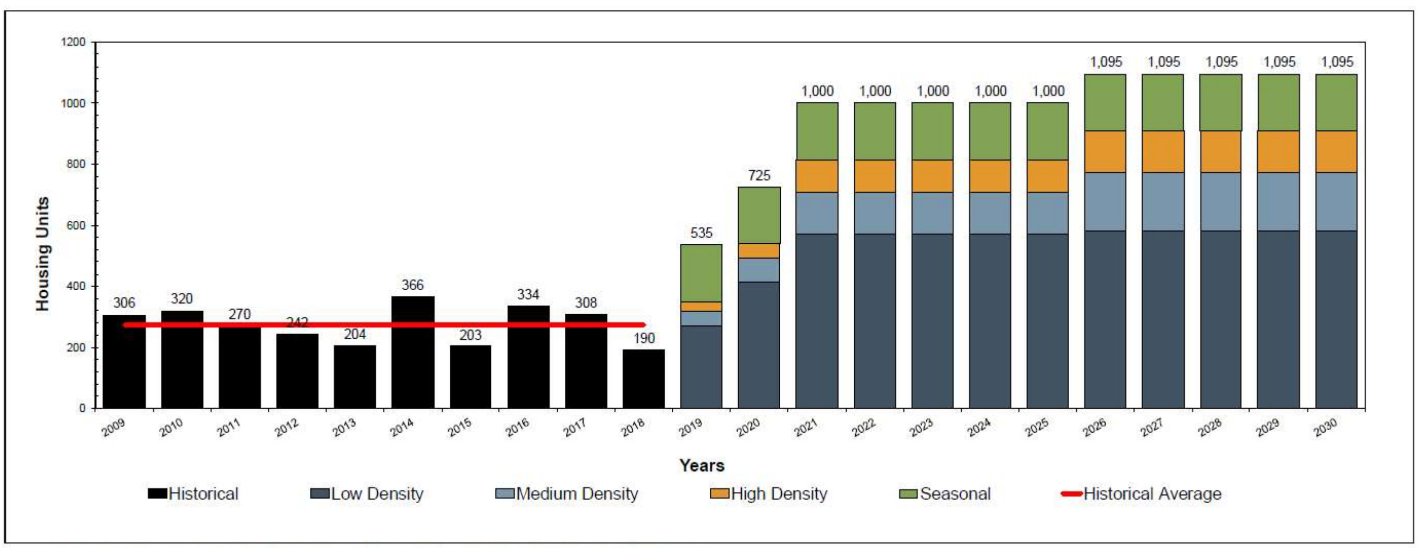
The province suggested the CKL will grow by X, the number was then averaged out over the forecast period (through 2031) and the Related Service and Capital Asset Needs and were calculated based on the estimated number of New Residential Unit Builds and the estimated aggregate (Industrial, Commercial and Institutional) amount of Non-Residential GFA. From this list of assumptions DC Rates were developed.

The ACTUAL number of New Homes that occurred over the period can be seen in the current and proposed "2019 DCBS" where you can see that the Actual homes versus the 2015 projected

Year	Actual Home Units	Proposed Home Units	Delta
2015	203	504	-301
2016	334	567	-233
2017	308	818	-510
2018	190	818	-628
Total	**1,035**	**2,707**	**-1,672**
Avg.	**259**	**677**	

This delta between the forecasted and actual homes installed equates to a deficit of over 1,672 home installs (1,035 Actual vs 2,707 Proposed) during the 4 Year period which means only **38%** of the projected home installs were achieved. The **2015 DCBS** had also projected **818 new homes for 2019 and 2020** respectively.

Figure 3-2
City of Kawartha Lakes
Annual Housing Forecast



*2019 DCBS – POPULATION FORECAST

However, given the lack of Population recruitment from 2015-2018 the **NEW 2019 DCBS** waters down or discounts the 2019 and 2020 Housing Unit numbers from the 2015 DCBS Forecast (Compare Bar Charts for 2019 and 2020) and then doubles down on future New

Home Units by adding or averaging the deficit from 2015-2018 (The 1,672 Unit Deficit) to the future years of 2021 through 2025 and 2025 through 2031.

Even though there are “known” issues with Population recruitment, as evidenced by the failure to reach proposed levels from 2015-2018 the current 2019 DCBS continues to increase the New Home Units into the future on an average basis

- 535 new homes in 2019,
- 725 new homes in 2020,
- A blanket assumption of 1,000 new homes from 2021 to 2025 each year.
- Then a blanket assumption of 1,095 new homes from 2025 through 2031.

This could have significant consequences as the Report simply pushes the problem or housing unit load down the road and again in hopes the Population/Homes come. The projection of 2019 is 535 New Home Units when we did not have 500 in 2017 and 2018 combined.

Granted the development in Lindsay will eventually come but certainly not at these multiples and certainly not if the Non-Residential DC Rates (which is counter intuitive as they are based on Population assumptions) are cost prohibitive.

Non-Residential/GFA

All DC's (Residential and Non-Residential) are based on "proposed and assumed" Population growth which directly determine Non-Residential Employment (Institutional, Commercial and Industrial) and Gross Floor Area (GFA) Additions.

Meaning the Population growth numbers are used to determine as a percentage (assumed) the number of Commercial, Industrial and Institutional Businesses or Builds on a sq.ft basis that will be derived as a result of the "projected" Population.

Watson’s assumptions are as follows:
Source: Watson & Associates Economists Ltd., 2019
Square Foot Per Employee Assumption

- Industrial 1,200 sq Ft per Employee
- Commercial/ Population Related 500 sq Ft per Employee
- Institutional 700 sq Ft per Employee

This is very counter intuitive especially given that the City only achieved 38% of the New Home Unit forecast from the 2015 DCBS Report. Again, Housing Units are based on Population and so is the Employment and in turn the estimated Non-Residential Builds. Much like the averaged out and inflated Housing Units the Deficit in GFA for the Non-Residential has also been seen through the comparison of the two Studies. Meaning the 2015 Study had projections based on Population assumptions that did not transpire, which can be seen on the actual GFA number from the 2019 Study. Again, the deficit accrued from 2011-2015 is now being attributed or added to the future GFA assumptions which in turn will inflate the DC Rate beyond the actual or relevant growth.

Schedule 9b
City of Kawartha Lakes
Employment & Gross Floor Area (GFA) Forecast, 2014 to 2031

Period	Population	Employment: Primary	Employment: Industrial	Employment: Commercial / Population Related	Employment: Institutional	Employment: Total	GFA in Square Feet (Estimated)[1]: Industrial	GFA: Commercial/ Population Related	GFA: Institutional	GFA: Total	Total sq. m
Incremental Change											
Mid 2001 - Mid 2006	5,597		862	492	1,790	3,144					
Mid 2006 - Mid 2011	-1,401		-458	-338	520	-275					
Mid 2011 - Mid 2015	1,487	0	152	452	225	828	181,800	225,700	157,500	565,700	52,428
Mid 2015 - Mid 2025	13,113	0	102	1,036	201	1,339	122,400	518,000	140,700	781,100	72,391
Mid 2015 - Mid 2031	22,730	0	300	1,445	286	2,031	360,000	722,500	200,200	1,282,700	118,879

Schedule 9b
City of Kawartha Lakes
Employment & Gross Floor Area (GFA) Forecast, 2019 to 2031

Period	Population	Employment: Primary	Employment: Industrial	Employment: Commercial / Population Related	Employment: Institutional	Employment: Total	GFA in Square Feet (Estimated)[1]: Industrial	GFA: Commercial/ Population Related	GFA: Institutional	GFA: Total	Total sq. m
Incremental Change											
Mid 2006 - Mid 2011	-1,347	60	-433	-333	515	-190					
Mid 2011 - Mid 2016	2,209	10	-103	-153	-70	-315					
Mid 2016 - Late 2019	1,619	21	25	103	9	158	30,000	51,500	6,300	87,800	8,137
Late 2019 - Late 2029	16,236	0	440	1,674	490	2,604	528,000	837,000	343,000	1,708,000	158,295
Late 2019 - Mid 2031	19,108	0	508	1,951	577	3,036	609,600	975,500	403,900	1,989,000	184,337

For example, in the 2015 DCBS it was estimated that there would be 565,700 sq. ft (Blue) of Non-Residential GFA built from 2011-2015 based on the Employment assumptions too which there were actually incremental losses in Non-Residential Employment.

The 2015 DCBS also suggested **781,100 sq. ft** (Yellow) of Non-Residential GFA to be built from 2015-2025 yet as of the current 2019 DCBS we have only achieved an estimated **87,800 sq, ft.** (Green).

To illustrate how the Population assumptions and the carry forward of the GFA and Population deficit from the last Study is exacerbated compare the 2015 DCBS of 1,282,700 sq, ft over the period through 2031 to the current 2019 DCBS of 1,989,000 sq. ft of the same period. The delta between the two studies is effectively the GFA that was not built as a result of the Employment and Population not coming. Yet the current study carries forward with the same methodology while being further hampered by the past GFA and Population Deficits.

Again increasing the DC charges unproportionally, will not drive growth, but rather increase barriers to it.

It is almost a law of diminishing returns in that the Study has built a case that suggests significant estimated growth, which in turn creates a significant or inflated DC Cost that in turn hampers the same growth the Rates were based on.

There needs to be a catalyst for growth and an understanding that the discounting of the existing and maximum DC Rates will drive growth.

To increase the DC Rate on a Class Basis (Industrial, Commercial, Institutional) by approximately 23% and then apply a weighted average (which is extremely one sided +70% to the Commercial Rate – highest of them all) and then combine them into a uniform rate is counterintuitive.

Businesses, regardless if you want to blend the rate to make it more palatable will not come at these levels? The study effectively went back to the DC rates and methodology of 2014 (prior to the current Bylaw) and raised the rates by the assumed Population targets which we now know to be unattainable.

Perhaps a phased in DC Rate Program should have been proposed to spark investment and then raise the rates as traction occurs and the DC Reserve begins to move to Neutral.

To suggest through the Sensitivity Impact (Section 6.2 of the 2019 DCBS) that the Municipality will lose DC Revenue of $7.5 million from a Flat DC Rate of $100.00 sq. m from the proposed Uniform Rate of $191.29 OR to say there would be a loss of $8.1 million if the Municipality simply took the average of their Municipal Comparators at a rate of $92.59 sq. m is again forecasting in vacuum.

These assumptions on loss are based on the 100% attainment of the assumptions made within the Population, New Home Unit and GFA Plan.

A Population Plan which is extremely ambitious to begin with as seen from the prior DCBS and is further hampered by the previous Population deficit in a Municipality that has struggled to achieve 38% of the New Home Units over the last 4.5 years. **On paper and within a spreadsheet these numbers are correct but if you do not have growth there are no DC losses from discounts only from lack of growth.**

Furthermore, what the Sensitivity Impact analysis does not comprehend is that for every sq. m of New Non-Residential GFA built under a discounted model, it would create approximately $25.89 annually (Assume Non-Residential build cost of $168.00/sq.ft Statscan and a 1% General Tax Rate) in Taxation Revenue. Generated too which the NPV over the life of the building would generate Current and Future Income that might not otherwise come as a result of higher barrier to entry being a Higher DC cost.

What to Do?

As discussed prior in this letter, the DCBS was built with heavy assumptions on Population attainment which generates New Housing Units, Employment and Non-Residential assumptions. This in turn develops Budgets and effectively the DC Rate.

As DC Rules do not allow municipalities to charge more DC's for Services that what can be used by the New Population. This Study is the best-case scenario from a Population Attainment perspective and also the maximum amount of DC's that could be charged if that attainment is reached.

"The cash-flow calculations of the maximum D.C.s that could be imposed by Council have been undertaken to account for the timing of revenues and expenditures and the resultant financing needs. The cash-flow calculations have been undertaken by service for each forecast development type, i.e. residential, industrial, commercial, institutional, and uniform non-residential development. D.C. cash flow calculation tables are provided in Appendix C and have been undertaken to account for 1.25% earnings on D.C. reserve fund balances and 3.25% interest charged for reserve fund borrowing."

Source 2019 DCBS

Again, it would be extremely naïve to assume that the "assumed Population Targets" and thus the related Anticipated Revenues will be met given the past (10 years) of data that suggests they will not. So, to project this and then create DC Policy and Rates to that maximum will in all likelihood stifle development and exacerbate the deficit problem.

Therefore, although discounting might cost some upfront DC Revenue (which is a good thing as this means Development is occurring) it will in part offset short and longterm losses through the annuity of taxation in relation to these net new builds.

The policy approach might need to be more creative and thus enhance a development move in comparison to our Municipal Counterparts. Full/Partial or Time Line related Discounting and Exemptions are tools that need to be evaluated with the caveat that the Municipality cannot look at the "Projected Loss in Anticipated Revenue" which in large part is a result of inflated population targets, as a "Loss of Realized Revenue". As the calculations are based on 100% attainment of the plan, which is based on significant assumptions.

- Perhaps, evaluate a plan with the larger Residential Developments for a discount program to accelerate New Home Units.

- Perhaps move to zero for Commercial and Institutional for 1-2 years, then to the prior Industrial Rate of $89.54 sq. m (which is less than half of the current Commercial Rate) or to a Comparable Municipal Rate of $92.59 sq. m (as noted above and in the Study under the Sensitivity Analysis which makes us competitive with adjacent and comparable Municipalities) for 2 more years and then re-evaluate.

- Perhaps reduce the Commercial Rate to the above noted levels and remove the Industrial DC Rates in their entirety. Yet create a sub class for Commercial and Industrial Large Square Foot Developments such as Warehousing and Storage that are Non-Serviced from a Water and Sewer perspective that is commensurate with the current Industrial Rate less the Water and Sewer Component. If there is a change in business, use or development in the future then the new DC Rate less what their DC Redevelopment Credit would apply.

The costs of doing nothing and having the existing deficit not be reduced and the net new costing/forecasted needs outlined by the current DCBS not be covered again through a lack of, miss or over statement of Population and GFA enhancement, will be extremely significant and costly.

DC's on Storage/Non-Serviced (Water and Waste Water) Development

As discussed above and throughout my discussions/presentations with Staff, Council and the DC Taskforce there remains an issue for Large (sq. ft) Un-Serviced Developments.

An issue which I believe was recognized by Staff, by Council and the DC Task Force by way of the Self Storage Business being defined as a area to be reviewed by the Task Force in relation to the 2019 DCBS and the fact that the current DC Bylaw did not contemplate Non-Serviced Self Storage Facilities within a Serviced Area.

By not contemplating it, it effectively meant significant DC Charge application given the large amount of unserviced square footage being built. Furthermore, the current DC Bylaw defined ALL Self Storage as Commercial regardless of zoning. A change that was made after the public consultation of the current 2015 DC Bylaw.

As previously noted, our Business is built on Industrially Zoned Lands, under a Industrial Zoning Bylaw (meaning Industrial lands are the only place Self Storage is permitted in Bobcaygeon), under Industrial Setback Requirements/Zoning Limitations and under a Industrial Engineered Storm Water Plan with the MOE. Yet, because the definition of Commercial includes ALL Self Storage, the application of Commercial DC's were to be applied.

This issue is further compounded by the sheer size of the project as the warehousing nature of the square footage creates a significant sq./ft or sq./m multiplier for a very un-sophisticated structure, service need and/or demand. (No Water of Sewer Demand)

In large part this was a result of the changes within the 2015 DC Bylaw which saw distinction made within the "Non-Residential" Class. This Bylaw effectively broke the Class into Commercial, Industrial and Institutional components. In doing so, a significant distinction and delta was created between the Commercial Class and the Industrial Class, which are **$197.35/sq.m for Commercial DC's** (Urban Other DC Rate) and **$87.18/sq.m for Industrial DC's** (Urban Other DC Rate) respectively, even though the prior DC Bylaw and supporting DC Bylaw Background Study suggests that there is not a distinction between the servicing and delivery of Capital Servicing (Water and Sewer) of these Classes (Commercial vs Industrial).

Therefore, this change and distinction in Class coupled with an addition into the 2015 DC Bylaw that designated **ALL Self Storage as being a "Commercial Use"** created a situation whereby Self Storage Buildings within a Serviced area would be charged significant DC's regardless of the zoning and permitted use on which they resided.

The impact of the application of the Current Commercial DC Rate to this Industrial Zoned, Designed and Permitted Use project would equate to over $548,000.00 ($197.35 x 2,780 sq. m) for the total development of 30,000 sq. ft (2,780 sq, m) of non-connected (Water, Sewer, Storm) pre-engineered steel warehousing. **Applying this amount of Commercial DC's on Industrial Zoned lands that has a total building cost of approximately $1,150,000.00, which is approximately 48% of the project, is not "Fair or Reasonable".**

We were hoping for two things when we met with the DC Taskforce. First, we wanted to see the blanket inclusion of Self Storage removed from the Commercial Definition as it has significant and unfair impact on Self Storage Facilities within Serviced Areas and that the DC Rates for these Non-Serviced Buildings be more commensurate with their Service Demand.

The Blanket inclusion was not removed rather re-iterated within the New DC Bylaw Definition of Commercial.

> ***"commercial"*** *means non-residential lands, buildings or structures or any part thereof used, designed or intended to facilitate the buying or selling of commodities or services, **including those related to self-service and other storage facilities,** hotels, inns, motels and boarding, lodging, rooming houses and recreational lodging and all those that are non-residential in nature but excluded from all other types of non-residential land, structures and buildings otherwise defined in this by-law;*

The Bylaw has once again through one sentence captured the entire Storage and Warehousing industry into the Commercial Class. It is not appropriate given the heavy weight applied to Water and Wastewater in this class (which is almost 58% of the cost) to lump this Industry into Commercial or Industrial or even a weighted average Uniform Rate.

When Watson and Associates were asked at the October 8th 2019 Council Meeting by Councillor Emslie as to whether there were any updates or considerations given to the question of Self Storage being moved to a different Class given the unfair application of Commercial DC's to the industry given their low service demand, the answer was that they would be handling this request by moving Self Storage from the Commercial Rate Class they are currently being charged (which is the highest non-residential rate) to the New Rniform rate. This meant there DC rate would actually be reduced.

Again, in theory yes, however, **the New Uniform Rate at $191.29 is the weighted average of the 2019 increased Industrial ($105.68 sq, m.), Commercial ($249.55 sq.**

m) and Institutional ($179.04 sq. m) charges. Charges that have again increased from 2015 Levels as a result of the presumptions on Population Growth and funding the prior Deficit.

In fact, the reduction proposed and referred to by Watson and Associates would be the difference between the 2015 Commercial DC Rate for Urban Other at $197.35 vs the proposed 2019 Uniform Rate for Urban Other of $186.90 which equates to a reduction of $10.45 sq. m or a reduction of the $29,051 ($10.45 x 2,780 sq, m) for the project.

Albeit a reduction on a general increase of a new weighted average uniform rate, it still means our Storage Project would pay over $519,000.00 in DC related costs for total build cost of $1,150,000.00, which remains 45% of the project cost?

See Table Below

CURRENT DC Cost per sq. m				
Service		Industrial	Commercial	Institutional
Urban - Other		$87.18	$197.35	$141.97

30,000 Sq Ft of New Building	2780 sq m
Total DC Charges	$548,633
Build Costs	$1,150,000
DC's as a percentage of Build	48%

PROPOSED DC Cost per sq. m - WEIGHTED AVERAGE = Uniform				
Service	Uniform	Industrial	Commercial	Institutional
Urban - Other	186.9	103.21	243.62	174.81

30,000 Sq Ft of New Building	2780 sq m
Total DC Charges	$519,582
Build Costs	$1,150,000
DC's as a percentage of Build	45%

This remains an unreasonable and unfair approach to this Class of un-serviced building. Which, we believe at minimum requires a reduction for the Sewer and Water component of the Service Costs, as these buildings have a zero impact on these Services.

I hope Council, The DC Task Force and Staff reconsiders the current and proposed inclusion of all Self Storage as being defined Commercial regardless of zoning/permitted use and that the current and proposed DC Rate calculation be reviewed to align more directly to the Zoning, Demand and Use of these developments. Again, DC application as per the DC Act needs to “Fair and Reasonable”

In closing, the Study was developed on paper using industry standards, projections and assumptions too which it is Council's responsibility to apply the real world realities (geographic, economic, population attainment realities and otherwise) to form a DC Policy and Rate(s) that will drive the assumed growth.

Taxation is a pillar revenue driver. If you do not have development, you will not achieve the needed revenue through the annuity of taxation.

The Net Present Value of the taxation annuity far outweighs the one-time payment of a development charge especially so if the taxation annuity becomes non-applicable due to Development Barriers such as the high costs (DC Charges) of building that annuity.

If this DCBS, which is effectively a Business Plan for the City with Income (Anticipated Revenues) and Expenses (Service Costs) built in, which is currently running in a Deficit position, fails and the population does not increase (Through Commercialization or Industry) to offset the past DC Deficit and the go forward spending, the only revenue source left to mitigate these costs will be the General Rate Payer.

Thank-you,

Jay Allen

Shield Storage Centres Inc.