October 17, 2013

Memorandum to: Amanda Kosloski
Armstrong Planning & Project Management

From: Daryl Keleher, Associate Director
Altus Group Economic Consulting

Subject: Peer Review of St. George Fiscal Impact Study
Our File: P-4637

This memo reviews the comments and questions presented in the Watson & Associates Peer Review of our Financial Impact Analysis report, and an Ainley memo dated May 15, 2013.

QUESTIONS IN WATSON PEER REVIEW

Q1. The 3,500 population forecast by Altus is in agreement with the 2006 Census ppu's which were used in the 2009 DC Background Study and the dwelling units by type noted above.

A1. Noted.

Q2. Figure 1-1 [of the Watson Peer Review] provides the number of residential unit building permits in Brant County over the 2002 to 2011 period, compared to the proposed future absorption for the Landowner's Group in St. George. Brant County's average number of new residential units over the 2002 to 2011 period is 188 per year, which is similar to the Landowner's proposal in the first three years. The City of Brantford over the same period averaged 455 residential units per year. This simple comparison raises questions as to the attainability of the rate of development shown in Table 1-1.

A2. This would appear to be an issue best answered by Robert Feldgaier as it relates to the Market Study. The Fiscal Impact Study is designed to take a snapshot of the fiscal impact at full build-out, and not the year-to-year impact, which is largely dependent on market attainability, and absorption rates.

Q3. Figure 1-2 [of the Watson Peer Review] provides the housing mix of the Landowner's Group proposal compared to the housing mix for Brant County over the ten-year period 2002-2011. The Landowner's Group proposal includes 30% medium and high density residential (townhouses, apartments or stacked townhouses). This allocation for medium and high density housing in 15.6% higher than the allocation in Brant County over the 2002-2011 period (i.e., re: Fig 1-2 16.17% + 13.57% - 8.10% - 6.08%). Once again, this simple comparison raises questions as to the market attainability of the rate of medium/high density development shown in Table 1-1.

A3. Similar to the answer to question #2, this would also appear to be an issue best answered by Robert Feldgaier as it relates to the Market Study. The Fiscal Impact Study is designed to take a snapshot of the fiscal impact at full build-out, and not the year-to-year impact, which is largely dependent on market attainability, and absorption rates.

Q4. It is not clear on page 10 from the Altus report as to how the necessary upgrades, identified by the Weslake Report, to the existing sewers are being funded. Presumably there is a benefit to existing development component as well as a growth component.

A4. As the upgrades would be for existing sewers, there would be a share of the cost that would need to be covered by existing growth (benefit to existing), as well as development charges for those sewers that meet the guidelines for DC eligible projects.

Q5. The water main upgrades along Highway 5 are required for existing fire flow deficiencies. They are not currently part of the County's five year capital budget or a DC Background Study (i.e., cannot be funded by current DC rate).

A5. While they may not be included in the County's current capital budget forecast or DC Study, they could be incorporated into those documents at some point in the future. Inclusion in the DC study is not a strict requirement for a project receiving DC funding. Indeed, a project needs to be DC eligible, but it is the local service guidelines that determine whether that it is the case, not the inclusion of the project in the previous DC study – given the 5-year period between DC studies, unforeseen works can arise that require DC funding. The projects included in a DC study are designed to only be a snapshot of the expected capital works known at that time. As long as a project is growth-related and DC eligible as per the County's local service guidelines, it is eligible for DC funding. Should the County need to utilize its reserve fund to pay for this type of project that was unforeseen at the time of the most recent DC Study, it can recover any lost funds by incorporating the DC reserve fund balance (which is lower due to the additional unforeseen funding) into the next DC Study and by-law update.

Q6. As noted on page 9 from the Altus report, $1 million or 10% of the total WPCP cost is to be funded by taxes. This amount would increase to $1.6 million based on the estimated cost in Table 2-1 above (i.e., 10% of $16 million).

A6. Agreed. The 10% figure referenced on page 9 of the Altus report was only quoting the allocation made in the DC Study so as to show that some portions of the capital cost would need to be funded by sources other than DC's – particularly the 10% benefit to existing share, and some amount of post-period. Based on the revised cost of $16 million, the amount to be funded through taxes (for the BTE share) would indeed be $1.6 million.

Q7. According to the 2009 DC Background Study, the majority of the $175,000 Empire Lands Park is above the service level cap (by $151,000). Accordingly, virtually all of the total park cost must be funded by taxes (Benefit to Existing Development & 10% Statutory Dedication plus beyond service level cap).

A7. The service level cap is used to calculate the maximum allowable funding envelope, and thus the maximum allowable DC rate, permitted under the DC Act. However, it does not mean that the County couldn't fund a DC eligible project from revenues and reserves, even if that project is shown for the purposes of the DC Study calculation as being above the level of service maximum. Municipalities are forced to cap their DC rates as per the DC Act, but do not have to limit the spending over the five-year DC by-law period only to the amount calculated as the maximum allowable in their most recent DC study. The County can make the decision to fund project costs over and above the level of service cap from the most recent DC Study. Municipalities do not track spending in their DC reserve fund statements in relation to the funding envelope. There are a number of practical reasons why a municipality would not want to limit itself to only projects that were shown as having funding in the current DC planning period - projects that were "under the cap" may not proceed as planned, projects may come in under budget, etc. Therefore, so long as the project is expressed in a County budget, and meets the County's local service guidelines (as being DC eligible) the growth-related share of the development of the Empire Lands Park could be funded by DCs.

Q8. The Altus Group report indicates that the Activa Lands Park is included in the 2009 DC Background Study, however County staff has confirmed it is not included.

A8. Noted. However, similar to the answer provided earlier, even if it is not included, the parkland development costs associated with the Activa Park could be included in an upcoming DC study, or funded through DC funds, even if it was not in the 2009 DC Study. The DC Background study is a 'snapshot' of the DC eligible costs at the time of adopting a by-law. These costs and projects can change over time, even before a subsequent DC background study and by-law is adopted/passed.

Q9. Table 2-3 shows that the DC revenue provided from the Landowner's group proposal is enough to cover the total water capital costs of $5.2 million (excluding upgrades to watermains along Highway 5 re: County – employment lands). Table 2-4 shows that there is a need for $5.5 million in front ending sanitary sewer capital to be recovered from others. It should be noted that once the Landowner's Group runs out of credit room, they could be waiting many years for their recovery.

A9. Noted. There would need to be a front-ending agreement set up, with a delineation of the benefitting area (to determine who will pay the front-ending landowners).

Q10. The Altus report suggests that development charges should be in the form of an area-specific charge. The County has expressed an interest in managing fewer area-specific by-laws. Consideration should be given to an alternative funding agreement (eg. Front ending agreement)

A10. Ultimately, it is the County's decision to decide to adopt an area-specific DC by-law. Otherwise, the DC eligible projects and/or DC credits accruing to developers should be included in a future County-wide DC background study and DC by-law.

Q11. Altus reports $3 million in building permit revenue under Section 3.4 "Other Fees and Charges". By legislation building permit revenue goes into a building reserve fund that can only be used to fund activities of the building division. It cannot lower the overall tax levy.

A11. Agreed. I had not stated or intended to state otherwise. The calculation was simply for illustration purposes to provide a more complete picture of the revenues that would accrue to the County.

Q12. There was some consideration given for the possibility for lower property assessments (Royal LePage Housing Survey), however the County has provided evidence for revised

assessments which are provided in Table 3-1. The impact of higher assessment assumptions are discussed in #18 below.

A12. It is my understanding that Activa and Riverview are ok with the suggested change to assessed values for all unit types. However, Empire is targeting a different market for their units, and so do not think it would be realistic to change the assessment assumptions used in our report. Therefore, in the subsequent versions of the report, we have adjusted the Activa and Riverview assessment assumptions, but kept the Empire assumptions the same as in our original report.

Q13. Donations (Altus Figure A-2) are largely comprised of a $1.4 million donation to the fundraising campaign for the Brant Sports Complex. Non-tax revenues should be recalculated with annual amounts of $100,000 or less.

A13. This is a reasonable suggestion. This change has been incorporated into the subsequent versions of the report.

Q14. We are in general agreement with the growth-related factors, and the residential / non-residential splits for:

- **Transportation and Environmental services (i.e, 74% residential);**
- **Recreation and Cultural, and Social and Family services (i.e., 95% residential); and**
- **Health services (i.e., 85-100% residential)**

The split for the remaining services (i.e., general government, protection services, and planning and zoning) is 65%, which is based on the 2009 DC Background Study. 65% residential is based on the County-wide growth increment for population and employment; however the residential/non-residential split using the current (2011) population and employment should be used when determined allocation of 2011 costs because that represents the development being served at that time. The residential split should be calculated as 74% (35,638 / (35,638 + 12,784) = 74%)

A14. This is a reasonable suggestion. Should the 2011 Statistics Canada National Household Survey employment estimates for Brant County be released prior to any revised version of our report, I may use that as a basis for revised residential/non-residential splits, instead of the extrapolated employment estimate from the 2009 DC Study (which appears to be what Watson used in calculating the 74%/26% split).

Q15. As a result of the suggestions in #13 and 14 above. Non-tax revenues should be lowered to $27/capita or $26/employee

A15. Noted.

Q16. Operating expenditures for Roads Winter Control total $2,575,670 in the FIR, not $4,810,800 (Altus, p.A-4). It is not clear how Altus arrived at $4,810,800.

A16. This was an error in my spreadsheets – I had double counted one line of the Winter Control and not included another. I corrected this in the subsequent versions of the report.

Q17. The method of using the per lane km is preferable to the $ per capita method used for other transportation services…The cost per lane km, as calculated by Altus, is therefore a better reflection of the expected road operating costs on the proposed development assuming that it will give no rise to additional lane km outside of the subdivision area.

A17. Noted.

Q18. In total the development produces a surplus of $15,400 per year. This surplus would increase in the range of $160,000 per year with the revised assessment assumptions (#12 above), and non-tax revenues (#15 above).

A18. Noted.

Q19. Table 3-2 also shows the allocation of the $15,400 annual surplus between residential and non-residential development. The non-residential development would produce a $53,251 surplus which helps fund the residential deficit of $37,851 (i.e., $53,251 - $37,851 = $15,400)

A19. Noted.

Q20. The residential deficit can be attributed to single detached units less than 50ft. frontage and large townhouses. These deficits are lessened with the higher assessments in #12 above.

A20. Noted. However, it is not necessarily fair to calculate the surplus/deficit by unit type – the development as a whole should be what is considered. There will always be one unit type or use that produces a deficit and is essentially subsidized by other types that produce a surplus. This fact should not dissuade the County from accepting development that includes housing types that produce a deficit, as any attempt to meet Provincial policies regarding a range and mix of housing types will inevitably produce housing types that produce better fiscal impact results than others.

Further, while one type of development may generate more of a surplus than others, for the developer, it may be those units that are more marketable, and allow them to produce less marketable units, but which meet County planning objectives and help bolster the fiscal impact of the development as a whole.

Further, if we did decide to undergo the type of analysis as Watson has done, it is not necessarily appropriate to apply the operating expenditures equally across each unit type – smaller units may be less expensive to the municipality on a per unit basis – they may generate less storm water runoff, require less snow plowing (given their smaller frontage), waste diversion services, etc. However, if we take household size into account, it could be the case that larger units (single-detached units) may actually be more efficient on a per capita basis, as they will on average, house more people than a small townhouse would. So while it is easy to make assumptions about the revenues each unit type would generate (taxes especially) for each unit type, it is far more difficult to estimate the operating expenditure impacts each type will have. Therefore, it is most appropriate to leave the analysis as presented on an overall basis, instead of breaking it down by unit type.

Q21. Figure 3-1 presents the cumulative fiscal impact excluding the mixed use development and using the assessment assumptions from the Altus report. Page 2 of the Altus report indicates that the 1,192 residential units are to be developed over a 10-year period, and there is not an indication for the expected timing of the mixed use development.

A21. Our report only looks at full build-out of the area.

Q22. The early years of development in Figure 3-1 are due to the positive fiscal impacts generated by single detached dwellings with frontages over 50 feet, which are to be fully built out by Year 4. The majority of units in the proposed developments are "Other Singles" and to a lesser extent Townhouses. As mentioned in #20 above, both of these types of units have a calculated negative fiscal impact on the County. As more "Other Singles" and Townhouses get built post Year 3, the positive fiscal impact which exists in Year 3 reduces until Year 8. At this point the proposed residential development will likely have a marginally negative fiscal impact until the mixed use development is added. The deficit position in Years 8 – 10, would not occur with the assessment assumptions mentioned in #12 above.

A22. Noted. However, our report only looks at the impacts of the full build-out of the proposed developments, as adding a time-series component to the analysis adds an additional layer of assumptions, which we feel is unnecessary.

Q23. Altus assumes that the future development in St. George Area would comprise on 911 "Other Singles" and 303 Townhouses. The long term impact could present a funding problem if "Other Singles" and Townhouses are assumed to have the assessments of $260,000 and $190,000 respectively, instead of the suggested assessment assumptions from the County of $280,000 and $240,000.

A23. I have revised the assessment assumptions for the future units.

Q24. No reference is made to the cost to the operating budget of funding infrastructure not covered by DCs, as a result of the statutory discounts and any other DC deductions. An example of this is mentioned in Section 2.1 of this report. Virtually the entire park costs need to be funded ($175,000 – Benefit to Existing Development & 10% Statutory Deduction plus beyond service level cap). It should be noted though that this has already been identified in the 2009 County-wide, as a need for the entire County to fund through taxes.

A24. As mentioned above, any DC eligible project (whether in the DC study or not) can be funded through development charges. Our fiscal impact analysis looks at the annual operating impact. Beyond development charges, the County would have other capital reserves to fund their 10% share of soft service projects.

Q25. The County user rates … and the annual revenue multiplications are correct. …

A25. Noted.

Q26. Altus appears to use the operating cost for watermains, and water treatment excluding amortization. The costs including amortization should be $20,609 per km of watermain, and $630 per megalitre of water treated respectively. This would add the following to the overall water & sewer operating costs… As a result, the water and sewer impact is approximately breakeven, where Altus shows a surplus of $185,571 per year.

A26. This comment is correct. I have revised this calculation in the subsequent versions of the report.

Q27. The total costs and multiplications are correct. In the case of the operating and lifecycle water costs, overall fiscal impact … is based on an average cost, however the total costs required in Year 1 is $2,304,500. Therefore, the County would be responsible for debt financing approximately $2,000,000.

A27. Correct. The debt could be funded through a portion of the revenue from user rates. On average, the user rates generated by new users will be enough to cover the average annual cost – some years it will produce an annual deficit, other years, the user rates will exceed the operation and maintenance costs, and that surplus can be used to finance any debt requirements. On average, the user rates generated in the long term should be sufficient to cover all of the required operating and lifecycle costs, including debt financing costs. If not, user rates in the County could be increased slightly over time to cover the annual cost requirements, and ensure that the impact of the annual operating and lifecycle costs does not negatively impact on the County's water reserves. As any increase in costs would be met with an equal increase in revenues, any increase in water or wastewater costs would not have any impact on the results of our study.

QUESTIONS IN AINLEY MEMO

Q1. We note that the comments pertaining to other reports included in this submission may impact the Financial Analysis. In addition, in our opinion, the costing of the water and wastewater components is premature as the Municipal Class EAs have not yet been completed. As such, the document should be reviewed and revised accordingly as other comments are addressed.

A1. I have followed direction from the team members responsible for the technical reports and costing for revisions.

Q2. In Section 1.1, Background, there is a slight discrepancy in the proposed LOG unit counts provided in Figure 2 when compared to the information contained in the Background Area Study as well as the Water Supply and Distribution Study and the Wastewater Conveyance Review Report. The appropriate unit counts should be confirmed.

A2. I have revised the report using the unit counts in the latest Development Implementation Schedule.

Q3. In Section 3.1.2, Wastewater, the report references the 2009 report that was prepared by Weslake, but does not reference the review completed by MTE in 2012. As a result, it appears that the Financial Impact Analysis has not considered the costs associated with the new sewage pumping station and forcemain required to service the proposed developments in the southern portion of the St. George Area. The MTE report also acknowledges that a second sewage pumping station may be necessary for the Riverview Highlands site; however, this remains to be confirmed. As such, this section will need to be revised.

A3. I have followed direction from MTE.

Q4. In Section 3.1.3, Roads, this section considers the costs associated with roads internal to the development, but does not consider the costs associated with any necessary improvements to the existing area transportation network, which may be required as a result of the proposed development. This will need to be updated once a Transportation Review has been completed.

A4. The operating and lifecycle costs of any known external road improvement required as a result of development has been incorporated. I have also included any other road improvements identified by the Transportation Review.

Q5. In Section 4.1.3, Water and Wastewater User Rate Revenues, the water and wastewater usages and resulting revenues may be overestimated, if the current County design criterion of 350 L/c/d was not provided by MTE and/or Gamsby and Mannerow.

A5. I have revised the assumption using the County design criterion of 350 L/c/d.