Bill 23 – More Homes Built Faster Act, 2022

Ontario Regional and Single Tier Treasurers Submission – November 4, 2022

High-level Key Messages

- The Ontario Regional and Single Tier Treasurers (ORSTT) have a strong track record of working with the Province on a variety of matters and issues relating to municipal infrastructure, growth and asset management, and particularly with respect to the Development Charges Act and Community Benefits Charges. We are working collaboratively with our colleagues in planning, public works and legal to review Bill 23 and help achieve the Province's goal of increasing the supply of housing over the next 10 years.

- While ORSTT supports the Province's goal to increase housing supply, we believe that Bill 23 will have significant financial impacts and unintended consequences that would be counterproductive to this outcome. The proposed legislation reduces the amount of Development Charges, Parkland Dedication fees and Community Benefits Charges collected by municipalities to fund the growth-related capital cost of infrastructure and services needed for new housing to be built and to provide the essential services to its residents.

- We believe that attempts to reduce development charges will not translate into lower home prices. Such prices are market driven, and a reduction of DCs benefits the profits of developers and is not directly correlated to the cost of housing. This will not result in housing being built faster. To the contrary, housing supply could be restricted as infrastructure projects are deferred due to restricted municipal cash flow. In addition, the construction of new affordable housing units by municipalities will be constrained, and non-residential development charges will also be reduced.

- We are greatly concerned that existing taxpayers will pay more for growth, which already does not pay for itself under current rules. As existing taxpayers and ratepayers take on an even greater share of the cost of growth-related infrastructure, the total cost of housing will increase due to higher property taxes and user rates. This comes at a time when municipalities are experiencing capital cost escalation in the range of 15% or more and the highest cost of borrowing in over 10 years.

- Municipalities have limited revenue sources to fund both the operating costs and capital investments needed to deliver essential services. As municipal revenue is reduced, municipalities will need to consider delaying the construction of infrastructure needed to service new housing and assuming additional risk by taking on more long term debt and the associated debt financing costs. This in turn could lead to service level reductions and would compromise provincially-mandated municipal asset management plans as more tax dollars will be needed for fund the cost of growth.

Bill 23 Summary and Observations

Through Bill 23, the Province is proposing to amend the Development Charges Act and the Planning Act in a way that removes DC eligible services and costs, exempts certain development from the payment of DCs, Parkland Dedication Fees and Community Benefits Charges (CBC), and mandates a phase-in of new DC rates for all development (including commercial, industrial and institutional growth).

Virtually all of the proposed changes to the DCA result in less DC revenue collected by municipalities to fund the costs of growth-related infrastructure that supports new housing and commercial and industrial development. Specifically this Bill:

- Exempts certain development from the payment of DCs
- Introduces mandatory DC discounts
- Requires a mandatory discounted phase-in of new DC rates (for residential and non-residential development)
- Makes the costs associated with studies and certain land acquisitions ineligible
- Removes Housing as an eligible DC service
- Caps the interest rate on frozen and deferred DCs
- Increases the historical service standard from 10 to 15 years (thereby generally creating a lower service standard for services other than Public Transit)
- Establishes an arbitrary spending and allocation target that may not align with municipal capital investments or DC collections

In addition, it is proposed that the Planning Act be amended as it relates to Parkland Dedication (PD) Fees and Community Benefits Charges (CBC). Again the result will be less revenue collected by municipalities to fund the costs of infrastructure related to parks, affordable housing and other services. The proposed changes include:

- Exempting more growth from the payment of PDs and CBCs
- Establishing an arbitrary spending and allocation target that may not align with municipal capital investments or PD and CBC collections

If approved, this Bill will result in:

- Reduced DC, PD and CBC revenue collected and therefore less municipal capacity to fund the cost of growth-related infrastructure
- A transfer of costs from new development onto existing taxpayers and ratepayers
- Delays in infrastructure projects needed to allow new housing to be built
- Deferred or cancelled infrastructure to deliver the services needed by new residents
- More long term debt and risk for municipalities
- More pressure on municipal budgets and provincially mandated municipal asset management plans at a time of very high inflation and rising costs of borrowing

- Less ability for municipalities to invest in green spaces to provide park amenities to support the increased housing density

The ORSTT group has long promoted the need for integrated, sustainable and long term infrastructure planning, in order to ensure that essential services (e.g. water, wastewater, roads and transit) are available when growth proceeds. Planning at a Regional level ensures that resources are used efficiently and infrastructure is built in a continuous manner. In the absence of Regional planning for this infrastructure, there will be a struggle between municipalities to accommodate growth in a properly coordinated way. Regional Official Plans provide direction on growth as well as lead to the development of service-specific Master Plans that include financial impact assessments to ensure growth can happen in a financially sustainable manner.

<u>Background</u>

Municipalities are responsible for the infrastructure needed to allow new housing to be built (e.g. water supply, wastewater treatment and roads) and the essential services expected by the community (e.g. public transit, parks and community centres, arenas, libraries, and emergency services such as police, fire and ambulance). The proposed changes to development charges, parkland dedication fees and community benefits charges will limit the ability of municipalities to fund the capital costs of such infrastructure and services. The total cost of home ownership will be higher as a result of further property tax and user rate increases. There is no demonstrable evidence that a reduction in development charges, community benefit charges or parkland dedication rates will translate into lower housing prices.

Municipalities have limited revenue sources to fund capital investments needed to deliver essential services, and this legislation will reduce municipal fiscal capacity to fund necessary capital investments to allow new housing supply to be built. The inevitable result of the proposed legislation is that existing taxpayers and ratepayers will need to pay more to allow growth to happen and the emplacement of infrastructure required to support housing development will be delayed. Actions such as making more costs ineligible for development charge recovery, discounting and phasing-in development charge rates across all forms of development (including non-residential construction) and exempting certain forms of development from the payment of development charges and community benefits charges all result in reduced revenue for municipalities.

In the absence of the Province developing mechanisms to offset the lost funding to keep municipalities whole from an infrastructure funding perspective, municipal Councils will be forced to make choices between maintaining existing assets and building new infrastructure with limited tax levy/user rate sources. This will ultimately lead to the deferral of growth-related infrastructure projects which contradicts the Province's goal to build more homes faster.

Two specific proposed changes to the DCA are highly concerning:

1) Proposed phase-in of new DC rates: This is not a phase-in of rate increases, but rather of the DC rates in their entirety (and it applies to both residential and non-residential DC rates). As an example, the impact in the City of Toronto is that new DC rates will be

lower than DCs currently collected, and it will take until 2026 to get to 2018 DC rate levels. The impact for Toronto is estimated at $200 million/year or $2 billion over its 10 year capital plan. This will impact the speed of which the supporting infrastructure can be built prior to the development occurring.

2) Proposed removal of Housing as a DC eligible service: The County of Simcoe's 2021 Development Charge Background Study included $92M in DC eligible costs identified for Social Housing. An estimated $68M was to be collected over the next 10 years through the housing component of the DC charge ($3,153 for a single family unit). Removing $3,153 from the DC rate will NOT render that new home more affordable. Losing $92M in DC revenue will increase property taxes for existing Simcoe County residents (replacing $92M of DC funding will require borrowing and result in a minimum 4% to 5% increase in property taxes to pay it back).

Municipalities have made significant effort with respect to asset management planning and investment as a result of the requirements of Ontario Regulation 588/17. With the increased reliance on existing taxpayers to fund the necessary growth-related infrastructure, Councils will be forced to make choices between maintaining existing assets and building new infrastructure with limited tax levy/user rate sources - putting at risk the progress made to date and limiting future progress with respect to asset management planning and investment in municipal assets.

Other comments and observations:

- In some municipalities, CBC proceeds are intended to be reinvested in affordable housing initiatives. As such, any reduction in CBC proceeds, as well as the removal of housing as DC eligible service, will result in a lesser amount of incremental investment in housing affordability initiatives and projects.
- Municipalities might have to consider removing or delaying planned housing incentives if they have to make up shortfalls from DCs
- "As of right" rules could cause capacity challenges further along water, wastewater and stormwater pipes and may limit growth
- Discounts for rental housing do not seem to have definitions and duration agreements
- There is no indication from the Province as to how it intends to fund the provincial infrastructure necessary to service the population that will reside in the 1.5 million homes it desires to see built over the next 10 years. This includes schools, hospitals, two-way all day GO train service, etc.
- The effectiveness of fiscal impact studies and capital forecasting relies upon broad based planning perspectives and work provided by upper-tier planning departments

<u>Next Steps</u>

The ORSTT group will continue its analysis of this Bill as it moves through the legislative process. Our immediate next steps will be to turn our minds to alternative proposals and options to help achieve the desired outcomes, and to assess the short and long term financial impacts where possible. We hope to work collaboratively with staff at the Province to identify alternatives

that would both support achieving the desired objectives and mitigate the unintended consequences of this Bill.

Submitted on behalf of the members of ORSTT by:

Craig Dyer

Chair, Ontario Regional and Single Tier Treasurers
Commissioner of Corporate Services and Chief Financial Officer, Region of Waterloo