



February 2, 2021

Mayor John Tory and Members of Council  
City of Toronto  
100 Queen Street West  
Toronto, ON  
M5H 2N2

Dear Mayor Tory and Members of City Council:

**RE: Rental, Institutional & Non-Profit Development Charges Interest Rate Policy Update (Staff Report EX20.4)**

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Further to our January 27<sup>th</sup> submission to the Executive Committee (attached), BILD and its Toronto Chapter members thank members of Council for considering our concerns, and appreciate the motion brought forward by Deputy Mayor Ana Bailão that directed staff to provide Council with a scan of other financial security measures neighboring GTA municipalities impose as part of the collection of deferred development charges.

While BILD understands staff's preference for a letter of credit to mitigate City's financial risks should development charges not be paid on time, we reiterate that it comes with the consequence of risking our members' projects and ability to make further economic contributions to the City. Furthermore, and as staff will find in their jurisdictional scan, it would be inconsistent with the practices of other municipalities who do not choose this restrictive form of financial security and offer alternative measures to support continued rental development.

BILD has conducted its own jurisdictional scan of municipal approaches to deferred interest rate policies, provided as Attachment A. From our review, we note that most municipalities do not require a letter of credit for deferred DCs, and in some cases, may not ask for a financial security at all. Most will have unpaid DCs added to the tax roll. Council should also note that their neighbouring municipalities consider interest rate relief for rental projects since it supports broader housing objectives.

As the City moves forward with their development charges review and policy initiatives like, inclusionary zoning, we urge Council and staff to uphold the intentions of Bill 108 to improve the environment for more housing options, like rental housing, to be delivered. This can be done through a number of ways including reducing or exempting rental product from growth related charges and revisiting the currently proposed draft inclusionary zoning (IZ) policy that states the replacement of affordable or mid-range rental units or dwelling rooms would not count towards IZ requirements. BILD and its Toronto Chapter members will continue to have discussions with members of Council and staff in this regard.

Thank you again for considering our feedback. We look forward to seeing the additional reporting from staff and hope the information gathered will guide future decisions on how to better support rental projects in the City.

Sincerely,

Danielle Chin  
Director, Policy & Advocacy

*Cc: BILD Toronto Chapter Members*

## Appendix A: GTA Deferred Development Charges Interest Rate Approach

Region/Municipality	Interest Rate	Financial Security
<b>York Region</b>	<p>For purpose built, high density rental projects operating for a 20-year period:</p> <ul style="list-style-type: none"> <li>▪ prime commercial lending rate charged by commercial bank plus two (2) per cent per annum</li> <li>▪ all amounts due and owing on account of interest, shall be forgiven provided that the DCs are paid in full to the Region at the time required</li> <li>▪ if the rental project also meets the Region’s defined affordability levels, offer a range of unit types, and are within identified strategic growth areas, the Region offers a greater range of options for the DC deferral period beyond 5 years</li> </ul>	<ul style="list-style-type: none"> <li>▪ a form of security is taken and registered against the title to the property</li> <li>▪ unpaid charges are added onto the tax roll and will continue to accrue interest</li> </ul>
<b>City of Markham</b>	<ul style="list-style-type: none"> <li>▪ consistent with York Region, a 5% interest rate shall be used at the discretion of the CAO, a rate less than 5% may be applied for developments that have taken advantage of a City development charge incentive and/or relief, current or future may be provided, if the developer secures future payments security satisfactory to the Treasurer on the subject property</li> </ul>	<ul style="list-style-type: none"> <li>▪ a form satisfactory to the CAO (ie. a mortgage, a letter of credit)</li> </ul>
<b>Peel Region</b>	<ul style="list-style-type: none"> <li>▪ 0% per annum</li> </ul>	<ul style="list-style-type: none"> <li>▪ If any development charges or interest charges or any part of thereof remains unpaid after it becomes payable, the amount unpaid shall be added to the tax roll and shall be collected in the same manner as taxes.</li> <li>▪ may require security in a form deemed necessary as part the execution of DC payment agreements</li> </ul>
<b>City of Barrie</b>	<p>For purpose-built rental and institutional projects:</p> <ul style="list-style-type: none"> <li>▪ Interest charges be applied to development charges outstanding, at a rate fixed for the duration of the loan and established by the City’s Weighted Average Cost of Capital on the date that the first instalment is due and as determined by the Director of Finance.</li> </ul> <p>For non-profit rental housing:</p> <ul style="list-style-type: none"> <li>▪ Interest charges are waived during the first five years of the 20-year deferral period</li> <li>▪ Beginning on the date that the sixth instalment is due, interest charges be applied to DCs outstanding at a rate established by the City’s Weighted Average Cost of Capital, as determined by the Director of Finance and be fixed for five-year increments for the remaining duration of the loan</li> </ul>	<ul style="list-style-type: none"> <li>▪ No form of financial security is required</li> <li>▪ Deferral plans will be monitored and will be addressed should non-payment become an issue</li> </ul>
<b>Town of Milton</b>	<ul style="list-style-type: none"> <li>▪ Prime lending rate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unpaid development charges be added onto the tax roll</li> </ul>



January 27, 2021

Mayor John Tory and Members of the Executive Committee  
City of Toronto  
100 Queen Street West  
Toronto, ON  
M5H 2N2

Dear Mayor Tory and Members of the Executive Committee:

**RE: Rental, Institutional & Non-Profit Development Charges Interest Rate Policy Update (Staff Report EX20.4)**

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BILD and its Toronto Chapter members are aware that through Staff Report EX20.4, the City of Toronto's Executive Committee will consider updated, interim policies for how interest rates for development charges will be applied and collected for rental, institutional, and non-profit projects. These interim measures, as noted in the report, are needed to transition the bylaw to the new Bill 108 legislative framework. The policies will be updated as part of the City's development charges bylaw review to be completed in 2022.

In advance of this report being brought forward, BILD and its Toronto Chapter met in consultation with staff twice last fall and prior to this Executive Committee meeting. During our fall consultation meetings, staff initially presented a problematic proposal that would have resulted in additional costs and administrative burden. The interim policy that is being brought forward to the Committee on the 27<sup>th</sup> has lessened some of these concerns by reducing the interest rates and allowing a path to provide alternative financial security options. However, the BILD Toronto Chapter maintains serious concern the proposed policy approach does not support mutual objectives to bring more rental options to the City and ultimately undermines the spirit and intent of Bill 108 to remove the barriers to delivering this much needed product type.

### Calculation of Impacts

Based on the proposal before the Committee, BILD determined the cost City staff proposal would have on a typical 250-unit rental project. These calculations are attached for the Committee's reference.

Should a project of this size take the option to pay the required development charges through installments, within five years after first occupancy, and with a financial security in the form of a letter of credit, this project would subject to an additional **\$949,500** in interest charges alone from the City.

Further, if the Chief Financial Officer and Treasurer should require financial security in the form of a letter of credit, it is very important for City Council to be aware that this will greatly impact financial capacity and economic investments. When a developer is asked to provide a letter of credit, especially of this quantum, it challenges the viability of a project or other future projects because it limits their liquidity and/or their ability to borrow further funds as needed. Letter of credits also come with a carrying rate, and in the 250-unit case example provided, it can amount to approximately **\$312,500** in fees paid to the lender.

Letter of credits are a crippling financial security tool, which inhibits a developers' ability to make continued investments since it reduces their capacity to borrow other construction loans to start another rental project needed in Toronto. This then also has the ripple effect of the City not collecting other development charges, realty taxes, and parkland future projects could spur, not to mention the loss of jobs as well.

BILD and its Toronto Chapter members underscore the need for Council and City staff to be flexible to other forms of financial of security, like having any unpaid development charges instalments added to the realty tax bill or the use security bonds. Letter of credits restrict our members' ability to continue contributions to the economy, which would be counterintuitive to Citywide efforts to rebuild and recover the economy from the ongoing effects of COVID-19.

## Closing Remarks

BILD stresses that the development and building community, in all its facets, continue to be challenged by the pandemic and the far-reaching impacts it has made to market needs, labor constraints, and construction supply and costs. Only through working together in partnership can we get through these trying times prosperously and so BILD strongly urges the City to be a partner and provide relief to rental projects, as the legislation intended. The effect of the interim rental DC interest rate policy will continue to be scrutinized by BILD and its members, especially as the City moves forward with their development charges bylaw review this year and their inclusionary zoning policies.

Thank you for consulting us on this process and we look forward to engaging in further dialogue in the coming months. If you have questions, please contact the undersigned.

Sincerely,



Danielle Chin  
Director, Policy & Advocacy

*Cc: Shirley Sui, City of Toronto  
Andrew Flynn, City of Toronto  
Gary Switzer, Toronto Chapter Chair  
BILD Toronto Chapter Members*



CITY OF TORONTO DC RENTAL HOUSING DEFERRED PAYMENT PROPOSAL

Date: 25-Jan-21

TIMING OF PAYMENT OF DC'S % OF SECURITY REQUIRED	1ST BUILDING PERMIT A/G YEAR 1	YEAR 2	BUILDING OCCUPANCY YEAR 3 PAYMENT 1	YEAR 4 PAYMENT 2	YEAR 5 PAYMENT 3	YEAR 6 PAYMENT 4	YEAR 7 PAYMENT 5	YEAR 8 PAYMENT 6	TOTAL	
	100.00%	100.00%	83.33%	66.67%	50.00%	33.33%	16.67%	0.00%		
<b>DC'S PAID ON PERMIT</b>										
INTEREST CHARGES (Refer Note 2)	\$445,000	\$445,000							\$890,000	Traditional construction loan financing - DCs paid upfront at time of 1st A/G Building
									<b>\$890,000</b>	<b>Total Cost (A)</b>
<b>DC'S PAID W/IN 5 YEARS OF 1ST OCCUPANCY</b>										
INTEREST CHARGED BY CITY (Refer Note 3)	\$211,000	\$211,000	\$175,833	\$140,667	\$105,500	\$70,333	\$35,167	\$0	\$949,500	INTEREST CHARGED BY CITY
LC FEES PAID TO BANK	\$0	\$0	\$104,167	\$83,333	\$62,500	\$41,667	\$20,833	\$0	\$312,500	LC FEES PAID TO BANK
									<b>\$1,262,000</b>	<b>Total Cost (B)</b>
									<b>\$372,000</b>	Premium Cost City Deferred Proposal per \$10MM of DCs (B)-(A)
									<b>3.72%</b>	of \$10MM

**ASSUMPTIONS**

- DCs payable at Building Permit assumed to be \$10,000,000
- Interest Rate - Market construction loan interest rate assumed to be Prime + 1.5%. As interest rates are historically low, we have assumed market prime to be 0.50% greater i.e. 2.95% + 1.5% equals 4.45%.
- Interest Rate - City cost of capital carried at 1.61%. As current interest rates are historically low, we have assumed the effective interest rate for the above calculations to be 0.5% greater i.e. 2.11%.
- Letter of Credit Fee (LC) rate carried at 1.25%.
- Assumed a two year construction period from 1st building permit above grade (A/G) to building occupancy

**OTHER KEY CONSIDERATIONS**

- Reduced liquidity available due to financial security to be posted by letter of credit. This will result in less rental units being able to be financed and constructed.
- Potential delay in LC release from the City based on current trends.
- Reduced IRR as a result of increased costs. This could lead to reduced investor demand and therefore less rental unit construction.