EX33.3

TORONTO

REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Development Charges By-law Review - Results of Additional Consultation

Date: April 3, 2018
To: Executive Committee
From: Acting Chief Financial Officer
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

This report provides confidential financial advice in the confidential attachment. The advice is to remain confidential indefinitely after adoption of the report as it is about litigation or potential litigation that affects the City.

SUMMARY

At the statutory public meeting held on January 24, 2018, Executive Committee referred the input received at the public meeting to the Acting Chief Financial Officer and directed staff to conduct additional stakeholder consultations and report on certain other matters to the April 17, 2018 meeting of Executive Committee. This report provides the results of the additional consultation and recommends the adoption of a revised development charges by-law and Background Study.

Technical revisions to the Development Charges Background Study, arising primarily through further discussions with consultants retained on behalf of the Building Industry and Land Development (BILD) Association and internal review by the City's own consultants, have resulted in a 9% reduction to the proposed calculated residential and non-residential development charges rates presented in January 2018.

This report recommends adoption of a number of important policies incorporated in the recommended by-law. These include:

i) A schedule of updated charges that will, when fully implemented, almost double the City's development charges revenue to help offset the cost of growth.

ii) New support for non-luxury purpose-built rental housing to mitigate the impact of the rate increases.

iii) New support for scattered rental in newly constructed laneway, garden and other second suites, reducing the applicable charge in some cases by almost $50,000 per unit by applying the apartment rate to all land development meeting the definition.

iv) Timing of payment of development charges to occur upon issuance of first building permit once rate increases are fully phased-in.

v) Continuation of development charges exemptions for lands owned by and used for college and university purposes.

vi) Continuation of the industrial and office exemptions (with the exception of the ground floor) pending further study.

Other recommendations outside the by-law are expected to address concerns regarding the rate impact on home ownership assistance programs and on certain areas of the City.

The proposed by-law attempts to strike an appropriate balance between revenue optimization, City Council long term planning and economic development objectives, and due consideration of the potential impact on the land development and construction industry.

Development charges are calculated on a cost recovery basis and represent the maximum charges that can be imposed under provincial legislation. This report recommends development charges that are notable increases over current levels and are primarily the result of updated capital programs. Upon full phase-in, these increases are expected to generate approximately $240 million per year in additional development charge revenues, helping to support services that are required to accommodate growth.

Almost 40% of the residential charge is related to funding transit. The charge and related revenue for investments in affordable rental housing will increase by 270% compared to the 2013 by-law. While the City's rates are increasing, Toronto's rates remain competitive with the rates in growing municipalities in the surrounding region, reflecting the need for capital investment to provide services as a result of growth.

On behalf of the land development industry, BILD has indicated that it will not appeal the by-law nor support actions of its independent members to appeal if Council adopts the recommended rates, phase-in strategy and the balance of the proposed by-law largely as presented in January.

RECOMMENDATIONS

The Acting Chief Financial Officer recommends that:

1. City Council enact the development charges by-law attached to this report as Appendix 1.

2. City Council adopt the Development Charges Background Study, dated January 9, 2018, as amended by the Addendum dated April 6, 2018, including the development-related capital program and asset management plan contained within, subject to annual review through the City's normal capital budget process and ongoing asset management strategy.

3. City Council adopt the following recommendations for the purposes of complying with the Development Charges Act, 1997:

a) City Council determine that no further public meeting is required pursuant to section 12 of the Development Charges Act, 1997.

b) City Council express its intent that the future excess capacity identified in the Development Charges Background Study, as amended, shall be paid for by the development charges contemplated in the Development Charges Background Study, or other similar charges.

c) City Council adopt the Transit development charges capital program, as included in the Development Charges Background Study, as the planned level of service, and in doing so, indicate that it intends to ensure that the increase in service for transit will be met.

d) City Council, after having considered the use of more than one development charge by-law to reflect different needs for services in different areas, determine that the charges be calculated on a municipal-wide uniform basis.

4. City Council authorize the Chief Building Official and Executive Director, Toronto Building continuing to require applicants seeking conditional below grade-permits to enter into a development charges deferral agreement, in accordance with the general terms and conditions in Appendix 2 and in a form acceptable to the Acting Chief Financial Officer and City Solicitor.

5. City Council authorize the Director, Affordable Housing Office, in consultation with the Chief Financial Officer, to administer the City Purpose-built Rental Development Charges Rebate Program, in accordance with the general terms and conditions in Appendix 3 and enter into appropriate agreements, in a form acceptable to the Acting Chief Financial Officer and City Solicitor.

6. City Council direct the Affordable Housing Office, in consultation with the Corporate Finance Division and Legal Services, to report to the June 25, 2018 Affordable Housing Committee with program details to enable the conversion of the Home Ownership Assistance Program from a program funded through the development charges reserve fund for Subsidized Housing (XR2116) to a development charges deferral program.

7. City Council request the Chief Financial Officer to report back on potential geographically based development incentives in conjunction with the consideration of the Planning Framework Study for the Mount Dennis neighbourhood.

8. City Council request the Province to increase the Provincial development charges rebate program for non-luxury purpose-built rental housing and review provincial policies to support the creation of new purpose-built rental housing.

9. City Council authorize the City Solicitor, in consultation with the Acting Chief Financial Officer, to make such housekeeping, technical and minor amendments to the by-law as necessary to give effect to the recommendations contained herein.

10. City Council direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety.

FINANCIAL IMPACT

Approval of the proposed development charges by-law is expected to result in an addition of approximately $230 to $250 million annually in development charges revenues, once fully phased-in and based on the growth forecast in the Background Study. The total annual development charges revenues once the increases are expected to be phased-in are expected to be about $500 to 540 million annually.

Development charges are collected to recover a significant portion of growth-related infrastructure costs needed to support anticipated population and employment growth over the study planning periods. If costs are not recovered through development charges, tax levy or user fee increases would be needed, or capital programs would need to be reduced and/or delayed.

The recommended transition provisions would implement the rate increases over a two-year period, with 50% of the increase implemented upon current by-law expiry on November 1, 2018, 80% on November 1, 2019 and the full rates coming into effect on November 1, 2020. The proposed phase-in is estimated to result in a theoretical development charges revenue impact of approximately $170 million compared to the full increase coming into effect at by-law expiry (November 1, 2018). Staff believe that the proposed phase-in strategy strikes an appropriate balance of revenue optimization and orderly transition to the new rates.

Proposed by-law policies represent approximately 60-70% recovery of eligible growth-related costs under the Development Charges Act.

Development Charges Capital Program and Deductions

As shown in the table below, the Development Charges Background Study identifies approximately $35.063 billion in gross growth-related costs required to service population and employment growth that is forecast to occur over the 10-year study planning period (2018-2027) and a further $9.182 billion for growth over the longer 2018-2041 planning period for some of the engineered services (e.g. water, wastewater and roads), for a total gross program of $44.246 billion.

After various deductions required under the Act, and attribution of costs to growth beyond the planning period, approximately $8.119 billion (18% of the total gross capital program) is deemed to benefit growth over the Study planning periods and is the basis for the calculated development charges rates.

Table 1: Development Charges Capital Program and Deductions

DC Study Capital Program and Deductions	2018-2027 Planning Period (All Services)	2018-2041 Planning Period (Some Engineered Services)	Total 2018-2027 and 2018-2041	
Gross Project Costs	35,063.7	9,182.0	44,245.7	100%
Anticipated Grants & Subsidies	(12,770.7)	(902.2)	(13,672.9)	-31%
Net Municipal Share	22,293.0	8,279.8	30,572.8	69%
Estimated Non-growth Shares (i.e. benefit to existing development)	(10,241.3)	(4,959.7)	(15,201.0)	-34%
Statutory Service Discounts	(396.8)	0.0	(396.8)	-1%
Estimated Growth & Available Reserves	(197.1)	(227.2)	(424.3)	-1%
Estimated Post Period Benefit	(5,624.4)	(807.1)	(6,431.4)	-15%
Total Costs in DC Study Planning Period	5,833.4	2,285.8	8,119.2	18%

DECISION HISTORY

Executive Committee, on January 24, 2018 referred the input received through the statutory public meeting to the Acting Chief Financial Officer to undertake further consultation with stakeholders and to report to April 17, 2018 meeting of Executive Committee on the results along with certain other matters.
EX30.3: “Development Charges By-law Review”
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.3

ISSUE BACKGROUND

A statutory public meeting was held on January 24, 2018 to allow the public the opportunity to provide input into the proposed development charges by-law and development charges background study. The Development Charges Act (the “Act”) requires that the background study and by-law be made available to the public for a minimum of 60 days prior to passing of the by-law, and at least two weeks prior to a statutory public meeting. Both the proposed by-law and the background study were published on January 9, 2018, as required by the Act.

COMMENTS

This report provides the results of additional stakeholder consultation and Committee direction, including proposed changes to the development charges by-law. Those aspects of the by-law that remain unchanged are not discussed in detail in this report.

Reference should be made to the January 2018 staff report, a link to which can be found in the decision history section of this report.

This report is organized as follows:

1. Additional Stakeholder Consultation
2. Revised Development Charges Rates
3. Impact Analysis
4. Proposed Development Charges Policies
5. Other Matters

1. Additional Stakeholder Consultation

The City's development charges by-law review included an extensive public consultation process that commenced in June 2017. Draft development charges study calculations were released as completed in July, October and November 2017. Consultation included ongoing dialogue and written correspondence with key stakeholders, as well as two general public consultation sessions, one ratepayer consultation, and a statutory public meeting. Following the statutory public meeting, additional consultation was undertaken with representatives from BILD, colleges and universities, the rental sector and the home ownership assistance program providers.

Input received through the consultation process represented a balance between development industry stakeholders, the general public and other perspectives. The main themes from the January general public and ratepayer consultations, the statutory public meeting, and additional consultations are summarized below:

1) Development industry
   - Request for delayed implementation to by-law expiry and a four-year phase-in provision, with 25% of the rate increase implemented annually starting in October 2018;
   - Questions regarding the background study calculations;
   - Comments about development charges policies and definitions;
   - Request for consideration of development charges deferrals for the City's home ownership assistance program to replace the current second mortgage loan program;
   - Concerns about the impact of the rate changes on the rental sector.

2) General public / ratepayer groups
   - Support for development charges increases so that service levels can be maintained;
   - Concern that infrastructure investments have not kept pace with rate of new development, particularly in higher growth areas;
   - Concern about the impact of the DC rate increases on housing affordability.

The City's development charges stakeholder consultation process is summarized in Table 2 below.

Table 2: Stakeholder Consultation Process

<table>
<tr><th>Consultation Activity</th><th colspan="2">Approximate Timing</th></tr>
<tr><td>Key Stakeholders - June 2017 to December 2017</td><td>7 months</td><td rowspan="8">10.5 months</td></tr>
<tr><td>Publish DC Background Study and By-law January 9, 2018</td><td rowspan="7">3.5 months</td></tr>
<tr><td>Ratepayer Consultation January 11, 2018</td></tr>
<tr><td>General Public Consultations January 15 & 17, 2018</td></tr>
<tr><td>Statutory Public Meeting January 24, 2018 (Executive Committee)</td></tr>
<tr><td>Additional Consultation
BILD and consultants February 2, 2018
Universities and Colleges February 21, 2018
Rental Housing February 23 & March 20, 2018
Home Ownership Assistance Program (HOAP) providers March 6, 2018</td></tr>
<tr><td>Results of Additional Consultation April 17, 2018 (Executive Committee)</td></tr>
<tr><td>Council Consideration April 24-26, 2018</td></tr>
</table>

2. Revised Development Charges Rates

Development charges rates, as set out in the Background Study, are calculated on a cost recovery basis, as permitted under the Act. These proposed development charges represent notable increases over current levels and are primarily the result of updated capital programs identified to support population and employment growth over the Study planning periods, 2018-2027 and 2018-2041.

For various public policy reasons, Council may choose to discount the calculated rates. If costs are not recovered through development charges, tax levy or user fee increases would be needed, or capital programs would have to be reduced and/or delayed.

While the City's rates are increasing, Toronto's rates are competitive with the rates in growing municipalities in the surrounding region, reflecting the need for capital investment to provide services as a result of growth.

Additional consultation and ongoing review has resulted in recommended adjustments to the Development Charges Background Study. The calculated rates have decreased by approximately 9% for both residential and non-residential uses from the rates released at the January 2018 public meeting, as summarized below. The revised development charges are based upon assumptions and methodologies supported by the City's development charges consultant and considered to be in keeping with the provisions of the Act.

Table 3: Development Charges Rates

	Current (Feb 2018)	Jan 2018 (Calc'd)	April 2018 (Calc'd)	Change from Current		Change from Jan 2018	
				$	%	$	%
Residential Uses							
Singles & Semis	41,251	88,391	80,227	38,976	94%	-8,164	-9%
Multiples 2+ Bdrms	34,742	73,058	66,313	31,571	91%	-6,745	-9%
Multiples 1 Bdrm and Bach.	24,816	36,650	33,266	8,450	34%	-3,384	-9%
Apartments 2 Bdrms and Larger	25,366	51,740	46,963	21,597	85%	-4,777	-9%
Apartments 1 Bdrm and Bach.	17,644	33,775	30,656	13,012	74%	-3,119	-9%
Dwelling Room	11,028	23,954	21,743	10,715	97%	-2,211	-9%
Non-residential Uses							
Industrial	213.65	190.89	173.07	-40.58	-19%	-17.82	-9%
Non-industrial		449.04	407.15	193.50	91%	-41.89	-9%

Technical adjustments to the development charges calculations include:

- Transit: Adjustments to capital costs and grants based on updated information, revision of the benefit to existing shares and post period benefit shares based on input from BILD and additional review by the City's Development Charges consultant
- Subsidized Housing: Removed the City's share of affordable home ownership loans from the capital program as the City is reimbursed for these costs with interest
- Roads: Adjusted the non-growth shares and post-period shares
- Water, Sanitary Sewer and Storm water: Adjusted the benefit to existing shares, and post-period benefit shares of some projects, further to stakeholder input
- Shelter: Added the 1,000 additional shelter beds approved by Council with costs attributed to post-period benefit

The changes made to the background study calculations described above are detailed in an Addendum to the Background Study, dated April 6, 2018, ("Addendum") which is attached to this report as Appendix 4.

3. Impact Analysis

N. Barry Lyon Consultants Limited was retained as a sub-consultant for Hemson Consulting Ltd. to evaluate the potential impact of the proposed development charges rate increases, in conjunction with potential changes to cash-in-lieu component of the alternative parkland dedication rate ('Section 42' charges) and potential inclusionary zoning changes on new residential development. The study considers the impact on land values of the proposed development charges in the January 9, 2018 Background Study, and tests whether the impact is sufficient to delay or preclude purchase for redevelopment. It also comments on the impact of projects that are underway, such as condominiums that are already sold but may not yet have a building permit to trigger development charges payment.

The impact study is currently being finalized. The key interim findings are discussed below. The impact of the proposed development charges increase on land values was estimated to be about $14 per square foot, relative to downtown land values currently averaging about $160 per square foot (up about 50% year over year), and downtown unit prices of over $1,000 per square foot (up about 24% in the past year). In short, in the scenarios tested by NBLC, the development charge increase could be absorbed for most typical projects in the land value without impacting the viability of development.

The report identifies specific areas where development charge increases are expected to have an impact. These include: residential high-rise development (low rise is deemed to be not as significantly impacted) outside the downtown, particularly where major transit or public realm investments are not planned; purpose built rental development; pre-sold condo developments that have yet to pay development charges; and affordable units. Staff proposed policy changes in the following sections of this report are designed to address these issues.

Key Interim Findings of Potential Impacts:

- In free markets, pricing is established by the characteristics of supply and demand. Developers price housing at the maximum level that the market will bear.

- Strong demand in both residential rental and condominium projects have underpinned significant price increases in high demand areas. In the past 12 months unit pricing in the downtown core has increased by 24% to a current average of $1,051 psf. Very low inventory and strong demand driven by both end users and investors (capitalizing on the lack of rental product) will continue to put upward pressure on pricing.

- Relative to land values, construction costs have increased modestly over the past year by as much as 10%

- Development charges rate increases raise construction costs. These, and all development costs, are absorbed in the price a developer is willing to pay for land. The proposed increase in development charges impacts sites in different ways depending on the location and development but, on average, is estimated to reduce land values by about $14 per square foot across the City.

- Given these market characteristics, NBLC does not expect significant impacts on the viability of new residential development in the downtown or in other high growth areas such as Yonge and Eglinton. These areas account for approximately 80% of the current growth. Assuming market trends remain constant, land values are expected to absorb the impacts of the proposed charges over the medium and longer term.

- The downward pressure on land values will make redevelopment in some areas of the City less feasible. This may inhibit new supply and impact affordability. However, planned investment in transit, which is partially funded by development charges should, over the long term, positively impact low growth areas, improving their marketability and helping to drive demand.

- The majority of developers cap a purchaser's exposure to rate increases at closing, with an average cap ranging from $7,000 to $14,000, depending on unit type. A relatively small, but significant number of purchasers will be faced funding the full rate increase at the closing of their purchase.

- Low rise apartments, stacked towns and laneway suites remain viable across the City.

- Purpose-built rental housing is already challenged due to much higher equity requirements, delayed revenues, and the impacts of extended rent control legislation in April 2017. Development charges increases will add to the challenges facing new rental investment in all of the City's market areas.

4. Proposed Development Charges Policies

In addition to the above technical changes to the background study calculations, several policy refinements are proposed, as discussed below. The proposed policy and definitional changes are reflected in the proposed development charges by-law attached to this report as Appendix 1.

Refinements to the exemption for universities and colleges

Further to Committee direction, staff consulted with universities and colleges with the objective of minimizing the impacts arising from the proposed development charges by-law on delivering student housing. The feedback was very helpful in understanding on-campus accommodations. It was confirmed that student housing that is owned and/or occupied by universities and colleges are fully exempted from taxation, including development charges, through their enabling statutes. University and college representatives indicated that, in their view, private residential projects that may provide housing to students, but are not owned and/or occupied by colleges and universities, should not be exempted from development charges (or other forms of taxation granted to colleges and universities).

The City’s proposed by-law policies are not intended to fetter the exemptions available to universities and colleges, but to clarify that housing developed by private developers, that may be available to students, but is not owned and/or occupied by the university or college, should not be granted exemptions.

The proposed by-law has been refined to reflect stakeholder input and will refer to the enabling legislation and clarify that student accommodations are residential uses. College and university representatives are supportive of this change.

Stakeholders further requested that there be a process to support administration of the exemptions, so that issuance of building permits would not be unnecessarily delayed. This will be addressed as part of by-law implementation activities, in consultation with Toronto Building and Legal Services staff.

Rental Housing

a. Market Overview

Toronto's residential rental housing market is comprised of both the primary rental market and the secondary market. The primary rental market, also known as the purpose-built rental market, consists of occupied rental units in privately initiated and purpose-built rental structures of three units or more. These can be in apartments or row houses. The secondary rental market consists of rented condominiums, subsidized rental units, rented freehold row houses and rental units in structures with fewer than three units.

Units in the primary rental market are built by developers with the intention of being offered for rent at market rates. In contrast, much of the housing in the secondary market, such as rented condominiums and single-detached homes, was not initially developed as rental housing and could convert to owner-occupancy in the future.

One of the benefits of secondary market units is their flexibility. They can change with market needs and conditions. They can be a quicker alternative to addressing low vacancy rates than the construction of new rentals. This highlights the importance of the secondary market to rental supply. Growth in the rental market over the past decade has been largely reliant on condominium owners renting out their units in the secondary rental market. Condominium developments have long dominated the new housing market. Compared to purpose-built rental housing, condominium projects have lower equity requirements, earlier revenues, and have experienced significant price appreciation.

The primary purpose-built-rental market is viewed as an important component of the City's housing supply, with greater security of tenure and a source of long-term rental housing, compared to condominiums. The City's Official Plan sets out the importance to the City of purpose-built rental housing including stimulating the production of the new private sector rental housing supply, as follows:

"3.2.1.3. Investment in new rental housing, particularly affordable rental housing, will be encouraged by a co-ordinated effort from all levels of government through implementation of a range of strategies, including effective taxation, regulatory, administrative policies and incentives."

Although construction of purpose-built rental housing has increased over the past two decades, the creation of new purpose-built rental housing has not kept pace with the creation of ownership housing. Furthermore, most of the purpose-built rental stock in Toronto is older and dates back from the 1970s and earlier.

Limited supply of both ownership and rental accommodations, record housing prices, considerable migration to the Toronto area and lower tenant turnover are cited as key factors contributing to record low vacancy rates in the rental housing market.

b. Current Programs Supporting Rental Housing

The City and other orders of government currently provide a variety of financial incentives to support new purpose-built rental housing investments, as summarized below. Generally, greater financial supports are provided to projects that achieve deeper affordability. The City's Open Door Affordable Housing Program provides significant supports to affordable rental, with incentives estimated at between $60,000 to $120,000 per unit, including direct contributions and fee exemptions.

Table 4: Programs to Support Creation of New Purpose-built Rental Housing

	Affordable rental housing		**Non-luxury rental housing**	**Luxury Rental Housing**
Rent levels	Maximum 80% AMR	Maximum AMR (100%)	100% AMR to 175% AMR	Above 175% AMR
CMHC	Rental construction financing loans at preferential interest rates			
Federal / Provincial Capital Funding	Up to $150,000 per home			
Provincial	Proposed inclusionary zoning option for municipalities		Provincial DCs Rebate Program for non-luxury rental (up to 175% of AMR [(1)] - full or partial rebate of DCs capped at $25m per year province-wide [(2)]	
City Programs	Exemptions to one-time fees including DCs, planning application fees, permit fees, Section 42		(Proposed) DC rebate program for non-luxury rental (up to 175% of AMR) – partial rebate up to the increase of the DC rate per unit. Total annual rebate capped at the Toronto's allocation from the Ontario DCs Rebate Program.	
	25-year property tax relief		Single family residential tax rate for new multi-residential property [3] (0.46% vs 1.14%) Freeze in the multi-residential property tax rate	
	Cash and land contributions			

[1] The City will deliver the provincial development charges rebate program with priority to projects with up to 150% average market rents ("mid-range")

[2] The Province of Ontario recently announced $125 million province-wide over 5-years to support non-luxury (up to 175% AMR) purpose-built rental housing. If the City were to receive half of this allocation, the program would only allow for the creation of approximately 250 to 300 new rental units and only partially offset the impacts of rent control to the overall sector.

[3] The City's new multi-residential tax rate is equal to the regular residential rate. This policy results in reduced municipal property taxes for newly constructed purpose-built rental buildings.

c. Consultation with the Apartment Rental Sector

Staff met with representatives of the purpose-built rental housing sector to understand its challenges and discuss options to minimize the impact of the development charges rate increase.

Industry representatives identified a number of factors that tend to disadvantage rental projects, even before the proposed increase to development charges rates. These include high equity requirements, difficulties obtaining construction financing loans or achieving appropriate returns on investments, delayed revenues, longer payback periods, timing of development approvals, and other project requirements. Furthermore, concern about rising rents led the Province to extend rent control legislation in April of 2017 and tenant protection in their 2017 Fair Housing Plan. This has further discouraged market participants, despite the Province's $25 million annual DC rebate program for purpose-built rental. Consequently purpose-built rental projects have not been able to meet an estimated demand.

As acknowledged by the stakeholder group, the City's development charge program is unable to address this broad and long standing market issue. Firstly, it is only one of many factors contributing to the concern. Secondly, the funds collected through development charges are vital to meeting the capital expenditure plans of the City's various programs. Lastly, the costs to change the balance of rental vs. condominium in a meaningful way are beyond the capacity of the City government.

However, it is acknowledged that the City's proposed increases could jeopardize important rental projects that are coming to fruition, and the increases will add to the already challenging competitive environment with condominium development for future projects. Accordingly, this report recommends a development charges rebate program for non-luxury purpose-built rental projects that effectively doubles the value of the provincial development charges rebate program. Under this proposed program, non-luxury (up to 175% of AMR) units would be eligible for a development charges rebate up to the value of the DC rate increase over the 2013 by-law, potentially freezing the rates at current levels for eligible projects. The total program cost would effectively match the Provincial annual allocation to the City under its program.

Staff would also seek further support options from the provincial government, such as enriching the development charges rebate program which has a budget of $25 million per year province wide. Every $10 million of this program is equivalent to the development charges on approximately 600 units in Toronto, at full phase-in.

Industry representatives also suggested that coordinated efforts are needed both within the City and with other orders of government in order to effect any significant increases to new rental investments. The rental sector has expressed interest in further dialogue with the City on evaluating other municipal policy tools for supporting the rental sector. Staff support this request.

Conversion of the Home Ownership Assistance Program Loan Program to a Development Charges Deferral Program

City Council approved the Home Ownership Assistance Program (HOAP) in 2010, providing $2,000,000 annually from the Development Charges Reserve Fund for Subsidized Housing (XR2116). This funding currently supports 80 down payment assistance loans annually for eligible low and moderate income households valued at $25,000 each. Funding is provided to non-profit affordable ownership developers and private developers building homes on surplus public lands. The loan funding is repaid to the City with a share of capital appreciation when a home is sold on the open market and is no longer affordable.

This report recommends that staff from the Affordable Housing Office, in consultation with Corporate Finance and Legal Services, report to the next Affordable Housing Committee on June 25, 2018, with program details to enable the conversion of the HOAP from a program funded through the Development Charges Reserve Fund for Subsidized Housing (XR2116) to a Development Charges deferral program. This change is supported by the non-profit affordable ownership sector and will enable the program to keep pace with Development Charges increases over time.

Second Suites and Laneway Suites

The growing interest in laneway suites, garden suites, secondary suites and similar intensification land development have presented a number of policy issues at the City and the Province. The City is currently looking at permissions for laneway suites in the Toronto and East York district to add to the range of second units. Similarly, the Province had circulated but ultimately did not enact draft regulations that would have expanded the current statutory development charge exemption for secondary suites in existing construction to a wide variety of newly constructed secondary units, including laneway units.

Secondary units can provide an important option for extended family habitation and homeowner incomes. They can be a less intrusive and more incremental form of intensification than high rise buildings. For these reasons staff have considered ways to provide relief from development charges that might otherwise reduce the likelihood of projects proceeding. At the same time, Hemson advises that all forms of development result in an increased demand for municipal services, and the associated infrastructure needs are identified and included in the development charges study, whether an incremental condo unit in a high rise, or a basement apartment.

In order to establish appropriate policy, whether provincially or at the City, appropriate definitions of permitted and eligible units are crucial. The proposed development charges by-law provides for reduced development charges rates for secondary suites, including laneway suites, coach houses, garden suites and second suites in new single detached and semi-detached construction (e.g. basement apartments), so that all such units qualify for the apartment rate. Compared to the current by-law, this provides relief of approximately $30,000 to $50,000 per unit for secondary units detached from the primary dwelling (e.g. laneway suites and coach houses), and about a $10,000 per unit benefit for smaller secondary suites (e.g. basement apartments) contained in a new single detached or semi-detached construction.

The impact study suggests that the economics of laneway suites is generally sufficient to provide healthy returns even if proposed charges (January 9 background study) are fully applicable at the apartment rate. The same is expected to be true of reconstruction of houses with second units included in the design. For these reasons, the application of the apartment rates appears to provide the right balance of cost recovery and reducing the barriers to this important form of development.

Mount Dennis Pilot

Executive Committee directed staff to evaluate the possibility of a pilot project in Mount Dennis to provide development charges relief and other incentives to private investment in Neighbourhood Improvement Areas.

The village of Mount Dennis became a vibrant working class community through to the 1980's when it started to decline. The objective of the Mount Dennis Secondary Plan in the former City of York Official Plan was to enhance the image and identity of the community through revitalization efforts and to create a focus in the vicinity of Weston Road and Eglinton Avenue West. After amalgamation the Secondary Plan was consolidated into several Site and Area Specific Policies in the City of Toronto Official Plan.

Transit initiatives for this area have been contemplated for quite some time. The former City of York Official Plan acknowledged future transit proposals such as the Eglinton West rapid transit line and improvements to the GO system including a "gateway" in the area of the York City Centre. Since that time, transit is being implemented including among other improvements the Mount Dennis station and Maintenance and Storage Facility for the Eglinton Crosstown Light Rail Transit (LRT). The area continues to be included in consideration of future transit initiatives for rail and light rail.

At their meeting of March 10, 2016 City Council adopted a motion from the Ward Councillor to initiate a planning review of the area to prepare for future applications. City Council directed the Chief Planner and Executive Director, City Planning to undertake a review of the current planning framework for the Mount Dennis area including a review of the built form, density, height, and public realm. Consultation with the community, landowners and stakeholders is required as part of this study process. City Planning currently has this study on the work program to be initiated in 2018. The link to the City Council direction is provided below:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EY12.30

The City has various tools that can revitalize suburban areas and serve as drivers of economic development. These include investments in municipal infrastructure, financial incentives and supportive Planning policies. These tools should be evaluated in a comprehensive manner. Further to internal discussions with staff, including Corporate Finance, City Planning, Social Development, Finance and Administration, Legal Services and Economic Development, this report recommends that financial incentives for the area be considered concurrently with the Planning Framework report being prepared, which sets out the overarching framework and objectives for the area and would provide a policy basis for evaluating what is needed to support revitalization.

Transition Provisions

Transition provisions implement changes in rates or policies over time in order to mitigate the impact of the changes on land development projects that are well along in the development approval process and to allow for an orderly implementation of the new by-law. Transition assistance is generally used in times of poor economic performance, such as during the 2008 financial crisis, or where charges are increasing significantly, such as in this by-law review. Transition provisions are not mandated under the Act.

Transition provisions have an associated cost when compared to immediate implementation. The proposed policies seek to strike a balance between mitigating the impact of the new rates on land development proposals as well as on purchasers and, at the same time, minimizing the financial cost to the City of such transition assistance.

Proposed Transition Provision

Staff gave consideration to developer industry request for a long transition to the new rates, as well as the study on the evaluation of the impact of the rate increases on residential development, including impacts on housing affordability, the rate of development in the City, as well as impacts on purchasers.

As noted earlier, the impact study suggests that the rate increases are not expected to significantly impact the viability or affordability of new residential development over the long term in the downtown or high growth areas, which represent 80% of the current growth. Instead the development charges are expected to be capitalized into the price a developer is willing to pay for land.

Projects currently in the development pipeline present unique issues, particularly those for which purchase and sale agreements have been executed, or which are intended to be rental developments, but for which building permits have yet to be obtained. These projects could be exposed in the case of large and rapid rate increases.

The vast majority of these situations occur in condominium developments. The impact study indicates that in most cases the buyers exposure to rate increases at closing is capped under the sale agreement, with an average cap ranging from $7,000 to $14,000, depending on unit type. The effect is a sharing of the impact of a development charge increase between the developer and the buyer. The impact study indicates that the impact on purpose built rental developments is expected to be different, with higher input costs potentially jeopardizing project financing.

After giving consideration to the above, this report recommends a two year transition to the new rates, with 50% of the increases coming into effect on November 1, 2018, 80% a year later, on November 1, 2019, and the adopted rates effective November 1, 2020, as shown in Table 5 below. These rates will be adjusted annually in accordance with the indexing provisions set out in the bylaw.

Table 5: Proposed Phase-in Schedule

Type of Use	May 1/18 (no change)	Nov 1/18 (50% of the increase)	Nov 1/19 (80% of the increase)	Nov 1/20 (adopted rates)
Residential Uses ($ per unit)				
Singles & Semis	41,251	60,739	72,432	80,227
Multiples 2+ Bedrooms	34,742	50,528	59,999	66,313
Multiples 1 Bedroom and Bach.	24,816	29,041	31,576	33,266
Apartments 2 Bedrooms and Larger	25,366	36,165	42,644	46,963
Apartments 1 Bedroom and Bach.	17,644	24,150	28,054	30,656
Dwelling Room	11,028	16,386	19,600	21,743
Non-residential Uses ($ per m2)				
Industrial	173.07	173.07	173.07	173.07
Non-industrial	213.65	310.40	368.45	407.15

City staff and Hemson believe that the calculated development charges are fair, reasonable and defensible at the Local Planning Appeal Tribunal, and meets the requirements under the Act. In addition, on behalf of the land development industry, BILD has indicated that with the amendments to the rate calculation and the recommended transition provisions discussed in the report, it is satisfied that the new by-law is reasonable. Accordingly, BILD would not appeal the by-law nor support actions of its independent members to appeal. This assurance provides considerable benefit to the City to mitigate by-law appeals.

The rate calculations are considered fully defensible. Nevertheless, Local Planning Appeal Tribunal appeal outcomes are difficult to predict, and can take years to settle. Staff believe that the additional phase-in strikes the appropriate balance of revenue optimization and due consideration of the potential impact on the development industry. See Confidential Attachment 1 for further discussion and advice.

5. Other Matters

Local Services Guidelines

Local service guidelines set out the nature of capital costs that are a direct developer responsibility vis-à-vis those that are City costs and potentially eligible for inclusion in a Development Charges Study. The City's local services guidelines have been updated, based on staff input, to clarify the guidelines based on current City practices. The guidelines have been reviewed by BILD and comments received were considered in the update.

Toronto Green Standard Development Charges Refund Program

At their December 7, 2017 meeting, City Council adopted Version 3 of the Toronto Green Standard performance measures, which introduced a four-tiered framework for developers to achieve a near non-zero greenhouse gas emissions by 2023. The by-law has been updated to refer to the updated Toronto Green Standard Program, particularly to include Tiers 3 and 4 in the development charges refund program.

City Planning is expected to report back to Planning and Growth Management Committee before the end of Q2 2018 with recommendations on what additional financial and non-financial incentives are needed to encourage developers to meet the higher Toronto Green Standard performance measurement requirements, including the potential for updated development charges refund caps.

Collection Timing

There are several options available to municipalities under the Act related to the timing for collection of development charges, including:

- Payment at first building permit issuance (s.26(1))
- Payment at a different date as set out in an agreement with a developer (s.27(1))
- Payment of roads, water, wastewater and storm water components at the time of executing a subdivision or consent agreement (s.26(2))

Current City collection policies require applicants seeking conditional below-grade building permits to enter in to a development charges deferral agreement that provides for the development charges to be payable with the issuance of the first above-grade permit. A building permit without conditions requires the payment of development charges.

Land development industry stakeholders have asked the City to collect development charges earlier, at first permit, for conditional permits. This provides greater cost certainty to developers earlier in the development approval process, but increases developer financing costs as payment typically is made much earlier in the development process. However, during periods when significant rate increases are expected, such as in advance of a new bylaw or during a rate phase-in period, early DC payment can help 'crystalize' the development charges payable at lower rates. Developers, therefore, have greater opportunity to avoid paying the new higher rates, resulting in potentially significant revenue loss to the City.

Due to the potential significant financial implications of a change in collection timing, this report recommends that development charges continue to be collected at first above grade permit during the proposed phase-in period. Once the rates are fully phased-in, development charges be collected at first building permit without conditions or, where a first permit has already been issued, the charges be collected at the next permit. The recommended updates to collection policy is set out in Appendix 2. Staff will continue to monitor collection policies and provide recommendations on any refinements, as appropriate.

Conclusions

Additional technical review and stakeholder consultation has resulted in adjustments to the development charges rates and refinements to development charges policies, from those rates and policies previously tabled at the public meeting.

The proposed development charges by-law attempts to balance the City's overall capital financing needs, its broader economic development and long-term financial planning objectives and the trade-off that an increase in the rates may have on the rate of development in the City. That balance is achieved by phasing-in the change in the rates over a period of time, as well as by providing targeted relief to certain types of land development in the form of exemptions, incentives and other development charges policies.

CONTACT

Robert Hatton, Acting Executive Director, Corporate Finance
Tel: 416-397-9149, Email: Robert.Hatton@toronto.ca

Shirley Siu, Acting Director, Strategic and Intergovernmental Initiatives
Tel: 416-397-4205, Email: Shirley.Siu@toronto.ca

SIGNATURE

Joe Farag
Acting Chief Financial Officer

ATTACHMENTS

- Appendix 1: Proposed Development Charges By-law
- Appendix 2: General Terms of Development Charges Deferral Agreement for Projects Requiring Multiple Building Permits
- Appendix 3: General Terms of the City Purpose-Built Rental Development Charges Rebate Program
- Appendix 4: Development Charges Background Study Addendum dated April 6, 2018
- Confidential Attachment 1

Appendix 1: Proposed Development Charges By-law

Provided under separate cover

Appendix 2 - General Terms of Development Charges Deferral Agreement for Projects Requiring Multiple Building Permits

1. Pertains to a specific building permit application number.

2. Defers development charges payment to the earlier of:

(a) During a phase-in of the development charges rates, date of issuance of building permit that allows above-grade construction (no authority to defer beyond that);

(b) Upon full phase-in of the development charges rates, date of issuance of first permit, or if a first permit has been issued, date of issuance of the next permit; or

(c) Expiry of the agreement.

3. Development Charges Deferral Agreement be for a period of up to five years; extension possible at the sole discretion of the Chief Building Official, in consultation with the Chief Financial Officer.

4. Development charges due and payable shall be calculated based on the rates in effect at the time of payment.

5. Such additional terms and conditions as are necessary and reasonable, at the discretionary of the Chief Building Official, in consultation with the City Solicitor and Chief Financial Officer.

Appendix 3 -
General Terms of the City Purpose-Built Rental Development Charges Rebate Program

1. Delegated authority to the Director, Affordable Housing Office, in consultation with the Executive Director, Corporate Finance, to enter into appropriate agreements and administer the City DC Rebate Program.

2. Eligibility

a) Purpose-built rental units with rents between 100% to 175% of average market rents, by type of unit
b) Units must not be receiving a DC rebate through the Provincial DC rebate program
c) DC rebate is not to exceed the increase in the DC rate from the rates in effect on February 1, 2018, subject to adjustment for indexing
d) DC rates are calculated based on the City's DC deferral policy
e) Units must be rental for a minimum of 20 years
f) The total annual amount of the City DC rebate program shall be up to a maximum of the amount provided to the City through the Provincial DC Rebate Program
g) The developer must agree to enter into appropriate agreements, including securing rental tenure and financial securities, as required by the City Solicitor, in consultation with the Chief Financial Officer.

Appendix 4: Development Charges Background Study Addendum dated April 6, 2018

Provided under separate cover.