REPORT FOR ACTION

# Growth Funding Tools – Development Charges

Date: June 28, 2022
To: Executive Committee
From: Chief Financial Officer and Treasurer, and Chief Planner and Executive Director, City Planning
Wards: All

## SUMMARY


The Province of Ontario has introduced legislative changes to the *Development Charges Act* and *Planning Act* which necessitates the City review and update of three of its growth-related funding tools (GFTs):

- Development Charges (DCs);
- Community Benefits Charges (CBCs); and
- Alternative Parkland Dedication Rate.

This report is one of three being presented to City Council concurrently and recommends a DC bylaw and related Background Study, prepared by an expert consultant, Hemson Consulting Ltd. for consideration at a statutory public meeting, in compliance with provincial legislation. The recommended approach incorporates feedback from consultation with various stakeholders and city staff.

The City is updating its GFTs in response to provincial legislative changes that take effect on September 18, 2022. A key principle for GFTs is that growth pays for growth to ensure services and infrastructure are provided to create complete communities as the City grows. While there are some positive changes made to the DC legislation, DCs do not fully recover the cost of growth due to legislative restrictions such as statutory exemptions and the DC service level cap. The focus of the GFT review has been on meeting the legislative requirements to bring forward the bylaws so that the City's financial sustainability is not unduly impacted.

Amendments to the *Development Charges Act* revise the background study methodology, increase levels of exemptions, and impact the collection process. While some positive changes are introduced through Bills 108 and 197, certain restrictions remain such as the historical service level cap that do not allow for full recovery of growth-related capital costs.

As a funding tool, DCs remain the City's primary means to support growth-related capital projects. DCs are designed by legislation to specifically fund the portion of new capital projects that are needed to serve growth. Toronto is expected to continue as one of the fastest growing cities in North America, projected to grow to a minimum of approximately 3.65 million people by 2051.

High levels of growth require comparable levels of investment in infrastructure to serve new residents and new employment. This is evident in the DC Background Study, which demonstrates a significant increase in growth-related capital over the next 10 and 20 years, primarily driven by an increased need in housing, transit and roads infrastructure.

Of the $67.0 billion capital forecast outlined in the DC Background Study over the 10 and 20 year study planning period, $14.9 billion (22%) is related to growth and eligible for DC recovery. This forecast includes funding for capital facilities and infrastructure, such as roads, transit, water, parks, community centres and libraries, enabling the City to invest in, and provide infrastructure and services needed to serve growing communities.

The level of growth related capital investments outlined in the DC Background Study results in a rate increase of 46% for residential developments, and 40% for non-residential developments. Recommended adjustments to DC rates reflect updates to the capital programs and upward inflationary pressures on construction costs. The rates presented in this report are the calculated rates based on the DC Background Study and reflect the maximum recoverable amounts permitted by the legislation.

In developing the policy recommendations, stakeholder input was considered along with a preliminary impact analysis, current economic conditions, and the growth-related infrastructure needs in the City. The City is providing a measured implementation process which balances the impacts on new development by gradually phasing in rate increases over time, while supporting city-building objectives, including investing in infrastructure and services, encouraging the growth in housing supply overall and supporting the delivery of affordable housing. As part of further work, staff will continue to engage City Divisions and stakeholders and report back in 2023 on various matters, including a framework and review of financial incentives as part of the long term fiscal plan conversation.

## RECOMMENDATIONS

The Chief Financial Officer and Treasurer, and Chief Planner and Executive Director, City Planning recommend that:

1. City Council adopt the Development Charges By-law attached to this report as Attachment 1.

2. City Council authorize the City Solicitor to make such stylistic and technical changes to the Development Charges By-law as may be required.

3. City Council adopt the Development Charges Background Study dated April 2022, and the Development Charges Background Study Addendum dated June 2022 (together the "DC Background Study") included as Attachments 2 and 3, 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.

4. City Council adopt the following for the purposes of complying with the *Development Charges Act*:

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

    b. City Council express its intent that the future excess capacity identified in the Development Charges Background Study 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 City Council intends to ensure that the increase in service for transit will be met; and

    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.

5. City Council authorize the Chief Financial Officer and Treasurer to amend the site specific DC payment agreements listed in Attachment 5 of this report, in a form satisfactory to the City Solicitor, in order to coordinate with the report back on financial incentives in 2023 and to extend the term of the deferral periods for the development charge payment, with all other requirements of the existing agreement to remain in force, such new date being the earlier of:

    a. December 1, 2023;

    b. Such other dates as set out in the existing agreement.

6. City Council amend the Interest Policy previously adopted by City Council pursuant to Section 26.2 (3) of the *Development Charges Act,* pertaining to the "frozen" development charges that applies to Site Plan and Rezoning Applications received, and any building permits issued, after November 1, 2020, and authorize the Chief Financial Officer and Treasurer to apply interest charges:

    a. At a rate of 1.25 percent for each complete 30 day period from the date an applicable Site Plan Application or Rezoning Bylaw Amendment is received, until the date of building permit issuance;

b. Limited so that the total amount of interest payable when combined with the development charges payable does not exceed the development charges in effect under the City's bylaw at the date of building permit issuance; and

c. That the updated interest rate come into effect on September 1, 2022.

7. City Council authorize the Chief Building Official and Executive Director, Toronto Building to continue to require applicants seeking conditional below-grade permits to enter into a development charges payment agreement, in accordance with the general terms and conditions in Attachment 6 and consistent with current practice.

8. City Council approve the establishment of an obligatory reserve fund account named "Development Charges – Long-Term Care" in Appendix C, Schedule 11 – Development Charges Obligatory Reserve Funds of the City of Toronto Municipal Code Chapter 227, the purpose of which is to provide funding for long-term care capital projects, with criteria set out in Attachment 7.

9. City Council approve the establishment of an obligatory reserve fund account named "Development Charges – Waste Diversion" in Appendix C, Schedule 11 – Development Charges Obligatory Reserve Funds of the City of Toronto Municipal Code Chapter 227, the purpose of which is to provide funding for waste diversion capital projects, with criteria set out in Attachment 7.

## FINANCIAL IMPACT

GFTs allow municipalities to require development or redevelopment to contribute to pay for infrastructure and services required as a result of growth in population and employment to support complete communities. While a key principle is growth pays for growth consistent with the Province’s statements on the matter, GFTs have not fully covered the cost of growth in the past, nor are they expected to in the future. Legislative changes introduced through Bill 108 and 197 result in some positive changes to DCs; however, certain restrictions remain, such as the historical service level cap that does not allow for full recovery of growth-related costs. When growth does not pay for growth, the gap is funded by other funding sources, such as increases in property tax to support debt funding or addressed by reducing the level of services.

Within the legislative framework, DCs help offset a portion of growth-related infrastructure costs needed to support complete communities. DC revenues, after exemptions and phase-in, are expected to be about $750 million annually on average. Actual DC revenues will vary by year and economic conditions.

To help manage of impact on the development community, the recommended transition provisions would implement rate changes over a two-year period, with 50% of the increase implemented upon the current bylaw expiry on May 1, 2023 and full rates coming into effect on May 1, 2024. The proposed phase-in results in an estimated reduction of DC revenue of about $400 million compared to immediate implementation. For developments where Inclusionary Zoning applies, an extended transition is provided such that rates will be phased-in over two years starting in May 2025. DC rates will not be adjusted on the next index date in the City's current DC bylaw (November 1, 2022). Instead the indexing adjustments will be made on May 1, 2023, with annual adjustments made each subsequent year.

The City's current DC exemptions are proposed to continue pending the completion of a comprehensive framework and approach to financial incentives being undertaken with a report back to Council in 2023 to coordinate with the Long Term Fiscal Plan review. As a result of statutory and discretionary exemptions, the City is estimated to forego revenues of approximately $550 million annually, with the largest being the City's non-ground floor non-residential and affordable housing exemptions, estimated to each have a value of $200 million annually on average. The recommended bylaw policies represent about 55% recovery of eligible growth costs under the *Development Charges Act*, during the term of the bylaw. The above figures are based on the DC Background Study growth forecast and estimates of exempted units and non-residential floor space.

Reducing DC revenue sources through exemptions must be carefully considered to ensure that the approach and level of incentives are optimized and aligned to meet policy objectives. Reducing revenues through exemptions does not decrease growth-related infrastructure needs. Instead, it transfers the cost to existing residents and businesses through higher property taxation user rates and utility rates or impacts the services provided to existing and new residents.

Staff resources needed to support the new DC bylaw, including additional requirements introduced through Bill 109 earlier this year, will be brought forward as part of the 2023 budget process.

## DECISION HISTORY

At its meeting on May 12, 2022, Council considered the report PH33.11 "City of Toronto Review of Bill 109: More Homes for Everyone Act", which provides commentary and recommendations with respect to the legislation changes introduced in Bill 109 to the *Planning Act*, *Development Charges Act* and City of Toronto Act.

At its meeting on June 1, 2021, Executive Committee considered Item EX24.4 Bill 197 and Growth-Related Funding Tools Update, which provides an update on the City's approach to the legislative requirements outlined in Bill 197 for municipal growth funding

At its meeting on February 2, 2021, City Council adopted EX20.4 “Development Charges Policy Updates”, which updates the City's policies with respect to payment timing and interest.

At its meeting on January 19, 2020, City Council adopted MM14.18 "Re-opening of MM13.27 Response to Proclamation of *Development Charges Act* changes effective January 1, 2020", which clarified how DC interest rates are calculated.

At its meeting on December 17, 2019, City Council adopted MM13.27 "Response to Proclamation of *Development Charges Act* changes effective January 1, 2020", which adopted new administrative processes in response to legislative changes.

At its meeting on November 26, 2019, City Council considered Item MM12.29 Bill 138 - Preliminary City Comments, which summarized amendments to Bill 108 proposed through the *Plan to Build Ontario Together Act* (Bill 138).

At its meeting on July 16, 2019, City Council considered Item CC9.7 More Homes, More Choice Act - Budgetary Considerations, which identified budgetary considerations related to the implementation of Bill 108 and the measures staff were taking to work with the Province to ensure appropriate regulations are adopted.

At its meeting on May 14, 2019, City Council considered Item CC7.3 Proposed Bill 108 (More Homes, More Choice Act) and the Housing Supply Action Plan - Preliminary City Comments, which highlighted the proposed changes to the *Planning Act*, *Local Planning Appeal Tribunal Act*, *Ontario Heritage Act* and the *Development Charges Act*.

## EQUITY IMPACT

The capital plans that underpin the DC rates include projects that advance the City's equity outcomes and results. Housing and transit, which are essential for underserved populations, are two services with the highest increases in the DC capital program. Other services, such as childcare and recreation amenities, are also included. Overall, the capital programs contribute to building complete communities where all residents have an equal opportunity to live, work, and play.

## CLIMATE IMPACT

The City's capital budgeting process involves a climate focus as part of the decision making framework. DCs are used to fund a range of capital projects, including those that positively contribute towards the City's Resilience Strategy and the TransformTO Net Zero Strategy which aims to reduce community-wide greenhouse gas emissions to net zero by 2040. The Official Plan envisions Toronto as a city with a healthy natural environment including clean air, soil, energy and water; and infrastructure and socio-economic systems that are resilient to disruptions and climate change.

The City also provides DC refunds to developers that meet Tier 2, 3 or 4 near zero emission levels of environmental performance set through the Toronto Green Standard (TGS) program in an effort to incentivize sustainable development. Enhancements to this program will be considered as part of the financial incentives framework that will be reported back to Council in 2023.

## COMMENTS

### The City's Approach to Growth-Related Funding Tools

Development Charges (DCs) are one of three growth-related funding tools (GFTs) being presented to City Council for consideration, in compliance with Provincial requirements and prescribed timelines. GFTs are charges collected by municipalities from new development that are intended to pay for capital costs to serve the growing population, including municipal services and infrastructure.

While there are three separate tools, DCs, CBCs, and the Alternative Parkland Dedication Rate, they have been reviewed together to ensure a holistic approach to funding growth and address provincial requirements. The City of Toronto's GFT project is guided by the following three principles:

**Complete communities:** As the City grows, it is important to plan for a mix of housing types, employment uses, a diversity of land uses, community services and amenities, and street connectivity in order to promote the development of complete communities where people will continue to want to live, work and play.

**Growth pays for growth:** New development should pay for the growth-related infrastructure, services and facilities needed to support the new population and employment. Changes to provincial legislation should maintain municipal revenues – that is, the City should not be worse off as a result of the new legislative requirements.

**Practical and predictable:** Growth funding tools will be transparent, predictable and practical to administer and implement.

Development Charges are the City's primary revenue tool for funding growth-related capital infrastructure and services. As Toronto grows, investment in municipal services such as transit, water, roads, community centres, childcare centres, libraries and fire stations are needed to keep pace with and support a growing city. Even though the costs of constructing and operating schools and hospitals is a provincial responsibility, the costs related to growth (e.g. providing water and roads) continue to paid by municipalities.

Prior to enacting a new DC bylaw, the City must complete a DC Background Study which, amongst other matters, identifies the growth forecast to occur in the City as well as growth-related capital services and facilities needed to provide the increased services needed for that growth. The Study establishes the calculated DC rates that recover from new development the cost of services needed to support new population and employment. The DC Background Study must be published at least 60 days prior to Council adoption of the bylaw, and it was published on April 12. The City must also hold at least one statutory public meeting and release the materials at least two weeks prior to the meeting. The revised bylaw and DC Background Study Addendum were published on June 24.

The GFT project is a significant interdivisional project that has been achieved through a collaborative effort of staff across almost all City Divisions and a number of the City’s Agencies, Boards and Corporations. As part of this effort, the City undertook a comprehensive engagement process which included: the public, development industry, community organizations and school boards. A summary of GFT consultation and engagement findings is included in Attachment 8.

## Understanding Growth in the City of Toronto

The City's Official Plan outlines a framework for how the City should support and manage growth. The goal is to create complete communities that meet the basic needs of all residents in a community regardless of income or culture through community design. This includes, but is not limited to, ensuring a mix of housing types, diverse land uses, employment opportunities, available community amenities, and mobility options.

The City is required to use provincial forecasts for growth management and long-term planning. Within these forecasts, the City of Toronto expects to reach a minimum population of 3.650 million in 2051, with 1.980 million jobs available. This would represent an additional 615,000 residents and 283,000 jobs over 2021.

GFTs are critical to delivering infrastructure to support growth and ensure the City's residents, businesses and visitors have access to essential services. Together, the DC Study, the Parkland Strategy and the CBC Strategy identify the investments the City will require in order to accommodate growth and community building, and informs the recoveries needed to offset growth-related costs.

## Key Legislative Changes to the *Development Charges*

Over the past few years, the Province has made iterative changes to DCs through Bills 108 and 197. The key legislative changes to DCs, along with their implications, are listed below.

**Improved Cost Recovery:** Municipalities are no longer required to make a 10% deduction to the costs for seven “soft” services, such as parks, housing, libraries, and childcare. While this change represents an improvement to cost recovery, the historic service level cap remains in place, which means that growth costs cannot be fully recovered through DCs.

**Changes to Eligible Services:** A prescriptive list of eligible services now identifies what can be funded by DCs, whereas the previous legislation outlined only ineligible services. As a result, two existing services, pedestrian infrastructure and civic improvements, are no longer eligible for funding and must be recovered through other sources, such as the CBC.

**Changes to Calculation and Collection Timing:** Effective January 1, 2020, DC rates are "frozen" and calculated based on the date the complete planning application is filed instead of permit issuance. DC payments for non-profit housing, rental housing, and institutional developments are now collected in instalments beginning at occupancy. These changes result in the rates being set earlier and collected later, creating a number of risks for the City, as well as increasing the administrative burden. The DC freeze introduces inflationary risks of costs relative to the frozen rates, while instalment payments create collection and administration risks, as well as cash flow risks. The Province did not provide authority to register DC payment agreements on title on land or grant priority lien status to outstanding DCs added to the property tax roll. The City has adopted interest rate policies, as permitted under legislation, to help offset these risks.

Beyond the changes discussed above, other changes include new statutory exemptions for secondary units and universities, and other technical amendments such as a change in planning periods for the background study.

With the changes, DCs still do not allow for full recovery of growth-related costs. The most significant is the 10-year historic service level cap on the DC rate calculation. Approximately $2 billion in growth costs over 10 years is not recoverable in the current DC bylaw as a result of this restriction. Statutory exemptions further reduce recovery of growth-related costs by approximately $1 billion over 10 years. Ineligible services reduce recovery by approximately $3 million based on the current bylaw. The change to remove the statutory 10% reduction is estimated to improve DC recoveries by about $10 million annually.

Overall, while the amendments to the *Development Charges Act* (DCA) make positive changes, some challenges still remain that means that growth does not still fully pay for the services needed for growth.

*Bill 109*

Recently the Province introduced further changes to GFTs through Bill 109, the *More Homes for Everyone Ac*t, which received Royal Assent on April 14, 2022. The changes require municipalities to undertake additional variance reporting for DCs which is expected to have an administrative impact to the City. Changes were also made to Parkland Dedication that are discussed in the report proceeding concurrently.

## Development Charges Background Study

DC Background Study dated April 2022, and the DC Background Study Addendum dated June 2022 (together the "DC Background Study") included as Attachments 2 and 3, provide the methodology and approach for addressing the prescriptive legislative requirements for establishing DC rates. Proposed rate changes are shown on Table 1, which represent increases to the current DC rates of approximately 46% and 40% to residential and non-residential rates, respectively.

The upward pressure in the rates are attributed to various factors including increases in growth-related capital forecasts to address the needs of a growing population, increases in growth-related infrastructure investments being made in housing, transit, and roads, increased land and construction costs, the removal of the 10% statutory contribution for "soft" services, and the addition of two new DC Services (Waste Diversion and Long-Term care) per provincial legislation.

Table 1: Current versus Calculated DC Rates

| Development Type | Nov. 2021 (Current) | April 2022 Calculated (Draft Study) | June 2022 Calculated (Addendum) | Rate Change (Current to June 2022) |
|---|---|---|---|---|
| Residential Uses (per unit) | | | | |
| Singles & Semis | $93,978 | $139,830 | $137,040 | $43,062 |
| Multiples 2+ Bedrooms | $77,679 | $115,579 | $113,271 | $35,592 |
| Multiples 1 Bed and Bach. | $38,968 | $57,976 | $56,819 | $17,851 |
| Apartments 2+ Bedrooms | $55,012 | $81,852 | $80,218 | $25,206 |
| Apartments 1 Bed and Bach. | $35,910 | $53,432 | $52,367 | $16,457 |
| Dwelling Room | $25,470 | $37,894 | $37,138 | $11,668 |
| Non-Residential Uses (per m2) | | | | |
| Non-industrial | $476.94 | $667.26 | $666.90 | $189.96 |
| Industrial* | n/a | n/a | n/a | n/a |

* Exemptions for industrial are proposed to continue in the recommended bylaw. Similar to the 2018 DC Study, there is a differentiated non-residential rate between industrial and non-industrial uses. The 2018 (indexed) and June 2022 industrial rates are $226.97 and $260.21 per m2, respectively.

The above rates are rooted in a $67.0 billion gross capital forecast over the 10 and 20 year planning horizons, of which $14.9 billion, or 22%, is eligible for potential recovery through the DC rate after required legislative deductions, such as grants, subsidies and non-growth shares. Existing DC eligible services remain mostly in place, with minor changes made to comply with the new legislation. Pedestrian Infrastructure and Civic Improvements are no longer eligible, and Public Health has been removed given that there are no growth-related capital forecasts. Waste Diversion and Long-Term care have now been added, creating a total of 17 DC services in the 2022 study. For more detail on the DC capital program summaries, see Attachment 4. There has been upward pressure on DC rates in surrounding jurisdictions as shown in the same attachment.

*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 DC study. The City's local services guidelines were reviewed and are largely unchanged, reflecting current City practice. The local services guidelines are included in the DC Background Study.

### Recommended Development Charges Bylaw

The updated bylaw reflects the new rates as established by the DC Background Study and the proposed phase-in discussed further in this report, as well as a number of administrative amendments that have been added for clarity and to reflect updated policies and legislative changes. Attachment 4 provides a summary of the changes to the bylaw and a copy of the bylaw is provided as Attachment 1 to this report.

## Policy Considerations

In developing the policy recommendations outlined below, several factors were considered including:

- Infrastructure needs to service the growth in residents and employment
- Results of the preliminary impact analysis that indicated that although GFTs are not a primary driver of housing prices, current economic conditions with increasing inflation and construction costs (which the City also faces in its infrastructure projects) warrants a measured implementation of the new rates to mitigate the impact of rate changes on development; and
- Feedback from public, community and industry stakeholders

The policy recommendation in the three GFT reports on DC, CBC and alternative parkland dedication balance the above factors and provide a measured approach to GFT increases. The combined package of policy responses directly supports development projects through a combination of multi-year phase-in and exemptions, while balancing the long-term infrastructure needs of residents and businesses resulting from the expected growth.

The following section summarizes key policy considerations related to the recommended DC bylaw and is organized as follows:

1. Transition Provisions
2. Development Charges Exemptions
3. City-wide versus Area-specific Charges
4. Calculation and Collection Policies

### 1. Transition Provisions

Transition provisions implement changes in the DC rates over time to mitigate the impact of changes on land development projects that are well along in the development approval process and to allow for an orderly implementation of the new bylaw. Transition provisions are not mandated under the DCA.

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

*Recommended DC Rate Phase-in*

Staff gave consideration to a number of factors in developing recommended transition provisions, including development industry requests for a three year transition of the new rates, the preliminary impact analysis, the rate of development in Toronto and the investments in servicing needed.

This report recommends a two-year transition to the new DC rates, with the current rates continuing upon the effective date of the bylaw on August 15, 2022 to coordinate with the CBC bylaw, 50% of the increase coming into effect on May 1, 2023 and the other 50% will be included in the DC rates effective May 1, 2024, as shown in Table 2 below. DC rates are proposed to not be adjusted on the next index date in November 1, 2022 per the City's current bylaw, which is estimated to have result in a 17% increase to the current rates based on the latest year over year change in the statutory index. Instead indexing will occur on May 1 2023, with annual adjustments made each subsequent year, which would coincide with the phase-in dates. The proposed phase-in creates a funding gap of about $400 million.

Table 2: Proposed Phase-in Schedule

| Development Type | Aug 15, 2022 (No Change) | May 1, 2023** (50% of increase) | May 1, 2024** (100% of increase) |
|---|---|---|---|
| Residential Uses (per unit) | | | |
| Singles & Semis | $93,978 | $115,509 | $137,040 |
| Multiples 2+ Bedrooms | $77,679 | $95,475 | $113,271 |
| Multiples 1 Bed and Bach. | $38,968 | $47,894 | $56,819 |
| Apartments 2+ Bedrooms | $55,012 | $67,615 | $80,218 |
| Apartments 1 Bed and Bach. | $35,910 | $44,139 | $52,367 |
| Dwelling Room | $25,470 | $31,304 | $37,138 |
| Non-Residential Uses (per m2) | | | |
| Non-industrial | $476.94 | $571.92 | $666.90 |
| Industrial* | n/a | n/a | n/a |

* The DC Study calculates a differential rate for industrial uses at $260.21 per m2 however, the current exemption for industrial uses is proposed to continue.

** Rates subject to indexing in accordance with the statutory index set out in the DCA

*Proposed Transition for Inclusionary Zoning Units*

Inclusionary Zoning (IZ) policies adopted by Council in 2021 require between 5-10% affordable housing be provided in new development within a Protected Major Transit Station Area (PMTSA). The introduction of mandatory affordable housing requirements will positively contribute to the delivery of affordable housing in Toronto, alongside market housing upon the approval of the PMTSA by the Province.

While policies have been adopted by Council, IZ policies will not be implemented until the later of September 18, 2022 and the date the Minister approves a PMTSA. Transition provisions in regulation (O.Reg.OR232/18) exempts developments from IZ that have filed both a zoning by-law amendment along with an application for site plan approval prior to the later of September 18, 2022 and the date of the Minister's approval of a PMTSA.

At the time of consideration of IZ policies in 2021, a financial analysis study on the impact of IZ on new development was completed. The study was based on an assumption that the City applies a four percent CBC; however, the 2022 recommended DC and alternative parkland rates were not yet known at that time. As a result, the 2021 financial analysis study was based on the current DC and parkland policies and rates.

As part of the GFT review, staff recommend that the DC rates for developments with IZ units be phased-in as follows: the current level of DCs be maintained for two years, following which, the DC rate increase would be phased-in over two years with 50% of the increase coming into effect on May 1, 2025 and the balance on May 1, 2026. The rates would be adjusted in accordance with indexing as set out in the bylaw. The policy would be reviewed as part of the review of IZ policies, as well as the review of financial incentives being undertaken as part of the Long Term Fiscal Plan. As noted earlier, the regulations exempt development from IZ where a development application has been received by the later of September 18, 2022 or the date of approval of a PMTSA.

## 2. Development Charges Exemptions

While the primary purpose of GFTs is to invest in infrastructure needs driven by growth, these tools alone are not sufficient to meet the City's growth needs. Providing financial incentives, such as exemptions, rebates and deferrals, are another way to support growth-related policy objectives. Financial incentives must be carefully considered because reducing the revenues from GFTs through incentives does not reduce the growth-related infrastructure needs. Instead, it transfers the cost of growth to existing residents in the form of pressures to increase property taxation, user fees or utility rates.

*Comprehensive Review of Exemptions and Financial Incentives to be Undertaken*

At this time, no changes are proposed to the current DC bylaw exemptions. The City started a review of the non-residential non-ground floor exemption in 2019; however, that work was paused due to the impacts of the pandemic on the office sector.

The City's discretionary exemptions and financial incentives will be reviewed and brought forward for Council consideration in 2023. This will include a comprehensive framework which considers all growth-related funding tools and other policy reviews underway, such as the Imagination, Manufacturing, Innovation and Technology Program. The implications of providing exemptions will need to be further analyzed to examine the financial impacts to the City, and to ensure that incentives support the City's desired outcomes and goals.

As part of this comprehensive review, staff will consider exemptions supporting the City's key strategic priorities, such as advancing climate-related goals, providing a range of housing including purpose-built rental housing, and maintaining and creating affordable housing. In addition, staff propose to report back comprehensively on the Council directives requesting staff review different types of financial incentives, such as expanding the Toronto Green Standard DC refund program, and additional exemptions for clergy residences located on places of worship. This would provide a fulsome opportunity to review the appropriateness and approach to incentives for GFTs and create an optimized approach that best meets the objectives of the City. A number of site specific DC deferral agreements will need to be extended so that the requests can be evaluated at the same time as the comprehensive review of financial incentives, and that there is no gap in the meantime triggering a DC payment. A summary of Council directives are provided in Attachment 4.

### 3. City-wide versus Area-specific Charges

DCs may be city-wide, area-specific or a combination of the two. As required by legislation, a municipality must consider area-specific DCs as part of the DC Background Study. The following was considered with respect to area-specific DCs:

- Is the use of area-specific charges appropriate for some or all services?
- Is there sufficient data available to calculate an area-specific DC?
- Are there policy, risk or financial implications of implementing an area-specific charge?

As discussed in the DC Study, the recommended bylaw continues to apply city-wide charges. The key reasons that support a city-wide approach is unchanged from previous reviews and include the following:

- While specific geographic areas were examined, there were data limitations for establishing area-specific charges in the Waterfront and Port Lands and other Secondary Plan areas at this time, as well as challenges defining the required benefitting areas;
- Area-specific charges limit service levels for certain for DC services due to the legislated 10-year historic service level cap restriction, which reduces potential DC recoveries compared to city-wide charges; and
- Growth in the downtown and other more dispersed high growth areas trigger the need to develop city-wide transportation, transit, water and sewer processing, and recreation networks. City-wide DCs provide greater financial flexibility to the City to fund growth-related capital investments with lower financial risk.

### 4. Calculation and Collection Policies

Legislative changes introduced through Bill 108 effective January 1, 2020, provides for the calculation of DCs to be "frozen" based on the rates in effect at the time of planning application in certain situations, and for payment of DCs to be paid in instalments over 5 and 20 years, starting from occupancy for certain types of development. Council adopted DC payment policies in response to these changes, including early payment options and interest policies as permitted under legislation. There are also a number of other existing policies adopted by Council that support various policy objectives, such as affordable ownership housing and laneway suites. The DC freeze interest rates are discussed below in response to input received from the development industry. The remaining policies are proposed to continue and are summarized in Attachment 4.

*DC Freeze Interest Rates*

Legislative changes effective January 1, 2020, notably the DC "freeze" in the rates could have resulted in significant negative financial impacts on the City without mitigating measures adopted by Council. As a result of the "freezing" of DC rates when a planning application is submitted, developers can theoretically file applications to lock in rates and avoid scheduled rate phase-in or even avoid rate changes from future bylaw updates. Development projects containing planning applications since January 1, 2020 represent proposals for over 250,000 residential dwelling units. If these units were all approved and frozen at rates in effect at the time the applications were submitted, and collected based on the 2022 calculated rates with no interest or alternate payment program, the City could have experienced a revenue loss of over $6 billion compared to what would have been collected under the previous legislation.

The charging of interest (at 1.5 percent every 30 days but capped at the rates in effect at building permit issuance), along with Council's below-grade conditional permit payment policy (that requires the charges to be calculated and paid based on the date of above grade permit during the 2018 DC bylaw rate phase-in, and upon the issuance of first permit after the phase-in), helps to mitigate the financial impact of the change on the City.

Staff have reviewed the City's interest policy, and are recommending to change the rate from 1.5% a month to 1.25% a month, effective September 1, 2022. This rate is consistent with interest applied to property tax arrears. The below-grade conditional permit policy is also being updated to reflect the current practice of charges being calculated and payable upon issuance of first permit.

## Stakeholder Consultation

In coordination with the broader GFT review, a variety of consultation events for the public, stakeholder groups and development industry have been held throughout the course of the project, starting in 2021. Engagement efforts focused on building awareness of the funding tools, sharing key information to understand the study process and outcomes, and gathering feedback on priorities and preferences for updating these tools. Consultation events are summarized below.


The following themes emerged from the consultations:

- Housing affordability – how rate changes affect housing affordability
- The impact on new development – potential negative impacts on new development
- Who should pay for growth – the extent growth should pay for growth or whether growth costs should be shared by all homeowners
- Transition – how rates changes will be transitioned to allow development to adjust to the new level of charges

Feedback and comments received from the public, stakeholder groups and industry have helped to shape the proposed rate and policy framework, which includes the phase-in of rate changes and other policy considerations discussed in this report, as well as adjustments to the DC Background Study calculations and rates. A summary of the key themes heard from the stakeholders and the City's response to feedback can be found in Attachment 8.

### Implementation Considerations

The three GFTs will require some new administrative processes and staff anticipate requiring additional resources to ensure successful implementation, including staffing. For the current year, staffing will be managed through internal delegated authorities. For future years, these staffing requirements, along with any other additional implementation resources required, will be identified and submitted for consideration as part of the 2023 budget process.

## Conclusion

This report recommends an updated DC bylaw to reflect changes to the legislation introduced through Bills 108 and 197, as well as revised growth forecasts and capital plans. The DC bylaw is being updated with the other two GFTs, CBCs and the Alternative Parkland Dedication Rate, in order to provide a coordinated approach to the GFTs. These tools allow the City to invest in and provide infrastructure needed to serve growing communities.

The calculated DC rates are increasing due to growth pressures and the related additional capital investments needed to support growth, particularly for transit, roads and affordable housing. The recommended DC bylaw seeks to balance the City's overall capital financing needs, its broader social and economic development goals, long-term financial planning objectives and the trade-off that an increase in the rates may have on the rate of development in Toronto. That balance is achieved by phasing the rate changes over a period of time, which is estimated to have a forgone revenue impact of approximately $400 million compared to immediate implementation, and continuing targeted relief to certain types of land development in the form of exemptions and incentives. Staff will continue to engage City Divisions and report back with remaining analysis and recommendations in 2023, including staffing needs to support legislative changes, and the financial incentives work.

## CONTACT

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Chief Financial Officer and Treasurer

Gregg Lintern
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## ATTACHMENTS

Attachment 1: Development Charge Bylaw
Attachment 2: Development Charges Background Study
Attachment 3: Development Charges Background Study Addendum
Attachment 4: Development Charges – Summaries
Attachment 5: Site Specific DC Deferrals
Attachment 6: General Terms and of Development Charges Payment Agreement for Projects Requiring Multiple Building Permits
Attachment 7: Development Charges Reserve Fund Criteria Sheets
Attachment 8: Stakeholder Engagement Summary

## Attachment 1: Development Charges Bylaw

Provided under a separate cover

## Attachment 2: Development Charges Background Study

Provided under a separate cover

## Attachment 3: Development Charges Background Study Addendum

Provided under a separate cover

## Attachment 4: Development Charges – Summaries

1. DC Study Capital Summary
2. DC Bylaw Summary of Changes
3. DC Rate Comparisons
4. Council Directives – Financial Incentives
5. DC Calculation and Collection Policy Summary

## 1. DC Study Capital Program Summary (in $000s)

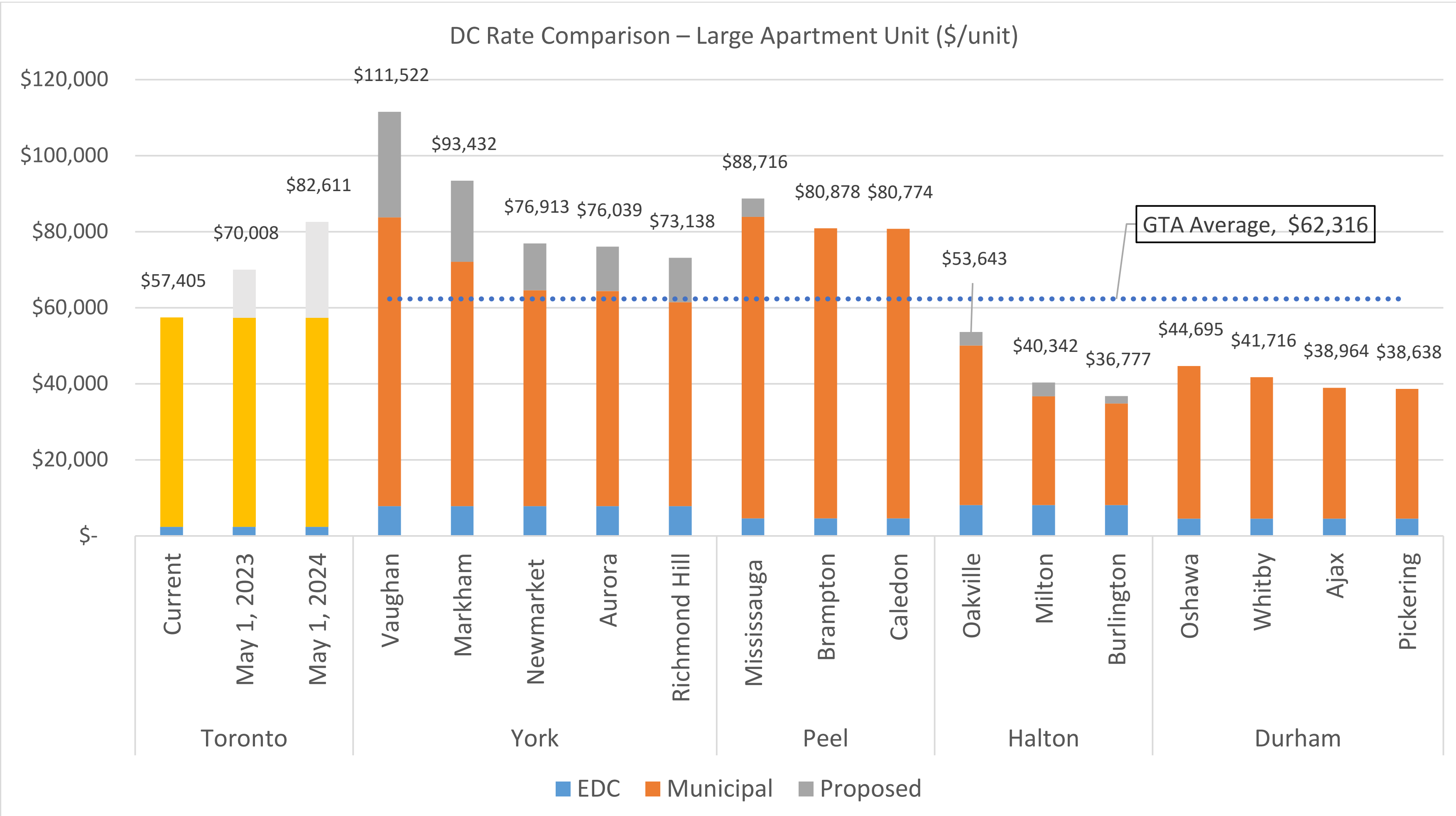
| | Service | Gross Project Cost | Grants/ Subsidies/Other Recoveries | Net Costs | Replacement & BTE Shares | Prior Growth / Available DC Reserves | Other Development Related | Total DC Eligible Costs for Recovery |
|---|---|---|---|---|---|---|---|---|
| | **Development-Related Capital Program 2022 - 2031** | | | | | | | |
| 1 | Spadina Subway Extension | $3,184,169.0 | $2,280,500.0 | $903,669.0 | $425,931.3 | $0.0 | $185,136.7 | $292,601.1 |
| 2 | Transit (balance) | $22,861,898.8 | $3,820,985.3 | $19,040,913.5 | $10,052,569.6 | $24,786.9 | $4,429,268.1 | $4,534,288.9 |
| 3 | Roads and Related | $3,875,828.6 | $857,642.5 | $3,018,186.2 | $777,147.5 | $0.0 | $20,973.3 | $2,220,065.4 |
| 4 | Water | $713,226.3 | $475.0 | $712,751.3 | $522,772.3 | $0.0 | $0.0 | $189,979.0 |
| 5 | Sanitary Sewer | $321,923.0 | $24,557.2 | $297,365.8 | $201,137.6 | $15,520.0 | $0.0 | $80,708.2 |
| 6 | Storm Water Management | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| 7 | Parks and Recreation | $2,568,319.1 | $203,122.6 | $2,365,196.5 | $478,469.2 | $383,495.0 | $278,821.6 | $1,224,410.8 |
| 8 | Library | $686,599.2 | $10,971.7 | $675,627.5 | $447,952.2 | $0.0 | $0.0 | $227,675.3 |
| 9 | Housing Services - Shelter | $138,278.6 | $0.0 | $138,278.6 | $19,946.4 | $24,897.7 | $0.0 | $93,434.5 |
| 10 | Housing Services - Affordable Housing | $17,820,835.5 | $11,389,000.0 | $6,431,835.5 | $3,473,191.2 | $0.0 | $1,481,255.5 | $1,477,388.8 |
| 11 | Police | $565,165.0 | $0.0 | $565,165.0 | $418,730.6 | $0.0 | $0.0 | $146,434.4 |
| 12 | Fire | $80,773.4 | $2,447.0 | $78,326.4 | $29,458.5 | $0.0 | $0.0 | $48,867.9 |
| 13 | Ambulance Services | $255,409.5 | $0.0 | $255,409.5 | $36,467.9 | $14,586.4 | $115,541.7 | $88,813.6 |
| 14 | Development-Related Studies | $36,939.0 | $0.0 | $36,939.0 | $1,150.5 | $0.0 | $0.0 | $35,788.5 |
| 15 | Long Term Care | $882,210.0 | $298,074.3 | $584,135.7 | $391,370.9 | $0.0 | $57,829.4 | $134,935.3 |
| 16 | Child Care | $180,417.0 | $9,391.0 | $171,026.0 | $22,514.9 | $0.0 | $0.0 | $148,511.1 |
| 17 | Waste Diversion | $239,500.6 | $0.0 | $239,500.6 | $96,044.6 | $0.0 | $90,678.4 | $52,777.5 |
| **SUBTOTAL 2022-2031** | | **$54,411,492.8** | **$18,897,166.7** | **$35,514,326.2** | **$17,394,855.2** | **$463,285.9** | **$6,659,504.8** | **$10,996,680.3** |
| | **Development-Related Capital Program 2022 - 2041** | | | | | | | |
| 1 | Roads and Related | $1,779,684.3 | $177,484.2 | $1,602,200.1 | $176,321.9 | $0.0 | $198,159.2 | $1,227,719.0 |
| 2 | Water | $1,469,371.6 | $71,882.1 | $1,397,489.5 | $871,544.1 | $0.0 | $13,521.7 | $512,423.7 |
| 3 | Sanitary Sewer | $7,320,333.0 | $46,717.3 | $7,273,615.7 | $5,744,013.5 | $0.0 | $20,936.0 | $1,508,666.2 |
| 4 | Storm Water Management | $2,058,267.3 | $571,566.4 | $1,486,701.0 | $354,542.3 | $7,200.0 | $429,734.3 | $695,224.3 |
| **SUBTOTAL 2022-2041** | | **$12,627,656.2** | **$867,649.9** | **$11,760,006.3** | **$7,146,421.8** | **$7,200.0** | **$662,351.2** | **$3,944,033.3** |
| **TOTAL 2022 - 2031 & 2022 - 2041** | | **$67,039,149.1** | **$19,764,816.6** | **$47,274,332.5** | **$24,541,277.0** | **$470,485.9** | **$7,321,856.0** | **$14,940,713.6** |

## 2. DC Bylaw Summary of Changes

| Description | Proposed Change |
|---|---|
| Definitions | • Replaced "Nursing Home" with "Long-term Care" to reflect current legislation<br>• Updated unit definitions to reflect new statutory exemptions and current practice<br>• Updates to the definition of dwelling rooms to clarify the treatment of guest suites |
| Exemptions | • Removed discretionary exemptions that are now required statutory exemptions<br>• No changes to other exemptions |
| Services | • Seventeen DC Services (previously eighteen)<br>• Added: Long-Term Care and Waste Diversion<br>• Removed: Health, Pedestrian Infrastructure, and Civic Improvements |
| Timing of Demolition | • Added provision to preserve entitlement to reduction of DCs for demolition, in cases where City has required owner to construct new building prior to demolition of existing building, or otherwise required the early demolition of an existing building |
| Toronto Green Standard Rebate Program | • The applicable version of the TGS will be based on the date of application for the program |
| Other Minor Changes | • Other minor revisions have been made to the DC Bylaw to reflect current practice |
| Transition | • Two year phase-in of the rate changes<br>• Two year phase-in of rate changes for inclusionary zoning projects starting in May 2025 |
| Indexing | • Annually starting on May 1, 2023 |

## 3. DC Rate Comparisons

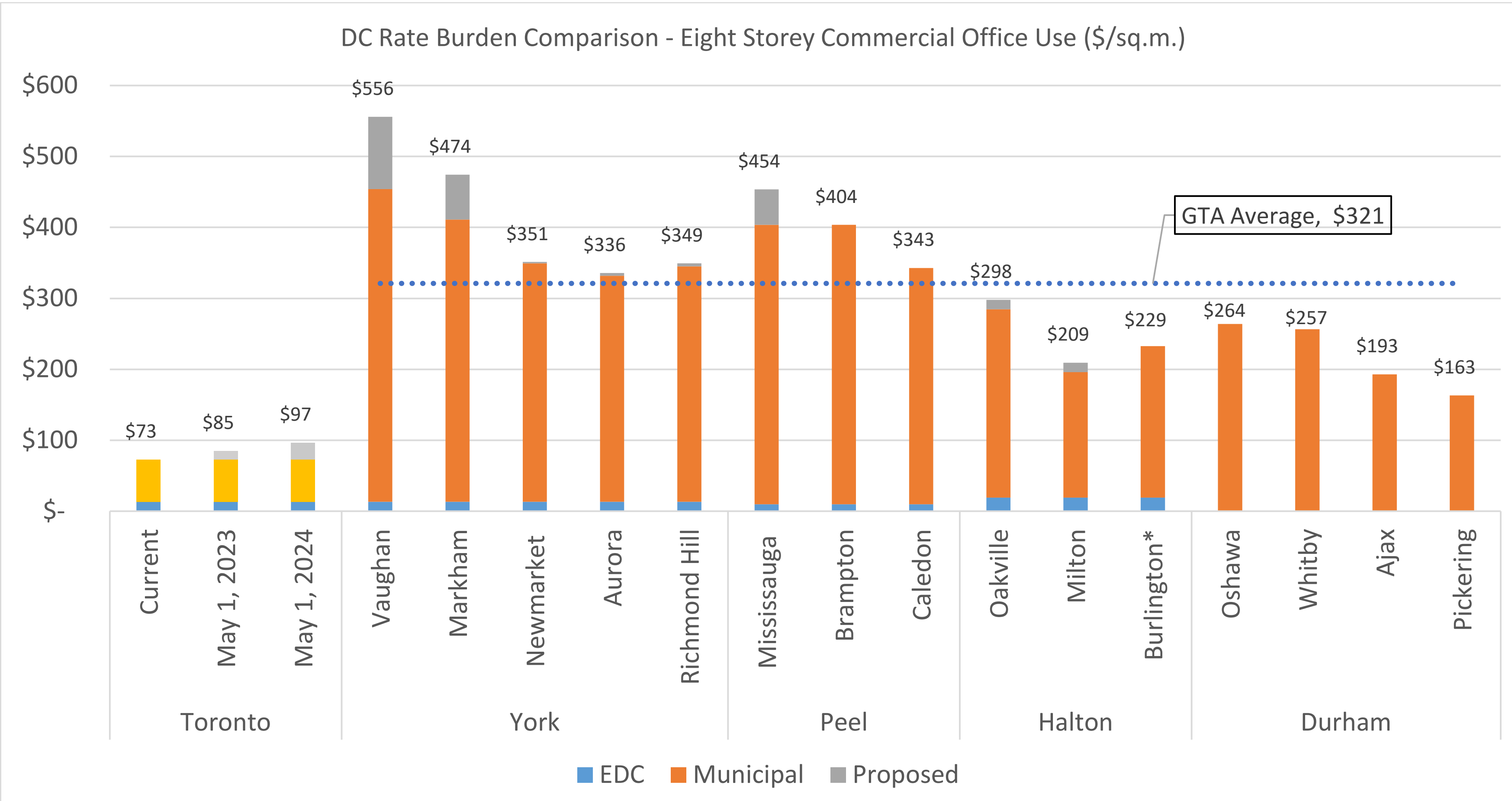
### Large Apartments Rates – Selected GTA Municipalities




*Calculated DC rates in Burlington have been reduced prior to indexing

b. DC Rate Burden - Eight Storey Office Tower - Selected GTA Municipalities

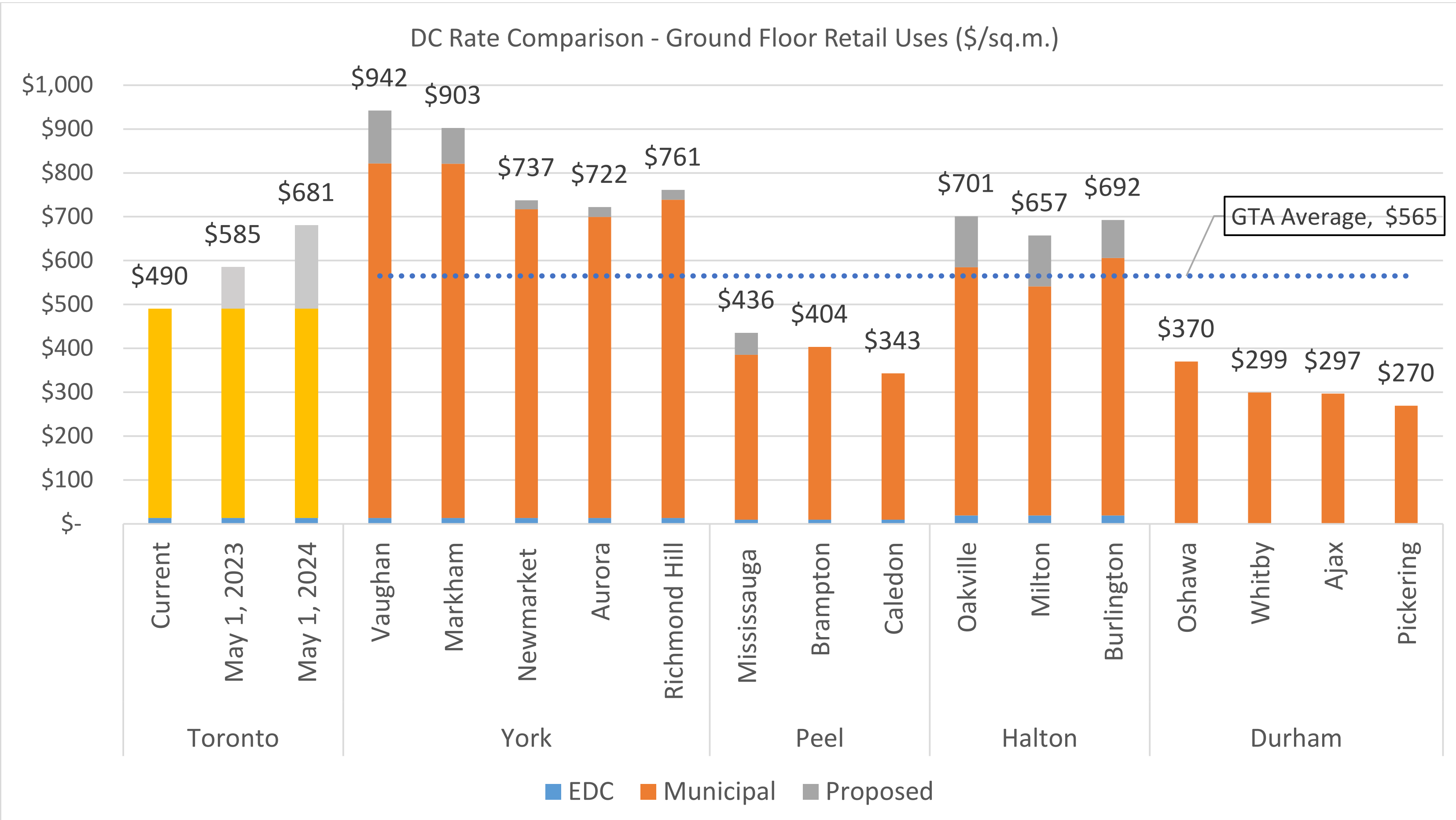
Toronto's non-residential charge is imposed only on the ground floor non-residential gross floor area. Non-residential floor area that is above or below the ground floor is exempted. Below is an illustrative example showing the relative DC rate burden for an eight-storey office tower.




*Calculated DC rates in Burlington have been reduced prior to indexing

c. Ground Floor Retail Rates - Selected GTA Municipalities

A comparison of the ground floor retail DC rates is provided below. Toronto's non-residential charge (including retail uses) is imposed only on the ground floor non-residential gross floor area.




*Calculated DC rates in Burlington have been reduced prior to indexing

### 4. Council Directives – Financial Incentives

<table>
<tr><th>Category</th><th>Context</th><th>Council Item</th><th>Directive</th></tr>
<tr><td rowspan="4">Site specific DC deferrals</td><td>Indigenous Health Care Centres</td><td>2021.CC31.4</td><td rowspan="4">Site-specific DC deferrals to the 2022 DC bylaw review.<br>Propose that the deferrals be extended to the 2023 review of financial incentives.</td></tr>
<tr><td>Community Health Care Centres</td><td>2021.MM32.38</td></tr>
<tr><td>Women's Shelters</td><td>2021.CC32.4</td></tr>
<tr><td>Education & Training Facilities</td><td>2022.MM39.26</td></tr>
<tr><td rowspan="2">Financial incentives</td><td>Toronto Green Standard</td><td>2021.PH25.17</td><td>Review options to advance higher uptake of Tier 2 and 3 buildings to facilitate transformation to net zero earlier than 2030.</td></tr>
<tr><td>Expanding Housing Options in Neighbourhoods</td><td>2020.PH15.6</td><td>Review municipal financial tools to encourage additional housing options and review opportunities to incentivize preferred housing outcomes in Neighbourhoods.</td></tr>
<tr><td rowspan="2">Financial incentives - geographic</td><td>Recovery and Rebuild</td><td>2020.EX17.1</td><td>Balance revenue with growth opportunities & consider reducing DCs in areas experiencing slow growth.</td></tr>
<tr><td>Mount Dennis</td><td>2018.EX33.3</td><td>Consider feasibility of reducing DCs outside the downtown and midtown areas of the City. And report back on potential geographically based development incentives for Mount Dennis</td></tr>
</table>

## 5. DC Calculation and Collection Policy Summary

The following summarizes the DC calculation and payment policies. DCs are generally calculated and collected at the time of building permit issuance. As a result of provincial legislative changes as well as Council policies, the charges are sometimes determined earlier and paid later.

### A. Development Charge Freeze – Section 26.2 of the DCA & EX20.4

The following applies to complete Site Plan Applications and Zoning By-Law Amendment Applications accepted by the City on/after January 1, 2020. The amount of DCs are determined on:

a. the day an application was made for site plan approval;
b. if clause a) does not apply, the day an application for an amendment to the zoning by-law was made; or
c. If neither clause a) nor clause b) applies, the day before the first building permit is issued.

If (a) or (b) applies, the DC will remain crystallized for a maximum of two years from the date of approval of the planning application. Interest will be added to the DC and become payable at the time DCs are due.

Interest is determined based on 1.5% per month and capped such that the total DC including interest does not exceed the DC that would be payable based on the DC rates in effect at the time of permit issuance.

The interest rate is proposed to be reduced to 1.25% per month to be consistent with the rate imposed for property taxes arrears and capped as per above, with the change to be effective September 1, 2022.

### B. Development Charge Instalment Payments - EX20.4

- **For Rental Housing that is Not Non-Profit Housing**[1] and for **Institutional Development**[1]: DCs will be due in 6 equal annual payments, plus interest, commencing on the earlier of the date of the issuance of an occupancy permit or the date the building is first occupied.

- **For Non-Profit Housing Development[1]:** DCs will be due in 21 equal annual payments, plus interest, commencing on the earlier of the date of the issuance of an occupancy permit or the date the building is first occupied.

The person required to pay a DC is required to notify the City within 5 business days of the building first being occupied. Failure to notify the City will result in the entire amount of the DC, including any interest payable, becoming immediately due and payable.

The applicable interest rate is calculated from the date of permit issuance and determined as follows:

[1] As defined in Section 11.1 of O.Reg. 98/82

- Where no financial security is provided, the Bank of Canada Prime rate + 3% annually, or
- Where a letter of credit is provided to the City prior to occupancy, the City's cost of capital plus 0.5% annually.

**C. Early Payment Option for DC Instalment Payments - EX20.4**

Notwithstanding the DC Instalments above, the developer may request to pay DCs at the time of building permit issuance, instead of in instalments.

**D. Below Grade Conditional Permits - EX33.3**

Applicants seeking conditional below-grade building permits are required to enter into a DC payment agreement that provides for the DC to be calculated and payable based on the date of issuance of the first permit. Projects that are eligible for DC instalments noted in B. above may request that the DCs be paid in instalments in accordable with Council policy.

**E. Other Council Programs**

*1. Non-Profit Long Term Care Homes* - EX20.4

DCs are deferred as long as the property is maintained as a non-profit long-term care home and become payable upon a change in use.

*2. Home Ownership Assistance Program* - EX36.36

DCs are calculated at the time of building permit issuance, and are paid upon sale or refinancing of the affordable ownership unit, with interest, in accordance with the agreement.

*3. Ancillary Secondary Dwelling Units* - EX33.3

For secondary dwelling units located in an ancillary building in the rear yard of a lot, DCs are deferred for a period of 20 years, after which no DC is payable. If the owner creates a new lot or conveyable parcel of this land within the 20 year period, DCs will be required to be paid.

## Attachment 5: Site-Specific Development Charges Deferrals

| Address | Use | Council Decision |
|---|---|---|
| 425 Cherry Street | Indigenous Health Care Centre | 2021.CC31.4 |
| 465 Dundas Street East | Community Health Care Centre | 2021.MM32.38 |
| 425 and 433 Cherry Street | Education & Training Facility | 2022.MM39.26 |
| Not disclosed | Women's Shelter | 2021.CC32.4 |

| Existing Deferral Terms | Revised Deferral Terms |
|---|---|
| Development charges shall be deferred until the earlier of:<br><br>i. The date of enactment of the next development charges bylaw that replaces the current 2018 development charges bylaw;<br><br>ii. The date that the building is no longer maintained and operated as an [Use]; or<br><br>iii. The sale of the property, unless the agreement is assigned to a new owner who will continue to operate and maintain the building as an [Use]. | Development charges shall be deferred until the earlier of:<br><br>i. December 1, 2023<br><br>ii. The date that the building is no longer maintained and operated as an [Use]; or<br><br>iii. The sale of the property, unless the agreement is assigned to a new owner who will continue to operate and maintain the building as an [Use]. |

**Attachment 6: General Terms of Development Charges Payment Agreement for Projects Requiring Multiple Building Permits**

1. Pertains to a specific building permit application.

2. Establishes development charges payment to the earlier of:

   (a) Date of issuance of first permit for the development; or

   (b) Expiry of the agreement.

3. Development Charges Payment 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.

6. This policy comes into effect on the date the 2022 DC bylaw comes into force.

# Attachment 7: Development Charges Reserve Fund Criteria Sheets

## A. DC Reserve Fund - Waste Diversion

**Location within the Consolidated Reserves/ Reserve Funds Schedule**
Account within Schedule 11 – Development Charges Obligatory Reserve Funds.

**Statement of Purpose**
This account will be used to provide funding for long-term care capital projects.

**Service Area or Beneficiary Program**
Solid Waste Management Services will be the beneficiary and shall have primary responsibility for the account.

**Initial Contribution**
There is no initial contribution.

**Contribution Policy**
The funds are provided from development charge collections from developers.

**Withdrawal Policy**
The funds are withdrawn in accordance with the Capital Budget process.

**Review Cycle**
The fund will be reviewed every 5 years, consistent with the timing of the City's development charge study updates.

## B. DC Reserve Fund - Long-Term Care

### Location within the Consolidated Reserves/ Reserve Funds Schedule

Account within Schedule 11 – Development Charges Obligatory Reserve Funds.

### Statement of Purpose

This account will be used to provide funding for waste diversion capital projects.

### Service Area or Beneficiary Program

Seniors Services and Long-Term Care will be the beneficiary and shall have primary responsibility for the account.

### Initial Contribution

There is no initial contribution.

### Contribution Policy

The funds are provided from development charge collections from developers.

### Withdrawal Policy

The funds are withdrawn in accordance with the Capital Budget process.

### Review Cycle

The fund will be reviewed every 5 years, consistent with the timing of the City's development charge study updates.

## Attachment 8: Stakeholder Engagement Summary

As part of updating the growth funding tools, a comprehensive stakeholder engagement was conducted to understand what is important to stakeholders when it comes to growth funding tools and paying for growth. The What We Heard Engagement Report describes the approach that was taken by the Growth Funding Tools (GFT) project team to consult with approximately 1000 industry and public stakeholders throughout the duration of the project from July 2021 to Spring 2022 and documents the feedback that was received. While the engagement process for Development Charges (DCs) and the new Community Benefits Charge (CBC) is nearing completion, further consultation will continue for the Alternative Parkland Dedication Rate in the context of the recent enactment of Bill 109 and its constituent changes to the *Planning Act.*

### Purpose of Engagement

Recognizing that changes to the City's growth funding tools will impact the future of Toronto's residents and businesses, the purpose of the engagement was to:

1. Build awareness and share information about the growth funding tools with stakeholders who had varying levels of knowledge on the tools. Efforts were made by the project team to simplify the complex technical and legislative context of these tools by delivering information using plain language and making the content relatable by connecting the tools to stakeholders pressing interests and concerns.
2. Provide meaningful opportunities for stakeholders to inform and provide feedback on changes to the growth funding tools.

### Stakeholder Participation

The GFT project team reached out to a broad group of stakeholders, the general public, community groups, school boards, academic and research groups, social service organizations and representatives from major industry groups in the development, planning, and real estate industries. Specific attention was given to informing and inviting organizations that serve equity-deserving communities to participate in the engagement process through the use of targeted media and the project team also provided equity deserving organizations with the option to have separate meetings with the team. The project team will continue to engage with the stakeholders as consultations for the alternative parkland dedication rates continue.

A synopsis of the GFT project's engagement with stakeholders through online consultations is provided below.


As shown above, the City's project team in partnership with communications firm, Argyle, consulted with approximately 1000 public and industry stakeholders through various engagement tactics such as information sessions, workshops, and meetings, as well as a project website. Throughout the project, stakeholders could also get in touch with the project team through a dedicated GFT email address (gft@toronto.ca) and approximately 50 emails from stakeholders were received.

Feedback from industry and public stakeholders was instrumental in helping the GFT project team understand what is important to stakeholders when it comes to funding growth. The stakeholder feedback informed the most recent updates to the bylaws and policies that are being recommended to Committee and Council in July 2022.

**Stakeholder Feedback Themes**

The following key themes emerged at the industry and public consultations:

- **The impact of rate increases on new development:** Stakeholders from the development industry revealed concerns about the potential impact that updates to the GFTs could have on current and future development projects. In addition, rental housing developers were concerned about the viability of building rental housing with the new rates. Industry participants also noted other existing financial pressures such as rising construction costs and high land values.

  In earlier engagement sessions, public stakeholders expressed the sentiment that new developments are creating a strain on existing services, particularly roads and transit, and that while residents are not against growth, it needs to be accompanied by appropriate investment in their communities to support new density. As such, the request was made for the City to explore additional revenue tools as GFTs alone will neither be sufficient to support the City's growth nor can they be used to fund operating and maintenance costs.

- **Who should bear the cost of growth:** Feedback varied on this topic. Some public stakeholders stated that "growth should pay for growth" and costs of growth should not be passed on to existing residents through property taxes while others shared the view that costs of growth should be shared by all residents, as everyone benefits from growth.

  Developers also wanted to know whether infrastructure and service costs in high growth areas will be area-specific or whether all developments would be subject to the same fees. Questions were raised about the rate structure of GFTs and how it reflects Toronto's unique development context, whether GFTs could be used to incentivize development in particular areas of the city and how other financial tools such as property taxes could be leveraged to fund capital projects for the City. Discussions with respect to how rates are calculated, how the three tools work together and how they will be implemented also took place.

- **Significant interest in the new Community Benefits Charge (CBCs):** Public stakeholders asked what services can be funded, how they could be more involved with CBC funding allocations and how future funding including in-kind contributions will be allocated towards eligible CBC projects.

  Representatives of school boards indicated schools should be considered under the list of eligible services for CBCs as growth affects school capacity and school investment is needed. In addition, school boards requested that ongoing partnership and collaboration work continue with the City to support mutual interest in supporting residents and building complete communities.

- **Housing affordability:** Public stakeholders asked how GFT rate increases could affect the affordability of new housing and whether the affordability of existing housing units would be preserved.

- **Transition period for GFTs:** Industry representatives were very interested in the timeline and transition period for the GFT rate increases. More specifically, representatives wanted to know when the new rates will come into effect and about the City's transition period to protect projects in the City's development pipeline and to allow for industry to adapt to the new rates. Industry raised questions about how these changes will impact the viability of development applications, including those that are already in progress. Representatives flagged the cumulative impact of all policy tools on projects and encouraged maintaining existing discretionary exemptions.

- **General feedback on growth:** Public stakeholders generally did not oppose growth, but would prefer it to be accompanied by appropriate investments within communities. In addition, some residents in high growth areas felt disproportionately affected by growth and wanted to understand how GFTs could be focused to support areas when development is occurring, making it important to ensure that "growth pays for growth". Public stakeholders also asked whether DCs and CBCs will be prioritized to fund critical projects and expressed concerns about residential and commercial gentrification pricing people and businesses out of neighbourhoods. Overall, participants generally expressed the need to ensure that Toronto remains a place where people can afford to live and work.

- **Technical:** Development industry stakeholders provided various technical comments and questions on the DC, CBC and Parkland Studies and Strategies that were being prepared. A total of eighteen industry and technical meetings were conducted with approximately 550 industry stakeholders for the duration of the GFT project. These included detailed technical meetings on the DC study calculations, as well as general high level meetings about the project approach and key considerations. Industry was informed about the growth funding tools throughout the process and their input was considered and incorporated where appropriate in the final documents supporting the respective bylaws.
- **Changes to Parkland Dedication:** Industry representatives also asked questions about the parkland dedication policy framework and recent legislative changes. Matters of industry interest regarding parkland included the use of existing Section 42 cash-in-lieu reserves, how the City determines parkland need, and how Bill 109's recent legislative changes to parkland dedication legislation on transit-oriented community lands would be implemented by the City. Industry representatives also requested the City explore additional exemptions, transition provisions, and other matters to mitigate the financial impact of any parkland dedication changes proposed.

### The City's Response to Stakeholder Feedback

The City acknowledges the valuable feedback received from stakeholders during the industry and public consultations and used this feedback to inform the recommended updates to the bylaws, and policies. Specifically, stakeholder feedback informed the provision of adequate transition periods to protect the development projects that are in the pipeline and to provide adequate time for rate changes to be incorporated into future projects while adjusting to prevailing economic conditions. These policy changes are provided in the GFT reports being presented to the Executive Committee in July 2022.

The project team made efforts to respond to all clarifications and technical questions from stakeholders. Additionally, the project team has collaborated with relevant City Divisions to flag stakeholder feedback that was not directly relevant to the GFT project, such as matters relating to the City's budgeting and financial planning processes.

A complete What We Heard Report with more details on the stakeholder feedback can be found on the GFT website.

While a significant portion of industry and public engagements for the growth funding tools is complete, a statutory public meeting at the Executive Committee on July 12, 2022 is another opportunity for stakeholders to provide input. At this meeting, reports, bylaws and studies for all three tools – development charges, community benefits charge and alternative parkland dedication – will be presented.