DRAFT

July 11, 2022

Toronto City Hall
100 Queen Street West
Toronto, ON M5H 2N2
Attention: Julie Amoroso
email: exc@toronto.ca

RE: EX34.1 Growth Funding Tools - Development Charges

Dear Mayor Tory, Chair, and Members of Executive Committee,

We understand that this report responds to Provincial legislative changes to the Development Charges Act and Planning Act (which take effect September 18 2022) which necessitates the City review and update its Development Charges (DCs). This topic is extremely important to the future of the City and we urge Council to treat its findings very seriously. This means examining the legislative changes introduced by the Province and any proposals for exemptions very carefully (and with caution).

A key principle for growth-related funding tools (GFTs) is that growth pays for growth to ensure services and infrastructure are provided to create complete communities as the City grows. Development charges (DCs) do not fully recover the cost of growth due to legislative restrictions such as statutory exemptions and the development charges (DC) service level cap. The focus of the growth-related funding tools (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.

Development charges (DCs) are designed 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.

Of the $67.0 billion capital forecast outlined in the development charges (DC) Background Study over the 10 and 20 year study planning period, $14.9 billion (22%) is related to growth and eligible for development charges (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 development charges (DC) Background Study *results in a rate increase of 46% for residential developments, and 40% for non-residential developments*. Recommended adjustments to development charges (DC) rates reflect updates to the capital programs and upward inflationary pressures on construction costs. The rates presented in the report are the calculated rates based on the development charges (DC) Background Study and reflect the maximum recoverable amounts permitted by the legislation.

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.

The City's current development charge (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 development charges (DC) Background Study growth forecast and estimates of exempted units and non-residential floor space.

We agree with staff that reducing development charge (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 merely 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.

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.**

We recommend:

- **That City Council request Province to reinstate pedestrian infrastructure and civic improvements eligible for Development Charges funding eligibility**

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 date of permit issuance**. DC payments for non-profit housing, rental housing, and institutional developments are now collected in instalments beginning at occupancy.

We recommend:

- **That City Council request Province to unfreeze DC rates and reinstate the basis of calculation being on the date of permit issuance rather than the date of complete application**.

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.

Other changes include new statutory exemptions for Secondary Suites (including laneway suites, garden suites/coach houses) which was approved in 2018 as part of EHONt[1].

The ULI report on Multiplexes identified development charges and the current parking requirements as factors which may make multiplex development unprofitable in many instances, and these two issues need to be considered when the EHON OPA is dealt with.

We would caution against making further EHON exemptions, such as for Multiplexes in the absence of information. Consideration for any such exemptions should only be dealt with full knowledge of the foregone revenue and be considered when the Multiplex OPA and implementing zoning by-law is before the new Council in early 2023, so that all matters affecting this portion of the EHON policies are evaluated together as an entity.

[1] Appendix 4 “so that the charges are collected only if the unit is severed from the property within 20 years of the issuance building permit based on the general terms and conditions” http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.3

In that regard it is concerning that on occasion City Council has made arbitrary changes and allowed exemptions to revenue related policies which were not recommended by staff.. A recent case was on June 15 when Council adopted a motion to freeze the application fees for committee of adjustment despite being aware of the annualized $5.6M cost of doing so, and absent a staff recommendation. .

We recommend

- **That Executive Committee request staff to report on Development Charges Revenue considerations when reporting on the proposed EHON OPA to the new Council.**

Respectfully submitted,

Yours truly,

Geoff Kettel
Co-Chair, FoNTRA

Cathie Macdonald
Co-Chair, FoNTRA

c.c. Gregg Lintern, Chief Planner and Executive Director, City Planning
Heather Taylor, Chief Financial Officer and Treasurer
Andrew Flynn, Controller, Office of the Controller
Kerri Voumvakis, Director, Strategic Initiatives, Policy & Analysis, City Planning
Shirley Siu, Senior Financial Analyst, Corporate Financial Strategy and Policy, Office of the Controller

The Federation of North Toronto Residents' Associations (FoNTRA) is a non-profit, volunteer organization comprised of over 30 member organizations. Its members, all residents' associations, include at least 170,000 Toronto residents within their boundaries. The residents' associations that make up FoNTRA believe that Ontario and Toronto can and should achieve better development. Its central issue is not *whether* Toronto will grow, but *how*. FoNTRA believes that sustainable urban regions are characterized by environmental balance, fiscal viability, infrastructure investment and social renewal.