Received by the Executive Committee
on August 23, 2023

MORE NEIGHBOURS
TORONTO

Dear Mayor Chow and Members of the Executive Committee,

RE: EX7.1 - Updated Long-Term Financial Plan

About More Neighbours Toronto

More Neighbours Toronto is a volunteer-only organization of housing advocates that believe in building more multi-family homes of all kinds for those who dream of building their lives in Toronto. We advocate for reforms to increase our city's ability to build more homes in every neighbourhood. We are a big-tent organization with members across the political spectrum who are committed to counterbalancing the anti-housing agenda that has dominated Toronto's politics, created an affordability crisis, and cost burdened a new generation of aspiring residents. We are firmly committed to the principle that housing is a human right and believe Toronto should be inclusive and welcoming to all.

Summary

More Neighbours is pleased to see the City investigate a more long-term financial plan for Toronto that will work toward the City's strategic priorities, particularly its aim to maintain and create affordable housing. This approach is overdue. Unfortunately, the idea was largely overshadowed by the need to address the current budget shortfall.

A long-term approach should ask the question of what kind of city we want to be and what we need to invest in to get there. More Neighbours Toronto urges Council to address the immediate needs without sacrificing the vision of a welcoming city for all those seeking to build their lives in Toronto. Below, we emphasize the parts of the report that are important for addressing housing affordability, as well as suggesting several "big ideas" that we believe should shape the City's long-term approach to growth, operations and intergovernmental relationships.

1. Position on report recommendations

More Neighbours supports changes to **align the residential property tax rate more closely with the existing multi-residential property tax rate**. We also **support changes to Toronto Parking Authority rates, the Vacant Home Tax, parking levies and other measures that have the potential to encourage better land use**, particularly for denser housing. However, many of these tools are designed to change behaviour and are therefore not reliable long-term revenue sources. The City is already experiencing challenges with the municipal land transfer tax for this reason, so we urge the City to study a land value tax as a long-term replacement for many of these tools, including property taxes themselves (see Section 2.3 below).

Regarding building performance charges, we urge the committee not to exempt single detached homes, nor selectively apply standards and charges to apartments, as it has done with the Toronto Green Standard. That would exempt the housing form that tends to have larger per capita emissions and that occupies most of Toronto's residential land. In contrast, Council programs for homeowners are usually optional and subsidize changes like heat pumps and solar panels from general tax revenues, despite these residents tending to be wealthier. Structuring programs differently for different built forms undermines them by making less efficient forms cheaper to construct, encouraging poor land use and sprawl. Even considering a building performance charge solely as a revenue generation tool, **it is critical that Council consider which parts of the tax base will be charged and how this might impact new construction so that it does not place additional costs onto apartments and their residents, while exempting detached homeowners**.

We oppose the delays to transit projects: denser housing and transit work together. Not only will the Eglinton and Finch West LRTs serve existing high density communities, including several priority areas with lower incomes, but there are ongoing developments where decisions about density, parking and affordable housing were made under the assumption that these lines would be operational. These items might seem like "easy" places for savings because they are big expenses, but they are big expenses because they will serve many residents; that's why the City and other governments chose to make these investments in the first place! Finch West, in particular, was highly impacted by COVID-19 and essential workers had difficulty spacing out on buses while commuting. It is also possible that hesitancy on these projects could affect future transit and infrastructure funding negotiations with other levels of government.

More Neighbours Toronto supports a renewed intergovernmental funding arrangement that will provide sustainable long-term funding. Based on recent provincial and Federal announcements, the City should expect funding to be contingent on meeting specific outcomes and targets. The City should make the strongest case possible by proving itself to be a reliable partner. Poor use of existing infrastructure, outdated zoning and delayed or bad outcomes could jeopardize negotiations. We address the potential for upcoming funds related to housing, including the Federal Housing Accelerator Fund, Federal infrastructure funding, and provincial Building Faster Fund in Section 2.4 below.

Finally, we note the importance of financial incentives in the HousingTO 2020-2030 Action Plan to Toronto's strategic objectives and wellbeing. This funding must be prioritized both in the City's own long-term planning and in intergovernmental negotiations. Nowhere is the gap between what Toronto's long-term goals should be and what the short-term costs highlight greater than in the City's shelter and housing systems. A long-term strategy would aim to provide permanent housing options to meet people's needs, while the shelter system would be an emergency system for short-term stays. This is not the case right now in Toronto.

Although recent news and some City framings focus on an increase in refugee claims from the abnormally low numbers during COVID in 2021, the SSHA budget report makes clear that longer shelter stays are also a factor in high occupancy. This is due to difficulties that shelter occupants have in securing suitable permanent housing. High rates of homelessness are related to high housing costs and low vacancy rates. When the City touts its increase in shelter spaces as evidence of its social commitments, it is actually an indication of a failure further upstream. Every shelter space that is occupied for long periods today is a result of failing to provide enough housing yesterday, housing that would have cost less than a shelter or hospital stay. Reducing funding and taking focus away from housing reforms and construction will only make things worse in the long run. **No responsible long-term strategy would delay or reduce Toronto's housing commitments.**

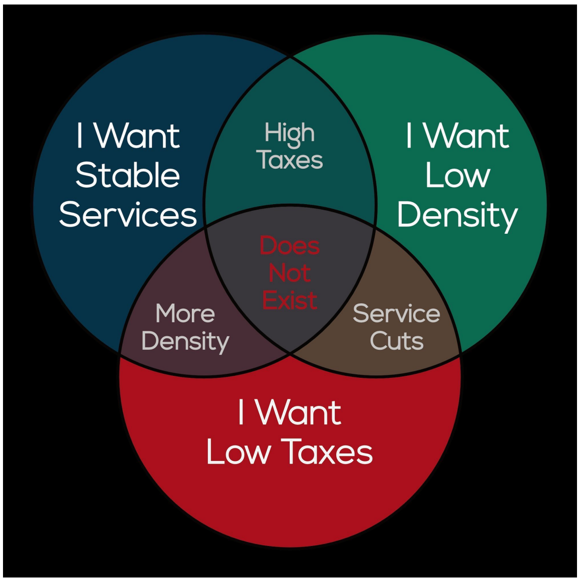
2. A long-term plan for a Toronto that welcomes more neighbours

Cities should be places where people live in close proximity to the things and other people that they need. They are places where growth is a result of past success and they hold possibilities for the future, where new residents are viewed as valuable community members who should be given the same opportunities as longtime residents.

Contrast this with the oft-repeated "growth pays for growth," an idea used to justify charging more than 15 years of property taxes up front in development charges (DCs) to determine who is deserving of a home in Toronto. Contrast it with policies that treat new residents as a problem to be managed and where existing residents get to weigh in on what community benefits are needed to compensate for them. This is not the design for a welcoming city of opportunity and Toronto should begin the process of changing that, starting with this long-term financial plan.

2.1 More neighbours: a mercenary financial perspective

Despite its title, this long-term financial plan is framed similarly to Toronto's annual budget debates: there isn't enough money to do everything, so should we raise taxes or cut services? This ignores the secret third option: more density.



Many people would love to make their lives in Toronto but are currently priced out, part of the [“drive until you qualify” group](). Although the reports for EX7.1 consider how these commuters use infrastructure in Toronto while paying property taxes elsewhere, and how this might justify a municipal sales tax or a new intergovernmental funding model, it never considers whether any of these people might become Toronto taxpayers by allowing them to live in the city in the first place.

It should be enough that our policies are making people's lives worse, especially the essential workers to whom many commitments were made during the pandemic, but Toronto also loses out on these property tax dollars through its failure to account for the long-term benefits of growth. Businesses lose out when workers choose not to endure the commute any longer. And existing residents lose out when there are not sufficient healthcare workers, teachers, City staff and others to fill key roles.

There are many mentions in this report of Toronto as the economic engine of the country and a centre for innovation. Absent from these sections is any mention of the residents (and not-quite-residents) who make this possible. Growth built Toronto into what it is today and more neighbours will help Toronto fulfil its potential.

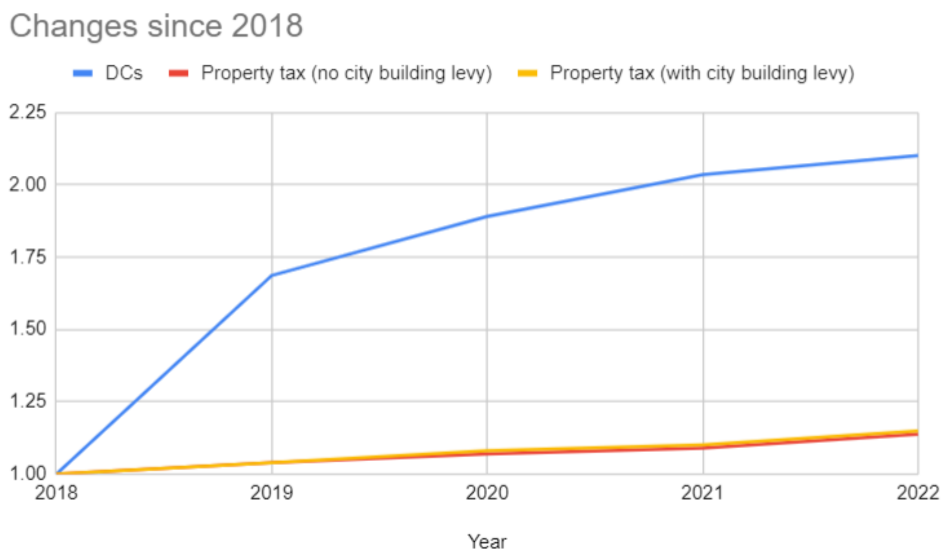
2.2 Rethinking "growth pays for growth"

While we don't encourage Council to take a mercenary view of new residents solely as taxpayers, this would still be an improvement over the status quo, which often treats new residents as a burden. Toronto should not use zoning to keep wealthy neighbourhoods with excess infrastructure and school capacity exclusive. Toronto should not prioritize the views of existing residents about aesthetics over the interior floor space or energy costs that future residents will experience. Toronto should not frame community benefits as a negotiation about what amount is sufficient compensation for new neighbours.

Underlying all of this is the City's continued insistence that growth must pay for growth, which has been used to justify rapid development charge (DCs) increases on new homes. The question of whether DCs result in good city-building seems to be ignored in favour of repeating the phrase. But growth does not pay for growth; residents pay for growth. The question is only whether this is done with a large up front payment or whether it is done over time, through taxation.

The Ernst and Young report acknowledges this tradeoff and that development charges "[free] up existing tax revenue for other priorities, including service enhancements," but without considering how bundling costs together into one up front fee affects who can afford a home in Toronto. Development charges are largely independent of income or wealth, with only some variation by building type and number of bedrooms. They do not reflect the actual infrastructure used by residents of a particular home, not even the square footage created. There is no rebate for denser housing forms that pay the same or higher property tax rates but are typically cheaper to service.

The fact that development charges more than doubled for new housing since 2018 while property taxes remained near inflation raises questions about the choices that Toronto is making. In July, City Council passed the capital and operating variance reports without questions or debate, despite the fact that Toronto continues to underspend its capital budget and the DC reserve funds have grown from $372 million in 2012 to over $2.7 billion in 2022. Understanding why must be part of a long-term plan. As noted in the Ernst & Young report, the infrastructure price index for the City of Ottawa increased by 18% from 2015 to 2019. Funds sitting in reserves are losing real value.



It is regularly stated that DCs do not fully fund growth-related capital infrastructure. Yet the City has been using DCs to fund affordable housing and shelters, infrastructure that is not a result of growth but rather the City's lack of adequate growth. Council must realize the effects of increased DCs because they waived DCs on their own Housing Now projects in order to increase affordability, but this report objects to similar changes that were implemented in Bill 23. If the City (and province and Federal government) truly believe that housing is a priority, they should be willing to fund it. Making an affordable housing program dependent on DCs from other affordable housing was always a poor design. Public services should be funded by public money.

The vision outlined above, of a City that views growth as something to be welcomed and an opportunity for the future, requires up front investment for infrastructure and subsidized housing. Because of municipal debt limitations, this must involve negotiations with other levels of government, but Toronto would make its case stronger if it stopped repeating “growth pays for growth” as though it were a universal truth. Toronto has taken the costs that were once downloaded to it from the Federal and provincial governments, and then downloaded them onto new residents using developers as an intermediary. This is affecting who can now afford to live in Toronto. The City must understand the flaws in this system in order to make the case to other levels of government and move forward with an alternative.

2.3 Land Value Tax: the real vacancy tax

This report includes a refreshing consideration of the best use of the lands within the city. The examination of City assets discusses the Highest and Best Use. Parking levies are noted to incentivize land use conversion. A vacant storefront tax should incentivize the exploration of alternative uses. Good land use is a key part of a successful city, financially and socially.

At the same time, several existing and proposed revenue tools such as vacancy taxes, flipping taxes and building performance charges are intended to change behaviours. We have supported such measures but they cannot be reliable long-term revenue generators while also driving change and supporting better land use. Furthermore, it can be difficult to identify who is subject to some of these taxes and how to enforce them.

A land value tax solves this. Just as the City looks to make the best use of its own land and assets, it should incentivize private landowners to do the same through its taxation and funding decisions. A land value tax would, for example, allow the City to capture the value on lands near new transit investments. Currently, the City makes these investments and allows existing landowners to benefit from that value increase even if they do not use the land; in fact, they owe less in property taxes by leaving it under-developed. A land value tax would also address some cases where developers apply to upzone land but do not build.

Because land cannot disappear, it is easy to ensure that the tax is administered fairly, and there are no decisions about what constitutes vacancy or flipping to be made, only the question of the land's current value. This is already assessed by MPAC alongside the current property value and could be used by the City with provincial permission.

In Toronto, a significant part of most property values is the land value. Even if Toronto is not able to transition to a land value tax system, it would be good to consider a shift in mindset from property taxes as a burden that falls on landowners, to instead considering property taxes as a way to capture some of the value that the City itself creates by providing infrastructure and services throughout the City. Land value taxes address the fact that those who own the land benefit from the value that everyone creates in the surrounding area, even if a landowner chooses to use their own land inefficiently. The proposed tax should rise with the land or property values; **as a starting point, the City should consider ending the practice of adjusting the mill rate downward to offset increases in assessed value.**

There are no quick fixes to the housing crisis or the budget issues. This proposal is a different way of thinking. Value is added to the city by the collective contributions of everyone in Toronto, regardless of whether they rent, own or commute in for work. A land value tax recognizes this and rewards those who adapt to the dynamic changes expected in a vibrant and growing city.

2.4 Intergovernmental cooperation

Toronto needs sustainable long-term funding, particularly for its housing programs and associated infrastructure. There is a mismatch between the revenue powers that the City holds and the responsibilities on which it is expected to deliver. When asking for increased transfers or new revenue tools, Toronto will need to demonstrate that it can deliver services in a way that accounts for the regional challenges that are of interest to the provincial and federal governments. This will involve prioritizing broad interests over those of a handful of residents who look to their local councillor to defend them from minor changes in Canada's largest city.

This very report considers negotiating a new financial plan for billions of dollars with other levels of government, while at the same time considering whether one local councillor should have to agree or merely be consulted before on-street parking rates in their ward can be raised above $5/h. To negotiate a new fiscal framework, councillors must abandon parochial views. Debates about housing for people in Toronto should no longer be “balanced” against the concerns of existing residents worried about where they will store their private vehicles. These are not equivalent concerns and no government looking to negotiate billions of dollars in transfers will take Toronto seriously if they pretend so.

There are recent successes that Toronto can point to. It delivered its first three modular supportive housing sites nearly on time and on budget. It has broken ground on its Housing Now program despite the challenges of increased construction costs and rising interest rates. And it removed parking minimums.

However, the modular site at 175 Cummer is being delayed by an appeal of a pre-amalgamation bylaw. Housing Now is behind schedule as many sites get rezoned. And, despite the years of consultation needed to remove parking minimums, Council chose to re-introduce them for rooming houses with a last-minute amendment, creating extra conditions for some of the most vulnerable tenants in the city. Toronto's big ambitions are rarely matched by its willingness to actually implement change without multiple veto points, reversions and processes that favour the status quo.

There is a case to be made for infrastructure funding transfers similar to the gas tax transfers for transit, with a formula based on growth. However, Toronto must demonstrate that these funds will be well-used. There are upcoming opportunities with the Federal Housing Accelerator Fund, an expected Federal infrastructure announcement and the provincial Building Faster Fund. These programs are all expected to tie funding to outcomes, including housing starts. The City can set itself up for success by focusing on delivery and being proactive about removing barriers and updating zoning.

The good news is that these moves align with the City’s strategic goals. The City and other levels of government are in agreement in broad terms. So long as this is not undermined by a short-term and overly local focus, a new agreement should be possible.

Sincerely,

Colleen Bailey,
More Neighbours Toronto