Growth Funding Tools – FAQs

Contents

About Growth Funding Tools

What are growth funding tools?
Growth funding tools are fees imposed by municipalities on new development and redevelopment. The City uses these tools to fund and to deliver roads, public spaces, safe drinking water, transit, parks, libraries and other infrastructure and services to support our growing population and a thriving city.

What do growth funding tools pay for?
Growth funding tools pay for growth-related capital costs (typically fixed, one-time expenses incurred on the purchase of buildings, fleet, construction materials, equipment, and other infrastructure related needs). They do not cover operational or maintenance costs, or costs associated with existing, city-wide infrastructure and services.

Why are these tools being updated?
Changes were made to how municipalities generate funding from development through the Ontario Government's Bill 197. These changes make it necessary for the City of Toronto to update Development Charges and the Alternative Parkland Dedication Rate, while also creating the framework for a new funding tool – the Community Benefits Charge – to replace the former Density Bonusing tool made available through Section 37 of the *Planning Act*. Since the three tools are being updated concurrently for the first time, there is an opportunity to integrate them and optimize their use.

Development Charges

What is a development charge?
As a funding tool, development charges (DCs) are the City's primary means to support growth-related capital projects. They are collected from land developers at the time a building permit is issued and are used to help pay for the capital costs of infrastructure needed to service new development related to growth.

Development charges fund a large number of services which are identified in the *Development Charges Act*. This includes engineered services such as transit networks, roads, water infrastructure, and soft services such as parks and recreation facilities, libraries, and affordable housing among others.

What are the legislative changes impacting Development Charges?
The province made a number of changes to the *Development Charges Act*, including:

- creation of a prescriptive list of eligible services that now identifies what can be funded by DCs, where the previous legislation only outlined ineligible services
- new statutory exemptions
- removal of the ten per cent municipal contribution requirement for soft services
- changes to timing of calculation and payment

Overall, the changes improve cost recovery through DCs, but still falls short of the principle that growth pays for growth, due to statutory exemptions and limitations.

How were these rates determined?
The DC rates are a function of growth-related capital costs calculated based on a prescriptive methodology set out in the *Development Charges Act* and documented in the DC background study available on the GFT website. The City cannot arbitrarily set DC rates. In simple terms, the prescriptive methodology includes forecasting the growth in people and employment and estimating the capital infrastructure required to service the growth. Based on this, the DC rates for residential and non-residential developments are calculated. This essentially represents the funding required for future capital projects.

Will the City be receiving more or less revenue as a result of legislative changes to development charges?

Legislative changes to development charges allow for slightly increased revenue recovery, primarily due to removal of the 10 per cent co-funding requirement for certain DC services that offset the impact of the new statutory exemptions as well as the changes in DC eligible services.

Legislative changes to the calculation and collection process create a number of risks for the City. Actual revenues will vary greatly from year to year, as development charge collections are driven by external development activity (i.e. construction projects).

Why are the development charge rates going up so much?
Development charges are designed by legislation to 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 approximately 3.65 million people by 2051. This means we need a plan to fund growth today, and in the future.

To support this, it is recommended that the DC rate increases 40 per cent for non-residential developments and 46 per cent for residential developments to support these growth-related capital investments. These increases were determined through diligent work undertaken by the project team and Hemson Consulting, as well as many consultation meetings with planning, real estate, and development industry representatives in 2021 and 2022.

The DC rates are updated to reflect revised growth expectations and updated growth-related capital costs. Over 80 per cent of the rate increase is driven by increases in growth-related infrastructure investments in housing, transit and roads, as well as rising construction costs. Services included in DC rates have also changed – waste diversion and long-term care are now included and the 10 per cent municipal contribution (statutory deduction) has been removed.

Won't this put huge pressure on the development industry all at once?
As of May 2022, the average price for a new condominium in the GTA is $1.18 million, and the DC rate change for apartment units is approximately $20,000 – less than two per cent of the price of those units.

Nevertheless, 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 recommended transition provisions would implement rate changes over a two-year period, with 50 per cent of the increase implemented when the current bylaw expires on May 1, 2023, and full rates coming into effect on May 1, 2024. For developments where Inclusionary Zoning (the inclusion of a certain percentage of affordable housing units in new development) applies, a longer transition period is provided such that rates will be phased-in over two years starting in May 2025.

The proposed policies are aimed at protecting the development projects that are in the pipeline while allowing time for land market values and industry stakeholders to adjust to the new rates.

Will some discretionary exemptions still be permitted?
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.

These exemptions may include non-residential development, such as commercial, office, or industrial development, as well as affordable housing development.

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.

How will this impact housing affordability?
Housing prices are determined by broader factors of supply and demand and developers already sell new units at the maximum price the market will bear. Growth funding tools are just one part of the overall inputs into the cost of housing. As land values, construction costs and inflation continue to rise, there is a need for more

revenue from development to keep up with the cost of services and infrastructure associated with growth.

Community Benefits Charge

What is a community benefits charge?
A community benefits charge (CBC) gives the City authority to establish a bylaw which can levy charges to pay for the capital costs of facilities, services and matters that are needed to serve new development. This helps create complete communities that residents expect and need.

CBCs can be levied on residential developments and re-developments that are at least five storeys in height and contain at least ten residential units.

Lower density developments that do not meet the above criteria are not subject to this charge. Additionally, a new regulation exempts long-term care homes and hospices, retirement homes, universities, colleges and Indigenous institutes, Royal Canadian Legion buildings and non-profit housing.

CBCs can work in conjunction with the City's development charges and alternative parkland dedication rate, if the same share of the costs are not already recovered by these other two tools.

What are the changes between community benefits charges and Section 37 density bonusing?
Section 37 density bonusing was determined on a site-by-site negotiation, guided by Official Plan policies and Council adopted guidelines.

The new CBC framework is intended to provide more certainty and predictability about the costs of development.

The new CBC is now linked to the appraised value of the land and restricted so the CBC cannot exceed four percent of land value at the time of a first building permit being issued. Additionally, 60 per cent of the funds must be spent or allocated annually.

What types of facilities or services does a community benefits charge pay for?
The City's CBC strategy identifies capital projects under the umbrella of eight service categories, which provides the City with flexibility to fund a wide range of growth-related capital costs including:

- Parks and recreation
- Active and sustainable transportation
- Community facilities
- Protective services
- Subsidized housing
- Waste management
- Public realm improvements
- Civic administration

Will the City be receiving more or less revenue through the community benefits charge changes?
The City anticipates the new Section 37 (community benefits charge) will result in the City collecting significantly less revenue than the density bonusing tool, even though the CBC may apply to a wider range of developments. Based on historical estimates, this amounts to funding reduction of $50 to $70 million annually, which represents a 40 per cent annual decline in Section 37 funding available to the City, before the impacts of exemptions and transition.

Why will the City be collecting less revenue? How does this impact the City's finances?
The provincially regulated four per cent cap for the CBC does not allow the City to cover the capital costs of the facilities and services identified in the CBC Strategy to support future growth across Toronto. A cap of nearly 14 per cent would be needed to fully cover eligible CBC expenses in Toronto. This is similar in other jurisdictions, as the four per cent limitation does not allow for growth to pay for growth (meaning the City would need additional financial tools to cover the cost of growth).

Based on initial forecasts, the City anticipates it will annually recover an average of $70 million over the next ten years through CBCs, before the proposed exemptions and transition period. However, the CBC strategy estimates the City will require upwards of $2.3 billion in CBC revenue over the same ten-year timeframe. This leaves the City with a shortfall of almost $1.6 billion during this timeframe.

How do we know these funds are being spent on development-related projects?
Provincial legislation requires the City to allocate or spend at least 60 per cent of the CBCs collected – which are held in a separate account. To ensure compliance with this requirement, allocation to specific capital projects and initiatives will be reviewed and recommended through the annual budget process.

Do these changes impact benefits that have already been received under the Section 37 density bonusing?
Previously secured Section 37 benefits will be allocated consistent with original purposes as secured through a site-specific zoning bylaw and a Section 37 agreement.

How will this impact the City's development projects, specifically housing initiatives?
The City is proposing that Housing Now [link: https://www.toronto.ca/community-people/community-partners/affordable-housing-partners/housing-now/]and other affordable housing initiatives be exempt from the CBC.

Why is this being done now?
The current Section 37 density bonusing authority expires on September 18, 2022. For the City to use Section 37 after this provincial deadline, a CBC bylaw supported by a CBC strategy must be brought forward and approved by Council.

Won't this put huge pressure on the development industry all at once?

The City is providing a measured implementation process which balances the impacts on new development. Any application for a development under 10,000 square metres that is complete before the new bylaw is enacted in August will not be subject to the CBC. This protects developments that are in the pipeline, giving them time to adjust to the new rate.

The CBC has a lower rate, generating significantly less revenue as compared to the previous Section 37 density bonusing.

Alternative Parkland Dedication Rate

Will the rate be changing?
Because the current alternative parkland dedication rate expires on September 18, 2022, staff are proposing an interim re-adoption of the current alternative parkland dedication rate to ensure the City is able to continue using the tool. Further studies and consultation are needed to determine a new rate, which is anticipated to be brought forwarded to committee and Council in 2023.

What is parkland dedication?
Section 42 of the Planning Act authorizes municipalities to require development (or redevelopment) proposals to convey a portion of the development site to a municipality as parkland. The amount of parkland required is determined by the type and location of development. For non-residential developments (such as commercial or office) the amount of parkland required is two per cent of the proposed development site. For residential developments, the amount of parkland required is five per cent of the proposed development site. The two per cent and five per cent parkland dedication requirements are known as the "base rates".

What is an alternative parkland dedication rate?
Section 42 of the Planning Act authorizes municipalities to develop an alternative parkland dedication rate to a maximum of one hectare of land for every 300 residential units or the cash-in-lieu equivalent (learn about cash-in-lieu below) of one hectare of land for every 500 residential units. The alternative parkland dedication rate applies only to residential development or redevelopment and must be informed by a "parks plan" that examines the need for parkland in a municipality.

What is the current alternative parkland dedication rate?
Toronto's current alternative parkland dedication rate is 0.4 hectares for every 300 residential units to a maximum of 10 per cent, 15 per cent, or 20 per cent of the development site depending on the size of the development site. Sites less than one hectare are "capped" at 10 per cent, sites between one and five hectares at 15 per cent, and sites greater than five hectares at 20 per cent. The alternative rate currently applies only in "Parkland Acquisition Priority Areas" as described by Toronto Municipal Code Chapter 415.

Does Toronto have a "parks plan"?
Yes. The City of Toronto's Parkland Strategy is our "parks plan." Adopted by City Council in November 2019, the Parkland Strategy guides long-term planning for new

parks and expansion and improved access to existing parks. The Parkland Strategy's maps and parkland provision analyses are being updated as part of developing a new alternative parkland dedication rate to ensure the best available data is reflected.

What is cash-in-lieu of parkland dedication?
The Planning Act allows municipalities to require that land be conveyed for parkland as a condition of development or redevelopment. However, in some cases, the land is not suitable to be conveyed as a park. For example, a development site may be too small to generate a functional park space. In such cases, municipalities may accept cash-in-lieu of parkland equal to the value of the land that would otherwise be conveyed.

Cash-in lieu is received by the City and held in reserve funds for the purpose of purchasing or developing parkland.

How does the City use cash-in-lieu of parkland dedication?
Section 42 funds (or parkland dedication funds) comprise approximately one-third of Parks, Forestry and Recreation's (PFR) 10-year Capital Budget and Plan, and can only be used to fund parkland acquisition and development projects including public recreation facilities such as community recreation centres, playgrounds, sports fields, and arenas.

The City's cash-in-lieu generated through parkland dedication is divided up into several reserve funds. The cash-in-lieu is used to support the PFR Division's Capital Plan and is guided by the Parkland Strategy, the Facilities Master Plan, and other core PFR strategic plans. Section 42 of the Planning Act and associated regulations require an annual publicly available statement of special accounts (cash-in-lieu reserve funds) including contributions, spending and balances.

More information about PFR's cash-in-lieu status can be found in the Reserve Fund Statement Report, 2016-2019.

Engagement Process

Who is being consulted as part of this process?
The City sought to hear from Toronto residents at large as well as industry stakeholders. To achieve this, the City held four public information sessions (open to any interested person), two workshops (open to any interested person, with invitations sent to a variety of community organizations, Business Improvement Associations, residents/ratepayers associations, and other interest groups), and three small community group meetings.

The City also shared information through the project website: www.Toronto.ca/growthfundingtools, including Frequently Asked Questions about the overall project and each of the three Growth Funding Tools. Altogether, the City was able to hear from approximately 450 individuals during the public engagement period.

How will the changes to the City’s growth funding tools impact me?

As a resident of the city, you are affected by how the city grows and changes and how that growth and change is supported by City services and infrastructure. How and to what extent those services and infrastructure are funded may have a major impact on service availability (such as childcare and libraries) and user experience. There may also be impacts to how these services are funded. If the City's current funding tools do not cover the full cost of supporting growth, the City will need to explore other financial tools to ensure the sustainability of infrastructure and services for a growing population.

In the short-term, issues identified by the public and stakeholders will let us know what is important to them – and what to consider as we refine the growth funding tools. Feedback from engagement could also inform policy decisions. In the longer-term, public interest, engagement, and involvement in funding tools will support City staff in making decisions that reflect Torontonians' current ideas, priorities, and concerns.