

**Development Charges and Housing Affordability – Technical Consultations**  
**Discussion Questions**

**Development Charges Calculation**

***1. Would use of a backward-looking or forward-looking service level average in calculating development charges better address housing supply concerns?***

In the City's opinion, the method used to calculate historical service levels does not have a direct or indirect impact on housing supply. Municipalities do generally agree however, that flexibility is required to accommodate a range of approaches to determine future needs.

The use of the backward, or historical service level average, would typically put downward pressure on the calculation of development charge rates as this effectively restricts municipalities to utilize development charges to increase service levels beyond the preceding 10-year average provided. The current 10-year historic service standard can be a significant impediment to full funding of growth-related costs through development charges.

As well, a municipal Council's approved capital program to meet the needs of development can also limit development charge rates when the forward service level is lower than the historical service level.

***2. How can the lists of ineligible and non-discounted services be adjusted to positively affect housing supply?***

In the City's opinion, the list of ineligible and non-discounted services does not have a direct or indirect impact on housing supply. Making more services ineligible, or providing further discounts, will generally result in lower development charges than would be calculated under the existing framework.

A reduction in development charges could have the inverse impact and negatively affect housing supply. Municipalities would be forced to shift more of the recovery of costs to property taxes and utility rates which would hinder a municipality's ability to emplace infrastructure, thereby, slowing development. We stress that such changes would not change the need to provide the infrastructure capacity to meet the needs of development.

If the suggestion to remove water and wastewater from development charges is implemented, the impact of increased utility rates on households will be significant. In Markham, the impact of this would be approximately \$700 per household per year. These cost estimates are for the first 20 years.

With increased property taxes and utility rates, homeowners will have more difficulty moving up the “housing chain” or afford to stay in their current homes due to less disposable income brought about by more operating costs for their homes. Similarly, landlords would pass on these cost increases to their tenants, resulting in increased residential and non-residential rents assuming control does not apply. Thus, such a policy could actually make housing more unaffordable.

It is our opinion that developers will benefit from a higher margin on the sale of a house which over time will also benefit landowners, as developers with their increased margins will be willing to spend more on land.

Landowners who have executed front-ending and credit agreements with municipalities for water and wastewater construction, will also face difficulties if this infrastructure is no longer recoverable through development charges, as there currently is no mechanism for these landowners to recover their costs.

Development charges only fund the original emplacement of growth-related capital works. It does not cover the operating, rehabilitation or replacement cost. Given the progress on municipal asset management, and the requirements of the *Infrastructure for Jobs and Prosperity Act, 2015*, there is no incentive to “gold plate” services since municipalities must pay the operating and full life cycle costs of growth-related assets. These costs are well documented in asset management plans that are improving across the sector.

On the flip side, eliminating ineligible services and service discounts would permit municipalities to emplace growth-related infrastructure in a more timely way. This could well have a positive impact on housing supply.

### ***3. How can area rating be used to increase housing supply?***

The *Development Charges Act, as amended in 2015* (effective January 1, 2016), requires municipalities to examine area rating, although, the implementation of area-rating is not mandatory.

Many municipalities already use a range of different types of area rating, and a few examples are:

- The City of Ottawa where there are zones of charges. These are, inside the greenbelt, outside the greenbelt, rural services and rural unserved;
- The City of Markham has 19 area specific by-laws for the recovery of certain types of infrastructure costs;
- The City of Kitchener has different charges for “urban area” versus “suburban”; and
- The Cities of Windsor and Brantford have reduced charges in older “core” areas.

Area rates do not change the total amount to be funded from development charges, but simply reallocates the recovery of these costs. There will be winners and losers when compared to a municipal-wide approach and area rating will result in DCs that are higher than the average in some areas and lower than the average in others.

In most recent background studies for many municipalities, it was seen that providing servicing capacity for intensification in existing built areas, is more expensive than servicing traditional greenfield development. Examples of these are:

- a) **Water and sewer infrastructure**, where the need to replace and upsize existing water and sewer mains in developed urban settings is very disruptive and expensive;
- b) **The provision of fire prevention services**, where achieving appropriate response times, is increasing difficult in intensified urban centres. The result is the need to build more fire stations and acquire additional fire vehicles while increasing the number of staff to service the area. This ultimately results in significant capital and operating cost impacts, an example is the City of Mississauga;
- c) **The Housing of more people in non-ground related units** specifically purpose-built rental or condominium apartments, which requires municipalities to provide additional public green space and outdoor recreation amenities. The cost of constructing urban parks excluding land acquisition, is much more expensive than greenfield parks as seen in Toronto, Ottawa, and Mississauga;

Municipalities are best positioned to choose between the use of area rating or municipal wide development charges and recommend that the Development Charges Act go no further than require municipal Councils to consider the use of area rating, and refrain from prescribing restrictive provisions. While not all municipalities choose to use area rating, most already consider it. Changing the legislation is not required.

***4. How can the Development Charges Act, 1997 incentivize the development of the kind of housing people want, and can afford (e.g. purpose-built rental housing and housing appropriate for families) in the right places with the right supports (e.g. schools, transit and other amenities)?***

The Development Charges Act framework is based on the fiscal principle of “benefits received”, distinct from an “ability to pay” approach. Any type of incentive is counter to the basic Development Charges Act framework.

Eliminating or reducing the development charges for some units does not reduce or eliminate the growth-related costs that people in those units generate. Reducing or eliminating development charges merely shifts the onus for paying growth-related costs from the growth that generates the cost, to existing residents through higher taxes or user fees.

A number of municipalities already use a range of tools to encourage, or incentivize, different types of development such as purpose-built rentals within their development charges by-law or as part of a more comprehensive Community Improvement Plan.

Housing affordability needs are different in each municipality and it is likely more beneficial to continue to allow municipalities to introduce incentives to meet their particular needs through other policy tools rather than to prescribe incentives through the Development Charges Act.

## **Development Charges Process**

- 1. How can municipalities better inform interested stakeholders of the timing for introducing new DC rates? Are there ways to provide additional transparency and clarity?***

The City currently has a robust process for consultation to elicit feedback from the development industry during the preparation of a Development Charge Background Study. The industry is advised through a developers' roundtable meeting (all developers are invited) of the study update and members are asked to participate in consultations and provide their input through every step of the process. This input is taken into account and adjustments made where necessary to the final output. This process goes beyond the requirements of the *Development Charges Act, 1997 as amended*.

Municipalities encourage an open and transparent process to ensure that their capital programs align with the needs of development growth and see no requirement for additional transparency or clarity.

- 2. Does the process of passing a development charge by-law following preparation of the background study require more formalized feedback from the development industry? Are there any other stakeholders that should provide formalized feedback?***

The City conducts comprehensive consultations with its stakeholders well in advance of the preparation of the background study and by-laws. During this process, the technical inputs, calculation methodologies, policy changes, capital programs and draft rates are presented to the stakeholders prior to the formal release of the background study.

The *Development Charges Act, 1997 as amended* now requires the development charge background study to be made available to the public at least 60 days prior to the passage of the DC by-law and this period provides ample opportunity for stakeholders to provide any additional formal feedback.

- 3. Is there enough rigour in how municipalities account for development charges collected?***
  - a) Are better linkages between the background study and reserves required from municipalities?***
  - b) Should reporting requirements be more prescriptive? If so, how?***

The development charge background study outlines the application of existing and projected DC reserve funds to the projects required to service development. Municipalities are required to prepare an annual Treasurer's Statement which details the annual activity in the DC reserves and also provides information on projects funded from the reserves along with information on the funding source for costs ineligible for Dc funding.

The City does not think there are any further improvements required beyond those instituted in the January 2016 amendment to the *Development Charges Act, 1997*.