APPENDIX A

Association of Municipalities Ontario

The Importance of Development Charges

Submission to the Minister of Municipal Affairs and Housing on "Increasing Housing Supply in Ontario" consultations

January 31, 2019

The government has launched a consultation to, "increase the supply of housing in Ontario" and to "address barriers getting in the way of new ownership and rental housing." According to the government, one of the key barriers to new housing supply is "Cost: Development costs are too high because of high land prices and government-imposed fees and charges." Any added restrictions on the use of development charges (DCs) will have major implications for municipal governments.

Development charges are a major source of revenue for **cost recovery** that funds the infrastructure needed for Ontario's growing communities. In 2017, 197 municipal governments collected about $2.3 billion in development charge revenue.

At present, development charges only cover about 80% of the costs of growth-related capital. They are used throughout Ontario and especially in high growth areas. That means property taxes are currently subsiding the cost of growth and municipalities are currently falling short of achieving the principle, "growth should pay for growth." As a recent paper from the Institute on Municipal Finance and Governance at the University of Toronto noted, "[the] burden on existing ratepayers is not only inequitable, but also leads to inefficiently low municipal service levels and other related problems for municipalities and the development industry."

Inadequate DC revenue will have negative consequences for the province, not just municipalities. The Association of Municipalities of Ontario urges the government to consider these three key points:

1. Development charges are not a root cause of the affordable housing and supply challenge in Ontario. Even further to the point, DCs only apply to only a small part of the housing market – new homes. DCs represent between 5 – 7% of the cost of a new home.

2. A reduction in development charge collections will increase the cost of public services for all residents. This will increase pressure from taxpayers to constrain growth and to constrain demands on the already stretched property tax dollar.

3. Municipal governments and current property taxpayers do not have means to subsidize developers in building new homes. Changes that reduced development charges has never resulted in reduced housing prices.

The affordability question

1. Development charges are not a root cause of the affordable housing and supply challenge in Ontario.

Where used, development charges only account for between 5-7% of the price of a new home. The cost of lumber and supplies, interest rates, economics, land costs, and developer profits are significant factors when it comes to the cost of a new home. A recent study by the Royal Bank and the Pembina Institute concluded that, with respect to DCs, "the increase in these charges accounts for only a small fraction of the increase in home prices."

In addition, experience has taught that DC reductions are not passed on to the home buyer. For example, Ottawa experimented with offering DC concessions in a specific area. The concessions offered did not lower the price of housing compared to other areas in the city. In the GTA, on the border of two municipalities, with different development charge programs, the municipality with lower DCs in fact has higher housing prices. These examples add to the embedded skepticism that exists about the interests and actions of the industry to reduce house prices.

Lowering DCs will not lower housing prices nor increase land supply. Reducing DCs could exacerbate housing issues and create further barriers to long-term municipal financial sustainability.

Taxpayer Equity and Municipal Sustainability

2. A reduction in development charge collections will increase the cost of public services for all residents. This will increase pressure from taxpayers to constrain growth to constrain demands on the already stretched property tax dollar.

Reducing DCs does not decrease the cost of growth-related infrastructure. Instead, it transfers the cost to existing homeowners, which includes low income families and seniors. Significant increases in the whole cost of housing, through increased annual property taxes, would be unaffordable for many. Existing taxpayers and ratepayers would have to fund the cost of infrastructure not recovered through DCs. This would result in higher property taxes and utility rates for municipalities with new development and create a disincentive for residents to support new housing.

If more municipal operating revenues are needed to cover the cost of growth, it will be at the expense of maintaining existing capital assets, services, or current property tax and user rates. Shortchanging the public services that the people of Ontario depend on is no way to build the communities people want to live in. Development charges are the right tool to fund the services needed for growth in Ontario.

Specific to the issue of water and wastewater infrastructure, it has been suggested that DCs should not be used to recover growth-related capital costs associated with water and wastewater infrastructure. This is a poorly thought out suggestion which would have the following impacts:

- It will reduce a municipality’s ability to finance the essential infrastructure needed for growth to occur;
- It will reduce the supply of serviced land;
- It will unfairly affect existing homeowners, who would see large increases in their water rates to pay for infrastructure that does not benefit them;
- Municipal efforts to properly fund asset management plans would likely be compromised because the rate increases necessary for both growth and asset management would likely be unacceptable;
- Opposition to growth may increase as homeowners become aware that growth is causing increases in their water rates;
- There would be significant transitional issues as many municipalities have issued debt that is funded by future development charge revenue; and
- Higher water rates would reduce affordability for the people of Ontario, including seniors and lower income residents.

Cumulative Impact

3. Municipal governments and current property taxpayers do not have means to subsidize developers in building new homes.

As noted above, property taxpayers are already subsiding growth. Ontarians already pay the highest property taxes in county. What ancillary impacts will be further placed on others in a community? How much higher should property taxes go? How high is too high?

We also have to consider the perspectives of Ontarians:

- Six in ten say improving the state of roads, bridges, and transit is a high priority.
- Seven in ten say they are concerned that current property taxes will not cover the cost of local infrastructure and municipal services.
- More than eight in ten Ontarians say they would be concerned if the province placed new demands on municipal governments that result in higher property taxes.

Ontarians understand the limits of the property tax system and they understand that an infrastructure gap exists in their community. Much of what makes Ontario an attractive place to live, start a family and open a local business is public infrastructure.

AMO estimates municipal governments need an additional $4.9 billion per year for ten years to continue delivering today's services and to close the infrastructure gap. This need is on top of inflation-adjusted property tax and user fee increases over the next ten years.

Mandating reductions in the collection of DCs will compound existing municipal financial challenges. Reductions would hamper the aspirations of Ontarians to continuously improve the state of infrastructure in their communities and close the gap.

Conclusion

AMO was pleased to make presentations to the Minister of Municipal Affairs and Housing on the importance of development charges as a financial underpinning of municipalities, and especially high growth communities. AMO and the Municipal Finance Officers Association were pleased to recently assemble treasurers from a wide assortment of municipal governments, to inform the provincial government's deliberations on this issue, at two different occasions.

The Municipal Finance Officers Association has provided a very detailed paper to the government on this issue. Similarly, the Institute on Municipal Finance and Governance at the University of Toronto has also recently published a paper on development charges. A key quote from that paper bear mentioning: "Both municipalities and the development industry are stronger when growth-related capital costs are recovered by DCs set within well-structured municipal funding regimes."

We urge the government to consider the above points and submissions. The government must ensure that unintended consequences of a policy change do not exacerbate the availability and supply of housing in Ontario, nor existing municipal financial challenges.