Commentary on Bill 23 and Associated Impacts on Municipal Finances

Independent Real Estate Intelligence

November 29, 2022

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Prepared by:

Altus Group Economic Consulting

33 Yonge Street Toronto Ontario M5E 1G4

Phone: (416) 641-9500 Fax: (416) 641-9501

economics@altusgroup.com

altusgroup.com

November 29, 2022

EXECUTIVE SUMMARY

Context is Important in Assessing Impacts

- The Association of Municipalities of Ontario (AMO) estimates that Bill 23 will result in $5.1 billion in lost revenues across Ontario municipalities over a 9-year span, equating to $555 million per year.
- In 2020, Ontario municipalities received $56.6 billion in revenues, with only 42% of this coming from property taxes (and 20-30% of that from non-residential taxpayers).
- Based on the complete range of municipal revenues, the $555 million annual impact would represent less than 1% of total municipal revenues (0.98%).
- Municipalities are also reliant on Provincial and Federal grants/subsidies, receiving $13.7 billion in 2020, meaning that 24% of all revenues are from upper levels of government;
- Municipalities also earned $10.1 billion in user fees and service charges (water rates, sewer rates, etc.);
- Municipalities earned $1.02 billion in 'investment income' and "interest earnings" from reserve fund surpluses in 2020, an amount that is almost double the estimated annual impact of $555 million per year;

The DC and Parkland Changes Imposed by Bill 23 Often Reflect Existing Municipal Practices and Policies

- Many of the DC or Parkland incentives or rebates are for affordable housing, and generally reflect (and could likely replace) existing municipal programs and policies:
  - For example, the City of Toronto's 2022 DC Study identified that the planned 40,000 affordable housing units would be funded by $3.0 billion in "City Fee Waivers" and "Property Tax Exemptions" over 10 years.
  - As examples of other existing DC incentive programs:
    - City of Brampton – Central Area Community Improvement Plan (Development Charges Incentive Program)
    - City of Hamilton – Downtown Hamilton CIPA;

    - City of Niagara Falls – Downtown Community Improvement Plan (75% DC discount);
    - Town of Halton Hills Community Improvement Plan (20-year DC deferral program);
    - City of Peterborough – Affordable Housing Partnership Reserve Fund - $500,000 in grants towards DCs for affordable housing units.
    - City of Cambridge – property tax increment grants for 15 years so long as project remains viable, etc.;
- Many other legislative changes reflect existing municipal best practices, including the DC phase-in, parkland caps, crediting encumbered lands towards parkland charges – all have been done by municipalities prior to Bill 23, and Bill 23 would effectively help standardize municipal fiscal policies in these areas.

Incentivizing Development Works and Can Generate a Positive Return on Investment

Based on our experience, waivers of DCs and other growth-funding tools have proven very successful, and can be expected, particularly for infill development, to quickly return the 'investment' made through recurring annual fiscal surpluses through property taxes that development generates each year:

- Incentivizing development is a common practice and has been proven to spur development. The most successful urban incentive program in Ontario is the City of Toronto IMIT Grant program, which provided $725 million in tax grants to office buildings, which combined with significant rebates to DCs (>90% discounts but exact amount of waivers is unknown), was heavily responsible for the influx of new office buildings in the Downtown and Financial District in the 2000-2019 period.
- Incentivizing residential development that includes affordable housing units, based on City of Ottawa estimates of positive annual fiscal impacts ($606 per capita) will generate a near-immediate positive return on investment in annual property tax surpluses relative to the 'cost' of the incentives. Our hypothetical scenario sees the DC/Parkland/CBC rebates for affordable housing returned through net fiscal surplus from the development in less than 1.5 years.

Municipal Fees in Ontario per Square Foot Developed are Twice as High for High-Density Development as Low-Density Development

- Currently, high-density development sees municipal charges per square foot 2-times higher than for low-density development. Incentives for high-density development can help to bring municipal charges per square foot down closer to that of low-density development, and help infill and intensification overcome the additional barriers high-density development faces, including higher construction costs (per square foot), longer construction periods, and community opposition to height/density;

Municipal Fees in Ontario are Substantially Higher than Anywhere Else in Canada (Except Vancouver)

- Based on a cross-Canada comparison undertaken by Altus Group, municipal fees in Ontario are substantially higher than anywhere else in Canada. Further, within Ontario, municipal fees are the highest in the Greater Toronto Area, due to the heavy influence that land values have on how municipal fees are calculated.

Suggested Strategies for Mitigating and Moderating Short-Term and Long-Term Impacts

- While most municipal analyses are predicated on the notion that the entirety of the impacts of Bill 23 will be made up from increased residential property taxes, the analyses ignore that there are numerous other options available to mitigate or phase-in some or all of the implications that Bill 23 presents, including, but not limited to:
  - a Provincial Housing property tax levy (similar to the existing Education tax levied in Ontario, but less than 10% of the size of that levy based on AMO estimates). This type of property tax levy is already used elsewhere in Canada, including BC.
  - in the absence of historic indexing of the 'threshold price' for HST rebates on new homes, some of the windfall revenue from the lack of indexing could begin to be redirected to municipalities;
  - consider permissions for localized income or sales taxes for larger municipal governments, to allow for a revenue source that naturally increases revenues during high inflation periods (unlike

property taxes which are often increased at or below rates of inflation for political reasons).

- Given the scale of accumulated municipal DC reserves and the stated amounts of committed spending over the next 5-10 years, in many municipalities roughly 5-6 years of committed spending is fully covered by existing reserves, suggesting that there should be little to no short-term impact on spending from Bill 23 changes;
- Municipalities have in recent years significantly bolstered their "Tax Rate Stabilization Reserves" – changes such as Bill 23 would appear to be a suitable rationale to begin utilizing these funds. In total, there are $1.8 billion in Tax Rate Stabilization Reserves across Ontario municipalities, including $1.12 billion held by the City of Toronto.

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY i

1 INTRODUCTION 1

2 CONTEXTUAL ANALYSIS OF BILL 23 CHANGES 1

2.1 The Estimated $555 Million in Annual Impacts is Less than 1% of Overall Municipal Revenues 1

2.2 Many of the Incentives/Rebates Proposed by Bill 23 Replace Existing Programs 4

2.3 Many of the Policy and Legislative Changes Proposed by Bill 23 Reflect Existing Municipal Best Practices 6

2.4 Significant Reserve Fund Balances and Existing Spending Commitments will Mitigate Short-Term Impacts of bill 23 7

3 CASE STUDIES – EFFECTIVENESS AND "ROI" OF INCENTIVES 9

3.1 City of Toronto: Effectiveness of Financial Incentives – IMIT Property Tax Grants and Office DC Waivers 9

3.2 City of Ottawa: Incentivizing Affordable Housing in Built-Up Urban Areas Has a Near-Immediate Return on Investment 10

4 EXISTING IMBALANCE IN MUNICIPAL CHARGES FOR HIGH-DENSITY DEVELOPMENT 11

4.1 Under the Current System, High-Density Development Pays 2X in Municipal Charges per Square Foot as Low-Density 11

4.2 Municipal Charges are Substantially Higher in Ontario Than Almost Everywhere Else in Canada 12

5 OTHER OPTIONS FOR FUNDING BILL 23 CHANGES BEYOND PROPERTY TAXES ARE AVAILABLE 14

6 MUNICIPALITY-SPECIFIC COMMENTS 16

6.1 City of Toronto Specific Comments 16

6.2 City of Ottawa Specific Comments 19

6.3 City of Hamilton Specific Comments 20

1 INTRODUCTION

Altus Group Economic Consulting has extensive experience with issues relating to municipal finance, development charges, parkland dedication policies, and housing markets. Our team has authored several studies on municipal finance and quantifying municipal charges imposed on new development in Ontario, but also elsewhere in Canada and the United States, and provided expert witness evidence before the Ontario Land Tribunal numerous times on matters relating to municipal finance and development charges.

More broadly, Altus Group has in-house experts pertaining to construction costs, real estate appraisal, property tax, and collects wide arrays of data regarding commercial and residential real estate in major markets across Canada. Our clients include municipalities[1], public agencies[2], private sector clients including developers, home builders, and industry associations.

The commentary provided here largely assesses the implications of Bill 23 using the impact estimates provided by the Association of Municipalities of Ontario (AMO). This commentary also responds to certain municipal-specific impact estimates released thus far.

The bulk of the data presented in this document to contextualize the estimated impacts are taken directly from annual Financial Information Returns that municipalities prepare and submit to the Ministry of Municipal Affairs and Housing for review.

2 CONTEXTUAL ANALYSIS OF BILL 23 CHANGES

2.1 The Estimated $555 Million in Annual Impacts is Less than 1% of Overall Municipal Revenues

According to AMO, the Bill 23 changes will result in $5 billion in additional or newly unfunded costs for municipalities over the next 9 years, equating to $555 million per year:

[1] Recent municipal engagements for Altus Group Economic Consulting include the City of Windsor, City of Guelph, City of Vaughan, City of Oshawa, Municipality of Clarington, City of Ottawa, etc.

[2] Recent engagements from public agencies include the Toronto Transit Commission, CMHC, National Capital Commission, etc.

> Preliminary analysis indicates that Bill 23, if enacted, would reduce the municipal resources available to service new developments by more than $5.1 billion over the next 9 years.

It is estimated that this $5.117 billion in impacts includes:

- $117 million in funding for studies;
- $426 million in funding for housing services;
- $1,189 million in discounts for rental units; and
- $3,385 million in exemptions for affordable housing units.

While significant, it is important to put this estimate into perspective.

For the year 2020, based on municipal filings made to the MMAH through the annual "Financial Information Return", municipalities across Ontario received $56.6 billion in revenues in 2020[3], which includes the following revenue streams:

- $23.5 billion in property taxes (and payments in lieu of taxation), of which 20-30% is from the non-residential sector;
- $13.7 billion in transfers from upper levels of government, including:
  - $11.7 billion from the Province (grants, gas tax), and
  - $1.95 billion from the federal government (grants, gas tax);
- $10.1 billion in user fees and service charges (water rates, sewer rates, user fees, etc.);
- $2.1 billion in development charges;
- $1.41 billion from licenses, permit fees, rents, etc.;
- $804 million in municipal land transfer taxes (City of Toronto only);
- $581 million in investment income;
- $492 million in fines and penalties;
- $437 million in interest earnings from reserves and reserve funds;
- $3.5 billion in other revenue.

In addition, municipalities collected $7.5 billion in property taxes for Education, which gets directed to the Province for reallocation to school

[3] Many 2021 FIRs are available, however 90 municipalities (out of 444) have not yet submitted their 2021 FIRs as of late November 2022, such as Pickering, Orillia, Innisfil, Northumberland County, Timmins, Parry Sound, among others.

boards. Of this $7.5 billion in education levy revenues, only 45% comes from residential tax base.

In total, the estimated $555 million in annual costs associated with Bill 23 (as estimated by AMO) equates to 0.98% of all annual revenues that municipalities receive (not counting the Provincial education levy).

In fact, the annualized estimate of $555 million is barely half the combined investment and interest income municipalities earned in 2020 ($581 million + $437 million = $1,012 million).

While AMO notes that the estimated impact is only for the parts of Bill 23 where impacts can be quantified, if the share of funding responsibility is allocated based on the current make-up of municipal revenues, significant portions of any impact would likely be borne by non-residential property taxes, increased water/sewer rates, or increased user fees and service charges. Additionally, additional Provincial or federal government funding may become available.

In addition to increasing taxes or other existing forms of revenues, there are also other options to recover funds that are considered later in this memorandum.

Given that over 97.7% of the $5.1 billion in estimated costs is associated with incentivizing new housing (purpose-built rental, affordable housing), the vast majority of the changes are **to ensure that governments, including municipalities, increase their financial contributions towards the delivery of affordable housing** where the market cannot without negatively impacting the feasibility of market-development itself. According to CMHC:

> Governments must therefore ensure that enough housing supply is available. …
>
> As mentioned, households with more income also face high rents or costs of homeownership in Canada today. … not enough housing is being built whether it's for rental or homeownership. CMHC estimated that an additional 3.5 million housing units are required to achieve affordability by 2030.
>
> To address this imperative, we need more private-sector investment to build more supply in the housing market, particularly in the rental sector. To help increase supply, CMHC introduced the Rental Construction Finance Initiative, which aims at building more rental apartments in markets that desperately need it. Markets like Toronto, Vancouver, Montreal, Victoria and Halifax, to name a few. Much more

needs to be done. Given income and population growth, further action is required by all levels of government to facilitate increased housing supply by the private sector.

So, even though there are common affordability problems across the board, policy solutions will differ. The market will never supply units at a low-enough cost for households with very low incomes. Governments must help.

In contrast, the market can supply housing in large numbers to the market if they have access to skills and financing, but **governments have a role to ensure that the regulatory framework is supportive, so market demand is met**. Governments must take a system-wide view and not encourage housing supply for low-income households by discouraging housing supply for middle-income households.

The imperative of increasing housing supply will be even greater as Canada seeks to attract more immigrants. As immigrants increasingly bring wealth, many become homeowners immediately upon arrival in Canada, rather than starting as renters. Accommodating more immigrants, therefore, means more housing must be built across the entire spectrum.[4]

2.2 Many of the Incentives/Rebates Proposed by Bill 23 Replace Existing Programs

Numerous Ontario municipalities have existing DC or property tax incentive programs to encourage infill development and/or help contribute towards affordable housing, including the City of Kitchener (DC rebates in the Downtown), City of Barrie, City of Cambridge, Town of Halton Hills, City of Brampton, City of Niagara Falls, among many others.

Below are two examples of successful municipal incentive programs helping fund affordable housing, infill and intensification (particularly in Downtown Areas):

- **Toronto Open Door Program ($195 million in DC exemptions over 2018-2021 period);**
  - May 2022 Staff report indicates that the City will offer $64.9 million in incentives (in addition to $13.6 million in capital funding) for affordable housing units, through waived DCs, building permit fees, parkland levies and property taxes for 17

[4] Governments alone cannot fix Canada's housing affordability challenges | CMHC (cmhc-schl.gc.ca)

projects with 919 affordable housing units (equating to $70,000 per unit).

- Total funding through incentives over this four-year span was $195 million, including the following amounts from 2018 to 2020:
  - 2020: $64.7 million[5];
  - 2019: $38.3 million[6];
  - 2018: $27.3 million[7]

- **City of Hamilton (provided $242 million in DC exemptions over 2013-2021 period):**
  - The City already offers numerous incentives for residential development and non-residential development. Based on information presented in the City's annual DC Reserves Status Report, over the 9-year period from 2013 to 2021, the City granted $242 million in DC exemptions, which includes DC exemptions or rebates for the following programs or types of development:
    - Residential Intensification - $20.5 million;
    - Industrial Expansion - $16.2 million;
    - Industrial Rate Reductions (compared to max rates) - $45.4 million;
    - Affordable Housing Exemptions: $5.2 million;
    - Downtown Hamilton CIPA - $63.6 million;
    - Transition Policy - $18.7 million
    - "Council Granted" Exemptions - $2.0 million
    - Academic Exemptions - $13.8 million.
  - According to the City's report, many of these exemptions were funded from the tax budget ($38.9 million) and the rate budget ($69 million). The exemptions granted each year over the 2019-2021 period exceeded $39 million each year, combining for over $120 million in the past three years alone.

[5] http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.PH21.4
[6] https://www.toronto.ca/legdocs/mmis/2019/ph/bgrd/backgroundfile-137149.pdf
[7] https://www.toronto.ca/legdocs/mmis/2018/ah/bgrd/backgroundfile-116424.pdf

Many of these and other existing exemptions and incentive programs may overlap with what is included in Bill 23, including transition, exemptions for affordable housing, rebates for residential intensification, etc.

Future estimates of the impact of Bill 23 should assess which programs and the associated existing annual funding amounts will be rendered unnecessary due to the changes from Bill 23.

2.3 Many of the Policy and Legislative Changes Proposed by Bill 23 Reflect Existing Municipal Best Practices

- **Parkland Caps:** No more than 15 per cent of the amount of developable land (or equivalent value) could be required for parks or other recreational purposes for sites greater than 5 hectares and no more than 10 per cent for sites 5 hectares or less.
  - **Example of Existing Practice:**
    - Using a 10% or 15% cap on parkland dedication / cash-in-lieu mirrors the long-standing approach used by the City of Toronto.
- **Mandatory phase-in of DC rates for first four years of DC by-law**
  - **Example of Existing Practice:**
    - Many municipalities have voluntarily moderated larger DC rate increases through their DC by-laws, at discounts even deeper than Bill 23 proposes.
    - As one example, the City of Toronto's 2022 DC by-law discounted DC rates from the full calculated rates by 31% from August 2022 to May 2023, and by 16% from May 2023 to May 2024.
- **Encumbered Lands creditable against parkland provision**
  - **Existing Practice:**
    - This approach has been adopted by many GTA municipalities, such as the City of Vaughan (by-law 168-2022), which set out the following approach to recognizing credits for encumbered lands:
      - 100% credit for passive recreation lands (3(1) of parkland by-law)

            - 100% credit for strata parks, underground SWM, utility corridors, natural heritage, buffers, floodplains, sustainability features, Greenbelt/ORM (3(2))
            - 100% credit for POPs (3(4))

- **Removal of Land as an Eligible Service**
    - **Existing Practice**:
        - The DC Act has long prohibited recovery of costs associated with land for parks, due to significant amounts of parkland being directed dedicated to municipalities.
        - Beyond parkland, significant amounts of land for road widenings or new roads are typically dedicated by developing landowners for free, without credits under the DC Act.
        - While few details are available for how this proposed change would be implemented (and these impacts are not included in AMO's estimates), an increased limitation on land as an eligible DC cost could incentivize municipalities to use existing land assets more efficiently, or reassess the need for high-cost, land consumptive road widenings, particularly in built-out or urbanized municipalities.

2.4 Significant Reserve Fund Balances and Existing Spending Commitments will Mitigate Short-Term Impacts of bill 23

Using three Ontario municipalities as examples, in many Ontario municipalities there has been an ongoing mismatch in DC revenues and expenditures, causing DC reserve fund balances to grow significantly over the past several years.

Figure 1

Municipality	2018 Opening Balance	2018-2021 Revenues	2018-2021 Interest Earnings	2018-2021 DC Expenditures	2021 Closing Balance
Hamilton	$159 million	$480 million	$17 million	$283 million (59% of revenues)	$374 million (+135% from 2018)
Toronto	$653 million	$2,854 million	$51 million	$1,294 million (45% of revenues)	$2,263 million (+246% from 2018)
Ottawa	$325 million	$968 million	$16 million	$585 million (60% of revenues)	$724 million (+122% from 2018)

While the City of Toronto has $2.26 billion in DC reserves, it has stated that of this amount, $1.89 billion is committed to be spent over the 2021-2025 period. This indicates that the City's capital plans over the next five years are fully funded and any loss in DC revenues due to Bill 23 should not impact any short-term spending plans.

Even before accounting for prospective new DC revenues over the 2021-2025 period (and beyond), the City's existing reserve fund balance of $2.2 billion exceeds the 5-year capital spending commitments, and instead equating to nearly 6 years worth of spending at the City's planned committed spending rate ($379 million per year).

Figure 2

Municipality	2021 YE Balance	Spending Commitments	Annual Commitments	Years of Spending in Reserve (at forecasted spending rates)
Toronto	$2,263 million	$1,894 million Over 2021-2025 (2020 DC RFS)	$379 million per year	5.97 years of spending
Ottawa	$724 million	$655 million (timing unknown)	Assuming 5 years = $131 million / year	5.52 years of spending

Beyond the reserves and reserve funds associated with growth-funding tools, many municipalities maintain Tax Rate Stabilization Reserve funds, which are in addition to the various 'growth-related' reserve funds such as DC

reserve funds, Parkland CIL reserve funds, etc. In total, across all Ontario municipalities, as of YE 2021, there was $1.83 billion in Tax Rate Stabilization Reserve funds. The largest such reserve is found in the City of Toronto, where **the City also has grown its "Tax Rate Stabilization Reserve" from $67 million in 2018 to $1.12 billion as of year-end 2021, a 1571% increase in just four years.**

To the extent that some of the Bill 23 changes need to be offset, these Tax Rate Stabilization Reserves would appear to be purpose-built to mitigate the effects of changes such as that proposed by Bill 23.

3 CASE STUDIES – EFFECTIVENESS AND "ROI" OF INCENTIVES

3.1 City of Toronto: Effectiveness of Financial Incentives – IMIT Property Tax Grants and Office DC Waivers

The largest incentive package is the City of Toronto IMIT Grant program, which provides property tax grants for new non-residential space occupied by qualifying sectors. According to a City of Toronto staff report, the City has provided $725 million in grants, which is a large factor that contributed to new office development becoming viable enough to see significant expansion in the early 2000s.

> As of June 2022, the IMIT program has approved 68 applications and provided $185.15 million in grants, with another $29 million in grants projected for 2021. In addition, the estimated amount for grants that the program is committed to provide until 2036 is $510.88 million. The total cumulative estimated value of IMIT grants approved to date is therefore $725.6 million. These figures represent grants approved to date.

The combination of the IMIT grants, and waived DCs for office uses above the ground-floor (which no other major municipality provides) saw the pace of office development in the City grow by roughly 50% from the first decade of the 2000s to the second (2010-2019), while the amount of new office space being built elsewhere in the GTA declined by nearly 40% (from 16 million square feet in the first 10 years to 9.8 million square feet in the second 10 years).

Figure 3

Location of New Office Space in GTA, Past Two Decades

	New Office Space	
	2000-2009	2010-2019
	Square Feet	
Greater Toronto Area	22,574,445	19,375,785
City of Toronto	6,521,050	9,563,949
Downtown Toronto	4,753,619	8,655,777
	Percent	
City as % of GTA	28.9%	49.4%
Downtown as % of GTA	21.1%	44.7%
Downtown as % of City	72.9%	90.5%

Source: Altus Group Economic Consulting based on Altus InSite

The City's share of office development grew from 29% in the 2000-2009 period to over 49% in the next 10-year period.

The City also provided DC waivers for non-residential space built above the ground floor. Based on the amount of office developed in the City under this waiver policy, the amount of foregone DC revenues likely amounted to several hundred million dollars, though no City reports are available that quantify the exact amount.

The City's historic and on-going programs to improve viability of office development shows that incentives work to spur forms of development that may not otherwise be feasible to construct (or at least at the quantum needed to meet demand).

3.2 City of Ottawa: Incentivizing Affordable Housing in Built-Up Urban Areas Has a Near-Immediate Return on Investment

Using the City of Ottawa as an example, given that the City has estimated the annual fiscal surplus generated by new infill housing of $606 per capita, the incentivizing of affordable housing units and development in MTSAs through reduced DCs, parkland charges, CBCs, will generate a return-on-investment (ROI). For a hypothetical 200-unit building, the City estimates that it would generate a positive annual fiscal return of $242,400 per year. The estimated $305,820 in incentives, if they are sufficient to make the development feasible, will return the City's investment in less than 1.5 years.

The City then realizes the full fiscal surplus for the remainder of the lifespan of the constructed building.

Figure 4

Estimated Return on "Investment" for Bill 23 Rebates for Affordable Housing

Development Assumptions				
Total Units in Building			200	units
Affordable Units (5%)			10	units
Land Value Assumption	A		60	per buildable SF
Average Unit Size	B		900	square feet
Land Value per Unit	C = AxB	$	54,000	
Annual Fiscal Surplus - Building				
Estimated Annual Fiscal Surplus - Per Capita	D	$	606	per capita
Assumed Average Household Size	E		2.00	persons per unit
Estimated Annual Fiscal Surplus - Per Unit	F = DxE	$	1,212	per unit
Estimated Annual Fiscal Surplus - Building	G = Fx200	$	242,400	per year
Rebates for Affordable Units				
Development Charges - Inside Greenbelt (2+ bed)	H	$	20,322	
Parkland 15%	I	$	8,100	
CBCs 4%	J	$	2,160	
Total Rebates per Unit	K = H+I+J	$	30,582	
Total Rebates - Building	L = Kx200	$	305,820	
ROI Calculator				
Total Rebates - Building	L	$	305,820	
Annual Fiscal Surplus - Building	G	$	242,400	
Years for Return on Rebates	M = L/G		1.26	

Source: Altus Group Economic Consulting

4 EXISTING IMBALANCE IN MUNICIPAL CHARGES FOR HIGH-DENSITY DEVELOPMENT

4.1 Under the Current System, High-Density Development Pays 2X in Municipal Charges per Square Foot as Low-Density

Within the GTA the average municipal charges imposed on high-density development (not accounting for Inclusionary Zoning costs) amounts to $99 per square foot, and as high as $121,600 in the City of Vaughan. The average for low-density development in the same municipalities is $52 per square foot, meaning that high-density development in the GTA pays twice the cost (per square foot) as low-density development.

This imbalance does not factor in the costs of inclusionary zoning, which would be imposed only on high-density development, and cause the cost differential to increase even beyond what is estimated below.

Figure 5

Municipal Charges per Unit, High-Rise Scenario, Greater Toronto Area Municipalities

		High-Rise	
		Charges per Unit	Charges per SF
Rank	Municipality	*$ / Unit*	*$ / SF*
1	Vaughan	121,562	152
2	Markham	110,892	139
3	Mississauga	105,569	132
4	Richmond Hill	101,349	127
5	City of Toronto	99,894	125
6	Caledon	87,280	109
7	Brampton	79,645	100
8	Milton	77,778	97
9	Oakville	74,636	93
10	Innisfil	70,648	88
11	Barrie	60,464	76
12	Burlington	60,382	75
13	Clarington	58,202	73
14	Whitby	57,683	72
15	BWG	53,845	67
16	Oshaw a	46,412	58
	Average	79,140	99

Source: Altus Group Economic Consulting

4.2 Municipal Charges are Substantially Higher in Ontario Than Almost Everywhere Else in Canada

An analysis of the municipal charges and fees imposed on new high-rise development for 20 municipalities across Canada shows that the six (6) GTA municipalities in the sample are all among the seven (7) highest charges imposed. The only non-Ontario municipalities in the top 11 are Vancouver and Surrey. The charges everywhere else in Canada are generally substantially less than those imposed in the GTA and Ontario as a whole.

In short, within Canada, municipal charges and fees are by far the highest in Ontario (being 9 of the top 11), and within Ontario, municipal fees and charges are highest in the GTA where the demand for housing is the greatest.

Figure 6

Municipal Charges per Unit, High-Rise Scenario, Study Municipalities

		High-Rise	
		Charges per Unit	Charges per SF
Rank	Municipality	$ / Unit	$ / SF
1	Vancouver	125,542	157
2	Markham	110,892	139
3	City of Toronto	99,894	125
4	Brampton	79,645	100
5	Oakville	74,636	93
6	Pickering	64,076	80
7	BWG	53,845	67
8	Surrey	48,654	61
9	Hamilton	41,690	52
10	Ottaw a	35,079	44
11	London	22,275	28
12	Burnaby	19,256	24
13	Calgary	16,990	21
14	Halifax	10,744	13
15	Edmonton	6,599	8
16	Saskatoon	6,457	8
17	Regina	3,959	5
18	Winnipeg	3,070	4
19	Moncton	2,300	3
20	St. John's	1,463	2
Average		41,353	52

Source: Altus Group Economic Consulting

While other Canadian municipalities do have infrastructure charges, off-site levies and development cost charges, the quantum of these charges pales in comparison to what is imposed in many Ontario municipalities. In the case of Regina, City Council eliminated an "intensification levy" after two years and determining it was not helping spur intensification.[8]

In addition, municipal fees and charges in Ontario are charged on high-density development at a rate that is 2-times higher per square foot than low-density. High-density development is already:

- More costly to build (construction costs are substantially higher per square foot);
- More time-consuming to build (as per CMHC data);
- In many cases face more community opposition.

[8] https://leaderpost.com/news/local-news/city-hall/city-of-regina-administration-recommends-scrapping-intensification-levy

A large proportion of the 1.5 million new homes being targeted will need to be high-density units in intensification areas such as Downtowns, Major Transit Station Areas, Transit Corridors. The existing structure where these units cost more to build, cost more to obtain permits, and take longer to build is likely to put a significant squeeze on the feasibility of this unit type, especially as interest rate increases put downward pressure on prices.

While municipalities frequently report on the significant amount of approved but unbuilt residential supply, elements such as construction costs, regulatory costs and time-to-market all impact feasibility.

A large number of approved but unbuilt units is indicative of an environment where approved supply is not feasible to construct due to costs being too high, or revenues being too low.

5 OTHER OPTIONS FOR FUNDING BILL 23 CHANGES BEYOND PROPERTY TAXES ARE AVAILABLE

In addition to spreading out the foregone revenues under Bill 23 to other municipal revenue sources such as water/sewer rates, user fees and service charges, or without considering the significant proportion of any tax or rate implications that will be funded by the non-residential sector (20-40% depending on the municipality), there are several other funding options available that would involve upper levels of government, which could be used in isolation or in combination:

- **Create New Provincial Housing Levy (Similar to Existing Education Tax):** In 2020 alone, all municipalities in Ontario combined to collect $34 billion in property tax revenues, of which $7.4 billion was generated through the Education tax (less than half of which was collected from Residential or Multi-Residential properties), collected by municipalities but directed to the Province to fund education in Ontario. The education tax mill rate for the Residential Tax Class (RT) was 0.153%, with the education tax mill rates for Commercial uses being 1.25% (or 8-times that of RT). These mill rates are set by the Province and incorporated into municipal property tax billing processes for collection.

  Assuming AMO's estimated impact of $5 billion over 9 years is accurate, the annual impact would be $555 million per year, which equates to just 7.5% of size of the current education levy.

To avoid municipal service cuts or politically sensitive locally-imposed property tax increases, the province could consider introducing a "Housing Levy" to property tax bills to break the connection between local politics and the need to raise property taxes (especially for an under-funded but widely-accepted public good such as affordable housing).

As 100% of the funds raised would be reallocated to municipalities, this levy could act as an 'intra-Provincial' transfer system from low-growth municipalities to high-growth municipalities. A similar housing-oriented property tax is utilized in British Columbia.

- **Allocate Portion of Provincial and/or Federal HST Revenues to Municipalities:** The application of HST to new housing has escalated significantly as prices have risen, the 'threshold price' for HST rebates at the Provincial ($400,000) and Federal ($450,000) level have not increased at all since HST and the associated rebates on new housing were first introduced. In the continued absence of indexing, the Province and Federal governments should consider offsetting any short- or medium-term municipal revenue impacts from Bill 23 with redirected and dedicated portions of HST revenues raised from new housing to municipalities.
- **Consider Allowing Larger Municipalities to Impose Sales or Income Taxes:** Providing municipalities with the ability to levy modest income or sales taxes would help to further diversify the revenue base for large municipalities, with the addition of taxes that naturally grow in-step with inflation during inflationary periods. In the case of the City of Toronto, the City's municipal government is the sixth largest government in Canada by population served (2.8 million people)[9], but has a more limited range of taxation powers than Prince Edward Island (population: 170,700 people).

[9] Behind only the federal government, and the provincial governments of Ontario, Quebec, BC and Alberta.

6 MUNICIPALITY-SPECIFIC COMMENTS

We have reviewed comments prepared by the City of Toronto, City of Ottawa, and the City of Hamilton and have the following municipal-specific comments below.

6.1 City of Toronto Specific Comments

6.1.1 Estimated Cost to City of Toronto of Removal of Housing DC ($130 million) Far In Excess of Actual DC Spending History

The City of Toronto estimates that the financial impact to the City of Toronto from Bill 23 (as originally proposed) is $200 million annually, which includes the estimated annually loss of $130 million is related to the removal of Housing Services as an eligible DC service.

The last full calendar year (2021) saw the City generate nearly $61 million in funds for the Housing DC, although under the former DC by-law which had lower DC rates. Presumably, the City's estimate is based on the anticipated spending set out in the 2022 DC Study.

While the estimate is based on projected spending, based on actual spending over the last six years, based on the City's annual DC reserve fund statements, the City has spent just $42.5 million in DC funds (in total, or roughly $7 million per year) from their Housing DC reserve fund. Over the same time period, the City has generated $185.2 million in DC revenues, meaning that they've spent just 23% of the DC revenues over this six-year period. At year-end 2021, the City had a $184.5 million surplus (before accounting for planned spending) in their Housing DC reserve fund.

The City's full estimated impact would only be reached if the City followed through on their spending plans, which there is little track record of doing based on recent years, where expenditures amounted to just 23% of DC revenues raised for this particular service.

Figure 7

City of Toronto / Housing Services DC Reserve Fund Continuity Annual Revenues / Expenditures and Year-End Balances			
Year	**DC Revenues**	**DC Expenditures**	**YE Balance**
2016	$5.5 million	($0.8 million)	$47.9 million
2017	$8.1 million	$3.6 million	$52.5 million
2018	$36.2 million	$3.6 million	$85.1 million
2019	$28.0 million	$10.4 million	$102.7 million
2020	$46.5 million	$16.9 million	$132.3 million
2021	$60.9 million	$8.8 million	$184.5 million
Total 2016-2021	$185.2 million	$42.5 million (23% of revenues)	n.a.

6.1.2 City Plans for 40,000 Affordable Housing Units Already Included $3 Billion of DC and Property Tax Rebates, Overlapping with Estimated Bill 23 Impacts

The City's 2022 DC Study identified how the planned 40,000 affordable housing units would be funded. In total, the DC Study showed $17.8 billion in costs to deliver these units. Of this, the costs include the following elements:

- $10.5 billion was identified as capital contributions for construction of units,
- $3.0 billion combined was identified as being for "City Fee Waivers" ($2.0 billion) and "Property Tax Exemptions" ($1.0 billion) for the affordable units built through the City's plan. This equates to $300 million per year in planned incentives for affordable housing units;
- $4.3 billion in operating costs;

The City's existing plan to provide $300 million per year in DC and other fee waivers for affordable housing developments overlaps with a significant proportion of the components that would be required by Bill 23. As much of the Bill 23 changes are to offer incentives such as DC rebates

for affordable housing units, much of the suggested impact of Bill 23 overlaps with incentives the City was already planning to provide.

Figure 8 **Spending Plan for Affordable Housing Plans 2022-2031, City of Toronto 2022 DC Study**

	Housing Now	Open Door	Other Affordable Rental Projects	MURA Program	Supportive Housing	Total
Units	10,000	10,000	1,500	500	18,000	40,000
Capital Costs - 40,000 Units			*Dollars*			
Capital Contributions	2,291,000,000	500,000,000	714,000,000	242,606,000	6,763,000,000	10,510,606,000
City Fee Waivers	518,810,000	518,810,000	43,818,000	-	921,102,000	2,002,540,000
Property Tax Exemptions	317,120,000	214,040,000	77,821,500	14,606,000	378,708,000	1,002,295,500
Operating Costs	-	-	-	-	4,320,000,000	4,320,000,000
Total	3,126,930,000	1,232,850,000	835,639,500	257,212,000	12,382,810,000	17,835,441,500
Sources of Funding for Costs						
Grants	-	300,000,000	300,000,000	75,000,000	10,714,000,000	11,389,000,000
Benefit to Existing (e.g., property taxes)	1,688,542,200	503,739,000	289,245,330	90,507,240	901,157,400	3,473,191,170
In-Period DC	987,656,189	86,220,532	178,476,500	65,958,707	159,076,881	1,477,388,809
Other Development Related (CBC, etc.)	450,731,611	342,890,468	67,917,670	25,746,053	608,575,719	1,495,861,521
Grants						64%
Benefit to Existing (non-DC)						19%
In-Period DC						8%
Other Development Related (CBC, etc.)						8%
Total Costs per Unit	312,693	123,285	557,093	514,424	687,934	445,886

Source: City of Toronto 2022 DC Study, page 271

The $17.8 billion in total capital costs for affordable housing incentives and construction was to be funded by four main sources:

- $11.4 billion in grants;
- $3.47 billion in non-DC sources to cover off the existing community's share;
- $1.48 billion in DC funds (all being put towards construction costs); and
- $1.49 billion in other development-related revenues (CBCs, etc.).

The removal of housing services as a DC-eligible service will mean the City will lose just 8% of its planned DC funding for the 40,000 units.

If 8% of the funding is not replaced, and assuming that the entirety of the other 8% for "Other Development Related" will also no longer be available, this means that the City would still have funds for the remaining 84% of the planned costs associated with the 40,000 units, or 33,600 affordable units over the 10-year period.

6.2 City of Ottawa Specific Comments

6.2.1 Putting Estimated Annual Cost of Bill 23 into Context

The City's staff report estimates that the "financial impact and loss of revenue to Ottawa from the proposed DC phase-in periods and removal of growth-related items for DC recovery are in the range of $26 million annually."

Additionally, the staff report estimates the following additional impacts:

- $1.5 million for funding of DC background studies (and presumably other studies);
- Exemptions for housing services will result in a loss of capital funding of $741,000 annually.

In total, these three changes amount to $28.2 million in DC funding per year that would need to be made up from other sources.

In the City's 2022 budget, the City's planning to spend $4.14 billion in tax and rate (water/sewer) funds. Funding an additional $28.2 million in DC exemptions for DC phase-in periods ($26 million) and removed services ($2.2 million). This additional funding need, if all other services are kept as-is, would equate to an increase in spending needs of 0.68%.

Even if all of these costs are placed on residential tax and ratepayers, this equates to $63 in additional costs per annum, or $5.25 per month, per household. In reality, given that the non-residential sector pays significant proportions of municipal tax and rate revenues, the amount of additional cost pushed onto residential households is likely less than the above estimate.

6.2.2 Estimated DC Revenue Losses from Gentle Intensification

The City also indicates that there "would be an undetermined loss of revenue from exemptions relating to gentle intensification".

However, the City's Residential Growth Management Strategy for the New Official Plan discussed barriers to the creation of "613 Flats" in existing City neighbourhoods, stating that DCs may present a 'barrier' to achieving the City's goals for this type of gentle intensification:

> This type of development does not exist in Ottawa's market today in any meaningful form. For this to happen over the next 25 years, the

> City has to try to remove zoning and regulatory barriers including refinements to the development review process, establish an infrastructure plan that identifies and alleviates challenges, and review the impacts of Development Charges and other mechanisms to incentivize a market transformation…

The City's GMS also indicated that the availability of existing infrastructure capacity will be a determinant in how much intensification can be accommodated.

> The ability of existing infrastructure, the capacity of the home-building industry to construct additional intensification, changes to the Zoning By-law and the number of households that will occupy these units annually will ultimately establish how much additional intensification can be provided or absorbed by 2046. Ensuring that the infrastructure is considered as part of an intensification strategy through adequate capacity and addressing constraints is also an Official Plan policy direction. The Infrastructure Master Plan update will describe available capacities and the strategy to address constraints.

Bill 23 would assist by reducing the DC-related barriers that may hinder the development of 'gentle density', and the City of Ottawa recognized the benefits of these units being able to tap into existing and available infrastructure capacity, which would make the collection of DCs in these instances acceptable if the units are not driving needs for significant growth-related infrastructure.

6.3 City of Hamilton Specific Comments

6.3.1 Charges Imposed by City on High-Density more than 80% Higher Per Square Foot than Low-Density

Based on high-level development scenarios, one for a 250-unit apartment building, another for a 250-unit subdivision consisting of 50% singles and 50% towns (see data table below):

- Charges amount to roughly 18-19% of purchase price in either scenario;
- Fees for a unit in the low-rise subdivision are approximately $221,500 per unit, or $105 per square foot. This includes $112,000 in HST, $17,400 in Provincial Land Transfer Taxes and $29,700 in CMHC insurance costs (often amortized by the homeowner).
- Fees for an apartment are $117,900 per unit, including $41,300 in municipal fees and charges, as well as $50,900 in HST, $8,000 in Provincial Land Transfer Tax, and $16,300 in CMHC insurance

premiums. In total, the entirety of the municipal and upper-level government charges amount to $172 per square foot.

It is notable that the largest single charge on new housing is HST, being 43% of the total charges on the high-rise scenario, and 50% of the total charges on the low-rise scenario.

Figure 9 **Government Imposed Charges and Fees, City of Hamilton, Hypothetical Development**

Key Assumptions:			
Residential Units	250 units (total)		250 units (total)
Unit Mix:	*5% studio units*		*125 single-detached*
	45% 1-bedroom units		*125 townhouses*
	40% 2-bedroom units		
	10% 3-bedroom units		

	Apartment Development		Low-Rise Subdivision	
Average Price	950	psf	550	psf
Average Size (net)	685	sf	2,150	sf
Average Price	$ 650,750		$ 1,182,500	

Price-Embedded Charges	Charges *$ / Unit*	Charges
City DCs	$ 23,606	$ 47,011
Parkland CIL	$ 11,435	$ 6,417
CBCs	$ 1,370	$ -
EDCs	$ 2,674	$ 2,674
Planning & Permitting Fees	$ 2,183	$ 4,242
Subtotal	$ 41,268	$ 60,344
Price-Based Charges		
Tarion	$ 1,469	$ 2,051
CMHC Insurance	$ 16,340	$ 29,693
HST (net of rebates)	$ 50,865	$ 112,040
LTT (Provincial)	$ 7,993	$ 17,404
Subtotal	$ 76,667	$ 161,187
Total Charges	$ 117,935	$ 221,532
Total as % of Price	18.1%	18.7%
Total Charges per SF	$ 172	$ 103