York Region

Office of the Commissioner
Finance Department

MEMORANDUM

To: Members of Committee of the Whole

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: February 3, 2023

Re: Bill 23, *More Homes Built Faster Act, 2022* – Additional Information

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This memorandum provides Members of the Committee of the Whole with additional information on the financial impacts of the Bill 23, *More Homes Built Faster Act, 2022* (Bill 23) requested by Council at their meetings on January 26 and February 2, 2023.

The 2023 Budget, as tabled, as well as the Fiscal Strategy were developed before the financial impacts of Bill 23 were known. The preliminary analysis shown below is subject to further regulatory guidance from the Province.

Staff will also provide an additional update on this matter as part of the Fiscal Sustainability Update report in June.

Key points:

- Development charges (DC) phase-in provisions, removal of eligible costs and the capping of interest provisions could reduce revenues by 10%, or $497 million, over the next 10 years
- Housing exemptions and discounts, depending upon regulatory guidance, could result in an additional $1.1 billion (~23%) of lost revenues over the next 10 years
- A total reduction in DC collections of 33%, as projected above, is within the range of the potential shortfalls forecasted by Hemson Consulting Inc. for the broader municipal sector. The estimated impact is also similar to estimates developed by the Regions of Peel and Halton
- If DC collections are reduced by 33%, or $1.6 billion, from 2023 to 2032, the Region would not collect enough to cover principal and interest payments on forecasted debt for nine out of the next 10 years based on the proposed 2023 10-year capital plan

- Without a new funding source, a one-time tax levy increase of between 2.3% and 7.3%, as well as a one-time water and wastewater user rate increase of between 4.9% and 14.3% could be required to address the shortfall in DC collections over the next 10 years
- As part of 2023-2024 Provincial Budget submission, the Region has requested funding to help address the Bill 23 shortfalls and contribute to the cost of growth-related infrastructure

Changes to the *Development Charges Act, 1997* could initially reduce development charges revenues by approximately $497 million dollars over the next 10 years

Bill 23 introduced the phase-ins of DC rates and the DC-ineligibility of costs for housing, land, and studies. These changes could result in a 10%, or $497 million, reduction in DCs over the next decade, as summarized in Table 1 below:

Table 1
Financial Impacts of Bill 23 Changes –
Phase-Ins, Ineligible Services and Costs, and Interest Rate Cap

Change	Estimated Shortfall ($M) 2023 - 2032	Estimated Shortfall (%) 2023-2032
Phase-In of DC rates	-345	-7%
Removal of Housing Services as a DC-eligible service	-52	-1%
Removal of studies related costs	-31	-1%
Removal of land costs	-75	-1%
Interest rate cap	+6	+0%
Total Impact	**-497**	**-10%**

Phase-In of new DC rates over five years

When a new or amended DC bylaw is passed, the full DC rates must be phased-in, beginning at 80% of the new rate in the first year, 85% in the second, 90% in the third, 95% in the fourth year and 100% of the rates in the fifth year.

Table 2 shows the DC Bylaw rates approved by Council in 2022 for a single and semi-detached home, as well as the phased-in rates, over the next five years. The total rate in Year 5, will not correspond to the Approved Bylaw rate due to the removal of Housing Services effective November 2022. Finally, Attachment 1 breaks down the charge by service for the Approved Bylaw rate and Year-1 phased-in rate.

Table 2
Impact of Phase-in on Regional DC Rates –
Single and Semi-Detached Homes

		Phase-In Rate*				
	Bylaw Rate	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
	As Approved May 26, 2022	June 17, 2022 – June 16, 2023	June 17, 2023 – June 16, 2024	June 17, 2024 – June 16, 2025	June 17, 2025 – June 16, 2026	June 17, 2026 – June 16, 2027
		80% of Approved rate	85% of Approved rate	90% of Approved rate	95% of Approved rate	100% of Approved rate
Hard Services	$55,795	$44,636	$47,426	$50,216	$53,005	$55,795
General Services	$21,966	$16,286	$17,304	$18,322	$19,340	$20,358
Total	**$77,761**	**$60,922**	**$64,730**	**$68,538**	**$72,345**	**$76,153**

*Excludes indexing over the five-year period

Removal of Housing Services ($109M from 2023-2032) resulted in a rate reduction of $1,608 for a single or semi-detached home

As of November 28, 2022, Housing Services was removed from the Bylaw as a DC eligible service. This Bylaw had included $109 million to help fund the growth-related share of the cost to construct approximately 1,500 new community housing units over the next 10 years.

Housing Services DCs are only levied on residential developments and constitutes about 2% of the total charge. Removing it from the Bylaw lowers the rate for a single, or semi, detached home by $1,608.

Removal of studies-related costs ($65M from 2027-2032)

The removal of studies, as a DC eligible service, will not impact the Region until its next DC bylaw, expected to be in 2027. Regional staff have determined that this would include approximately $65 million for growth studies, and studies related to project costs, including Master Plans and Environmental Assessments.

Removal of land costs ($86M from 2027-2032)

As with studies, the removal of land, as a DC-eligible service, will not impact the Region until its next DC bylaw, expected to be in 2027. Land costs of $86 million were included to acquire land or an interest in land, including a leasehold interest.

Interest rate cap (+$6M from 2023-2032)

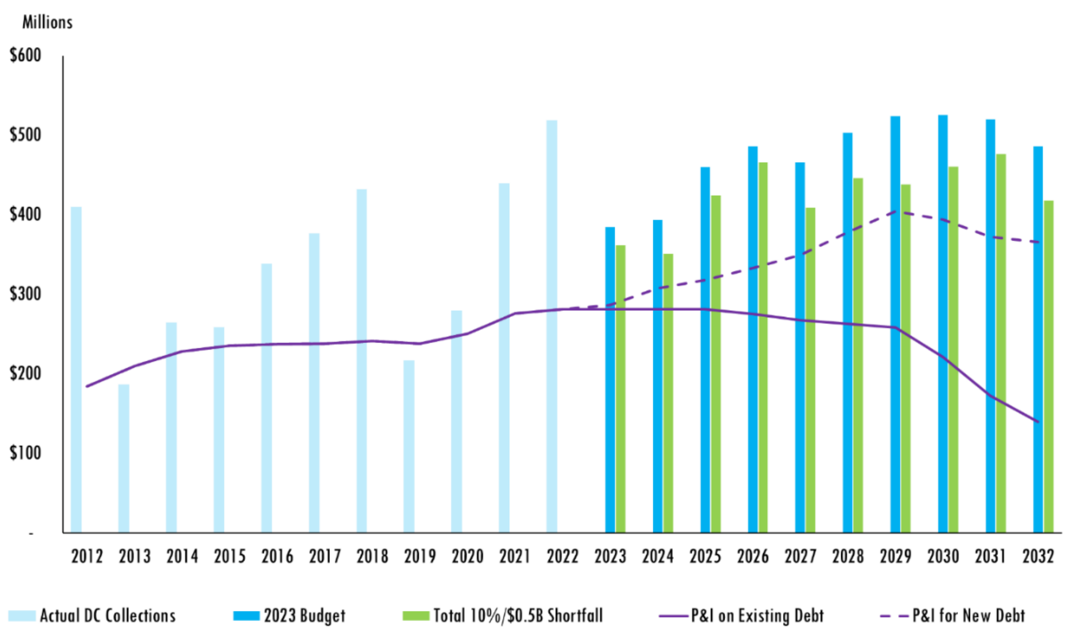
The Region currently charges 5% interest on frozen DCs (under section 26.2 of the *Development Charges Act, 1997* (DC Act)) and for developments taking advantage of the installment provisions (under section 26.1 of the DC Act).

Bill 23 amended the DC Act, prescribing the maximum interest rate that a municipality can now charge to be the average prime rate, charged by the five major banks in Canada, plus 1%.

With a 10% reduction in DC collections resulting in a shortfall of about $497 million over the next 10 years, anticipated revenues would still exceed estimated principal and interest payments

As compared to the 2023 Budget, if DCs are reduced by 10%, or approximately $497 million over the next 10 years, the Region would not be below the forecasted development charges funded principal and interest payments based on the proposed 2023, 10-year capital plan. Figure 1 provides additional detail.

Figure 1
DC Collections Forecast (Cash basis) –
with a 10% Reduction in Collections



New housing exemptions and discounts could potentially reduce DC collections by a further $1.1 billion

Bill 23 also introduced DC exemptions and discounts to support affordable ownership and rental, attainable housing, and market rental. While municipalities await further regulatory guidance on these areas, preliminary analysis indicates that, over the next 10 years, DC revenues could be reduced by an additional 23%, or approximately $1.1 billion. Table 3 provides a breakdown of the shortfalls over the next 10 years.

Table 3
Financial Impacts of Bill 23 Changes –
New Housing Exemptions and Discounts

Change	Estimated Shortfall ($M) 2023 - 2032	Estimated Shortfall (%) 2023-2032
Affordable and Attainable Ownership Exemptions	-1,068	-22%
Affordable Rental Exemptions and Rental Discounts	-10	-1%
Total Impact	**-1,078**	**-23%**

Affordable and Attainable Ownership Exemptions ($1,068M from 2023 to 2032)

Affordable ownership, under the DC Act has been defined as units whose purchase price is not greater than 80% of average market price. Clarification is still required on how the affordable home ownership threshold is to be determined (e.g., Province wide, GTHA, Region-wide, etc.). While a complete definition of Attainable ownership is not known at this time, the DC Act does prescribe that these are not ‘affordable’ or rental units, and that these developments, or class of developments, will be prescribed by regulation.

As it relates to the affordable ownership, Regional staff have assumed a York Region-wide threshold by unit type, based on new unit sale from Altus and resale data from the Toronto Regional Real Estate Board. It has also been assumed that these changes, while not currently in effect, would take effect in 2023. Using this methodology, and as an example, any single detached home priced below $1.4 million, would be considered affordable. Based on the calculated thresholds, and a survey of new home sales from 2021 and 2022, approximately one third of low-rise developments and about 14% of high-rise development could take advantage of the Affordable ownership exemption.

Affordable Rental Exemptions and Rental Discounts ($10M from 2023 to 2032)

Affordable rental, under the DC Act, has been defined as units whose rents are not greater than 80% of average market rents. Market rental, who are a minimum of four storeys, would be eligible for the rental discounts, which range from 15% to 25% depending on number of bedrooms. Clarification is still required on how the affordable rental threshold will be defined and which developments, with existing deferral agreements, get retroactive discounts

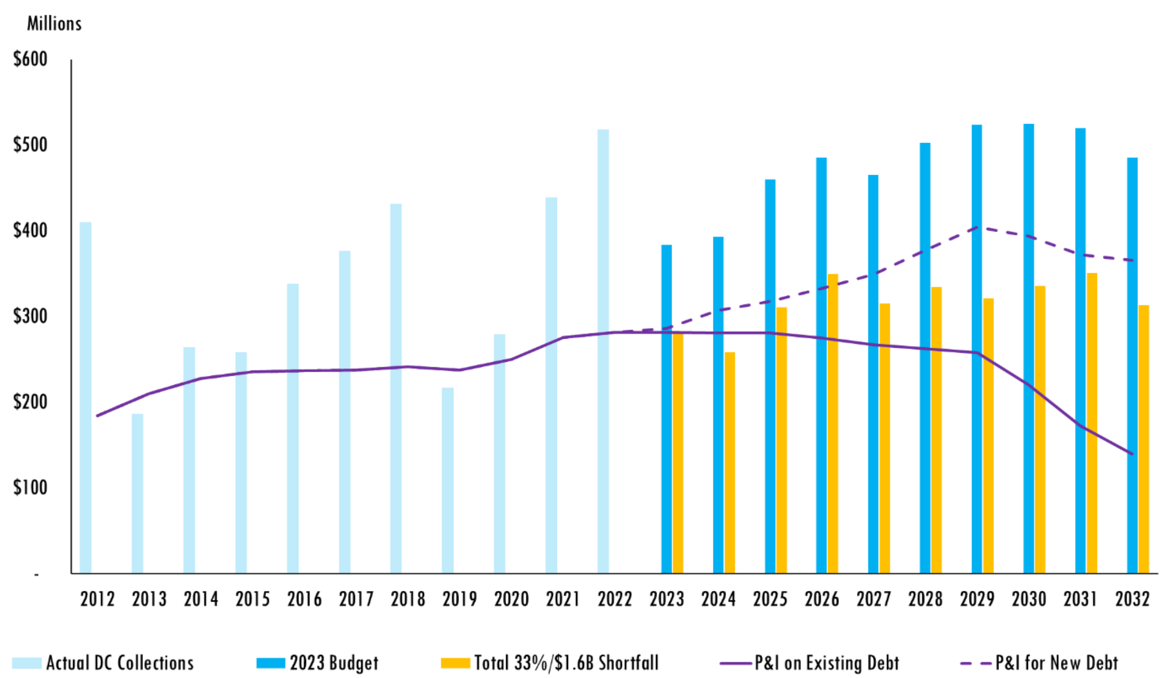
As was the case with the work on Affordable Ownership exemptions, Regional staff assumed a York Region-wide threshold for all unit sizes, based on Canadian Mortgage and Housing Corporation rental data, by unit type. It has also been assumed that these changes would be fully in effect in 2023.

Long Range Planning forecasted anticipated rentals in the Region over the next 10 years, based on current applications. Based on the calculated threshold, 30% of new forecasted rentals could take advantage of the exemptions. All rental development that does not avail itself of the exemption will be entitled to the discount.

New housing exemptions and discounts could result in DC collections being below the amount needed for DC funded principal and interest payments

As compared to the 2023 Budget, if DC collections are reduced by an additional 23%, or $1.1 billion, for a total reduction of 33% or $1.6 billion, the revenue would be insufficient to cover the principal and interest payments for new debt in nine out of the next 10 years, based on the proposed 2023, 10-year capital plan. Figure 2 provides additional detail.

Figure 2
DC Collections Forecast (Cash basis) –
with a 33% Reduction in Collections



The financial impacts of the other exemptions are still largely undetermined

Bill 23 also introduced exemptions for additional suites in new and existing buildings, for inclusionary zoning units and for non-profit housing. The work to quantify the impacts of the additional suites' exemption is ongoing and requires clarification as to whether current regulatory restrictions in place will be removed (e.g., gross floor area of additional units being less than primary unit). As it relates to the exemption for inclusionary zoning units, as none of the Region's local municipalities' currently have these bylaws in place, no impact is currently assumed. Finally, the financial impacts of the exemption for non-profit housing are captured in the affordable ownership/affordable rental exemptions analysis.

To fund the infrastructure needed to meet the growth targets set out by the Province in a sustainable way, the Region needs to be made financially whole

When faced with the pressure on long-term financial sustainability, the Region can typically look at either raising revenue or reducing the capital plan. Since the DC collections shortfall brought on by Bill 23 is not a one-time issue, and it impacts the Region's ability to raise revenues beyond the 10-year horizon, capital deferrals would not be enough to offset the shortfall. Similarly, the capital reductions required to address the reduced DC collections would be significant, constraining future growth that is envisaged in the capital plan and moving farther away from the goal of Bill 23, which is to deliver more homes faster in the Region.

In consideration of these factors, and as noted in the memorandum of February 2, 2023 titled, "2023-24 Provincial Budget Consultation", the Region is requesting that the "province contribute to the cost of regional growth-related infrastructure to ensure the Region is kept financially whole as it strives to achieve the new housing targets of 125,000 homes over 10 years".

Without another funding source, tax levy and water and wastewater user rate increases could be used to offset the DC collections shortfalls

Using an annual cashflow of projected DC shortfalls for each scenario, staff estimated the required tax levy and user rate increases that would be required to bring in sufficient annual revenues to offset the DC collection shortfalls. Table 4 provides a summary of the one-time additional incremental tax levy and user rate increases that could be used to ensure growth projects remain fully funded.

Table 4
Potential One-time Tax Levy and Water and Wastewater User Rate Increases in 2023, to Offset Projected and Possible DC Revenue Reductions as a Result of Bill 23

DC Shortfall (2023-2032)	Tax Levy	User Rate
10% - $497 million	2.3%	4.9%
33% - $1.6 billion	7.3%	14.3%

Using asset management reserves as a source of funding for the Bill 23 shortfalls would move the Region away from the principles guiding the fiscal strategy

Annually endorsed by Council since 2014, the fiscal strategy strives to achieve long-term financial sustainability while maintaining a balance between the current and future needs of the Region. This has been done through the prudent management of the capital plan, reserves, and debt. To offset the reduced collections from Bill 23, a portion of the contributions to capital reserves required for asset management could be diverted to fund growth related costs if there is no additional funding from senior governments and/or if there are insufficient tax levy and user rate increases to fund these shortfalls. However, asset management reserves are needed to fund future asset repair and replacement needs. Diverting a portion of those contributions would move the Region away from its progress towards intergenerational equity and could potentially limit the Region's ability to maintain its existing assets in a state of good repair. Finally, delays in infrastructure maintenance could result in larger spending on asset repairs in the future.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644.

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Attachment 1 – DC Rates - Single/Semi-Detached Dwellings