Committee of the Whole (2) Report

DATE: Tuesday, November 12, 2024 **WARD(S):** ALL

TITLE: DEVELOPMENT CHARGES REDUCTION OPTIONS – RESPONSE TO MEMBER'S RESOLUTION

FROM:
Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: DECISION

Purpose

To provide a response to the Member's Resolution "Making Housing More Affordable in Vaughan" dated September 17, 2024, on options to address the housing affordability crisis and achieve the Provincial housing pledge by Vaughan to enable the building of 42,000 units of housing by 2032, by reducing development charge ("DC") rates to encourage and incentivize residential development.

Report Highlights

- Development charges are governed by the *Development Charges Act, 1997* ("DC Act") and the City's by-law which stipulates how these charges are derived, calculated and applied including any applicable discounts and exemptions.
- The options presented in this report for discussion are achievable, are not mutually exclusive, and can be combined to provide financial incentives to the development industry with the goal of improving housing affordability.
- The City can reduce residential DCs to rates aligned with that which were in effect on September 21, 2018 until the end of the Term of Council (September 30, 2026) or the passage of a new City-Wide DC Study and By-law through the use of Section 27 provisions within the DC Act to align with the Provincial Policy of building 1.5 million homes by 2032.

Report Highlights continued

- The City can update the DC rates through an update to the City-Wide DC study and DC by-law, which is subject to a legislated process and timelines.
- Timing of DC collection for residential DCs can be deferred through the execution of deferral agreements with developers.
- Staff propose a policy with an effective date of November 19, 2024 with respect to the use of a Section 27 agreement to reduce DCs payable as per the DC Act, as well as DC deferrals for residential developments that will be in effect until September 30, 2026 or the passage of a new City-Wide DC Study and By-law.
- DC interest can be paused for the remainder of the Term of Council. DC interest is permitted but not required under the DC Act.
- DC freeze provisions can continue under the DC Act under section 26.2, without the need for additional agreements.
- Developers have had the ability to freeze DC rates since January 2020 for new applications without the need for separate DC agreements.

Recommendations

1. That staff be directed to initiate a new DC background study and DC By-law, as described in Approach C, with approval targeted before Q2, 2026;
2. That staff be directed to revise the DC rates on all residential development applications to the rates in effect on September 21, 2018, until September 30, 2026, or the passage of a new City-Wide DC Background Study and DC By-law, whichever is earlier, through the use of Section 27 agreements;
3. That staff be directed to revise the DC rates on low-rise residential development applications deemed complete or equivalent prior to September 21, 2018, to the rates in effect when those applications were made, until September 30, 2026, or the passage of a new City-Wide DC Background Study and DC By-law, whichever is earlier, through the use of Section 27 agreements;
4. That Council approve the Development Charges Rate Reduction and Deferral for Residential Development Policy (12.C.22), substantially in the form of Attachment 1, to administer development charge reductions and deferrals in accordance with the content of this report, and;
5. That staff be directed to cease charging of interest on residential developments pursuant to sections 26.1 and 26.2 of the Development Charges Act until September 30, 2026, or the passage of a new DC Background Study and DC By-law, whichever is earlier.

Background

DCs are fees charged by a municipality to fund the initial growth-related capital costs required to ensure the existing taxpayers are not paying for services required to support new growth. This includes building new infrastructure to support growth and pay for any existing growth-related debt.

The City of Vaughan charges DCs for the following services:

- Engineering services (roads-related works, water); sewer and stormwater through area-specific DCs
- Libraries
- Fire and Rescue Service
- Community services (recreation, parks, by-law and animal services)
- Growth-related studies
- Public works and fleet

Development Charges Governance

DCs in Ontario are governed by the DC Act. The DC Act sets out the rules and regulations on what DCs fund, how DC rates are set and the requirements for a DC background study and by-law. Each municipality that chooses to charge DCs, must:

- conduct a DC study;
- adhere to legislative timelines for public notification and consultation; and
- approve a DC by-law.

The DC study and by-law are subject to review and appeal by the public and development industry within certain legislated timelines.

City Development Charge Studies and Rate Changes

<u>2018 DC Background Study and DC By-law</u>

In June 2018, City Council approved the City's 2018 DC Background Study and DC By-law. The DC rates in that study increased 97% for residential uses and 151% for non-residential uses. A major contributing factor during this study was the significant increase in land values captured in the study and the cost of projects increasing higher than the rate of inflation.

Prior to the 2018 DC Background Study, the City's DC rates were comparable with, and, in many cases, lower than neighbouring municipalities. In December 2017, the City celebrated the opening of new subway stations within Vaughan, which fueled the development of the City's new downtown.

As a transition measure, Council approved developers to enter into prepayment agreements (at the prior DC rates), which resulted in significant DC collections in 2018 followed by two years of negligible collections. Although the City collected significant sums up front, the overall capital program became underfunded as lower collections at the newly approved rate occurred during that period.

2022 DC Background Study and DC By-law

In 2022, the City's DC Background Study and DC By-law were updated. DC rates increased by 31% for residential uses and 41% for non-residential uses. The rate increases continued to be driven by increasing land values and construction costs. Overall, these levels of rate changes were in line with neighbouring municipalities.

The current DC rate structure is as follows:

	RESIDENTIAL ($ /PER UNIT)				NON-RESIDENTIAL ($/ PER M2)		
	Single/ Semi	**Multiple**	**Large Apt (≥700 sq. ft.)**	**Small Apt (< 700 sq. ft.)**	**Retail**	**Industrial/ Office/ Institutional Retail**	**Hotel**
City - Engineering	**65,751**	**54,094**	**40,859**	**29,448**	**277.38**	**277.38**	**277.38**
City - General	**28,715**	**23,625**	**17,843**	**12,859**	**19.41**	**19.41**	**19.41**
Region–Hard	65,527	54,517	42,309	27,516	645.29	265.87	116.68
Region–Soft & Go Transit	24,328	20,222	16,679	10,192	121.09	42.53	21.10
Public School Board	7,312	7,312	7,312	7,312	13.46	13.46	13.46
Separate School Board	872	872	872	872	2.91	2.91	2.91
Total ($)	**192,505**	**160,642**	**124,874**	**88,199**	**1079.54**	**621.56**	**450.94**

The city-wide residential DCs represent less than half of the total DC. The remaining portion of DCs are collected by the City on behalf of the Region of York and the Boards of Education.

Current DC Rate Environment

The City's current DC study contains approximately $4.2 billion in growth-related capital works (2022). The portion of the in-period (2022-2031) DC recoverable costs of approximately $3 billion.

One major component of the DC projects and rates relates to land costs, which comprise approximately 21% of the DC capital program costs. The land acquisition costs included for recovery are based on fair market value and are deemed necessary to construct the required community centres, libraries, fire stations and public works yards and to expand the City's transportation network to support growth as the City would be required to purchase land from landowners.

The total impact of current development charges (City, Region, Education) on the average price of a single detached dwelling in Vaughan is approximately 10.7%, based on an average of $1.8 million. Using only the City's portion of the total DC charge, the impact is 5.2%, which is used to fund $3 billion in new growth-related infrastructure and facilities.

Previous Reports/Authority

[Members Resolution: MAKING HOUSING MORE AFFORDABLE IN VAUGHAN, September 17, 2024, Item 19]

Analysis and Options

The Member's Resolution from September 17, 2024, proposed some options for consideration to reduce the City's DCs to assist in making housing more affordable and to achieve the Provincial housing pledge to enable 42,000 units of housing by 2032:

1. A 25% reduction in the residential development charge rate that was calculated as of December 31, 2022, which would last until the end of this Term of Council; and
2. Revisions to sections 3(2) and 3(3) of the Development Charges By-law to read the collection date to be first occupancy for all residential forms of development, OR a 24-month deferral for the collection of development charges for residential development; and
3. Delete the charging of interest pursuant to sections 26.1 and 26.2 of the DC Act; and
4. Fix development charge rates to the date of planning applications for singles, semis and townhouses using section 27 agreements.

All four options are achievable, but further consideration must be given to the implementation path. These options are not mutually exclusive and can be combined to provide financial incentives to the development industry to improve housing affordability.

In summary:

- A reduction in DC rates is possible in the short term by entering into section 27 agreements per the DC Act, and/or by amending or updating the 2022 DC background study to defer or remove certain DC-eligible works.
- Timing of DC collection for residential DCs can be deferred through the execution of deferral agreements with developers.
- Charging and collection of DC interest can be eliminated for this Term of Council.
- DC freeze provisions can continue under the DC Act under section 26.2 without additional agreements.

Each option and implementation considerations are explained in further detail below.

1 – 25% Reduction in Residential DC rate as calculated on December 31, 2022.

To implement a reduction to DC rates, a few approaches are available:

<u>Approach A</u> – Reduce the DC rates by approving an amending City-Wide DC study and DC by-law amendment (with no updates to the capital program).

<u>Approach B</u> – Reduce the DC rates by re-opening the existing City-Wide DC study (and capital program) to remove or defer DC projects and update the service level history.

<u>Approach C</u> – Reduce the DC rates by developing a completely new City-Wide DC study (and capital program) based on updated population and employment forecasts.

Each option would require the City to follow the legislative process outlined in the DC Act to update the DC by-law, which includes having a public meeting and following statutory timelines. In any scenario, the new City-Wide DC by-law may be subject to appeals.

<u>Approach A</u>

Under this approach, a simplified DC study would be required to amend the by-law. This would take approximately *4-5 months* due to the required 60-day public notice period, plus the time to complete the study and prepare the report in accordance with the City's Council reporting cycle timelines. This approach would also require staff to hold a statutory public meeting before passing an amending by-law.

This approach would result in a lowered DC rate without a change to the underlying capital program. The implication of this approach is that any foregone DC collections would need to be funded from non-DC sources (e.g. taxation and/or user rates) so as not to place the burden of a reduced rate on future development through subsequent DC study and by-law updates (as outlined in section 5(6)3 of the DC Act).

<u>Approach B</u>

This approach would require a more complex DC study to be completed. A review of the current capital program would be needed to determine which projects could be removed or deferred. Unlike Approach A, there would not be a shortfall to be recovered from non-DC sources. Approach B would take approximately *6-9 months* to execute due to additional involvement from the City's Infrastructure Development team. Since many of the engineering projects impact both residential and non-residential development, the impact on the DC rates would not be limited to residential rates.

Approach C

Approach C would entail an update to the population and employment forecasts and a complete refresh of the DC study and capital program. It is anticipated that this approach would take approximately *9-12 months* to allow for in-depth involvement from the City's Infrastructure Development team and thorough consultation with the development industry. Similar to Approach B, there would not be a shortfall to be recovered from non-DC sources, and both residential and non-residential DC rates would be re-set.

All three implementation approaches would result in reduced DC rates but approaches B or C would avoid the need to fund any foregone DC collections from non-DC sources.

Staff recommend that Approach C be undertaken, and a fulsome City-Wide DC Study and By-law update be completed. As an interim measure, until a new DC background study and by-law are approved and enacted, Council can direct staff to revise the DC rates on all residential development applications, through section 27 agreements, to the date in effect on September 21, 2018, which are the first published rates under the 2018 DC by-law as per the table below. These rates would remain in effect until September 30, 2026, or the passage of a new DC background study and DC by-law. This would require a supporting policy which will allow all residential development applications to be eligible for the reduction in rates, if site plan or final plan of subdivision approval has been achieved, but permits have not yet been issued. In the case where a site plan or plan of subdivision is not required, the requirement would be the enactment of the zoning by-law amendment or the registration of the certificate for a consent (land severance) application. This approach would also result in foregone DC revenue that would be required to be funded through non-DC sources. Upon completion of the term of the DC rate reduction an evaluation of the foregone revenue will be undertaken and a funding strategy will be determined at that time.

	RESIDENTIAL ($/Unit)			
BY-LAW 083-2018	**Single/ Semi**	**Multiples**	**Large Apt (≥700 sq. ft.)**	**Small Apt (< 700 sq. ft.)**
City-wide Engineering	$32,104	$26,481	$19,579	$14,112
City -wide General	$18,089	$14,920	$11,031	$7,952
Total	**$50,193**	**$41,401**	**$30,610**	**$22,064**

2 – Revisions to sections 3(2) and 3(3) of the Development Charges By-law to read the collection date to be first occupancy for all residential forms of development, OR a 24-month deferral for the collection of development charges for residential development.

Under the DC Act, DCs are payable at the issuance of a building permit, which is how the City currently collects the majority of DCs. However, when the City enters into a subdivision agreement, developers pay the engineering portion of the DC rate up front, with the remaining DC rate payable at permit issuance. Section 27 of the DC Act (along with Council approval) allows the City to enter into an agreement to change the timing of payment to an earlier or later date than what is stipulated in the Act.

There are two potential approaches to delay timing of DC collections:

Collection at Occupancy

Adjusting the collection of DCs to the date of occupancy is possible; however, extending these provisions to all residential developments would create a two-tiered payment system, as it would be expected that the Region and Education DCs would continue to be collected at permit issuance. Occupancy also varies by type of development and increases the risk of non-collection unless secured by a letter of credit.

Administratively, tracking all permits and occupancy dates would be cumbersome because a typical low-rise subdivision may take years for all permits to be issued. In addition, if the developer fails to pay the DCs at occupancy, the only recourse for the City would be to add the outstanding DCs to the property's tax roll, for which the homeowner would ultimately be responsible. Changing the timing of payment would also trigger the need to execute specific agreements between the landowners and the City, adding administrative costs within the City’s Legal Services and Finance departments.

DC Deferrals

Alternatively, the City could pursue a DC deferral policy for residential developments, similar to other existing City and Region deferral policies (e.g. city-wide office deferral policy). DCs owing would still be calculated at issuance of building permits for the majority of DCs (except for the engineering portion for subdivision agreements), but payment of the City portion of DCs would not be due until the end of the deferral period.

Residential deferrals would also require a supporting policy and specific agreements between the City and developers, which drives additional administration; however, deferrals are typically secured by a letter of credit to mitigate any risk of non-collection. This approach would also avoid the potential issue of charging the property tax account of future homeowners in the event of non-payment by the developer.

The use of DC deferrals would achieve the objective of delaying DC collection but with less administrative burden and complexity. Staff recommend a 24-month deferral on residential DCs for all residential types. This deferral will require the creation of a supporting policy

3 – Delete the charging of interest pursuant to sections 26.1 and 26.2 of the DC Act.

The City has the ability to pause the collection of DC interest during this Term of Council.

DC interest was introduced to help mitigate the financial impact to municipalities of reduced DC collections that resulted from freezing DC rates. The DC Act is permissive in charging interest but does not require a municipality to do so. If a municipality chooses to charge interest, then section 26.3 of the DC Act regulates the interest rate to be used by municipalities when calculating interest on frozen rates. The City enacted a DC interest policy (last revised in May 2023) to permit the calculation and collection of DC interest.

Between January 1, 2020 and September 30, 2024, the City has collected $7.2 million in residential DC interest and $4.1 million in non-residential DC interest. However, the DC freeze during that period resulted in a total foregone DC collections of approximately $22.2 million. Collection of DC interest has partially mitigated the loss due to frozen DC rates but does not fully compensate for the shortfall created by the DC freeze provisions of the Act.

Pausing the collection of DC interest during the remaining Term of Council is a feasible option. While this would result in reduced DC interest collections, it can help provide an additional financial incentive to the development industry that could aid in the goal of improving housing affordability.

4 – Fix development charge rates to the date of planning applications for singles, semis and townhouses using section 27 agreements.

If approved, recommendation 2 and 3 will achieve the desired result for this option. Using Section 27 agreements as discussed earlier in the report, the City can set the DC rate to a rate at an earlier point in time. These rates would remain in effect until September 30, 2026, or the passage of a new DC background study and DC by-law. This would require a supporting policy which will allow all residential development applications to be eligible for the reduction in rates, if site plan or final plan of subdivision approval, or enactment of a zoning by-law amendment or registration of the certificate for a consent (land severance) application has been achieved, but permits have not yet been issued.

DC Rate Reduction and DC Deferral Policy

In order to implement the recommendations within this report staff will be required to prepare a supporting policy. The general principles of the policy will be as follows:

- The DC rate reduction and 24-month deferral would only apply to residential developments that have received development application (site plan agreement, final plan of subdivision, enactment of a zoning by-law amendment or registration of the certificate of a consent application) approval.
- Developers will be required to enter into a Section 27 agreement as per the DC Act in order to receive the benefit of the DC rate reduction to September 21, 2018 City-Wide DC rates and a separate Section 27 agreement for the purposes of a 24-month City-Wide DC Deferral for applications approved after September 21, 2018.
- Low-rise residential site plan or subdivision applications deemed complete prior to September 21, 2018, will be required to enter into a Section 27 agreement in order to receive the DC rate at the time of the site plan or subdivision application approval.
- The policy will not apply to any area specific development charge rates, regardless of development type.

- Non-residential developments would not be eligible for a DC rate reduction or deferral.
- The rate reduction will remain in effect for an 18-month from the execution date of the section 27 DC rate setting agreement. Building permits issued after the 18-month timeframe would be subject to prevailing City-Wide DC rates.
- No previously paid DCs will be refunded as a result of the policy.
- Any change to the unit types included in the Section 27 DC rate setting agreement would be considered a default to the agreement and the DC rates will be charged at prevailing rates.
- Rental housing developments that choose to enter into a section 27 agreements, will forgo the discount and phased payment provisions pursuant to section 26.1 and 26.2 of the DC Act.
- The 24-month DC deferral agreement is required to be secured with a letter of credit for the full value of the DC payable. The letter of credit will then be drawn at the expiry of the deferral period.
- The DC rate reduction and DC deferral options are not mutually exclusive, to clarify, a developer may choose to use one or both the rate setting and deferral options.
- The 24-month deferral period will begin at the issuance of a building permit. For developments with multiple permits (townhouse site plan applications or plans of subdivision) the full value of the DC payable for all units is to be secured with a letter of credit.

Additional Options to Make Homes More Affordable

<u>Community Improvement Plan (CIP)</u>
This City is currently undertaking a CIP study (per section 28 of the *Planning Act*) to explore ways to support balanced, complete community development in the city's urban growth and primary centres. This study will consider incentives to support the development of office, retail and amenity space and affordable and accessible housing options. This work is currently underway and being led by the City's Economic Development department.

<u>Provincial DC Exemptions for Affordable Housing</u>
The Province has also enacted new provisions within the DC Act to promote certain types of housing. Section 4 of the DC Act provides DC exemptions for affordable housing. This exemption applies to housing that meets the criteria established through the Province's Affordable Residential Units for the Purposes of the Development Charges Act, 1997 Bulletin. In Vaughan, a residential unit is considered affordable and eligible for a DC exemption if it is sold for $531,800. This price point is applicable to any

residential dwelling type. A unit that qualifies for the DC exemption is subject to an agreement registered on title for a 25-year period to prevent owners from re-selling the property at market rates.

Provincial DC Discounts for Rental Buildings
The Province has also provided DC discounts for rental buildings greater than four units based on the number of bedrooms per unit.

- Units with three or more bedrooms receive a 25% discount.
- Two-bedroom units receive a 20% discount.
- All other units receive a 15% discount.

These discounts are applicable to City and Region DCs and applied at the time of permit issuance, in addition to the phased payment approach discussed previously.

Surety Bonds
The City is also considering the use of pay on demand surety bonds, in lieu of letters of credit, to secure works contained in development agreements. Letters of credit typically require developers to provide some form of collateral from their financial institution, which ties up the capital needed to move developments forward. The use of pay on demand surety bonds is proposed to free up capital, allowing developers to take on more projects and provide greater credit availability as there is no need for collateral.

Financial Impact

As discussed above, the proposed changes to the city-wide DC rates are intended to incent additional residential development and help make housing more affordable in Vaughan. However, if the volume of development activity does not rise materially, the reduced DC rates could result in a reduction in overall DC collections, which could ultimately affect the City's ability to deliver growth-related infrastructure in a timely manner.

If a DC rate reduction is implemented through Approach A or through the use of Section 27 agreements with no update to the capital program, there would also be an impact on property taxes and/or user rates to make up for the DC collection shortfall. Any shortfall in DC collections will be reviewed once the rate setting period has lapsed. Proceeding with a DC rate reduction through Approaches B or C (updating the capital program) would not require funding for the DC shortfall from non-DC sources, but it could still impact the timing of project delivery.

Operational Impact

All options will require effort across various City departments to update the DC Background Study, DC by-law and potentially update the growth-related capital program. Internal City processes and administration will also need to be adjusted based on the implementation approaches pursued.

In addition, if development activity and/or overall DC collections fall below planned levels, a re-prioritization of DC-funded projects may be necessary based on funding availability.

Broader Regional Impacts/Considerations

The options considered in this report will not impact Regional or Education DCs as changes will only impact City DCs.

Conclusion

Current Vaughan DC rates of $94,466 on a single detached dwelling, while higher than neighbouring municipalities, helps to fund $3 billion in new growth-related infrastructure, such as the transportation network, new community centres, libraries, fire stations, parks and watermains. DCs are used to fund these items and not to burden the existing taxpayer and user ratepayer that benefit new developments across the City.

The options presented in this report for discussion and recommendation are achievable, are not mutually exclusive, and can be combined to provide financial incentives to the development industry with the goal of improving housing affordability. The DC Act currently provides various provisions to freeze the DC rate and provides exemptions and discounts on certain types of residential developments. To provide some relief toward residential developments and reduce the DC rate, an updated DC background study and by-law would be required following the legislated process within the DC Act.

For more information, please contact Nelson Pereira, Manager, Development Finance, extension 8393.

Attachments

1. 12.C.22 – Development Charges Rate Reduction and Deferral for Residential Development Policy

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