Staff Report

To	**City Council**
Service Area	Office of the Chief Administrative Officer
Date	Wednesday, November 13, 2024
Subject	**Development Charges By-law Update for Bill 185**

Recommendation

1. That the Amendment Memorandum, Development Charges By-Law Amendment - Growth Studies dated October 10, 2024, included as Attachment-1 of Development Charges By-law Update for Bill 185 2024-410 be approved;
2. That the updated capital projects set out in Table 1 of the October 10, 2024, Amendment Memorandum - Growth Studies be approved;
3. That By-laws number (2024) – 20997 and (2024) – 20998, included as Attachment-2 of Development Charges By-law Update for Bill 185 dated November 13, 2024, be approved.

Executive Summary

Purpose of Report

To present the updated Development Charges (DC) "parent" by-law and new "child" by-law to add a Growth Studies class of service to the City's DCs to align with legislative changes made through Bill 185.

Key Findings

On June 6, 2024, Bill 185 (Cutting Red Tape to Build More Homes Act, 2024) received Royal Assent. The province provided for a minor amendments process to re-add growth studies to the DCs and remove the phase-in provisions within a six-month period.

The proposed addition of growth studies will add $2,164 to the current rate for single and semi-detached units leading to a calculated rate of $66,977 per unit for those units.

The City's DC By-law (2024)-20866 contains the phase-in provisions that mandated discounts to DCs. While the provisions ceased to be effective on the date that Bill 185 received Royal Assent (June 6, 2024), the proposed amendment to the by-law will remove the provisions of the mandatory discount in the DC by-law for administrative clarity.

Staff recognize that there is a debate in the public sphere about the impact of increasing DC rates on builders' decisions to move housing projects forward in the current economic environment. DCs are the revenue tool provided to municipalities by the province to fund the capital costs of enabling and servicing growth.

As a City, we are working towards our strategic goal of improving housing supply. Meeting the Housing Pledge requires all parties to participate in delivering infrastructure, including financial support from upper levels of government.

In the absence of an alternative stable and predictable source of funding, failing to maximize DC revenue results in shifting the burden of growth capital costs on to property tax and utility rate payers. Arbitrary reductions to DCs without offsetting increases to funding for growth related capital costs from progressive tax sources will be detrimental to overall housing affordability. A detailed explanation of staff's position is provided in the body of the report.

Strategic Plan Alignment

DCs are the primary source of capital funding for growth related infrastructure and amenities for our community. They are critical to moving forward initiatives 6, improve housing supply, and 6.1, grow and care for our community spaces and places, under the City Building Theme of the strategic plan.

Future Guelph Theme

City Building

Future Guelph Objectives

City Building: Improve housing supply

Financial Implications

Adopting the amending by-laws would support $26.8 million DC capital program for growth studies over the 10-year by-law period. This will reduce the projected deficit in the Growth capital reserve fund and improve the position of the utility rate supported reserve funds.

Report

Introduction

People rely on municipal services as soon as they move into a new home - whether they turn on a tap, flush a toilet or commute along our roadways on the way into work, shopping or appointments. Municipal water, wastewater and roads infrastructure are essential services that we rely on as part of our everyday lives. Likewise, we need to ensure that new residents and employers have access to critical services like paramedics and firefighters so emergency services are there when they need it most. DCs help provide the City with the funding to ensure these critical services and infrastructure are in place so we can continue to improve housing supply and work to make homes more affordable. Growth studies help the City plan for these essential services and infrastructure to make sure we can meet the needs of future Guelph residents and businesses.

Overview of Bill 185

On June 6, 2024, Bill 185 (Cutting Red Tape to Build More Homes Act, 2024) received Royal Assent. This legislation made changes to a number of statutes, including the Planning Act, Municipal Act, and Development Charges Act. This update is part of a larger body of work being coordinated across the organization with respect to Bill 185, and Council will see additional reports that respond to other aspects of the legislation as this work progresses.

With respect to changes to the Development Charges Act, Bill 185 made three changes:

- Removed the mandatory five-year phase-in of new DCs that was introduced in 2022 under Bill 23 (effective immediately upon Royal Assent, June 6, 2024, administrative update to remove section from the DC by-law included as part of this update).
- Re-added growth-related studies, including the DC background study, as DC-eligible costs (included as part of this update).
- Reduced the mandatory rate freeze timelines from two years to 18 months (further update to come in 2025, not part of minor amendments process).

Bill 185 also modernized administrative aspects of the DC Act, including updating public notice requirements for passing new by-laws, and providing municipalities with the ability to amend the expiration date if the life of the by-law is within the maximum life of 10 years.

Importantly, the legislation allows for minor amendments related to the imposition of studies, removal of the mandatory phase-in, and extension of by-law expiry dates to be undertaken for by-laws passed after November 28, 2022, and before Bill 185 took effect. Updates made under the minor amendments process must be approved within six months of Bill 185 receiving Royal Assent (deadline is December 6, 2024).

Within the minor amendment process, this report is recommending the DC by-laws be updated to re-add growth studies to the DC, and to remove the provisions of the mandatory discount in the DC by-law for administrative clarity, now that they are no longer in effect.

By-law updates to incorporate growth studies

Bill 23 (More Homes Built Faster Act, 2022) removed studies as an eligible cost under the DC Act. As a result, growth studies were removed from the capital program and were not included in the DC by-laws approved by Council in January 2024, and which came into effect on March 2, 2024.

This update will re-add growth studies as a DC class of service in Section 2.1 of the DC parent by-law. It will also add a child by-law (By-law (2024)-20998) to provide the supporting DC rates, in accordance with the new model for DC by-laws adopted during the most recent update in January 2024.

Growth studies included in the capital program

There are a several different kinds of growth studies in the capital program to support growth. The list includes:

- Official and secondary plan updates
- Master and strategic plan updates
- Condition monitoring works
- Policy and guideline development
- Feasibility studies and environmental assessments

The Growth Studies DC capital program includes $26.8 million in DC eligible costs to be recovered including the current deficit balance in the DC Growth Studies reserve fund from prior works in this category that had not yet been fully recovered through DC collections.

Approval of this DC capital program would add the following amounts to the current DC rates:

Table 1: Municipal Development Charge Rates

Rate type	Single detached or semi-detached dwelling	Multiple unit dwelling	Apartment with 2+ bedrooms	Apartment bachelor and 1-bedroom	Special care / special dwelling	Non-Residential (per sq. ft. of Gross Floor Area)
Current Rate	$64,813	$46,671	$38,799	$28,434	$20,964	$25.78
Growth Studies	$2,164	$1,558	$1,295	$949	$700	$1.26
Calculated Rate	$66,977	$48,229	$40,094	$29,383	$21,664	$27.04

Analysis

The calculated rate for growth studies of $2,164 per single and semi-detached residential unit is comparable to the growth studies costs included in the DC from the 2018 study, however, at that time some studies were contained within the specific DC service capital programs (e.g. Roads, Stormwater, Wastewater, Water), while the growth studies DC capital program had a City-wide focus (i.e., Planning documents). Combined, growth studies in the 2018 DC totaled approximately $1,840 per single detached unit, in 2018 dollars or $2,840 per single detached unit in 2024 dollars using the Toronto Non-Residential Building Construction Price Index. Growth studies in the 2018 study comprised approximately five per cent of the overall DC, while the update proposed today comprises approximately three per cent of the overall DC.

The City's DC consultants, Watson & Associates, have confirmed that this is within the normal range for growth studies and Guelph's total DC rates remain below average among our comparator municipalities.

Development Charges in the current development environment

There is a debate in the public sphere about the impact of increasing DC rates on builders' decisions to move housing projects forward in the current economic environment. DCs are one of many costs in a builder's pro forma, including the cost of land, building materials, labour, carrying charges, and more. Inflation, labour shortages, and higher than normal interest rates (among other factors) over the past couple of years have increased the expenditure side of that equation. At the same time, selling prices have stabilized or slightly declined, also in response to higher interest rates, but mitigated by the current supply and demand imbalance. The result is a narrowing of projected profit margins at both ends, resulting in decreased building activity.

This economic reality, combined with a critical shortage of housing across the country, has led some to point to DCs as a barrier to development, and to suggest that cutting DCs significantly should be the solution. However, a critical part of that equation is how that impacts municipalities ability to build the infrastructure and amenities required to support growing communities.

DCs are developed in a prescriptive legislative framework that uses provincially mandated population growth targets, and the estimated costs of the capital works required to support that growth in accordance with the Council-approved official plan and service delivery master plans. The legislation provides guardrails to ensure that new development is not made to subsidize service enhancements for the broader community.

Additionally, there are mandatory exemptions and discounts for certain types of development (e.g., affordable housing, rental housing, additional dwelling units), imposed under the DC Act, as well as a limited number of discretionary exemptions (e.g., hospital and university development) in the City's DC by-law. DC exemptions and discounts must be funded by other sources, and, in the absence of other sources of funding, that means property taxes and utility rates.

If DCs were to be cut to some amount lower than the rates calculated in accordance with the DC Act and regulations, that would reduce the funding available to pay for housing enabling infrastructure and amenities. That would mean that either growth enabling works would be reduced, limiting the potential for development in our community, or, within the context of the current municipal funding framework, that the costs not covered by DCs would be shifted to property tax and utility rate payers, adding to the cost of exemptions and discounts already borne by this group.

While it is possible that cutting the DC may make enough of a difference in builders' profit margins to change a no-go decision to a go, it will not have an immediate impact on the selling price of houses. No matter the input costs, houses are sold at market rates.

If enough units are built relative to population growth, this could be expected to eventually have downward pressure on prices. However, given the complex factors, the size and timing of the impact on the price is unknown, and it would reasonably be expected to take a number of years to realize that benefit. The immediate impact on the overall cost of housing would be felt by property owners through increased property tax and utility bills. This would impact homeowners broadly, and not based on ability to pay.

For these reasons, staff believe that, in the absence of an alternative stable and predictable source of funds for growth related capital costs, it is prudent to stay the course on the tool that the province has provided to municipalities to pay for these costs.

There is space for a broad conversation among all three levels of government about whether growth should continue to pay for growth, but it must be accompanied by a conversation about who should pay, if not new development. Arbitrary reductions to DCs without offsetting increases to funding for growth related capital costs from progressive tax sources will be detrimental to overall housing affordability.

Financial Implications

Adopting the amending by-law would support a $26.8 million DC capital program for growth studies over the 10-year by-law period. This will reduce the projected deficit in the Growth capital reserve fund and improve the position of the utility rate supported reserve funds.

Consultations and Engagement

Finance staff worked with the service departments and Watson & Associates to confirm the capital program.

Attachments

Attachment-1 Development Charges By-Law Amendment Memorandum - Growth Studies

Attachment-2 By-law Number (2024) – 20997 and By-law Number (2024) – 20998

Departmental Approval

None.

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