City of Mississauga

Corporate Report

MISSISSAUGA

Date: March 24, 2022 To: Mayor and Members of Council From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Originator's files: Meeting date: April 6, 2022

Subject

2022 Growth Charges Review - Proposed Municipal Charges and Fees for Residential Development

Recommendation

That the report entitled "2022 Growth Charges Review – Proposed Municipal Charges and Fees for Residential Development" dated March 24, 2022 from the Commissioner of Corporate Services and Chief Financial Officer, be received for information.

Executive Summary

- As a result of legislative changes to the *Development Charges Act, 1997* and *Planning Act* in 2020, the City initiated a concurrent review of existing and new Growth Funding Tools (GFTs or growth charges) in early 2021. Staff are currently working on proposed rates for Development Charges (DC), Community Benefits Charges (CBC), and Cash-in-Lieu of Parkland (CIL).
- The City retained N. Barry Lyon Consultants Ltd. (NBLC) to evaluate the cumulative impact of the proposed DC, CBC, and CIL rates on the economics of new residential development in Mississauga.
- The cumulative impact of the fee increases varies across different areas of the city and in higher value areas developers are likely to continue to acquire land for residential development.
- The City's proposed DC rates remain competitive with the current rates of its municipal counterparts.
- Aside from growth charges, current markets conditions make development challenging, including increased construction costs and anticipated inflations rates.
- The City's proposed growth charges represent important funding tools to help pay for infrastructure and service costs related to growth. Without these charges the City would need to disproportionately rely on the property tax base to help pay for growth.

Background

As a result of legislative changes to the *Development Charges Act, 1997* and *Planning Act* in 2020, the City initiated a concurrent review of existing and new Growth Funding Tools (GFTs or growth charges) in early 2021. As part of this review, staff, with Hemson Consulting Ltd., have worked on three documents to support the collection of these charges: an updated 2022 Development Charges (DC) Background Study, a new 2022 Community Benefits Charge (CBC) Strategy, and an updated Parkland Conveyance By-law.

Due to the concurrent timing of these three by-laws, staff retained N. Barry Lyon Consultants Ltd. (NBLC) to evaluate the cumulative impact of the proposed DC, CBC and Cash-in-lieu of (CIL) Parkland rates on the economics of new residential development in Mississauga. The final consultant report is attached in Appendix 1.

Market Analysis Overview

The report from NBLC evaluates the development feasibility of six prototypical sites across Mississauga: City Centre, Port Credit, Dixie/Lakeview, Cooksville, Glen Erin, and Rathwood/Applewood. These test cases are intended to be representative of development activity in these sub-markets, and do not reflect specific development projects. Each of these test cases was evaluated based on four scenarios reflecting a layering of charges. The most relevant one being Scenario 4 which includes the CBC, proposed DC rates, and proposed CIL-Parkland rate.

The consultant report is based on the principle that any potential increase in development costs, like the City's proposed growth charges, does not play a direct role in establishing the price of a home. The actual price of housing is determined by supply and demand and land developers set prices based on market research that establishes what buyers are willing to pay.

The cumulative impact of implementing the proposed three charges would be a projected decrease in land values between 14% and 50% to maintain development viability across the six test cases. This level of decrease is assuming residential pricing remains stable and there is no commensurate growth in revenues. The NBLC report indicates this level of decrease could impact the land market where developers adjust their pricing expectations, or more likely wait until pricing has recovered. They could also develop their land for an alternate land use that supports higher values (such as retail uses). Either situation could result in a net loss in the supply of land that could be used for residential development, with the potential unintended consequence of increasing housing prices due to lack of supply.

It should be noted that the cumulative impact of stacking various growth charges assumes a point in time when these charges would be implemented together. The results of the analysis do not preclude the introduction of new/updated charges altogether but recommend for consideration the timing of introducing multiple charges simultaneously.

Comments

Staff Comments

Growth charges like DCs, CBC, and CIL help the City pay for needed infrastructure to maintain service levels for a growing population and employment base. The amount of these charges is based on projected growth occurring in Mississauga over a long-term planning horizon of ten to twenty years. Even with these charges, the City also uses property taxes and funding from higher levels of government to pay for the many costs a growing city incurs.

The NBLC analysis is premised on the amount of residential land value (RLV) which represents the amount of funds a developer would be left with to buy land in the land market for a certain type of development, in this case residential development. The analysis states that areas with stronger markets are better able to absorb charge increases because their return on investment can still be achieved (e.g. Port Credit, City Centre, Dixie/Lakeview). In such cases, developers are likely to continue to acquire underutilized land for residential development.

The development assumptions used in the sites selected in the NBLC analysis are conservative. Development permissions, either existing or through official plan amendments and/or rezonings may result in greater development opportunity than is reflected in the site scenarios which could change the land economics for developers so that development continues to be viable with favourable profit margins. It should be noted, that the profit margins for developers are not adjusted for the purposes of the analysis.

Municipal Benchmarking

The City is currently updating its Development Charges Background Study to incorporate recent legislative changes. New legislation also allows municipalities to pass a Community Benefits Charge Strategy and by-law to collect charges related to growth, replacing density bonusing provisions in the *Planning Act*.

Many municipalities are currently updating their DC by-laws and few have published their new proposed rates. Staff have compared the City's proposed DC rates with current charges of other municipalities. Although increases are not unusual, even with DC increases, Mississauga remains relatively competitive. Based on the proposed 2022 DC Background Study and By-law, the Non-industrial DC rate is increasing by 43 per cent. Compared to other municipalities, Mississauga charges a lower rate. The Industrial DC rate is increasing by 45 per cent, but still lower than Vaughan and Markham's current industrial DC rates.

The Residential DC rates are increasing by 17 per cent for all housing types, which is not a significant increase overall.

CIL of Parkland is a more difficult charge to measure against other municipalities. Comparing CIL rates can be misleading because capped per unit CIL rates are calculated relative to local land values, which can result in significantly different cost per units between municipalities.

Further, many comparators have not updated rates in five or more years. Most municipalities are in the process of updating their rates in response to Bill 197 policies. Since Mississauga is ahead of most GTA municipalities in its Parkland review, there are no other policies confirmed to test against. However, staff have heard from other municipalities through preliminary messaging and rough analysis that many rates will likely be greater than $20,000 per unit, which is in line with Mississauga's draft CIL capped rate of $25,112.

Current Market Conditions

Current market conditions are quite unpredictable at the moment. Municipalities have made significant funding adjustments to account for pandemic pressures, and now coming out of the pandemic are facing other economic pressures such as inflation and increased construction costs. Similar pressures are faced by the development industry who are tasked with building housing in a market where home ownership is out of reach for many residents.

The NBLC analysis states that construction costs are currently rising faster than revenue for developers. In the past, the industry has been able to rely on revenue increases to offset increased construction costs. With this not currently being the case, the feasibility of some projects could come into question irrespective of increased fees. The analysis also mentions that inflation has shown no signs of subsiding and will further exacerbate the issues regarding development costs and consumer spending. The financial impacts will also impact the City's capital program.

The Bank of Canada has started increasing their target rates, and there is a strong expectation that there will be multiple rate hikes in the very near future. Increased rates further challenge projects in a number of ways, such as the following:

- Construction loan interest payments will increase.
- Developer profit expectations will likely increase, due to higher hurdle rates from major lenders.
- Consumer purchasing power will decrease as mortgage rates climb. This will lower revenue potential for projects.

In more stable market circumstances, it is possible that land vendors may accept some reduction in land value with a view that the market remain buoyant. The current market context makes that perspective problematic. We are facing a market with lots of unknowns, and anticipating what may happen in the future is especially challenging. We do know, whether it is now, or ten years from now, is that the market will drive housing affordability. The market ultimately decides what will be viable in terms of development potential and what purchasers are willing to pay for housing. With so many competing factors, it could be that other impacts might outweigh the municipal charge increases.

Growth Charges Review
The report entitled "2022 Development Charges and Community Benefits Charges Public Meeting" also being considered by Council on April 6, 2022 presents the proposed DC rates demonstrating that several of the DC service rates are declining from current rates. The most significant increase is related to the Transit Service and this is due to an updated capital plan that delivers on the City's transit fleet electrification goals, among others. Increased construction costs have inflated the amount of capital required for most projects.

The DC capital program has increased by approximately $272M for soft services over the ten year time period and by approximately $417M for hard services (i.e. roads and stormwater) over 20 years from the 2019. If DCs were not recovered to pay for these costs it would result in an eight per cent increase to the City's annual operating budget.

The CBC is a new charge introduced by the Province that replaces previous density bonusing to help pay for the additional pressures that high-density development places on City infrastructure. The CBC rate is capped at a maximum 4% of development land value.

The new CIL alternative rate will help the City respond to parkland need as a result of growth as outlined in the new 2022 Parks Plan. The proposed CIL capped rate has been refined and reduced to a level more manageable by the development industry. The draft CIL capped rate is $25,112 per unit. An applicant would pay the lesser of the CIL capped rate or a rate based on a site-specific appraisal. In other words, the CIL capped rate represents the maximum CIL applicable per unit for a medium and high density residential development. A transition plan is proposed to gradually phase in the rate from by-law passage to full rate implementation in August 2023. This allows developers time to incorporate the CIL capped rate change into the cost they offer for development sites, and offers a discounted rate for instream projects that obtain a building permit prior to August 2023. This transition period is consistent with the recommendations of the NBLC analysis.

Without growth charges, the City would have to disproportionately rely on the tax base and/or eliminate capital projects and reduce service levels for residents and businesses.

Financial Impact
There are no financial impacts resulting from the Recommendations in this report.

Conclusion
The City retained N. Barry Lyon Consultants Ltd. to conduct a cumulative impact analysis of the proposed DC, CBC, and CIL rates on the economics of new residential development in Mississauga. The analysis showed the cumulative impact of the fee increases varies across different areas of the city and in higher value areas developers are likely to continue to acquire land for residential development. The industry also faces challenges with increased construction costs and inflationary impacts. The City faces the same funding pressures.

The City’s proposed growth charges represent important funding tools to help pay for infrastructure and service costs related to growth. Without these charges the City would need to disproportionately rely on the property tax base to help pay for growth. Diverse financial tools, like growth charges, enable the City to better design, plan, and build complete communities.

Attachments

Appendix 1: NBLC Report: “Proposed Municipal Charges and Fees for Residential Development: Evaluation of Potential Impacts.”

Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer

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