REPORT

To: ONE Joint Investment Board
From: Colin MacDonald, Manager of Policy, MFOA
Date: May 29, 2024
Re: Municipal Insights Report Q2 2024
Report: ONE JIB 2024-032

1. RECOMMENDATIONS

It is recommended that the Board:

1. Receive the report.

2. SUMMARY

The Province and the federal government presented budgets in March and April, respectively that announced a combined total of $7.625 billion in new infrastructure funding as part of their efforts to increase housing supply. Specific details on the funding programs are sparse, but the federal government has indicated that its funding will come with conditions with respect to planning and zoning and a development charge freeze for larger municipalities. Despite the conditions on federal funding, these new funds will have a net positive impact on municipalities' ability to build housing-enabling infrastructure.

On April 10, 2024, the Province introduced new housing legislation that proposes to reverse some of the components of Bill 23 that were financially detrimental to municipalities' ability to build housing-enabling infrastructure. Additionally, the Province published its Affordable Residential Unit Bulletin and the exemption for affordable units will come into effect on June 1, 2024. The sum of these changes will have a net positive impact on municipal cash flows but will not cover the full fiscal impact of Bill 23. The Province has yet to provide details on how it will follow through on its commitment to keep municipalities "whole."

3. BACKGROUND

The provincial budget included $1.625 billion in new infrastructure funding, an additional $625 million for water and wastewater infrastructure and a new $1B Municipal Housing Infrastructure Program

On March 26, 2024, the Province tabled its 2024 budget. Contained within this were several measures to address housing affordability. The Province has topped up the previously announced $200 million Housing-Enabling Water Systems fund, adding an additional $625 million to the fund, bringing its total to $825 million over three years.

The Province also announced a new $1B Municipal Housing Infrastructure Program. Details on the program are sparse but the budget suggested that it is intended to "largely support core infrastructure projects, such as roads and water infrastructure to enable housing for growing and developing communities."

The federal budget included $6 billion in new infrastructure funding, but that funding may come with conditions that will further restrict development charge collections

On April 2, 2024, the federal government announced infrastructure funding that was subsequently included in its budget tabled on April 16, 2024. The announcement included $6 billion over 10 years in a new Canada Housing Infrastructure Fund targeting "critical housing infrastructure", with $1 billion being directly accessible to municipalities.

The remaining $5 billion is to be distributed to the provinces and territories, provided they agree to a set of terms and conditions, which include but are not limited to requiring municipalities to "broadly adopt four units as-of-right" and implementing a three-year freeze on development charges beginning April 2, 2024 for municipalities with a population greater than 300,000. The Province has until January 1, 2025 to come to an agreement with the federal government to receive the funding. If the provinces/territories cannot come to agreement by that date, the federal government has indicated that it will deal directly with municipalities in those jurisdictions to distribute that funding. Ontario has indicated that it does not intend to meet the terms of the agreement. Unlike the Province of Alberta, which introduced legislation limiting the ability of municipalities to enter into direct agreements with the federal government, the Province of Ontario has indicated that it will not restrict municipalities from making individual arrangements for the funding.

Assuming a proportional share of the total funding envelope based on population, this could result in $2.3 billion in infrastructure funding in Ontario.

The announcement also included a $400 million top up to its Province's Housing Accelerator Fund, bringing the total of that fund to $4.4 billion, and indicated a predictable transit fund would be forthcoming and that it would come with conditions with respect to densification around major transit hubs.

The Province introduced a new housing bill (Bill 185) that will reverse some measures introduced in 2022's housing bill (Bill 23), which had significant impact on municipalities' ability to collect funds for growth-related infrastructure

On April 10, 2024, the Province tabled Bill 185, Cutting Red Tape to Build More Homes Act, 2024 (Bill 185). Bill 185 proposes to amend the Development Charges Act, 1997 (DCA, 1997), among many others, and is intended to facilitate housing development. Notable changes to the DCA, 1997 are reversals on some of the changes introduced in Bill 23, More Homes Built Faster Act, 2022 (Bill 23). Bill 23, notably, introduced many changes to the development charges regime that would have a significant negative fiscal impact on municipalities and impede their ability to build housing-enabling infrastructure. Bill 185, among other things, proposes to reverse the five-year phase-in for development charges after a new study, it proposes reducing the DC freeze period from two years to 18 months, and it adds development charge background studies back onto the list of eligible costs.

The Affordable Residential Unit Bulletin for the purposes of development charge exemptions was released on May 1, 2024 and the exemptions are set to come into force on June 1, 2024

On May 1, 2024, the Province published its first Affordable Residential Unit Bulletin (The Bulletin). The Bulletin is intended to define local level (lower and single tier) price thresholds whereby a type of unit qualifies for an exemption from development charges. The Province has created definitions for affordable rental units and affordable ownership units, which coincide with the lower of a market-based calculation and an income-based calculation.

Affordable ownership calculations:

- Income-based purchase price: A purchase price that would result in annual accommodation costs equal to 30% of a household's gross annual income for a household at the 60th percentile of the income distribution for all households in the local municipality; and
- Market-based purchase price: 90% of the average purchase price of a unit of the same unit type in the local municipality.

Affordable rental calculations:

- Income-based rent: Rent that is equal to 30% of gross annual household income for a household at the 60th percentile of the income distribution for renter households in the local municipality; and
- Market-based rent: Average market rent of a unit of the same unit type in the local municipality.

The affordable exemptions come into force on June 1, 2024, and municipalities are working on how to implement and administer the exemptions. These exemptions will further reduce a municipality's ability to collect development charges.

4. ANALYSIS

Provincial and federal infrastructure funds will have a net positive impact on municipalities but are likely insufficient to help municipalities build the infrastructure required to meet provincial housing targets and are likely to be heavily skewed towards larger, growing municipalities

The combined infrastructure announcements of the provincial and federal governments are likely to have a positive impact on municipal cash flows, but that will be mitigated by some of the conditions attached to federal funding. Given the significant challenge of building infrastructure to meet mandated housing targets, the announced funding is unlikely to meet the full need for growth-related infrastructure – Peel Region and York Region alone estimate an increased capital need of $7.7 billion above plan ($5.1B and

$2.6B, respectively) to meet the housing targets. It is also unclear how much, if any, of this funding will find its way to smaller, rural municipalities, but it will likely be skewed towards larger, growing municipalities.

The reversals of some provisions of Bill 23 will have a positive impact on forecasted cash flows, but municipalities are still likely to see declines in overall development charge collections unless the Province follows through on its commitment to make them "whole"

The changes proposed to development charge collections will reduce the previously forecasted impacts of Bill 23. The reversal of the five-year phase-in of new development charge rates will have the most significant financial impact but, as proposed, will not cover municipalities that passed new development charge by-laws between January 1, 2022 and Bill 185's in-force date, including Durham Region. While the proposed legislation will mute the previous impact of Bill 23, municipalities that collect development charges will continue to be negatively impacted by the legislation and the Province has yet to provide details on whether or how it will follow through on its commitment make municipalities "whole" with respect to the Bill. Indeed, with the posting of the Affordable Residential Unit Bulletin municipalities are set to incur even more losses related to Bill 23, which may vary greatly by municipality, and it is unknown how the proposed legislation may affect developer behaviour and unit preferences. One shortcoming noted in the bulletin is that the affordable ownership figure for condos does not distinguish between unit type, meaning that the value for an affordable bachelor condo is the same as a two- or three-bedroom unit.

5. CONCLUSION

The provincial and federal government have both made funding commitments to municipal infrastructure in their recent budgets. Municipalities are awaiting full details on the funding, but it's likely to be heavily skewed to larger municipalities. Additionally, there have been some positive proposed changes to the DCA, 1997 that will mitigate the impacts of Bill 23, but there is still some uncertainty with respect to the remaining limits imposed on development charges, including exemptions. If the Province does not follow through on its commitment to make municipalities "whole," it is likely that municipalities that rely on development charge collections will see their cashflow forecasts reduced

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