Memorandum

To	Gigi Li, Director of Financial Services and Treasurer
From	Gary Scandlan, Managing Partner
Date	January 16, 2023
Re:	Financial Impacts of Bill 23

Fax ☐ Courier ☐ Mail ☐ Email ☒

1. Introduction

On November 28, 2022, the Province passed Bill 23: *More Homes Built Faster Act,* 2022, to support the following objective: "*This plan is part of a long-term strategy to increase housing supply and provide attainable housing options for hardworking Ontarians and their families".* To implement this plan, Bill 23 amends a number of pieces of legislation, including the *Planning Act* and *Development Charges Act* (D.C.A.).

As discussed later in this memo, these changes to the legislation would result in significant revenue losses to the City of Richmond Hill. The three key revenue tools utilized by the City to fund growth-related capital expenditures are negatively impacted by the changes provided through Bill 23 (i.e. development charges (D.C.s), community benefits charges (C.B.C.s), and parkland dedication fees).

Watson & Associates Economists Ltd. (Watson) has worked with City staff in analyzing the financial impacts of these changes to provide a preliminary estimate on the revenue loss that could be experienced over the next ten years. For each revenue tool, this memo first outlines the legislative changes made through Bill 23, followed by a discussion of the specific impacts to Richmond Hill. An estimated overall revenue loss over the next ten years is provided for each of the three tools.

It must be noted at the outset of this memo that many of these estimates are preliminary and high-level, based on the information available today. For certain aspects of the legislation, it is unclear how the changes will be implemented, as the Province has indicated these are to be clarified through future regulations/bulletins.

2233 Argentia Rd.
Suite 301
Mississauga, Ontario
L5N 2X7

Office: 905-272-3600
Fax: 905-272-3602
www.watsonecon.ca

2. Changes to the Development Charges Act

2.1 New Statutory Exemptions

Affordable units, attainable units, inclusionary zoning units and non-profit housing developments will be exempt from the payment of D.C.s, as follows:

- Affordable Rental Units: Where rent is no more than 80% of the average market rent as defined by a new bulletin published by the Ministry of Municipal Affairs and Housing.
- Affordable Owned Units: Where the price of the unit is no more than 80% of the average purchase price as defined by a new bulletin published by the Ministry of Municipal Affairs and Housing.
- Attainable Units: Excludes affordable units and rental units; will be defined as prescribed development or class of development and sold to a person who is at "arm's length" from the seller.
  - Note: for affordable and attainable units, the municipality shall enter into an agreement that ensures the unit remains affordable or attainable for 25 years.
- Inclusionary Zoning Units: Affordable housing units required under inclusionary zoning by-laws will be exempt from a D.C.
- Non-Profit Housing: Non-profit housing units are exempt from D.C. instalment payments due after this section comes into force.

2.1.1 Revenue Impacts

In order to determine the potential impacts of these new exemptions, City planning staff worked with Watson to estimate the potential number of units that would meet the definitions above. For this exercise, the ten-year growth forecast from the 2022 C.B.C. Strategy, which was derived from the City of Richmond Hill 2021 Growth Analysis by Traffic Zone, was utilized. Table 2-1 below indicates that the City of Richmond Hill was forecasted to grow by approximately 13,800 units over the 2022-2032 period.

Table 2-1
City of Richmond Hill
Ten-year Residential Unit Growth Forecast

Unit Type	Growth in Units
Single & Semi Detached	2,652
Multiples	4,591
Apartments	6,584
Total	**13,827**

Note: through Bill 23, the Province also assigned new housing targets to 29 municipalities, including Richmond Hill. The targets provide that by 2031, the City of Richmond Hill would need to grow by an additional 27,000 units (i.e. double the current growth forecast). For the purposes of this analysis, this new growth target has not been incorporated into the analysis given the extensive work required to understand the implications of doubling the growth in the City. City staff are currently working on determining the planning, engineering and financial impacts of these new growth targets; however, the changes can be expected to provide further downward pressure on growth-related capital revenues.

Affordable Rental/Owned Units:

Based on the growth forecast identified in Table 2-1 above, it is estimated that approximately 1,270 units would meet the definition of Affordable Rental or Owned units. Under the D.C. growth forecast, these units would be identified as high density/apartment units. Utilizing current D.C. rates, the total D.C. revenue loss as a result of this exemption would be **$12.8 million.**

Attainable Housing:

It is noted that the definition of "attainable" is unclear, as this has not yet been defined in the regulations. As such, the impact of this exemption has not been quantified as part of this analysis, however, depending on the definition, this could have a significant impact on total D.C. revenue collection for the City.

Inclusionary Zoning Units:

Although the City does not have an inclusionary zoning by-law in place, staff have assumed a by-law would be in place within the 10-year forecast period. Based on estimates, this would result in approximately 200 inclusionary zoning units by 2031 within centres located inside Protected Major Transit Station Areas (PMTSAs). These inclusionary zoning units would be exempt from D.C.s and would result in a D.C. revenue loss of approximately **$2.3 million**.

Non-Profit Housing:

Through discussions with staff and based on Council-approved policies/strategies for non-profit housing, it is estimated that approximately 1,400 units over the next ten years would meet the definition of non-profit and would be exempt from D.C.s. These units would be classified as small apartments and would result in a D.C. revenue loss of **$15.7 million**.

2.1.2 Summary of Impacts

Based on this preliminary, high-level analysis, it could be estimated that approximately 2,870 units out of the 13,800 (21%) total units identified in the growth forecast would be exempt from D.C.s as a result of the above changes to the legislation. These new statutory exemptions result in a total revenue loss of $30.8 million.

Table 2-2
City of Richmond Hill
Financial Impact of New Statutory Exemptions

Exemption	Units Exempt (2022-2031)	D.C. Revenue Loss ($)
Affordable Rental/Owned Units	1,270	$12,800,000
Attainable Units	?	?
Inclusionary Zoning Units	200	$2,300,000
Non-profit Housing Units	1,400	$15,700,000
Total	**2,870**	**$30,800,000**

2.2 Additional Residential Unit Exemption

The rules for these exemptions are now provided in the D.C.A., rather than the regulations and are summarized as follows:

- Exemption for residential units in existing rental residential buildings – For rental residential buildings with four or more residential units, the greater of one unit or 1% of the existing residential units will be exempt from D.C.
- Exemption for additional residential units in existing and new residential buildings – The following developments will be exempt from a D.C.:
    - A second unit in a detached, semi-detached, or rowhouse if all buildings and ancillary structures cumulatively contain no more than one residential unit;
    - A third unit in a detached, semi-detached, or rowhouse if no buildings or ancillary structures contain any residential units; and
    - One residential unit in a building or structure ancillary to a detached, semi-detached, or rowhouse on a parcel of urban land, if the detached, semi-detached, or rowhouse contains no more than two residential units and no other buildings or ancillary structures contain any residential units.

2.2.1 Revenue Impacts

Based on Official Plan policies and discussions with staff, it is assumed that approximately 550 units would be exempt from D.C.s under the additional residential unit exemption. This would result in a D.C. revenue loss of approximately **$9.8 million.**

2.3 Mandatory Phase-in of a D.C.

For all D.C. by-laws passed after January 1, 2022, the charge must be phased-in annually over the first five years the by-law is in force, as follows:

- Year 1 – 80% of the maximum charge;
- Year 2 – 85% of the maximum charge;
- Year 3 – 90% of the maximum charge;
- Year 4 – 95% of the maximum charge; and
- Year 5 to expiry – 100% of the maximum charge.

Note: for a D.C. by-law passed on or after January 1, 2022, the phase-in provisions would only apply to D.C.s payable on or after the day subsection 5 (7) of Schedule 3 of the Bill comes into force (i.e., no refunds are required for a D.C. payable between January 1, 2022 and the day the Bill receives Royal Assent). The phased-in charges also apply with respect to the determination of the charges under section 26.2 of the Act (i.e., eligible site plan and zoning by-law amendment applications).

2.3.1 Revenue Impacts

To illustrate the impacts of Bill 23 and for the purposes of this analysis, it is assumed that the current D.C. rates would be phased in as of 2022 (i.e., 80% of the current rate would be charged to D.C. eligible development). As a result of this five year phase-in of the charge, the City would lose approximately **$11.6 million** in D.C. revenues over the first five years of the forecast.

2.4 Capital Costs Related to Land

Land costs are proposed to be removed from the list of eligible costs for certain services (to be prescribed later).

2.4.1 Revenue Impacts

At this point, it is unclear what land costs are to be removed from the list of eligible costs. As such, a very conservative and high-level estimate would provide for a revenue loss of approximately **$25.2 million** over the ten-year forecast period.

2.5 Removal of Growth Studies

Costs of studies, such as Official Plans, D.C. studies, master plans, etc. are no longer an eligible capital cost for D.C. funding. As these are costs required due to growth, these studies will still need to be carried out and funded from other sources (e.g. tax reserves).

2.5.1 Revenue Impacts

Given that D.C.s for growth studies can no longer be collected, a revenue loss of approximately **$5.2 million** has been estimated by applying the D.C. charge for growth studies to the growth forecast over the next ten years.

2.6 Rental Housing Discount

The D.C. payable for rental housing development will be reduced based on the number of bedrooms in each unit as follows:

- Three or more bedrooms – 25% reduction;
- Two bedrooms – 20% reduction; and
- All other bedroom quantities – 15% reduction.

As amended, these discounts would apply to any part of a development charge payable for a prescribed development under an agreement under section 27, if the agreement was entered into after the development is prescribed and before this section of the Bill comes into force.

2.6.1 Revenue Impacts

Based on discussions with planning staff, approximately 1,500 units would be eligible for this discount, which would result in an overall revenue loss of **$5.1 million** over the ten-year forecast period.

2.7 Historical Level of Service

The increase in need for service was previously limited by the average historical level of service calculated over the ten year period preceding the preparation of the D.C. background study. This average has now been extended to the historical 15-year period.

2.7.1 Impact on Richmond Hill

For the purposes of this analysis, this service standard change has not been modelled and quantified, however, for municipalities experiencing significant growth in recent years, this may reduce the level of service cap, and the corresponding D.C. recovery. For Richmond Hill, it could be expected that the service cap for certain services would be reduced, resulting in a lower D.C. revenue recovery. The impact of this change will be better understood through the upcoming D.C. by-law update.

2.8 Other Changes to the Development Charges Act

There are a number of other changes to the D.C.A, however, many of these are either not applicable to Richmond Hill or are largely administrative in nature and are likely to have minimal/no impact on D.C. revenues. These changes are as follows:

- **Removal of Housing Services as an Eligible Service:** Municipalities with by-laws that include a charge for housing services can no longer collect for this service. As Richmond Hill does not collect for housing services under its D.C. by-law, this change does not have an impact on Richmond Hill's D.C. revenues.
- **D.C. By-law Expiry**: A D.C. by-law expires ten years after the day it comes into force. This extends the by-law's life from five to ten years.
- **Maximum Interest Rate for Instalments and Determination of Charge for Eligible Site Plan and Zoning By-law Amendment Applications**: No maximum interest rate was previously prescribed. Under the new changes, the maximum interest rate is set at the average prime rate plus 1%. How the average prime rate is determined is further defined under section 9 of Schedule 3 of the Bill. This maximum interest rate provision applies to all instalment payments and eligible site plan and zoning by-law amendment applications.

- **Requirement to Allocate Funds Received**: Similar to the requirements for community benefits charges, annually, beginning in 2023, municipalities are required to spend or allocate at least 60% of the monies in a reserve fund at the beginning of the year for water, wastewater, and services related to a highway. Other services may be prescribed by the regulation.
- **Instalment Payments:** Non-profit housing development has been removed from the instalment payment section of the Act (section 26.1), as these units are now exempt from the payment of a D.C.
- **Amendments to Section 44 (Front-ending)**: This section has been updated to include the new mandatory exemptions for affordable, attainable, and non-profit housing, along with required affordable residential units under inclusionary zoning by-laws.

2.9 Summary of Financial Impacts of Bill 23 on D.C.s

Based on the above discussion, the following summarizes the estimated revenue loss associated with each change to the D.C.A.:

Table 2-3
City of Richmond Hill
Financial Impacts of Bill 23 – D.C.s

D.C.A Change	Revenue Loss ($)
New Statutory Exemptions	$30.8 million
Additional Residential Unit Exemption	$9.8 million
Mandatory Phase-in of D.C.	$11.6 million
Capital Costs Related to Land Excluded from Charge	$25.2 million
Capital Costs Related to Studies Excluded from Charge	$5.2 million
Rental Housing Discount	$5.1 million
Total	**$87.7 million**

Based on these estimates, D.C. revenues are 32% lower than previously estimated, as a result of Bill 23.

3. Changes to the Planning Act – Community Benefits Charges

3.1 New Statutory Exemptions

Similar to the D.C.A. changes, affordable residential units, attainable residential units, and inclusionary zoning residential units are now exempt from the payment of C.B.C.s. These exempt units have the same definitions as those found in the D.C.A.

3.1.1 Revenue Impacts

Based on the same assumptions utilized to estimate the revenue loss for D.C.s, the loss in C.B.C. revenue as a result of exemptions for affordable and inclusionary zoning residential units is approximately **$3.9 million** over the 10-year forecast period (note: attainable residential units are not included as the definition of attainable is currently unclear).

3.2 Limiting the Maximum C.B.C. in Proportion to Incremental Development

Where development or redevelopment is occurring on a parcel of land with an existing building or structure, the maximum C.B.C. that could be imposed is to be calculated based on the incremental development only. For example, if a building is being expanded by 150,000 sq.ft. on a parcel of land with an existing 50,000 sq.ft. building, then the maximum C.B.C. that could be imposed on the development would be 3% of total land value (i.e., 150,000 sq.ft. / 200,000 sq.ft. = 75% x 4% maximum prescribed rate = 3% of total land value).

3.2.1 Revenue Impacts

This change largely seeks to clarify the administration of the charge and is not likely to have a revenue impact for the City of Richmond Hill.

4. Changes to the Planning Act – Parkland Dedication

4.1 New Statutory Exemptions

Affordable residential units, attainable residential units, inclusionary zoning residential units, non-profit housing and additional residential unit developments are exempt from parkland dedication requirements. For affordable, attainable, and inclusionary zoning residential units, the exemption is proposed to be implemented by:

- discounting the standard parkland dedication requirements (i.e., 5% of land) based on the proportion of development excluding affordable, attainable and inclusionary zoning residential units relative to the total residential units for the development; or

- where the alternative requirement is imposed, the affordable, attainable and inclusionary zoning residential units would be excluded from the calculation.

For non-profit housing and additional residential units, a parkland dedication by-law (i.e., a by-law passed under section 42 of the *Planning Act*) will not apply.

The definitions for these units are the same as those provided under the D.C.A.

4.2 Alternative Parkland Dedication Requirement

The following changes have been made with respect to the imposition of the alternative parkland dedication requirements:

- The alternative requirement of 1 hectare (ha) per 300 dwelling units has been reduced to 1 ha per 600 dwelling units where land is being conveyed. Where the municipality imposes payment-in-lieu (P.I.L.) requirements, the amendments would reduce the amount from 1 ha per 500 dwelling units to 1 ha per 1,000 net residential units.
- Proposed amendments clarify that the alternative requirement is to be calculated on the incremental units of development/redevelopment.
- The alternative requirement is capped at 10% of the land area or land value where the land proposed for development or redevelopment is 5 ha or less; and 15% of the land area or land value where the land proposed for development or redevelopment is greater than 5 ha.

4.3 Other Changes

The following list provides a number of the other changes to the *Planning Act* with respect to parkland dedication:

- **Parks Plan:** The preparation of a publicly available parks plan as part of enabling an Official Plan is required at the time of passing a parkland dedication by-law under section 42 of the *Planning Act*.
- **Identification of Lands for Conveyance:** Owners are allowed to identify lands to meet parkland conveyance requirements, within regulatory criteria. These lands may include encumbered lands and privately owned public space (POPs). Municipalities may enter into agreements with the owners of the land regarding POPs to enforce conditions, and these agreements may be registered on title. The suitability of land for parks and recreational purposes will be appealable to the Ontario Land Tribunal (OLT).
- **Requirement to Allocate Funds Received:** Similar to the requirements for C.B.C.s and for the D.C.A. under Bill 23, annually beginning in 2023, municipalities are required to spend or allocate at least 60% of the monies in a reserve fund at the beginning of the year.

- **Determination of Parkland Dedication**: Similar to the rules under the D.C.A., the determination of parkland dedication for a building permit issued within two years of a Site Plan and/or Zoning By-law Amendment approval is subject to the requirements in the by-law as at the date of planning application submission.

4.4 Summary of Revenue Impacts

Based on the changes provided through Bill 23, the revenue impacts of the changes the alternative parkland dedication requirement were analyzed. The City's current parkland dedication by-law provides for a fixed per unit rate based on the alternative rate. This charge has been recalculated for the purposes of this analysis to reflect the 1 ha for every 1,000 units. The change results in a significant loss in revenue, especially with respect to the cap when applied to high-density development. It is estimated that over the 10-year forecast period, the City would lose approximately **$238.2 million** in parkland dedication revenue.

5. Concluding Remarks

Based on the above discussion, the overall estimated revenue losses to the City for funding growth related infrastructure over the next 10 years are estimated as follows:

Table 5-1
City of Richmond Hill
Summary of Financial Impacts – Bill 23 Changes

Revenue Tool	Overall Revenue Loss ($)	Percentage Reduction in Forecasted Revenues
D.C.s	$87.7 million	32%
C.B.C.s	$3.9 million	25%
Parkland Dedication	$238.2 million	61%
Total Revenue Loss	**$329.3 million**	**49%**

There are a number of caveats to this high-level analysis that must be noted:

- The new housing target released by the Province has not been incorporated into the growth forecast. The implications of the new target are not yet clear, however, it is expected that there would be further D.C. revenue losses that would need to be funded from other sources.

- Certain changes (i.e. attainable housing, capital costs associated with land) are not fully incorporated into the analysis given the definitions are currently unclear. The analysis will need to be revisited and updated when the Province provides updates.
- Non-residential growth has not been included as part of this analysis. As most of the changes are expected to impact residential growth, this was the focus of the analysis, however there are expected to be some revenue impacts on the non-residential side as well (e.g. non-residential growth would also be subject to the 5-year phase in).

Although this is a very high-level and preliminary analysis, the above discussion indicates that Bill 23 imposes significant reductions on the City's ability to collect D.C.s, C.B.C.s and cash-in-lieu of parkland. These revenue losses will require the City to either delay the construction of growth-related infrastructure, issue additional debt, and/or increase property taxes.