REPORT

Council

Meeting Date: January 31, 2022

FROM: Finance Department

DATE: January 18, 2022

SUBJECT: **Town of Oakville Response to BILD and Altus Group Report on Municipal Reserves**

LOCATION: Town-wide
WARD: Town-wide

RECOMMENDATION:

1. That the staff report dated January 18, 2022, entitled *Town of Oakville Response to BILD and Altus Group Report on Municipal Reserves* from the Finance department, be received.
2. That the Town Clerk forward a link to the report entitled *Town of Oakville Response to BILD and Altus Group Report on Municipal Reserves*, to Halton's Members of Provincial Parliament (MPPs), Halton Region, the City of Burlington, the Town of Halton Hills, the Town of Milton, and the Ministry of Municipal Affairs and Housing for information.

KEY FACTS:

The following are key points for consideration with respect to this report:

- In November 2021 the Building Industry and Land Development Association (BILD) released a study entitled "New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Livable, Affordable Communities in the GTA".
- The study focuses on 16 GTA municipalities, examining the use of funds collected from development through development charges, cash-in-lieu of parkland, and section 37 density bonusing during the 2013-2019 time period.
- Staff disagrees with a number of conclusions made in the study, particularly the suggestion that the combination of built up reserves and unbuilt community infrastructure results in existing communities not seeing the benefits of growth.
- The study does not properly consider the nature and timing of capital expenditures being funded from development charges, cash-in-lieu of

parkland, and section 37 density bonusing. Collections in an equitable manner across the development driving the need for growth-related capital expenditures may result in fluctuations in reserve fund balances over time.

- The study does not consider the long term financial planning that the Town of Oakville undertakes, which includes the ongoing review of service levels and planning for new land and infrastructure to maintain service levels as the Town grows.
- It is important that further information on municipal financial planning is provided through this report in order to offer context to the study and explain why the conclusions do not pertain to the Town of Oakville.
- The Town ensures that financial tools are used in a fiscally responsible and prudent manner in accordance with legislation and Council approved financial policies. An annual report is received by Council each spring and made available to the public and the Ministry of Municipal Affairs and Housing, which outlines the activity for the year related to development charges, cash-in-lieu of parkland, and bonus zoning.

BACKGROUND:

In November 2021, the Building Industry and Land Development Association (BILD) released a study, prepared by Altus Group Economic Consulting (Altus), entitled "New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Livable, Affordable Communities in the GTA" (attached as Appendix A). The focus of the Altus study is to examine how municipalities are spending funds collected from development through development charges (DC's), cash-in-lieu of parkland, and section 37 density bonusing. The analysis summarizes the capital spending, collections, and reserve balances from 2013-2019. The study focuses on 16 GTA municipalities, including both upper, lower, and single-tier municipalities as shown in the following chart:

Upper-/Single-Tier	City of Toronto	York Region	Peel Region	Halton Region	Durham Region	Simcoe County	City of Barrie
Lower-Tier		Vaughan, Markham	Mississauga, Brampton	Oakville, Burlington	Whitby, Oshawa	BWG	

BILD held an information session for Durham and Halton municipalities on October 26, 2021, where Altus presented the results of the study, answered questions and heard concerns from municipalities. The rationale for selecting municipalities for the study was to include two from each region where possible, with a preference for municipalities with the most development, particularly high density markets both historically and in the future. The following sections provide detail on the statements and conclusions found in the study.

Development Charges
The study showed that between 2013 and 2019, the GTA municipalities studied saw their DC reserve funds increase from $1.91 billion to $3.25 billion. With respect to the Town, DC reserve fund balances increased from $2.3 million to $80.5 million during the 7 year study period. Halton Region DC balances declined from $241.5 million to $57.2 million. The study provided details by municipality of the amount of revenue collected and total expenditures incurred compared to municipal projections. Generally, there was a slow down in growth over the time period, resulting in lower than expected DC revenues (63% of projection), while capital spending was lower than anticipated as well (62% of projection). For the Town, actual revenue was 77% of the projected total, and expenditures were 57% of the projected total.

The conclusion drawn from the study, regarding development charges, is that those municipalities with significant DC reserve fund balances are falling behind providing the community infrastructure that recently constructed housing units and their residents need, and that delays in capital projects may result in existing communities not receiving the benefit from growth-funded infrastructure.

Cash-in-lieu of Parkland
According to the study, recent trends show average annual revenues have significantly exceeded expenditures from 2015-2019, where 56% of revenues were spent for the municipalities selected for the study. Over this sample period, the town actually spent more parkland funds then received (105%). The study also summarized reserve fund balances over the 2009-2019 period, which increased from $375 million to $1.48 billion for studied municipalities. The Town's parkland balance increased from $15.2 million to $35.6 million during this time. The study uses Oakville as an example of utilizing parkland funding effectively over the 2016-2019 time period, highlighting the acquisition of the Deerfield Golf Club and a Halton Catholic District School Board surplus site (Hixon) along with miscellaneous park improvements. The study also provides details on the Town's purchase of lands at North Park as a "best practice", where the Town purchased land in 1991, well in advance of development in North Oakville. Had the lands been purchased in 2010, the study estimates that the cost of the land would have been approximately $108.6 million more then what was spent in 1991.

The study concludes that this increase in balances results in new residents unable to see the benefit of the amenities for which they have provided funding and that the escalation of land values over the time period greatly diminish purchasing power. The study recommends that municipalities undertake strategic acquisitions where possible, as there can be significant savings for municipalities by purchasing land in advance of development and as a way to ensure that amenities are in place when people move in. The study recommends that in accordance with the *Planning Act*, a Parks Plan be undertaken that takes into account the existing reserve fund balance to determine the "net" need for parkland funds going forward, similar to the approach used for DC's. Also, that the use of a fixed or capped approach to cash-in-lieu is important to ensure that undue burden is not placed on high density developments.

Bonusing
Prior to Bill 108, the *More Homes, More Choices Act, 2019*, section 37 of the *Planning Act* allowed the Town to permit increased height and/or density through a zoning by-law in return for community benefits in accordance with the Official Plan policies. These contributions could be provided in the form of cash or as in-kind contributions. The study states that Town has not used section 37 extensively, and had a reserve fund balance of $2.84 million at the end of 2019. The study concludes that with the exception of the City of Toronto, most municipalities had made limited use of the bonusing tool, but that the new Community Benefits Charges (CBC) regime that replaces the former section 37 in September 2022 will result in greater revenues. The CBC can be applied to high-density housing developments with a minimum height of five storeys and no less than ten residential units, regardless of whether a zoning by-law amendment is needed. The Altus study expects that the CBC will be more broadly applied and become a more significant revenue tool across the province.

Altus Study Conclusion
The major conclusions reached in the study are that unspent municipal reserves are a province wide issue,that the recent build up of reserves and unbuilt community infrastructure results in existing communities not seeing the benefits of growth, and that as funds accumulate in reserves they lose purchasing power which leads to higher municipal charges. The study recommends that municipalities should ensure that spending catches up with the growth in reserves. The study does not specifically address or provide commentary on how the building of liveable, affordable communities is impacted by rising reserve balances. Rather, the conclusion appears to be that if reserves are rising, the required infrastructure for the community is not being built in a timely manner, negatively impacting the community.

The conclusions inferred by the Altus study can be misleading. It is important that further information on municipal financial planning is provided in order to offer context to the study, and explain why the conclusions do not pertain to the Town. The following section provides details on the Town's approach to the use funds collected from development.

COMMENTS:

The Town utilizes financial tools including development charges, parkland dedication, and density bonusing in order to recover the capital costs associated with residential and non-residential growth and deliver complete communities. The purpose of these revenue sources is to fund additional land and infrastructure needed so that services can continue to be provided at established levels, while minimizing the financial impact of growth-related needs on existing residents and businesses.

During the annual budget process and throughout the year, Council considers and approves recommended capital projects for land and infrastructure that maintain service levels through either the renewal of existing assets or by expansion, as well as to achieve strategic goals. The timing of projects is established so that infrastructure to accommodate growth is in place at the time new residents and businesses are using town services, so that service levels are maintained, and additional property taxes are being collected from growth to fund added operational requirements. The Town prepares a 10 year capital forecast to provide a longer term outlook at land and infrastructure needs and funding requirements.

The following sections provide further commentary on each financial tool and explain the Town’s approach to utilizing funds collected from development, and why the conclusions drawn from the Altus report are not applicable to the Town.

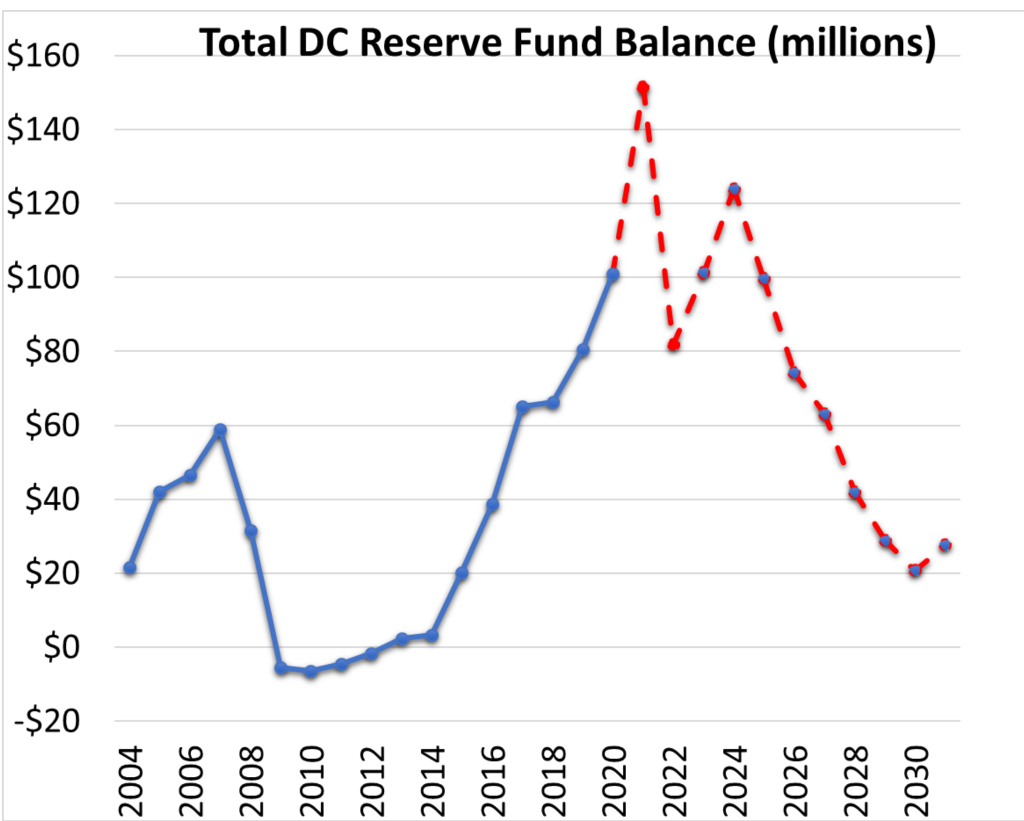
<u>Development Charges</u>

Development charges allow municipalities to collect funds from development and redevelopment to be applied towards increased capital costs driven by growth, with respect to eligible services, thereby minimizing the impact on the existing taxpayer. The overarching goal of growth related capital projects is to provide the land and infrastructure required to maintain service levels throughout the town.

The *Development Charges Act, 1997* (DCA) specifies the methodology and process that must be followed in determining DC’s, the results of which are subject to appeal. This includes identifying the amount, type and location of development, along with the increase in the need for service attributable to the anticipated development. In calculating the charge, a time horizon (currently to 2031 for the Town) is identified and planned for, and the capital projects and associated costs resulting from anticipated growth are used to calculate rates for each type of development (i.e. residential, non-residential). Rates are established in an equitable manner, which results in development paying its fair share of the infrastructure it is driving the need for. Depending on when the infrastructure is required, DC reserve funds may increase in some years, and decrease in other years, as the infrastructure is constructed. The Town reviews its services on an ongoing basis, and through the annual budget process, identifies projects that are required to maintain service levels as the town grows. Capital projects required due to growth are usually expensive, generally very large in scale and complex in nature (for example, building new community centres and parks, or widening roadways). As such, they typically span multiple years and provide significant additional capacity to services.

The study compared single, upper and lower-tier municipalities, which are responsible for providing different services required at varying stages in the development cycle. In the case of Halton Region, which saw a decline in DC balances over the 2013-2019 study period, the services that they are responsible for (water, wastewater, roads) are often provided earlier in the development cycle, and prepayment agreements for DC's are often entered into. By comparison, the Town's DC balances grew during the same time period, as the services the Town provides are generally required to be in place once new population has occupied homes, while DC's are collected at the time of building permit. For these reasons, it is inappropriate to conclude that infrastructure should or should not be built, solely based on the surplus of DC Balances. Rather, a longer term view must be considered.

While the Altus study examined a narrow timeframe of 2013-2019, the following chart displays the year end DC reserve fund balances for the town from 2004-2020 (Actual) and 2021-2031 (Projected).



By extending the timeframe, this chart effectively illustrates the cyclical nature of DC activity for the Town, as a lower-tier municipality. The Altus study was based on a narrow, seven year period of 2013-2019, which does not take into account the long term planning and capital forecasting (dotted red line in above chart) that municipalities perform. Additionally, it is important to remember that the study did not factor in approved capital project commitments, as funds can only be transferred to capital projects once spending has occurred. As a result, this does not accurately reflect the true ending balance of DC reserve funds for municipalities and increases the volatility of balances. For example, the 2021 projected ending balance for DC reserve funds is $151 million as shown in the chart; however, when factoring in approved commitments to capital projects, it is $132 million.

Population and job growth are driven by market conditions, and arise at different times. Capital spending can vary from year to year, as a small number of major projects can result in greater spending than revenue. This results in periods of time where DC balances are rising, and periods of time where DC balances decline. For example, 2021 has been a higher than expected year for building permits and DC collections, and a low year for capital spending, resulting in a year-over-year increase in DC reserve fund balances (from $101 million to $151 million). The approved 2022 capital budget includes $140 million in DC funding, along with $19 million in previously committed funding to prior year approved capital projects, which net of anticipated revenue will decrease DC balances to $82 million. These two years alone are a good example of why a short term view can result in incorrect conclusions.

The 2022 capital budget is a good representation of the nature of DC funded capital projects. The budget includes impactful capital projects in many service areas, including the construction of North Park Community Centre and Library, Speers Road and Sixth Line road widenings, new park development, transit vehicles and land acquisition for future community facilities. These are generally high dollar, multi-year capital projects that are supported by DC funding, and are aligned with when the need for services is required. There is a long term planning process that includes identifying the need for projects as the Town grows in service area master plans, including the projects in DC Background Studies so that DC's can be collected to fund the growth share of the projects, and finally building the project into capital forecasts and budgets for implementation. Actual and anticipated growth is reviewed during the budget process, and programs assess current and expected service levels in order to align the capital forecast with program needs. In Oakville, some infrastructure is constructed on behalf of the town by developers as part of subdivision development, such as parks and trails, allowing for these amenities to be in place as residents are moving in.

The Altus study suggests that municipalities are reluctant to take on debt to front-end large infrastructure projects due to provincial limits, and instead delay projects until funding is available. However, funding projects using debt includes financial risk, and it is important that municipalities take a cautious approach. There are times when debt financing allows for the alignment of capital project delivery and providing the required service, which the Town has done in order to provide services at expected levels for the community. An example of this is the Sixteen Mile Sports Complex, the Town's state of the art quad pad arena, which was built and in service in 2010. A portion of the construction costs for this facility were financed through debt, as the recreation related DC reserve funds were not sufficient to fully fund the project. The use of debt financing allowed for the costs to be spread out over ten years as development, and DC collections, continued in North Oakville. In 2022, the town again is being proactive with its use of development charges. It has been recognized that an expansion of the Sixteen Mile Sports Complex is needed to add a full community centre and library in North Oakville (North Park Community Centre and Library) as growth continues to accelerate over the coming years. Design began in 2021 through a report from Mayor Burton entitled "Advancement of Community Infrastructure", and the construction budget was approved in the 2022 capital budget, a portion of which will be debt financed. This will allow for the new community centre and library to be open and available for residents to enjoy in line with the service need. The Town is very careful in its use of debenture financing, and Town policy is that DC supported debt charges must not exceed 25% of a five year average of forecasted DC collections.

The study states that delaying land purchases and capital projects decreases purchasing power. While this is true given inflationary pressures and the very low interest rate environment (DC balances earn interest), it is not financially prudent to construct infrastructure in advance of the need. Doing so would put undue pressure on existing residents, as service levels would increase beyond what Council has established, resulting in higher property taxes in the near term. Growth occurs gradually, and at certain points in a municipality's growth cycle, large and less frequent expansion to services are required. For given services, there may be existing capacity that allows for continued service levels that can accommodate growth; however, major expansions to these services are required and proactively planned for, such as the North Park Community Centre and Library. As an example, in the 2018 DC Background Study, the 10 year average provision for indoor recreation facilities was 4.6 square feet per capita. In order to maintain service levels, the new North Park Community Centre was planned for over the future time period, and the town has been collecting funding in order to maintain this standard as the population increases. It is not feasible to spend funding on an annual basis to add indoor recreation space based on the incremental increase in population, rather, the town has planned for and is initiating the new community centre as a result of current and anticipated growth and service levels, using DC funding collected from the population driving the need. The process followed through the annual budget ensures that programs are reviewing service levels and planning for new land and infrastructure in order to maintain those service levels.

The approved capital forecast, shown as the red line in the above chart, illustrates that over the next 10 years current DC balances and anticipated DC collections will allow for the required capital spending. The 2031 ending balance is anticipated to be approximately $28 million. It is prudent to maintain a positive balance in DC reserve funds to allow capital projects to be completed in the event that collections are less than anticipated or costs increase. New legislation in the DCA allows for DC rates to be set at planning application, and interest applied, rather than the historic practice of applying the rates in effect at time of building permit. This has added financial risk to DC balances, as an applicant may pay DCs in the future at a lesser rate than what is required for capital projects.

As legislated, DC Background Studies and new DC By-laws are required at least every five years. A new background study is underway and the new DC By-law is anticipated to be presented to Council in the summer of 2022. The background study considers anticipated growth to 2031, updated project costing and timing, as well as current uncommitted DC balances. Therefore, if a municipality did have higher DC balances then required for growth-related land and infrastructure, it would be reflected in the calculated DC rates and future collections so that development is not being charged more then needed.

<u>Cash-in-lieu of Parkland</u>
The purchase of land for parks is not considered an eligible service for DC's under the DCA. Instead, provisions in the *Planning* Act (section 51.1 and 42) enable municipalities to require land, or cash-in-lieu of land, for parks as a condition of development. The majority of growth in Oakville has been greenfield growth, in new subdivisions north of Dundas Street. Through the planning process, land is dedicated to the Town from the owners of these lands, and the Town collects DC's to develop the land into parks. The Town strives to provide an overall park system that will benefit the community, and through a Master Parkland Agreement secured as part of the North Oakville Secondary Plan appeals, has been and will continue to provide for parkland in North Oakville. As mentioned earlier in the report, through subdivision agreements, the Town typically arranges with developers for the parks to be constructed by the developer on behalf of the Town, so that parks are available as people move in. Some development proposals, particularly medium and high density proposals, are on sites where it is not feasible or desirable to dedicate the required land and instead cash is collected in lieu of land. Funds collected in this manner are deposited into a reserve fund for future parkland acquisition or park improvements. The town has been experiencing increased high density growth; as a result, parkland reserve fund balances have been increasing with a projected 2021 year end balance of $61 million.

The use of parkland funds is in a similar manner to that of DC's; however, the purchase of property can take time. As opportunities arise, the Town strategically monitors available parcels and uses parkland funds. Two examples of this (which were highlighted in the Altus study) are the purchases of the Deerfield golf course and a surplus site from the Halton Catholic District School Board, both in 2018. In a recent example, in 2021 Council expressed interest in the purchase of a site on Trafalgar Road, for the purpose of creating a new public park through a report from Mayor Burton entitled “Advancement of Community Infrastructure”. Thus, the availability of funds allows for Council to purchase land for parks as opportunities arise. While Oakville is reflected well in the Altus study for the use of parkland funds over the 2015-2019 period, and commended for the advanced purchase of lands in North Park, it is important to remember that it is not always possible or prudent to spend the funds being collected on an annual basis due to the nature of land purchases.

A Parks Strategy is nearing completion and will be brought to Council in 2022. This strategy will provide direction on how parks will continue to evolve and develop in Oakville as intensification occurs. As part of this strategy, recommendations for a new parkland dedication by-law will be included, with considerations for alternate rates specific to high density to ensure that collections are equitable. Understanding that with more high density development comes increased parkland funds, it is important that parkland dedication rates are reasonable and reflect the parkland needs of the Town in the future. Current parkland reserve fund balances are considered in conjunction with anticipated collections, to ensure that land for parks continues to be provided as the Town grows. With the passage of new legislation, the Town is required to validate its parkland dedication rates and pass a new by-law.

<u>Bonusing</u>
As mentioned in the Altus study, bonusing has had limited use in Oakville. In recent years, as the Town has experienced increased higher density development, an increase in zoning by-law amendments and subsequent bonusing agreements has occurred. The balance in the Bonus Zoning reserve fund is $2.9 million at the end of 2021, and is anticipated to be $4.9 million at the end of 2022 as a result of recent developments. The Town has agreements in place and plans to utilize funding collected in accordance with these agreements and Official Plan policies.

The Community Benefits Charge (CBC) Authority replaces bonus zoning for increased height and density under section 37 of the *Planning Act* as of September 18, 2022. In order to implement a CBC, a CBC Strategy is required prior to the passage of a CBC By-law. This Strategy must follow the requirements in the *Planning Act*, which are similar to that of DC’s under the DCA. The Town’s CBC Strategy is underway and a CBC By-law is anticipated to be presented to Council in the summer of 2022. This new charge can be used to pay for the capital costs of facilities, services and matters required because of development and redevelopment in an area to which the by-law applies if those costs are not already accounted for in the DC By-law or Parkland Dedication By-law. There is a maximum cap for the charge set at 4% of land value for any particular development.

CONCLUSION

The Town ensures that financial tools are used in a fiscally responsible and prudent manner in accordance with legislation and Council approved financial policies. An annual report is received by Council each spring and made available to the public and the Ministry of Municipal Affairs and Housing, which outlines the activity for the year related to development charges, cash-in-lieu of parkland, and bonus zoning.

As discussed, the main conclusion reached in the Altus study that unspent municipal reserves have led to unbuilt community infrastructure, resulting in existing communities not seeing the benefits of growth, is misleading. While it may be true that reserves have increased during the specific time period, this does not have a direct correlation with service levels and the building of liveable, affordable communities. The study fails to consider the ongoing practices and financial plans of each municipality.

The town has well established practices whereby service areas undertake a thorough master plan process that identifies the impact of development over the longer term, and what additional infrastructure is required to continue to provide each service. The recently approved 2022-2031 Capital Forecast includes $1.6 billion in capital spending, with nearly 40% to be financed from funds collected from development. Collections from development are reviewed on a regular basis, in accordance with legislation, to ensure they are fair and equitable. Studies related to development charges, a new community benefits charge to replace density bonusing, and parkland dedication are underway and expected to be brought forward to Council in 2022. This comprehensive review and update of each tool will allow for development fees to continue to properly provide for the land and infrastructure needs in the town and the best use of each financial tool in accordance with legislation.

CONSIDERATIONS:

(A) PUBLIC

N/A

(B) FINANCIAL

Development charges, parkland dedication, and collections under section 37 of the *Planning Act* provide mechanisms to finance the costs of growth from new development. The Town utilizes these financial tools to fund additional land and infrastructure needed as a result of growth so that services can continue to be provided at established levels, while minimizing the financial impact of growth-related needs on existing residents and businesses.

(C) IMPACT ON OTHER DEPARTMENTS & USERS
N/A

(D) CORPORATE STRATEGIC GOALS
This report addresses the corporate strategic goal(s) to:
Be fiscally sustainable
Be the most liveable town in Canada

(E) CLIMATE CHANGE/ACTION
N/A

APPENDICES:
Appendix A – BILD and Altus study entitled "New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Livable, Affordable Communities in the GTA"

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