Clarington

Staff Report

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Report To:	**General Government Committee**		
Date of Meeting:	January 31, 2022	**Report Number:**	FSD-009-22
Submitted By:	Trevor Pinn, Director of Financial Services		
Reviewed By:	Andrew C. Allison, CAO	**By-law Number:**	
File Number:	[If applicable, enter File Number]	**Resolution#:**	
Report Subject:	Assessment Growth Paying for Growth		

Recommendation:

1. That Report FSD-009-22 be received for information.

Report Overview

Council has requested a report from Staff regarding the impact of assessment growth on the Municipal budget. This question is a complex question with many variables, the following report attempts to provide information to Council for their consideration on this question.

1. Background

Does Growth Pay for Growth?

1.1 At the Joint Committee meeting of October 25, 2021, Members of Committee requested that the Director of Financial Services/Treasurer report back on whether growth pays for growth. This report was requested to coincide with the budget deliberations.

1.2 The question of whether growth pays for growth has been a hot topic item in municipal finance for a number of years and must contemplate a variety of factors. This report will attempt to provide answers to this question.

1.3 Throughout this report it is important to recognize that the current property tax regime in Ontario treats all properties of a similar class equally. The Municipality does not currently use area-ratings for property taxes. All funds required to be levied to the tax base are proportionately levied based on the tax ratios set by the Region of Durham and tax rates which are calculated based on the assessment prepared by the Municipal Property Assessment Corporation (MPAC).

1.4 It is impossible to allocate a single amount from an individual taxpayer to any particular asset or service provided by the Municipality. Any increase in the levy, net of assessment growth, is proportionately paid for by the entire tax base.

Former Development Charges Act (Prior to 2020)

1.5 The *Development Charges Act, 1997* provided a mechanism for municipalities to collect funds for growth related capital infrastructure. The Act was seen by many in municipal finance not to cover the full cost of growth for several reasons.

1.6 Under the former regime, development charges could be charged for growth related infrastructure except for several identified exemptions. The fact that there were growth related capital needs that could not be eligible for development charges meant that growth did not pay for growth. For example, as a municipality grows and administrative offices were required, these would be fully funded by the tax base or other grants, they were not funded by development charges.

1.7 The former regime also required in several classes of assets an automatic 10% reduction in the total eligible costs. On top of this 10% reduction, any benefit to the existing taxpayer was also factored. Due to the automatic 10% reduction, there was a portion of all development (regardless of if there was a benefit to existing) that was supported by the existing taxpayer.

2. Current Development Charges Legislation

Development Charges Only for Eligible Infrastructure

2.1 The Province changed the *Development Charges Act, 1997* from a list of ineligible services (you could charge for anything that wasn't explicitly prohibited) to legislation where you could only charge development charges if the service was a prescribed eligible service (you can only charge for items that are explicitly permitted).

2.2 The following services are prescribed eligible services for development charges

a. Water supply services, including distribution and treatment services;

b. Waste water services, including sewers and treatment services;

c. Storm water drainage and control services

d. Services related to a highway as defined in subsection 1 (1) of the Municipal Act, 2001 or subsection 3 (1) of the City of Toronto Act, 2006 as the case may be

e. Electrical power services

f. Toronto-York subway extension, as defined in subsection 5.1 (1)

g. Transit services other than the Toronto-York subway extension

h. Waste diversion services

i. Police services

j. Fire Protection services

k. Ambulance services

l. Services provided by a board within the meaning of the Public Libraries Act.

m. Services related to long-term care

n. Parks and recreation services, but not the acquisition of land for parks

o. Services related to public health

p. Child care and early years programs and services within the meaning of Part VI of the Child Care and Early Years Act, 2014 and any related services

q. Housing services

r. Services related to proceedings under the Provincial Offences Act, including by-law enforcement services and municipally administered court services.

s. Services related to emergency preparedness

t. Services related to airports, but only in the Regional Municipality of Waterloo

u. Additional services as prescribed

2.3 The above list of eligible services does not include cemeteries, administrative offices, cultural centres (art centres or performing arts centres), parking facilities. The construction of any of these facilities, which all have been contemplated by Council in the past five years, would not be eligible for capital funding through development charges. Funding these projects would likely come from the tax levy, therefore growth in these areas would be funded by the whole tax base.

2.4 While the new Community Benefits Charges regime has been created, there are several restrictions which minimize the impact of this charge. For example, the charge is limited to a prescribed value of the land and may only be imposed on development which is at least five stories and ten residential units, making it ineligible for most of the development in Clarington. It is not anticipated that the charges raised by this fee would be sufficient to meet the capital needs of the ineligible services.

2.5 Also, as part of the recent modernization of the *Development Charges Act, 1997*, the mandatory 10% deduction was removed. As a result of this change, all eligible costs may now be fully recovered through development charges. There remains the requirement for municipalities to deduct an amount equivalent to the benefit to existing taxpayers so development cannot pay for more than the growth-related cost of a capital investment.

2.6 Because there are services which are not eligible to be funded by development charges, it could be argued that growth will not fully pay for growth; however, it is better than it used to be because there is no longer a mandatory 10% deduction for eligible costs.

Operating Costs

2.7 Development charges only provide funding for eligible growth-related capital expenditures. Once the building, road, park, or other infrastructure is built the operating, repairs and maintenance costs of those items is funded by user-fees, tax levy or other revenues.

2.8 While it is theoretically possible for some services to be funded entirely by user-fees, such as water and wastewater services, which are funded by rates, it is not possible for all costs to be recovered from users. For example, the winter maintenance cost of a new road would be borne by taxpayers.

2.9 It should be noted that the Municipality receives certain infrastructure such as local roads, local parks, sidewallks and storm sewer infrastructure that is built by developers and assumed by the Municipality. These local services are not development charge eligible because they are built by the developer; however, once they are assumed by the Municipality they are serviced and maintained like similar assets.

2.10 Operating costs are variable; however true operating costs are not linear in practice. For example, a snowplow operator may be able to plow 40 km in one day if you have 41km you need to hire a second operator. In this case, there is excess capacity that future growth will pick up but at the initial requirement to get the second driver the existing taxbase is required to fund most of this position. This could be an area where, in the short-term, growth does not pay for growth however there is capacity that is covered by future growth.

Is Growth Bad?

2.11 The fact that growth may not pay entirely for growth does not mean that growth should not be encouraged. There are benefits to growth for new stakeholders and existing stakeholders within the Municipality.

2.12 Growth provides employment which benefits stakeholders in the Municipality outside of the property tax implications. For example, increased residential growth increases demands for service and goods that are used within those properties; this creates demand for commercial providers which increases employment demand.

2.13 Increased residential numbers, standard of living and a strong local economy are factors in attracting businesses to Clarington. These new businesses, such as OPG, Toyota and East Penn provide employment opportunities and opportunities for other businesses to serve them; improving the local economy even more.

2.14 Based on the BMA Study, in 2011 the Municipality had an average household income of $96,994 and in 2021 that average was $125,010. This represents a 28.9 per cent increase over the period. For comparison, the average for participating GTA municipalities over this time was 16.3 per cent and the Province-wide increase was 25.5 per cent. This is a benefit to the Municipality which does not directly impact the Municipality's budget but is a positive impact of growth.

2.15 Growth also brings diversity, which improves the overall qualify of life for residents. New types of services, goods and recreational activities develop from growth.

2.16 All of the above factors have nothing to do with the property tax calculations that the Municipality is required to do but nonetheless improve the quality of life for those who call the Municipality of Clarington home.

Is All Growth the Same?

2.17 A factor of the debate comes in the form of density of growth. Not all growth has the same cost impact to the Municipality compared to the increase in revenue that it generates.

2.18 For example, high-rise condo buildings could bring millions of dollars of new assessment in a fraction of the land that single-family homes would need for the same assessment increase. The higher population density would require less roads that would require maintenance to service the same population.

2.19 Municipalities with higher density growth may see growth paying for growth in the short-term because the cost of growing upwards is lower, and the assessment revenue coming in could be similar.

2.20 The Municipality of Clarington has an estimated population density of 168 persons per square km; this is significantly lower than the Province-average of 539 and almost 10 per cent of the GTHA average of 1,078 persons per square kilometre. This may indicate that the cost-structure that the Municipality has is significantly different than those of our neighbours and comparators.

3. Other Resources

3.1 The Development Charges Act, 1997 is available online through the Province's website.

3.2 The Institute on Municipal Finance and Governance at the Munk School of Global Affairs and Public Policy through the University of Toronto prepares many research papers on municipal finance topics. Adam Found holds a PhD from the University of Toronto, is a Professional Land Economist and specializes in public finance. A fellow at the C.D Howe Institute and a part-time university professor. His paper Development Charges in Ontario: Is Growth Paying for Growth? was written in 2019 prior to the recent changes in the development charges regime.

3.3 There are several articles on "Growth paying for growth"; however, a review of the articles indicates that many focus on the development charges aspect and housing affordability. Staff did not find articles on the long-term operating impacts of growth.

4. Concurrence

Not Applicable.

5. Conclusion

It is respectfully recommended that this report be received for information.

Staff Contact: Trevor Pinn, CPA, CA, Director of Financial Services/Treasurer, 905-623-3379 ext.2602 or tpinn@clarington.net.

Attachments:

Not Applicable

Interested Parties:

There are no interested parties to be notified of Council's decision.