HOUSING SUPPLY AND INFRASTRUCTURE FUNDING IN ONTARIO

How increased federal funding for ‘housing-supportive infrastructure’ can enable delivery of more new housing supply

November 2023

KPEC
Planning + Economics

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How increased federal funding for “housing-supportive infrastructure” can enable delivery of more new housing supply

Prepared for:

BILD

Keleher Planning & Economic Consulting Inc. (KPEC)

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EXECUTIVE SUMMARY

Keleher Planning & Economic Consulting Inc. (KPEC) was retained by BILD to undertake research into how various levels of government fund, finance and build "housing supportive infrastructure" ("HSI") and seek to understand any potential constraints or structural issues with the current approaches used to deliver the infrastructure necessary to enable the delivery of new housing supply in Ontario and its 444 local and regional municipalities.

Based on the analysis undertaken, the following summarizes the findings and associated implications:

- Among the suite of government-imposed taxes, fees and charges imposed on new housing development:
    - When broken down by level of government, the federal government imposes roughly 21-22% of the total amount of government-imposed taxes/fees/charges on new homes;
    - Federal HST imposed is higher for lower-priced / high-density dwellings ($34/sf) than low-density dwellings ($29/sf);
    - Among the individual fees/charges imposed on new homes, the federal portion of HST is:
        - the 2nd largest charge/tax/fee imposed on high-density homes, and
        - the 3rd largest such charge/tax/fee imposed on low-density homes.
    - The cost imposed through the federal HST is higher than the provincial portion (net of rebates) at all price points below $820,000 due to the differences in approach to providing HST rebates, whereas federal rebates are not available for prices above $450,000, provincial rebates remain at the $24,000 rebate cap for all price points.
- Although the federal government does provide substantial funding for Provinces through health/social transfer programs, equalization payments (when Ontario qualifies), and Canada Community Building Fund (formerly the federal gas tax transfer) used to fund other municipal capital and operational priorities, these are not necessarily funds specifically earmarked for new housing-supportive infrastructure, which is the subject of this report.
- The revenue generated by the Federal Government from new home sales via the federal portion of HST has grown significantly in recent years, due in part to a

lack of housing supply putting upward pressure on housing prices, but also due to the lack of indexation of the price thresholds at which federal rebates are available.

- Since the inception of federal HST on new home sales, the price thresholds have not been increased from $350,000 (where the maximum rebate of $6,300 is available) and $450,000 (after which no rebate is available). It is estimated that the additional funds raised through the federal HST on new homes due to the lack of indexation ranges from $6 billion to $8 billion.

- In addition to rising gross revenues from the escalation of housing prices, the lack of indexation of federal HST rebate price thresholds has also meant fewer and fewer of the gross revenues are rebated to end-users. This has resulted in a substantial, on-going and increasingly large annual source of revenues for the Federal Government over a scenario where the price thresholds were indexed regularly.

- The overall fees and charges imposed by municipalities (DCs, CBCs, Parkland fees) are greater than the amounts imposed by the taxes that Provincial and Federal governments impose on new homes. However, the majority of funds raised by municipalities are obligated (by legislation/regulation) to be used for specific and limited types of costs of specific municipal services. By contrast, the revenues raised by the Province and Federal governments are less constrained and can be used for more general purposes.

- There are structural limitations and inefficiencies in Ontario's municipal system that limit the ability of municipalities to grow, including:

    - The presence of numerous existing servicing capacity constraints across Ontario,

    - Provincially-imposed municipal debt limitations,

    - Fragmented geography (444 municipalities across the Province) limiting the ability to secure good financing terms.

- These limitations, even in large municipalities with substantial borrowing power and resources, can necessitate the use of creative or expensive solutions that may drain finite fiscal resources (from the municipality or front-end financing landowners), and potentially add undue cost to new homebuyers.

- Additional funding for housing-supportive infrastructure from the federal government could provide a stable and cost-effective source of funding through increased, dedicated transfers for the housing-supportive infrastructure needed for new homes to be built, and increased use of federal borrowing power.

Recommendations

- It is recommended that the federal government consider one of, or a combination of, the following options:
    - Increase federal transfers to the Province of Ontario and/or municipalities specifically for "housing-supportive infrastructure" (roads, transit, water, sanitary sewer works), so as to unlock opportunities for additional housing supply awaiting servicing solutions and associated funding;
    - "Modernize" the federal HST rebate price thresholds and provide the necessary method to begin regularly indexing the federal HST rebate price thresholds going forward.

The potential benefits of the above recommendations in promoting the funding and construction of housing-supportive infrastructure, increased delivery of housing supply, and/or improving housing costs for end-users are summarized below.

Figure ES- 1

Assessment of Benefits from Recommendations for Delivery of New Housing Supply	
Increasing Federal Funding for Housing-Supportive Infrastructure	**Modernize and Begin Indexing Federal HST rebate price thresholds**
• Money goes directly to infrastructure projects and accelerates construction of serviced capacity • Advancement of infrastructure would speed-up delivery of housing supply • Sped-up delivery of housing will quicken pace of HST funds from new home sales • Application of additional funds to major growth-related projects will put downward pressure on DC rates (with no impact to municipalities), which would improve feasibility for more approved projects to commence construction • Application of additional funds to DC projects would also proportionately reduce necessary/statutory taxpayer/ratepayer contributions and free up tax 'room' for expanded municipal services/operations	• Consumers directly benefit from reduced HST on new home sales • Increased rebate price thresholds will benefit higher proportion of high-density homes (generally having lower prices affected most by moving the HST price threshold) • Reduced price needed to be mortgaged will reduce borrowing needs and reduce risk exposure to mortgage holders • Reduced need for borrowing can free up capital and/or consumer spending for more productive uses

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1. INTRODUCTION

Keleher Planning & Economic Consulting Inc. (KPEC) was retained by BILD to undertake research into how various levels of government fund, finance and build "housing supportive infrastructure" ("HSI") and seek to understand any potential constraints or structural issues with the current approaches used to deliver the infrastructure necessary to enable the delivery of new housing supply in Ontario and its 444 local and regional municipalities.

1.1. Responsibility for Housing and Infrastructure

While municipalities are responsible for approval of new housing and the construction and operation of "housing supportive infrastructure" such as municipal roads, water systems, sewage systems, etc., and provinces are responsible for municipal affairs generally, as well as funding and construction of other key community infrastructure such as highways, schools, etc., housing is also a federal responsibility.

The 2021 mandate letter for the federal Ministry of Housing and Diversity and Inclusion includes the following commitments to support municipalities in increasing housing supply:

> *Invest in a new Housing Accelerator Fund to support municipalities in increasing the housing supply in Canada's largest cities through measures such as inclusionary zoning, increased densification, reductions in construction approval timelines and the rapid development of vacant or underused lands.*
>
> *With the support of the Deputy Prime Minister and Minister of Finance, make critical investments and priority policy decisions to expand Canada's housing supply, and continue to advance our investments in affordable housing and extend the model of co-operative housing to new communities.*
>
> *To help make it easier for renters to get on the path to home ownership, create a fund to test, develop and scale up rent-to-own projects across the country.*

What is missing from the mandate letter is the vital link between infrastructure availability and the ability to construct new housing supply. Providing Housing Accelerator Fund (HAF) monies towards improving approval and permitting processes can help build a robust development pipeline of approved housing supply. Similarly, providing HAF funds to reduce development costs can improve the feasibility of development and allow more approved supply to become feasible to become built supply. However, none of these steps matter if the underlying infrastructure cannot be

built in an adequate or timely manner to allow housing supply to be built at pace with housing demand.

1.2. Rights to Move and Take Up Residence in Any Province is a Guaranteed Canadian Right

The Canadian Charter of Rights and Freedoms includes the following guaranteed rights and freedoms which in order to fulfill, are highly dependent on the ability of Canadians to find places of residences that are suitable for them and their household:

> *Rights to Move and Gain Livelihood*
>
> *(2) Every citizen of Canada and every person who has the status of a permanent resident of Canada has the right*
>
> *a) to move and to take up residence in any province; and*
>
> *b) to pursue the gaining of a livelihood in any province.*

According to the Government of Canada's Immigration Levels Plan for 2023-2025, Canada aims to welcome 465,000 new permanent residents in 2023, 485,000 in 2024 and 500,000 in 2025. The *2022 Annual Report to Parliament on Immigration* discusses how immigration contributes to Canada's prosperity:

> ***Immigration contributes to Canada's prosperity***
>
> *Immigration is vital to our economy, our communities, and our national identity as a country that is diverse and welcoming of everyone. Indeed, multiculturalism is one of Canada's great success stories and an example to the world. Every year, Canada welcomes hundreds of thousands of permanent residents, temporary foreign workers (TFWs), students, and visitors. Canada also supports the reunification of families and the protection of refugees and persons at risk. During the COVID-19 pandemic, newcomers played an essential role on our front lines across the country, including in hospitals, food production, agricultural operations on farms big and small, the manufacturing sector, and the transportation sector.*

Canada needs, benefits from, and was built on immigration. However, implicit in the setting of immigration levels is ensuring that Provincial and municipal partners have the tools and means to ensure that adequate housing supply is available to accommodate all existing and new residents of Canada. Without adequate funding and tools to provide

the needed **housing-supportive infrastructure**[1] in a timely and cost-effective manner to enable new housing supply, the implications on local housing markets can result in worsening housing affordability, increased intra-provincial migration (within Ontario), increased interprovincial migration (from one Province to another), or reduced ability to accommodate international immigration.[2]

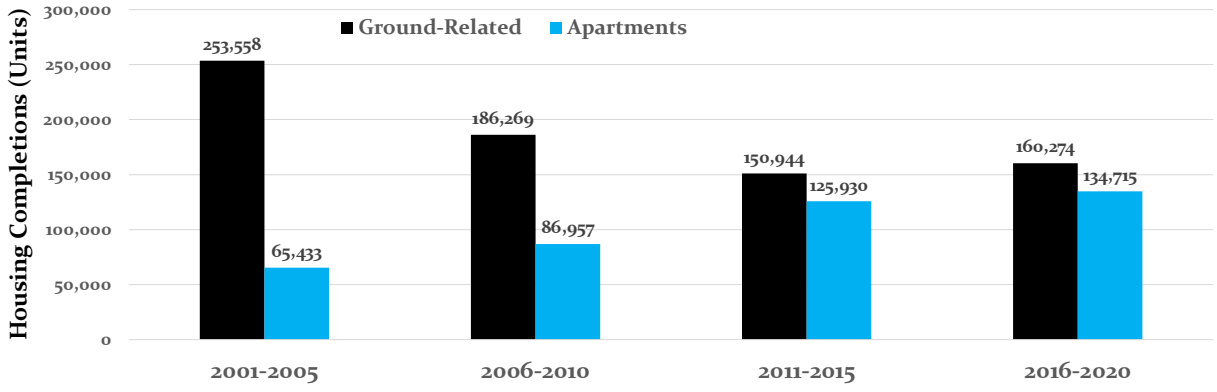
1.3. Population, Housing and Migration Trends

1.3.1. Ontario Has Seen Gradual but Significant Changes in Housing Forms

Over the past 20 years, the composition of housing units in the Province of Ontario has shifted away from ground-related dwelling units (single-detached, semi-detached, townhouses) and towards apartment units.

Figure 1

Housing Completions by 5-Year Period, Province of Ontario, 2001-2020, by Dwelling Type



	2001-2005	2006-2010	2011-2015	2016-2020
GR Share%	79.5%	68.2%	54.6%	54.3%
Apt Share%	20.5%	31.8%	45.5%	45.7%
Total Units	318,991	273,226	276,874	294,989

Note: Ground-Related units includes single-detached, semi-detached, row houses
Source: Keleher Planning & Economic Consulting Inc. based on CMHC data

The share of ground-related units has fallen from 79.5% from 2001-2005 to 54.3% over the 2016-2020 period. While the mix of housing units completed in Ontario has

[1] Generally referring to transportation, and water/wastewater systems necessary to for homes to be built and occupied.
[2] Particularly problematic during a point in history when increasing numbers of people around the world may be, or will soon be, seeking refuge in a stable, safe, liberal democracy.

significantly shifted, the total number of units completed over each five-year period has stayed within a range of 273,000 to 319,000 units.

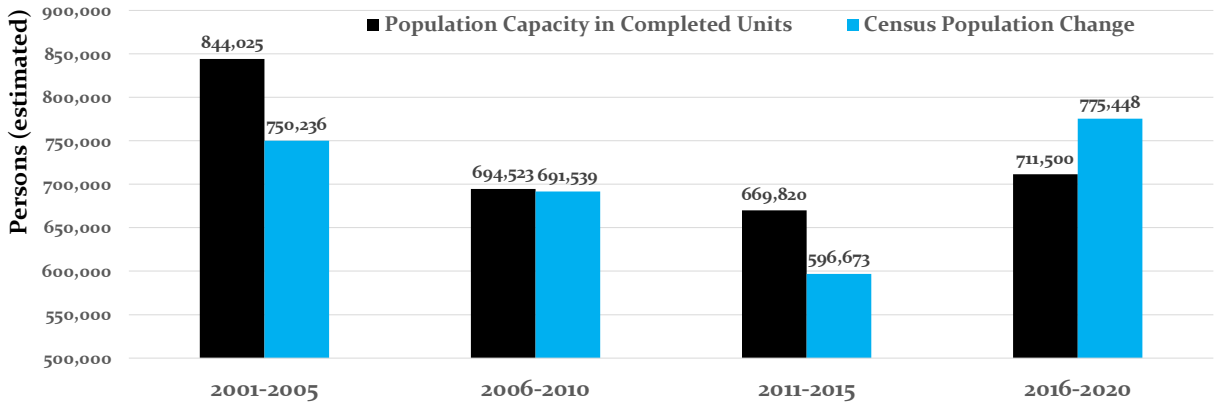
1.3.2. Population Capacity of Newly Completed Homes Has Begun to Fall Short of Population Growth

Over the 2001-2015 period the amount of population capacity added through new housing construction was at or above population growth. However, since 2016, the amount of new housing completed has fallen short of providing sufficient capacity to house the growth in population being experienced.

The figure below compares estimated population capacity of newly completed units with actual population growth. The analysis applies Ontario-wide average household sizes to housing completions by unit type to estimate population-carrying capacity of housing completions.

Figure 2

Comparison of Estimated Population Capacity of Completed Units with Actual Census Population Growth, Ontario, 2001-2020, by Five-Year Period



Additional Pop'n Capacity as % of Pop'n Change	112.5%	100.4%	112.3%	91.7%

Note: Population capacity estimates based on applying Ontario-wide 2021 average household sizes by unit type (2.86 for singles/semis, 2.71 for towns, 1.94 for apartments) to completed units

Source: Keleher Planning & Economic Consulting Inc. based on CMHC data, 2021 Census data

To summarize the findings for each of the four 5-year periods:

- In the 2001-2005 period, the units completed added capacity for approximately 844,000 persons, while the population change over those five years, based on the 2006 Census the population change was 750,200 persons, meaning that the Province added 12.5% more population capacity than was needed.

- In the 2006-2010 period, the amount of population capacity added in the newly completed dwelling units (694,500 persons) closely matched the Province's change in population (691,500 persons)

- In the 2011-2015 period, similar to the 2001-2005 period, the amount of population capacity added in the newly completed dwelling units (669,800 persons) was 12.3% higher than the Province's change in population (596,700 persons).

- However, the 2016-2020 period, while housing completions resulted in an estimated population capacity of 711,500 persons, the Province's population grew by 775,400 persons, meaning that the Province's housing supply fell short of demand by roughly 64,000 persons.

It is important to note that the change in population used for this analysis is based on Census population, meaning that any growth in non-Census population (non-permanent residents, etc.) would only add to the deficit of housing capacity evident over the 2016-2020 period.

1.3.3. Implications of Shortage of New Housing to Meet Population Growth in Ontario

Issues with the availability of housing and construction of new housing to accommodate a growing population can result in one or more shifts in population mobility:

- Persons and households increasing occupancy of existing housing units, sometimes to the detriment of suitable living conditions, or suppressed household formation (young adults unable to leave home, grandparents moving in with adult children, etc.),

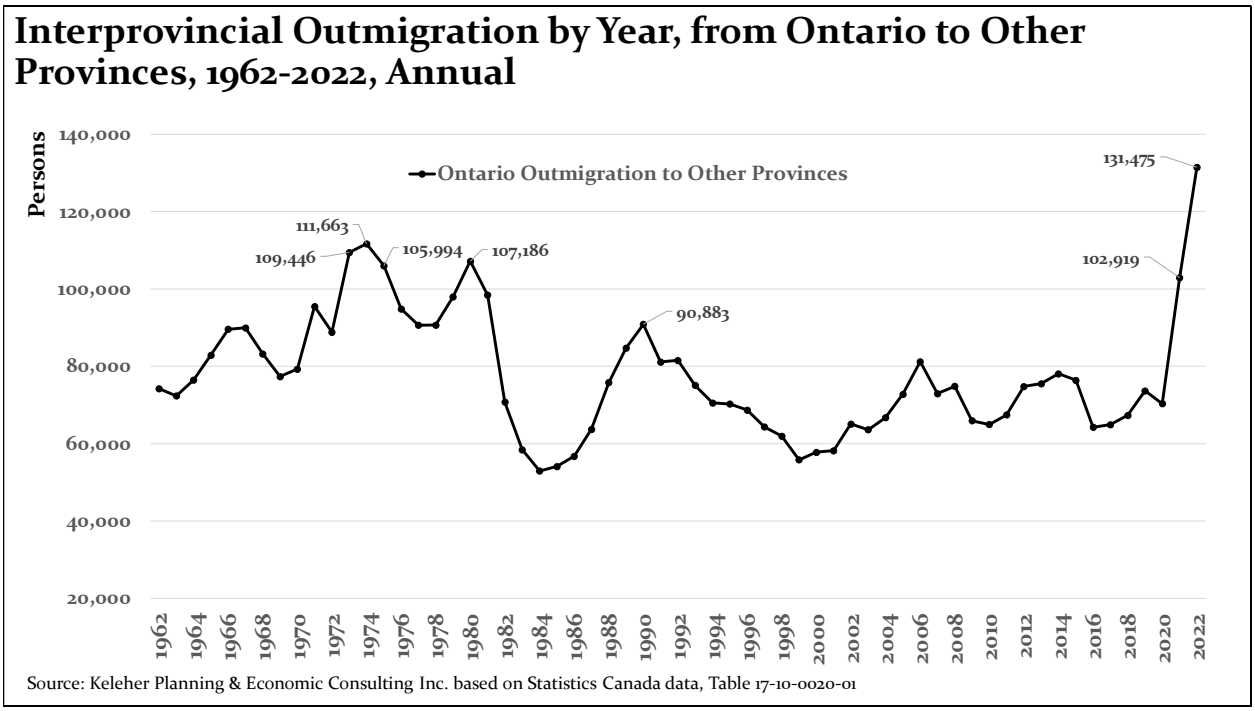
- Persons and households increasingly moving from relatively unaffordable parts of the Province to parts of the Province where housing is more affordable, or desired housing forms are more readily available (known as "intraprovincial migration), and

- Persons and households living in Ontario increasingly moving (on net) to other parts of Canada where housing is more affordable, or desired housing forms are more readily available (known as interprovincial migration).

Over the past two years, the Province of Ontario has seen the greatest amount of out-migration from Ontario to other provinces seen since the mid-1970s to early-1980s, with the out-migration of 113,475 persons in 2022 being the highest single-year since 1962 (at least).

The implications of not supplying enough housing for the population that may otherwise choose to reside in Ontario, results in lost economic opportunities for Ontario residents remaining in Ontario, disruption to existing Ontario residents deciding to leave the Province, and impacts the Province's economic outlook by people that were living in Ontario taking their skills, talent and training (often obtained in Ontario) to other Provinces thereby bolstering other economies instead.

Figure 3

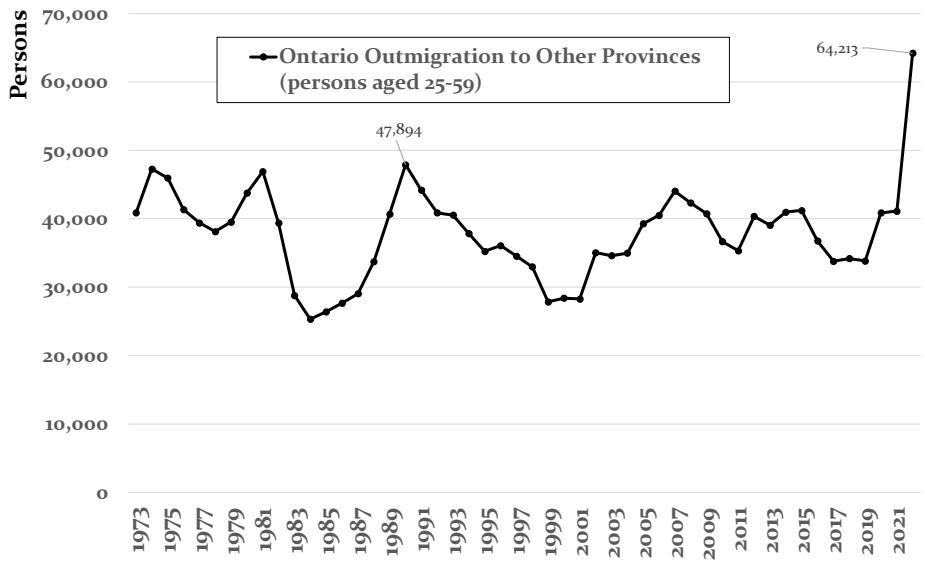


Based on a review of similar out-migration data in other provinces, a similar surge in the number of out-migrants like in Ontario has only been seen in British Columbia, where housing affordability is a similar issue as it is in Ontario.

An increasing proportion of out-migration from Ontario is from persons in their working years (aged 25-59), with 64,213 persons in this age group leaving Ontario for other provinces in 2022 alone, which is 34% higher than any single-year since 1973. Despite the general aging of the population as a whole, the share of out-migrants from Ontario to other Provinces within the 25-59 age group has increased steadily since the 1970s, with roughly 56% of out-migrants in this age group, on average, over the past 5 years.

Figure 4

Interprovincial Outmigration by Year, Persons Aged 25-59, from Ontario to Other Provinces, 1962-2022, Annual



Period	Persons Aged 25-59 as % of Total Outmigration
1973-1977	41.8%
1978-1982	43.1%
1983-1987	48.5%
1988-1992	51.1%
1993-1997	50.6%
1998-2002	51.0%
2003-2007	55.2%
2008-2012	56.3%
2013-2017	57.6%
2018-2022	55.7%

Source: Keleher Planning & Economic Consulting Inc. based on Statistics Canada data, Table 17-10-0020-01

2. HOUSING-RELATED GOVERNMENT REVENUES

2.1. Composition of New Fees and Charges on New Housing

Each level of government, and many other types public agencies levy a range of taxes, charges, fees on new housing development. Many of the municipal fees (in particular) levied are often for a dedicated purpose – funding growth-related capital works, parkland acquisition, funding municipal costs of reviewing planning and building permit applications.

Figure 5

Level of Government	Type of Charge/Fee	How Funds Generated Are Used
Municipalities	Development Charges	Capital infrastructure for eligible services as per the *Development Charges Act*
	Parkland Fees	Acquisition of land for parkland, or other public recreational purposes (as per *Planning Act*)
	Community Benefits Charges	Growth-related infrastructure (as per *Planning Act*)
	Property Taxes	General funds
	Building Permit Fees	To fund municipal costs associated with building permit review (*Building Code Act*)
	Planning Review Fees	To fund municipal costs associated with planning applications (*Planning Act*)
	Engineering Fees	To fund municipal costs of reviewing engineering submissions
	Municipal Land Transfer Tax (City of Toronto only)	General funds
Provincial Government	Provincial Sales Tax	General funds
	Land Transfer Tax	General funds
Federal Government	Goods & Services Tax (GST)	General funds
Other	Education Development Charges	School site acquisition or eligible site preparation costs (or eligible alternative projects), as per *Education Act*
	Mortgage Insurance	Funding mortgage insurance system – includes CMHC and private mortgage insurers
	Hydro Connection Fees	Funding for costs associated with installation of hydro infrastructure

The Province and the City of Toronto each have the power to levy land transfer taxes (LTT) on real estate transactions, and both the Province and Federal government levy

their respective shares of the Harmonized Sales Tax (HST), through the Provincial Sales Tax (PST) and the federal Goods & Services Tax (GST). The Provincial and City LTT, and federal/Provincial portions of HST imposed on new housing each do not have a specific dedicated (and legislated) purpose like municipal fees and charges have.

2.2. Typical Revenues Generated by New Homes by Level of Government

Based on assumptions regarding typical land prices, dwelling unit sizes, and municipal development charges (based on a survey of typical rates imposed by Ontario municipalities), the federal government receives roughly 21-22% of revenues from the various government-imposed charges on new housing development.

Figure 6

Summary of Government Charges, Fees and Taxes per New Home

	Single-Detached Unit			Apartment Unit		
Summary	Per Unit	Per SF	% of Total	Per Unit	Per SF	% of Total
Municipal	$ 86,500	$ 43	33%	$ 65,100	$ 72	43%
Provincial	$ 81,480	$ 41	31%	$ 31,405	$ 35	21%
Federal	$ 57,034	$ 29	22%	$ 30,894	$ 34	21%
Other	$ 38,480	$ 19	15%	$ 23,135	$ 26	15%
Total	$ 263,494	$ 132	100%	$ 150,533	$ 167	100%

Source: KPEC

Based on the scenarios used for modelling purposes, the federal government receives $29 to $34 per square foot from new housing developments, entirely through the federal portion of the harmonized sales tax. Based on the illustrative example, the federal portion of HST is:

- The 3rd largest single charge/tax/fee imposed on the single-detached home ($57,000, behind only municipal DCs and Provincial HST), and
- The 2nd largest charge/tax/fee imposed on the apartment unit ($30,900 per unit, only municipal DCs)

Detailed breakdowns of estimated charges per unit and per square foot are provided in the tables below.

Figure 7

Illustration of Typical Government Charges, Fees and Taxes on New Housing, Single-Detached Unit

			Single-Detached	
Land Value			$ 40	per buildable SF
Dwelling Unit Size			2,000	square feet
Land Value			$ 80,000	per unit
Home Price			$ 1,200,000	including HST

Typical Municipal Charges (Per Unit)		**Government**	Amount per Unit	Amount per SF
Development Charges		Municipal	$ 75,000	$ 38
HST (Provincial Portion)	note 1	Provincial	$ 67,255	$ 34
HST (Federal Portion)	note 1	Federal	$ 57,034	$ 29
Mortgage Insurance (note 2)	note 2	Other	$ 33,480	$ 17
Land Transfer Tax (Provincial)		Provincial	$ 14,225	$ 7
Education Development Charges		Other	$ 5,000	$ 3
Engineering Fees		Municipal	$ 4,000	$ 2
Parkland Fees (5%/10%)		Municipal	$ 4,000	$ 2
Planning Fees		Municipal	$ 2,000	$ 1
Building Permit Fees		Municipal	$ 1,500	$ 1
Total			**$ 263,494**	**$ 132**
Total as % of Home Price (note 3)			22.0%	
Total Per Square Foot				

Total by Level of Government	Amount per Unit	Share	$/SF
Municipal	$ 86,500	33%	$ 43
Provincial	$ 81,480	31%	$ 41
Federal	$ 57,034	22%	$ 29
Other	$ 38,480	15%	$ 19

Calculation of Net HST Payable	Amount per Unit
Federal Payable (note 1)	$ 57,034
Less: Rebate	$ -
Net Federal HST Payable	$ 57,034
Provincial Payable (note 1)	$ 91,255
Less: Rebate	$ 24,000
Net Provincial Payable	$ 67,255

Note 1: HST amounts (provincial and federal) applied against amount of net of HST to reach the sales price used for illustrative example
Note 2: CMHC amounts based on full sales price as full amount including HST would have to be funded through downpayment or mortgaged amount. CMHC mortgage insurance is applied against loan value (with the loan having a loan-to-value ratio of 90% in this illustrative example)
Note 3: Charges are a mix of 'developer-funded' costs that would be recovered through sales price and others are homeowner-funded and over and above the costs included in the home price. However, for discussion purposes, all costs are tallied and compared to the sales price.
Source: KPEC

Figure 8

Illustration of Typical Government Charges, Fees and Taxes on New Housing, Apartment Units

			Apartment	
Land Value			$ 100	per buildable SF
Dwelling Unit Size			900	square feet
Land Value			$ 90,000	per unit
Home Price			$ 650,000	including HST

Typical Municipal Charges (Per Unit)		**Government**	Amount per Unit	Amount per SF
Development Charges		Municipal	$ 45,000	$ 50
HST (Federal Portion)	note 1	Federal	$ 30,894	$ 34
HST (Provincial Portion)	note 1	Provincial	$ 25,430	$ 28
Mortgage Insurance	note 2	Other	$ 18,135	$ 20
Parkland Fees (5%/10%)		Municipal	$ 9,000	$ 10
Land Transfer Tax (Provincial)		Provincial	$ 5,975	$ 7
Education Development Charges		Other	$ 5,000	$ 6
Engineering Fees		Municipal	$ 4,000	$ 4
Community Benefits Charges (4%)		Municipal	$ 3,600	$ 4
Planning Fees		Municipal	$ 2,000	$ 2
Building Permit Fees		Municipal	$ 1,500	$ 2
Total			**$ 150,533**	**$ 167**
Total as % of Home Price (note 3)			23.2%	

Total by Level of Government	Amount per Unit	Share	$/SF
Municipal	$ 65,100	43%	$ 72
Provincial	$ 31,405	21%	$ 35
Federal	$ 30,894	21%	$ 34
Other	$ 23,135	15%	$ 26

Calculation of Net HST Payable	Amount per Unit
Federal Payable (note 1)	$ 30,894
Less: Rebate	$ -
Net Federal HST Payable	$ 30,894
Provincial Payable (note 1)	$ 49,430
Less: Rebate	$ 24,000
Net Provincial Payable	$ 25,430

Note 1: HST amounts (provincial and federal) applied against amount of net of HST to reach the sales price used for illustrative example
Note 2: CMHC amounts based on full sales price as full amount including HST would have to be funded through downpayment or mortgaged amount. CMHC mortgage insurance is applied against loan value (with the loan having a loan-to-value ratio of 90% in this illustrative example)
Note 3: Charges are a mix of 'developer-funded' costs that would be recovered through sales price and others are homeowner-funded and over and above the costs included in the home price. However, for discussion purposes, all costs are tallied and compared to the sales price.
Source: KPEC

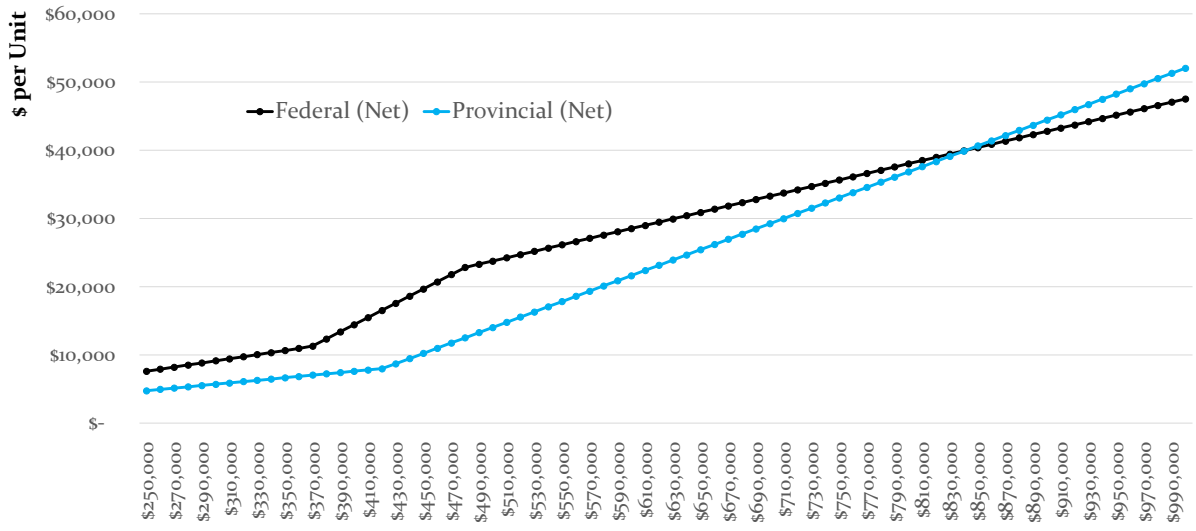
2.3. Analysis of Federal Portion of Charges on New Homes

The Federal Government imposes significant new costs on new housing through the imposition of GST on new homes with a rebate program that has not changed with the times and is largely and increasingly unused given how housing prices have increased but the rebate thresholds have not. For houses located in Ontario, a Provincial rebate is available for both the provincial portion of HST, and the federal portion of HST.

Figure 9

Home Price Range	Provincial (8%)	Federal (5%)
Valued at Less than $350,000	75% of PST payable (max $24,000)	36% of GST payable (max $6,300)
Valued Between $350,000 and $450,000		Declining rebate amount from $6,300 (at $350k) to $0 (at $450k)
Value Exceeds $450,000		No GST rebate

Federal and Provincial HST Revenues from New Homes, Net of Rebates, by Price

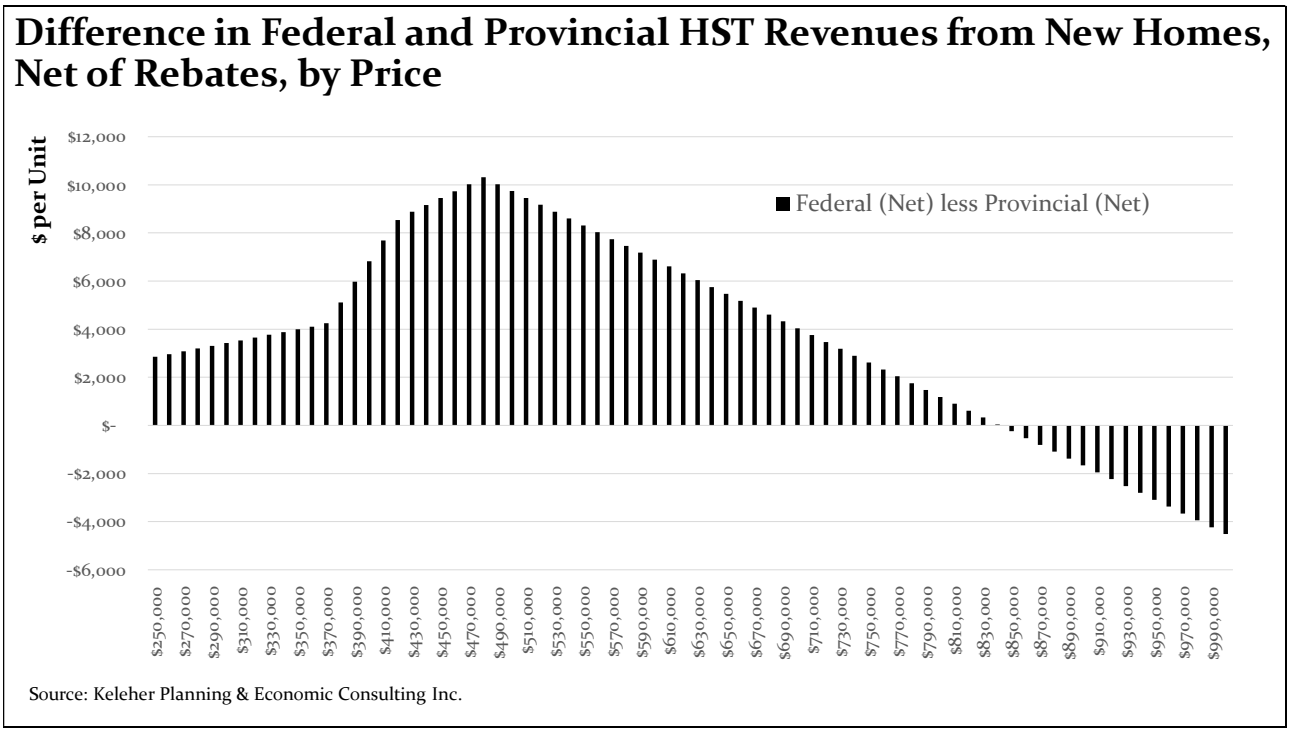


Source: Keleher Planning & Economic Consulting Inc.

Despite the federal portion of HST being only 5% compared to the 8% imposed by the Province, the significantly different approaches to rebates results in the federal government imposing significantly more tax on new homes **at all price points below $820,000**. The significant additional tax imposed on new homes at lower price points would in particular, result in disproportionately more costs imposed by the federal government on types of dwelling units that tend to be more the affordably priced and more dense housing forms that are most likely to fall below this $820,000 price point, particularly in larger urban centres like the Greater Toronto Area.

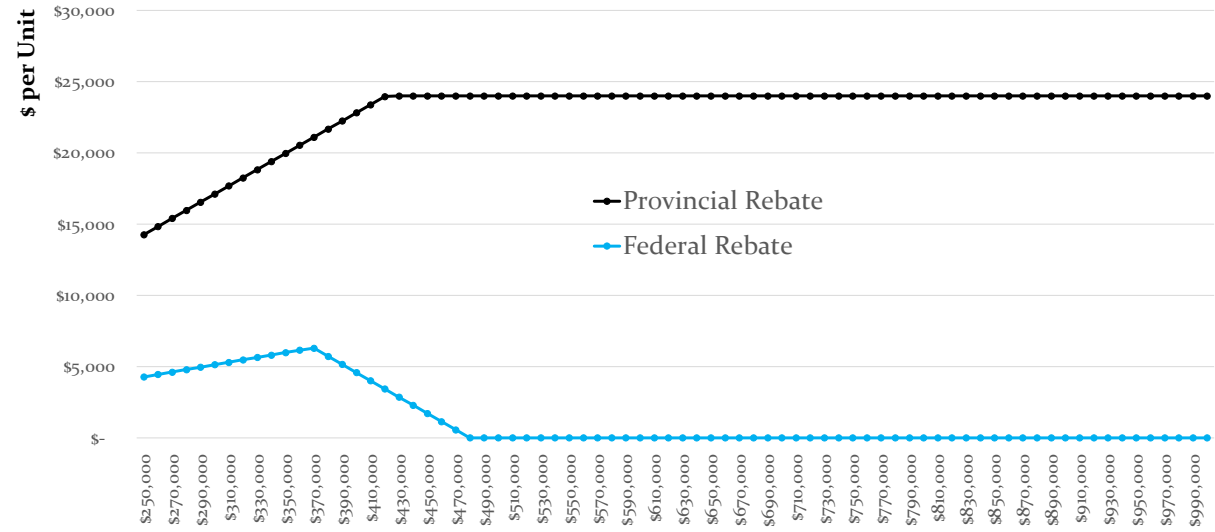
For all price-points between $390,000 and $630,000, the federal HST portion (net of rebates) exceeds the Provincial portion by at least $6,000 per unit. The peak 'gap' between federal HST revenues and Provincial HST revenues from new housing is for homes priced at $480,000, where the federal government receives approximately $10,300 more in HST revenues than the Provincial government does.

Figure 10



While the Provincial rebate is capped at $24,000, it remains at $24,000 at all price points above $450,000. By comparison, the federal HST rebate is designed such that it reaches a maximum rebate of $6,300 at a price point of $350,000 and declines to $0 starting at $450,000 and remains at $0 at **all price points above $450,000**.

Figure 11



Source: Keleher Planning & Economic Consulting Inc.

2.4. Implications of Not Indexing Federal HST Rebate Price Thresholds

2.4.1. History of Federal HST Rebate

Since the imposition of HST on new homes began, the threshold price-points for the rebates have not changed from $350,000 (maximum $6,300 rebate) or $450,000 (above which no rebates apply). The lack of indexation of the HST rebates to account for generally rising prices or economic inflation has disproportionately affected new homebuyers and buyers of homes with more affordable prices in the range that would likely be covered by a more flexible rebate policy (those priced above current threshold of $350,000 to a new updated threshold price).

When the GST was created and imposed on the sale of new homes, rebates were designed to be 36% of GST payable for homes priced below $350,000, with declining rebates until homes priced at $450,000, after which point no federal HST rebates would be available. When this structure was adopted in the early 1990s[3], it was estimated that

[3] Parliament of Canada, House of Commons, Brief from Canadian Home Builders Association, https://www.ourcommons.ca/Content/Committee/411/FINA/WebDoc/WD5138047/411_FINA_PBC2011_Briefs/Canadian%20Home%20Builders%20Association%20E.html

95% of new homes would receive some sort of GST rebate. The estimated net GST payable for the vast majority of Canadian home purchases was 3.2%.

> *The GST New Housing Rebate reduces the actual rate of GST payable on eligible new homes from 5% to 3.2%.*
>
> *Purchasers of new homes priced below $350,000 receive the full rebate - i.e. the actual rate of GST on their new homes is 3.2%. Purchasers of homes priced between $350,000 and $450,000 receive a progressively reduced rebate - and the actual rate of GST rises accordingly. Homes priced at $450,000 or more receive no rebate - i.e. the actual rate of GST for these homes is 5%. …*
>
> *When these thresholds were introduced, the federal government estimated that roughly 95% of new home buyers would be eligible for the rebate - it was intended that the rebate would apply to all homebuyers except the "very wealthy".*
>
> *However, with rising house prices, many new home buyers (a majority in many urban centres) do not qualify for the full rebate because the rebate thresholds have been frozen at the same level since 1991. In short, new home buyers are paying more GST than would be the case had the rebate thresholds been adjusted to reflect rising house prices. This has had a negative impact on housing affordability.*

2.4.2. Additional Revenues Raised by Federal Government from Not Indexing HST Rebate Thresholds

Had the government allowed the rebate to change over time in-step with changes in housing prices, roughly 36% of HST payable would be rebated for most new homes today like it was originally designed.

According to CMHC data, the average unit price for absorbed single-detached dwellings in Ontario has increased from $276,000 in 1990 to $1,023,000 in 2023, an increase of 270%.

While average housing prices have increased by 270% during the 1990-2023 period, the net federal HST payable for the average unit increased from $8,832 to $51,152, a 479% increase in federal HST payable.

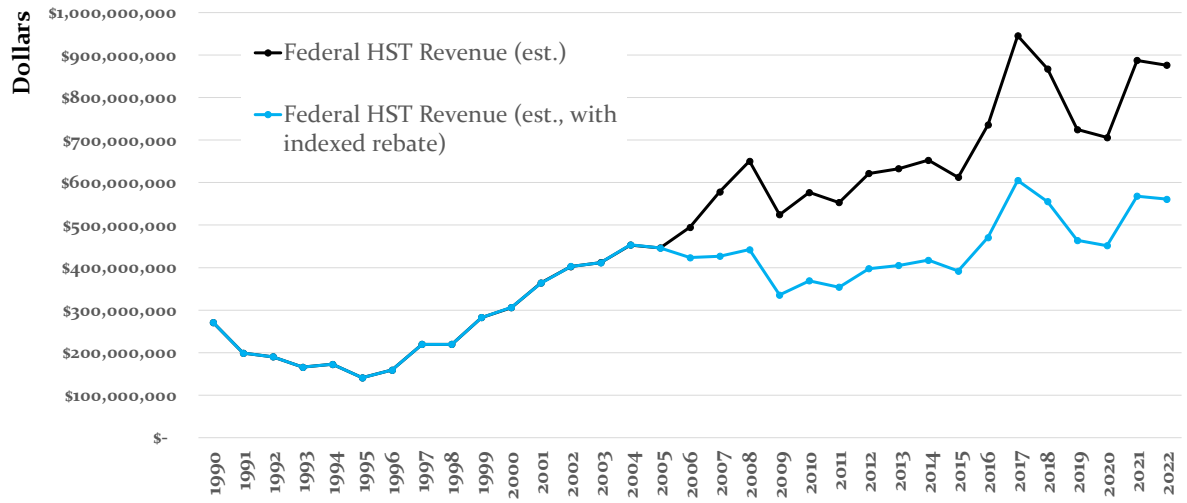
Figure 12

Change in Net HST Payable for Average Priced New Homes, 1990-2023		
	1990	**2023**
Average Price (Single-Detached Dwelling)	$276,000	$1,023,000
Federal HST Payable (net of rebates)	$8,832 (3.2% of price) Rebate: $4,968	$51,152 (5.0% of price) Rebate: $0
Provincial HST Payable (net of rebates)	$5,520 (2.0% of price) Rebate: $16,560	$57,840 (5.7% of price) Rebate: $24,000

Had the federal HST rebate been indexed or left as a flat 36% of GST payable, so as to ensure that the vast majority of housing units would continue to receive the rebate, it is estimated that in Ontario for single-detached units alone[4], the federal government has generated nearly $4.0 billion in additional HST revenues. The majority (69% or $2.75 billion) of this amount has been generated in the last 10 years.

Figure 13

Estimated HST Revenues from New Homes, Net of Rebates, with and without Indexed Rebate Price Thresholds, Single-Detached Units



Note: Analysis uses average priced single/semi-detached dwelling units in each year as basis for calculation, scaled-up by number of completed dwelling units in that given year

Source: Keleher Planning & Economic Consulting Inc.

[4] Due to data availability for average absorbed dwelling units by unit type available from CMHC

If similar data were available for all other housing forms (semi-detached, townhomes, apartments, etc.) subject to HST, given that single-detached units are only one-third of units built in Ontario (but the highest priced), it is estimated that the true amount the federal government has generated by not indexing the HST rebate is likely in the range of **$6.0 to $8.0 billion once all dwelling unit types are accounted for**.

2.4.3. Implications of an Indexed Federal HST Rebate on the End-User

For the average priced single/semi-detached unit in 2023 ($1,023,000), the HST payable is $51,152. Had rebate price thresholds been indexed to ensure that the average priced units were subject to the 36% full rebate, only $32,737 would be payable, a difference of $18,414 for the average priced single/semi-detached unit.

As this non-rebated amount is absorbed by the new homebuyers, the additional non-rebated component of price ($18,414, in the above example) can be expected to be amortized through the homeowner's mortgage. An additional $18,414 being mortgaged results in that homeowner being subject to an additional $15,905 in mortgage interest on the additional principal amount, bringing the total cost to the consumer of the un-indexed federal HST rebate to $34,320 over the life of a typical mortgage.

3. TRENDS IN GOVERNMENT INFRASTRUCTURE SPENDING

3.1. Comparing Size and Scale of Levels of Government

Over the past ten years, the size and scale of governments has shifted. Among all revenue and expenditures made by the Federal, Provincial, Local (municipal) and Aboriginal governments:

- The federal and combined provincial governments have each seen their government revenues increase over the past 10 years, receiving 32.7% and 49.2% of government revenues, respectively, in the last 12 months for which data is available (Q2 2022 to Q1 2023).

- The share of revenues received by local government levels have fallen from 18.6% of revenues in 2013 to 16.4% in 2023. At the same time, their share of expenditures has decreased from 15.7% in 2013 to 16.9% in 2023. Unlike the federal and provincial governments, expenditures for local governments (+45%) have grown faster than revenues (+41%).

- Among debt interest incurred by governments, the Provincial governments share has increased from 51.5% to 55.0%, while the share attributed to the federal government and local governments have each fallen. Municipal governments in Canada are responsible for only 4.2% of debt interest payments, suggesting the relative borrowing power of municipalities is limited compared to upper levels of government.

Figure 14

Share of Government Revenue and Expenditures, and Sources of Debt-Related Interest Costs, by Level of Government, 2013 vs 2023

	Federal	Provincial	Local	Aboriginal	Total
Total Revenue					
Share - Q2 2012-Q1 2013	32.1%	48.3%	18.6%	1.0%	100.0%
Share - Q2 2022-Q1 2023	32.7%	49.2%	16.4%	1.7%	100.0%
% Change	64%	63%	41%	164%	60%
Total Expenditure					
Share - Q2 2012-Q1 2013	32.9%	49.3%	16.9%	0.9%	100.0%
Share - Q2 2022-Q1 2023	34.3%	48.4%	15.7%	1.6%	100.0%
% Change	62%	53%	45%	169%	56%
Interest on Debt					
Share - Q2 2012-Q1 2013	42.9%	51.5%	5.5%	0.0%	100.0%
Share - Q2 2022-Q1 2023	40.8%	55.0%	4.2%	0.0%	100.0%
% Change	21%	36%	-3%	n.a.	28%

Source: KPEC based on Statistics Canada Table: 36-10-0477-01

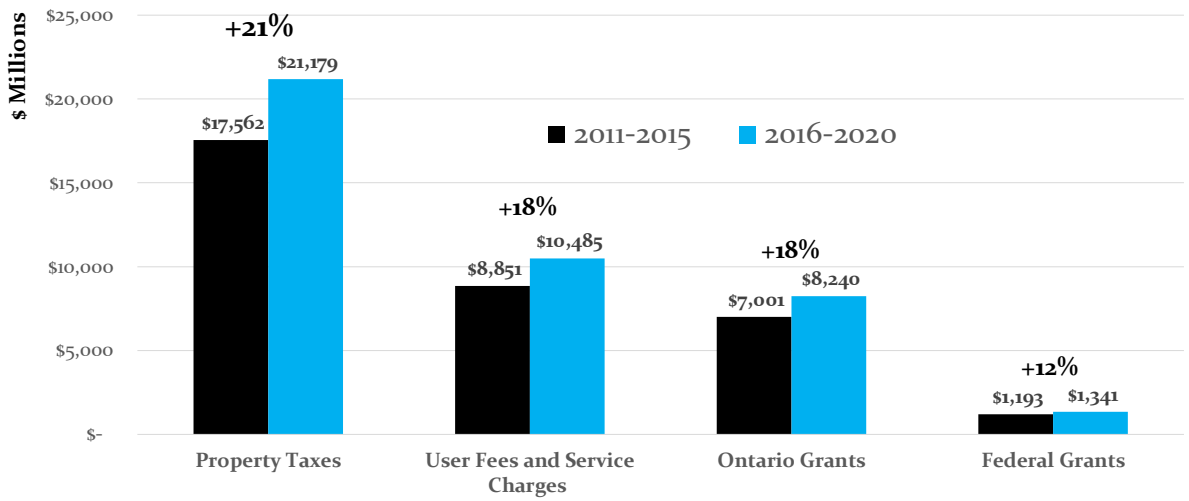
3.2. Ontario Municipalities – Operating Revenue/Expenditure Trends

3.2.1. Municipal Operating Revenue Sources

The following analysis is based on a review of Ontario Financial Information Return ("FIR") data provided to the Ministry of Municipal Affairs and Housing ("MMAH") by municipalities each year. The FIRs provide data regarding sources of municipal revenues, such as property taxes, user fees/service charges, as well as revenues that municipalities receive from the Provincial and federal governments through grants, and deferred revenue earned from their respective gas tax contributions to municipalities. The vast majority of municipal revenues are from own-sources (taxes, user fees), as well as Provincial grants.

Figure 15

Average Annual Operating Revenues by Source, Ontario Municipalities, by 5-Year Period (2011-2020)



Note: Provincial and Federal grants include Conditional Grants, Grants for Tangible Capital Assets, and Deferred Revenue Earned (Gas Tax)

Source: Keleher Planning & Economic Consulting Inc., based on Ontario Financial Information Return Data (Schedule 10)

Over the 2016-2020 period, the federal government grants provided to Ontario municipalities amounted to approximately $1.34 billion per year. By comparison, over the same period, the Provincial government provided an average of $8.24 billion per year. Municipalities raised $21.18 billion through property taxes and $10.49 billion through user fees and service charges.[5]

[5] Includes water/sewer rate revenues, program fees, etc. Does not include development charge revenues (these are allocated to reserve funds and held as a liability until spent)

3.2.2. Municipal Development Charge Spending on Growth-Related Infrastructure

In 2021, Ontario municipalities spent $2.5 billion in development charge funds. Of this, roughly 86% were for “hard services”, which, for the purposes of this analysis, roads, water works, wastewater works, transit and stormwater infrastructure. This expenditure represents approximately 59% of in-year DC revenues, which were $4.2 billion. The gap between DC revenues[6] and DC expenditures for hard services in 2021 was over $1.04 billion.

Figure 16

Development Charge Revenues and Expenditures by Service, Ontario Municipalities, 2021

Hard Services	DC Revenues	DC Expenditures	Expenditures as % of Revenues	Share of Revenues	Share of Expenditures
Roads	$ 1,406,297,255	$ 752,032,680	53.5%	33%	30%
Wastewater	$ 685,229,207	$ 621,865,672	90.8%	16%	25%
Water	$ 503,850,790	$ 369,172,586	73.3%	12%	15%
Transit	$ 489,022,927	$ 317,866,146	65.0%	12%	13%
Stormwater	$ 94,578,042	$ 78,249,295	82.7%	2%	3%
Subtotal Hard Services	$ 3,178,978,221	$ 2,139,186,379	67.3%	75%	86%
Community Services					
Recreation	$ 315,571,864	$ 97,552,023	30.9%	7%	4%
Parkland Development	$ 189,619,913	$ 101,162,999	53.4%	4%	4%
Housing	$ 94,104,448	$ 18,913,552	20.1%	2%	1%
Library	$ 72,842,458	$ 32,318,815	44.4%	2%	1%
Homes for the Aged	$ 10,988,597	$ 5,045,413	45.9%	0%	0%
Child Care	$ 8,919,527	$ 1,815,113	20.3%	0%	0%
Subtotal Community Services	$ 692,046,807	$ 256,807,915	37.1%	16%	10%
Protection Services					
Fire	$ 45,747,758	$ 27,141,804	59.3%	1%	1%
Police	$ 45,084,995	$ 18,382,419	40.8%	1%	1%
EMS	$ 15,967,299	$ 6,122,250	38.3%	0%	0%
Subtotal Protection Services	$ 106,800,052	$ 51,646,473	48.4%	3%	2%
Other	$ 265,325,070	$ 54,041,400	20.4%	6%	2%
Total	$ 4,243,150,150	$ 2,501,682,167	59.0%	100%	100%

Source: Financial Information Return 2021, Schedule 61

Additional funding from upper levels of government can address this gap and ensure that capital spending on housing-supportive infrastructure matches the need for timely funding, and ensure that homes can be built occupied as soon as possible after receiving approval.

[6] DCs are generally payable at building permit, in which case dwelling units can be expected to be 12-24 months from occupancy. For some municipalities, DCs for ‘hard services’ can be payable upon subdivision agreement.

Given how development charges are required to be calculated under the Provincial legislation and regulations, increased federal infrastructure investment in the form of capital grants or dedicated transfer payments for housing-supportive infrastructure would generate two important positive effects that would stimulate new housing:

- As per the *Development Charges Act*, additional federal grants or transfer payments to assist funding infrastructure costs for growth-related projects are to be used to reduce DC funding requirements and would have the effect of reducing DC rates, and would have the following effects:
    - Reduced DC rates would have the indirect effect of making more developments feasible than would have been so at higher costs, and increase the supply of available housing, improving the competitiveness of the new housing market;
    - Additional funding that drives more private market housing development can reduce the reliance on the public sector to fill in the gaps in needed housing supply, and can alleviate needs for public investment, or offering of development incentives to ensure more private sector developments can proceed.[7]
- The timely provision of federal infrastructure funds could provide a source of funding that is available **prior to growth**, rather than at permit, which can aid in the timely provision of infrastructure, and reduce the need for municipalities to advance infrastructure prior to growth (development charges typically are paid at building permit) avoiding associated debt interest costs.

Beyond the growth-related infrastructure constructed by municipalities using development charge funds that benefits development beyond any specific individual development (arterial roads, trunk mains, treatment plants, etc.), a substantial amount of 'local' works specific to an individual development (local/internal roads, local watermains, etc.) are built and funded directly by developing landowners, adding a cost of developing infrastructure over and above costs associated with payment of DCs. The cost of these local works would also be recovered through home prices.

[7] Commentary on Bill 23 and Associated Impacts on Municipal Finances, (November 29, 2022), https://www.ohba.ca/wp-content/uploads/2022/11/white-paper-bill-23-commentary-municipal-finance-considerations-nov-29-2022.pdf

3.2.3. Municipal Operating Spending on Social Housing

3.2.3.1. Ontario-Wide Trends

For municipalities with responsibility for public housing, rent supplements and/or non-profit housing (the combination of which will be referred to as "Social Housing"), from 2011 to 2021:

- Total overall municipal operating expenditures (all municipal services, including Social Housing) increased by 34.2%, from $28.4 billion in 2011 to $38.1 billion in 2021, a rate of growth that is relatively consistent with inflation;
- Total municipal operating expenditures on Social Housing increased by just 0.5%, with only $10 million in additional spending from the amount seen in 2011 – with the total spending increasing from $1.985 billion in 2011 to $1.995 billion in 2021.

Overall, operating spending on Social Housing has decreased as a share of total municipal operating expenditures from 7.0% in 2011 to 5.2% in 2021.

Figure 17

Annual Operating Expenditures by Category of Social Housing

Spending by Social Housing Category		2011		2021	% Change
Public Housing	$	1,303,613,557	$	1,300,249,734	-0.3%
Non-Profit / Co-Op	$	587,369,646	$	543,553,856	-7.5%
Rent Supplement Programs	$	94,467,446	$	151,342,905	60.2%
Total	$	1,985,450,649	$	1,995,146,495	0.5%
% of Spending by Social Housing Category					
Public Housing		65.7%		65.2%	
Non-Profit / Co-Op		29.6%		27.2%	
Rent Supplement Programs		4.8%		7.6%	
Total		100.0%		100.0%	
Total Spending	$	28,398,232,476	$	38,109,872,036	34.2%
Social Housing Spending as % of Total		7.0%		5.2%	

Note: based on sample of 120 municipalities with spending on Social Housing in both 2011 and 2021
Source: KPEC based on Financial Information Return data

The mix of spending on Social Housing has shifted considerably in the past 10 years, with decreased operating funding for non-profit organizations (-7.5%), a marginal decrease in public housing expenditures (-0.3%) and a significant increase in rent

supplements (+60.2%), the latter of which has been a small fraction of overall spending on Social Housing, though the proportionate share has increased from 4.8% to 7.6% of spending.

Had municipalities maintained a 7% share of annual operating spending in 2021 on Social Housing, they would have spent $679 million in 2021 alone than was actually incurred in 2021. The shrinking proportion of municipal spending on Social Housing is indicative of the lack of capital investment in new Social Housing over the last 10-20 years. Historically, the bulk of the funding for public housing construction has come from the federal government.

3.2.3.2. Trends in Large Ontario Municipalities

Among Ontario municipalities with more than $20 million in spending on Social Housing in 2021, many have increased their spending substantially since 2011. In 18 of the 20 municipalities (excluding Toronto & Ottawa), spending has increased by 32.1%, roughly in line with inflation, and increases in general operating expenditures over the period (+34.2%).

Figure 18

Change in Social Housing Spending, Municipalities with More than $20m in Social Housing Expenditures in 2021

	2011			2021			
	Total Operating Expenditures	Social Housing Expenditures	SHE as % of Total OE	Total Operating Expenditures	Social Housing Expenditures	SHE as % of Total OE	% Change in SHE
Kawartha Lakes C	$ 173,137,728	$ 9,239,254	5.3%	$ 229,751,202	$ 20,155,775	8.8%	118.2%
Grey Co	$ 108,767,957	$ 11,812,435	10.9%	$ 144,672,679	$ 20,614,165	14.2%	74.5%
Peel R	$ 1,767,724,765	$ 145,182,110	8.2%	$ 2,684,846,026	$ 241,829,851	9.0%	66.6%
Halton R	$ 652,516,181	$ 23,331,015	3.6%	$ 948,331,808	$ 36,465,633	3.8%	56.3%
Guelph C	$ 317,839,613	$ 16,730,027	5.3%	$ 467,733,223	$ 25,536,855	5.5%	52.6%
Waterloo R	$ 783,876,667	$ 54,362,239	6.9%	$ 1,210,310,326	$ 82,525,501	6.8%	51.8%
Wellington Co	$ 159,181,954	$ 29,559,637	18.6%	$ 238,280,262	$ 43,920,437	18.4%	48.6%
Kingston C	$ 383,684,209	$ 25,498,966	6.6%	$ 503,368,650	$ 37,780,210	7.5%	48.2%
Hastings Co	$ 119,313,361	$ 19,000,386	15.9%	$ 149,297,740	$ 26,272,062	17.6%	38.3%
York R	$ 1,494,412,761	$ 59,519,053	4.0%	$ 2,299,677,446	$ 77,576,032	3.4%	30.3%
Windsor C	$ 674,932,420	$ 48,596,489	7.2%	$ 816,367,872	$ 61,918,649	7.6%	27.4%
Simcoe Co	$ 317,005,994	$ 45,924,723	14.5%	$ 475,639,868	$ 54,143,277	11.4%	17.9%
Brantford C	$ 256,032,321	$ 18,931,389	7.4%	$ 346,724,281	$ 21,417,653	6.2%	13.1%
London C	$ 952,922,035	$ 44,177,601	4.6%	$ 1,198,094,520	$ 49,972,561	4.2%	13.1%
Durham R	$ 974,501,569	$ 53,809,336	5.5%	$ 1,430,765,690	$ 58,575,982	4.1%	8.9%
Greater Sudbury C	$ 485,068,021	$ 33,455,454	6.9%	$ 622,856,841	$ 34,559,885	5.5%	3.3%
Hamilton C	$ 1,451,621,362	$ 117,040,048	8.1%	$ 1,923,242,223	$ 114,112,374	5.9%	-2.5%
Peterborough C	$ 242,644,721	$ 23,103,720	9.5%	$ 332,485,388	$ 22,425,211	6.7%	-2.9%
Ottawa C	$ 2,840,392,218	$ 226,641,529	8.0%	$ 3,943,415,000	$ 175,202,099	4.4%	-22.7%
Toronto C	$ 10,486,081,882	$ 803,114,793	7.7%	$ 13,242,262,363	$ 555,292,133	4.2%	-30.9%
Total	**$ 24,641,657,739**	**$ 1,809,030,204**	**7.3%**	**$ 33,208,123,408**	**$ 1,760,296,345**	**5.3%**	**-2.7%**
Ottawa & Toronto	$ 13,326,474,100	$ 1,029,756,322	7.7%	$ 17,185,677,363	$ 730,494,232	4.3%	-29.1%
Total w/o Ottawa & Toronto	$ 11,315,183,639	$ 779,273,882	6.9%	$ 16,022,446,045	$ 1,029,802,113	6.4%	32.1%

Source: KPEC based on Financial Information Return data

However, over the 2011-2021 period, spending on Social Housing in Ontario's two largest cities fell significantly - by 30.9% in Toronto and by 22.7% in Ottawa. Combined,

housing spending in Toronto and Ottawa as a percent of their respective total expenditures fell from a 7.7% share to a 4.3% share in just 10 years.

3.2.4. Municipal Debt Limitations and the Annual Repayment Limit

Municipalities in Ontario can incur long-term debt to finance construction of capital projects. The Province of Ontario sets out an "Annual Repayment Limit" (ARL) through regulation[8] that determines the borrowing capacity of a municipality.

Generally, the ARL caps in-year municipal debt payment costs at 25% of annual "own-source" revenues, which includes property taxes, user fees and investment income. The calculation of ARL is done annually through Financial Information Returns submitted to the Ministry of Municipal Affairs and Housing. Many municipalities opt to impose a stricter ARL cap, often in the range of 10-15%.

Based on 2021 FIR data, the vast majority of Ontario municipalities are significantly below the ARL cap of 25%, and almost none are utilizing even a modest majority of available debt capacity, despite the last 5-10 years being a period of historically low interest rates:

- The average Ontario municipality has an annual debt charge ratios ("ADCR") of roughly 7.5% of own-source revenues.
- Only 36 of 427 municipalities have ADCRs exceeding 10%, and only 6 of 427 have ADCRs exceeding 15%.[9]
- Of the 39 Ontario municipalities exceeding population of 100,000 persons, the ADCRs range from 0% (Richmond Hill) to a high of 13.1% (Peel Region).

The remaining 'room' available under the ARL allows municipalities to borrow and sustainably fund future principal and interest repayment costs backed by steady, reliable sources of revenue such as property taxes, user fees and service charges and investment income. However, based on current data, very few municipalities utilize anywhere near their full debt capacity.

A key limitation that the ARL approach in Ontario creates is that smaller municipalities who have less 'own-source' revenues to borrow against under the ARL are less likely to be able to borrow the necessary funds to build major capital works such as water treatment plants, wastewater treatment plants, transit infrastructure, etc. This is

[8] Ontario Regulation 403/02
[9] For reference, the six municipalities are: Thames Centre, Ganonoque, Red Lake, Cochrane, Casselman and Conmee.

particularly a problem for smaller municipalities seeking to accommodate and attract significant housing growth.

Based on 2021 data, the average Ontario municipality among those with populations between 50,000 and 100,000 persons had net revenues of $100 million per year, meaning that the average municipality of this size range could afford up to $25 million per year in debt charges (principal + interest) and still stay below the ARL. Based on a typical mix of principal repayment and interest costs, this would be comprised of $16 million in annual principal repayment costs and $9 million in annual interest costs, though this proportion biases towards an increasing proportion of interest costs during period of high interest rates.

For the average municipality within this size range, assuming a 4.5% interest rate, no existing debt, and a 10-year payback period, this equates to borrowing 'room' that would effectively be maxed out with a $128 million in capital works. However, as interest rates increase, the borrowing room available under the ARL decreases, falling to $111 million at 7.5% interest rate. As Ontario municipalities rarely approach ARL caps, the functional amount of borrowing room likely to be utilized is likely substantially lower than the $111-$128 million estimated at the full 25% cap.

Figure 19

Average Municipality with Population Ranging from 50,000 to 99,999 Persons	
Interest Rate	Available Debt Principal Under 25% ARL (10 Year Term)
4.5% Interest	$128 million
5.5% Interest	$122 million
6.5% Interest	$116 million
7.5% Interest	$111 million

The rigidity of the ARL means that municipalities are able to afford significantly less infrastructure during times of high inflation due to two compounding effects:

- Less borrowing room (as expressed in amount of 'principal' that can be borrowed for) due to rising interest rates effectively lowering the amount of debt that can be afforded within the ARL (more interest within each payment pushes out the amount of 'principal');
- Less effective use of borrowing room due to effects of inflation reducing the purchasing power of debt principal (what cost $100 million today may cost $120 million next year, etc.)

Under the ARL guidelines, during periods of rising interest rates, the amount of borrowing room falls. As has been evident over the past 12-24 months, periods of high interest rates tend to follow (and hopefully dampen) periods of high inflation. This means that the latter effect reduces the purchasing power of the already nominally decreased borrowing room.

The constraint of the ARL, though a successful and prudent tool for fiscal and financial management that has led to solvent, fiscally strong municipalities in Ontario, does have the downside of limiting the rate at which municipalities can afford to fund and 'carry' infrastructure costs in advance of growth occurring, even if anticipated to be recovered through development charges on new growth.

4. SAMPLE OF ONTARIO MUNICIPALITIES WITH SERVICING ISSUES CONSTRAINING GROWTH

Given the limitations Ontario municipalities have in borrowing, and the lag between infrastructure costs at installation and recovery at building permit[10], many municipalities in Ontario are struggling with obtaining sufficient funding to construct needed major infrastructure investments for water treatment plants, sewage treatment plants, and distribution/collection networks.

Based on available municipal information, and insights provided by consulting engineers at SCS Consulting, there are numerous municipalities with significant servicing issues that are limiting, constraining or delaying growth where demand is otherwise present. The table below presents a sample of some Ontario municipalities facing servicing challenges that are hindering the pace and/or quantum of development.

Figure 20

Municipality / Area	Overview of Issue
Wellington County (Township of Wellington North)	An expansion to the wastewater treatment plant in the community of Arthur was deemed by the Township to be needed sooner than anticipated due to growth and development in the community. It is expected that by 2025, there would be no additional uncommitted reserve capacity available and continued development in the Arthur community could not proceed. The cost of the work was estimated to be $8.3 million (in 2018$)[11]
Town of Collingwood	In 2021, The Town of Collingwood had placed a moratorium on development to protect a limited remaining supply of unallocated drinking water, through the passing of an interim control by-law (ICBL). The Town has since lifted the moratorium, but instituted a service capacity allocation policy which includes a 'merit-based system' that assigns points to warrant water and wastewater capacity allocation.[12]

[10] The alternative to this basic arrangement being front-ending agreements, and other complex legal arrangements.
[11] https://www.guelphtoday.com/wellington-county/arthur-needs-more-wastewater-capacity-to-handle-growth-3515979
[12] https://www.collingwood.ca/council-government/news-notices/town-collingwood-council-pauses-development-interim-control-law

Municipality / Area	Overview of Issue
Clearview Township	In March 2023, the Township's remaining available water units were allocated through building permit issuance, with the Township notifying applicants that it will not be issuing permits for any structure in the Stayner community that requires new water capacity. According to the Township, it is working with the development community and the Province toward a financing solution for a project that will bring additional water capacity to Stayner.[13]
Halton Region	A Halton Region staff report from October 2023 set out initial terms of their 2023 Allocation Program, which is a development-financing plan used in the Region since at least 2008 that seeks agreements from landowners to provide interim financing for growth-related capital works and reduce need for municipal borrowing. Recommendation #6 from the Region's October 2023 staff report, sought to provide correspondence to the Provincial and Federal governments to emphasize "the critical need for water and wastewater servicing to support the response to the housing crisis and the accelerate housing growth reflected in the Local Municipal housing pledges…"[14]
York Region	In October 2021, the Ministry of the Environment, Conservation and Parks established the York Region Wastewater Advisory Panel to provide advice regarding whether to approve the Environmental Assessment for York Region's proposed Upper York Sewage Solutions (UYSS) project. One of the observations of the panel was that at the Region's current population growth rate, the existing upper York Region servicing will reach its service capacity limits by 2026.[15]
City of Markham (North Markham)	The Upper Markham Village lands in the City of Markham require the Region of York to deliver a trunk sewer (McCowan trunk sewer from 16th Avenue to Major Mackenzie). The sewer project was included in historic DC studies (2010/2012), removed in the 2018 DC study, and included again in the 2022 DC study. A solution is being undertaken by the landowners to construct the sewer through a front-ending arrangement.

[13] https://www.clearview.ca/news-events-meetings/latest-news/news-release-stayner-water-supply-capacity-new-building-permits
[14] Halton Region, Report No. CA-08-23/PW-40-23/FN-36-23, Re: 2023 Allocation Program, (October 18, 2023)
[15] https://www.ontario.ca/page/report-york-region-wastewater-advisory-panel

Municipality / Area	Overview of Issue
Town of Whitchurch-Stouffville	The current development applications and other proposed developments exceed the available water capacity available in the community of Ballantrae, in the Town of Whitchurch-Stouffville. Elsewhere in the Town, within the Lincolnville community, a Class EA and design was completed for a trunk sewer needed for development, but the work did not proceed, resulting in development not yet proceeding as planned despite having planning approvals.
Norfolk County	In late 2020, with servicing capacity issues already resulting in a moratorium on new development in Port Dover, other communities (Simcoe, Waterford and Port Rowan) may be subject to similar constraints. Staff are discussing with neighbouring Haldimand County the feasibility of connecting to a water treatment facility in Nanticoke, with the costs of connecting to the facility through the community of Jarvis ranging upwards of $100 million.[16]
Municipality of Lakeshore	The Municipality of Lakeshore reached operating capacity of its sewage treatment facility in 2020 due to higher than anticipated growth, with an expansion not available until 2023, with a cost of $43.9 million. The project is to be funded by development charges. While the new plant was under construction, the Municipality created a framework for 'in process' applications to continue to move forward, but deferred new applications under the plant project was tendered.[17]

[16] https://www.simcoereformer.ca/news/local-news/water-shortages-loom-in-norfolk

[17] https://www.lakeshore.ca/en/news/lakeshore-breaks-ground-on-55-million-expansion-to-denis-st-pierre-water-pollution-control-plant.aspx#:~:text=The%20expansion%20is%20a%20critical,funded%20through%20Wastewater%20Development%20Charges.

5. CONCLUSIONS

5.1. Summary of Findings

Based on the analysis undertaken, the following summarizes the findings and associated implications:

- Among the suite of government-imposed taxes, fees and charges imposed on new housing development:
    - When broken down by level of government, the federal government imposes roughly 21-22% of the total amount of government-imposed taxes/fees/charges on new homes;
    - Based on the illustrative example, Federal HST is higher for lower-priced / high-density dwellings ($34/sf) than low-density dwellings ($29/sf)
    - Among the individual fees/charges imposed on new homes, the federal portion of HST is:
        - the 2nd largest charge/tax/fee imposed on high-density homes, and
        - the 3rd largest such charge/tax/fee imposed on low-density homes.
    - The cost imposed through the Federal HST is higher than the provincial portion (net of rebates) at all price points below $820,000 due to the differences in approach to providing HST rebates, whereas federal rebates are not available for prices above $450,000, provincial rebates remain at the $24,000 rebate cap for all price points.
- The revenue generated by the Federal Government from new home sales via the federal portion of HST has grown significantly in recent years, due in part to a lack of housing supply putting upward pressure on housing prices, but also due to the lack of indexation of the price thresholds at which federal rebates are available.
- Since the inception of federal HST on new home sales, the price thresholds have not been increased from $350,000 (where the maximum rebate of $6,300 is available) and $450,000 (after which no rebate is available). It is estimated that the additional funds raised through the federal HST on new homes due to the lack of indexation ranges from $6 billion to $8 billion.
- In addition to rising gross revenues from the escalation of housing prices, the lack of indexation of federal HST rebate price thresholds has also meant fewer and fewer of the gross revenues are rebated to end-users. This has resulted in a

substantial, on-going and increasingly large annual source of revenues for the Federal Government over a scenario where the price thresholds were indexed regularly.

- The overall fees and charges imposed by municipalities (DCs, CBCs, Parkland fees) are greater than the amounts imposed by the taxes that Provincial and Federal governments impose on new homes. However, the majority of funds raised by municipalities are obligated (by legislation/regulation) to be used for specific and limited types of costs of specific municipal services. By contrast, the revenues raised by the Province and Federal governments are less constrained and can be used for more general purposes.

- There are structural limitations and inefficiencies in Ontario's municipal system that limit the ability of municipalities to grow, including:

    - The presence of numerous existing servicing capacity constraints across Ontario,

    - Provincially-imposed municipal debt limitations,

    - Fragmented geography (444 municipalities across the Province) limiting the ability to secure good financing terms.

- These limitations, even in large municipalities with substantial borrowing power and resources, can necessitate the use of creative or expensive solutions that may drain finite fiscal resources (from the municipality or front-end financing landowners), and potentially add undue cost to new homebuyers.

- Additional funding for housing-supportive infrastructure from the federal government could provide a stable and cost-effective source of funding through increased, dedicated transfers for the housing-supportive infrastructure needed for new homes to be built, and increased use of federal borrowing power.

5.2. Implications of Findings

5.2.1. Servicing Issues Worsen Housing Supply Issues, Can Amplify Population Mobility Rates and Create Cross-Jurisdictional Demographic Pressures

Corresponding with a period in which housing prices have increasingly become unaffordable in Ontario, the amount of out-migration from Ontario to other Provinces has increased significantly. In each the last two years the number of persons migrating out of Ontario to other parts of Canada exceeded 100,000 out-migrants, with 2021 being the first year to surpass 100,000 out-migrants since 1980. The 131,475 out-migrants in 2022 is the largest amount since (at least) 1962, and nearly 20,000 persons

higher than the previous 50-year high set in 1974. An increasingly large proportion of out-migrants from Ontario to other provinces are of working age (25-59 years) – with shares of working age persons increasing from shares ranging from low 40% in 1970s to 56% in 2021, despite the share of population above the age of 60 increasing markedly in the last 10-15 years as baby boomers range from 60-75 years old.

As summarized in the report, there are numerous municipalities in Ontario forced to limit growth due to servicing capacity constraints that will take substantial financial commitments to overcome, however these may prove difficult for municipalities to meet due to limitations on debt capacity. Until these servicing issues can be addressed, worthwhile efforts to improve approval and permitting processes and promote more housing approvals will not have the desired effect on completed and available housing supply.

5.2.2. Debt Capacity Issues Limit Smaller Municipalities from Growing as Desired

A typical smaller municipality in Ontario (~50,000 persons) with full responsibility for water/wastewater works would, by virtue of the ARL, be limited in the amount of debt it could utilize to fund **future** major infrastructure works by the amount of **current** revenues through the Provincial Annual Debt Repayment limit guideline. The debt guidelines limits the amount of spending a municipality can do on necessary road, water, wastewater, stormwater, and transit works (among many other things), and constrain the ability of municipalities (particularly smaller ones) to proactively attract and accommodate development.

Using North Bay (population 52,662) as an illustrative example of a smaller municipality and responsibility for water/sewer infrastructure:

- In 2021 the City had $136.4 million in own net-revenues, meaning that it could have up to $34.1 million in annual debt charges (principal and interest) and still be within the Province's 25% ARL guideline.

- Based on a typical split of principal repayment and interest costs, and assuming debenture terms of 6% interest, 10-year term, the City could utilize the remaining available debt 'room' for infrastructure with a value of no greater than $128 million.

- The City's current assets, on a cost basis are valued at $1.05 billion, meaning that the City's debt limitation, if maximized, would limit infrastructure expansion to 12% of its existing infrastructure value. Assuming per-capita infrastructure

service levels and demand are maintained, this constraint would also likely mean that growth in municipal population/job capacity would be limited to 12% as well.

Given these limitations, municipalities often turn to alternative methods of financing to advance infrastructure (and hence development), and reduce risk to municipalities associated with municipal borrowing for growth-related infrastructure. These alternative methods have taken many forms in Ontario over the years, but includes front-ending agreements, early payment agreements, servicing allocation programs, or coordination of cost sharing agreements within landowners groups for a mix of DC-eligible and local infrastructure.

These can be complex arrangements take time to create, can be difficult to administer, extend over extended timespans often causing extended waiting periods for early adopters of an agreement to be reimbursed by later-developing landowners, transferring the costs and associated risk of financing to the developing landowners, who are often also tasked with delivery of public goods such as affordable housing requirements, on-site municipal parks, lands set aside for institutional uses. While reducing municipal borrowing reduces municipal risk, front-end financing and other arrangements often result in developing landowners assuming the risk, often with less borrowing leverage than many municipalities who have premier credit ratings and highly reliable income sources.

Generally, the limits on municipal debt capacity[18] results in an overly fragmented source for capital funding, and often ends up underutilized based on current practice. There are 444 municipalities in Ontario, each with varying responsibilities, but each is ultimately responsible for the delivery of public infrastructure in some form. Each has their own borrowing ceiling, limited by the annual revenues it receives from existing.

From an efficiency and cost-effectiveness perspective, it may be more optimal to increasingly rely on senior levels of government to borrow for major infrastructure needs necessary to address issues as substantial as housing supply.

[18] It is noted that the Province granted in 2011, via regulation, an exemption from the ARL for York Region (regulation 403/02) during a period of major infrastructure investment. The regulation has been extended again in 2021 to extend to December 31, 2031. The regulation allows for a “Growth Cost Supplement” to be added to the ARL

5.2.3. Disconnection Between Housing-Derived Revenues and Sources of Infrastructure Funding

The federal government generates significant revenue from new housing (having the 3rd most significant charge against low-density housing and 2nd most significant charge against high-density housing) and has relatively unconstrained borrowing power,

Although the federal government does provide substantial funding for Provinces through health/social transfer programs, equalization payments (when Ontario qualifies), and Canada Community Building Fund (formerly the federal gas tax transfer) used to fund other municipal capital and operational priorities, these are not necessarily funds specifically earmarked for new housing-supportive infrastructure.

Meanwhile, in the case of municipalities:

- Revenues raised by them, or available to be raised by them, are often subject to spending limitations or obligations,
- Have constrained borrowing power, and limited borrowing 'leverage' relative to senior levels of government, and
- At the same time are responsible for the majority of capital costs for roads, water and sewer infrastructure necessary to enable new housing growth.

Increased federal funding would reduce the reliance on municipalities to finance capital works, or rely on complex municipality-developer agreements that are often used to advance infrastructure and reduce municipal risk related to financing infrastructure costs.

5.2.4. Increased Federal Funding for Infrastructure Would Impact Cost of Housing and Increase Range of Housing Feasible to Build

The *Development Charges Act* requires that capital costs associated with servicing needs of growth must be reduced to adjust for capital grants, subsidies or other contributions made to a municipality. Regulations require that these grants are to be used to reduce the "DC" portion of capital costs as well as the 'non-DC' portion of funding responsibilities, thereby improving affordability for both new homes and existing households.

Based on a sampling of development charge background studies ("DC studies") across GTA municipalities responsible for major water, sewer and road infrastructure, the DC studies combine to seek recovery for capital costs equating to a total of $28.1 billion with these works both enabling growth with increased capacity, as well as addressing

existing municipal service deficiencies, partially repairing or rehabilitating existing municipal assets, among other benefits to existing development. Of this amount, the DC studies estimate that the costs will be able to be funded through the following sources:

- **58.2%** of the $28.1 billion will be funded by anticipated DC revenues ($16.3 billion),
- **19.9%** will be funded by existing development (taxpayers/ratepayers) to reflect the extent to which the existing community benefits from DC eligible works needed by development ($5.6 billion)
- **10.6%** from 'future development', representing the share of capacity from installed infrastructure anticipated to be available to accommodate growth beyond the planning horizon (which varies by municipality and study) ($3.0 billion).
- **10.9%** will be funded by a combination of funds from "other sources", which includes grants from upper levels of government, local service contributions from developing landowners, contributions from other municipalities for shared services, etc. ($3.06 billion)

Due to legislative provisions that require both new homes and existing homeowners receive proportionate benefit from increased capital/grant funding, for each $1 billion in grant funding or dedicated transfers the federal government were to provide for growth-related capital works, DC rates in these municipalities would decrease by approximately 4%, with the amount necessary to be funded by the existing tax base fall by an equivalent proportion (4%).[19]

These reductions to costs for both new homes and existing homes would have several potential spin-off effects:

- Savings in DCs for new homes would make more housing developments feasible to construct, and generate additional housing supply by having more developments 'clear the bar';
- Savings in costs attributed to existing taxpayers could be used to reduce property taxes, or alternatively, the newly unused 'tax room' could be used to expand municipal service levels through repurposing the newly available funds;

[19] This 4% should not be misconstrued as a "4% tax cut", rather it represents the amount of "BTE" costs ($5.6 billion or 19.9%) sought to be recovered in the sampled DC studies would decrease. Among the sampled DC studies, over a 10-30 year period (which varies by DC study), a 4% reduction in BTE would equate to $224 million of $5.6 billion. It is unclear how much this would equate to on an annual basis, and in turn how much this would equate to on a per-household basis.

5.3. Recommendations

- It is recommended that the federal government consider one of, or a combination of, the following options:
    - Increase federal transfers to the Province of Ontario and/or municipalities specifically for "housing-supportive infrastructure" (roads, transit, water, sanitary sewer works), so as to unlock opportunities for additional housing supply;
    - "Modernize" the federal HST rebate price thresholds and provide the necessary method to begin regularly indexing of the federal HST rebate price thresholds going forward.

The potential benefits for the funding of infrastructure, delivery of housing supply, and improved housing costs for end-users are summarized below.

Figure 21

Assessment of Benefits from Recommendations for Delivery of New Housing Supply	
Increasing Federal Funding for Housing-Supportive Infrastructure	**Modernize and Begin Indexing Federal HST rebate price thresholds**
• Money goes directly to infrastructure projects and accelerates construction of serviced capacity • Advancement of infrastructure would speed-up delivery of housing supply • Sped-up delivery of housing will quicken pace of HST funds from new home sales • Application of additional funds to major growth-related projects will put downward pressure on DC rates (with no impact to municipalities), which would improve feasibility for more approved projects to commence construction • Application of additional funds to DC projects would also proportionately reduce necessary/statutory taxpayer/ratepayer contributions and free up tax 'room' for expanded municipal services/operations	• Consumers directly benefit from reduced HST on new home sales • Increased rebate price thresholds will benefit higher proportion of high-density homes (generally having lower prices affected most by moving the HST price threshold) • Reduced price needed to be mortgaged will reduce borrowing needs and reduce risk exposure to mortgage holders • Reduced need for borrowing can free up capital and/or consumer spending for more productive uses

[redacted]

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