



COUNTY OF WELLINGTON

COMMITTEE REPORT

To: Chair and Members of the Administration, Finance and Human Resources Committee
From: Susan Aram, Deputy Treasurer
Date: Tuesday, November 21, 2023
Subject: **Provincial Changes to the Development Charges Act through Bill 23 and Bill 134**

Background:

On November 28, 2022, the More Homes Built Faster Act (Bill 23) was enacted. Bill 23 is intended to support Ontario's Housing Supply Action Plan, with a stated aim of increasing housing supply in the Province. The bill included a new Development Charge exemption for Affordable Housing that was to be based on eligibility criteria published in a bulletin by the Minister of Municipal Affairs and Housing (MMAH). This bulletin is to provide the average market rent and average purchase price to be used in defining affordable residential units. This bulletin has not yet been published by the Minister.

The proposed Affordable Homes and Good Jobs Act (Bill 134) will change the definition of affordable residential unit for the purpose of development charge exemptions in the Development Charges Act (D.C.A). Bill 134 was posted to the Environmental Registry of Ontario on September 28, 2023, had a comment period that is now closed until October 28, 2023, received Second Reading in the legislature and has been referred to the Standing Committee on Heritage, Infrastructure and Cultural Policy.

The current D.C.A. definition is based solely on a market-price approach. The proposed new definition would be based on the existing definition of affordable housing in the Provincial Policy Statement (PPS), 2020, which considers local income in addition to market prices.

Rental - Previously the definition of an affordable residential rental unit was based on rent that is no greater than 80% of the average market rent. The proposed definition is no rent that is greater than the lesser of:

1. The income-based affordable rent as set out in the MMAH bulletin, and
2. The average market rent as set out in the MMAH bulletin.

Ownership – Previously the definition of an affordable residential ownership unit was based on a price that is no greater than 80% of the average purchase price. The proposed definition is no price greater than the lesser of:

1. The income-based affordable purchase price, and
2. 90% of the average purchase price.

For the rent/purchase price based on income, MMAH will:

1. Determine the income of a household that is at the 60th percentile of gross annual incomes for the renter households/all households in the applicable local municipality, and
2. Identify the rent/purchase price that is equal to 30% of the income of the above households.

Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023 (Attachment 1)

Watson & Associates has provided illustrative examples comparing the proposed Bill 134 definition of affordable housing against the current D.C.A. definition using PPS Housing Tables to provide some measure of local income. The actual source data to be used by the Province for the Affordable Residential Units bulletin, and the level of disaggregation (by geography and unit type) has not been specified.

County of Wellington Examples:

Rental Housing Example:

- The average annual household income for renter households in the 60th percentile in 2022 was \$78,400¹.
- 30% of this annual household income is \$23,520 or \$1,960 per month.
- The average market rent is \$1,424².
- 80% of the average market rent is \$1,139.
- Under the proposed definition, affordable residential units with a rental rate of \$1,424 per month or less would be exempt from Development Charges (D.C.s). This rental threshold is 25% (or \$285/month) higher than the current D.C.A definition, which would establish this rental threshold at \$1,139 per month.

Proposed Bill 134 D.C.A. Definition	
Lesser of a) or b)	
a) The income-based affordable purchase price based on 60th percentile household income \$78,400.	\$1,960
b) average market rent identified for the residential unit	\$1,424
Affordable Rental Unit (max. rent)	\$1,424

Current D.C.A Definition	
Rent no more than 80% of the average market rent.	\$1,139
Affordable Rental Unit (max. rent)	\$1,139

Ownership Housing Example:

- The average annual household income for all households in the 60th percentile in 2022 was \$128,200³.
- Annual accommodation costs equal to 30% of annual household income ($\$128,200 \times 0.3/12 = \$3,205$) represent the carrying cost per month derived from typical monthly mortgage costs, property taxes, and mortgage insurance costs). This calculation equates to a purchase price of \$440,900.
- 90% of the average purchase price is \$747,400 (based on average resale house price of \$830,400⁴)
- 80% of the average purchase price is \$664,320.

¹ Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023, Appendix, Table3

² Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023, Appendix, Table4

³ Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023, Appendix, Table1

⁴ Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023, Appendix, Table2

- Under the proposed definition, affordable residential units purchased at \$440,900 or less would be exempt from D.C.s. This purchase price threshold is approximately 34% (or \$223,420) lower than under the current D.C.A. definition, which would establish the purchase price at \$664,320.

Proposed Bill 134 D.C.A. Definition		Current D.C.A Definition	
Lesser of a) or b)			
a) The income-based affordable purchase price based on 60th percentile household income \$128,200.	\$440,900	Where the price of the unit is no more than 80% of the average purchase price.	\$664,320
b) 90% of the average purchase price.	\$747,400		
Affordable Ownership Unit (max. purchase price)	\$440,900	Affordable Ownership Unit (max. purchase price)	\$664,320

In the correspondence attached from Watson and Associates Economists Ltd. several concerns and observations, with some implications for Wellington County regarding Bill 134 are outlined including the following:

- The rent at which a residential unit would be considered affordable is higher under the Bill 134 proposal, compared to the current D.C.A. definition. This implies that more rental units would receive the exemption if the definition was not changed.
- Conversely, the affordability threshold for ownership housing units would generally appear to be lower when applying the income-based approach and as a result **Bill 134 would incentivize purpose-built rental units over ownership housing.**
- Based on the data in the PPS tables, the average market purchase prices are approximately double the affordable purchase prices which means only very small residential units, such as studio-type condominium units, would qualify for the affordable residential unit exemption.
- While the proposed definition considers local income in addition to market prices and does indicate that annual incomes for households within the “applicable local municipality” will be used in the income-based test, the local municipality does not appear in the average market rent/purchase price definition. In other words, the PPS tables uses uniform County of Wellington household income, market rent and affordable housing price definitions. As a result, **more units in the northern part of the County will qualify for development charge exemptions than units in the southern part of the County.**
- Establishing average rents and purchase prices using overall averages across all dwelling unit types will provide higher average values than those established by dwelling unit type and size. This approach would favour smaller condominium units rather than larger family sized units.
- The introduction of the income test for affordable housing units will increase municipal administration costs of agreements and the requirement to ensure these units remain affordable over a 25-year period.

Bill 134 proposals and the affordable housing exemption put forward in Bill 23, will have a significant impact on municipal development charge revenues. Currently the County’s Official Plan has a target for residential development to be 25% affordable. If 25% to 35% of new residential development will be affordable housing, a conservative development charge revenue reduction estimate over the next ten years would be \$11.8 million to \$19.7 million respectively. The County will also incur increased

administrative costs for compliance, monitoring, and enforcement of agreements to ensure the 25-year affordable requirement. The concerns raised above are especially valid for the County of Wellington which has a large geographic scope, lower-density development, and varied income levels.

Attachment 1:

Watson & Associates Re: Assessment of Bill 134, Affordable Homes and Good Jobs Act, 2023

Recommendation:

That the report Provincial Changes to the Development Charges Act through Bill 23 and Bill 134 be received for information.

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan Aram".

Susan Aram, CPA, CGA
Deputy Treasurer