City of Mississauga

Corporate Report

MISSISSAUGA

Date: October 15, 2021 To: Mayor and Members of Council From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Originator's files: Meeting date: December 8, 2021

Subject

City Response to BILD and ALTUS Group Report on Municipal Reserves

Recommendation

1. That the report entitled "City Response to BILD and ALTUS Group Report on Municipal Reserves" dated October 15, 2021 from the Commissioner of Corporate Services and Chief Financial Officer be received for information; and
2. That the report be sent to the Ministry of Municipal Affairs and Housing and Mississauga MPPs for information.

Executive Summary

- The Building Industry and Land Development (BILD) has released a report entitled "New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Livable Affordable Communities in the GTA". The report was commissioned by Altus Group Economic Consulting for BILD.
- The City has concerns with a number of the assertions made in the Altus report, including:
    - The report suggests that municipalities are building reserve fund balances rather than spending it for much needed community services and infrastructure before development occurs. The report compares a number of municipalities at varying levels (i.e. single, upper and lower tiers), and includes the City of Toronto which skews the aggregate reserve fund balance reporting.
    - The Altus report does not speak to municipal financial planning or the reasons for why municipalities may plan to build up reserve funds until the timing and economics are suitable to proceed with certain projects.

The Altus report suggests that municipalities should go into debt to fund projects, in advance of development to capitalize on costs and land values at an earlier stage of development.

- It is important to note the City has a prudent financial planning and management process. One year's worth of DC revenue is held in the reserve to ensure that planned projects can continue to have a funding source should there be a downturn in the economy resulting in lower than expected revenue collections. The DC reserve fund also includes funding for committed projects.
- CIL of parkland reserves are planned to a zero balance for land and structures in the next 10 years. The only reason there would be a significant build up of money in the CIL of parkland reserve is if properties do not materialize for purchase.
- The City has a reputation of being a leader in municipal finance. The City has also instituted a number of efficiencies to ensure that development applications are approved and processed in a timely manner.
- The City has a responsibility to plan for the long-term and uses a financial planning approach that allocates funds to projects in order to deliver valuable infrastructure and services to our communities while anticipating and preparing for any future economic downturns.

Background

The Building Industry and Land Development Association (BILD) released a report entitled "New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Livable Affordable Communities in the GTA" to municipalities. The report was commissioned by Altus Group Economic Consulting (Altus) for BILD. See Appendix 1 for a copy of the report.

The Altus report reviews how various municipal charges are collected, used and levied; how the quantum of charges imposed has changed over time; how they are spent year over year, and how much of those charges remain unspent in reserve funds. The report examines the following regions and municipalities:

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

The Altus report examines reserve fund balances for development charges (DC), cash-in-lieu (CIL) of parkland and other financial reserves of all aforementioned municipalities between 2015 and 2019 and notes the following:

- $3.3B was available in the DC reserve funds in these municipalities at the end of 2019
- DC rates in the GTA increased by an average of 156% since 2009
- A mismatch between CIL of parkland revenues versus expenditures from reserves
- A combined $5.05B of DC, CIL of parkland and Section 37 Bonus Zoning reserves of the studied municipalities. The report asserts that these municipalities are not spending fast enough to support new growth

Typically, staff do not provide responses to external reports to Council, unless requested to do so. As the largest building and land development organization in the Greater Toronto Area, BILD has a significant voice and audience for their reports. Staff felt it important to respond to BILD's Altus report in a timely manner, in order to clarify certain points. It is important to ensure accurate information in the public domain and to ensure residents are well-informed to prevent misinformation or incorrect conclusions.

Comments

This section outlines some of the main issues with the Altus report and the City's response to each.

Altus Report – Unspent Reserve Fund Balances

The Altus report suggests that municipalities are sitting on reserve fund balances rather than spending it for much needed community services and infrastructure. The Altus report appears to be premised on the idea that municipalities should install municipal services when DC funds are received and that parkland should be purchased and community centres built before residents move in. This would allow for communities to be complete when residents arrive and would remove the impact of inflation by buying and building earlier. The report suggests this would reduce costs to developers and make homes more affordable as the build/purchase costs would be less.

City Response

From a municipal perspective, it makes sense that water/wastewater pipes and roads need to be built to enable a development to take place as indicated in the report. However, fire stations, parks and community centres can often wait until later in the development cycle if other municipal facilities have existing excess capacity. The report does not discuss the cost of operating these facilities which may not be cost effective until most of the community has moved in. Further, it is often difficult to purchase land and there may be a significant delay before suitable land for parks and municipal facilities is available on the market. As a result, balances will build up in the various reserve funds before they can be spent. Most of these funds are allocated for future projects; they are not sitting idle. Like developers, municipalities need to also make economic decisions to maximize their return on investments. Municipalities must balance the need to provide services with the cost of those services and balances in the reserve funds reflect municipal timing as to when service provision is appropriate.

Altus Report – Municipal Comparison

The report combines single tiered governments (e.g. Toronto), with Regions and lower-tier municipalities. The report speaks to municipal debt as a solution for expediting projects.

City Response

The responsibilities for service delivery are very different for each of these levels of government. Peel for example has spent significant development charges funds and incurred much debt to extend its water/wastewater system into new areas. This is true for other regions as well. The report notes that these reserve fund balances are in a deficit, but do not reflect on why this is. The report seems to suggest going into debt is a good thing and not that it affects municipal financial risk in the event that development does not follow. This risk is identified in the report by noting that development numbers are not as high as originally forecast through the municipal growth forecasts, thereby putting additional development charge pressure on a smaller number of developments.

Altus Report – Toronto Included in Municipal Comparison

The report includes Toronto among the municipalities evaluated and notes many examples of its significant reserve fund balances. However, the report does not distinguish that the City of Toronto is a special case compared to lower-tier municipalities.

City Response

Toronto in many respects cannot be compared to other municipalities. Not only do they have different revenue sources, but their needs and spending patterns, as a much bigger city, are quite different. Of the combined $3.3B DC reserve fund balance noted in the Altus report, Toronto represents 37.6% ($1.2B). Mississauga represents 5.6% ($183M). Of the combined $1.48B CIL of parkland reserve fund balance identified in the report, Toronto represents 70%, while Mississauga represents nine per cent ($133M). In general, Toronto is building its reserves for much larger projects that are more complex and take a longer period of time to both plan and implement. Hence, their fund balances are naturally larger.

Altus Report – Stage of Growth of Municipalities

As noted above, the report compares single, upper and lower tiered governments. Not only is it questionable to compare lower tiered governments with upper and single tiers, even at the local level, municipalities compared in the report are at varying stages of growth.

City's Response

The report does not distinguish where the municipalities are in their stage of growth, i.e. built out communities such as Mississauga are categorized with municipalities experiencing greenfield development such as Brampton and Vaughan. This is easily identifiable in charts but is not commented on. Rapidly growing municipalities generally have larger fund balances.

<u>Altus Report – Municipal Financial Management</u>

The report provides reserve fund balances of each municipality examined, but it does not speak to how each municipality plans and manages their reserves.

<u>City Response</u>

The report does not provide an explanation as to how municipal reserve fund balances are managed. It does acknowledge that in some cases committed funding for specific projects are "spoken for" and not necessarily available for funding other capital works. The Altus report shows municipal DC Reserve Fund Balances excluding committed costs. The City's 2019 DC reserve fund balance is listed as $182.7M, which is correct, however, this number does include committed funding for specific projects.

<u>Housing Affordability</u>

It is the position of the development industry that municipal charges and fees directly impact housing affordability

Housing affordability is one factor that staff and Council consider when looking at municipal fees and charges. However, municipalities must also consider the need to maintain service levels for new growth and the impact that reduced development-related fees and charges would have on the existing tax base.

Development-related funding tools like DCs, CIL of parkland, and the new CBC are collected from property developers who add new residential units and/or non-residential space to the city. The question of "who ultimately pays" for development-related fees is complex with future homebuyers/renters, sellers of land and developers all potentially being affected, depending on prevailing market conditions.

As part of the City's 2019 Development Charges Background Study, N. Barry Lyon Consultants (NBLC) Limited with Hemson Consulting Ltd. were retained to examine housing affordability as it relates to development charges. They produced a report entitled "The Effect of Development-Related Costs on Housing Affordability" that was presented to General Committee on May 1, 2019 (Appendix 2). The report indicated that house prices for market units are determined based on supply and demand and not development related-costs. Stated differently, developers will price their units at the maximum the market can bear and while fees will impact the floor price of a unit, the actual sale price is a calculus developers make based on market competition.

The analysis indicates that the DC portion of the overall cost of average sale value of homes in Mississauga is 5.5% for a single/semi detached unit and 6.5% for a small apartment unit, a nominal portion of the overall cost for a dwelling unit. A presentation on factors affecting housing affordability will be made at a future Planning and Development Committee meeting.

Cash-in-lieu of Parkland

The City of Mississauga identifies parkland deficits and need with the goal of providing parkland at an equitable rate across the City to create complete communities and provide adequate recreational opportunities. Parkland acquisition is dependent on land availability. Planned acquisitions are not always achievable in the years projected. The CIL of parkland reserve fund planning is fluid and requires responsible financial planning to ensure funds are available when needed. Funds earmarked for acquisitions with active negotiations will give the impression of a larger balance.

In 2020-2021, the amounts transferred out of the CIL reserve for parkland acquisition totalled $44M allocated to planned projects.

The majority of CIL of parkland revenue in Mississauga is generated by medium and high-density residential development. The City collects CIL of parkland on medium and high-density residential development using a Fixed Unit Rate (FUR). The City's current FUR is $11,040 not $10,100 (rate in February 2020), as referenced in the Altus report. The FUR has increased by three per cent twice per year.

Based on the City's analysis of sale transactions, land values have increased by 10 to 12 per cent annually over the past five years. Despite the bi-annual increases, the City's FUR has not kept pace with rising land values.

While the City's preference is that parkland dedication be provided on-site, in an infill context CIL of parkland is increasingly necessary where a dedication is not practical. As Mississauga becomes a more urban City, there are less opportunities for parkland to be dedicated.

The City is at a point in its development where significant future parkland will be acquired via purchase as opposed to conveyance through the development approval process. As parkland acquisition is funded by CIL revenue, the City must collect CIL that is reflective of market value to remain competitive buyers of land and to achieve the City's parkland strategic goals.

City parks are often utilized by developers as marketing features in their new development campaigns, so there should be some acknowledgement by the developers that the City is committed to purchasing and developing park lands. It is important to the City to ensure that adequate parks and amenities are provided to the community. The City has been diligent about identifying opportunities as they arise and purchasing lands to increase its provision. A good example of this is the land parcels being acquired in Cooksville for a future park.

Planning Applications and Development

The Altus report reviews revenues against projected revenues to illustrate that most municipalities have not met their projected revenues. The report suggests that housing supply shortages caused by lengthy municipal processes, planning applications related appeals, servicing issues can have a direct impact on a municipality's ability to meet the DC revenue forecasts.

The City of Mississauga has surpassed its DC revenue projections in 2018, 2019 and 2020. From 2013 to 2019, the City has achieved 80% of its revenue projection of $345M.

According to planning application approvals, there are approximately 20,000 units[1] that could be built in the City, however, developers have not pulled their building permits to do so. Rather, they wait until the market conditions are favourable to their financial returns. The City's planning processes do not delay or hamper housing supply. In fact, the City's Planning and Building Department has instituted a number of efficiencies and innovations, such as ePlans, that have modernized the application approval process and has allowed for approvals to continue during the COVID-19 pandemic.

Further, the total annual prescribed value of all issued building permits for the past six years (2015-2020) averages $1.5B. As of September 2021, the prescribed value of building permits in Mississauga equals $1.85B.

<u>Mississauga's Approach to Financial Management</u>

The City of Mississauga has a sound financial plan to manage development-related charges received from developers. This financial management approach ensures that residents and businesses are provided with the services and infrastructure required to be able to live, work and play within the community, without putting too much burden on tax payers. The information below explains the practices instituted to responsibly plan the growth related projects identified in the capital program through the related reserve funds and why reserve funds are "held back". Municipal financial planning is overlooked in the Altus report.

Development Charges:

- The City ensures one-year's worth of revenue is kept in the reserve in the event projected revenues are less than expected in the next year or two due to economic downturn. If the City allocated all of the revenue, there would be a significant risk that projects underway would not have funds to be completed. This is how we determine our envelopes that are sent out to Service Areas, and the envelope becomes our target for the given year.
- Projects are planned over a 10-year horizon in the budget book
- The guiding principles are sound and result in one-year's worth of revenue ($70M by the end of the 10 years) held in the DC reserves for future planned projects.
- The DC reserve fund balances reflect unspent funds even if they are committed or allocated to a project. This will result in an inflated reserve fund balance, however, financial commitments ensures project viability and availability of funds when needed.
- There are a number of reasons why funds allocated to projects are unspent, such as:
    - Delays due to significant weather events
    - Waiting on works to be completed by other levels of government or agencies
    - Waiting on funding from other levels of government
    - Issues with suppliers and availability of construction materials
    - Saving over a number of years to accumulate enough funds for expensive projects or land acquisitions

[1] There is additional development potential in the Downtown Core where rezonings are not required.

- Future DC rates account for opening balances of the reserve funds and are allocated to projects prior to the calculation of new rate increases.

CIL of Parkland:

- The CIL of Parkland revenue is split between land acquisition and structures.
- The land portion is planned to be spent down to zero by the end of the 10 years. Expenditures planned for this same period will not nearly address parkland deficits and need. To ensure that sufficient land can be purchased for the purposes of parkland development, CIL of parkland charges should increase to keep pace with land value increases.
- The structures portion is allowed to spend down to zero by the end of 10 years.
- The City's approach is sound and the only reason there would be a significant build up of money in the CIL of parkland reserve is if properties do not materialize for purchase.

City Budget:

- The 2021 gross capital budget was $272M (not including stormwater charge funded projects). The 10-year capital program is $3.9B. This program represents all funding sources, not only DCs, but also tax funded projects supported by Mississauga residents and businesses.
- If DCs and CIL are not collected from developers, the costs would need to be transferred to residents and businesses through property taxes.

From a Mississauga perspective, a prudent financial approach suggests that balance needs to be maintained in the various reserves to offset the vagaries of the economy and when a developer will actually build. Cities can create favorable conditions for building by emplacing all facilities, but they cannot force developers to develop. Hence, cities need to protect themselves by building up reserves so that funds are available when the developers actually start to develop. Additionally, costs to build are high and a single project by itself will not provide sufficient funds to build a community centre or a regional park as examples. Unless municipalities are prepared to increase debt levels, and the BILD/Altus report seems to suggest that they should, funds need to be aggregated until the entire project or park can be economically built or purchased.

The City's sound financial management has resulted in it receiving a 'AAA' credit rating from Standard & Poor's Ratings Services (S&P) for 18 years in a row. The rating is based in part on the City's strong financial management practices, more recently the actions taken during the COVID-19 pandemic to mitigate losses and the strength of Mississauga's dynamic and diversified local economy. This 'AAA' status, with a stable outlook, highlights the City's ongoing commitment to strategic and effective financial management.

Engagement and Consultation

BILD hosted an information session for Peel Region municipalities on October 27th. Finance and Park Planning staff attended the session in addition to staff from the Region, City of Brampton and Town of Caledon. Altus, BILD's consultant, presented the findings and provided an opportunity for questions and answers. There was not significant discussion after the presentation. City staff asked if they had contemplated separating out the various levels of governments, since the local municipal context and service delivery is quite different than the City of Toronto or Region of Peel. The consultant responded that they were trying to present the suite of services provided within a community. They indicated that changing the methodology would have made the data more confusing for the public and would have resulted in varying results.

Financial Impact

There are no financial impacts as a result of this report.

Conclusion

The City has a reputation of sound financial practices and has been awarded for many years for being responsible with municipal funds. The Altus report on municipal reserves tries to demonstrate that municipalities are not spending reserve funds fast enough. In the case of the City of Mississauga, this is not true.

The City's practice is to carry forward one year's worth of DC revenue in case there is a down-turn in the economy and revenues are lower than projected. The CIL of parkland reserve is planned to be spent to zero dollars within 10 years, and acquisition is dependent on land availability. The City has a responsibility to plan for the long-term and uses a financial planning approach that allocates funds to projects in order to deliver valuable infrastructure and services to our communities while anticipating and preparing for any future economic downturns.

Attachments

Appendix 1: BILD report entitled "New Homeowner Money in the Government's Bank; How Unspent Municipal Reserves are Impacting Building Livable Affordable Communities in the GTA"
Appendix 2: Report entitled "The Effect of Development-Related Costs on Housing Affordability" prepared by N. Barry Lyon Consultants Limited with Hemson Consulting Ltd. For the City and presented to General Committee on May 1, 2019

Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Shahada Khan, Manager, Development Financing and Reserve Management