Region of Peel
working with you

REPORT
Meeting Date: 2021-04-29
Planning and Growth Management Committee

For Information

REPORT TITLE:	**Peel's Growth Management Program and Development Charge Performance – 2020 Overview and Progress Report**
FROM:	Kealy Dedman, Commissioner of Public Works Julie Pittini, Acting Commissioner of Finance and Chief Financial Officer

OBJECTIVE

To provide the Regional Planning and Growth Management Committee with an update on the Growth Management Program and a report on monitoring the Region of Peel's growth forecast and development charge performance.

REPORT HIGHLIGHTS

- The Growth Management Program's integrated approach to planning, managing and financing growth has led to $584 million in reduced debt-risk compared to the 2015 Development Charge (DC) By-law Background Study.
- Updated analysis using year-end 2020 data indicates that the impacts of the COVID-19 pandemic on growth and development have not been as severe in 2020 as first predicted.
- Peel remains on-track to meet the Council endorsed residential growth forecast (10-year growth) from 2016 to 2026 due to an increasing share of apartments and secondary units.
- Peel remains at-risk of not meeting the Council endorsed non-residential growth forecast (10-year growth) from 2016 to 2026 due to the changing nature of employment. COVID-19 has heightened this systemic challenge to the Region's growth forecast.
- Over the last five-year period (2016 – 2020) the gap between actual and forecasted DC revenue is approximately $319 million compared to the 2015 Development Charge By-law Background Study.
- Continued development charge revenue shortfalls will require ongoing careful management of the Region's financial flexibility and debt financing requirements.
- The monitoring of growth will continue to inform the timing and location of infrastructure investments through long-term capital planning and the annual budget process in order to manage the Region's debt and financial risks and respond to potential impacts associated with the COVID-19 pandemic.

DISCUSSION

1. Background – Growth Management Program

Over the past several years, the Region of Peel has adopted an integrated approach to planning, managing and financing growth, known as the Growth Management Program. The

Program was initially established to reduce the financial risk associated with growth in Peel and maintain the principle that growth pays for growth.

The Program's integrated approach led to the successful reduction of the cost-revenue gap associated with growth related infrastructure. As of Q4 2020, the Program contributed to a $584 million reduction in debt-risk compared to the 2015 Development Charge By-law Background Study.

Recently, the COVID-19 pandemic has elevated uncertainty around growth and development within Peel Region. At the onset of the pandemic, a Capital and Construction Task Force was established to address the potential impacts of the COVID-19 pandemic on the Region's capital program, building on the Region's existing Growth Management Program. The primary objective of the capital review was to ensure the Region's capital program is aligned to Peel's evolving circumstances and the principle that "growth pays for growth", now known as the Financial Risk Management Strategy.

The purpose of this report is to provide an update on:

- The status of the Growth Management Program and its four implementation strategies;
- Data and information on growth trends relative to the Regional forecast;
- Development charge revenue performance; and
- Risk considerations and next steps.

2. Growth Management Program – Current Status

a) Strategy 1: Planning and Managing the Location and Servicing of Growth

Staff continue work on the Peel 2041+ Official Plan review and Municipal Comprehensive Review (MCR), which includes the development of a new growth forecast to 2051 based on the Provincial Growth Plan and allocation of growth to the Region's local municipalities. Part of this work includes undertaking a fiscal impact assessment of the Region's growth forecast including the Settlement Area Boundary Expansion which will inform phasing strategies, infrastructure planning and the proposed configuration of the recommended urban expansion area.

In May 2020, staff examined the potential impacts of COVID-19 on the Region's development trends and development charge revenue. Building on this work, Regional staff are currently assessing the timing of the Region's cash flow with respect to the infrastructure capital program to manage financial risk. The Program is working with Regional program areas as part of the Financial Risk Management Strategy to examine the timing of short-term infrastructure capital projects in relation to growth trends and development activity. This has included discussions with local municipalities to assess potential servicing impacts and future discussions with members of the development industry.

b) Strategy 2: Managing Revenues and Expenditures

Council passed the 2020 Development Charge By-law in December 2020. Development charges fund growth-related infrastructure projects required to accommodate residential and non-residential development and are the primary source of funding for the growth-related portion of the Region's capital plan. The 2020 Development Charge By-law will help recover a significant portion of the Region's capital program from 2021 to 2041. Ongoing work in 2021 includes continued management of the Region's cash flow and capital expenditures in response to the potential reduction in development charge revenues due to the COVID-19 pandemic and other systemic issues contributing to development charge shortfalls.

c) Strategy 3: Internal and External Collaboration

Underpinning the Growth Management Program is integration and collaboration between multiple Regional program areas, including Finance, Water and Wastewater, Transportation, Planning, Housing, Climate Change and Public Health to inform growth-related decisions. This also includes engagement with the development industry, local municipalities and others.

Forums for engagement include an Inter-Municipal Working Group (IMWG) and Development Industry Working Group (DIWG). These meetings include regular updates pertaining to the Peel 2041+ Official Plan Review, the Region's infrastructure Master Plans, Development Charge By-law, the Financial Risk Management Strategy, and other growth management related matters.

d) Strategy 4: Leveraging Business Intelligence

The Program continues to monitor and measure data and information on development activity to help make evidence informed decisions on infrastructure investments. Recent updates based on regional data sets and third-party data sets are included in the subsequent sections of this report. Staff continue to improve data management and reporting through a business intelligence framework project, which will be further developed through the course of 2021.

3. Growth Monitoring Findings and Analysis

The COVID-19 pandemic has elevated the risks and uncertainty around growth and development within Peel Region. Updated analysis using year-end 2020 data as shown in Appendix I indicates that the impacts of the pandemic on growth and development have not been as severe as first predicted. During 2020, residential development, including second units, has exceeded the growth forecast, while non-residential development has also met forecasted growth and exceeded historical averages.

Another key trend that is being monitored is the significant increase in second units in recent years. This trend likely reflects a combination of factors including legalization of existing second units and increased demand in response to lack of affordability of other housing options. The trend is important to monitor since second units may result in increased infrastructure needs.

Future growth and development trends remain uncertain as the Region continues to face COVID-19 related challenges, as well as systemic challenges in meeting both the residential and non-residential growth forecast and development charge revenue projections. Although not assessed in detail within this report, COVID-19 continues to have significant impacts on the Region's economy and also could have impacts on short-term population growth due to lower levels of immigration during the pandemic.

The following provides an overview of growth trends and development charge performance with year-end 2020 data. This information has also been summarized in Appendix I:

a) Peel remains on-track to meet the Council endorsed residential growth forecast (10-year growth) from 2016 to 2026

- From 2016 to 2020 and including second units, building permits have been issued for approximately 47 per cent of the Region's 73,800 housing unit forecast from 2016 to 2026.
- With over 55,000 residential units currently in the development approvals process, the Region is on track to meet the 10-year growth forecast to 2026.
- Apartment construction has exceeded forecast growth by approximately 14 per cent while ground-related housing (singles, semis, and row houses) has underperformed by 41 per cent when compared to the Council endorsed growth forecast.

b) Over the past three years, the rate of population growth has outpaced new housing growth suggesting that an increasing share of the Region's population growth is being accommodated in existing housing stock structures

- Since 2018, Peel's population has been growing at a higher rate than new housing growth. This trend indicates that an increasing share of Peel's population growth is being accommodated in the existing housing stock through secondary units.

c) Peel remains at-risk of not meeting the Council endorsed non-residential growth forecast (10-year growth) from 2016 to 2026

- From 2016 to 2020, building permits were issued for approximately 39 per cent of the 10-year non-residential space forecast to 2026.
- The equivalent of approximately 27 per cent of the 10-year non-residential space forecast is currently in the development approvals process.
- New industrial development has exceeded forecast projections while office and retail commercial development have underperformed.

d) Over the last five-year period (2016 to 2020) the gap between actual and forecasted DC revenue is approximately $319 million compared to the 2015 Development Charge By-law Background Study

- The gap between forecasted and actual residential DC revenues was approximately $50 million for fiscal year 2020, increasing the five-year residential revenue gap to $152 million.
- The gap between forecasted and actual non-residential DC revenue was approximately $35 million for fiscal year 2020, increasing the five-year non-residential revenue gap to $167 million.
- The shortfalls over the most recent five-year period can be attributed to underperformance in DC collections from low density residential (i.e. single-detached, semi-detached, and townhouses), retail, and office developments. The lower than forecast level of office and retail development is anticipated to continue through the economic recovery from the COVID-19 pandemic.

e) Since 2015, actual DC expenditures and debt repayments have been approximately $1 billion lower than forecast in the 2015 DC Background Study

- While DC revenues have underperformed compared to forecast levels, the gap between actual and forecasted DC expenditures has been greater.

- In terms of actual cashflow over the past five years, the DC program has averaged the following:
    - DC Revenue of $277 million per year; and
    - DC Expenditures and Debt Repayment of $328 million per year
- Staff continue to monitor DC expenditures, revenues and reserve balances closely in order to appropriately plan for potential debt requirements. On an annual basis, Council approves the Borrowing Limits Report forecasting debt requirements for the year.

4. Additional Insights

The impacts of the pandemic have heightened other ongoing systemic trends, including a higher than forecast proportion of high-density units and secondary units. These systemic trends contributed to DC revenues being below forecasted levels prior to the COVID-19 pandemic.

Additional analysis of the housing market and residential growth patterns within Peel continues to show mixed trends through the course of the COVID-19 crisis:

- New home sales data obtained from the Building Industry and Land Development Association (BILD) indicate that sales for single-family housing has been on an upward trend since May 2020, outselling 2018 and 2019 volumes for the months of July, August and September.

- Low mortgage rates and a weak Canadian dollar have both helped support strong housing demand. However, there are also continuing concerns surrounding housing affordability, as the average resale price of a single-family home in Peel has reached a record $1,023,552 in February 2021. This represents an increase of approximately 19 per cent when compared to February 2020, where the average sale price was $861,537.

- Peel's population growth is primarily driven by immigration. The halt in immigration due to COVID-19 is expected to result in a slowing in Peel's population growth.

- Over the past ten years, Peel is experiencing a declining share of growth in new construction of ground-related housing in the GTHA and an increasing share of apartments.

The broader GTHA market is in the midst of a structural employment shift. In Peel, the economy continues to transition from goods production to goods movement and the service and knowledge-based sectors. The changing nature of employment and the impacts of the COVID-19 pandemic will continue to create challenges for Peel to meet its growth forecasts. In recent years, the Region collected lower than anticipated DC non-residential revenues, primarily for the office and commercial retail sectors. The industrial sector is performing better than forecast, most notably in 2020, when industrial development exceeded forecast and historic levels for the first time since 2015.

Additional insights from the analysis of commercial and industrial market trends and growth patterns in Peel show both challenges and opportunities through the course of the COVID-19 crisis:

- Office vacancy rates are expected to rise due to increased work-from-home but may be offset in the longer term by the continued shift in employment to more service and knowledge-driven industries, resulting in more moderate impacts overall.
  - In the GTA West sub-market, which includes Peel Region, the Q4 2020 office vacancy rate was 12.5 per cent. Office vacancy rates have increased since Q1 2020, when the GTA West sub-market suburban office vacancy rate was 9.4 per cent, as reported by Cushman & Wakefield.
  - Over the past ten years, the City of Toronto (primarily in the Downtown Core) has attracted an increasingly large share of new office development in the GTHA which has contributed to challenges for Peel and other 905 Regions to meet office employment forecasts.
  - Working with the Region's local municipalities, staff have assessed the potential to provide incentives and programs encouraging new office development in Peel. The Region has proposed a Major Office Incentives Program to support local municipal community improvement plans.

- Among non-residential uses, the industrial sector has been the strongest non-residential performer in Peel in recent years, with the potential for continued increased demand related to logistics and warehousing, resulting in lower DC revenue impacts than originally suggested.
  - In the GTA West sub-market, which includes Peel Region, there have been limited shifts in industrial vacancy rates and was reported to be 1.6 per cent as of Q4, 2020, which has remained relatively consistent throughout the course of the pandemic, as reported by Cushman & Wakefield.

- The retail sector is expected to continue to experience the greatest impact with the increase in online sales and limited anticipated new retail development.

- Peel's average annual unemployment rate increased from 6.6 per cent in 2019 to 12 per cent in 2020 as a result of the economic impacts of COVID-19 and the restrictions implemented through the first and second waves of the pandemic.

- COVID-19 restrictions significantly affected a number of services producing industries, including accommodation and food, retail trade and information, culture and recreation. It has also had a large impact on employment in industries clustered in and around the Pearson International Airport.

RISK CONSIDERATIONS

The impacts of the COVID-19 pandemic, continued development charge revenue shortfalls, the capital infrastructure required to service growth and the impacts of the COVID-19 pandemic will continue to pose challenges from a development charge revenue perspective in the coming years.

a) **Continued development charge revenue shortfalls may impact the Region's financial flexibility and debt financing requirements**
   - The increasing gap between DC spending and DC revenues may result in increased debt requirements to levels where DC revenues would largely be required to service debt and over time impact the Region's financial flexibility.

b) COVID-19 has heightened systemic challenges associated with the Region's growth forecast

- Globalization, technological shifts and more recently the COVID-19 pandemic are amplifying the changing nature of employment in the Region. This has been marked by changes to the demand, type and scale of new employment buildings recently constructed in the Region.
- High housing costs, lower than forecasted residential unit growth, and the increasing prevalence of secondary units continue to create both challenges and opportunities to accommodate future population growth in Peel.

NEXT STEPS

The Region's Growth Management Program continues to monitor evolving trends and work collaboratively with Regional program areas, local area municipalities and the development industry to address challenges associated with growth in Peel.

Some of the next steps for the Program include:

- Continue to monitor the ongoing impacts of the COVID-19 pandemic, development activity, growth related revenue, and timing of capital projects
- Monitor the results of the upcoming 2021 Census in relation to the Region's forecasts and emerging demographic and economic growth trends.
- Engage with local municipalities and the development industry on the timing of growth-related capital projects, including the evaluation of risks and options
- Examine alternative financing strategies for growth related infrastructure including tools such as more proactive use of staging and sequencing plans and front-end financing arrangements to ensure the principle that growth pays for growth.

CONCLUSION

The Region of Peel remains committed to supporting new growth while balancing the principle that growth pays for growth by managing the revenue and expenditure gap to ensure the Region's long-term financial sustainability. Through the Growth Management Program, staff will continue to monitor the ongoing impacts of the COVID-19 pandemic, development activity, growth related revenues and capital project timing. Engagement with local municipalities and the development industry will continue as input to the evaluation of risks and options for capital project deferrals to limit the Region's financial risks, while also maintaining required service levels.

APPENDICES

Appendix I – Growth Management Program Infographic

Peel's Growth Management Program and Development Charge Performance – 2020 Overview and Progress Report

For further information regarding this report, please contact Adrian Smith, Chief Planner and Director of Regional Planning and Growth Management, 905-791-7800 Ext. 4047, Adrian.smith@peelregion.ca. and Stephanie Nagel, Treasurer and Director of Corporate Finance, 905-791-7800 Ext. 7105, stephanie.nagel@peelregion.ca

Authored By: Angelo Ambrico, Michael Skelly, Jack Shi, David Uusitalo and Maggie Wang

Reviewed and/or approved in workflow by:

Department Commissioners, Division Directors and Legal Services.