Subject: Canada Housing Infrastructure Fund Update

Report to: Corporate Services Committee

Report date: Wednesday, February 5, 2025

Recommendations

1. That Report CSD 7-2025 **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide Council with information and updates related to the Canada Housing Infrastructure Fund (CHIF).
- The CHIF was announced in April 2024 by the federal government. In total, the fund allocates $6 billion over 10 years to accelerate new construction, rehabilitation and expansion of housing-enabling drinking water, wastewater, stormwater, and solid waste infrastructure, directly supporting the creation of new housing supply and improved densification.
- The $6 billion will be delivered through two streams. A $1 billion Direct Delivery stream that is open to all Canadian municipalities and a $5 billion provincial/territorial (PT) stream that will require PTs to enter into bilateral agreements with the federal government. At the time of writing this report, only the direct stream is accepting applications, and the province of Ontario has not entered into an agreement with the federal government to enact the PT stream.
- As of December 2024, $400 million had been awarded to two municipalities through the Direct Delivery stream. Should an agreement be reached between Ontario and the federal government, Ontario will receive $1.5 billion through the PT stream. Should an agreement not be reached, the $1.5 billion will be reallocated to the Direct Delivery stream.
- In order to receive funding from the CHIF, municipalities must meet a number of eligibility requirements. One requirement is that municipalities with populations over 300,000 must freeze development charges (DC) at April 2, 2024 rates for a three years period. If a local area municipality with a population below 300,000 applies for the fund, in order to be eligible, the Regional municipality is required to freeze DCs across all local area municipalities.

- It is estimated that the DC freeze requirement would have a $69.3 million impact for the Region over 3 years based on forecasted growth levels and DC rates as of April 2, 2024. If implemented, the DC freeze would have an annualized impact of a 4.3 per cent increase on the 2026 levy. This estimated 4.3 per cent increase is in addition to the forecasted 9.97 per cent general tax levy budget increase communicated in BRC-C 25-2024.
- The Region is aware of four local area municipalities who have indicated interest in pursuing an application. The approximate gross expenditures for projects being considered by the four area municipalities is $102 million. At the time of writing this report the City of Port Colborne is the only municipality that has pursued an application with gross expenditures of $38.5 million.
- Staff have also completed a cursory scan of Regional projects that could qualify for the CHIF. These projects have a magnitude of $1 billion in gross expenditures but would require further analysis to assess financial impacts, including future budget approvals, and determine feasibility of completing projects by September 2031, as required under the Direct Delivery stream.
- Based on the complexities involved in implementing a DC rate freeze, the associated financial impact and total funding available to Ontarian municipalities through the program, it is not anticipated that the financial benefit of potential funding received would outweigh the financial impacts of a DC rate freeze.
- Local area municipalities (LAMS) can still consider applications and propose alternative measures to the DC freeze condition within their application.

Financial Considerations

A requirement of the CHIF is the commitment to freeze DC rates at April 2, 2024 rates for municipalities with populations exceeding 300,000 for a period of three years. The Niagara Region, having a population over 300,000 would be required to institute a DC rate freeze as part of the CHIF agreement.

Additionally, should any of Niagara's 12 local area municipalities receive funding from the CHIF, the Region would be required to institute a DC rate freeze to meet the program conditions. This Regional DC rate freeze must apply to all local area municipalities, not just the municipality receiving funding from the CHIF. As none of the LAMs individually have a population exceeding 300,000, there would be no commitment required at the local level to institute a DC rate freeze. Therefore, at building permit issuance, a development would only see an impact on the Region's portion of DCs.

Instituting a DC rate freeze would have significant financial implications for the Region. DCs are a key revenue source for municipalities to fund the infrastructure required for new developments. Freezing or reducing these fees limits the Region's ability to fund critical infrastructure projects required to support growth. Table 1 provides a comparison between the DC rates in effect as of April 2, 2024 and the Region's current DC rates in effect as of January 1, 2024.

Table 1: Development Charge Rate Comparison

Rate Class	Rate at April 2, 2024 ($)	Rate at January 1, 2025 ($)	Infrastructure funding shortfall/unit ($)
Single and Semi-Detached Dwelling	25,398	30,833	5,435
Other Multiples	18,125	22,032	3,907
Apartments 2+ Bedrooms	17,245	20,958	3,713
Apartments 1 Bedroom	10,514	12,777	2,263
Special Care/Special Dwelling Units & Dwelling Rooms	9,525	11,579	2,054
Commercial (per sq.ft.)	17.62	21.42	3.80
Industrial (per sq.ft.)	6.56	7.98	1.42
Institutional (per sq.ft.)	12.95	15.73	2.78

Note – the rates presented above are the full calculated rates, exclusive of any statutory of discretionary exemptions/reductions which may apply.

Between Nov. 28, 2022, and June 5, 2024, Niagara Region's DC rates were phased in due to provincial legislation changes resulting from Bill 23. During this period, the Region's DC rates were discounted. These rates were lower than the full amount that could otherwise be imposed. Therefore, the Region's DC rates as of April 2, 2024 were discounted at a rate of 15 per cent from what could have otherwise been imposed as determined by our DC Background Study and DC By-law. This was a mandatory DC reduction that the Region had been funding as part of our levy. The cost of this discount in 2024 amounted to approximately $7.5M.

Additionally, the Region's DC rates are indexed annually on January 1 as permitted by the *Development Charges Act, 1997* (DC Act) and the Region's DC By-law. Indexing is in accordance with the Statistics Canada Non-residential Building Construction Price Index. For 2025 this indexing equated to an increase of 3.26 per cent. This indexing is an important tool to align DC revenues with the increasing construction costs and to improve the sustainability of the Region's DC reserves for funding the Region's growth-related capital projects/programs.

Staff has projected the potential lost DC revenue to be approximately $23.1 million annually or $69.3 million over the 3-year commitment, dependent on the level of growth experienced. Table 2 outlines the projected shortfalls of the proposed DC freeze based on the growth estimates prepared in association with Watson & Associates Economists Ltd. for the 2022 DC Background Study.

Table 2: Development Charges Rate Freeze Funding Shortfall Projections

Forecasted Growth	Annualized Infrastructure Funding Shortfall	3-Year Infrastructure Funding Shortfall
Based on Forecasted Growth – DC Background Study	$23,098,119	$69,294,356

The DC Act requires municipalities to fund legislated DC Exemptions. When DCs are frozen or reduced, the Region is required to fund the difference between the DCs as calculated in our DC Background Study and DC By-law and the reduced or frozen rate. This reduction in revenue must be made up through the levy, resulting in higher property taxes for the existing taxpayer. This places additional financial burden on existing residents and is contrary to the belief that growth should pay for growth. The annualized impact of funding the estimated impact of the DC rate freeze represents a 4.3 per cent increase to the 2026 levy. This estimated 4.3 per cent increase on the levy is in addition to the forecasted 9.97 per cent general tax levy budget increase communicated in BRC-C 25-2024.

Should the Region consider freezing its DCs to meet the conditions of this program, it is imperative that the magnitude of the contributions of the CHIF far exceed the foregone DCs that will need to be offset by tax and water rate increases, assuming no direct offsetting funding from the federal and/or provincial governments. Given that the $6 billion in funding is to be distributed over 10 years across all of Canada it is unlikely that the Region will see a financial benefit that exceeds the potential lost revenue from the DC rate freeze. Of note, based on preliminary conversations with the Ontario Regional and Single Tier Treasurer's (ORRST) group, there is general consensus that funding available was insufficient to address the DC freeze financial impacts, and most regional governments with populations in excess of 300,000 have indicated they are not pursuing the funding at this time.

Analysis

In April 2024, the federal government released Budget 2024 which provided $6 billion in federal funding over 10 years to establish the Canada Housing Infrastructure Fund (CHIF).

CHIF aims to accelerate the construction and upgrading of housing-enabling drinking water, wastewater, stormwater, and solid-waste infrastructure, directly supporting the creation of new homes and increasing densification. This investment is part of the Federal Government's commitment to address the impacts of the housing crisis on communities of all sizes across Canada.

The $6 billion will be distributed through two streams. The Direct Delivery stream is currently accepting applications and will allocate a total of $1 billion to municipalities. If applications are successful, municipalities can expect to receive 40-50 per cent of eligible expenses for their projects.

The remaining $5 billion will be distributed through a provincial/territorial (PT) stream, pending PTs reaching bi-lateral agreements with the Government of Canada and committing to the following program criteria:

- Permit four units as-of-right per lot;
- Adopt new National Building Code provisions related to accessibility, affordability and climate considerations;
- Implement as-of-right construction standards outlined in a Housing Design Catalogue which is currently being developed;
- Institute measures from the Home Buyers' Bill of Rights and Renters' Bill of Rights; and

- Freeze development charge (DC) rates at April 2, 2024 for municipalities with populations exceeding 300,000 for a period of three years.

The CHIF program had originally set a deadline of January 1, 2025 for provinces to enter into agreements with the federal government. At the time of writing this report, Ontario and the federal government have not reached an agreement. Should one be reached, Ontario will receive $1.5 billion and the provincial government will be required to contribute a minimum of 33 per cent of eligible expenditures for each project approved.

Council does not have the authority to freeze DC rates at April 2, 2024 without adopting a DC By-law amendment. The DC Act prescribes the process for amending a DC By-law which includes a background study, release of the study 60 days prior to Council approval, providing notice and holding a public meeting. This process would not be feasible for the Region to undertake in the timelines required by the CHIF. The DC Act would require an amendment to simplify the process of a By-law amendment in order for the Region to mandate the DC rate freeze. At this point we do not have any indication on if this will occur.

The Region is aware of municipalities offering a discount of DCs outside of their DC By-laws. In discussion with legal counsel, if the Region wanted to proceed in this direction to propose this as an alternative to freezing the DC rates, Regional staff would be required to enter into an indefinite DC deferral under Section 27 of the DC Act. This would mean at building permit issuance for every building permit subject to DCs across the Region, the Region would be required to execute a legal agreement with a developer/owner. This would not only be administratively burdensome but would also likely lead to delays in developers obtaining building permits, which is contrary to the intent of the CHIF.

Local municipality interest in program

Staff reviewed the CHIF with the local area municipality treasurers in December. While each municipality is able to apply to the program independently, in order to satisfy program conditions, the Region would be required to freeze regional DC’s, unless an exception for alternative measures was accepted by CHIF program reviewers.

As of January 9th, the City of Port Colborne, City of St Catharines, Town of Pelham and Town of West Lincoln have indicated interest in pursuing an application and continue to be in discussions with the Region around impacts. The City of Port Colborne has moved forward with a direct stream application and is pursuing alternative measures to the Regional DC freeze condition in their application. Other local area municipalities continue to review and consider the program. Table 3 below summarizes the current magnitude of projects being considered.

Table 3: Local Municipality Interest

Municipality	# of projects being considered	Gross Expenditure (in millions)
City of St. Catharines	2	$40.0
City of Port Colborne	3	$38.5
Town of Pelham	10	$17.1
Town of West Lincoln	5	$6.4
Total	20	$102.0

Regional opportunity

Staff in public works have completed a scan of Region projects that could meet the objectives of the funding program in water and wastewater and transportation services. Currently there are 20 projects identified with gross budgets totaling $1 billion that could be considered. With that said, many of these projects are already receiving significant DC funding that would be at risk with a freeze. Further analysis would be required to assess total financial impact. Additionally, timelines for identified projects would need to be solidified through future budget approval to ensure project completion by September 2031, as required under the Direct Delivery stream.

Conclusion

Region staff continue to monitor and assess program developments and announcements. The program is complex and has many different interconnections between Federal, Provincial, Regional and Local government.

At this time, given the lost revenue from DC's, significant impact to existing taxpayers of needing to fund any DC reductions and legislative complexity around needing a DC By-law amendment in order to freeze the rates, Regional staff are not pursuing program applications. Should conditions of the program change, staff would review and reassess.

The Region will stay abreast of any local municipality applications with alternative measures to the DC freeze that may move forward.

Alternatives Reviewed

No alternatives have been reviewed at this time as the purpose of this report is to provide information and updates for Council only.

Relationship to Council Strategic Priorities

This report provides details related to the collection of DCs and funding of growth-related infrastructure projects. This relates to Council's Strategic Priorities of Effective and Prosperous Region as DCs are a major source of funding for growth projects in the capital budget.

Other Pertinent Reports

BRC-C 25-2024 2025 Consolidated General Levy Budget Update

(https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=6fe248c3-7e32-435a-8ffc-103cabcc703d&Agenda=Agenda&lang=English)

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Appendices

None