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May 16, 2018

Friends of Muskoka
c/o Ms. Laurie Thomson
89 Binscarth Road
Toronto, ON
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Dear Ms. Thomson:

RESORT VILLAGE OF MINETT

IBI Group was requested to review various studies to date that have been carried out in support of the application including:

1. Fiscal Impact Assessment Proposed Development of "Red Leaves Resort" District Municipality of Muskoka and Township of Muskoka Lakes, Watson and Associates Economists Ltd., March 26, 2007 ("Watson FIS Report").
2. Muskoka Resort and Tourism Official Plan Policy Review, Interim Options Report, prepared for District Municipality of Muskoka prepared by PKF, February 20, 2013 ("PKF Report").
3. District Municipality of Muskoka Growth Strategy 2013 Phase 1 Update prepared by Watson and Associates Economists Ltd., October 16, 2013 ("Watson GS Phase 1 Report").
4. District Municipality of Muskoka Growth Strategy Phase 2 Update by Watson and Associates Economists Ltd., January 10, 2014 ("Watson GS Phase 2").
5. District Municipality of Muskoka Development Charge Background Study, Watson and Associates Economists Ltd., May 8, 2014 "DM DCBGS".
6. Township of Muskoka Lakes Development Charges Background Study, Hemson, July 2014 ("ML DCBGS").
7. An Assessment of the Potential Economic Impact of the Red Leaves Development and District of Muskoka CD 44 by Regional Analytics Inc., August 9, 2006 "RA Report".

1.0 Watson FIS Report

The purpose for the review of reports (#2-#7) is to determine if there was anything in these reports that might be informative to support or question the findings and assumptions of the Watson FIS Report (see #1 above).

The FIS Report indicates that "overall development will include a mix of commercial and residential units (mostly seasonal, however, there are some affordable permanent units)".

"The Official Plan will ensure that no less than 50% of these units will be for tourism accommodation".

The project will include:

- 2,859 resort accommodation / residential units;
- 53,000 sq. ft. of retail space in the Village;
- 5,300 sq. ft. of hotel space;
- 5,400 sq. ft. Resort Functions;
- 70,000 sq. ft. of conference space;
- 74,000 sq. ft. of Spa/Water Park;
- parking for 4,575 vehicles; and
- 840 sq. ft. marina facilities.

Development according to the report would occur over 15 years based “on discussions with the developing landowners”.

Tax assessments for use in generating property tax revenue estimates are based on selling prices (as provided by the developer) and reduced by 25% to reflect MPAC valuation to the year 2003.

The study analyzed the following impacts:

Impact on Muskoka Lake Township Capital Program

- The report indicates that there will likely be some road impacts: new District Road likely required connecting DR7 and DR28; will the existing segment of RD 28 become a District Road or Township Road; and is street lighting for Main Street and possibly Minett required?
- The development may require a new fire station in association with the replacement of the existing fire station in Minett, additional firefighters (and equipment) and also possibly additional vehicles including a telesquirt given the height/scale of the proposed development.
- Some impacts on the community centre and additional lands to expand the existing community centre’s parking lot are also noted.
- It was not clear at the time of the FIS in 2007 whether the parkland dedication would be cash or continuation of cash and land. A 700 acre Nature Reserve will be part of the development possibly impacting Township Roads in some unspecified areas.
- There was an indication that the current library in Port Carling would be impacted.

There was a general comment that the Township will need to consider these impacts further as part of their DC review.

Impact on Muskoka Lakes Operating Budget

The FIS report also addresses the operating revenue and operating costs associated with the proposed development.

- The operating costs are estimated based on the 2005 FIR returns.
- The sunk costs of Net Debt Payment and Own Fund Transfers are deducted.

- The remaining costs are allocated between residential and non-residential development and incremental costs are estimated based on Watson's estimates of fixed vs. variable costs for various cost categories 0%-100%.
- The operating costs attributed to the development include a generic capital from current (25%) based on the development's operating expenditures.
- Tax revenues are calculated utilizing the estimated assessments and non-tax revenues are also included based on estimates how these non-tax revenues would increase because of the development.

Based on the 14 year analysis (2008-2021), the annual surplus to the Township's operating position varies from $43,335 in year 1 to $268,900 in year 14 ($2005).

Impact on District of Muskoka Capital Program

In terms of water/wastewater services, no specific capital information for water/wastewater services for the development was available. Ultimate development will require full municipal water/wastewater services. At the time of the study, private services (wells/septics) were servicing the existing (2007) development in place. It is noted the Development Charge (DC) implications would have to be considered. Also given that phasing of the development, it is indicated that some of the resort could be developed prior to the full servicing being place. As such, the District of Muskoka should consider mechanisms to recover charges for the already built residential and non-residential development.

- In terms of District Roads, as noted above with respect to DR28 and D7, all or most of the cost of this ($7.5 million) could likely be recovered from District Road DCs.
- Curb side garbage pickup will be required for the residential portion with private contractors serving the non-residential uses. Any capital cost will need to be reviewed from "operating sources" (taxes/user rates) as DCs cannot be charged for this type of service.
- There is a possibility that an EMS station may be required to service this area as the closest station in 2007 was located at Port Carling. There would be DC implications as a result as well.

Impact on District of Muskoka Operating Budget

A similar approach is utilized to analyze the impact on the District's operating position as was carried out for the Township.

- Growth Shares (incremental costs) estimated at 10% (Social & Family Services / Social Housing) to 100% in many cases; Police growth share (274%) is based on contracting arrangement with OPP and 3 persons per household.

Operating revenue provided an annual surplus ranging from $95,314 per annum in year (1) to almost $750,000 in year (14) ($2007) after taking into account operating costs including 25% capital from current allowance.

Water and Sanitary Sewer Analysis

- It is estimated that the plan required to service the development will provide annual revenues ranging from $470,000 in year 1 to $3.9 million by year 14. Annual operating costs range from $133,000 (year 1) to $1,148,000 (year 14).

- Long term capital replacement reserve is estimated at $1.4 million per annum each year.

The resultant net position ranges from a deficit of (-$1.072 million) in year (1) to surplus of $1.379 million in year 14 – overall the project will generate positive surplus to the District for water/sanitary accounts well over $5 million over the period.

2.0 Commentary on the Watson FIS Report

2.1 Market Assumptions

The Watson FIS is based on an absorption period of 14-15 years based on input from the developer but not verified independently by Watson.

The PKF report provides general background in helping to understand the tourism market in Muskoka. It indicates that without "some form of unit sales i.e., fractional, whole ownership etc., it is not economically viable to build a resort" in the short-mid-term and possibly in the long term. Issues noted include the requirement for transient rental of units could impact saleability of selling other units.

It is estimated that in 2004 there were 20,500 seasonal dwellings (76,000 seasonal residents) with 1,490 cottages listed with rental agencies (based on a 2004 Second Home Study published by the District).

Muskoka resorts as of 2011 are indicated by PKF to include 3,200 rooms with an additional 900 hotel/motel rooms. Muskoka resorts have an occupancy rate of 45%-47% generally below the Ontario average for all commercial accommodation of 60% - 63% and 46%- 52% for all Ontario resorts. These low resort occupancies are attributed largely to seasonal nature of room demand.

The 3,200 resort units are competing with the 1,500 cottage units. Some stakeholders surveyed in the PKF study expressed concern about building more resort and tourism accommodation when the demand is so low whereas others felt that new more modern resorts would help stimulate demand.

The Watson GS studies Phase 1 and Phase 2 provide more detailed information on housing and population growth.

The Phase 1 report indicates that the seasonal population, in the District of Muskoka, is forecast to grow from 81,000 (2011) to 94,000 by 2041 (range of 87,000-98,000) but that the rate of growth is forecast to decline post-2021 due to aging Ontario population.

The District seasonal and permanent housing forecast including conversion from seasonal to permanent dwelling peaks at 628 units per annum (pa) in 2021 and then falls off to 530 units pa (2021-2026) and 422-447 units pa post-2031 under the most likely scenario.

District staff estimated that the total supply of vacant seasonal lots was approximately 3,900 plus an additional 2,300 resort related lots including 711 units in Minett (by 2041) with a total build out of approximately 1,500 units.

The Phase 1 GS forecasts total dwelling unit growth in the District under three scenarios for both seasonal and permanent accommodation.

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Seasonal Dwelling Unit Growth – District of Muskoka

	Low	Medium (most likely)	High
2011-2016	300 (60 pa)	600 (120 pa)	800 (160 pa)
2016-2021	400 (80 pa)	1,000 (200 pa)	1,300 (260 pa)
2021-2026	300 (60 pa)	500 (100 pa)	800 (160 pa)

Source: Watson Phase 1 GS

Permanent Housing Growth – District of Muskoka (excluding conversions)

	Low	Medium (most likely)	High
2011-2016	900 (180 pa)	1,000 (200 pa)	900 (180 pa)
2016-2021	1,300 (260 pa)	1,800 (360 pa)	2,200 (440 pa)
2021-2026	1,100 (220 pa)	2,100 (420 pa)	2,200 (440 pa)

Source: Watson Phase 1 GS

The Watson GS Phase 2 forecasts population (seasonal/permanent) in each of the area municipalities within the District. Their forecast also provides absorption estimates specifically for the Minett/Red Leaves area within the Township of Muskoka Lakes (all of the anticipated development is categorized as seasonal).

2011-2021	250 (25 pa)
2021-2031	250 (25 pa)
2031-2041	250 (25 pa)

* * * *

As can be seen the absorption estimates in the Watson GS Phase 2 Report (25 seasonal units per annum) are significantly less than utilized in the 2007 FIS report - 2,859 units with an annual average absorption of over 200 units pa over the estimated 15 year build out.

The Phase 2 GS estimates commercial (non-residential) absorption of 222,000 sq. ft. in Minett over the period to 2041. While of the same scale as utilized in the Red Leaves FIS, the rate of take up is only about half as quick (30 years vs. 14).

Clearly, the scale of the Minett development and timing of absorption have changed from the 2007 FIS. This warrants a detailed review or updating of the FIS in order to more accurately determine the true fiscal impact of the Red Leaves / Minett development on the Township of Muskoka Lakes and District of Muskoka.

2.2 Financial Assumptions

Assessments / Tax Rates

The FIS estimated assessments by adjusting the forecasted sale price. In fairness, there were not likely any realistic comparables at that time. But given the type of development that has occurred elsewhere in the District and other nearby jurisdictions, use of direct comparables should be utilized to better reflect likely tax revenue.

Further given recent MPAC changes on how they classify various forms of resort development, any updated FIS should incorporate the appropriate tax rate.

Operating Costs

Watson in the FIS allocated costs to growth on the basis of the incremental demand on services "growth shares" – this is a common practice. However, in the absence of any detailed description, some of the marginal cost assumptions ("growth shares") seem low.

Examples:	Township	- general government	25%
		- road/winter control	10%
		- recreational facility	50%
	District	- general government	25%
		- fire	0%
		- social housing/social and family services	10%

Further the FIS expresses cost on a per household basis for the Township and District operating analyses. Given the relatively large differential in seasonal population per unit (3.74-3.94 for seasonal) and estimated 3.53 for overall blended seasonal/permanent based on the 2011 Census, use of a per capita operating cost base rather than a per household base would more accurately reflect the likely operating cost impact of the seasonal units. A similar differential would have also existed when the 2007 FIS was carried out.

Finally, given the likely need for some major capital improvements (e.g., fire station, library expansion, water/sewer plants) the use of "facility based" operating costs is considered more appropriate in these circumstances to reflect that these facilities may be built before all of the absorption is complete. In the case of facility based operations, the facility based operating component is excluded from the average/marginal cost base but the specific operating costs and timing of each new facility are directly input when the facility is estimated to begin operations. Watson has utilized this facility based approach in several other jurisdictions that I am aware of.

Impact of Capital on Operating Costs

Watson has removed "own funds" from the analysis of operating costs but has assigned a "capital from current" arbitrary allowance applied to the growth related operating costs (25%). I believe this is to cover, in part, capital amounts that cannot be recovered from Development Charges. A more appropriate methodology is to directly attribute the exempted 10% statutory deduction amount when the facilities are put in place.

The timing and amount of these statutory deductions as well as other non-recoverable amounts including Benefit to Existing (BTE) are detailed in the two 2014 DC studies DM DCBGS by Watson and MLDCBGS by Hemson and should be incorporated into any updated FIS.

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Further, the uncertainty regarding roads and water/wastewater costs have largely been addressed and specific capital cost information is now available but not excluded when the 2007 FIS was carried out in 2007.

2.3 Economic Impact

With respect to the RA Report, the scale of the development analyzed seems to be somewhat different but generally of the same order of magnitude as that analyzed in the Watson FIS Report (Fiscal Impact Study) dated March 26, 2007. This could be because the scope of the project changed somewhat from the date of the RA report.

Specifically,

Watson FIS (2007)		**RA Report (2006)**
2,859 Residential Units including Townhouses/Stacked, Residential, Dormitories, Cottages		221 condominiums at the hotel plus 2,400 residential units including condo hotel, townhouses and single family residences
Some 208,000 sq. ft. of non-residential development including: 52,225 sq. ft. of Village Lane 840 sq. ft. of Marina 5,700 sq. ft. of hotel retail 70,000 sq. ft. of conference space 73,930 sq. ft. of spa / waterpark 5,372 sq. ft. of mixed use		220,000 sq. ft. +/- of non-residential development including: 13,500 sq. ft. of spa 130,000 sq. ft. of retail in Minett's Landing Marina (200 slips) 60,000 sq. ft. of conference facilities 18,500 sq. ft. of ballroom/dining space
Park Preserve (700 acres)		Park Preserve (700 acres)

The RA report also seems to include the Rock Golf Course and Cleveland House in the analysis notwithstanding they are already built and the economic impact would have been fully accounted for at the time (2006) of the RA study.

The RA report indicates that capital investment will be almost $800 million. This is of similar scale to the $1.005 million sales revenue and $754,000,000 (2003 municipal assessment value) utilized in the Watson FIS. The timeframe for the development, in the RA report, is 15 years reaching mature state build out by 2020 similar to the Watson FIS report.

Generally speaking, the same comments I had with respect to the FIS report would apply to the RA report.

The later Watson Growth Strategy (GS) Phase 1/2 reports 2013/2104 essentially doubled the absorption period from 15 years utilized in the 2007 FIS to 30 years for the Red Leaves Minett development.

The RA report, as was the case with the FIS report, relied on input from the developer on the issue of market absorption rates and sales prices. Based on the later conclusions of the Watson GS reports, these original absorption assumptions are considered too aggressive and should not be relied upon.

In terms of economic impact, the RA report indicates operational expenditures of $1 Billion and visitor spending of $2 Billion - no detailed assumptions are provided in the RA report for operational expenditures on a per capita or per visitor basis. As such, it is difficult to comment much farther on the reliability of operational expenditure/visitor spending assumptions.

In terms of the employment impact in the RA report, the total employment impact is 18,552 jobs (14,824 in the District of Muskoka, 3,728 in rest of Ontario).

Of this total 4,565 jobs are related to construction (investment activity). Based on my review, construction/original investment employment should be categorized as person years of employment and not ongoing permanent jobs. It is further not clear from the report whether these jobs are direct jobs only or include indirect and induced employment. (I suggest it may include all 3 types of employment but this is not totally clear from the report).

Another major assumption in the RA report is the allocation of economic benefits between the District of Muskoka and Rest of the Province – the vast majority of the economic benefit is assigned to the District of Muskoka (75%-80%) without any analysis to justify this allocation. This appears unreasonable particularly if the analysis is including both direct and indirect / induced impacts. As the RA report indicates the analysis involves “the implicit assumption that the District of Muskoka economy has the capacity (or will have) to meet the demands associated with all aspects of the project”. There appears to be no analysis to justify this assumption.

Without more detailed review, this assumption is without merit and seems to grossly overstate the local (District of Muskoka) impact.

Finally, as is the case in many economic impact studies, the underlying assumption is this project and associated impacts are “additive” to the economy being analyzed. This is not always the case and the question should be raised: Is the demand directed to the Red Leaves/Minett project in whole or is part being transferred from other areas in the District/Province?

Since the time of the Watson FIS & RA reports (2006/2007), the Red Leaves Marriott was built in 2008 adding 221 units to the existing hotel inventory at Cleveland’s house.

Based on Census employment growth in the period 2006-2016 (see attachment), only 55 new jobs were created in the Township of Muskoka Lakes with net job loss of 800 jobs in the District of Muskoka. The RA report had forecast 2,952 jobs associated with the operating phase of the hotel and residential development in the District. As can be seen, the net economic impact of this additional room inventory does not seem in any way to approach the sizeable economic benefits that were forecasted for the Hotel development in the RA report.

3.0 Conclusion and Recommendations

Given the time period that lapsed since the date of the original Red Leaves/ Minett Watson FIS (2007) and RA Economic Impact (2006), coupled with the availability of more up to date information on the ultimate build out of the Red Leaves development, assessment and market absorption rates, it is strongly suggested that a major update or new FIS be carried out of the Minett development. Further, the critical assumptions regarding including growth shares, comparable assessments, facility based costs and economic should be subject to peer review when this analysis is undertaken.

We understand that the District of Muskoka is currently (May, 2018) seeking proposals for an update of the Growth Strategy and Development Charges Background Study for a new DC Bylaw. The information to be provided in these two studies may provide the data to properly update the previous fiscal impact and economic impact work undertaken for the Red Leaves / Minett development.

Yours truly,

IBI GROUP

Randy M. Grimes

cc: Ms. Catherine Lyons, Goodmans LLP

ATTACHMENT

Dwellings: Township of Muskoka Lakes, District Municipality of Muskoka

	Census						Muskoka Second Home Study			
	Total Private Dwellings			Private Dwellings not Occupied by Usual Residents			Seasonal Dwellings			
	2006	2016	2006 - 2016 Growth	2006	2016	2006 - 2016 Growth	2004 Study	2013 Study	2017 Study	2004 - 2017 Growth
Township of Muskoka Lakes	9,211	9,343	1.4%	6,532	6,429	-1.6%	6,706	7,013	7,217	7.6%
District Municipality of Muskoka	44,634	46,207	3.5%	21,483	20,776	-3.3%	20,567	22,354	22,879	11.2%

Note: District Municipality of Muskoka 2017 Second Home Study used 2017 Municipal Property Assessment Corporation (MPAC) data to estimate seasonal dwellings in Muskoka.
Source: IBI Group based on 2006 and 2016 Census of Canada data, District Municipality of Muskoka 2004, 2013, 2017 Second Home Study

Population: Township of Muskoka Lakes, District Municipality of Muskoka

	2004 Muskoka Second Home Study			2017 Muskoka Second Home Study		
	Permanent (2001 Census)	Seasonal	Total	Permanent (2016 Census)	Seasonal	Total
Township of Muskoka Lakes	6,042	24,946	30,988	6,588	26,992	33,580
District Municipality of Muskoka	53,106	76,098	129,204	60,599	81,907	142,506

Source: IBI Group based on District Municipality of Muskoka 2004, 2017 Second Home Study

Employment: Township of Muskoka Lakes, District Municipality of Muskoka

	Accommodation and Food Services			All Industry		
	2006	2016	2006 - 2016 Growth	2006	2016	2006 - 2016 Growth
Township of Muskoka Lakes	385	440	14.3%	2,875	2,935	2.1%
District Municipality of Muskoka	3,885	3,085	-20.6%	30,460	28,800	-5.4%

Note: Includes employment with usual place of work (based on place of work), work at home and estimated no fixed place of work
Source: IBI Group based on 2006 and 2016 Census of Canada data