



Report to: General Committee

Meeting Date: May 23rd, 2023

SUBJECT: Development Charges and Community Benefits Charge December 31, 2022 Reserve Balances and Annual Activity of the Accounts

PREPARED BY: Shannon Neville, Senior Financial Analyst, ext. 2659
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RECOMMENDATION:

1. That the report titled “Development Charge and Community Benefits Charge December 31, 2022 Reserve Balances and Annual Activity of the Accounts” be received by Council as required under Section 43(1) of the *Development Charges Act, 1997, as amended*, and Section 37(48) of the *Planning Act*; and further
2. That staff be authorized and directed to do all things necessary to give effect to this report.

PURPOSE:

Section 43(1) of the *Development Charges Act, 1997, as amended*, requires the Treasurer to submit annually to Council a financial statement relating to Development Charges by-laws and reserve funds established under Section 33 of the *Development Charges Act, 1997*. This report includes the financial statement required under the Act, as well as information regarding the semi-annual indexing that occurred during 2022.

Additionally, Section 37(48) of the *Planning Act* requires that a report shall be provided to the public that provides the financial statements and activity of the Community Benefits Charge transactions in the preceding year. This report includes the necessary information required to satisfy the conditions under the *Planning Act*.

BACKGROUND:

As part of the *Development Charges Act, 1997, as amended (DCA)*, the Treasurer is to report annually on the funds received and dispersed as shown in the attached schedules.

In accordance with the *Planning Act*, the municipality is required to report on the Community Benefits Charge transactions for the year.

Enclosed are the statistics for the twelve (12) months ended December 31, 2022.

FINANCIAL CONSIDERATIONS

COMMUNITY BENEFITS CHARGE

Through *Bill 197, COVID-19 Economic Recovery Act, 2020*, the Community Benefits Charge (CBC) replaced the Section 37 density bonusing under the *Planning Act*. In tandem with the 2022 Development Charges Background Study, Council also approved the CBC Strategy and By-law, which went into effect as at May 31st, 2022. To date, all applications processed have qualified for

the previous Section 37 requirements and therefore, no CBCs have been collected. As a result, there are no transactions to be reported by the City as at December 31st, 2022. This information is provided in accordance with Section 37(48) of the *Planning Act*.

DEVELOPMENT CHARGE - SUMMARY OF ACTIVITY

The December 31, 2022 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$112,972,877 (Schedule A). This balance represents the cash, letters of credit and receivable balances in the reserves, but does not take into account commitments for approved capital projects.

Approved capital commitments against the reserves as at December 31, 2022 totaled \$48,828,229 resulting in an adjusted (committed) reserve balance of \$64,144,648 (\$112,972,877 less \$48,828,229). These balances do not include capital projects totaling over \$100M that were approved through the 2023 budget.

As depicted in Schedule B, the net increase in the reserve fund before capital commitments from January 1, 2022 to December 31, 2022 was \$1,595,347 (\$112,972,877 less \$111,377,530). Schedule B also outlines the net amount of \$29,523,680 transferred to capital projects in 2022, which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$32,769,698 of growth-related projects funded from development charges (Schedule C), as well as transfers to development charges of \$3,246,018 resulting mainly from the closure of capital projects as well as the realignment of funding sources.

In addition to the \$32,769,698 of growth-related capital projects funded from development charges in 2022, there are other associated sources of project funding which are identified in Schedule C.

A summary of the development charge activity for the year is as follows:

January 1, 2022 opening balance	\$111,377,530
Development Charges received	\$28,908,800
Interest	\$2,210,227
Net amount transferred to capital projects	(\$29,523,680)
Balance as at December 31, 2022	<u>\$112,972,877</u>

The balance of the Development Charge Reserve Fund is comprised of the following major categories:

City-Wide Soft	(\$2,196,106)
City-Wide Hard	\$109,527,420
Area-Specific	\$5,641,563
Total	<u>\$112,972,877</u>

INTEREST

During 2022, there were no long term investments of development charge reserve funds however, the cash on hand earned interest at a competitive rate at the bank in line with short term investment rates. The interest earned for the year amounted to \$2,210,227 (Schedule D).

DEVELOPMENT CHARGE CREDITS

Schedule E provides information on credit agreements that the City has with developers who have constructed infrastructure on the City's behalf. The City has future credit obligations in the amount of \$18,248,334, which is to be offset from development charges payable when the respective developers execute their agreements.

COMPONENT CATEGORIES

Schedule F provides the year-end balance of each reserve for 2020 through 2022 along with the percentage change over the three-year period.

The chart below summarizes the year-end DC reserve balances by component category, taking into account the total approved capital commitments:

	YEAR-END BALANCES			% CHANGE 2020 - 2022
	2020	2021	2022	
CITY-WIDE SOFT SERVICES	(\$5,174,711)	(\$2,576,697)	(\$2,196,105)	58%
CITY-WIDE HARD SERVICES	\$76,371,372	\$106,233,021	\$109,527,420	43%
AREA SPECIFIC CHARGES	\$7,466,058	\$7,721,206	\$5,641,563	-24%
TOTAL DEVELOPMENT CHARGE RESERVE	\$78,662,719	\$111,377,530	\$112,972,877	44%
CAPITAL COMMITMENTS AT YEAR-END	(\$57,117,182)	(\$41,068,941)	(\$48,828,229)	15%
ADJUSTED DC RESERVE BALANCES	\$21,545,537	\$70,308,589	\$64,144,648	198%

The City Wide Soft services reserves negative balance has improved since 2020 due to the recovery of negative reserve balances. The City Wide Soft services reserves are in a negative balance due to the pre-employment of recreational facilities.

The increase in the City Wide Hard reserve is primarily due to a slower pace of expenditures on engineering-related infrastructure than anticipated, to match growth patterns.

DEVELOPMENT CHARGES COMMITTED TO APPROVED PROJECTS

Growth-related capital projects approved as part of the annual budgets generally denote development charges as the major funding source, but the actual cash funding for capital expenditures totaling one million dollars or greater is not transferred to the project until required. This process retains cash within the Development Charge Reserve Fund to earn as much interest as possible for the reserve. Upon the approval of the budget, the reserve balances in the Development Charge Reserve Fund are considered to be committed to projects underway, or about to start.

The reserve balance for the year ended December 31, 2022 is significantly lower when capital commitments of \$48,828,229 are taken into account, leaving an adjusted (committed) reserve balance of \$64,144,648. The total capital commitments for 2022 represent an increase of \$7,759,288 (\$48,828,229 less \$41,068,941) compared to the prior year.

The capital commitments relate to City Wide Hard and City Wide Soft services projects which total approximately \$27.7M and \$21.1M respectively. The City Wide Hard includes projects such as the Miller Pond Site Preparation and Property Acquisition (\$15M), Miller Avenue – CN

to Kennedy Road (\$4M), and Cedar Avenue Reconstruction (\$3M). The City Wide Soft capital commitments includes projects such as the construction of Celebration Park (\$7M), the Dudley Fire Station (\$6M), and the Markham Centre-Rougeside Promenade Park (\$4M). The adjusted (committed) reserve balance of \$64.1M represents a \$6.2M decrease from the prior year closing balance of \$70.3M.

The chart below summarizes the 2022 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	(\$2,196,106)	(\$21,139,955)	(\$23,336,061)
CITY-WIDE HARD SERVICES	\$109,527,420	(\$27,688,274)	\$81,839,146
AREA-SPECIFIC CHARGES	\$5,641,563	\$0	\$5,641,563
TOTAL DEVELOPMENT CHARGE RESERVE	\$112,972,877	(\$48,828,229)	\$64,144,648

INDEXING

Section 15 of the City's Development Charge by-laws state that the charges referred to in each of the by-laws' shall be increased, if applicable, semi-annually without an amendment to the by-laws, on the first day of January and the first day of July, of each year, in accordance with the most recent change in the Statistics Canada Quarterly, *Construction Price Statistics* (Catalogue No. 62-007). Indexing the City's development charges helps to partially mitigate the impact of inflationary increases on future growth-related costs.

In accordance with the by-laws, the development charge rates were indexed up by 9.6% on January 1, 2022. This represents the increase in the prescribed index, the Statistics Canada Quarterly, *Construction Price Statistics* for non-residential buildings in Toronto. As new development charge by-laws went into effect on June 17th, 2022, the development charge rates were not indexed on July 1st, 2022 however, this index was included in the January 1st, 2023 rate adjustment.

2022 BACKGROUND STUDY

The Development Charges Background Study was completed as projected in May 2022. After receiving approval from Council, the 2022 Development Charges By-laws for City-wide Hard, City-wide Soft, and Area Specific went into effect as at June 17th, 2022.

THE MORE HOMES BUILT FASTER ACT, 2022 (BILL 23)

In late October 2022, the Province of Ontario introduced the *More Homes Build Faster Act, 2022* (Bill 23). The legislation received Royal Assent on November 28, 2022 and resulted in significant changes to the DCA. A summary of the most notable items are included below:

- Mandatory phase-in of DC rates
 - For DC by-laws enacted from January 1st, 2022 onwards, a municipality may only collect 80% of the approved rates in the first year of the by-law. This increases annually by 5% until the fifth year when the new rate applies. Therefore, 100% of the DC rates included the City's DC by-laws in effect as at June 17, 2022, cannot

be collected until June 17, 2026. The phase-in applies to the entire new DC rates, not the incremental rate increase. Upon Bill 23 receiving Royal Assent, the City made an immediate reduction to its development charge receivables in the amount of \$2.9 million, and the DC rates in effect were adjusted to 80%. Overall, this is projected to reduce revenues by an average of \$8M annually.

- Studies are no longer a DC eligible cost
 - This impacts DC by-laws passed from November 28, 2022 onward. Prior to the new legislation, growth-related studies (e.g. planning and DC background studies) were eligible to be funded through development charges and therefore the City's 2022 Background Study allocated approximately \$4.6M annually to this expenditure.
- Land may no longer be an eligible capital cost.
 - The services for which land may no longer be an eligible capital cost have not yet been prescribed, however this could have a substantial impact given the large cost associated with land purchases. The 2022 DC Background Study Capital Program includes \$17.8M in land to be funded from the City Wide Soft Services (i.e. Fire, Recreation, Library, etc), and approximately \$25.7M in City Wide Hard Services (i.e. Roads and Structures). It is anticipated that the services that will exclude land will be communicated by the Province prior to the end of 2023.
- Non-profit, affordable/attainable, and rental housing
 - Non-profit, affordable and attainable housing are now all exempt from development charges. The regulations defining the criteria for what constitutes 'affordable' and 'attainable' housing, have not been disseminated and enacted. Additionally, rental housing developments receive both a deferral of DCs (paid over six equal annual instalments beginning at occupancy), as well as a reduction in the development charges levied (based on the number of bedrooms). Combined, this is estimated to reduce development charge revenues by approximately \$4M annually.

The high-level estimates included above will be further refined once the regulations defining all the above changes, have been prescribed. The changes now in force will significantly reduce development charge revenues as well as cash flow, and impact the City's ability to fund infrastructure required to maintain existing service levels unless the burden is shifted to the existing tax base. An analysis of the City's existing Development Charge policies is under way to address the legislative changes.

COMPLIANCE WITH THE *DEVELOPMENT CHARGES ACT, 1997*

For the year ended December 31, 2022, the Reserve Balance and Annual Activity Statement is in compliance with the *DCA 1997, as amended*. The City has not imposed additional levies in accordance with Subsection 59.1 (1) of the Act.

BUSINESS UNITS CONSULTED & AFFECTED:

N/A

RECOMMENDED BY:

Mark Visser
Acting Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

Schedule A – Summary Statement - Balances by Component of the Reserve Fund

Schedule B – Continuity Statement - Funds Received and Dispersed by Category

Schedule C – Capital Fund Transfers Addendum

Schedule D – Summary of Investments - Reg. 74/97 Section 8 of the Municipal Act

Schedule E – Credit Obligation Summary

Schedule F – Statement of Change in Year-end Balances