



## REPORT

### Council

**Meeting Date: May 25, 2022**

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**FROM:** Finance Department

**DATE:** May 10, 2022

**SUBJECT:** **2021 Development Charges, Cash in Lieu of Parkland and Bonus Zoning Reserve Fund Statements**

**LOCATION:**

**WARD:** Town-wide

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#### **RECOMMENDATION:**

That the staff report dated May 10, 2022, entitled *2021 Development Charges, Cash in Lieu of Parkland and Bonus Zoning Reserve Fund Statements* from the Finance department, be received.

#### **KEY FACTS:**

The following are key points for consideration with respect to this report:

- The Development Charges, Cash in Lieu of Parkland, and Bonus Zoning reserve funds are obligatory reserve funds that may only be used for capital costs set out in the *Development Charges Act, 1997* (DCA), its regulations, and specified costs set out in the *Planning Act*.
- To comply with reporting requirements, the treasurer of the municipality must provide annual financial statements to Council relating to by-laws and reserve funds established for the purposes of Development Charges, Cash in Lieu of Parkland, and Bonus Zoning.
- These statements must contain prescribed information with respect to the sources and uses of the funds received from developers and be made available to the public and, upon request, to the Ministry of Municipal Affairs and Housing (MMAH).

#### **BACKGROUND:**

The purpose of this report is to present the required 2021 Development Charges, Cash in Lieu of Parkland, and Bonus Zoning Reserve Fund Statements to Council and provide information on financial transactions which occurred during the year in relation to these reserve funds.

### Development Charges

DCs are collected under the authority of the DCA and the town's DC by-law, to address the increased service needs of the community triggered by growth. DCs are typically collected at the time of building permit issuance on a per unit basis for residential dwellings and on a square metre basis for non-residential buildings. Collections and interest provide the main sources of revenue for the fund.

Section 43 of the DCA and O. Reg. 82/98 require that financial statements relating to the municipality's DC by-laws and reserve funds established under section 33 of the DCA be provided annually to council, the public and, upon request, the MMAH. They also set out the prescribed information to be contained in the statements, including but not limited to requirements such as, opening and closing balances, transactions relating to the funds and the provision of all other sources of funding for any projects funded by DCs.

### Bonus Zoning

Bonusing is a tool provided by section 37 of the *Planning Act* that allows municipalities to secure public benefits through bonusing agreements in exchange for permitting additional height and density in a development through the re-zoning process. Its use is contingent on there being enabling bonusing policies/provisions in place in the municipality's official plan and zoning by-law. Funds collected are held in a segregated reserve fund, established for this purpose, and spent only for facilities, services and other matters specified in accordance with provisions of the legislation. The town's Livable Oakville Plan, North Oakville Secondary Plans, Zoning by-law and Bonusing procedure contain the required policy statements along with guidance on where and how the benefit should be provided. On September 18, 2020, significant changes to section 37 of the *Planning Act* came into force. A two year transition period (September 18, 2022) was set for municipalities to migrate to the new section 37 Community Benefits Charges. A Community Benefits Charge Strategy and by-law will be taken to Council in the summer of 2022.

### Cash in Lieu of Parkland

Cash in lieu of Parkland is collected and utilized in accordance with the *Planning Act*, and town by-law 2008-105, which permits a municipality to require, as a condition of development, that land be conveyed to the municipality for park or other public recreational purposes. Alternatively, there may be required a payment in lieu, to the value of the land otherwise required to be conveyed. Parkland requirements in the form of cash-in-lieu are at the rate of 2% of the land value for commercial or industrial development and the greater of 5% or 1 hectare per 500 units for residential development. As a result of legislative changes, the by-law will expire on September 18, 2022, and a new by-law must be passed that validates collection

rates. Funds collected are held in a segregated reserve fund, established for this purpose, and spent only on acquisition of land for a park or other ancillary park purposes such as the acquisition of machinery and the erection, improvement, or repair of buildings.

**COMMENT/OPTIONS:**

Development Charges

DC reserve fund balances increased in 2021 by \$57.7 million from an opening balance of \$100.9 million to a closing balance of \$158.6 million. During the year, \$69.5 million in DCs were collected from 3,396 new residential units and 25,255 square metres of non-residential growth in the town. DCs provided for \$10.5 million in capital funding to growth projects and \$3.9 million in debt financing recoveries. It should be noted that transfers from DC reserve funds to finance capital works can only be made once spending has occurred, in accordance with PSAB principles. When outstanding commitments from approved projects and available DC exemption reserves are taken into account, the uncommitted balance at year-end was \$131.9 million.

In 2021, the town amended its DC By-law to reflect changes to the DCA made through Bill 108, the *More Homes, More Choice Act, 2019*, Bill 138, the *Plan to Build Ontario Act, 2019*, and Bill 197, the *COVID-19 Economic Recovery Act, 2020*. The amendment resulted in an increase to residential rates by 3.5% and non-residential rates by 0.8%. The town indexes its DC rates annually on April 1<sup>st</sup> in accordance with the year over year change in the non-residential construction index for Toronto, which resulted in a further increase of 2.5%.

Investment and interest income are allocated to DC reserve funds in accordance with the town's approved reserves/reserve funds procedure based on the proportionate share of the service component to the total reserve fund balance. DC reserve funds with positive balances are allocated interest and DC services with negative balances are charged interest. The earnings rate of the town's investment portfolio dictates the percentage of interest earned or charged.

Appendix A provides a summary of opening and closing balances and financial transactions relating to all DC reserve funds held by the town for the period ended December 31, 2021. While some DC services are in a negative position, the overall DC reserve fund balance at the end of 2021 is positive. Fluctuations in reserve fund balances by service are expected, as capital projects required due to growth are usually expensive, generally large in scale, and complex in nature (for example, building new community centres and parks or widening roadways). As such, they typically span multiple years and provide significant additional capacity to services. The 2022 Development Charge Background Study includes an updated growth

forecast, project costing, and calculation of development charge rates for each service to ensure that the town is collecting appropriately. 2021 financing activity from DC reserve funds is detailed in Appendix B by capital project. As noted previously, projects are funded from DCs based on spending to date in accordance with approved capital budgets and PSAB. In addition, this appendix provides information on other sources of funding utilized for the project. Operating costs reflected in this appendix that received DC funding are solely for the repayment of principle and interest on debt issued to fund capital projects. The debt financing recovery was the final debt payment related to the Sixteen Mile Sports Complex. Those projects requiring financing outside of the budget process were funded in accordance with council approved financing policies.

The town's DC by-law also provides for credits against the applicable service component of the charge when a developer enters into a financing arrangement with the town for a DC financed project or provides services in lieu of DC's. Credits may then be applied towards DCs as they become due (i.e. building permit issuance or in accordance with the terms of the applicable development agreement). For the year 2021, the town does not have any outstanding DC credits of this nature. Demolition credits exist when a demolition permit is issued for a building or structure on a site. This credit can be applied towards future DCs owing on the same site, provided a permit for the new construction is issued within five years of the issuance date of the demolition permit. Demolition credits of \$352 thousand were utilized in 2021.

Developments that meet the definition of rental housing, institutional, and non-profit housing are able to defer the payment of development charges to occupancy rather than building permit issuance. These development types may pay in 6 annual instalment payments over 5 years (rental and institutional) and 21 annual instalments over 20 years (non-profit housing). At the end of 2021, \$3 million in DCs are outstanding for two developments (rental apartment, retirement home), and are expected to be collected over the coming five years. The other major change is the calculation of development charges at the date of a complete application for a site plan or zoning amendment, for developments or redevelopments proceeding through either of these applications. This rate will be frozen for two years after the approval of the application, and only applies to applications received since January 1, 2020.

In order to cover the costs associated with the deferral of payments and rate freeze, the town has the ability to charge interest. Deferrals may result in cash flow pressures which could increase the need for debt financing, and the rate freeze adds risk that collection rates do not keep pace with growth-related costs and needs. The prime lending rate of the town's financial institution is used for the development charge rate freeze and deferral interest in accordance with the Development Charges Interest Policy and related Development Charges Interest Procedure. The purpose is to limit financial risk associated with the new collection

requirements, and the interest rate will be monitored for appropriateness in connection with borrowing rates and inflation. The prime lending rate for 2021 was 2.45%, resulting in \$72 thousand of installment interest and \$219 thousand in rate freeze interest. The prime lending has increased in 2022, and is currently at 3.20%.

In addition, the DCA and town's DC by-law provide for mandatory and discretionary exemptions from DCs, including but not limited to, municipally-owned lands, certain agricultural structures, hospitals, areas of worship, expansions less than 50% of the size of existing industrial buildings, etc. Mandatory exemptions for additional dwelling units in new residential buildings and more than one unit in existing residential buildings were introduced in September 2020 as part of the legislative changes from Bill 108. The following table details exemptions as well as demolition/conversion credits applied to development or redevelopment in 2021. DC exemption funding is carried in a separate reserve and balances are shown in Appendix A, with transfers to fund capital works shown in Appendix B.

EXEMPTIONS				
Category	Authority	Sq. Metres	# of units	\$
Municipal/Provincial/ School Board	DCA, 1997	2,060	15	\$445,625.35
Industrial Expansion	DCA, 1997	4,386		\$548,839.11
Secondary Units	DCA, 1997		92	\$1,179,876.36
Area of worship	By-law	-		-
<b>Total Exemptions</b>		<b>6,446.00</b>	<b>107</b>	<b>\$2,174,340.82</b>
School Board - Temporary Structures	DCA, 1997	2,564		\$327,268.96
Demolition Credits	By-law	2,472	1	\$352,096.08
<b>Total Exemptions and Credits</b>		<b>11,482.00</b>	<b>108</b>	<b>\$2,853,705.86</b>

Appendices C and D provide supplemental information required by O. Reg. 82/98 and Sec. 43 of the DCA including descriptions of the DC service categories, specific transaction types, and a statement of compliance with section 59.1 (1) of the DCA.

The annual statement of DC reserve funds as presented herein to council satisfies the requirements of the DCA, O. Reg. 82/98, and the town's DC by-law. Subsequent

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to Council's approval, this report will be made available to the public on the town's web site and, upon request, to MMAH.

### **Cash-in-lieu of Parkland and Bonus Zoning**

To comply with provisions of the *Planning Act*, the 2021 annual statement of the cash in lieu of parkland and bonus zoning reserve funds must include the following for the preceding year;

- (a) The opening and closing balances of the reserve fund and transactions relating to the account;
- (b) Information pertaining to,
  - (i) Identification of land, facilities, services or other matters specified in the authorizing by-laws for which funds from the reserve funds have been spent during the year,
  - (ii) Details of the amounts spent, and
  - (iii) The manner in which any capital cost not funded from the special account was or will be funded; and
- (c) Any other information that is or becomes prescribed.

Appendix E details 2021 activity in these reserve funds in compliance with the reporting requirements of the *Planning Act*.

Cash in lieu of parkland is collected in accordance with the *Planning Act* and the town's by-law 2008-105. Funds received are deposited to the segregated reserve fund for parkland purposes and interest applied in accordance with town policy and procedures. Eligible disbursements from the fund are in accordance with the provisions of legislation, town policy and approved budgets. In 2021, \$31.9 million was collected in cash in lieu, and \$416 thousand was transferred to finance capital works.

2021 activity in the bonus zoning reserve fund consists of the application of interest earnings to the fund balance. There were no collections or funding transfers.

### **CONSIDERATIONS:**

#### **(A) PUBLIC**

DCs provide a non-tax source of revenue to finance growth-related municipal land and infrastructure. The DCA requires the treasurer to report to Council annually on the activity in the development charge reserve funds.

The *Planning Act* requires the treasurer to report to Council annually on activity in the cash in lieu of parkland and bonus zoning reserve funds.

The treasurer is further required to make a copy of these documents available to the public and, if requested, the Ministry of Municipal Affairs & Housing.

**(B) FINANCIAL**

Development charges are the main source of funding for growth-related land and infrastructure. Funding received through the provisions of the *Planning Act* provide additional non-tax levy revenue streams to finance growth-related land and infrastructure needs.

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

N/A

**(D) CORPORATE STRATEGIC GOALS**

This report addresses the corporate strategic goal(s) to:  
Be accountable in everything we do  
Be fiscally sustainable

**(E) CLIMATE CHANGE/ACTION**

N/A

**APPENDICES:**

- Appendix A: Development Charge reserve fund statement
- Appendix B: Projects funded from Development Charges
- Appendix C: Treasurer's Statement – Development Charges
- Appendix D: Statement of Compliance – Development Charges
- Appendix E: Treasurer's Statement of Reserve Funds – Planning Act

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