COR-ADM-22-004
Bill 23 Financial Impacts in Waterloo Region

A&F Committee

December 6, 2022

Region of Waterloo

Bill 23 - Building More Homes Faster Act

Municipalities have limited revenue sources to fund capital investments: property taxes, user fees and development charges

Balanced budget requirement: every $ invested in infrastructure requires a source of funding

If one source of funds is restricted (i.e. DCs), the burden falls to the remaining sources (i.e. property taxes and user rates)

Bill 23 - Building More Homes Faster Act

Bill 23 received Royal Assent on November 28, 2022

The Bill reduces the amount of development charges collected by municipalities to fund the cost of infrastructure to support new housing

As DC revenue is reduced, municipalities will need to consider delaying the construction of infrastructure needed to accommodate new housing, taking on more long-term debt, and increasing property taxes and user rates

Bill 23 - Building More Homes Faster Act

Reducing municipal DCs will not result in more housing being built faster → housing supply could be slowed as infrastructure projects are deferred due to restricted municipal cash flow

Taxpayers will pay more for growth, which already does not pay for itself under pre-Bill 23 rules

The total cost of housing will increase due to higher property taxes and user rates

Financial Implications

Difficult to estimate due to implementation timing

- Different clauses come into effect at different times
- Impacts will be felt over the entire 10 year capital program

Advocate to the Province to keep municipalities whole

Financial Implications

Illustrative Financial Impact of Bill 23 in Four Key Areas Under the DCA				
All figures in $ Millions	Phase-In of DC Rates	Removal of Housing	Removal of Studies	Removal of Land
Region	$45	$260	$40	$100
Cities	$30	n/a	$28	$20
Townships	$5	n/a	$2	$5
Total	$80 over 5 yrs	$260 over 10 yrs	$70 over 10 yrs	$125 over 10 yrs

- Items not yet costed:
  - Mandatory discounts for purpose built rentals
  - Exemptions for affordable and attainable housing
  - Caps on interest rates for frozen and deferred DCs
  - Lower service standard calculation which reduces the amount of capital that is eligible for DC funding

DC Reserve Funds

- Mandated under the Development Charges Act
- DC reserve funds used to manage the ebb and flow of DC collections and growth-related capital costs
- Annual reporting through year-end audited financial statements, Financial Information Return, and prescribed annual DC transaction report
- Suggested by some that DC rates can be reduced without impacting property tax or water/wastewater rates due to the presence of DC reserve funds

DC Reserve Funds

DC reserve fund balance is used to pay for debt servicing costs and to pay for new infrastructure as it is built

Regional statistics:

- $85 million in DC reserve fund at the end of 2021, of which $58m was cash and $27m was in the form of future DC receivables
- $327 million in growth-related debt outstanding
- Capital program requires over $1.2 billion in DC funding over the next 10 years

DC Reserve Funds

Balance in DC reserve funds will vary from year to year for many reasons, including:

- The actual pace of development and timing of capital costs relative to the assumptions used in the DC rate calculations
- Capital costs can be incurred before development takes place, requiring municipalities to issue debt or to run a negative balance in their DC reserve funds
- Municipalities may build up DC balances over a period of time to fund a future project
- Temporary or isolated increase in the volume of building permits issued

Concluding comments

Development charges are used to fund the infrastructure needed to support housing

Reducing DC revenue will require additional funding from property taxes and user rates, and/or delayed infrastructure investment, and/or additional debt issuance

The Region's DC reserve funds are modest relative to the amount of growth-related debt outstanding and the DC funding required in our 10 year capital program