Report: COR-CFN-23-026

Region of Waterloo

Corporate Services

Corporate Finance

To:	Administration and Finance Committee
Meeting Date:	June 6, 2023
Report Title:	Sustainability of Regional Development Charges

---

1. Recommendation

For Information.

2. Purpose / Issue:

To present analysis and commentary relating to the Region's development charge (RDC) collections/reserve fund balances to assist in determining the sustainability of the RDC rates established under the current Development Charge By-law.

3. Strategic Plan:

This report supports strategic objectives found in the Corporate Strategic Plan, and particularly section 5.4 Ensure the Region provides value for money and long term financial sustainability under Focus Area 5, Responsive and Engaging Public Service.

4. Report Highlights:

- The Region's DC By-law (19-037) came into force on August 1, 2019 and expires on July 31, 2029. The supporting background study utilized information from several recently completed master plans that are still in effect. Council implemented the maximum calculated RDC rates as set out in the background study and those rates have been in effect since August 1, 2019, subject to annual indexing.
- The More Homes Built Faster Act, 2022 (Bill 23) introduced several amendments to the Development Charges Act (DCA) that reduce the amount of development charges that municipalities collect to fund growth-related infrastructure. Some of these amendments are in force now while others will come into effect when the Region next updates its DC By-law.
- Considerations that support undertaking a new Development Charge Background Study and By-law Update primarily relate to the inclusion of additional DC eligible capital costs resulting from new projects, capital cost escalation, and project timing adjustments into the Region's Development Charge Rates.

- Considerations that support continuing under the current by-law for the near term primarily relate to providing certainty with respect to DC rates while the Region advances master servicing plans to align with the recently approved Regional Official Plan (ROPA 6) that could materially affect the DC rates. In addition, the Region's DC reserve funds are in an improved position resulting from strong development activity over the past couple of years.

- Given that the Region's Development Charge Rates were calculated utilizing master plans that are currently in effect and considering the relative stability of the reserves, the rates established under the current by-law are sufficient to continue for the near term while staff undertake additional exploratory work with respect to ROPA 6 and the potential impact on the related master servicing plans and technical information required to develop the background study. Staff will report to Council as this work progresses and anticipate bringing a recommendation forward with respect to the timing of the next Development Charge Background study later this year.

5. Background:

The Development Charges Act, 1997 (DCA) enables a municipality to, by by-law, impose development charges against land to pay for increased capital costs due to the increased need for services arising from development of the area to which the by-law applies. DC By-laws must be updated at least every ten years. The area municipalities on behalf of the Region collect development charges. The funds are remitted to the Region on a monthly basis and allocated to reserve funds, which in turn are used to fund approved capital expansion projects in the following areas: Roads, Airport, Water & Wastewater, Police, General Government (planning studies), Operations/Facilities, Library, Transit, Paramedic Services, and Waste Management.

The Region's DC By-law (19-037) came into force on August 1, 2019 and expires on July 31, 2029. The supporting background study utilized information from several recently completed master plans that are still in effect. Council implemented the maximum calculated RDC rates as set out in the background study and those rates have been in effect since August 1, 2019, subject to annual indexing. The appeal initiated by St. John's Kilmarnock School was withdrawn and no further appeals can be initiated against the current by-law. As such, it will stand until expiry in July 2029 unless repealed earlier by Council.

The More Homes Built Faster Act, 2022 was enacted on November 28, 2022. Through this Act, the Province introduced several amendments to the Development Charges Act that result in less DC revenue collected by municipalities to fund the costs of growth-related infrastructure that supports both new housing as well as commercial/industrial development. Specifically the amendments to the DCA:

- Exempts certain development from the payment of DCs

- Introduces mandatory DC discounts
- Requires a mandatory discounted phase-in of new DC rates (for residential and non-residential development)
- Makes the costs associated with studies and certain land acquisitions ineligible
- Removes Housing as a DC-eligible service
- Caps the interest rate on frozen and deferred DCs
- Expands the historical service standard from 10 to 15 years, thereby generally creating a lower service standard for services, other than Public Transit which has a forward-looking service level

The term for Development Charge By-laws has also been increased from five years to ten years, and this has extended the expiry date of the Region's by-law from July 31, 2024 to July 31, 2029 (there is no specific expiry date referenced in the Region's by-law).

Considerations that support undertaking a new Development Charge Background Study and By-law update include:

- Cost escalation and the acceleration of growth-related infrastructure projects since the implementation of the RDC by-law impacts RDC cash flow.

    - The RDC rates currently in effect were calculated using estimated costs for projects in the 2019-2028 Capital Plan. As projects move into detailed design, amendments to the estimated costs may be required for some projects. In addition, new RDC eligible projects may be identified that were not included in the current RDC rates. Changes to the timing and cost of growth-related projects have occurred since the Region's RDC by-law came into force, particularly in Transit (ION Stage II land, King-Victoria Transit Hub, and Vehicles/Electrification) and the Airport (Terminal Expansion). This may require the issuance of additional growth-related debt or interim funding from an alternative source until the additional costs can be recovered from future RDC rates. Opening the by-law now may allow some these costs to be included in the DC rates sooner, the extent of which would be determined through the background study.

- There is an increasing reliance on growth-related debt to finance infrastructure, resulting in an increasing share of annual RDC collections allocated to fund existing debt servicing costs.

    - Between 2013 and 2022, the Region issued approximately $358 million of growth-related debt, 85% of which relates to Wastewater (37%), Transit (32%), and Roads (16%). The resulting annual debt servicing costs are $24 million.

  - The Region's 2023-2032 Capital Plan contemplates additional growth-related debt of approximately $488 million. The need for additional growth-related debt exposes the Region to development charge revenue risk, in that the Region will need to meet the contractual obligation to pay debt servicing costs from an uncertain development charge revenue stream. This is particularly evident in Water, Wastewater, Transit and Roads where an increasing share of RDC collections are required to fund debt servicing costs.

  - Opening the by-law now may mitigate the quantum of the additional planned debt due to additional project costs being included in the rates sooner, the extent of which would be determined through the background study.

- The cost of Development Charge exemptions is increasing.

  - The Region's by-law includes Council approved exemptions for public hospitals, brownfields (expires July 31, 2024), core areas of Cambridge (expired April 20th, 2022) and discounts for qualifying office and industrial development. These exemptions, along with core area exemptions from the previous by-law ($3.9M per year 2023-2028 remaining), must be funded from user rate and tax levy sources and have been increasing over the term of the by-law, particularly for industrial. The cost of the exemptions over the term of the by-law is set out in Appendix A.

  - These exemptions, along with other policy considerations such as the area rating of development charges, are contained within the DC by-law itself, which means that they require an updated background study, and by-law to be amended.

Considerations that support continuing under the current by-law for the near term include:

- The Region's current by-law provides certainty.

  - The supporting background study utilized information from several recently completed master plans that are still in effect. Council implemented the maximum calculated RDC rates as set out in the background study. The current by-law cannot be appealed so the methodologies utilized to calculate the rates for various services all hold until the by-law is opened, at which point, they can be challenged.

- Certain amendments to the DCA resulting from the More Homes Built Faster Act, 2022 that further hinder a municipality's ability to fund growth-related infrastructure come into effect when the Region next updates the by-law.
    - newly calculated rates must be phased in over 5 years (80% year 1, 85% year 2, 90% year 3, 95% year 4 and 100% year 5).
    - studies and land for prescribed services will no longer be eligible costs
    - the service level cap is extended to 15 years (from 10 years) thereby reducing the amount of eligible costs that can be included in the rates for certain services.
    - These amendments do not impact the current by-law

- ROPA 6 and Master Plan Updates will determine the growth-related infrastructure requirements to 2051.

    - The Region's Official Plan (ROPA 6) was recently approved by the Minister of Municipal Affairs and Housing with 12 modifications including the expansion of the Urban Area/Township boundaries by approximately 2,700 hectares. The plan will shape how and where the community will grow to the year 2051. The Region and Area Municipalities will update the population and employment growth allocations across the region to support the next phase of infrastructure master planning with the Water Supply Master Plan, the Wastewater Treatment Master Plan and the Integrated Mobility Plan planned to be completed by 2025.

    - The growth-related infrastructure identified through the master service planning process will ultimately be reflected in future capital programs and development charge background studies. Amendments to these plans can have material impacts on the development charge rates.

    - Proceeding under the current by-law will allow time for this work to advance

- The 2023 opening cash balance for the DC Reserve Fund is $98.6 million.

    - Strong development activity over the past couple of years has led to the DC reserves maintaining a relatively stable position, which somewhat mitigates the amount of growth-related debt originally planned for 2023-2027. A five-year continuity of the consolidated RDC Reserve Fund is set out in Appendix B.

    - There is an additional $30.9 million of RDCs receivable primarily from residential buildings that have had permits issued but are subject to deferred payments under the DCA that are expected to be collected over the next 5-7 years.

6. Area Municipality Communication and Public/Stakeholder Engagement:

Area Municipality Communication:

The expiry dates of the current area municipal and school board DC by-laws are as follows:

Municipality/ School Board	Current DC By-law - Expiry Date
Cambridge	1-Jul-2024
Kitchener	30-Jun-2027
North Dumfries	31-Dec-2025
Waterloo	31-Dec-2024
Wellesley	31-Dec-2024
Wilmot	31-Aug-2024
Woolwich	7-Jul-2024
WRDSB	31-May-2026
WCDSB	31-May-2026

The Cities of Cambridge and Waterloo and the Townships of Wellesley, Wilmot and Woolwich will all be required to update their local development charge by-laws in 2024.

Public/Stakeholder Engagement:

A copy of this report will be available on the Region’s Website.

7. Financial Implications:

Development charges are used to fund a portion of the cost of growth-related capital works. Existing RDC Fund balances along with future RDC revenues will be utilized to fund growth-related debt servicing costs and approved capital projects as set out in each year’s capital budget.

8. Conclusion / Next Steps:

Staff will undertake additional exploratory work with respect to ROPA 6 and the potential impact on the related master servicing plans and technical information required to develop a Development Charges Background Study. Staff will report to Council as this work progresses and anticipate bringing a recommendation forward with respect to the timing of the next Development Charge Background Study later this year. Staff will continue to monitor DC collections, exemptions, and growth-related debt requirements and update Council through Periodic Financial Reports.

9. Attachments:

Appendix A: Funded Development Charge Exemptions 2019 - 2022

Appendix B: Five-Year Continuity of RDC Reserve Fund

Prepared By: Shane Fedy, Manager, Infrastructure Financing

Reviewed By: Cheryl Braan, Director, Corporate Finance

Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer