

# Staff Report

Financial Services Department



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**REPORT TO:** Committee of the Whole

**DATE OF MEETING:** December 11, 2023

**SUBMITTED BY:** Lautenbach, Jonathan, Chief Financial Officer, 519-741-2200 ext. 7334

**PREPARED BY:** Mark Gallas, Investment and Treasury Analyst, 519-741-2200 ext. 7340

**WARD(S) INVOLVED:** All

**DATE OF REPORT:** December 1, 2023

**REPORT NO.:** FIN-2023-525

**SUBJECT:** 2022 Development Charge Reserve Fund Report

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**RECOMMENDATION:**  
For information

**REPORT HIGHLIGHTS:**

- The purpose of this report is to provide a summary of development charges that have been received and spent in 2022.
- The key finding of this report shows an ending balance in the development charge reserve funds of \$14M.
- This report supports the delivery of core services.

**BACKGROUND:**

Section 43 of the *Development Charges Act, 1997* (the “Act”) requires that the Treasurer submit to Council an annual statement of the development charge reserve funds.

**REPORT:**

Summary of Development Charges Legislation:

The Act provides the authority and process for the imposition and collection of development charges (DCs).

DCs are generally paid as a part of the building permit process and are collected to fund growth-related capital costs for services as allowed by provincial legislation. Services were historically grouped into two categories: discounted services and non-discounted services. The Act had previously required that a discount of 10% be applied to the growth-related capital costs for discounted services when calculating DC rates, while non-discounted

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services referred to services for which the legislation did not require a reduction. The following table shows which services within the City of Kitchener fit into the discounted and non-discounted categories:

<i>Discounted Services</i>	General Government Studies Parking (see commentary below) Indoor Recreation Outdoor Recreation Cemeteries Library
<i>Non-Discounted Services</i>	Roads and Related Sanitary Servicing Watermains Storm/Watercourse Intensification Allowance Engineering Studies Public Works Fire

In 2019 under Bill 108, *More Homes, More Choice Act, 2019*, changes were made to the Act that removed the requirement for the 10% discount. The passage of the City's new DC by-law 2022-071 in 2022 incorporated these changes, meaning that moving forward for 2023 and beyond the classification between "discounted" and "non-discounted" will no longer be relevant.

Also as part of Bill 108, parking services became an ineligible service effective September 18, 2022. As such, the City's DC by-law passed in 2022 no longer included a DC rate for parking services. The funds collected to date are now deemed under the Act to be a general capital reserve fund for the same purposes for which it was originally collected. The Parking fund is reported in the 2022 development charges statement for transparency, as it was considered a development charge reserve fund for the majority of 2022 and DC revenues were collected in it during 2022.

A summary of the DC Reserve Fund by Category of Service is found in Attachment A, Table A.

#### Determination of DCs:

A DC Background Study is required to be completed when updating a DC by-law, which was completed with the passage of by-law 2022-071 effective July 1, 2022. The by-law is valid for a period of up to 5 years. The Act stipulates that the DC rates may be indexed each year that the by-law remains in effect. As such, the City of Kitchener indexes the DC rates based on the non-residential construction price index, as provided by Statistics Canada. The 2022 DC by-law stipulated that rate increases will come into effect on December 1 of each year. In 2022, there were three different DC rate periods in effect, as set out in Attachment A, Table B.

The rates shown as of December 1, 2022, incorporate the mandatory phasing-in discount as a result of Bill 23, *More Homes Built Faster Act, 2022*. With these changes to the Act, only 80% of the calculated DC rate can be charged in year one after a by-law is enacted, increasing to 85% in year two then 90% in year three and so on. The legislation made this

retroactive to any by-law passed since January 1, 2022, which includes the City's by-law 2022-071 which had an effective date of July 1, 2022. The phase-in results in an effective discount of 20% included on the rates shown in Attachment A, Table B as of December 1, 2022.

### Revenue

DC collections in 2022 total \$26M, which is a decrease from the 2021 collections of \$32.1M.

### Expenses

DC expenses in 2022 total \$29.1M, an increase from 2021 expenses of \$24.3M. Detailed lists are included in the DC Reserve Fund Transactions in Attachment A, Tables C, D and E. Since 2004, different rates have been charged for the Central Neighbourhoods as compared to the Suburban Areas of the City (as defined in the DC by-law). Related revenues and expenses broken down by service are shown for both of these areas in Attachment A, Table E.

Expenses are allocated to either the Central Neighbourhood or the Suburban Area based on whether the service is considered to be city wide or related only to a specific area. If a service is considered city wide, the expense is allocated based on estimated population growth in each area as provided in the background study.

### Reserve Fund Balances

The DC reserve funds at December 31, 2022 had an total balance of \$14M compared to \$16.5M at the end of 2021. The overall reserve balance is broken out into further detail in Attachment A, Table E. The detail provided shows the balances in the Suburban Areas and the Central Neighbourhoods, which is then divided into Residential and Non-Residential services. These services are further divided into the Discounted and Non-Discounted categories, and then split into balances by service.

Some services may reflect a negative or overdrawn position while others reflect a positive balance. Development charge reserve funds can experience an overdrawn position due to the timing of the emplacement of infrastructure ahead of complete funding being available. This overdrawn position is recovered through future funds to be received from developers. When the background study was completed, the reserve balances in each service were included in the DC rate calculation, therefore over time, it is anticipated that the deficits will be recovered, and the positive balances utilized.

### Exemptions

DC exemptions in 2022 total \$8.6M compared to \$9.6M in 2021. A summary of major exemptions is included in Attachment A, Table F.

### Credit/Refund Agreements

The City may, by agreement, permit a developer to provide services for development of land in lieu of payment of the DC. At December 31, 2022, credits of \$21.5M were outstanding compared to \$37M at the end of 2021. Refer to Attachment A, Table G for more details.

### Deferral Agreements

New in 2022, the City has entered into several DC deferral agreements. The *More Homes, More Choice Act, 2019* (Bill 108), the *Plan to Build Ontario Together Act, 2019* (Bill 138),

and the *COVID-19 Economic Recovery Act, 2020* (Bill 197) have made amendments to the Act to allow for the deferral of payment of DCs until occupancy for rental housing, non-profit housing and institutional developments. Non-profit housing was subsequently fully exempted under the *More Homes Built Faster Act, 2022* (Bill 23) in November 2022. The City has entered into 24 deferral agreements by the end of 2022, with a total receivable balance of \$10.7M, compared to 23 agreements with a total receivable balance of \$9.3M at the end of 2021. Refer to Attachment A, Table H for more details.

### By-law

A new DC by-law, 2022-071 came into effect July 1, 2022 for a term of no longer than five years.

### No Additional levies

The City of Kitchener has not imposed, directly or indirectly, a charge related to a development or a requirement to construct a service related to a development, except as permitted by the Act or another Act.

### Capital Forecast

The City expects to, at minimum, incur over the life of the by-law (2022 to 2027) the same amount of capital costs that were estimated for the same time period in the background study.

The only service for which a DC was collected during the year but from which no money was spent during the year was for Fire Protection. The majority of the planned capital program under Fire Protection relates to the creation of an eighth fire station to accommodate growth, planned over the coming years.

### DC Statements for 2019 and 2021

As a result of the impacts of the COVID-19 pandemic and staff turnover, annual statements for 2019 and 2021 were not previously submitted to Council, although they were made available to the development community and the public through the City's website. Attached to this report are tables detailing the activity and balances for these years. Refer to Attachments B and C for more details.

### **STRATEGIC PLAN ALIGNMENT:**

This report supports the delivery of core services.

### **FINANCIAL IMPLICATIONS:**

Financial implications are discussed above and detailed in the attached appendices.

### **COMMUNITY ENGAGEMENT:**

INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

### **PREVIOUS REPORTS/AUTHORITIES:**

- *FIN-20-054 Development Charge (DC) & Community Benefit Charge (CBC) Update*
- *Development Charges Act, 1997*
- *More Homes, More Choice Act, 2019 (Bill 108)*

**APPROVED BY:** Jonathan Lautenbach, Chief Financial Officer, Financial Services

**ATTACHMENTS:**

- Attachment A – Tables for 2022 DC Reserve Fund Report
- Attachment B – Tables for 2021 DC Reserve Fund Report
- Attachment C – Tables for 2019 DC Reserve Fund Report