

Staff Report



Financial Services Department

www.kitchener.ca

REPORT TO: Committee of the Whole

DATE OF MEETING: June 24, 2024

SUBMITTED BY: Katie Fischer, Director of Financial Reporting & ERP Solutions, 519-741-2200 ext. 4630

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

WARD(S) INVOLVED: All Wards

DATE OF REPORT: June 14, 2024

REPORT NO.: FIN-2024-192

SUBJECT: 2023 Development Charge Reserve Fund Report

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 2023.
- The key finding of this report shows an ending balance in the development charge reserve funds of -\$3.3M. After factoring in funds committed within existing capital projects, the total development charge funds held by the City as at December 31, 2023 was \$56.0M.
- 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 capital costs for services as allowed by provincial legislation.

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

*** This information is available in accessible formats upon request. ***
Please call 519-741-2345 or TTY 1-866-969-9994 for assistance.

As part of Bill 108, *More Homes, More Choice Act, 2019*, parking services and cemetery services are no longer eligible services under the Development Charges Act. 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 and Cemetery funds are reported in the 2023 development charges statement for transparency.

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, on December 1 of each year. In 2023, there were two different DC rate periods in effect, as set out in Table D.

The rates shown 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. The phase-in results in an effective discount of 20% for the period December 1, 2022 to November 31, 2023, and an effective discount of 15% for the period since December 1, 2023.

Note that Bill 185, *Cutting Red Tape to Build More Homes Act, 2024*, removed the mandatory phase-in discount for new applications effective June 6, 2024.

DC Reserve Funds

DC revenues in 2023 total \$30.5M, which is an increase from the 2022 revenues of \$26.0M.

DC expenses in 2023 total \$48.8M, an increase from 2022 expenses of \$29.1M. Detailed lists of the DC Expenses are included Transactions in Attachment B.

The DC reserve funds at December 31, 2023 had an total balance of \$-3.3M compared to \$14.0M at the end of 2022. After factoring in funds committed within existing capital projects, the total development charge funds held by the City as at December 31, 2023 was \$56.0M. The overall reserve balance is broken out Table A.

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 and Discounts

DC exemptions and discounts in 2023 total \$19.5M. A summary of major exemptions and discounts is included in 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, 2023, credits of \$10.7M were outstanding compared to \$21.5M at the end of 2022. Refer to Table C.

Deferral Agreements

The DC Act allows for the deferral of payment of DCs until occupancy for rental housing and institutional developments. The City has entered into 40 deferral agreements by the end of 2023, with a total receivable balance of \$15.3M, compared to 24 agreements with a total receivable balance of \$10.7M at the end of 2022. Refer to Table E for more details.

By-law

The City's DC by-law, 2022-071, came into effect July 1, 2022 for a term of no longer than five years.

For all services with the exception of Stormwater, the City expects to, at minimum, incur over the life of the by-law (from 2022 to 2027) the same amount of capital costs that were estimated for the same time period in the background study. For the Stormwater service, projected capital costs have shifted to future years beyond the expiry of the City's by-law in 2027. The background study calculating these rates had utilized a 14-year planning horizon, from 2022 to 2036. Overall, the capital costs projected over the entire 14-year horizon remain relevant.

There were no services for which a development charge was collected during the year but no money was spent.

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.

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-2022-280 2022 Development Charges (DC) – Bylaw Passage
- By-Law Number 2022-071
- Development Charges Act, 1997

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

ATTACHMENTS:

- Attachment A – Table A Summary by Service
- Attachment B – Table B Development Charge Expenses
- Attachment C – Table C Credit For Service
- Attachment D – Table D Development Charge Rates
- Attachment E – Table E Deferral Agreements
- Attachment F – Table F Exemptions and Discounts