REPORT TO: **Planning and Strategic Initiatives Committee**

DATE OF MEETING: **September 8, 2025**

SUBMITTED BY: **Katie Fischer, Director of Financial Reporting & ERP Solutions, 519-904-9354**

PREPARED BY: **Katie Fischer, Director of Financial Reporting & ERP Solutions, 519-904-9354**

WARD(S) INVOLVED: **All Wards**

DATE OF REPORT: **August 20, 2025**

REPORT NO.: **FIN-2025-372**

SUBJECT: **Recent Changes to Development Charges**

RECOMMENDATION:

For information.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide an update regarding the initial impacts to the City's development charges (DCs) and related processes resulting from Bill 17, Protect Ontario by Building Faster and Smarter Act, 2025.
- The key finding of this report is that the introduction of DC deferral to occupancy for all residential developments will have significant impacts to the City's DC cashflow and revenue forecast. Additionally, it will add additional administrative work to process, track and collect the deferred DCs.
- The financial implications are that the deferral of collecting DCs will result in significantly less DC revenues over the initial deferral period.
- Community engagement included posting this report to the City's website with the agenda in advance of the council / committee meeting
- This report supports **Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.**

BACKGROUND:

Development charges are fees imposed on developments to fund growth-related capital costs. They traditionally followed a principle that "growth pays for growth", where the financial burden of constructing new infrastructure needed to support development and intensification is not borne by existing taxpayers but is factored into the cost of the new development. Per the City's most recent DC background study completed in 2022, to effectively support the growth-related capital plan the City should collect approximately $38 million in DC revenues per year, although actual DC collections has been less due in part to legislative discounts and exemptions in recent years.

On May 12, 2025, the province introduced an omnibus bill, Bill 17 – *Protect Ontario by Building Faster and Smarter Act, 2025*, to amend various Acts with respect to infrastructure, housing and transit including the *Development Charges Act, 1997*. Bill 17 received Royal Assent on June 5, 2025. City of Kitchener staff provided comments, as outlined in Attachment A, prior to the bill receiving royal assent.

The changes to the *Development Charges Act* (DCA) include:

- **Deferral of development charges (DCs) for residential developments to occupancy:** Previously, only rental housing developments and institutional developments were eligible for DC deferrals (and these have only been in place since 2019 when Bill 108, *More Homes, More Choice Act, 2019* was enacted). With these changes under Bill 17, **<u>all</u>** residential developments (ranging from single detached homes to condo-developments) are eligible for DC deferrals payable at occupancy instead of at building permit issuance. This new deferral comes into effect on a date yet to be named by the Province at the time of writing this report. Rental housing developments and institutional developments will continue to be deferred with payments occurring over 6 annual installments beginning at occupancy (compared to non-rentals which are payable in full at occupancy), as is existing practice.

- **Removal of interest on deferrals / instalments:** Previously, the City charged interest at a rate of Prime + 1% on all DC deferrals for rentals and institutional deferrals, as was provided under the DCA. Removal of this ability results in an annual loss of revenues of $650,000. Additionally, it is anticipated to increase the number of developers choosing the deferral program given it acts similar to an interest-free loan, which will further impact the City's timing of cashflows on DC revenues.

- **Exemption for long-term care homes:** Long-term care homes are classed as "institutional developments" and pay DCs based on the non-residential per square footage rate; they were previously eligible for the institutional DC deferral with payments occurring over 6 annual installments beginning at occupancy. With Bill 17, these are now fully DC exempt, to support and incentivize the building of needed long-term care beds. For the City of Kitchener, this results in an immediate reversal of $162,378 in DCs that were previously in deferral for a long-term care development.

- **Regulation-making authority to impose limits on eligible capital costs, define local services, and prescribe benefit-to-existing ratios, as well as standardize DC background studies and annual reporting requirements**: The stated objective is to simplify and standardize DC-related components that can vary from one municipality to another. No regulations have been released at present time and will be assessed if and when they become available, as they could have a range of impacts from minimal to major changes in terms of what can be funded from DCs.

- **Simplified DC by-law amendment process**: Municipalities are enabled to make changes that only have the effect of reducing DCs without having to amend or undertake a new background study, hold public consultations, etc.

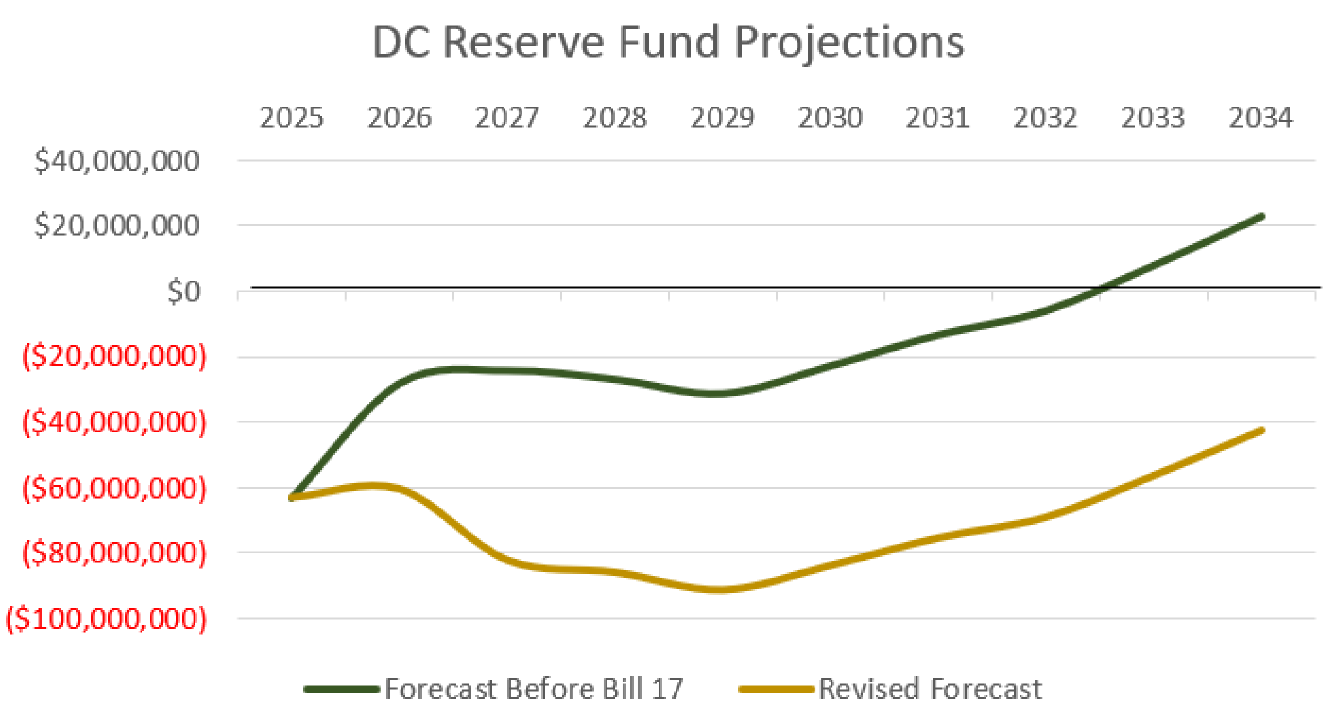
REPORT:

The deferral of DCs for residential developments to occupancy will have major impacts to 1) the City's cashflow critical to funding housing-enabling infrastructure, and 2) the City's administrative functions in processing, tracking and collecting DC deferrals. The impacts of each are described below.

Cashflow Impacts

The City anticipates a waiting period ranging from six months to two years as developments progress from building permit issuance to occupancy stage, with minimal DC revenues collected during this waiting period. This pause in collection on residential developments could result in **a reduction of $50-60 million in revenues** over the next two years.

During this waiting period, Kitchener will still need to rely on its DC reserves to fund housing-enabling infrastructure. Presently, Kitchener's DC reserve funds have an overall negative balance as shown in the graph below. Prior to Bill 17, the City's negative DC reserve funds were expected to return to a positive position within the 10-year capital forecast period. However, with the enactment of this Bill, the DC reserve funds are now projected to remain negative beyond the 10-year forecast even with an anticipated $199 million in DC-supported debt forecasted from 2024 to 2028.



Additionally, with the elimination of interest on rental DC deferrals, the City anticipates more rental developments will opt to defer their DCs over the 6 years following occupancy which will further negatively impact the City's DC cashflow in the coming years. Prior to Bill 17, nearly half of the rental housing developments that the City has had since 2019 have elected to pay early. It is anticipated that with a 0% interest rate, most developers will opt for the deferral in the future as it operates similar to an interest-free loan.

Within the existing DC deferral framework for rental residential developments effective since 2019, the City has experienced challenges in collecting DCs owed on the annual installments. These payments start at the time building occupancy is granted, and therefore the City does not have the ability to withhold a permit to ensure collection. This has resulted $4.8 million (reflecting both the City and Regional DC portions, as the City is responsible for collecting both DCs and property taxes on behalf of the Region) of uncollectible DCs that have now been transferred to the associated property tax rolls to attempt collection there. Additionally, the efforts to work towards collection from the developers on the deferrals adds to the administrative work of staff. With the increase in deferrals anticipated, these uncollectible balances – as well as the effort to track and attempt collection – are anticipated to increase.

DC Collections Administrative Processes

The deferral of municipal DCs to occupancy on all residential developments adds to the administrative work associated with building permits and occupancy permits and the collection of DCs. There are now 3 distinct collection time periods for DCs:

1) **Building permit issuance:**
    - Education (school boards) DCs are distinct and governed separately from municipal DCs, as part of the *Education Act, R.S.O. 1990*. The Province has not modified the collection of these DCs and they remain payable at building permit issuance for all development types.
    - Non-residential DCs (i.e. commercial, industrial; with the exclusion of institutional) remain payable at building permit issuance. Note that there can be multi-residential developments that also include a commercial space (e.g. on the ground floor), with the commercial component payable at building permit issuance even while the residential component is deferred.
    - Prior to 2019, all DCs were payable at building permit issuance.

2) **Six annual installments beginning at occupancy:**
    - In 2019, the Province introduced "DC deferrals" for rental residential and institutional developments (as well as nonprofit housing, but these were later made fully exempt). These deferrals are payable in six equal annual installments (over a period of 5 years) beginning at occupancy.

3) **Occupancy permit, paid in full:**
    - With Bill 17, all remaining residential developments (i.e. not meeting the definitional of rental housing development) are now payable in full at occupancy permit. This is an entirely new trigger timeline associated with DCs and new process required for collection.

Historically, the work associated with calculating and collecting DCs has been done at building permit issuance. The shift to DC deferrals does not move the administrative efforts away from building permit, as the full efforts remain in place at that time to calculate, communicate, and collect some DCs at building permit:

- The City still must coordinate DC certification with the Region of Waterloo and both the Public and Catholic school boards at building permit application.
- The City is still required to collect education DCs and non-residential DCs at that time.
- The municipalities (City and Region) are required under financial reporting rules to record the necessary receivable for tracking the deferred DCs.
- The City is required to communicate to the developer their deferred DC obligation and payment terms.

DC deferral adds new administrative processes to track the receivables, communicate with developers, issue invoices at occupancy permits (and annual installments thereafter where applicable), and follow through on collection. Staff are working on defining new processes and changes needed to systems to support this work. Once defined, staff resources that may be required to administer the new DC deferral and occupancy permit processes will be handled using temporary resources until the full impact and scope of work is well refined over time.

STRATEGIC PLAN ALIGNMENT:

This report supports **Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.**

FINANCIAL IMPLICATIONS:

The deferral of collecting DCs will result in significantly less DC revenues over the initial deferral period. This may necessitate an increase in grant funding from the Provincial or Federal governments to mitigate impacts, potential deferral of growth capital projects, increased debt, and/or increased DC rates. Staff will continue to monitor the City's DC revenues, reserve funds, and DC-funded capital projects. Additionally, with the City's DC by-law expiring in June 2027, a new DC background study is planned to commence in 2026, which will include a detailed analysis on the City's DC rates, capital project forecast, and reserve funds.

It is anticipated that the additional DC deferrals to occupancy will require more administrative resources to track, process, invoices, collect, and to avoid any delayed occupancy issues. In the more immediate term, resources that may be required to administer the new DC deferral and occupancy permit processes will be handled using temporary resources until the full impact and scope of work is well refined over time.

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:

- Development Charges By-Law, 2022-071
- *Development Charges Act, 1997*

APPROVED BY: Jonathan Lautenbach, Chief Financial Officer

ATTACHMENTS:

Attachment A – Submission to Province's Proposal 25-MMAH003 *Changes to the Development Charges Act, 1997 to Simplify and Standardize the Development Charge (DC) Framework*