The Regional Municipality of York

Committee of the Whole
Finance and Administration
September 10, 2020

Report of the Commissioner of Finance

Development Charge Collections – Forecasts, Debt and Revenues

1. Recommendations

Council receive this report for information.

2. Summary

The purpose of this report is to describe how the Regional Municipality of York collects, reports and forecasts development charges.

Key Points:

- Collections projected in the Development Charge Background Study represent the collection level the Region needs from this funding source to pay for growth-related capital. However, actual collection fluctuates depending on economic condition and other factors.
- The Region saw the highest average annual development charge collections among GTA municipalities between 2012 and 2019, even though the Region's overall collections fell short of its background study forecast for the period.
- The Region collects development charges for subdivision agreements and deferral agreements, while the local municipalities collect on behalf of the Region for all other building permits. This is why development charge collections usually do not closely track the movement in development applications.
- Development charges reserves are used to repay growth related debt and fund growth infrastructure, subject to a minimum balance range.
- Development charge collection is not the same as development charge revenue. Collections are recorded when the money is received, while development charge revenue is reported in the year the money is spent to build infrastructure or pay down debt.

3. Background

The levying of development charges is prescribed through the *Development Charges Act, 1997*

The *Development Charges Act, 1997* (the “Act”) is the legislative framework governing the levying of development charges. Development charges are collected on new residential and non-residential development, and are a primary funding source for growth-related infrastructure including roads, transit, water and wastewater servicing, the subway, public health, paramedics, police and waste diversion.

The Act requires, among other things, that a municipality pass a development charges bylaw at a minimum of every five years, supported by a development charge background study. The background study includes the methodologies, assumptions, policies and project lists that underpin the development charges bylaw rates. The bylaw and background study must also be approved by a municipal council after a public consultation has been held. Finally, the Act requires that any development charges collected be held in separate and established reserve fund accounts. These accounts may only be used to fund eligible growth-related capital projects.

Starting on January 1, 2020, developers can freeze development charge rates

As a result of changes to the Act through Bill 108, *More Homes, More Choice Act, 2019*, (“Bill 108”), developers can now freeze development charges rates at site plan application or zoning bylaw amendment application. Rates remain frozen until a subsequent application or if more than two year passes between application approval and building permit issuance.

Development charges are payable at building permit issuance unless otherwise stipulated

Section 26 of the Act requires development charges to be paid upon building permit issuance unless they qualify for phased development charge payments under section 26.11 of the Act or a municipality’s development charge bylaw states otherwise. If a proposed residential development is a plan of subdivision, a municipality may, through its development charge bylaw, provide that development charges are payable upon entering into a subdivision agreement.

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[1] Section 26.1 of the Act, introduced through Bill 108, applies to the timing of payment for rental housing development that is not non-profit housing development, institutional development and non-profit housing development. Institutional and rental housing development can now defer development charge payment to first occupancy and have payments phased in equal instalments annually over five years. In the case of non-profit development, the phasing period is 20 years.

Section 3.17 – 3.23 of the [Region's 2017 Development Charge Bylaw (No. 2017-35),] as amended, deals with the timing of payment of development charges. Specifically, the Bylaw provides that all development charges (for hard and general service components) are payable at the time of building permit issuance unless that development is a plan of subdivision and no further site plan approvals are required by the local municipality. Hard services include water, wastewater and roads development charges. General services include transit, Toronto-York Subway Extension, police, waste diversion, public works, paramedic services, public health, social housing, senior services, GO Transit, court services and related growth studies.

Under the Region's 2017 Development Charge Bylaw as amended in 2018, hard services make up approximately 90 % of the development charge rate. Table 1 below provides an example of this for a single family detached dwelling.

Table 1
Components of a development charge for a single-family detached dwelling*

Component of development charge	Charge ($) (As of July 1, 2020)	% of total charge
Hard services (i.e., water, wastewater and roads)	57,166	89.4
General services (i.e. transit, Toronto-York Subway Extension, police, waste diversion, public works, paramedic services, public health, social housing, senior services, GO Transit, court services and related growth studies)	6,801	10.6
Total	**63,967**	**100**

*Note: For developments in the Nobleton Community there is a separate rate for the wastewater component

For residential plans of subdivision, the hard services component of the development charge is collected by the Region and development charges for all other development applications are collected by the local municipality

If a development is a residential plan of subdivision, under section 51 of the *Planning Act,* development charges for hard services (e.g., water, wastewater and roads) are due immediately upon the owner entering into a Regional development charge agreement at the time of subdivision registration. The hard services component of the development charge is collected by the Region. Payments for all other general services occur at building permit issuance and are collected by the local municipality where the development is taking place, potentially years later.

If the development does not meet the criteria for a residential plan of subdivision, both the hard and general services component are due at building permit issuance and are collected by the local municipality where the development is taking place.

Council has provided that development charges payments can be deferred

Development charges can be deferred for certain types of developments, with payments secured through letter of credit or another form of security. In these cases, the deferral must be entered into before a building permit can be issued, and the development charge collection will only occur at the predetermined time indicative of that deferral. Table 2 below summarizes the various development charge deferral options offered by the Region.

Table 2
Development charge deferrals offered by the Region

	Secured via -			
Type of development	**Letter of Credit**	**Other form of security**	**Duration of deferral***	**Timing of development charge collection**
Retail	✓		36 months	3 equal amounts – starts one year from building permit
High-Rise Condominium	✓		18 months	At end of 18 months
Office Building	✓		18 months	At end of 18 months
Open-air motor vehicle storage structure		✓	Until partial and/or complete enclosure	At time of partial and/or complete enclosure
Purpose-Built Rental		✓	36 months	At end of 36 months
Affordable Purpose-Built Rental		✓	5-20 years	At end of deferral period
Large Office Building		✓	5-20 years	At end of deferral period

*Note: For details of policies, please see York Region Development Charges website
**Note: Minimum of 4 storeys and less than 75,000 square feet

Not all types of developments are subject to a development charge

While most residential and non-residential development is subject to a development charge, certain types are exempt. These exemptions can be statutory, such as those for secondary suites, or non-statutory/discretionary, such as office and institutional expansion exemptions. Table 3 below provides a summary of some of the most often occurring development charge exemptions.

In addition to developments that are exempt, the Region provides redevelopment credits (based on what was demolished) to qualifying residential and non-residential development if the redevelopment occurs within 48 months of a building's demolition or conversion.

Table 3

Most prevalent development charge exemptions

Class of development and exemption*	Statutory**	Non-statutory/ Discretionary
Residential		
Secondary suite	✓	
Vacant lot of record		✓
Non-profit housing***		✓
Non-Residential		
Public Hospitals	✓	
Public Schools	✓	
Industrial expansion of up to 50% of GFA	✓	
Office expansion of up to 50% of GFA		✓
Institutional expansion of up to 50% of GFA		✓
Vacant lot of record		✓
Accessory structures less than 100m^2 of gross floor area		✓

*Note: For additional details on all exemptions, please see the Region's 2017 Development Charge Background Study

**Note: Statutory is not limited to the *Development Charges Act, 1997*

***Note: Development charge exempted or deferred, contingent on local municipality

4. Analysis

Development charges are used to repay growth related debt as well as to fund growth infrastructure

Development charges pay for infrastructure in two ways: to repay debt that was issued to build growth infrastructure, and to fund growth infrastructure directly. In 2019, $234.1 million was used for servicing growth related debt and $68.2 million to fund growth expenditures directly. In total, $302.2 million was drawn down from the development charge reserves.

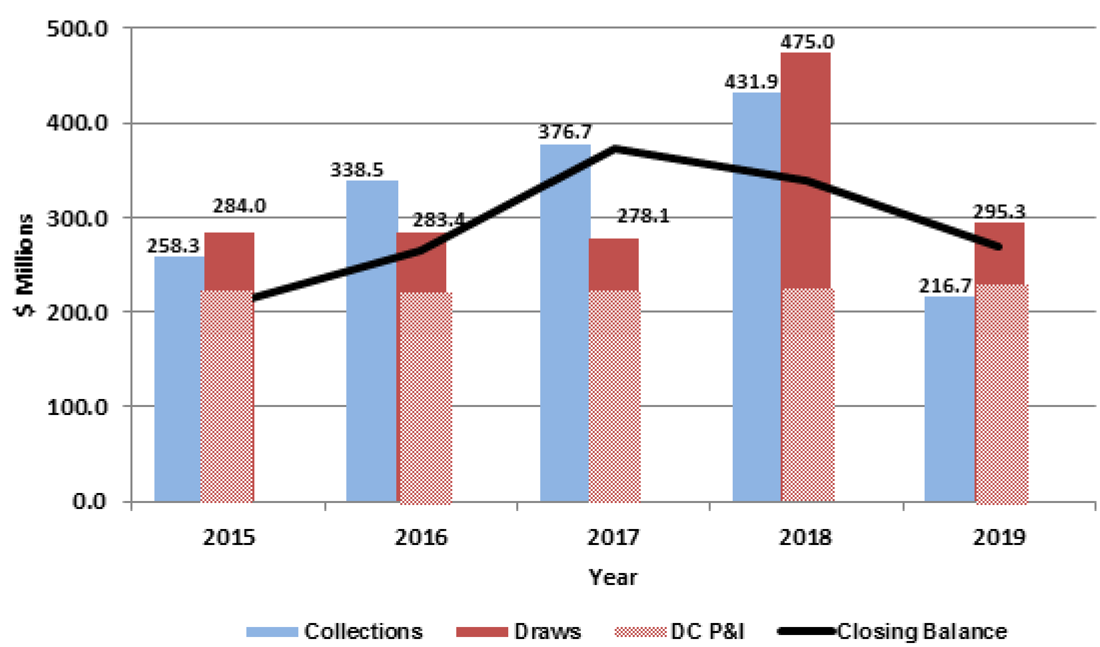
The Region uses debt to bridge the timing difference between when a growth related asset is built and when costs are recovered through development charges. To keep debt at an appropriate level, Council has adopted an annual fiscal strategy to manage the capital plan so that the growth assets are built at a pace that closely matches population growth.

As at December 31, 2019, the Region had a total of approximately $2.63 billion in outstanding debt, of which $2.42 billion is supported by development charges and will be repaid through future collections.

To help mitigate uncertainties in the development charges collections, as per the Capital Financing and Debt Policy, the Region maintains a cash balance in the development charge reserves equal to between 75 and 100% of the projected annual principal and interest payments for development charge supported debt. Should collections fall below the expected level, the reserve may be drawn down to service existing debt.

Figure 1 compares development charge collections and draws during the past five years. This chart demonstrates that for four of the past five years, the closing balance of the reserves have always been above the principal and interest that has to be repaid.

Figure 1
York Region 2015 - 2019 Development Charge Collections and Draws Comparison ($ Millions)



The development forecast in the Background Study aligns with the growth forecast in the Provincial Growth Plan

The forecast of residential and non-residential development underpinning the Development Charge Background Study is based on the Provincial Growth Plan for the Greater Golden Horseshoe Area. As discussed in the Fiscal Sustainability: 2020 Update report, the Region has been growing at a rate that is below what was anticipated in the Growth Plan. This means that the Region is not achieving the development charge collections forecast implied by the background study, and that the level of collections has been trending below the level that could recover the costs included in the Development Charge Bylaw.

Even if the Region achieves the level and cadence of the population and employment growth forecast in the Development Charge Background Study, the amount of collections envisaged by the background study may not be realized due to exemptions and other factors (Table 4).

Table 4
Factors that Impact Actual Development Charge Collections

Factor	Detail
Exemptions	• Certain types of development is not subject to a development charge • As a result, actual collections could be less than what was forecasted in the Development Charge Background Study
Timing of Payment	• The development charge background study assumes development charges are collected at the same time as population and economic growth materializes • In practice, development charges are generally paid at building permit issuance, or in accordance with the Region's payment deferral options. This does not necessarily correspond to the timing of the related population and employment growth
Other Factors	• Actual vs forecasted unit mix (i.e. single and semi-detached, rows, small and large apartments) • Actual vs forecasted non-residential development mix (i.e. Retail, Industrial, Office and Institutional, Hotels) • Actual vs forecasted indexing rates • Developers may advance their projects and payment of development charges during bylaw years to avoid potential rate increases under the new bylaw • Unanticipated legislative changes (e.g., the ability to freeze development charge rates, and phase payments over installments under Bill 108)

Other Regional municipalities have also seen lower than forecasted development charge collections

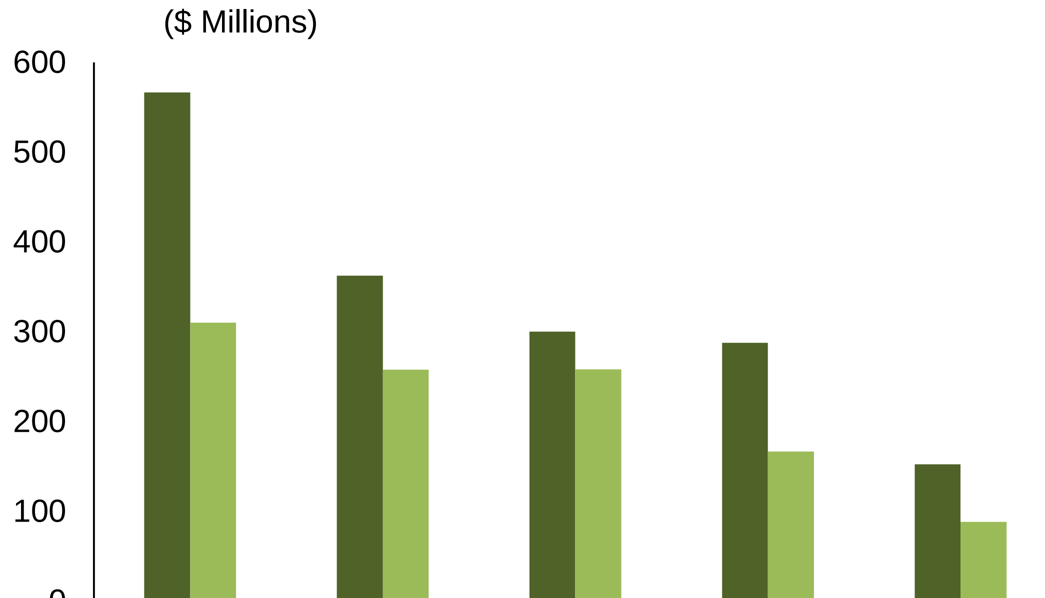
From 2012 to 2019, York Region's actual development charge collections were approximately 55% of what was forecasted in the development background studies (Figure 2). This was due to lower-than-expected residential and non-residential development. Between 2012 and 2019, York Region grew by over 15,000 people annually, or approximately 60% of the annual growth projected by the Growth Plan. The lower-than-expected population growth was reflected in the lower than forecasted residential development.

While the Region's job growth is in line with the Growth Plan projections, non-residential development, measured in growth floor area, was only approximately 46% of what was anticipated in the background studies (before exemptions) for the years 2012 to 2019. The lower-than-expected gross floor area growth is due in part to higher-than-expected level of density as developers respond to the changing nature of work, as well as reoccupations of existing spaces.

Like York Region, actual development charge collections for the surrounding Regional municipalities have been lower than implied in their respective development charge background studies. These range from 55% of background study forecast in York Region to 86% of forecast in Toronto.

From 2012 to 2019, population growth for York Region accounted for 16% of the GTA total according to Statistics Canada data. This is significantly lower than the 26% of GTA total anticipated by the Growth Plan forecast. Despite falling short of the population growth forecast, York Region's annual collections were the highest amongst the 905 regions. This was in part due to a relatively higher level of residential development activity in York Region. Between 2012 and 2019, York Region's residential housing starts accounted for 38% of the 905 total, the highest among 905 regions.

Figure 2
Average Annual Actual DC Collections vs Forecasted in DC Background Study (2012-2019)



	York	Peel***	Toronto*	Halton	Durham**
Forecasted	567	362	300	288	152
Actual	310	258	258	167	88
% DC Collections Achieved	55%	71%	86%	58%	58%

* Toronto figures are calculated using data from 2013 to June 30 2019
** Durham figures are calculated using data from 2012 to 2018
*** Prior to any LPAT refunds for Peel

York Region prepares an annual development collections forecast to inform the budget and debt management plan

As part of the Region’s annual budget process, an internal development charge collections forecast is developed to inform the Region’s fiscal strategy. This forecast is based on a more conservative level of projected development compared to the Background Study collections forecast, and takes the following items into account:

- Most recent trends that impact the development growth forecast such as most recent housing sales, development approvals
- Exemptions (actuals vs what was expected)
- Deferrals, pre-paid credit agreements, and other policies (actuals vs what was expected)
- Some anticipated developer behaviour
- Legislative changes, such as Bill 108, *More Homes, More Choice Act, 2019* (“Bill 108”) and Bill 138, *Plan to Build Ontario Together Act, 2019*

While the forecast model is based on the best information available at the time of preparation, actual collections can deviate significantly from forecast due to unanticipated events such as legislative changes or the economic downturn due to COVID-19. Despite year to year fluctuations, on average from 2015 to 2019, the internal development charge collections forecast used for budget purposes is within about 8% of the actual annual development charge collections.

5. Financial

Development charge collections have fluctuated in the past five years

Development charges are cyclical and no two years are the same. However, there are patterns within any given year that can be seen. For example, there is usually an uptick in development charge payments in the months of May and June in advance of the new indexed rates that come into force on July 1.

Additionally, in the typical five year development charge bylaw cycle, there is usually a sharp increase in payments prior to the adoption of a new bylaw. This is usually associated with an increase in rates leading developers to pull their projects forward to avoid it, while the following year will show a below average collections amount.

The history of development charge collections from 2015 to 2019 can be seen in the table below. Table 5 shows the development charge collections by development class.

Table 5
2015 – 2019 Development Charge Collections Residential vs Non-Residential
($ Millions)

Year	Residential	Non-Residential		Total	Residential Share of total Development Charge Collections
		Retail (Including Hotels)	Industrial/Office /Institutional		
2015	193.2	9.1	56.0	258.3	74.8%
2016	275.0	20.9	42.6	338.5	81.2%
2017	322.7	13.9	40.1	376.7	85.7%
2018	355.8	15.4	60.6	431.9	82.4%
2019	159.6	20.6	36.5	216.7	73.7%

Development charge collection is not the same as development charge revenue

Depending on the timing of capital spending, development charge collections within a fiscal period may not equal the revenue recorded in the financial statements. The Region's financial statements are prepared in accordance with generally accepted accounting principles established by the Public Sector Accounting Board.

Public Sector Accounting Standard 3100 – Restricted Assets and Revenues require development charge collections to be recorded as deferred revenue in the financial statements. Revenue is then recognized in the fiscal period in which the related capital expenses are incurred or services are performed.

Development charge collections refer to when the money is received (i.e. at building permit issuance unless otherwise stipulated) and placed into reserves, while development charge revenue is recognized in the year the money is spent (i.e. when spent to build infrastructure or to service any debt outstanding). This treatment is consistent with the Region's neighboring municipalities, however each municipality has a different policy regarding their use of the reserves (for example Peel keeps a zero balance in their reserves each year, while York Region keeps 75 to 100% of the projected annual principal and interest payments for development charge supported debt). Table 6 compares collections and revenues for the Region and neighboring regions.

Table 6
2015 – 2019 DC Collections versus Revenues amongst Regions
($ Millions)

		2015	2016	2017	2018	2019
York Region	Collection	258.3	338.5	376.7	431.9	216.7
	Revenue	281.0	283.4	283.7	474.2	293.0
	Difference	(22.7)	55.1	93.0	(42.3)	(76.3)
Peel Region	Collection	281.9	311.1	249.3	257.1	307.4
	Revenue	281.9	311.1	249.3	257.1	252.4
	Difference	0.0	0.0	0.0	0.0	55
Halton Region	Collection	268.5	285.7	202.5	161.5	106.5
	Revenue	281.9	280.9	210.5	194.9	157.3
	Difference	(13.4)	4.8	(8.0)	(33.40)	(50.8)
Durham Region	Collection	69.2	83.7	123.8	155.4	Information not available
	Revenue	40.0	60.4	76.7	76.2	
	Difference	29.2	23.3	47.1	79.2	

6. Local Impact

Development charges are an important revenue source for funding growth-related infrastructure, which benefits all municipalities in York Region. The infrastructure that the Region builds with development charges helps local municipalities manage growth and development in a fiscally sustainable way.

7. Conclusion

Development charge collections are of vital importance to the Region. While the Region continues to grow, actual collections have been challenged to meet those implied in the Development Charge Background Study. Still, the Region has undertaken internal processes to ensure that the budgetary process is informed by more conservative estimates than those in the Background Study.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

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