



Report of the Commissioner of Finance
2023 Development Charge Reserve Fund Statement

1. Recommendation

The Regional Clerk circulate this report to local municipalities, local area Members of Provincial Parliament and the Building Industry and Land Development Association.

2. Purpose

This report provides a year-end summary of development charge activity and reserve balances for 2023, as required under Section 43 of the *Development Charges Act, 1997*, as amended (the Act).

Key Points:

- As at December 31, 2023, Development Charge (DC) Reserve balances totalled \$408.2 million
- Reserve balances decreased by \$206.5 million in 2023 due to
 - draws exceeding collections by \$126.2 million (due to slower housing market conditions and changes to the Act requiring certain development charge rate discounts)
 - DC deferred accounts decreasing by \$100.5 million and
 - the addition of \$20.2 million of interest earned
- All Development Charges Reserves are fully allocated to fund existing debt obligations and growth-related capital in the 10-year capital plan, timing of which is subject to maintaining at least 75% of projected annual principal and interest payments needed

- The Deferred Development Charge Reserve totalled \$49.6 million
- The Treasurer's Reserve Fund Statement complies with Section 43 of the Act

3. Background

Development charges are a major source of funding for the Region's capital plan

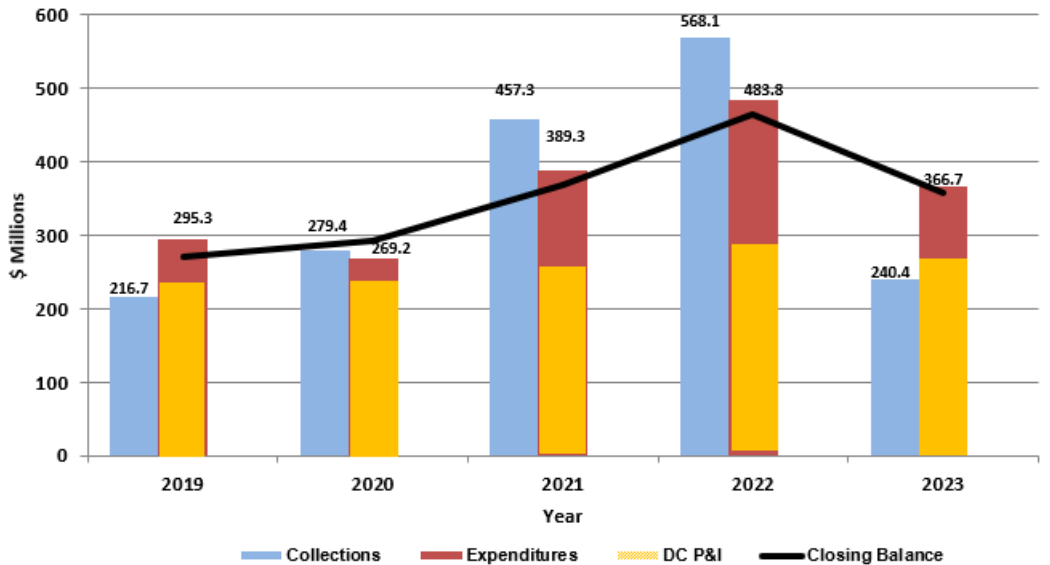
Development Charges (DCs) are imposed for new residential and non-residential developments to help recover the cost of building growth-related capital. Based on the 2024 10-year capital plan, development charge funding supports 72% of growth-related spending, with the balance drawn from other sources such as tax levy, user rates and/or senior government contributions.

DCs are used in one of two ways – to pay for growth-related infrastructure directly or to pay principal and interest on debt previously issued to build growth-related infrastructure.

Figure 1 shows development charge collections and draws from 2019 to 2023. Each year, draws are made from the reserve to pay principal and interest on outstanding debt. Then, as per the Capital Financing and Debt Policy, it is the Region's practice to maintain a cash balance in the reserve of between 75% and 100% of the projected annual principal and interest payments needed for the following year for growth-related debt. This way, the Region protects against year-to-year fluctuations in development charge collections and debt servicing requirements. Any development charges remaining in the reserve, over and above the amounts needed above, are available to pay for growth-related projects directly.

Figure 1 also demonstrates for the past five years, the closing balance of the reserve exceeded the amount needed for principal and interest payments in the following year.

Figure 1
York Region 2019 - 2023 Development Charge
Collections and Draws Comparison (in \$M)



Development charge collections are recognized as revenue once they are spent

Depending on timing of capital spending, development charge collections within a fiscal period may not equal revenue recorded in financial statements. The Region’s financial statements are prepared in accordance with generally accepted accounting principles established by the Public Sector Accounting Board. Revenue is recorded in financial statements as development charge balances are drawn down to pay for principal and interest on previously constructed growth capital or to fund new growth-related capital projects.

Development Charge Reserves are governed by the Act

The Act specifies how Development Charge Reserves are established and reported upon.

Sections 33 and 43 of the Act require:

- A municipality that has passed a development charge bylaw shall establish a separate reserve fund for each service to which the development charge relates and fund only eligible capital costs from the reserve fund
- The Treasurer of the municipality shall provide Council a financial statement relating to development charge bylaws and reserve funds established

The financial statement must identify all assets where capital costs were funded under a development charge bylaw. Municipalities are also required to identify all other sources of

funding applied to each project funded with development charges and provide details on activities for each development charge reserve for the year.

Changes to the *Development Charges Act* as a result of *Bill 23, More Homes Built Faster Act*, require municipalities to also show each year that at least 60% of the monies in the water, wastewater and roads reserve funds have been either spent or allocated to DC eligible expenditures.

4. Analysis

As at December 31, 2023, Development Charge Reserves had a balance of \$408.2 million

As at December 31, 2023, Development Charge Reserves had a balance of \$408.2 million, a decrease of \$206.5 million from 2022. The activity for the year is shown on Table 1.

Table 1
Development Charge Activity in 2023 (\$ millions)

Service	Opening Balance	Collections	Draws ²	Interest	Balance in Reserve	Contribution for Discounts/ Exemptions ⁴	Closing Balance
Regional Roads	652.4	89.7	(183.2)	26.8	585.7	18.7	604.4
Water Supply ³	(81.6)	30.5	(77.3)	(5.4)	(133.9)	6.6	(127.3)
Wastewater Servicing ³	(84.3)	66.5	(129.2)	(6.3)	(153.4)	14.4	(139.)
General Services ¹	<u>128.4</u>	53.7	<u>(77.5)</u>	<u>5.0</u>	<u>109.8</u>	<u>9.9</u>	<u>119.7</u>
Total	614.7	240.4	(467.2)	20.2	408.2	49.6	457.8

Note 1: General Services includes transit, subway, waste diversion, police, paramedic services, public health, senior services, social housing, public works, growth studies, court services and GO Transit.

Note 2: The net deferral activity in the Deferred DC Reserve Balances during 2023 shown in Table 3 is included in this column.

Note 3: Water Supply and Wastewater Servicing components of this reserve have deficits because of the need to build capacity in this infrastructure in advance of planned growth. Over time, these deficits will be reduced as growth occurs and the related development charges are received.

Note 4: As a result of the 2024 Fiscal Strategy report in December 2023, shortfalls related to Bill 23 since 2022 to end of 2023 for Water Supply and Wastewater Servicing have been funded from the Rate Supported Development Reserve (\$21.1 million) and Regional Roads and General Services have been funded from the Tax Levy Development Reserve (\$28.5 million) for the same time period.

The Development Charge Reserve has been fully allocated

In 2023, \$366.7 million was withdrawn from the Development Charge Reserve, \$281 million to service debt on previously built growth-related projects, and \$85.7 million to fund new projects directly. Over the past 5 years, debt servicing made up approximately 68.0% of total draws.

As at December 31, 2023, the Region had \$2.2 billion of outstanding growth-related debt, of which \$2.1 billion of principal and interest will be paid from future development charge collections. In addition, \$5.1 billion of development charges have been allocated to fund new growth-related projects identified in the 10-year capital plan, timing of which is subject to maintaining at least 75% of the projected annual principal and interest payments needed. These details are shown in Table 2:

Table 2
Development Charge Reserve and Allocations as at December 31, 2023
\$ Millions

Service	DC Reserve Balance	Capital Expenditures — DC Reserve Draws	DC Debt Servicing Costs ¹	Unallocated Reserve Balance
Regional Roads	585.7	2,530.9	1,179.6	(3,124.8)
Water Supply	(133.9)	286.0	1,092.3	(1,512.2)
Wastewater Servicing	(153.4)	884.9	2,623.3	(3,661.6)
General Services	109.8	1,417.3	1,386.8	(2,694.3)
Total	408.2	5,119.0	6,282.0	(10,992.9)

Note 1: DC Debt servicing costs include principal and interest payments on existing debentures and debt to be issued for the Region's 10-Year Capital Plan

Note: In excess of 60% of DC Reserves allocated to eligible projects as required by the *More Homes Built Faster Act, 2022* (requirement as of January 1, 2023).

Since 2020, development charge deferrals have been accrued

In support of its policy objectives, the Region offers the ability to defer payment of development charges for qualifying developments, including purpose-built rental, high-rise residential and retail. Finance staff reviewed these contracts at the end of 2020, as previously they had only

appeared in notes to the financial statements and determined it would be more appropriate to recognize development charges as they ordinarily become payable.

The Deferred Development Charge Reserve will increase by the value of new deferral agreements signed during the year and will decrease as the deferral agreement expires and/or draws are made on letters of credit (or otherwise paid). Each month end, the net deferral amount is journalized back into the main DC Reserves shown above. The activity for the year is shown in Table 3.

Table 3
Continuity Schedule of Deferred Development Charges
\$ Millions

Service	Opening Balance	Deferral Activity ¹			Closing Balance
		New	Expired	Total	
Regional Roads	59.9	10.9	(50.9)	(40.0)	19.9
Water Supply	24.4	4.2	(20.8)	(16.6)	7.8
Wastewater Servicing	50.1	8.8	(42.9)	(34.1)	16.0
General Services	<u>15.8</u>	3.6	<u>(13.5)</u>	<u>(9.9)</u>	<u>5.9</u>
Total	150.2	27.5	(128.1)	(100.6)	49.6²

Note 1: These columns represent new deferrals entered into as well as ones for which the deferral period has ended. The total effect matches the Total Deferral Activity column.

Note 2: The outstanding deferrals as at December 31, 2023 includes 3 retail deferrals \$0.4M, 8 high-rise deferrals \$20.3M, 1 office deferral \$1.7M, 1 Section 26.1 not for profit deferral \$2.5M, 7 purpose built rentals \$24.1M and 3 community use deferrals \$0.7M.

Amendments to the Act since January 1, 2020 have reduced the amount of development charges the Region collects

Prior to January 1, 2020, DCs collected for new developments were only based on Council’s approved DC rates in effect at time of subdivision approval or building permit issuance. Changes to the Act, as the result of *Bill 108, More Homes, More Choice Act*, development charges are now collected based on rates in effect at either date of zoning bylaw amendment or site plan application for the development

Also, as of November 28, 2022, further changes to the Act through Bill 23 require new DC rates be phased in when a new DC bylaw is passed . The phase-in begins at 80% of the Council’s approved rate in the first year, 85% in the second, 90% in the third, 95% in the fourth year and 100% of the rates in the fifth and subsequent years of the bylaw. This change is applicable to any DC bylaw passed on, or after, January 1, 2022, and was therefore applied to the Region’s 2022 DC Bylaw, passed on May 26, 2022. Bill 23 also removed recovery of Housing Services as a DC-eligible service.

Development charge collections were lower by approximately \$54.7 million due to changes to the Act

For 2023, development charges collections were lower by approximately \$54.7 million due to changes to the Act through Bill 108 and Bill 23. See Table 4.

**Table 4
Lost DC Collections Resulting from Changes to the Act since 2020
\$ Millions**

Development Type	Development Charges Actually Collected	Development Charges based on Council approved rates	Difference
Singles/Semi-detached	61.5	75.8	(14.3)
Multiples	83.4	105.4	(21.9)
Apartment (small & large)	47.8	59.2	(11.6)
Retail	8.9	9.5	(0.6)
Hotel	2.2	2.4	(0.2)
Non-Retail	36.6	42.8	(6.2)
Total	240.4	295.1	(54.7)

Note : totals may not add due to rounding

Treasurer's Reserve Fund Statement is comprised of five schedules

Attached to this report are five schedules (see Appendix A) which make up the financial statement required by the Act:

- Schedule 1 summarizes the development charge reserves established under the authority of the Act, and the Development Charge Bylaw
- Schedule 1 (A) provides a further breakdown of the General Services column on Schedule 1
- Schedule 1 (B) provides details of the development charge credits shown on Schedule 1
- Schedule 1 (C) provides details of the activity in the deferred development charge reserves
- Schedule 2 shows the 2023 general services capital project expenditure details
- Schedule 3 shows the 2023 roads-related development charge expenditure details
- Schedule 4 shows the 2023 water supply-related development charge expenditure details
- Schedule 5 shows the 2023 wastewater servicing-related development charge expenditure details

The Treasurer's Reserve Fund Statement complies with the Act

The reserve fund statement for 2023 complies with the Act. The Region has not imposed, directly or indirectly, any additional levies or required construction of a service, except as may be permitted under the Act or another act.

The Region expects to incur all capital costs included in its Background Study during the term of the relevant Development Charges Bylaw. Although \$13.1 million of development charges were collected by the Region in 2023 for the Yonge North Subway Extension, no actual expenditures were incurred during the year. This is a result of the Region not receiving any invoices in 2023 from the project manager, Metrolinx. The Region expects to incur these costs in the future.

5. Financial Considerations

Development charge collections for the year were 27% less than assumed in 2023 Budget

The 2023 Budget assumed DC collections would be \$329.7 million during the year based on a projection of 8,424 housing units and gross floor area for non-residential development of 1,819,045 square metres. Actual development charge collections for 2023 were \$240.4 million,

\$89.3 million (or 27%) less than forecast, based on 3,970 housing units and 196,995 square metres of non-residential development.

The 2023 Budget forecast assumed development charge collections would be lower in 2023 than 2022. A reduction in the year following a development charge bylaw update is typical due to the surge in developers paying DCs in advance of a new bylaw to avoid a potential DC rate increase.

The lower than budgeted DC collections in 2023 can generally be attributed to slower housing market and construction activity due economic conditions such as higher interest rates and material costs as well as construction labour shortages. In addition, at the time of the 2023 Budget preparation staff were not aware of changes to the Act (e.g. Bill 23), which further reduced DC collections. In 2023, the biggest impact due to Bill 23 was DC rates approved by Council were phased-in at 80% for the first part of the year and 85% for the remainder.

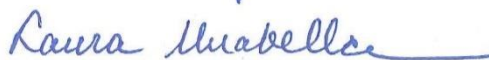
6. Local Impact

Development charges are the primary revenue source for funding growth-related infrastructure which benefits all municipalities in York Region.

7. Conclusion

The 2023 Development Charge Reserve Fund Statement presented in this report satisfies the Region's reporting obligations required by the *Development Charges Act, 1997*, as amended.

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.



Recommended by:

Laura Mirabella

Commissioner of Finance and Regional Treasurer



Approved for Submission:

Erin Mahoney

Chief Administrative Officer

March 22, 2024

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Attachment 1 – Schedules