April 12, 2022

GROWTH FUNDING TOOLS
Development Charges

The City is updating three growth funding tools: Development Charges, the new Community Benefits Charge, and the Alternative Parkland Dedication Rate. These tools allow the City to invest in and provide infrastructure and services needed to serve growing communities. The City is intending to update the growth funding tools because of some of the provincial legislative changes that take effect on September 18, 2022

WHAT ARE DEVELOPMENT CHARGES?

Development charges (DCs) are a key municipal funding tool. They:

- Are charges collected from land developers at the time a building permit is issued that are used to help pay for the capital costs of infrastructure needed to service new development
- Are governed by the *Development Charges Act,* which requires that rates be established on a cost recovery basis to ensure that growth pays for growth
- Cannot be used to pay for operating costs or capital maintenance, nor can the rates be set arbitrarily

Development charges fund a large number of municipal services. They help pay for growth-related capital costs for eligible services under the *Development Charges Act,* including engineered services such as transit networks, roads, water infrastructure, and general services such as parks and recreation facilities, libraries, and affordable housing among others. The majority of the development charge rates are related to engineered services.

PROVINCIAL CHANGES TO DEVELOPMENT CHARGES

Bill 108 has added to the complexity of administering the DC bylaw. Effective January 2020, DC rates for new applications were "frozen" and calculated based on the date of certain planning applications, with interest instead of building permit issuance. DC payments for non-profit housing, rental housing, and institutional developments are now collected in instalments beginning at occupancy over five and 20 years, with interest. Instalment payments and deferrals have resulted in over $100 million of delayed funding since 2020, which will be need to be covered through interim financing.

Bill 197 changed the extent of what can be funded through development charges. A prescriptive list of eligible services now identifies what can be funded by DCs, whereas the previous legislation outlined only ineligible services. Other changes include new statutory exemptions and removal of the 10 per cent deduction on soft services.

TORONTO IS TAKING A MEASURED APPROACH WITH THE UPDATED DEVELOPMENT CHARGE BACKGROUND STUDY

Before adopting a new DC bylaw, a background study is required to be prepared, which establishes the calculated rates. The study must follow legislative requirements, including forecasting anticipated growth, identifying historic service levels, and forecasting the costs incurred as a result of new growth to serve as the basis for DC rates.

The DC study plans for an increase of over 430,000 people and 185,000 employees in Toronto by 2041. This level of growth adds a strain on existing resources and needs new investment, otherwise existing residents will see their quality of life decrease. The proposed capital program is rooted in an estimated $22.5 billion growth-related capital forecast over the 10 and 20-year study planning periods which is included in the rate calculation. Fully calculated rates in the DC study amount to a rate increase up to 49 per cent for residential development and 40 per cent for non-residential development.

Construction cost escalation, and increases in growth related infrastructure investments being made in housing, transit and roads can be attributed to the rate change, with over 80 per cent of the rate increase driven by these three services. Services included in DC rates have also changed. Waste diversion and long-term care have now been added while pedestrian infrastructure and civic improvements are no longer eligible. Health has also been removed given that there are no growth-related capital programs.

While DCs are increasing and recover a significant share of growth-related costs, DCs cannot fully fund growth due to statutory limitations and discretionary exemptions. Costs that cannot be recovered through DCs will have to be funded through other sources, such as property taxes or user fees, otherwise infrastructure projects will have to be delayed until funding becomes available.

A new community benefits charge bylaw is anticipated to be enacted by September 2022, and if the DC bylaw isn't updated at the same time, the City's DC rates will decline because some DC services will become ineligible for DC recovery. It is recommended that the DC bylaw be updated to reflect the removal of the statutory 10 per cent deduction on soft services, and reflect updated growth-related capital needs. All three growth-related funding tools are being updated at the same time to ensure they are integrated and work together to appropriately fund infrastructure and support the creation of complete communities. Existing exemptions under the current bylaw will be continued, and calculated rates will be brought forward for Council consideration to determine how they will be implemented.

Learn more about growth funding tools by visiting
[Growth Funding Tools Webpage]