

Report from: Financial Management Services, Corporate Asset Management

Report Date: April 17, 2023

Meeting Date: May 1, 2023

Report Number: FMS-045-2023

Subject: 2022 Development Charges Treasurer's Statement

Strategic Pillar:

This report aligns with the following St. Catharines Strategic Plan pillars: Economic.



Recommendation

That Report FMS-045-2023, regarding 2022 Development Charges Treasurer's Statement, be received for information.

Summary

Development Charges (DCs) are levied by the City on new residential and non-residential construction to recover growth costs to support the growth-related capital infrastructure required to provide municipal services to new development.

As required in the *Development Charges Act, 1997 (DCA)*, the Treasurer's Annual Statement, regarding 2022 activity pertaining to the City's Development Charges Reserve Funds, are provided to Council for information annually.

With the re-introduction of Development Charges in 2022 after passing of [By-Law 2021-140](#), collections were \$282,269 for the year. A total of \$248,598 of Development Charge reserve funds were used to finance eligible growth-related capital projects in 2022. The total closing balance of all 10 Development Charge reserve funds on December 31, 2022, was \$4.49 million. Enclosed in Appendices 1 and 2 are the statements of activity for the 12 months ended December 31, 2022.

Relationship to Strategic Plan

Development Charges reserves are restricted use funds that can only be used to fund growth-related infrastructure in the categories in which they were collected. These funds provide a potential funding source to build capital infrastructure that is fiscally sustainable to achieve the reliable delivery of growth-related City programs and services.

Background

The *Development Charges Act, 1997 (DCA)*, provides the legislative framework for the collection and use of Development Charges in addition to the requirements under *section 43* for the annual Treasurer's Statement. The purpose of this report is to update Council on the year-end position of Development Charges.

The 2022 Development Charges Reserve Fund Statements presented in this report satisfy the reporting obligations required under the *DCA* and Ontario Regulation 82/98. The statements included are in compliance with the provisions under *section 59.1*; prohibiting additional charges related to development related costs that are not allowed under the Act or other Acts. The report and statements enclosed will be available to the public via the Development Charges webpage. Refer to Appendix 1, 2022 Development Charges Reserve Fund Statement, and Appendix 2, 2022 Development Charges Capital Projects Funding Statement, for the detailed legislated reporting.

City Development Charges

Between the years of 2009 to 2022, the City has not collected City Development Charges (DCs) due to [By-law 2009-157](#), and prior to the by-law they were collected on an area-specific basis. This resulted in most growth-related infrastructure built in the last 20 years primarily funded from the tax levy and / or water and wastewater rates.

As part of the 2020 operating budget, Council approved going ahead with a Development Charges Background Study which was released in June 2021. [Report FMS-105-2021](#) and [Report FMS-133-2021](#) presented to council outlined the recommendations of re-implementing DCs. In September 2021, Council approved the Development Charge Background Study and the Development Charges By-law No. 2021-140 with an effective date of January 1, 2022, and an expiration date of January 1, 2027.

Since the start of 2022, Development Charges have been enforced and collected according to By-law 2021-140, for any development of land, buildings, or structures which require the passing of a zoning by-law or amendment, the approval of a minor variance, a conveyance of land not subject to part-lot control, the approval of a plan of subdivision, a consent agreement, the approval of a description for a condominium or the issuance of a building permit. The Development Charges rates set in By-law 2021-140 are indexed annually on January 1 based on the non-residential construction cost index, with the first indexation occurring on January 1, 2022.

Report

Development Charges Reserve Funds in 2022

Prior to the re-introduction of Development Charges, the City had two legacy DC reserve funds for Services Related to a Highway (Roads) and Parks and Recreation Services (Parks), the balances of which have been transferred to the applicable new DC reserve funds which were created for each of the ten eligible service categories. Services Related to a Highway opened with a balance of \$2.4 million and Parks and

Recreation Services opened with \$1.6 million from collections prior to 2009 including any interest earned. The activity in the Development Charges reserve fund is outlined in Appendix 1.

Historical Funding

An adjusted opening balance for Services Related to a Highway and Parks and Recreation Services was completed to capture historical DC funding that was identified resulting from the closure of capital projects as well as the realignment of funding sources. The funds have been transferred back to the associated reserve accounts. Services Related to a Highway had historical funding of \$59,000 added to the reserve balance and Parks and Recreation Services had \$199,603 added to the reserve balance.

Collections

The DCs are payable upon issuance of the first building permit for each dwelling unit, building, or structure according to Schedule B of By-law 2021-140. Table 1 provides the amount of DCs collected by service category. Collections from DCs are not consistent year over year as they are associated with the timing of approvals for development activity, which can span multiple years particularly when considering multiple unit development.

Table 1: Development Charges Collected	
Service Category	2022 (\$)
Services Related to a Highway	17,417
Municipal Works Fleet and Facilities	49
Transit Services	19,255
Fire Protection Services	14,929
Parks and Recreation Services	184,678
Library Services	20,857
Growth Studies	17,376
Stormwater Services	3,078
Wastewater Services	3,658
Water Services	971
Total	\$282,268

The allocation of residential Development Charges collected was \$278,914 and non-residential Development Charges collected was \$3,355.

Development Charges collected for 2022 and any interest income generated are held and accounted for in the separate reserve funds. Total 2022 interest earned on the cumulative balance of the DC reserve funds was \$93,666. The interest income generated in the reserve fund assists in covering inflation in construction costs.

Transit Service Category Update

During 2022, Transit Services was an eligible service category to collect Development Charges and was reflected in the Background Study and corresponding DC By-law. Due to the recent consolidation of Municipal and Regional transit services within the Niagara Region into the Niagara Transit Commission (NTC), the City has ceased collection of Development Charges for this service category as of December 31, 2022. The Region will take over the collection of development charges for the services of transit within the Regional Development Charges (RDCs), which took effect on January 1, 2023. Capital commitments were allotted in 2022 due to the City overseeing this service category, noted below in the Transit Services projects.

Capital Projects funded by Development Charges

Amounts transferred to growth-related capital projects in 2022 were \$248,598 and are summarized in Appendix 1. Appendix 2 details the 12 active growth-related capital projects with incurred eligible expenses in the year of 2022 that received funding from the Development Charges reserves in 2022. In addition to DCs, other approved funding sources providing partial funding to the project such as internal funding including capital out of revenue, debt financing, the infrastructure levy funding, and additional sources of funding including the Canada Community Building Fund (CCBF), Investing in Canada Infrastructure Program (ICIP), and Green Municipal Fund (GMF) are identified on the statement.

The DCs collected in accordance with the DC By-law are deposited in the DC reserve funds and subsequently applied to active projects as eligible growth-related costs are incurred, matching funding with expenditures. All capital projects and expenditures funded by Development Charges are within the parameters of the 2021 Development Charges Background Study. Council has approved the development charge funding as part of the annual budget process. In 2022, there were no scope or project changes of material value. Any changes will be monitored and reported through the Treasurer's Statement.

Services Related to a Highway

Transfers from the DC reserve to capital projects for Services Related to a Highway totaled \$135,868. The funds were applied across five projects including sidewalks and Active Transportation. The opening reserve balance and DCs collected of \$17,417 in 2022 supported the funding for the respective capital projects.

Parks and Recreation Services

Parks and Recreation Services had \$25,127 of DC funds transferred to seven projects including playgrounds, a splashpad, basketball, tennis, and pickleball courts. The opening reserve balance and DCs collected of \$184,678 in 2022 supported the funding for the respective capital projects.

Transit Services

Transit Services required \$87,602 of DC reserve funds for the transit facility expansion. The Transit capital spending is subject to DC funding of \$87,602 for 2022 due to incurred costs, but with no opening reserve balance and only \$19,655 in DC collections

plus interest, \$67,947 additional funding is required. A tax supported DC Exemptions Reserve was established in 2022, with a current balance of \$100,000 funded from the 2022 tax levy and 2022 year-end surplus. There was \$67,947 transferred from the DC Exemption reserve to the Transit reserve to be used to fund the capital project of the transit facility expansion. The additional funds remaining in the DC Exemption reserve will provide funding to offset impacts of exemptions and transition clauses in future years.

Outstanding Capital Commitments

During 2022, the total DC reserve balances increased due to the historical DC funding, DC collections and interest earned. Transfers to capital projects were completed and the total DC reserves balance at December 31, 2022, was \$4,491,727. After accounting for outstanding commitments to capital projects that were identified in our 2022 Capital Budget, the uncommitted balance of DC reserves was in a deficit of \$423,872 at year end 2022.

Development Charge Category	Balance at December 31, 2022 (\$)	Capital Commitments (1) (\$)	Available Balance at December 31, 2022 (\$)
Services Related to a Highway	2,427,707	520,000	1,907,707
Municipal Works Fleet and Facilities	50	-	50
Transit Services	-	-	-
Fire Protection Services	15,240	2,000,000	(1,984,760)
Parks and Recreation Services	2,001,819	1,993,800	8,019
Library Services	21,302	-	21,302
Growth Studies	17,737	-	17,737
Stormwater Services	3,144	226,800	(223,656)
Wastewater Services	3,736	175,000	(171,264)
Water Services	992	-	992
Total	\$ 4,491,727	\$ 4,915,600	\$ (423,873)

(1) Capital Commitments are based on the 2022 Capital Budget

The negative total balances noted above represent the year-end balances of Development Charges after outstanding capital commitments for each individual reserve that are part of the 2022 Capital Budget. The actual year-end balances were positive with the exception of the Transit reserve which was zero. Based on the available balance after funding all capital projects with DC funding outlined in the 2022 Capital Budget, the reserves are fully committed and in a deficit. It is important to note that there are timing differences based on the rate of collection of DCs and when the project expenditures are incurred in the actual capital budget. The DCs related to the forecasted development, which would include actual collections and exemptions to be funded, are expected to match project expenditures over the life of the by-law.

Capital Commitments for 2023

Bill 23, the *More Homes Built Faster Act, 2022* which gained Royal Assent on November 28, 2022, implemented changes to the *Development Charges Act* that includes the requirement to allocate 60% of the reserve funds for Water, Wastewater and Services Related to a Highway in 2023. The capital projects in these three service areas will allocate 60% of the funds from their respective DC reserves but are not required to be spent until eligible expenses have incurred. These projects will be outlined in the 2023 Treasurer's Statement for further clarity.

Development Charge Exemptions

The DCA provides for exemptions from DCs under two classifications; mandatory exemptions are required by legislation and discretionary exemptions are established by the municipality at the time of by-law creation. The discretionary exemptions are expanded further in the City's DC By-Law 2021-140. Table 3 provides the total DC exemptions, transitions and forgone revenue that must be funded to ensure adequate reserve funds are available in the City DC Reserves to pay for the necessary infrastructure to facilitate development.

Table 3: Development Charges Exemptions	
2021	
Forgone Revenue 2021	\$ 917,311
3.18 Transition period - Approvals of Site Plan / Zoning Amendment received between 2020-2021 with permits issued in 2021	\$ 23,927
3.19 Transition period - Application of Site Plan / Zoning Amendment received between 2017 - 2019 with permits issued in 2021	\$ 695,122
2022	
3.18 Transition period - Approvals of Site Plan / Zoning Amendment received between 2020 - 2021 with permits issued in 2022	\$ 583,565
3.19 Transition period - Application of Site Plan / Zoning Amendment received between 2017 - 2019 with permits issued in 2022	\$ 1,998,557
Mandatory and Discretionary Exemptions 2022	\$ 1,153,577
Total for DC Exemptions for 2021 and 2022	\$ 5,372,059

Mandatory and discretionary exemptions according to the DC Act and the City's By-law 2021-140 would have expected to collect \$1,153,577 in Development Charges Revenue for the year of 2022. These exemptions include enlargement of industrial developments (50% or less), enlargement of existing dwellings and intensification of existing houses (creating additional dwelling units). The discretionary exemptions become obligatory when included in the By-Law and remain in place for the duration of the current City By-Law and can be revisited at the expiration of the By-Law (2027).

Transitions

The City included two transition periods, which are in effect exemptions, in the By-law which totaled \$3,301,171 in DCs uncollected for permits issued in 2021 and 2022.

These include the transition period for approvals section 3.18 and applications 3.19, relating to the application for a site plan or zoning by-law amendment based on the year the eligible application was submitted and when the building permit was issued. The transition clause of 3.19 for eligible applications has ended as the cut off for issued permits was January 1, 2023.

Forgone Revenue

With the DC By-law only coming into effect as of January 1, 2022, based on the permits issued in 2021 the City would have expected to collect an estimated \$917,311 in Development Charges from residential and non-residential developments. These developments were included in the growth forecast of the Development Charges Background Study.

Bill 23 Exemptions

Bill 23, the *More Homes Built Faster Act, 2022*, implemented changes to the *Development Charges Act* that includes additional exemptions, reductions and the transition of DC fees collected as of 2023.

DCs are fully exempt for affordable rental units with rent no more than 80% of the average market rent, affordable owned units with no more than 80% of the average purchase price, attainable residential units, non-profit housing units and inclusionary zoning residential units. These exemptions have been defined in the *DC Act*, but the application of these exemptions has not been prescribed through regulation.

DCs are further exempt for the construction of rental units in existing rental residential buildings, existing houses, and new residential units / ancillary structures on land where residential uses are permitted. DCs will also be reduced for purpose built rental housing with discounts applied to three or more bedroom units at 25% reduction, 20% for units with two bedrooms and 15% for all other units.

Future DC By-laws passed will have a mandatory five-year transition period for DC charges, providing an immediate 20% discount on DCs in the first year of the new by-law. These would also apply to DC rate freezes for eligible site plan and zoning by-law amendment applications. The City will be subject to this exemption in 2027 upon expiration of the current DC By-law.

The application of these further exemptions is expected to be released later in 2023. The overall impact of the changes from Bill 23 will increase the burden of costs associated with development and pass them onto the taxpayers in the City.

Funding Requirements for Exemptions

DC Exemptions, transitions, and forgone revenue of \$5.37 million covering permits issued in 2021 and 2022 were totaled in accordance with the *DCA* exemptions and the City's exemptions, and transition clauses from the By-Law. Based on the remaining transition period of 3.18, discretionary exemptions included in the By-law in addition to mandatory exemptions from the *DCA* and updates to Bill 23 and any amendments,

these exemptions will continue to be recognized and realized for a number of years into the future

As a result, the related Development Charge costs that have been exempted will instead be required to be covered through other funding sources, such as the tax levy and water and wastewater budgets to make up the shortfall as capital projects proceed in the future. Exemptions will likely continue to be funded on an as required basis for project funding by service until such time as the City has fully funded all exemptions.

By funding these exemptions, the City can continue to provide enough funding for each service category reserve to meet the costs of the new and expanded infrastructure projects identified in the DC Background Study and the Capital Budget to support the increased need for services connected to growth moving forward.

Exemption Reserve Strategy

A tax supported DC Exemptions Reserve was established in 2022, with \$100,000 in tax levy funded support. With \$67,947 of the DC Exemption reserve applied to fund the Transit Services facility expansion, the remaining \$32,053 will be carried forward into 2023 to fund the outstanding \$5.3 million of DC exemptions.

The 2023 Operating Budget has addressed further commitments for the DC exemptions in addition to funding for DC grant recipients. The 2023 Operating Budget has allotted \$400,000 to support for DC transitional rates and DC Exemptions, in addition to \$150,000 to support DC Grants. To date there have not been any eligible grant recipients but the establishment of funding is important to the continued growth of industrial developments, affordable housing developments and urban growth center developments.

Staff will be preparing a DC Exemption Funding Strategy for the Budget Standing Committee in Q2 of 2023 to further address funding the exemptions from the DC By-law the *DC Act* and updates from Bill 23 moving forward.

Financial Implications

This report is legislative in nature. It does identify financial impacts related to funding for exemptions during 2021, 2022 and 2023 that will need to be addressed in the future Operating Budgets and through a Development Charges Exemption funding Strategy.

The continuation of the Development Charges By-law is a significant step towards fiscal responsibility and financial sustainability. It represents a shift from placing all growth-related infrastructure burden on the taxpayer to a more balanced approach where growth pays for growth. Development charge allocation will assist with capital budget forecasting and financing, strategic decision making, and investment back into the community.

Environmental Sustainability Implications

This report is legislative in nature. Development Charges do provide a funding source for new and expanded services, and forward-looking studies to determine the future needs and impacts of growth in the City's infrastructure, all of which should assist with improving environmental sustainability.

Operational Implications

The requirement to fund exemptions provided during 2021, 2022 and 2023 will need to be addressed in the future Operating Budgets and through a Development Charges Exemption funding Strategy. This funding strategy will be provided to Budget Standing Committee and Council in Q2 of 2023.

Conclusion

Development Charges are a key component of the City's long-term financial plan. With the continued collection of DCs, this annual statement depicts the City's commitment to provide a funding source to build growth-related capital infrastructure that is fiscally sustainable to achieve the reliable delivery of growth-related City programs and services while minimize the impact on the average taxpayer.

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Appendices

1. 2022 Development Charges Reserve Fund Statement
2. 2022 Development Charges Capital Projects Funding Statement
3. Supplemental Information to 2022 Development Charges Reserve Fund Statement

Appendix 1

City of St. Catharines 2022 Development Charges Reserve Fund Statement Statement of Activity - January 1, 2022 to December 31, 2022

Development Charge Category	Balance at January 1, 2022	Historical DC Funding	Development Charges Collections	Interest Earned	Transfer from DC Exemption Reserve	Transfer to Capital Projects	Available Balance at December 31, 2022
Services Related to a Highway	2,433,673	59,000	17,417	53,486		135,868	2,427,707
Municipal Works Fleet and Facilities			49	1			50
Transit Services			19,255	400	67,947	87,602	-
Fire Protection Services			14,929	311			15,240
Parks and Recreation Services	1,604,168	199,603	184,678	38,497		25,127	2,001,818
Library Services			20,857	445			21,302
Growth Studies			17,376	361			17,737
Stormwater Services			3,078	66			3,144
Wastewater Services			3,658	78			3,736
Water Services			971	21			992
Total	4,037,840	258,603	282,268	93,666	67,947	248,598	4,491,726

Appendix 2

City of St. Catharines 2022 Development Charges Capital Projects Funding Statement Statement of Activity - January 1, 2022 to December 31, 2022

Capital Project	Project Number	Development Charge Reserve Fund	Internal Funding Sources (1)	Canada Community Building Fund (CCBF)	Investing in Canada Infrastructure Program (ICIP)	Green Municipal Fund (GMF)	DC Exemption Reserve	Total 2022 Funding
Services Related to Highways								
Dorothy St. New Sidewalk (2022)	P22-042	19,519		102,359				121,877
New Sidewalk Installation Program	P22-041	2,044	10,756					12,800
City-Wide Trail Improvements	P22-068	605		1,303				1,908
Grantham Rail Trail/ Active Transportation / City-Wide Trail Improvements	P20-068	113,700	555,000	621,468				1,290,168
Sub-Total		135,868	565,756	725,129				1,426,754
Transit Services								
Expansion to Transit Facility	TCP22-001	19,655	149,350	241,398	1,315,237	98,500	67,947	1,892,087
Parks and Recreation Services								
Elma Street Park Multi-Use Court - Parks Renewal Plan	P22-164	373	8,011					8,384
Valleyview Park Basketball Court, Multi-Use Court & Playground - Parks Renewal Plan	P22-165	686	23,000					23,686
Louis Avenue Park Basketball Court - Parks Renewal Plan	P22-166	373	4,607					4,980
St. Patrick's Park Multi-Use Court - Parks Renewal Plan	P22-167	373	10,348					10,721
Park Renewal Plan - Montebello Park Playground	PRC21-02	21,151	284,959					306,110
Park Renewal Plan - Bogart St. Park Basketball / Tennis/ Pickleball Court and Playground	PRC21-04	950	59,142					60,092
Park Splashpad / Washroom	P21-156	1,223	230					1,453
Sub-Total		25,127	390,067					405,588
Total		180,651	1,105,173	966,527	1,315,237	98,500	67,947	3,724,429

(1) Internal Funding Sources include capital out of revenue, non-dc debt financing, and the infrastructure levy reserve.

Appendix 3

Supplemental Information to 2022 Development Charges Reserve Fund Statement

1. Description of the Service for which each fund was established under By-Law 2021-140:

Service Category	Description of Service
Services Related to a Highway	The fund is used for growth-related projects for roads and roads related structures.
Fire Protection Services	The fund is used for growth-related projects for fire facilities, vehicles and small equipment and gear.
Parks and Recreation Services	The fund is used for growth-related projects for parkland development, parkland amenities, trails, parks and recreation vehicles and equipment and recreation facilities.
Library Services	The fund is used for growth related projects for library facilities, vehicles and collection materials.
Transit Services	The fund is used to finance the cost of growth-related projects for transit facilities and vehicles.
Stormwater Services	The fund is used for growth related projects for channels, drainage and ponds.
Wastewater Services	The fund is used for growth-related projects for wastewater distribution systems.
Water Services	The fund is used for growth-related projects for water collection systems.
Public Works	The fund is used for growth-related projects for public works facilities, vehicles and equipment.
Growth Studies	The fund is used for growth-related projects for growth studies relating to services related to a highway, water services, wastewater services, stormwater services, fire protection services, parks and recreation services, library services and transit services.

2. For Credits (Ex. Pre-payments, front-ended projects) in relation to the service or category for which the fund was established:

No credits have been received, used or are outstanding for the previous year.

3. The amount of any money borrowed from the DC reserve during the previous year and the purpose for which it was borrowed:

No money was borrowed.

4. The amount of interest accrued during the previous year on money borrowed from the fund by the municipality:

No interest was accrued as no money was borrowed.

5. The amount and source of any money used by the municipality to repay, in the previous year, money borrowed from the fund, or interest on such money:

No source of money to repay as no money was borrowed.

6. A schedule that identifies credits recognized under section 17 and, for each credit organized, sets out the value of the credit, the service against which the credit is applied and the funds used to finance the credit:

No schedule as there are no credits to recognize per section 17.

7. Statement respecting additional levies under Section 59.1(1) and (2) of the Development Charges Act, 1997, as amended.

In accordance with Section 59.1(1) and (2), the City of St. Catharines has not imposed any additional payments nor required the construction of a service not authorized under the Development Charges Act, 1997, as amended.