

12. Treasurer's Report on 2020 Growth-Related Revenues

Rapport de la trésorière sur les 2020 revenus liés à la croissance

Committee recommendations

That Council:

- 1. receive this report for information;**
- 2. approve that all interest shall accrue and be compounded annually based on the applicable dates as outlined in Section 26.1 (deferred payment) and Section 26.2 (frozen payment amount) of the *Development Charges Act*, until the date all outstanding development charges are received by the City, and to be pro-rated on a 365-day calendar.**

Recommandations du Comité

Que le Conseil :

- 1. prenne connaissance du présent rapport;**
- 2. approuve que tous les intérêts s'accumulent et soient composés annuellement en fonction des dates qui s'appliquent, selon les modalités exposées à l'article 26.1 (paiement différé) et à l'article 26.2 (montant du paiement gelé) de la *Loi sur les redevances d'aménagement* jusqu'à la date de réception de toutes les redevances d'aménagement en souffrance par la Ville, et soient calculés au prorata par rapport à un calendrier de 365 jours.**

Documentation/Documentation

- 1. Report from the Chief Financial Officer, Finance Services Department dated August 16, 2021 (ACS2021-FSD-FIN-0020)**

Rapport de la Cheffe des finances, Services des finances, Direction générale des services des finances, daté le 16 août 2021 (ACS2021-FSD-FIN-0020)

SUBJECT: TREASURER'S REPORT ON 2020 GROWTH-RELATED REVENUES

File Number ACS2021-FSD-FIN-0020

Report to Planning Committee on 26 August 2021

and Council 8 September 2021

Submitted on August 16, 2021 by Wendy Stephanson, Chief Financial Officer

**Contact Person: Gary Baker, Program Coordinator, Planning, Infrastructure &
Economic Development Department**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE

**OBJET : RAPPORT DE LA TRÉSORIÈRE SUR LES 2020 REVENUS LIÉS À LA
CROISSANCE**

Dossier : ACS2021-FSD-FIN-0020

Rapport au Comité de l'urbanisme

le 26 août 2021

et au Conseil le 8 septembre 2021

Soumis le 16 août 2021 par Wendy Stephanson, Cheffe des finances

**Personne ressource : Gary Baker, Coordonnateur de programme, Direction
générale de la planification, de l'infrastructure et du développement économique**

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Quartier : CITY WIDE / À L'ÉCHELLE DE LA VILLE

REPORT RECOMMENDATION(S)

That the Planning Committee recommend that Council approve the following:

- 1. That the Planning Committee recommend Council receive this report for information.**
- 2. That all interest shall accrue and be compounded annually based on the**

applicable dates as outlined in Section 26.1 (deferred payment) and Section 26.2 (frozen payment amount) of the Development Charges Act, until the date all outstanding development charges are received by the City, and to be pro-rated on a 365-day calendar.

RECOMMANDATION(S) DU RAPPORT

Que le Comité de l'urbanisme recommande au Conseil municipal d'approuver ce qui suit :

1. Que le Comité de l'urbanisme recommande au Conseil municipal de prendre connaissance du présent rapport.
2. Que tous les intérêts s'accumulent et soient composés annuellement en fonction des dates qui s'appliquent, selon les modalités exposées à l'article 26.1 (paiement différé) et à l'article 26.2 (montant du paiement gelé) de la Loi sur les redevances d'aménagement jusqu'à la date de réception de toutes les redevances d'aménagement en souffrance par la Ville, et soient calculés au prorata par rapport à un calendrier de 365 jours.

BACKGROUND

The *Development Charges Act* (DCA) requires the City Treasurer to provide to Council a year-end summary of development charge reserve fund balances. The attached 2020 Summary Statement of Development Charge Reserve Funds (Document 1) lists the transactions relating to the various accounts including: opening and closing balances, interest earnings and expenses, category of services and a summary of the financial transactions. This report also includes information concerning Cash-in-Lieu of Parkland, Section 37 allocations and a summary of exemptions provided by type.

DISCUSSION

Development charges are one-time fees levied on new residential and non-residential properties to fund a portion of the City's growth-related capital costs. The authority to introduce development charges is authorized by provincial legislation, and the schedule of projects and rates are outlined within the Development Charges Background Study and By-law.

The total amount of the charge applied varies by dwelling type and location within the City, which reflects different costs associated with providing growth-related infrastructure services. The residential component is comprised of three area-specific

charges: inside the greenbelt, outside the greenbelt, and rural area. The rates are designed to reflect infrastructure requirements in these three geographic locations. The rural area is further divided into serviced and unserved development. Non-residential rates, applied to industrial and non-industrial uses, are calculated on a uniform city-wide basis.

The following engineering services are currently included in the summary: roads and related services, sanitary sewers, water, and stormwater, along with the following general services: public transit, protection (fire and police), recreation facilities, parks development, libraries, paramedic services, affordable housing and corporate studies.

The City approves the majority of growth-related spending during the annual budget process with only those capital projects included in the background study being eligible for funding. This process is used to align the timing of infrastructure needed to accommodate growth with actual collections. Development charge revenues are only transferred to capital projects when the expenditures have been incurred, not when the capital budget has been approved. Reserve funds are monitored to ensure account balances are following the various funding policies adopted by Council. The attached Summary Statement of Development Charge Reserve Funds (Document 1) provides an overview of financial activity within the various growth-related reserve funds, by service component, for the year ending December 31, 2020.

For instance, net transfers to growth-related capital projects totaled \$170.1 million and were made in accordance with accounting guidelines that stipulate development charges may only be applied to eligible capital projects when expenditures are incurred. Overall, the 2020 closing balance was \$684.9 million. Further adjustments were made to account for outstanding capital project financing that totaled \$678 million and future debt payment requirements of \$369.5 million. This resulted in an overall negative adjusted total closing balance of \$362.6 million.

Document 2 provides a detailed listing of the various capital projects in 2020 that had development charges transferred to or from them, as well as the total budgeted growth-related financing and funds that were applied upfront from other sources. The format of this document has been modified and refined to provide additional details. The capital project number is now listed in a stand-alone column. An additional column has also been added showing the total amount of development charge financing that has been allocated to fund every listed project. This means the statement fully documents the growth versus non-growth funding shares for all development-related projects. This ensures the integrity of the growth-related capital program, which underlies the

calculation. In addition, for all road and related services projects, an additional reference number has been added to the description to allow for further vetting and traceability.

In addition, the capital funding details concerning all cash-in-lieu transactions made for parkland dedication purposes from city-wide and ward accounts is attached in Document 3, as well as the payments received during the development process via Section 37 of the *Planning Act* is attached in Document 4.

Non-statutory development charge exemptions for various uses are listed within the Development Charges by-law. The resulting revenue shortfall may not be recovered through higher rates imposed on other development types in the future. To offset the annual foregone contributions, the City reimburses reserve funds from general revenues on a yearly basis. Council authorizes this contingency amount during the annual budget process. This approach allows the City to identify the on-going costs associated with providing various discretionary development charge exemptions. In 2020, \$3 million was transferred to offset the overall revenue shortfall, excluding Brownfields credits, with the various exemption types listed in Document 5.

With the passage of Bill 197 (*COVID-19 Economic Recovery Act, 2020*), development-related costs associated with providing these soft services are no longer subject to a 10 per cent mandatory tax deduction. For example, the Development Charges Background Study is now 100 per cent recoverable from development charges for all eligible services. Municipalities can now eliminate the imposition of the deduction based on an interim by-law amendment.

Bill 138 (*Plan to Build Ontario Together Act, 2019*) amended Sections 26.1 and 26.2 of the *DCA*. These two legislative changes came into effect on January 1, 2020 and resulted in a revised collection (deferred payment) and calculation methodology (frozen payment amount) that alters the City's ability to fund growth-related capital projects.

The first incentive under Section 26.1 involves the deferral of the collection of development charges from building permit issuance to the time of first occupancy for eligible types of development such as rental housing, certain institutional uses and non-profit housing development. Payments are made in equal annual installments over either a five-or-twenty-year timeframe and are due on the initial payment anniversary date. There is approximately a twelve-month delay or longer between building permit issuance and occupancy.

The second incentive under Section 26.2 was made to the calculation methodology with

the freezing of the amount of development charges payable at the time of an approved site plan or zoning application submission. Once an application is approved, the developer has two years to obtain a building permit to capitalize on the frozen payment. The requirement to lock-in the development charge rate for two years will reduce the available growth-related funding and increase the risk of reserve fund deficits since this process will no longer align actual collections with the timing of infrastructure needed to accommodate growth. This will also lower the amount of development charges collected because the frozen payment will no longer be subject to indexing on an annual basis. In addition, a more substantial revenue reduction is anticipated to occur when the development charge rates are revised through an update of the background study and by-law.

The legislation enacted under Bill 138 does allow the City to charge interest on the deferred installments and frozen payment amounts until the outstanding development charges are paid in full. The interest rate policy approved in 2020 does not allow the City to compound the applicable interest on an annual basis. In order to align with the City's Fiscal Framework requirement that growth should pay for growth the report recommends the application of interest in these two cases to be compounded on an annual basis. This will allow the City to continue to pursue the underlying principle of collecting development charges to finance a portion of the capital costs necessary to service new growth so that an undue financial burden is not placed on existing residents.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation in this report.

LEGAL IMPLICATIONS

There are no legal impediments to receiving this report for information. This report is before Council pursuant to the legislative requirement to submit financial statements regarding development charge fund activity under Section 43 of the Development Charges Act.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City-Wide report.

CONSULTATION

Preparation of the attached documents is a legislative requirement; no public consultation is required.

ACCESSIBILITY IMPACTS

There are no accessibility impacts associated with this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

TERM OF COUNCIL PRIORITIES

This report supports the City's on-going commitment to financial sustainability and transparency.

SUPPORTING DOCUMENTATION (distributed separately)

Document 1: Summary Statement of Development Charges Reserve Funds for the Period Ended December 31, 2020

Document 2: Details of 2020 Development Charge Capital Project Funding for the Period Ended December 31, 2020

Document 3: Details of 2020 City-wide and Ward Cash-in-Lieu Parkland (CILP) Capital Project Funding for the Period Ended December 31, 2020

Document 4: Section 37 Deferred Revenue Accounts as at December 31, 2020

Document 5: Summary List of Development Charge Exemptions Granted at Building Permit Issuance for the Period Ended December 31, 2020

DISPOSITION

In accordance with the *Development Charges Act*, a copy of the Treasurer's Statement is available to the public on the City's website or upon request.