

**To:** COUNCIL

**Meeting Date:** 10/22/2024

**Subject:** Amendment to Development Charges By-law for Growth Studies and Development Charges Interest Policy

**Submitted By:** Sheryl Ayres, CPA, CGA, Chief Financial Officer

**Prepared By:** Kate Hyde, CPA, CGA, Senior Financial Analyst - Development

**Report No.:** 24-038-CRS

**File No.:** C11

**Wards Affected:** All Wards

**RECOMMENDATION(S):**

THAT Report 24-038-CRS Amendment to Development Charges By-law for Growth Studies and Development Charges Interest Policy be received;

AND THAT Council approve the amending Development Charges By-laws in Appendix A to report 24-038-CRS;

AND FURTHER THAT Council approve the amended Development Charges Interest Policy in Appendix B to report 24-038-CRS.

**EXECUTIVE SUMMARY:**

**Purpose**

The purpose of this report is to inform Council on recent legislative changes to the Development Charges Act (D.C.A.) through Bill 23 and Bill 185 that have impacted the City's current Development Charges (D.C.) By-laws and Development Charges (D.C.) Interest Policy. This report summarizes the amendments to both the D.C. By-laws and the D.C. Interest Policy and seeks to obtain Council approval of resulting proposed amending by-laws. Through Council's approval of these amendments, the City's D.C. By-laws and D.C. Interest Policy will align with the current legislation in force under the Development Charges Act.

**Key Findings**

**Amendments to the Development Charges By-law**

**Growth Studies**

- Bill 185 reversed the capital cost amendments of Bill 23 by reinstating studies as an eligible capital cost.

## **Phase in Discounts**

- Bill 23 required the phase-in of charges imposed in a D.C. By-law over a five-year term for any by-laws passed after January 1, 2022. Bill 185 removed this mandatory phase-in.

## **Amendments to the Development Charges Interest Policy**

### **Rate of Interest**

- Prior to November 28<sup>th</sup>, 2022, per City Policy, interest charges on Development Charges at the City of Cambridge were capped at Prime + 2%. On November 28<sup>th</sup>, 2022, Bill 23 was passed which adjusted the maximum allowable rate on interest charges on Development Charges to Prime + 1%.
- As per Bill 23, Section 26.3 of the Development Charges Act states the prime rate of interest shall be determined using the average prime rate in effect on the adjustment date.

### **Non-profit Housing Development**

- Prior to November 28<sup>th</sup>, 2022, under Section 26.1 of the Development Charges Act, a non-profit housing development was eligible for D.C. deferrals. On November 28<sup>th</sup>, 2022, Bill 23 was passed and Section 26.1 (2) 3. of the Development Charges Act was repealed and non-profit housing developments are no longer eligible for D.C. deferrals and are now fully D.C. exempt under Section 4.2.

### **Reduction of D.C. Rate Freeze Timeframe**

- Prior to June 6<sup>th</sup>, 2024, under Section 26.2 of the Development Charges Act, a rate freeze can be in effect for 2 years. On June 6<sup>th</sup>, 2024, Bill 185 was passed and the length of time an interest rate freeze can be in effect changed from 2 years to 18 months.

## **Financial Implications**

### **Amendments to the Development Charges By-law**

### **Growth Studies**

- A total of \$2,494,300 of growth-related studies have been identified which are now eligible as capital costs. The costs of these studies have been reduced for non-recoverable costs such as benefits to non-D.C. eligible services totaling \$52,180, benefit to existing services totaling \$664,900 and an adjustment to the reserve fund balance for approved committed funds totaling \$750,530. These reductions result in net potential D.C. recoverable costs of \$1,026,690.
- Growth Studies result in an incremental D.C. of \$114 per residential single detached dwelling unit and \$0.04 per sq.ft. of non-residential gross floor area. As a result, the total calculated City-wide development charge (single/semi-detached unit) for full services has increased from \$38,872 to \$38,986, and the non-residential charge (per sq.ft) has increased from \$8.64 to \$8.68.

### **Amendments to the Development Charges Interest Policy**

- Adjusted the maximum allowable rate on interest charges on Development Charges to Prime + 1% ensuring all municipalities apply the same methodology to interest charges on Development Charges. The prime rate of interest will now be determined using the average prime rate in effect on the adjustment date as outlined per legislation.

### **STRATEGIC ALIGNMENT:**

☐ Strategic Action

**Objective(s):** Choose an Objective

**Strategic Action:** Choose a Strategic Action

**OR**

☒ Core Service

**Program:** Finance

**Core Service:** Development Charges

### **Amendments to the Development Charges By-law**

Amending the development charge background study and utilizing development charges to fund growth related capital costs for growth studies is prudent financial management, ensuring transparency and accountability.

### **Amendments to the Development Charges Interest Policy**

The D.C. Interest Policy establishes a financial framework governing the charging of interest, as permitted under the Development Charges Act. This supports the City's

strategic goal of focusing on the responsible management of financial resources, ensuring transparency and accountability.

## **BACKGROUND:**

### **Amendments to the Development Charges By-law**

The City of Cambridge currently imposes the following D.C. By-laws which were approved by Council on April 30, 2024:

- 24-040 (Fire Protection Services);
- 24-041 (Library Services);
- 24-042 (Parks and Recreation Services);
- 24-043 (Facilities and Fleet);
- 24-044 (Services Related to a Highway);
- 24-045 (Stormwater Drainage and Control Services);
- 24-046 (Wastewater Services); and
- 24-047 (Water Services).

On April 10, 2024, the Province released proposed changes to the Development Charges Act (D.C.A.) via *Bill 185: Cutting Red Tape to Build More Homes Act, 2024*. The Bill received Royal Assent on June 6, 2024. This Bill reversed many of the key changes that were implemented through *Bill 23: More Homes Built Faster Act*, including the following minor amendments:

- Reinstatement of growth studies as an eligible capital cost, allowing municipalities to fund studies, consistent with By-laws passed prior to Bill 23; and
- Removal of the mandatory phase-in charges imposed in Bill 23.

Bill 185 also outlines the process for minor amendments to D.C. By-laws. The Bill allows for municipalities to undertake minor amendments to D.C. By-laws without requiring:

- Completion of a D.C. background study, including the requirement to post the background study 60 days prior to passage of the D.C. By-law;
- Passage of a D.C. By-law within one year of the completion of the D.C. background study;
- A public meeting, including notice requirements; and
- The ability to appeal the By-law to the Ontario Land Tribunal.

Immediately after the passing of Bill 185 on June 6, 2024, the City engaged Watson & Associates Economists Ltd., the same firm who prepared the 2023 background study and updates, to undertake the City's amendment to the D.C. By-laws to add growth

studies and remove the mandatory phase in charges as per the D.C.A. as laid out in Appendix C.

### **Amendments to the Development Charges Interest Policy**

On September 22, 2020, Council approved A09 FIN 003 - Development Charges Interest Policy. The Policy establishes a financial framework governing the charging of interest permitted under the Development Charges Act. At that time, the Policy reflected the D.C.A. as the Act was proclaimed on that day in 2020. Since then, there have been a number of changes to the D.C.A. under the passing of Bill 23 on November 28<sup>th</sup>, 2022 and Bill 185 on June 6<sup>th</sup>, 2024. Although the provincial legislation overrides the provisions of municipal policy, to ensure Council and the public are aware of the legislative changes and to ensure the City of Cambridge's policies are kept up to date, the amendments laid out in this report will ensure alignment between the City's Policy and the D.C.A. This supports the City's strategic goal of focusing on the responsible management of financial resources, ensuring transparency and accountability.

### **ANALYSIS:**

### **Amendments to the Development Charges By-law**

#### **Growth Studies**

Watson & Associates were engaged to complete the City's amendment to the D.C. By-laws to add growth studies and remove the mandatory phase in charges as per the D.C.A. as laid out in Appendix C. This scope of work was included as part of the budget for capital project A/00545-20 Development Charges Update (2022).

A total of \$2,494,300 of growth-related studies have been identified which are now eligible as capital costs. These studies include master plans, D.C. Background Study updates, Master Environmental Servicing Plans and numerous transportation studies (see Appendix C, Table 3-3).

The costs of these studies have been reduced for non-recoverable costs such as benefits to non-D.C. eligible services totaling \$52,180, benefit to existing services totaling \$664,900 and an adjustment to the reserve fund balance for approved committed funds totaling \$750,530. These reductions result in net potential D.C. recoverable costs of \$1,026,690. The amending Development Charges By-laws for Council approval incorporate these studies inclusions (Appendix A).

#### **Phase in Discounts**

Bill 23 required the phase-in of charges imposed in a D.C. by-law over a five-year term for any by-laws passed after January 1, 2022. Bill 185 removed this mandatory phase-

in. For site plan and zoning by-law amendment applications that were made prior to Bill 185 receiving Royal Assent, the charges payable will be the charges that were in place on the day the planning application was made (i.e., including the mandatory phase-in).

A housekeeping amendment to remove the language clause related to the mandatory phase-in is being undertaken for all by-laws (Appendix A).

## **Amendments to the Development Charges Interest Policy**

### **Rate of Interest**

Development Charges are the City's primary funding sources for growth related capital expenditures. With recent legislative changes to the Development Charges Act, the attached Development Charges Interest Policy aims to ensure that the City can continue funding capital investments required to maintain the delivery of services to a growing population and business community.

The Development Charges Interest Policy establishes a financial framework to govern the application of interest as permitted under the D.C.A. The interest rate administration process will be defined and coordinated between Building Standards, Planning, and Finance, and applied to eligible developments as encountered.

Prior to November 28<sup>th</sup>, 2022, interest charges on Development Charges at the City of Cambridge were capped at Prime + 2%. On November 28<sup>th</sup>, 2022, Bill 23 was passed which adjusted the maximum allowable rate on interest charges on Development Charges to Prime + 1% ensuring all municipalities apply the same methodology to interest charges on Development Charges.

As per Bill 23, Section 26.3 of the D.C.A., the prime rate of interest will now be determined using the average prime rate in effect on the adjustment date of January 15<sup>th</sup>, April 15<sup>th</sup>, July 15<sup>th</sup> and October 15<sup>th</sup> (of the previous year). Pursuant to Bill 185, the maximum amount of interest that a municipality may charge is determined according to the following rules:

An adjustment date shall be used to determine the average prime rate to apply the interest on development charges. As per Section 26.3 of the D.C.A., the base rate of interest shall be determined for April 1<sup>st</sup>, 2022 and for each adjustment date after April 1<sup>st</sup>, 2022 and shall be equal to the average prime rate on,

- i) October 15 of the previous year, if the adjustment date is January 1,
- ii) January 15 of the same year, if the adjustment date is April 1,
- iii) April 15 of the same year, if the adjustment date is July 1, and
- iv) July 15 of the same year, if the adjustment date is October 1.

Therefore, in accordance with the D.C.A., the City of Cambridge applied an adjustment date rate on April 1st, 2022 using the average prime rate on January 15th, 2022 and has continued to adjust the prime rates according to the Development Charges Act.

### **Non-Profit Housing Development**

Prior to November 28<sup>th</sup>, 2022, under Section 26.1 of the D.C.A., a non-profit housing development was eligible for D.C. deferrals. On November 28<sup>th</sup>, 2022, Bill 23 was passed and Section 26.1 (2) 3. of the D.C.A. was repealed and non-profit housing developments are no longer eligible for D.C. deferrals and are now fully D.C. exempt under Section 4.2.

### **Reduction of D.C. Rate Freeze Timeframe**

In 2020, changes were made to the D.C.A. which required rate freezes to D.C.'s imposed on developments subject to a site plan and/or a zoning by-law amendment application. The rates for these developments were frozen at the rates that were in effect at the time the site plan and/or zoning by-law amendment application was submitted and were also subject to applicable interest rate charges at the time. Once the application is approved by the municipality, if the date the D.C. is payable is more than two years from the approval date, the D.C. rate freeze would no longer apply. On June 6<sup>th</sup>, 2024, Bill 185 was passed and the length of time an interest rate freeze can be in effect changed from 2 years to 18 months.

For site plans and zoning by-law amendment applications complete prior to Bill 185 proclaimed into law, the charges payable will be the charges applicable at the time the application was complete and will include the mandatory phase-in discounts.

### **EXISTING POLICY / BY-LAW(S):**

The City of Cambridge currently imposes the following D.C. By-laws which were approved by Council on April 30, 2024:

- 24-040 (Fire Protection Services);
- 24-041 (Library Services);
- 24-042 (Parks and Recreation Services);
- 24-043 (Facilities and Fleet);
- 24-044 (Services Related to a Highway);
- 24-045 (Stormwater Drainage and Control Services);
- 24-046 (Wastewater Services); and
- 24-047 (Water Services).

The Council approved Policy A09 FIN 003 - Development Charges Interest Policy was last updated effective September 22, 2020.



## **FINANCIAL IMPACT:**

### **Amendments to the Development Charges By-law**

A total of \$2,494,300 of growth-related studies have been identified which are now eligible as capital costs. The costs of these studies have been reduced for non-recoverable costs resulting in net potential D.C. recoverable costs of \$1,026,690.

Based on the calculations provided by Watson & Associates, this recoverable cost for Growth Studies results in a D.C. of \$114 per residential single detached dwelling unit and \$0.04 per sq.ft. of non-residential gross floor area.

As a result, the total calculated City-wide development charge (single/semi-detached unit) for full services has increased from \$38,872 to \$38,986, and the non-residential charge (per sq.ft) has increased from \$8.64 to \$8.68.

### **Amendments to the Development Charges Interest Policy**

The maximum interest rate now in force under the D.C.A. Section 26.3, ensures all municipalities will be consistent regarding the interest rate being applied to development charges. When interest rates are high, the City can maximize earning potential. However, when prime rates decrease, the City is locked into the prescribed maximum interest rate set out in the Development Charges Act.

## **PUBLIC VALUE:**

Aligning the Development Charges By-law and Development Charges Interest Policy with the Development Charges Act ensures that the City of Cambridge is following the Public Value principle of Transparency, as the City continues to ensure Council and the Public are made aware of changes to the Development Charges Act and that those changes have been incorporated into the accounting of Development Charges at the City.

## **ADVISORY COMMITTEE INPUT:**

Not applicable

## **PUBLIC INPUT:**

Posted publicly as part of the report process.

## **INTERNAL / EXTERNAL CONSULTATION:**

The City engaged Watson & Associates Economists Ltd. to undertake the City's amendment to the D.C. by-laws to add growth studies and remove the mandatory phase in charges as per the D.C.A.



In addition, City staff from various divisions participated in the preparation of the amendment for Growth Studies including: Finance; Planning; Building; Economic Development; Legal; Asset Management & PMO; Engineering; Public Works; Parks Recreation & Culture; Fire and Library.

## **CONCLUSION:**

### **Amendments to the DC By-law**

In response to the passing of Bill 185, the D.C. By-laws are to be amended as laid out in this report. The draft amending by-laws are included as Appendix A.

By-law 24-044 is proposed to be amended as follows:

- Add growth studies as a class of service; and
- Revise Schedule A to include growth studies.

By-laws 24-040, 24-041, 24-042, 24-043, 24-044, 24-045, 24-046, and 24-047 are proposed to be amended as follows:

- Repeal section 9.2 related to mandatory phase-in for housekeeping purposes.

### **Amendments to the Development Charges Interest Policy**

Staff have updated the Development Charges Interest Policy to align with the legislative changes to the Development Charges Act. The revised Development Charges Interest Policy is included as Appendix B.

## **REPORT IMPACTS:**

Agreement: **No**

By-law: **Yes**

Budget Amendment: **No**

Policy: **Yes**

## **APPROVALS:**

**This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:**

**Director**

**Deputy City Manager**

**Chief Financial Officer**

**City Solicitor**

## **City Manager**

### **ATTACHMENTS:**

1. 24-038-CRS Appendix A – Development Charge By-law Amendments
2. 24-038-CRS Appendix B – Development Charges Interest Policy
3. 24-038-CRS Appendix C – Memo – 2024 Development Charges Amendments as per Bill 185