

To: COUNCIL

Meeting Date: 4/29/2025

Subject: 25-012-CRS Development Charges Statement for the Year Ended December 31, 2024

Submitted By: Sheena Pawliwec, CPA, CGA, Director of Finance and Deputy Treasurer

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

Report No.: 25-012-CRS

File No.: C11

Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 25-012-CRS Development Charges Statement for Year Ended December 31, 2024 be received as information.

EXECUTIVE SUMMARY:

Purpose

The results of the Development Charges Background Study and the Development Charges By-laws, dated December 22, 2023, were presented to Council during a public meeting on April 16, 2024. On April 30, 2024, Council passed the Development Charges By-laws 24-040, 24-041, 24-042, 24-043, 24-044, 24-045, 24-046 and 24-047 with an effective date of June 1, 2024. Section 43 of the *Development Charges Act, 1997, S.O. 1997, c. 27*, as amended (“DCA”) requires the Treasurer to provide Council a financial statement relating to the Development Charges By-law and reserve funds.

Key Findings

- The development charges (“DC” or “DCs”) statement provides detailed information related to opening and closing balances of the City’s development charge reserve funds and of the transactions related to the funds. Revenues include contributions received from developers, contributions from the City for waived or exempted DCs, as well as investment income and interest earned under the DCA rate freeze legislation. The expenditures include contributions to capital projects and contributions to operations towards the cost of project managers.

- The City amended the Development Charges By-laws effective June 1, 2024 and Development Charges Interest Policy effective October 23, 2024 incorporating legislative changes to the DCA through Bill 23 and Bill 185. Through Council's approval of these amendments, the City's DC By-laws and DC Interest Policy are now aligned with the current legislation in force under the DCA.
- The statement also provides the required details on all assets whose capital costs were funded under a development charges by-law during the year. For these assets, information is included on other sources of financing and amounts spent on the project.
- The statement includes information on Credit for Service Agreements (CFSA) that the City has entered into, waived or exempted DCs funded by the City, and DC deferrals provided by the City. The statement also includes information associated with Bill 23, *More Homes Built Faster Act, 2022*, in relation to both the DCs that were exempted under this legislation, and the reduction of DCs associated with the mandatory phasing in of development charges rates in the first half of 2024. These mandatory phase-in reductions were eliminated through the passing of Bill 185 effective June 6, 2024.
- As required by the Development Charges Act, the City of Cambridge has not imposed directly or indirectly a charge related to a development or requirement to construct a service related to development, except as permitted by the Development Charges Act or another Act.

Financial Implications

- At the end of 2024, the City's development charge reserve funds had an overall funded position of \$76,234,772, an increase of \$8,221,779 from the opening balance. From the total development charge funded position of \$76,234,772, an amount of \$50,463,428 (66.19%) has been committed to approved open capital projects. These funds have not yet been transferred to capital projects as the capital expenditure has not yet been incurred.
- Credit for Service agreements are currently in place for the Cambridge West, Power Play Equity Capital/Treasure Hill, Moffat Creek, and iPort Cambridge/Madison Homes subdivision developments with issued credits totaling \$13,839,505, \$9,926,298, \$74,321 and \$2,819,865 respectively to December 31, 2024. This is summarized by capital project in Appendix B.
- There was one City-funded non-statutory exemption in the amount of \$31,307 in 2024 which was exempted through the City of Cambridge DC by-law as a temporary use building.

- There are three developments with deferred development charges as of December 31, 2024, equating to \$991,970. There were no new DC deferrals in 2024. A summary of the City of Cambridge DC deferrals can be found in Appendix C.
- Bill 23 mandatory phase-in of DC rates resulted in a reduction in DC fees collected totaling \$408,249 in 2024. On June 6, 2024, Bill 185 passed which eliminated this mandatory phase-in DC exemptions which has mitigated this impact.

STRATEGIC ALIGNMENT:

☐ Strategic Action

Objective(s): Not Applicable

Strategic Action: Not Applicable

OR

☒ Core Service

Program: Finance

Core Service: Development Charges

BACKGROUND:

The Development Charges Act

The *Development Charges Act 1997, S.O. 1997, c. 27, as amended*, (“DCA”) Section 43(1) requires the Treasurer of the municipality to provide City Council with an annual financial statement relating to development charge reserve funds. The DCA also requires that the statement be made available to the public and the Treasurer is to give a copy of the statement to the Minister of Municipal Affairs and Housing on request.

Bill 185

On April 10, 2024, the Province released proposed changes to the Development Charges Act (DCA) 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, 2022*. In summary, the Bill included the following changes in DC legislation.

- Reinstatement of Studies as an eligible capital cost
- Removal of mandatory phase-in discounts

- Reduction of DC rate freeze timeframe from 2 years to 18 months

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 DC By-laws to add growth studies and remove the mandatory phase in charges as per the DCA.

Amendment to DC By-law & DC Interest Policy

Council report 24-038-CRS Amendment to Development Charges By-law for Growth Studies and Development Charges Interest Policy was approved by Council on October 22, 2024, with an effective date of October 23, 2024. The report informed Council on recent legislative changes to the DCA through Bill 23 and Bill 185 that have impacted the City's DC By-laws (By-laws 24-040, 24-041, 24-042, 24-043, 24-044, 24-045, 24-046 and 24-047) and DC Interest Policy (A009 FIN 003). Through Council's approval of these amendments, the City's DC By-laws and DC Interest Policy are now aligned with the current legislation in force under the DCA. To summarize, the report made the following amendments to the DC By-law and DC Interest Policy.

DC By-law Amendments

- Reinstatement of Studies as an eligible capital cost
- Removal of mandatory phase-in discounts

DC Interest Policy

- Prime +2% changed to Prime + plus the percentage in force under the DCA (currently 1% as at the time of writing this report)
- Addition of language regarding the determination of the maximum interest rate
- Removal of Non-Profit housing development under DC Deferral as they are now fully exempt
- Development Charge rate freeze timeframe reduced from 2 years to 18 months

Credit for Service Agreements

In 2020, the City of Cambridge Council passed policy A09 FIN 002 Development Charges – Credit for Service Agreement which allowed the City to enter into Credit for Service Agreements. A Credit for Service Agreement represents an agreement with a developer(s) to facilitate the construction of growth-related municipal infrastructure ahead of the City's capital program. Under these agreements, developers construct, or pay to have constructed, infrastructure that the City is unwilling or unable to fund within the time frame sought by a developer(s). The reimbursement to the developer is provided by way of a development charge credit and/or refund. Under these agreements, the developer pays for the upfront costs of the infrastructure ahead of the

capital budget schedule and are provided credits and/or refunds for development charges.

These credits will offset development charges owing at the time development charges are required to be paid which is subdivision registration and/or building permit issuance. If the capital project that was previously forecasted in the future at the time of signing the agreement is subsequently approved (i.e. time lapses), then the developer would be reimbursed through that approved capital project. Expenditures can be covered up to the amounts identified in the Development Charges Background Study and costs exceeding these amounts must be approved by Council prior to the award of the tender. Since the introduction of this policy, four developers have proceeded with work covered under these agreements for specific developments. These developments include Cambridge West and Power Play Equity Capital/Treasure Hill which were approved by Council and the developers began to accrue credits in 2021 and continuing through 2023, as well as the addition of agreements for Moffat Creek and iPort Cambridge/Madison Homes in 2023. The balance of credits accrued to date as of December 31, 2024 are outlined in Appendix B.

Deferred Development Charges

Bill 108, *More Homes, More Choice Act, 2019*, and Bill 23, *More Homes Built Faster Act, 2022*, amended Sections 4.2 and 26.1 of DCA to make non-profit housing fully exempt from DCs, and to allow DC deferrals for for-profit rental housing and institutional development.

The for-profit rental units and institutional developments can be deferred for a maximum of six years with interest, where annual payments are owing beginning at occupancy.

In addition, Section 27 of the DCA allows for entering into an agreement with developers for the early or late payment of DCs, which can also result in deferred development charges. There were no new DC deferrals in 2024. The tracking of the City's deferred DC balances is outlined in Appendix C.

Development Charge Interest

Under the DCA, interest may be applicable on development charges in three scenarios:

Section 26.1 deferred DCs, discussed above; Section 27 early or late payment arrangements, also discussed above; and Section 26.2 DC rate freezes. The City's policy, A09 FIN 003 Development Charge Interest, approved by Council on October 22, 2024, specifies the interest rate to be used for freezes and deferrals (excluding non-profit housing, which was subsequently exempted) at a rate of Prime + plus the percentage in force under the DCA.

Phasing-in of Development Charge Rates

Bill 23, *More Homes Built Faster Act, 2022*, implemented the mandatory phasing-in of development charge rates, such that only 80% of the calculated rate can be charged in year one after a by-law is enacted, increasing to 85% in year two, then 90% in year three, 95% in year four and returning to full new rates in year five.

On June 6, 2024, Bill 185 reversed the mandatory phasing in of development charge rates. Any site plan and zoning by-law/official plan amendment applications made prior to the passing of Bill 185, will be charged the DCs payable that were in place on the day the planning application was deemed complete.

The total loss of DC revenues for the period of January 1, 2024, to December 31, 2024, resulting from mandatory phasing-in of development charge rates totaled \$408,249 (2023 - \$748,584).

The Development Charges Statement

The City's financial system tracks the activity for each development charge reserve fund. Revenue and expenditure transactions are recorded by the reserve fund, providing the details for the development charges statement as attached in Appendix A.

Parking Development Charges

As part of Bill 108, *More Homes, More Choice Act, 2019*, parking services became an ineligible service effective September 18, 2022, therefore the City has not and will not collect any further Parking DC revenues from developers. The funds collected to date are now deemed under the DCA to be a general capital reserve fund for the same purposes for which it was originally collected. The Parking fund is reported in the 2024 development charges statement for transparency.

ANALYSIS:

The following summarizes the activities of the development charge reserve funds for the 2024 fiscal period:

Revenues: A total of \$24,602,009 in revenue was generated for development charge reserve funds, comprised of \$20,089,413 in externally contributed development charges, and \$31,307 contributed by the City for funded exemptions. Additionally, there was investment revenue earned of \$3,218,051, and interest charges relating to the rate freeze legislation and DC deferrals of \$1,263,238.

Expenditures: A total of \$12,439,622 in contributions from the development charge reserve funds were transferred to capital projects during the year, and an additional

\$3,940,608 was provided to offset related operating expenditures for debt charges and project management.

Credit for Service Agreements: The City has recognized \$34,924,549 in costs incurred to date relating to Credit for Service Agreements for subdivisions, as outlined in Appendix B. A total of \$8,264,560 in DC credits have been used up to December 31, 2024, which leaves a balance of \$26,659,989 to be claimed as either future DC credits or refunded. The total capital budget approval for these projects is \$42,872,495 and therefore an incremental \$7,947,946 in credits and reimbursements are expected.

DC Deferrals: There were fourteen DC deferrals at the beginning of 2024. In 2024, the City received full payments for five DC deferrals, DC credits were applied to four DC deferrals as per Credit for Service Agreements and one DC deferral was exempted as per the DCA. As a result, four DC deferrals remain at December 31, 2024 totaling \$991,970, as outlined in Appendix C.

Year End Balance: The net balance of the development charge reserve funds as at December 31, 2024 is \$76,234,772, an increase of \$8,221,779 or 12.09% over the opening balance of \$68,012,993.

Positive Reserve Fund Balances:

All development charge reserve funds, which include stormwater, water, wastewater, roadways, engineering studies, parks and recreation, fire services, library, public works facilities and fleet, government studies, and parking, have positive fund balances. The following summarizes the major activities from the reserve funds with the greatest positive balance:

- **Parks & Recreation:** this fund has a balance of \$30,660,463 which is an increase of \$1,100,220 or 3.72% over the previous year's ending balance of \$29,560,243. This is mainly attributed to contributions received from DCs of \$4,124,807 and investment income of \$1,321,871. The increase is offset by contributions to capital and operating funds of \$3,565,278 and \$866,804 respectively. The major contributions from this reserve fund were used for capital projects such as A/00420-40 Preston Auditorium Expansion – Construction of \$543,083, A/00463-30 Recreation Complex – Design of \$1,426,964, and A/00463-41 Recreation Complex Construction of \$708,170.
- **Roadways:** this fund has a balance of \$28,529,229 which is an increase of \$2,796,240 or 10.87% over the previous year's ending balance of \$25,732,989. This is primarily due to contributions received from DCs of \$8,841,479 and investment income of \$1,231,306. The increase is offset by contributions to capital and operating funds of \$6,607,602 and \$1,397,021 respectively. The

major contributions from this reserve fund were used for capital projects such as A/01043-41 Beverly Street Reconstruction and Pedestrian Underpass of \$5,729,737 and A/01068-40 Blackbridge Road Utility Relocations of \$250,178.

As of December 31, 2024, there were no DC reserve funds in a negative balance. However, development charge reserve funds can experience an overdrawn position due to the timing of the emplacement of infrastructure ahead of complete funding being available. This overdrawn position is recovered through future funds to be received from developers.

From the total development charge funded position of \$76,234,772, an amount of \$50,463,428 has already been committed to approved open capital projects, which represents 66.19% of the total balance. As of December 31, 2024, \$25,771,344 of the development charge balance remains uncommitted and to be used for future capital projects. Of this remaining balance, \$5,413,600 and \$14,166,200 are allocated to the 2025 and 2026 capital projects respectively.

To ensure an overall positive balance and sufficient cash flow on the development charge reserve funds, Council approves rate-supported debt financing of certain development projects. Since 2020, the City of Cambridge has issued a total of \$41,866,000 in DC debt for projects with \$0 issued in 2024. The City of Cambridge Council has approved additional debt totaling \$94,202,224 that has not been issued yet. This funding is again tied to specific capital projects that are key developments in Cambridge over the next few years such as the Recreation Complex construction and Blackbridge Road and bridge reconstruction.

The principal and interest payments on this rate-supported debt will be funded through development charge revenues collected in the future as the development planned for in the Development Charges Background Study takes place.

As required by the Development Charges Act, the City of Cambridge has not imposed directly or indirectly a charge related to a development or requirement to construct a service related to development, except as permitted by the Development Charges Act or another Act.

The only service for which a development charge was collected during the year but from which no money was spent during the year was for Parking Services. As noted above, Parking is no longer considered an eligible DC service as of September 18, 2022, and the fund is now deemed under the DCA to be a general capital reserve fund for the same purposes for which it was originally collected. It is shown on this report for transparency purposes.

EXISTING POLICY / BY-LAW(S):

On June 1, 2024, the City of Cambridge Council passed Development Charges By-laws 24-040, 24-041, 24-042, 24-043, 24-044, 24-045, 24-046 and 24-047 to reflect the Development Charges Background Study dated December 22, 2023 repealing By-Law 19-094, as amended. These DC By-laws were subsequently amended through Council report 24-038-CRS effective date of October 23, 2024. The City's DC By-laws and DC Interest Policy align with the current legislation in force under the DCA.

Policy A09 FIN 002 Development Charges – Credit for Service Agreement allows the City to enter into Credit for Service agreements.

FINANCIAL IMPACT:

The development charges statement provides detailed information related to opening and closing balances of the City's development charge reserve funds and of the transactions related to the funds. The statement also provides the required details on all assets whose capital costs were funded under the development charges by-law during the year. For these assets, information is included on other sources of financing and amounts spent on the project.

As of December 31, 2024, all development charge reserve funds, which include stormwater, water, wastewater, roadways, engineering studies, parks and recreation, fire services, library, public works facilities and fleet, government studies, and parking, have positive fund balances.

From the total development charge funded position of \$76,234,772 an amount of \$50,463,428 has already been committed to approved open capital projects, which represents 66.19% of the total balance. As of December 31, 2024, \$25,771,344 of the development charge balance remains uncommitted and to be used for future capital projects. Of this remaining balance, \$5,413,600 is allocated to the 2025 capital projects which includes \$1,400,000 allocated towards Fire Fleet Growth project (Pumper Truck). The 2026 capital forecast further includes \$14,166,200 which includes \$2,620,000 allocated towards Region – Fountain Street North Phase 2 project. Additionally, the City has DC-funded debt and interest outstanding of \$47,382,144 plus an additional \$94,202,224 in DC-funded debt that has been approved but not yet issued due to cashflow timing needs on projects. As such, while it may appear that the City holds sizeable DC funds in reserve at present time, the short-term commitments out of these funds significantly exceed the funding available, requiring the use of debt financing to maintain positive DC funding balances as required by the Development Charges Act.

The City was required to fund \$31,307 in development charge exemptions that are permitted through the City's Development Charges By-law. These exemptions are funded from the City's operating fund. The City also has outstanding credits for DC's

related to subdivision developments of \$26,659,989 as outlined in Appendix B, and deferred DC's of \$991,970 as outlined in Appendix C.

PUBLIC VALUE:

This report supports the sustainable management of financial resources by reporting on collection and use of development charges which are a key vehicle in growth related development for the City of Cambridge. This provides transparency to the community in the use of collected development charges, as well as ensures the City remains compliant with the requirements in the Development Charge Act.

ADVISORY COMMITTEE INPUT:

Advisory Committees Consulted:

Not Applicable

PUBLIC INPUT:

Posted publicly as part of the report process.

INTERNAL / EXTERNAL CONSULTATION:

City departments provided input on the establishment of the Development Charges By-law and external consultation was obtained from the development industry at the time of the Development Charges Background Study as well as the amendment to the DC By-laws to incorporate the legislative changes resulting from Bill 185. These changes included the reinstatement of a growth studies DC rate and removal of the mandatory phase-in discounts.

CONCLUSION:

The Development Charges Statement for the 2024 fiscal year is presented, which meets the requirements of the Development Charges Act 1997, Section 43. The annual Development Charges report will be made available to the public.

REPORT IMPACTS:

Agreement: **No**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

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. 25-012-CRS Appendix A – Development Charges Statement for the Year Ended December 31, 2024
2. 25-012-CRS Appendix B – 2024 Credit for Service Agreements
3. 25-012-CRS Appendix C – 2024 Deferral Agreements