



Regular Council Meeting

To:	Mayor and Council
Date:	February 21, 2023
From:	Kimberley Pope, Finance Department
Report Number:	Finance 2023-02
Subject:	Bill 23 Changes to Development Charges Update

Recommendations:

1. That Council receives for information the Memorandum: Impacts of Bill 23 on Cavan Monaghan Development Charges, prepared by Gary Scandlan and Daryl Abbs of Watson & Associates Economists Ltd., for information and discussion with the consultant; and
2. That Council approve the use of the maximum interest rate allowable under the Development Charges Act applicable as per Development Charges By-law No. 2022-43 and any amendments thereto.

Overview:

The Government of Ontario passed Bill 23, the More Homes Built Faster Act, on November 28, 2022. This legislation is part of the government's plans to achieve construction of 1.5 million homes by 2032.

Bill 23 makes fundamental changes to the land use planning system in Ontario. Municipalities have identified significant issues with the implementation of this legislation including concerns relating to the environment, heritage architecture, public consultation impacts as well as financial impacts for property taxpayers.

The Township may lose D.C. revenues of up to \$250,000 annually or \$1.3 million over a five (5) year period.

Development Charges (D.C.) are one-time fees. The Province's Planning Act allows municipalities to collect these charges so that growth pays for growth and not by the existing taxpayers. Once built thereafter the ongoing operational costs for the new infrastructure are included within the municipal budget and recovered through property taxation, user fees and charges or a combination thereof.

As a result of the legislative changes brought forth through Bill 23, Watson & Associates Economists (Watson) was retained to undertake a review of the changes to the Development Charges Act (D.C.A) along with the potential impacts to the Township of Cavan Monaghan. This report is to provide clarity to the impact of Bill 23 on D.C.'s and specifically the reduction in D.C. revenues that will need to be funded from other sources (i.e. reserves, taxes, and/or water/wastewater rates). The actual magnitude of the loss in D.C. revenues will depend on the rate and type of growth.

The Watson & Associates memorandum provides a summary of the changes to the Development Charges Act organized into three categories;

1. Changes that impact the Township's policies and charges immediately;
 - Additional Residential Exemption (2.1.1)
 - Removal of Housing as an Eligible D.C. Service (2.1.2)
 - New Statutory Exemptions – Non-Profit Housing (2.1.3)
 - Mandatory Phase-in of a D.C. (2.1.4)
 - Rental Housing Discount (2.1.5)
 - Maximum Interest Rate for Instalments and D.C. Rate Freeze for Eligible Site Plan and Zoning By-law Amendment Applications (2.1.6)
 - Requirement to Allocate Funds Received (2.1.7)
2. Changes that impact the Township upon undertaking the next D.C. by-law or update;
 - Historical Level of Service (2.2.1)
 - Capital Costs – Studies (2.2.2)
 - D.C. By-Law Expiry (2.2.3)
3. Changes that will impact the Township at a future date, yet to be determined.
 - New Statutory Exemptions (2.3.1)
 - Capital Costs – Land (2.3.2)

The Planning Department will provide Council with an update on planning and land use related information in relation to the impact of Bill 23, in a future report, and identify the a summary of impacts; current, upon DC bylaw expiry and future. Upon Cavan Monaghan's D.C. bylaw expiry on August 2, 2027 the next by-law will have a reduction in D.C. eligible amounts in relation to growth related studies.

For all D.C. By-laws passed after January 1, 2022, the charge must be phased in annually over the first five years the by-law is in force. Therefore as Council approved the Cavan Monaghan Development Charges By-law No. 2022-43 effective August 3, 2022 (Finance 2022-14) the DC charge phase-in is as follows;

- Year 1 – 80% of the maximum charge; effective November 28, 2022
- Year 2 – 85% of the maximum charge; effective August 3, 2023
- Year 3 – 90% of the maximum charge; effective August 3, 2024

- Year 4 – 95% of the maximum charge; effective August 3, 2025
- Year 5 to expiry – 100% of the maximum charge; effective August 3, 2026

The D.C. By-law provides for the automatic indexing of the development charges, without amendment, annually, beginning on January 1, 2023 and each year thereafter, in accordance with the prescribed index in the Act (Statistics Canada Quarterly, Non-Residential Building Construction Price Index, CANSIM Table 327-0043).

Prior to Bill 23, D.C. by-laws would expire after five (5) years, unless otherwise stated in the by-law. With the changes from Bill 23, a D.C. by-law would expire 10 years after the day it comes into force, unless otherwise provided for in the by-law.

Since the Township's D.C. by-law includes an expiry date of August 2, 2027, this would remain as the expiry date. When the Township undertakes their next D.C. by-law, they may utilize an expiry date that is 10 years after the date the by-law comes into force.

Before Bill 23 came into force, no maximum interest rate was prescribed. Under the changes, and in force as of November 28, 2022, the maximum interest rate would be set at the average prime rate plus 1%. No D.C. interest rate policy has been passed to date; however, Council has the ability to impose an interest rate of less than the maximum. The average prime rate on January 30, 2023, was 6.7%. Therefore, the maximum interest rate as per the D.C.A. would be 7.7%.

It is the recommendation of Watson & Associates that Council should consider the passage of a resolution to utilize the maximum interest rate allowable under the D.C.A. or consider an alternative interest rate policy that provides for a reduced rate.

Summary of Financial Impacts from Bill 23:

The Township may lose D.C. revenues of up to \$250,000 annually or \$1.3 million over a five (5) year period.

As a result of the changes to the D.C.A. arising from Bill 23, the Township will see a reduction in D.C. revenues that will need to be funded from other sources.

Table 3-1 summarizes the estimated financial impacts for the changes that take effect immediately.

Table 3-1
Township of Cavan Monaghan
Summary of Impacts from Bill 23 – Immediate Impacts

Legislative Change	Potential Financial Impact	Timing of Impact
Additional Residential Exemption	Annually: Revenue loss of \$0 to \$57,000; 5-Year Period: Revenue loss of \$0 to \$290,000.	Immediate
Removal of Housing as an Eligible D.C. Service	No anticipated financial impact.	Immediate
Non-Profit Housing Exemption	No anticipated financial impact.	Immediate

Legislative Change	Potential Financial Impact	Timing of Impact
Mandatory Phase-in	Annually: Revenue loss of \$200,000; 5-Year Period: Revenue loss of \$1.00 million (4.75% of the anticipated D.C. revenues).	Immediate
Rental Housing Discount	No anticipated financial impact.	Immediate
Maximum Interest Rate	No anticipated financial impact.	Immediate
Requirement to Allocate Funds Received	No anticipated financial impact.	Immediate

Table 3-2 provides for a summary of the changes that will impact the Township at a later date, along with an estimated financial impact of the changes.

Table 3-2
Township of Cavan Monaghan
Summary of Impacts from Bill 23 – Future Impacts

Legislative Change	Potential Financial Impact	Timing of Impact
Historical Level of Service	Annually: Revenue Loss of approximately \$8,400; or Over a 5-Year Period: Revenue loss of approximately \$42,000.	Upon Undertaking D.C. By-law or Update
Capital Costs – Studies	Reduction in D.C. eligible amount of \$365,000 for growth related studies, based on the cost for growth studies in the 2022 D.C. background study.	Upon Undertaking D.C. By-law or Update
D.C. By-Law Expiry	No anticipated financial impact.	Upon Undertaking D.C. By-law or Update
New Statutory Exemptions – Affordable and Attainable Housing	An estimated financial impact cannot be undertaken at this time, however, this should be reviewed upon release of the regulations.	In the Future
Capital Costs - Land	An estimated financial impact cannot be undertaken at this time, however, this should be reviewed upon release of the regulations.	In the Future

Financial Impact:

The Township may lose estimated Development Charge revenues of up to \$250,000 annually or \$1.3 million over a five (5) year period. There is no exact known cost at the time of this report. The actual magnitude of the loss in D.C. revenues will depend on the rate and type of growth.

Attachment:

Memorandum: Impacts of Bill 23 on Cavan Monaghan Development Charges,
Watson & Associates Economists Ltd.

Respectfully Submitted by,

Kimberley Pope
Director of Finance/Treasurer

Reviewed by,

Yvette Hurley
Chief Administrative Officer