

**APPENDIX 1**

**ADMINISTRATION OF DEVELOPMENT  
FUNDS, PARKLAND LEVIES AND  
EDUCATION DEVELOPMENT CHARGES**

**March 30, 2010**



**Auditor General's Office**

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## EXECUTIVE SUMMARY

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***Objective of this review***

The objective of this review was to assess the adequacy of procedures implemented by management to ensure that development charges, parkland levies and education development charges are being effectively and efficiently administered.

This report does not include a review of community benefits negotiated under section 37 or section 45 of the *Planning Act*. These matters have been reviewed separately and will be the subject of a further report by the Auditor General's Office.

***Audit Results***

Our review of the City's administration of development funds identified the following:

- Building permits are issued before parkland dedication fees are collected.
- There are no financial penalties to developers for failing to meet the terms of conditional permits.
- Additional training and guidance for staff, combined with enhanced managerial reviews, will reduce the occurrence of by-law interpretation errors.
- Need to review developments where an alternative rate parkland dedication fee was negotiated to ensure the correct amount was received.
- Need to assess the possibility of recovering parkland dedication fees where the correct amount may not have been received (\$1.3 million in one development we reviewed).
- Need for discussions with the Toronto District Catholic School Board to minimize the differences between the Board's and the City's development charge by-laws.
- Need to review the opportunities available to make use of \$37 million in development funds collected prior to 2000.

Our report includes 13 recommendations which have been reviewed with management. The implementation of these recommendations will improve the day-to-day management of the City's development funds.

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## BACKGROUND

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***Auditor  
General's 2009  
Audit Work Plan***

The Auditor General's 2009 Audit Work Plan included a review of development funds. For the purposes of this review, development funds refers to those charges determined and collected by the City for development of land under the authority of the Development Charges Act, the Planning Act (section 42) and the Education Act.

This report does not include a review of community benefits negotiated in return for the approval to build under section 37 or section 45 of the Planning Act. These matters have been reviewed separately and will be the subject of a further report by the Auditor General's Office.

### **Development Charges**

***Any development  
of land is  
governed by  
provincial  
legislation and  
municipal by-  
laws***

The *Development Charges Act (1997)* authorizes Council to pass by-laws to impose charges for any development or redevelopment of land. The City of Toronto's current development charges by-law (No. 275-2009) was adopted by City Council in February 2009. The by-law came into effect on May 1, 2009 and Council deferred the adopted development charge rate increases to 2011. The by-law sets out the rules for exemptions, indexing and phasing-in of increased rates amongst other things. The new rates are to be phased in over a four year period from 2011 to 2014.

***Development  
charges are used  
to finance the  
costs of new  
infrastructure***

The purpose of development charges is to recover a portion of the costs associated with the additional infrastructure needed to service new development. These revenues are an important source of funds used by the City to finance capital investments required for a growing large urban centre. In order to pass a development charges by-law, Council is legally required to conduct a background study to identify growth related projects and determine the development charges that may be imposed.

***A background study determines how development charges are to be used***

The most recent background study adopted by Council was completed in 2008. This study determined how development charges will be allocated to fund the growth-related capital costs for a number of municipal services. The allocation of development funds toward various municipal service areas, as set out in the by-law, is summarized in Exhibit 1.

***Total of \$250 million held in reserve funds***

At December 31, 2009, the total amount held in the City's various development charges reserve funds was \$248.9 million. During 2009, \$46.7 million in contributions and interest were added to the reserve funds and \$67.7 million was used for expenditures on eligible growth-related projects.

### **Conveyance of Land for Park Purposes – Section 42 of the Planning Act**

***Planning Act, City's Official Plan and by-laws govern the dedication of parklands***

Section 42 of the *Planning Act (1990)* authorizes Council to pass by-laws to require, as a condition of development or redevelopment of land, that a specified amount of land be given by the developer to the City for park purposes. This requirement is generally referred to as either parkland dedication or conveyance.

The *Planning Act* specifies that the amount of land to be given to the City is not to exceed the following amounts:

- Two per cent of land proposed for commercial or industrial development
- Five per cent of land proposed for all other types of development, including residential.

At the time of amalgamation, in 1998, each of the former municipalities had their own parkland dedication by-laws that are still in existence.

***Alternative rate for parkland dedication***

For residential development with higher density, such as 300 units or more, the *Planning Act* allows the City to establish an alternative rate to the prescribed rate of five per cent specified in the Act. The alternative rate is up to one hectare for each 300 dwelling units proposed for any new development or redevelopment. The City of Toronto's alternate rate parkland conveyance By-law No. 1420-2007 came into effect on January 1, 2008.

***City may accept cash instead of parkland***

For any new developments or redevelopments, the City may accept a cash payment equal to the value of the parkland that should have been conveyed to the City. This cash-in-lieu payment is known as a parks levy or parkland dedication fee.

***Corporate policy on allocation of cash payments requires 25/25/25/25 per cent split***

In 1999, City Council adopted an interim policy on the allocation of cash-in-lieu payments received. The policy direction is to allocate the funds received equally between parkland acquisition and parkland development and further between a district and city-wide priorities.

***\$90.7 million held in reserve funds***

At December 31, 2009, the total amount held in the City's various parkland reserve funds was \$90.7 million. During 2009, \$19.1 million in contributions and interest were added to these reserve funds and \$11.2 million was used for expenditures to acquire parkland or develop recreational services.

### **Education Development Charges**

Under the authority of the *Education Act (1997)*, a board of education may establish a by-law to impose education development charges on land undergoing residential and non-residential development within their jurisdiction. Education development charges are used to fund the acquisition of school sites and related expansion costs.

Of the four public school boards in the City of Toronto only the Toronto Catholic District School Board has enacted an education development charges by-law (No. 163) which sets rates and took effect on August 25, 2008.

***City staff process education development charges***

As required by the *Education Act*, the City of Toronto applies the education development charge rates established by the Toronto Catholic District School Board's by-law and ensures the collection and transfer of these funds to the school board. Since the other school boards do not have an education development charges by-law no funds are collected or transferred by the City to other boards of education.

## Assessment and Collection of Development Charges

The City's Chief Building Official, is responsible for the issuance of building permits. Toronto Building staff determine the amount of development charges and education development charges that are payable according to the by-law and in turn are responsible for collecting the charges. Further, Toronto Building supports Parks, Forestry and Recreation and Real Estate Divisions in their assessment and collection of the parkland payment to be made in lieu of land.

Toronto Building staff, in their administration of development charges, use the Integrated Business Management System (IBMS) to automatically calculate and generate the notice of the development charges and education development charges payable. In addition, staff in each district throughout the City use the system to record the receipt of these payments as well as any payments received for parkland.

### ***Development charges are due when building permit is issued***

The City's development charges by-law states that applicable development charges shall be calculated, payable and collected as of the date a building permit is issued. Different permits are required at different stages of construction. The legislation does not specify which building permit requires the payment of development charges. The City's by-law however, requires development charges to be paid at the time when the first above grade building permit is issued.

Under the *Building Code Act* (1992) a building permit is required before any proposed building, construction or demolition can begin. The Chief Building Official may withhold a building permit if any fees due have not been paid.

The Chief Building Official is required to issue a building permit once all information for a development application is complete and there is compliance with the building code and any other applicable law, including the payment of fees.



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## AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

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***Audit Objective*** The objective of this review was to assess the adequacy of procedures implemented by management to ensure that development charges, parkland levies and education development charges are being effectively and efficiently administered.

The specific objectives of the review were to:

- assess management controls established to ensure compliance with relevant legislation, policies and procedures when determining the amount of development charges payable
- review the effectiveness of the administrative controls in place to monitor and report on development funds received
- examine the procedures which ensure development funds are allocated to the appropriate reserve funds
- provide assurance that information systems are effective in supporting the efficient administration of development funds received.

***Audit scope*** This audit covered the period from January 1 to December 31, 2009.

***Audit methodology*** Our audit methodology included the following:

- review of legislation, policies, procedures, and current divisional practices
- interviews with City staff
- assessment of documents, records and management reports
- examination of a sample of 59 development applications where a building permit was issued in 2009
- analysis of data and selected transactions
- evaluation of management processes
- review of the audit work performed on development charges by the City's external and internal auditors
- review of reports on development charges from other jurisdictions, such as the City of Ottawa
- other procedures deemed appropriate.

***Compliance with generally accepted government auditing standards***

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## **AUDIT RESULTS**

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### **A. BUILDING PERMITS ISSUED ONCE ALL FEES ARE PAID**

#### **A.1 Issuing Building Permits Before All Fees Collected**

Once an applicant has fulfilled all the requirements of the *Building Code Act*, including payments for all fees and charges, the Chief Building Official is required to issue a building permit.

A Toronto Building staff bulletin (July 28, 2004) directs staff to ensure payments for parkland dedication fees, education development charges, and development charges, have all been received prior to the issuance of the first above grade building permit.

***Building permits issued when payments outstanding***

Our audit sample included a review of developments where a building permit was issued in 2009. For 34 developments, a payment was required for either a park levy or development charge, or in some cases both. Our review of these files found five instances where a building permit was issued when payments had not been collected.

In two of the five files we reviewed, payments were received more than a year after the first above grade building permit was issued. There was no interest charged on these late payments which were for a total amount of approximately \$1.3 million. We did note that all fees were collected prior to issuance of the final permit.

Any delays in the receipt of funds adversely impacts the City by either higher borrowing costs or reduced interest earned on the reserve funds.

In the fall of 2009, Toronto Building enhanced the IBMS system. This enhancement prevents the issuance of a building permit if development and education development charges are not received. Since our review period started January 1, 2009, this control was not in place for the first nine months of our review period.

Of the five instances where a building permit was issued when a payment had not been received, only one related to development charges. This particular instance occurred prior to the implementation of appropriate IBMS system controls. No further exceptions were noted subsequent to the implementation of controls.

The remaining four instances where fees had not been received on a timely basis related to parkland levies. At the time of our review there was no system control in place to prevent the issuance of a building permit when there is an unpaid parkland levy.

**Recommendation:**

- 1. The Chief Building Official, in consultation with the General Manager of Parks, Forestry and Recreation, implement controls to prevent the issuance of a building permit until parkland dedication fees have been paid.**

**A.2 Annual Indexing of Development Charge Rates**

*Development charges rates are indexed each year*

The City's development charges by-law sets out rules for indexing development charge rates each year. The by-law further specifies that these rates are to be adjusted on February 1 each year in accordance with the Toronto Non-Residential Building Construction Price Index developed by Statistics Canada.

*New infrastructure construction price index for municipal construction funded by development charges*

At the request of the City of Ottawa, Statistics Canada developed a new Infrastructure Construction Price Index meant to more accurately reflect changes in the cost of municipal infrastructure construction funded by development charges.

While we have not reviewed the price index currently used by the City of Ottawa, the index should be evaluated to determine whether or not a similar type of index would be appropriate for the City of Toronto.

**Recommendation:**

- 2. The Deputy City Manager and Chief Financial Officer review the infrastructure construction price index currently used by the City of Ottawa in order to determine whether or not a similar index should be used to adjust annual development charge rates at the City of Toronto.**

**A.3 Conditional Permits May Avoid Higher Development Charges**

*Chief Building Official may issue a conditional building permit*

A conditional permit is a type of building permit which can be issued at the discretion of the Chief Building Official. In these circumstances, the requirements of the *Building Code Act* have been met except for a few outstanding administrative matters that require additional time to get resolved. Where the conditional permit is for above-grade construction, development charges are due at the time the permit is issued.

*Conditional permits granted based on terms in an agreement*

In two cases we reviewed, the developer did not comply with the terms of the conditional permit. In each case there was a significant lapse of time between the date of the conditional permit and the final building permit. Agreements for a conditional permit do not contain any financial consequences when there is non-compliance with the terms and conditions of the agreement.

**Recommendation:**

- 3. The Chief Building Official, in consultation with the City Solicitor, review the feasibility of including in conditional permit agreements, additional fees payable when terms are not met.**

## **B. INTERPRETATIONS OF DEVELOPMENT CHARGES BY-LAW**

### ***Revised development charges by-law on May 1, 2009***

On May 1, 2009, the development charges By-law No. 275-2009 came into force.

The City's development charges by-law contains a number of rules to determine the amount of development charges payable depending on the type of building constructed. The by-law also sets out circumstances for exemptions.

Our review identified several examples where the provisions in the development charges by-law were incorrectly or inconsistently interpreted. Details are as follows.

### **B.1 No Exemption for Non-Residential Parts of Non-Profit Housing Projects**

#### ***Non-profit housing is exempt from development charges***

The development charges by-law outlines the criteria for granting development charge exemptions. For example, developments that involve certain types of intensification of housing or building non-profit housing are both exempt from development charges. While non-profit housing is exempt from development charges the parts of the project that are non-residential in nature, such as retail components, are not exempt.

#### ***Exemptions incorrectly applied to non-residential parts of non-profit housing for 2 of 25 files reviewed***

We reviewed 25 building permits issued in 2009 where there was no development charge applied. We reviewed the reasons on file for the exemptions and found that in two cases the rules for exemptions had not been applied correctly. These instances of non-compliance occurred because the exemption rules for development charges on non-profit housing were incorrectly extended to the non-residential parts of the development project.

Staff indicated that the misapplication of the exemption rules was a result of reliance on information provided by the Affordable Housing Office which indicated that the complete non-profit housing project was exempt.

#### ***Revenue loss of \$164,700***

Incorrectly granting full exemptions to these two developments resulted in \$164,700 in lost revenue.

**Recommendation:**

- 4. The Director of the Affordable Housing Office, in consultation with the Chief Building Official, review procedures to ensure that information provided in regard to exemptions from development charges for non-profit housing projects is accurate and complete.**

**B.2 Ensuring Consistent and Correct By-Law Interpretations**

*Development charge rates are set out in the by-law*

The provisions for the amount of development charge applicable for residential, non-residential or any redevelopment, are established in the City's by-law. The rates established by the current by-law are summarized in Exhibit 2.

*Staff interpret and apply a number of laws*

Toronto Building staff are required to interpret and apply a number of by-laws and other applicable laws that have complex and inconsistent definitions. Given the number of staff and the varying level of experience in each district across the City there is a risk for inconsistent interpretations and misapplication of the by-laws.

*Policy bulletins and legal opinions support staff*

Occasionally, management in Toronto Building provide policy bulletins and interpretive guidance from Legal Services to assist staff.

In eight out of 25 permits we reviewed, we identified circumstances where staff interpretations of the by-law were inconsistent or incorrect in assessing the amount of development charges.

The misinterpretations resulted in five overpayments and three underpayments of development charges. The net impact of the errors identified in our review was a revenue loss of approximately \$8,100. The areas of misinterpretation included:

- inappropriate application of residential unit rates
- incorrect by-law used to calculate non-residential charges
- incorrect application of reductions for redevelopments
- incorrect rates used for development charges on subdivisions.

Although the total revenue loss is relatively insignificant in comparison to the total development funds processed, they are indicative of areas where staff require further direction.

**Recommendation:**

- 5. The Chief Building Official and the Deputy City Manager and Chief Financial Officer review those areas of the by-law which are the subject of staff misinterpretation and ensure that such areas are addressed either through amendments to the by-law, policies and procedures manual or through additional staff training.**

**B.3 Managerial Reviews Can Minimize Interpretation Issues**

*A 2007 Internal Audit report recommended an internal verification process*

The processes and controls surrounding the collection and deposit of development charges were noted to be working effectively in a report prepared by the Internal Audit unit in the City Manager's Office on May 23, 2007. However, one weakness reported was that there was no independent review of the development charge calculation. Consequently, Internal Audit recommended that a sample (5 - 10%) of the calculations be regularly reviewed by supervisors.

*Regular audits are conducted in order to detect problems*

Subsequent to the Internal Audit report and in accordance with revised divisional procedures, managers audit five project files or approximately two per cent of a staff member's work in a calendar year. Although these reviews are centrally tracked, there is no formal analysis conducted of the results to identify any trends or recurring problem areas within a district and across the City.

The current review by staff is at a high level and as a result may not identify errors or omissions because there is no verification to source documents. These reviews would be more effective in identifying errors if they were completed before payments are collected and a building permit is issued.

**Recommendation:**

- 6. The Chief Building Official evaluate the current audit process to ensure development charge calculations are verified to supporting documentation. Consideration be given to an audit process prior to the issuance of a building permit.**

## **C. COMPLEXITY OF MULTIPLE PARKLAND DEDICATION BY-LAWS**

### ***A number of parkland dedication by-laws in effect***

Many parkland dedication by-laws in place at the time of amalgamation are still in effect. For example, there are:

- Twelve by-laws and four Municipal Codes enacted by the former municipalities prior to amalgamation, each providing for slightly different exemptions
- Two City-wide parkland dedication exemptions - one for non-profit housing (Council decision July 2000) and one for industrial uses (By-law No. 1028-2001)
- A harmonized alternative parkland dedication by-law (By-law No. 1420-2007) as well as a number of secondary plans with different alternative rates.

The existence of these numerous by-laws creates inconsistent rules for the determination of parkland dedication fees, exemptions and the timing for required payments. The rules vary across the City depending on where the development is occurring. At the time of our audit the City was in the process of harmonizing the various parkland dedication by-laws into one.

We reviewed a sample of 20 developments where a parkland dedication payment was received in 2009. The results of our review are noted below.

### **C.1 Ensuring Alternative Parkland Dedication Rates are Correctly Applied**

#### ***Alternative parkland dedication rates harmonized***

A harmonized by-law for alternative rate parkland dedications (By-law No. 1420-2007) was adopted by City Council in December 2007 and came into effect on January 1, 2008. In addition, certain parts of the City have specific secondary plans which provide policy direction regarding parkland dedication for those areas of the City.



*Alternative  
parkland rate for  
Etobicoke Motel  
Strip Secondary  
Plan*

A separate secondary plan exists for the south-west end of the City known as the Etobicoke Motel Strip. Our review of this plan found that it is the only one in the City which does not have a cap on the alternative rate for parkland. As a result, a number of appeals have been made to the Ontario Municipal Board regarding developments in the area. These appeals often resulted in negotiated settlements involving staff from Parks, Forestry, and Recreation Division and Legal Services.

In one development, the applicant would have been subject to a parks levy fee of \$3,641,770 based solely on the alternative rate provisions of the Secondary Plan. This rate was viewed as economically not feasible and a negotiated settlement was arrived at in the amount of \$1,236,533, which is in line with the calculation methodology used for other developments in the area.

A corporate policy formally establishing parameters to assist staff when negotiating the alternative rate for this specific part of the City would ensure consistent and transparent practices.

**Recommendation:**

- 7. The General Manager, Parks, Forestry and Recreation, in consultation with the City Solicitor, develop a corporate policy which formalizes the parameters that should be applied when determining the parkland dedication requirement for developments covered by the Etobicoke Motel Strip Secondary Plan.**

*Alternative  
parkland rate for  
Etobicoke Centre  
Secondary Plan*

The Etobicoke Centre Secondary Plan sets out specific requirements for applying the alternative parkland rate to development in this part of the City.

One of the items we selected for review was the final phase of a three phase development. Parks, Forestry and Recreation staff negotiated with the developer and agreed on a five per cent cash-in-lieu payment plus an additional negotiated amount for each unit to be developed.

In relation to the per unit amount, the communication to the developer stated,

*“The Owner agrees, in addition to the other parkland obligations, to pay an Additional Payment to the City equal to \$1,400.00 per dwelling units to be constructed within the site. This amount will be adjusted to reflect the percentage change in Construction Price Index...”*

According to these terms the City should have received parkland dedication fees of \$1.3 million for Phase 3 of the project. The actual amount the City collected was only \$509,620.

Staff were unable to provide documentation to substantiate the basis or authorization for not collecting the negotiated amount. Based on the documentation available, the City received \$790,000 less than the amount negotiated for phase three of this development.

We also noted that the other two phases of this particular project were treated the same way resulting in an additional reduction of \$500,000 in parkland dedication fees paid to the City.

Since similar miscalculations may have occurred on other negotiated agreements, there may be a possibility to correct the amount of fees collected by the City where the building ownership is still with the developer. A review of developments meeting these criteria is warranted.

#### **Recommendations:**

- 8. The General Manager, Parks, Forestry and Recreation ensure that in the future, where parkland dedication fees are set out in negotiated agreements that amounts calculated and collected are in accordance with such agreements and appropriate documentation is maintained for all agreements.**
- 9. The General Manager, Parks, Forestry and Recreation review negotiated parkland dedication fees for projects where the developer still owns the building. This review should ensure the correct amounts were collected and assess the feasibility of recovering any uncollected funds.**

## C.2 Dated Appraisals Used to Determine Payment for Parkland

*Land value determined day before the building permit issued*

Where a developer is paying cash rather than supplying parkland, the amount of cash is determined in relation to the value of the land being developed. The method of determining the value of the land being developed is set out in the various parkland by-laws of the former municipalities. All of those by-laws state that the value of the land shall be determined as of the day before the building permit is issued.

In four out of 20 developments we reviewed, the value of the land was not determined as of the day before the issuance of the building permit. Rather, the appraisals were completed from one to more than two years prior to the time the permit was issued. In all cases, the appraised value of the lands being developed were not reassessed prior to the City collecting the required payment.

According to industry practice, most real estate appraisals are considered current for a period of approximately six months. After six months the value may vary depending on the economic conditions at the time.

When appraisals are completed too far in advance, the City assumes the risk of lost revenue in the likely event that land values increase.

### **Recommendation:**

- 10. The General Manager, Parks, Forestry & Recreation in establishing cash payments in lieu of parkland, set up a process to ensure that land appraisals are current and in compliance with the requirements of the applicable by-law.**

## D. CITY REQUIRED TO ADMINISTER THE EDUCATION DEVELOPMENT CHARGES BY-LAW

*City applies and collects development charges for school board*

As required by the *Education Act*, City staff (Toronto Building) determine and collect education development charges in accordance with the rates established in the Toronto Catholic District School Board's by-law. The City is responsible for the administrative costs of performing these functions.

While the calculation and collection of education development charges for residential units is fairly simple the collection for the non-residential development is more complicated due to a number of factors outlined below.

## **D.1 Different Definitions and Rules Contribute to Incorrect Application of Rates**

### ***Different definitions and exemptions***

Non-residential development charges are based on the gross floor area of a development project. The definition of non-residential gross floor area in the Toronto Catholic District School Board's by-law is not consistent with the definition in the City by-law. Differences between the two by-laws were also noted in the allowable exemptions.

Of the 25 development projects reviewed, we found the application of education development charges to be incorrect in four cases.

- undercharge of \$13,000 on two of the audit files reviewed due to an oversight on the applicable education development charges; and
- an overcharge of \$45,000 was applied on two other cases during the transition period from the old to the new by-law.

### ***Differences increase staff time and risk for errors***

The differences between the board of education and the City's development charges by-law increases City staff time required to review permit applications and increases the risk for errors.

#### **Recommendation:**

**11. The Deputy City Manager and Chief Financial Officer, in consultation with the Chief Building Official, enter into discussions with the Toronto Catholic District School Board with a view to implement, where feasible, consistent definitions and policies affecting development charge calculations.**

## **E. ADMINISTRATIVE IMPROVEMENTS**

### **E.1 Ensuring the Integrity of Information in IBMS and SAP**

***Need to agree information in IBMS with information in SAP***

IBMS supports multiple business processes for many divisions in the City including the calculation and recording of development charges. SAP is the City's financial information system used for corporate financial reporting purposes including the reserve funds for development charges.

Staff from Toronto Building and the Accounting Services Divisions have indicated that it is difficult to reconcile data from IBMS to SAP because the systems capture different information at different times.

We noted as part of our review that the total amount of development charges and parkland levies collected in IBMS are different from the amounts recorded in SAP.

***Ensuring reliability of data in IBMS & SAP***

The amounts in SAP are used for financial statement reporting purposes and are audited by the external auditor. Consequently, we are satisfied that the amounts recorded in SAP are not materially misstated.

In order to ensure that information contained in both systems is accurate and complete a reconciliation should be conducted on a regular basis.

***IBMS & SAP interface needed***

While ongoing reconciliations are important, an interface between IBMS and SAP would simplify this process. The Chief Building Official has acknowledged that the Division would achieve administrative efficiencies from an interface between SAP and IBMS.

**Recommendation:**

**12. The City Treasurer and the Chief Building Official ensure there is a regular reconciliation of development charges financial information in IBMS and SAP. An interface between the two systems should be considered.**

## E.2 Utilization of Development Funds

*\$32.7 million collected more than 10 years ago*

Our review of the 36 development charge reserve funds found that approximately \$32.7 million of the \$250 million (at December 31, 2009) was collected prior to amalgamation by the former municipalities.

*\$4.5 million in parkland levies collected more than 10 years ago*

Our review of the 42 parkland reserve funds found that approximately \$4.5 million of the \$90.7 million (at December 31, 2009) was collected prior to amalgamation by the former municipalities.

*Number of constraints in using development charge funding*

We understand that the use of development charges are subject to a number of legal limitations and City constraints which can impact when and how funds can be spent. For example:

- Not all capital project priorities are eligible for development charge funding.
- Capital projects can only be partially funded by development charges and sufficient additional funding must be available through other means, such as financing that is within the debt targets established by Council.
- Development charge funds may only be used on the specific City services for which they were collected.

The existence of unspent development funds collected more than 10 years ago is indicative of a potential lost opportunity. Given the City's infrastructure needs and lack of other sources of funding, every effort should be made to use these funds.

### **Recommendations:**

**13. The Deputy City Manager and Chief Financial Officer review those development charge reserve funds which have been in existence since prior to amalgamation to determine how these funds can best be used.**

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## **CONCLUSION**

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The objective of this review was to assess the adequacy of procedures implemented by management to ensure that development charges, education development charges, and parkland levies are being effectively and efficiently administered.

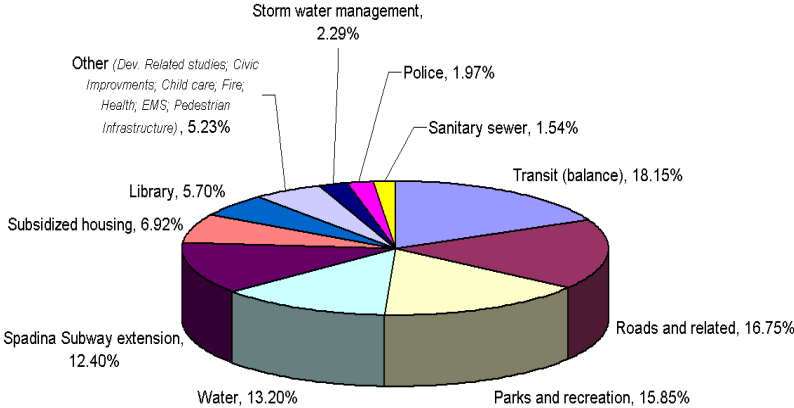
This report presents the results of our review and includes 13 recommendations to improve the Administration of Development Funds. Addressing the recommendations in this report will strengthen the internal controls in collecting development charges, achieve processing efficiencies by automating manual business processes and improve the accountability for the administration of development funds.

**EXHIBIT 1**

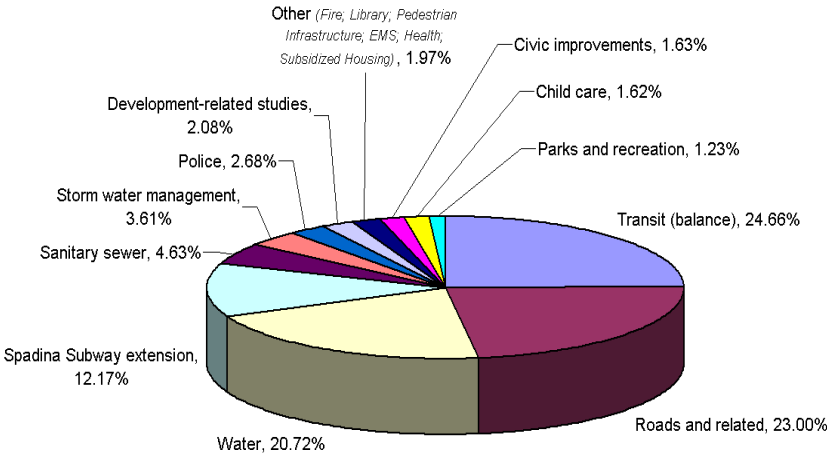
**Service Areas Funded by Development Charges**

Development charges assist in funding growth-related capital costs for a number of municipal services. The funds are allocated to the various service specific development charge reserve funds as follows:

*Use of residential development charges by service area*



*Use of non-residential charges by service area*





## EXHIBIT 2

### Schedule of Development Charges

The development charges rates are set out in the following schedule.

*By-Law  
275-2009*

Category	May 1, 2009 to January 31, 2010	Indexed Rate* February 1, 2010 to January 31, 2011
<b>A. Residential (per unit)</b>		
Single detached and semi-detached dwelling	\$ 12,366.00	\$ 11,737.00
Apartment unit – two bedroom and larger	\$ 8,021.00	\$ 7,613.00
Apartment unit – one bedroom and bachelor unit	\$ 4,985.00	\$ 4,731.00
Multiple dwelling unit	\$ 9,841.00	\$ 9,340.00
Dwelling room	\$ 3,195.00	\$ 3,032.00
<b>B. Non-Residential (per square metre of gross floor area)</b>		
Industrial Use	-	-
All Other Non-Residential Uses**	\$ 99.30	\$ 94.25

\* Annual indexing will occur on February 1st of each year in accordance with the most recent change in the Statistics Canada Quarterly Capital Expenditure Price Statistics, Catalogue Number 62-007-X.

\*\* The non-residential charge applies to the non-residential gross floor area located on the ground floor only.

*Increased rates  
to be phased-in*

The City of Toronto has deferred phasing-in of the adopted development charge rates for a period of just under two years. Commencing on February 1, 2011, and annually thereafter, the charges will be phased-in over a period of four years (2011 to 2014). Between 0 per cent to 25 per cent of the change in the charge will be phased-in annually depending on the level of residential development activity occurring in the City. Reference should be made to the Bylaw for a further explanation.