

2021 Development Charge Deferred Revenue Activity and Balances

Date: January 17, 2023
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report provides a statement of the Development Charge Deferred Revenues for the year ended December 31, 2021, as required by the Development Charges Act, 1997 (DC Act). Development charges are recognized as liabilities called deferred revenues, on the City's Statement of Financial Position, when received and are recognized as earned revenue on the City's Statement of Operations and Accumulated Surplus when the capital expenditures these funds are intended to support are incurred. Use of these deferred revenues is restricted to activities specified in legislation or contractual agreements. Amounts received are considered contributions to deferred revenues.

For the fiscal year ended December 31, 2021, City recognized Development Charges Deferred Revenues of \$893.3 million and recognized \$313.8 million in earned revenue based on capital expenditures. Development Charge Deferred Revenues were allocated interest of \$3.8 million based on City Council's (Council) allocation policy. The final development charges deferred revenue balance at December 31, 2021 is \$2,263.1 million, and is included in the City's overall Deferred Revenue balance in the City's audited consolidated financial statements.

This report provides a summary of the balances and activity of these development charge deferred revenues as of December 31, 2021, along with the details of the 2021 project costs funded from 2021 earned revenue from development charges.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive this report for information.

FINANCIAL IMPACT

Deferred revenue contributions are recognized as a liability in the Statement of Financial Position that the City must settle through investment, or the delivery of goods or services. Revenue from deferred revenue balances are earned revenue in the Statement of Operations and Accumulated Surplus when the committed investment is completed or intended purpose related to the funds has been executed.

The City sets aside development charge contributions in various deferred revenue accounts established for each service category specified in Council bylaws when they are received. In 2021, the City collected \$893.3 million in development charge deferred revenue contributions (net of \$31.0 million in refunds).

Deferred revenue contributions from development charges are allocated to fund eligible growth-related projects. From a budget perspective, budgeted earned revenue allocations are based on budgeted capital expenditures to be incurred. Actual earned revenue recognized in 2021 amounted to \$313.8 million, based on eligible capital project costs incurred during the year.

DECISION HISTORY

Section 43 of the DC Act requires the Chief Financial Officer and Treasurer to provide Council with an annual financial statement detailing activity in Development Charge Deferred Revenues. The Chief Financial Officer and Treasurer is also required to provide a copy of the statement to the Minister of Municipal Affairs and Housing upon request.

Following are the links to the 2020 and 2019 Development Charge Deferred Revenue Statement reports:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX26.8>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX16.11>

COMMENTS

The DC Act allows Council to pass bylaws that impose development charges on new residential and non-residential land development in the City, with certain exemptions. The deferred revenue contributions received from development charges are used to pay for future capital projects such as transit, sanitary sewers and recreation centres required to service the population and employment growth based on what the development requires. The charges are generally paid at the time of building permit issuance and distributed to various development charge deferred revenue accounts

based on the proportions set out in the bylaw. Development charges are a key source of funding for growth-related capital costs.

Although cash is provided in advance of capital expenditures being incurred, these deferred revenues are liabilities that obligate the City to complete an action committed to a third party and for which the funds were received. Development Charge deferred revenues are considered liabilities because the amounts must be returned to the developer, if the investment is not delivered as planned. Development Charge Deferred Revenue liabilities are recognized on the City's Statement of Financial Position.

When these payments are received, they are considered contributions to the Development Charge deferred revenue balance. When the capital investment for which the funds were intended is delivered, as capital expenditures are made, corresponding amounts are recognized as earned revenue in the City's Statement of Operations and Accumulated Surplus. It is only when the conditions for use of the funds are met, that the Development Charge deferred revenue is reduced and recognized as earned revenue in the City's financial results.

As required under the DC Act, this statement provides the annual development charge deferred revenue activity for the year ended December 31, 2021, comprised of two schedules (A and B), which are attached.

Schedule A identifies the City-wide development charge deferred revenue balance (\$2,263.1 million) as at December 31, 2021 and details the deferred revenue activity, by service category, based on the City's bylaw. In 2021, the City recognized \$893.3 million in development charge deferred revenue contributions to various deferred revenue accounts, and recognized \$313.8 million in earned revenue based on eligible growth-related project costs. Schedule B provides a list of the projects that were funded from development charge earned revenue in 2021.

In addition to approving budgeted deferred revenue contributions and earned revenue as part of the annual operating budget process, Council also approves planned earned revenues in the 10 year capital budget plan. Planned earned revenues, based on the current deferred revenue balance, in the amount of \$2,211.0 million related to 2022 to 2026 investment commitments are reflected in the last column in Schedule A.

In April 2022, the Province of Ontario introduced additional reporting requirements for the annual statement through Bill 109, More Homes for Everyone Act. The legislation now requires that this report include a statement as to whether the City intends to incur the capital costs in the relevant development charges study and if not, the amount the municipality now expects to incur and why that amount is expected. With respect to this requirement, the amount the City now expects to incur is set out in the 2022 Development Charges Background Study. At its meeting in July 2022, Council adopted the 2022 Development Charge (DC) Bylaw, as well as the 2022 DC Background Study, including the capital program contained within. This reflects the City's current expectations of growth-related needs across the City.

In addition, the legislation requires the City to include a statement that outlines the services where DCs were collected and recognized as deferred revenues, but no

investment was made during the year but will be made in future years. In 2021, development charges were collected for all DC services; however, there was no spending for Health, Pedestrian Infrastructure and Shelters as there were no growth-related eligible capital expenditures in the year. As a result, these amount continue to be reflected in the Development Charge Deferred Revenue balance.

For the year ended December 31, 2021, the City complied with the requirements of subsection 59.1 (1) of the DC Act, in that it did not impose a charge related to a development, or a requirement to construct a service related to development, except as permitted by the DC Act or another Act.

More information, including links to relevant staff reports, can be found on the City's development charges website: www.toronto.ca/devcharges.

CONTACT

Andrew Flynn, Controller, Tel: 416-392-8427, Email: andrew.flynn@toronto.ca

Sandra Califaretti, Director, Accounting Services, Tel: 416-397-4438, Email: sandra.califaretti@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Schedule A: City-wide Development Charge Deferred Revenues
Schedule B: Details of Project Funding