

2022 Development Charge Deferred Revenue Activity and Balances

Date: November 16, 2023

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

Development charges are collected from new development and redevelopment for the purposes of recovering growth-related capital infrastructure costs. This report provides a statement of the Development Charge Deferred Revenues for the year ended December 31, 2022, as required by the Development Charges Act, 1997 (DC Act).

The City's financial statements are prepared in accordance with Public Sector Accounting Standards (PSAS). Under PSAS, 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.

For the fiscal year ended December 31, 2022, the City recognized development charges deferred revenues of \$799.0 million and \$357.3 million in earned revenue based on capital expenditures. Development charge deferred revenues were allocated interest of \$9.0 million based on City Council's allocation policy. The final development charges deferred revenue balance at December 31, 2022 is \$2,713.9 million, and is included in the City's overall deferred revenue balance in the City's audited consolidated financial statements. The 10-Year Capital Plan includes \$6,769.0 million in development charge commitments and obligations available through both existing deferred revenue balances and forecast future year development charge revenues.

This report provides a summary of the balances and activity of these development charge deferred revenues, along with the details of the project costs funded from earned revenue, for the 2022 fiscal year. It is important to note, however, that Bill 23, "the More Homes Built Faster Act", is currently estimated to result in a \$2.3 billion revenue loss to the City's growth funding tools over a ten-year period (i.e., 2022-2031), including development charges (\$2.0 billion) and parkland dedication (\$0.3 billion). The

most significant impact is the removal of housing service as an eligible development charge service. The figures are based on available information from the 2022 development charge background study, which included a development forecast of 136,000 housing units over a ten-year period (i.e., 2022-2031).

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications arising from the adoption of the recommendation in this report.

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 is 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 2022, the City collected \$799.0 million in development charge deferred revenue contributions (net of \$17.0 million in refunds) and recognized \$9.0 million of interest income during the year.

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 2022 amounted to \$357.3 million, based on actual eligible capital project costs incurred during the year.

The final development charges deferred revenue balance at December 31, 2022 is \$2,713.9 million, and is included in the City's overall deferred revenue balance in the City's audited consolidated financial statements.

While the development charges deferred revenue balance is \$2,713.9 million as at December 31, 2022, current and future year development charge funding commitments and obligations total \$6,769.0 million over our 10-year planning period and will be supported through a combination of existing balances and forecast future year development charge revenues.

Future deferred revenue funds received and recognized earned revenues from Development Charges may be impacted by provincial legislation, including Bill 23, the

More Homes Built Faster Act. For instance, Bill 23 is currently estimated to result in a \$2.3 billion revenue loss to the City's growth funding tools over a 10-year period (i.e., 2022-2031), including development charges (\$2.0 billion) and parkland dedication (\$0.3 billion). The complete financial impact to the City remains uncertain. While the Province has committed to making the City whole, this is pending the completion of a provincial audit, which is currently underway.

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 2021 and 2020 Development Charge Deferred Revenue Statement reports:

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX2.2>

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

At its meeting on November 23, 2022, City Council adopted CC1.2 Update on Bill 23, More Homes Built Faster Act, 2022, which provided City comments on Bill 23.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.CC1.2>

At its meeting on October 3, 2023, during consideration of EX8.4 "Deferred Revenue Report at June 30, 2023", Executive Committee directed the Interim Chief Financial Officer and Treasurer to report to City Council detailing the 10-year revenue loss from Bill 23 and the associated high-level cost and revenue impact should the City meet its Provincially set 2031 Municipal Housing Target.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX8.4>

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.

When development charges are collected from developers, the City is required to recognize the amounts as a liability known as “deferred revenues” on the Statement of Financial Position – this allows the City to recognize its obligations (i.e., incur eligible capital expenditures) to the developer.

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, 2022, as summarized in Schedules A and B, which are attached to this report.

Schedule A shows changes in the City's deferred revenue activity by service category. Specifically, in 2022, the City's development charge deferred revenue balance increased to \$2,713.9 million as at December 31, 2022, from \$2,263.1 million as at January 1, 2022. In 2022, the City recognized \$799.0 million in development charge deferred revenue contributions to various deferred revenue accounts, in addition to \$9.0 million in interest allocation, and recognized \$357.3 million in earned revenue based on eligible growth-related project costs.

Schedule A also presents planned future commitments to be funded by earned revenues. Specifically, the City committed \$6,769.0 million of its development charges deferred revenues balance for the 2023-2032 period. Deferred revenues are fully committed based on contractual obligations to support growth-related infrastructure investments in the community, or other service or operational performance obligations. In particular, the City estimates that \$6,769.0 million of development charges have been committed over the 2023-2032 period – this indicates that the City's commitments are 2.5 times greater than the amount of development charge deferred revenues recognized as at December 31, 2022.

Schedule B provides a list of the projects that were funded from development charge earned revenue in 2022, as well as the amount and source of other money that was spent on the project in the year.

2022 development charges bylaw

At its meeting on July 19, 2022, City Council adopted a new development charges bylaw (2022 DC bylaw) that came into effect on August 15, 2022. Pedestrian infrastructure and civic improvements DC services were no longer eligible for inclusion in the 2022 DC bylaw because of Bill 109 (More Homes for Everyone Act, 2022) changes to the DC Act. Public Health was not included because there were no growth-related capital investments planned for that service. Two new DC services for Long-term care and Waste Diversion were added through the bylaw. These changes were effective August 15, 2022 when the 2022 DC bylaw came into force.

In addition, the province amended the DC Act through Bill 23, More Homes Built Faster Act, 2022. Effective November 28, 2022, municipalities could no longer collect DCs for shelter and affordable housing services. The City's DC rates have been updated to reflect these and other less significant changes, accordingly. The province has indicated that it would make municipalities whole as a result of the financial impact of Bill 23 changes, but details regarding the province's commitment have not yet been defined and/or released.

The legislation requires this report to include a statement as to whether, at the end of the year, 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 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. Staff regularly review development charge collections, planned expenditures, and DC deferred revenue balances as part of the City's annual capital budget process and variance reporting.

Staff will continue to monitor Bill 23 financial implications as more information is received from the Province and regulations are filed. This should help provide clearer context on the financial implications of the Bill and help determine the impact on future development charges project spending decisions that staff and Council may need to make. For instance, Bill 23 is estimated to result in a revenue loss of \$2.3 billion, which includes loss of development charges of \$2.0 billion, over a 10-year period (i.e., 2022-2031). The largest impact is to housing services, which has been removed as an eligible development charges service. This estimate is based on available information from the 2022 development charge background study, which included a development forecast of 136,000 housing units over 2022-2031.

In addition, the legislation requires 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 2022, development charges were collected for all DC services; however, there were no corresponding growth-related eligible capital expenditures that were incurred for Pedestrian Infrastructure, Long Term Care and Waste Diversion. As a result, these amounts continue to be reflected in the development charge deferred revenue balance.

For the year ended December 31, 2022, 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.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

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