



**Stephen Conforti**  
Chief Financial Officer and Treasurer

**Financial Planning Division**  
City Hall, 7<sup>th</sup> Floor, East Tower  
100 Queen St. West  
Toronto, ON M5H 2N2

**Anthony Ng**  
Executive Director

Tel: 416-397-4229  
Fax: 416-397-4465  
[Anthony.Ng@toronto.ca](mailto:Anthony.Ng@toronto.ca)  
[www.toronto.ca](http://www.toronto.ca)

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## 2024 BUDGET BRIEFING NOTE

### Community Benefits Charge (CBC) Update

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#### Issue/Background:

- This briefing note provides information on the allocation of CBC funds collected in 2023 and an update on the framework for allocating future CBC funds.
- At its [meeting](#) on July 19, 2022, City Council endorsed the Community Benefits Charge [Strategy](#) dated April 2022 and Community Benefits Charge Strategy [Addendum](#) dated June 2022 from the Chief Financial Officer and Treasurer, and Chief Planner and Executive Director, City Planning ([EX34.2](#)) that allows the City to levy a charge against certain forms of higher density development to fund associated development-related capital infrastructure and capital program needs.
- At its meeting on August 15, 2022, City Council enacted [By-law](#) 1139-2022 to adopt a Community Benefits Charge By-law for the City of Toronto as City of Toronto Municipal Code Chapter 415, Development of Land, Article VI that replaced the former Section 37 height and density bonusing in the *Planning Act*.
- Each year, the City must allocate or spend or allocate at least 60% of funds in the CBC Reserve Account. To ensure compliance with this requirement, allocations to specific capital projects and initiatives are to be reviewed and recommended through the annual budget process.

#### Key Points:

- Work is underway on a CBC allocation framework that will be completed in 2024 to guide the use of CBCs. Concurrently, staff are developing a policy for the consideration of in-kind contributions to manage risk, establish an appraisal process, and ensure consistency in accepting in-kind contributions.
- Growth funding tools are based on the premise that “growth pays for growth” however, they do not fully recover the cost of growth due to statutory caps, exemptions, and exclusions, as well as Council adopted financial incentives in the form of discounts and exemptions. Based on a historic analysis, the 4% capped CBC results in about a \$50 to \$70 million revenue loss compared to the previous Section 37 Density Bonusing tool, or a reduction of approximately 40%. There are further impacts due to provincial changes to development charges in terms of the removal of certain services that were to be recovered through the

CBC. The City's analysis suggests that the CBC will not "maintain municipal revenues", contrary to the province's commitment on this legislative change.

### *Overview of the Community Benefits Charge*

- The Community Benefits Charge (CBC) is a new growth funding tool (GFT) originally introduced through the provincial *Bill 108, More Homes, More Choice Act 2019*. The CBC replaces the former Density Bonusing regime under Section 37 of the *Planning Act* and allows municipalities to impose a charge capped at 4% of land value on higher density development, with certain exemptions.
- The Community Benefits Charge is imposed on higher density developments that are greater than 5 storeys and contain at least 10 residential units, with certain exemptions. Transition provisions provide that projects with former Section 37 density bonusing agreements are not subject to CBCs.
- CBCs are calculated as a percentage of the site's land value at the time of the first building permit. Through O. Reg 509/20, the Province prescribed the maximum rate of the CBC as 4% of the land value.
- CBCs can be used to fund development-related capital costs for services identified in the City's CBC Strategy: Parks and Recreation, Community Facilities, Affordable Housing, Public Realm, Active & Sustainable Transportation, Protective Services, Waste Management, and Civic Administration
- A CBC can be used to fund services and projects provided for under a DC by-law, and for parkland acquisitions, provided there is no duplication of recovery of the same share of capital costs under another Growth Funding Tool.

### *Update on CBC Allocation Framework*

- The July 2022 report noted that staff would prepare an allocation methodology as part of the annual budget process to ensure compliance with the legislative requirement to spend or allocate 60% of the CBC funds each year.
- A cross-divisional team of City staff, led by Finance & Treasury, have been collaborating on establishing a principle-based approach with the following governing principles for the allocation of CBC revenues. Preliminary considerations include:
  1. CBCs will be collected in areas experiencing growth and will be assigned to those areas in support of the "**growth pays for growth**" principle.
  2. Funds will be allocated with consideration of City priorities while striving to ensure "**fairness**" in the distribution of CBCs. Monies received will be tracked by ward and allocated within geographic proximity to growth-related infrastructure to ensure funding is reinvested in those wards experiencing growth, with the exception that allocations for affordable housing will be provided as a city-wide benefit.

3. Projects recommended to be allocated CBCs will require validation of the “**readiness**” to use the funds within a reasonable time period and capacity to deliver the capital.
  - CBC funding will be coordinated with other City funding tools, including development charges and the parkland dedication levy.
4. The allocation of CBCs will support the development of “**complete communities**” support; implementing the Official Plan vision for creating and fostering well-rounded, sustainable and inclusive neighborhoods where residents can live, work, play, and access essential services. Funds are intended be directed towards growth-related capital facilities and matters in line with the 8 service categories identified in the CBC Strategy.

#### *Funds Received To-Date*

- CBCs are deposited into a dedicated city-wide special account Community Benefits Charge Reserve Fund (XR4101). As of January 1, 2024 the special account has a balance from initial allocations of \$4.339 million.
- A number of in-kind contributions have also been approved by City Council. Where an in-kind CBC is secured, the amount of the CBC is reduced by the value attributed to the in-kind contribution.

#### *Next Steps for CBC Allocation Framework*

- As mentioned, work amongst a city-wide group led by Finance & Treasury is continuing towards establishing a CBC allocation framework prior to roll-out. Future work includes community and Councillor consultation for the types of improvement projects to be undertaken, and the process for the reallocations of funds.
- The future approach will require tracking at end of year to identify CBCs that have been paid by ward, as well as monitoring where in-kind contributions have been secured and allocated. An assessment of projects’ readiness to proceed, capacity to spend, and alignment with City priorities will be done as part of the City’s annual capital budget process to ensure appropriate allocation of CBCs.
- Annual public reporting to document the collection and utilization, as well as financial activities associated with CBC is necessary consistent with existing annual reporting practices of other GFT such as Development Charges and Section 42 Cash-in-Lieu of Parkland Dedication to Standing Committee and City Council for sound financial management and accountability.

#### *Challenges with CBCs*

- The CBC capped at 4% of land value results in a revenue loss compared to the previous Section 37 Density Bonusing tool, and other changes to GFT that CBCs

were intended to fund. As a result, the City anticipates a sustained decrease in revenue due to the new CBC approach, which will have a significant impact on the capital projects funded by this tool. This is contrary to the province's commitment on the matter that the CBC would "maintain municipal revenues".

- As permitted within the CBC By-law, the CBC may be provided as an in-kind contribution resulting in a reduction of the final CBC payment, however Council has not yet adopted a policy related to in-kind contributions to ensure consistency, a standard process and mitigate risks. In addition, transition provisions provide that projects with former Section 37 Density Bonusing agreements are not subject to CBCs, and the timing for when those projects come forward is variable. This raises a challenge in budgeting CBCs long-term due to the unpredictability CBC revenues. The limited forecast results in a corresponding limited ability to allocate funds and set long-term plans.
- The amount of CBC owed for individual development applications may be disputed on a case-by-case basis as outlined in the *Planning Act*, which has an administrative impact to the City.

As part of next steps, staff will continue to engage City Divisions/Agencies and stakeholders and report back in 2024 on various matters, including a framework for allocating CBC monies. In addition, the City will continue discussions with the province on the governing principle that "growth pays for growth" so that the City can provide services and facilities in a timely manner to support new population and employment. This is critical to ensure the long-term financial sustainability and continued success of the City and create complete communities where want to people live, work and play.

### **Questions & Answers:**

Q1. What capital costs can CBCs fund?

- Municipalities can use CBCs to fund capital costs for service categories set out in its CBC Strategy that are related to the needs associated with growth if those costs are not already recovered from development charges and parkland dedication.
- A CBC can be used to fund services and projects provided for under a DC by-law, and for parkland acquisitions, as long as there is no duplication of recovery of the same share of capital costs under another Growth Funding Tool.

Q2. What are the CBC revenue estimates after full transition from S37 Density Bonusing?

- The initial CBC revenue estimates were based on a 10-year development forecast, as per the CBC Strategy. They were determined by multiplying the

anticipated number of eligible units over a 10-year period by an estimated per unit CBC.

- The City's consultant estimated 124,360 occupied dwelling units and an average unit CBC contribution of \$5,700 based on 4% of land value.
- The high-level CBC revenue estimate is \$700 million over 10 years, or about \$70 million a year, before any exemptions and transition.
- Less than half (\$34 million) is anticipated after exemptions and initial transition provisions for lower density developments.

Q3. What is the revenue potential of CBCs compared to S37 Density Bonusing?

- Based on a historic analysis, CBCs are estimated to result in \$50 to \$70 million in lower revenues annually compared to Density Bonusing, a reduction of about 40%.
- The lower revenues are primarily a result of the 4% cap on land value imposed by the Province. In addition, there were other changes to GFTs that are not recovered through the CBC. To fully recover costs of the CBC capital program identified in the CBC Strategy, the land value cap would have been around 13%.
- The Planning Act requires that the CBC not exceed a prescribed percentage of the value of the land, currently established in O. Reg 509/20 and in the City's CBC By-law at 4%.

Q4. Can the City Still use Section 37 Density Bonusing?

- Density Bonusing payments are still being received where Section 37 agreements were already in place prior to the CBC coming in force.
- In 2023, the City collected \$92.4 million in Section 37 Density Bonusing revenues (XR3026).

Q5. How are Councillors and communities to be engaged in the CBC process?

- Both the City's annual budget process and development approvals under the Planning Act provide opportunity for engagement with Councillors and communities, in addition to transparency for City Council and the general public. However, there is no legislative ability to require a CBC be provided as an in-kind contribution as part of a proposed development.
- CBC revenue information will be provided to Councillors as part of the annual budget process so they are informed how CBCs are contributing to the delivery of infrastructure to support growth in their communities.

Q6. How will investment in wards experiencing growth be monitored and reported on?

- The allocation methodology will identify how CBC funds are assigned to areas experiencing growth. In practice, this will be informed by needs identified in the City's planning studies and secondary plans, and in alignment with the City's Official Plan, alongside the Capital Budget and plan.
- City staff will monitor the geographic relationship of CBC funds received and allocated and the location of in-kind contributions allowed by City Council. It is expected that over the capital planning period, investments will have a similar geographic distribution as funds received.
- According to the Planning Act, City staff must provide an annual report to the public.

Q7. What were the 2023 payments of CBCs in comparison to Section 37?

- \$4.4 million was collected through CBCs during 2023.
- Largely due to Density Bonusing still being applied, \$92.4 million in Section 37 funds were collected in 2023.

Q8. How were CBC capital needs determined?

- The CBC capital needs study was based on previous work completed for:
  1. The City's capital budgets,
  2. The 2022 DC Background Study,
  3. Various master servicing plans,
  4. The Official Plan and other planning documents (such as Secondary Plans), and
  5. The previous use of Section 37 contributions.

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**Prepared by:** Cindy Williamson, Manager, Financial Planning, 416-397-4531,  
[Cindy.Williamson@toronto.ca](mailto:Cindy.Williamson@toronto.ca)

**Further information:** Anthony Ng, Interim Executive Director, Financial Planning, 416-395-6767, [Anthony.Ng@toronto.ca](mailto:Anthony.Ng@toronto.ca)

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