May 27, 2019

TORONTO FACT SHEET: Development Charges

Bill 108 amends 13 different pieces of legislation, including the Planning Act and the Development Charges Act. The Province has stated that the objective of Bill 108 is to increase housing supply in Ontario. Bill 108 introduces significant changes to the financial tools available to municipalities to fund growth-related infrastructure needs.

Development charges ensure that growth pays for growth

- Development charges are fees collected from land developers to help pay for the capital costs of infrastructure needed to service new development. Development charges cannot be used to pay for operating costs or capital maintenance, nor can the rates be set arbitrarily.
- Under provincial legislation, the rates are established on a cost recovery basis. This helps ensure that growth pays for growth.
- For residential development, the charges are differentiated by the type of residential dwelling unit and higher rates apply to units with higher expected occupancy. As a result, there is a link between the development charge rate and the cost of services that might be needed for a particular unit type.

Development charges are a key municipal funding tool

- In 2018, the City collected over $750 million in development charges and is forecasted under its current development charges by-law to collect approximately about $500 million annually within a few years.
- Council invests these funds in its 10-year capital plan to build and expanded facilities and infrastructure all across Toronto.
- This funding is critical to support livable communities.

Development charges funds a large number of municipal services

- Development charges help pay for growth-related capital costs for the following municipal services:
  - Spadina Subway Extension
  - Transit
  - Roads and Related
  - Water
  - Sanitary Sewer
  - Storm Water Management
  - Parks and Recreation
  - Library
  - Subsidized Housing
  - Shelter
  - Police
  - Fire
  - Paramedic Services
  - Development-Related Studies
  - Civic Improvements
  - Child Care
  - Health
  - Pedestrian Infrastructure
- Approximately 74% of the residential development charge revenues are for "hard" infrastructure such as transit, roads, water and sewers, and police and fire facilities and 26% are for parks and community infrastructure including parks development, indoor recreation centres, libraries, child care centres, affordable housing and paramedic services.

- Toronto's 10-year 2019-2028 capital budget and plan allocates about $2.06 billion in development charges funding to "hard" infrastructure and about $924 million for parks and other community infrastructure. Development charges pay for approximately 60-70% of growth-related infrastructure costs.

Bill 108 proposes to change how municipalities fund the construction of parks, indoor recreation centres and other community infrastructure.

- Bill 108 proposes to take out all parks and community infrastructure cost from development charges. To fund community infrastructure removed from the development charge, Bill 108 creates a new, untested tool, called a "Community Benefit Charge". The City had expected to raise approximately $125 million annually in revenue from growth-related parks and community infrastructure development charges.
- The Community Benefit Charge will be based on a percentage of land value, and not a per unit charge. The percentage of land value that municipalities will be able to charge has not yet been released by the Province, but will be capped at an unknown maximum rate.
- Changing the funding source from a per unit charge to a percentage of land value results in uncertainty, creates the potential for lost revenue and may delay investment. Furthermore, construction costs are not linked directly to land values. Land values vary across Toronto, while construction costs generally do not. This could mean that funding provided through development will no longer appropriately cover the cost of growth-related construction projects such as child cares or community centres (i.e., growth will not pay for growth).

Municipalities will have to cover more upfront costs for 'hard' infrastructure to support new development based on the changes proposed in Bill 108.

- The balance of the "hard" services, such as transit, water, wastewater and roads infrastructure and police and fire facilities, represent approximately 74% of the residential development change, and an estimated annual revenue of over $375 million within the current by-law period.
- Bill 108 proposes to let developers 'lock-in' their development charge rates much earlier in the development approvals process (i.e. when an application is made for site plan or zoning approval) compared to the current requirement of calculation at building permit. For typical high rise developments, this could be years earlier than current practice. The risk is that fees collected will become out-dated in relation to rising construction costs and changing Council priorities, and could have significant financial impacts to the City.
- For some forms of development (i.e. commercial, institutional, industrial, and rental and non-profit housing), Bill 108 proposes a six-year period to pay development charges starting from a later date (i.e. at occupancy), which is many years later than first permit, the current payment date. This deferred collection is effectively an unsecured loan from municipalities to developers.
- The City may have to 'front-end' the cost of new construction as it waits for development charges to be paid over longer periods. This could also mean adjustments to growth-related or other capital spending resulting in potential delays of infrastructure to support development.

Learn more about Bill 108 and its potential impacts on local communities by visiting

www.toronto.ca/bill108