



**Meeting Date:** May 21, 2025

**Submitted by:** Tiffany Farrell, Director of Corporate Services

**Report No:** CPS-23-2025

**Subject:** 2024 Annual Report on Development Charges

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**Recommendation:**

THAT Report CPS-23-2025 re: 2024 Annual Report on Development Charges be received;

AND THAT the Treasurer provides a financial statement relating to development charge by-laws and associated reserve funds in accordance with the Development Charges Act, 1997;

AND FURTHER THAT the Treasurer be directed to make the 2024 Annual Report on Development Charges available to the public on the municipal website to fulfill Council's obligation under the Development Charges Act, 1997.

**Purpose:**

To present to Council the Development Charges (DC) annual report on DC Reserve Funds in accordance with the Development Charges Act, 1997 (DCA).

**Background:**

DCs provide a method for municipalities to recover the capital costs of providing infrastructure and services associated with growth. In Ontario, the DCA governs the calculation of rates and the collection of DCs. As required by the DCA, the Municipality of Middlesex Centre conducts a DC Background Study to forecast the Municipality's future residential and non-residential growth to determine infrastructure needs and costs. Middlesex Centre's study and by-law (2024-064) were approved in July 2024. This information is used to calculate the amount of money that new development needs to pay to support growth infrastructure and services.

An important relationship exists between the projected amount of residential and non-residential growth and the Municipality's investment in infrastructure projects. DC rate calculations are based on growth projections that determine servicing needs, which in turn establish DC rates.

Section 43 of the DCA requires the Treasurer of the municipality to provide to Council an annual financial statement relating to DC By-law and any reserve funds established under the DCA. Section 43 (2) of the DCA and O. Reg. 82/98 prescribe the information that must be provided in the statement.

Additionally, subsection 35 (2) of the DCA requires a municipality to spend or allocate at least 60 per cent of the monies in the reserve funds for water, wastewater, and roads at the beginning of each year.

### **Analysis:**

#### **Compliance with Legislative Requirements**

The attachments to this report include all the required information as outlined in Section 43 (2) of the DCA, 35 (2) of the DCA and O. Reg. 82/98. Specifically, the statement must provide the following:

1. A statement of the opening and closing balances of the reserve funds and any transactions relating to the funds (found in Attachment 1 - Annual Treasurer's Statement of Development Charge Reserve Funds);
2. A statement identifying all assets whose capital costs were funded under the DC By-law during the year and the source of the capital cost not funded under the DC By-law (found in Attachment 2 - Amount Transferred to Capital (or Other) Funds - Capital Fund Transactions);
3. A description of each service and/or service category for which the reserve fund was established. If the fund was established for a service category, the services in the category (found in Attachment 4 - Description of the Service (or Class of Service) for which each Development Charge Reserve Fund was Established);
4. The amount borrowed from the fund by the municipality and the purpose for which it was borrowed, and interest accrued during the previous year (no such borrowing occurred in 2024);
5. The amount and source of money used by the municipality to repay municipal obligations to the DC reserve funds (no such borrowing occurred in 2024, however, the Municipality corrected two of the service categories in the DC reserve fund, details are outlined in Attachment 1 - Annual Treasurer's Statement of Development Charge Reserve Funds);

6. A schedule that identifies credits recognized under section 17 and, for each credit recognized, sets out the value of the credit, the service against which the credit is applied, and the source of funds used to finance the credit (Attachment 5 - Statement of Credit Holder Transactions);

7. For each service for which a DC is collected during the year, whether, as of the end of the year, the municipality expects to incur the amount of capital costs that were estimated, in the relevant DC background study, to be incurred during the term of the applicable DC by-law. ii. If the answer to subparagraph (i) is no, the amount the municipality now expects to incur and a statement as to why this amount is expected (Attachment 6 - Statements Related to Development Charge Reserve Funds);

8. For any service for which a DC was collected during the year but in respect of which no money from a reserve fund was spent during the year, a statement as to why there was no spending during the year. O. Reg. 82/98, s. 12 (3); O. Reg. 438/22, s. 1 (Attachment 6 - Statements Related to Development Charge Reserve Funds);

9. A statement as to compliance with subsection 59.1 (1) that no other charge has been imposed related to a development or a requirement to construct a service related to development, except as permitted by the Act or another Act (Attachment 1 - Annual Treasurer's Statement of Development Charge Reserve Funds) and below:

As part of this report, the Treasurer further notes that the Municipality of Middlesex Centre is also in compliance with subsection 59.1(1) of the DCA as outlined below:

*59.1 (1) A municipality shall not impose, directly or indirectly, a charge related to a development or a requirement to construct a service related to development, except as permitted by this Act or another Act. 2015, c.26, s.8.*

10. Middlesex Centre follows subsection 35 (2) of the DCA that requires a municipality to spend or allocate at least 60 per cent of the monies in the reserve funds for water, wastewater, and roads at the beginning of each year (Attachment 3 - Statement of Reserve Fund Balance Allocations).

In 2023, staff included the allocation of these DC reserve funds in the Municipality's approved Budget Book. As the opening balances for the three identified services were in a negative position, the 60% funding threshold required by the Ministry could not be applied.

For 2024, staff have prepared Attachment 3, which outlines planned future allocations not only for the previously identified three services, but also for fire protection and parks and recreation services. While there is no formal reporting requirement for these additional services under Section 35(2) of the Act, staff have completed the analysis to support transparency and accountability. It is important to note that the projects and funding amounts listed in Attachment 3 are subject to change; however, any updates will be appropriately documented. Additionally, the opening balances for the three identified services are still in a negative position, the 60% funding threshold required by the Ministry could not be applied, however the information for future allocations is provided.

11. Section 35 of the DCA states that the money in a reserve fund established for a service may be spent only for capital costs determined under paragraphs 2 to 7 of subsection 5(1). This provision clearly establishes that reserve funds collected for a specific service are only to be used for that service, or to be used as a source of interim financing of capital undertakings for which a development charge may be spent. Middlesex Centre is following this requirement.

For the 2024 annual report on DC reserve funds, and for future reports, the Treasurer has introduced additional information on development charges revenue and expenditures to assist in monitoring the Municipality's DC commitments and balances as well as additional reporting around DC exemptions to enhance transparency.

#### Monitoring Development Charges and Growth-Related Spending

With the passage of Bill 23, *More Homes Built Faster Act, 2022*, the DCA now requires that DC rates be reviewed and updated at least every ten years, an increase from the previous five-year cycle. This legislative change makes it even more critical to regularly monitor growth-related revenues and expenditures to ensure sufficient funds are collected to support timely infrastructure delivery and to maintain the financial health of the Municipality's reserve funds.

DC rates are established through a DC Background Study, which relies on hundreds of assumptions about future growth, development timing, and construction costs. These assumptions are based on high-level cost estimates from servicing master plans and are sometimes refined through Environmental Assessments and detailed design. As development proceeds and infrastructure projects are implemented, actual expenditures become available and are compared to the original assumptions. This comparison is essential for evaluating whether sufficient revenues are being collected and for identifying significant cost variances. Staff include this information in Attachment 3 - Statement of Reserve Fund Balance Allocations.

Monitoring focuses on whether project costs align with the estimates used to set DC rates. Projects that exceed approved budgets raise concerns about the adequacy of DC rates and the sustainability of the reserve funds. Conversely, projects delivered below budget can help offset revenue shortfalls, reduce the need for DC supported debt, or lead to lower future DC rates. Projects delivered within budget are considered neutral and typically not a focus of monitoring efforts. It is important to note that actual capital spending may occur several years after budget approval due to extended timelines for environmental assessments, detailed design, and procurement. Staff provide the impact to the Development Charge requirements and changes in Attachment 6 - Statements Related to Development Charge Reserve Funds.

Staff actively monitors growth-related capital spending to ensure alignment with Council approved budgets, as outlined in Attachment 3. The analysis in Attachments 3 and 6 will help Council determine whether corrective actions are needed to address revenue shortfalls or escalating project costs and confirm compliance with legislation. Possible actions include adjusting the capital budget or initiating a new DC Background Study ahead of schedule to support continued infrastructure delivery. If significant concerns emerge through this monitoring process, staff will bring forward recommendations for appropriate adjustments.

### Reserve Fund Analysis

Maintaining the financial health of the Municipality's reserve funds is essential to ensuring:

- that the timing of critical growth infrastructure is maintained, resulting in development proceeding as planned;
- that the Municipality does not develop an over reliance on debt financing and associated costs to service that debt (interest); and
- that the need to trigger a DC rate adjustment prior to the scheduled DC Background Study is avoided.

Staff actively monitors and reviews the health and financial sustainability of the Municipality's reserve funds. This analysis revealed a need to closely monitor the balance between the DC reserve funds and the reserve fund activity for Services Related to a Highway, Water and Wastewater. These services are all currently in a negative reserve fund balance and have significant future projects to fund. Specifically for Water and Wastewater the Municipality will need to rely heavily on debt to facilitate the timing of infrastructure construction because major expenditures for these services precede and facilitate growth; new investments are required well prior to development being possible in a new growth area. Staff have addressed this in the long-range financial plans that will be presented to council in a future meeting.

Therefore, the DC reserve funds that finance these services will need to rely on debt to finance the portion of the project costs identified for recovery beyond the time horizon of the DC Study. Staff will continue to monitor debt requirements and when the debt is issued it will be in accordance with the Council approved Debt Policy.

### Development Charge Exemptions

The DCA permits several exemptions where DCs shall not be imposed for certain types of development. This list of exemptions under the DCA expanded at the end of 2022 with the passage of Bill 23 and was further refined in 2024 with the passage of Bill 185. There are additional exemptions that have impacted the 2024 DCs beyond those required under the DCA that are outlined in the Municipality's DC Study 2024, DC By-laws 2024-064, 2019-073 and 2021-119.

Prior to the approval of the Municipality's Development Charge Exemption Policy #CPS-26-2024, the Municipality funded all exemptions for a study period in the final year of the study period. Therefore, all exemptions from July 2019 to July 2024 are funded in 2024.

On a go forward basis, the Municipality will fund the exemptions in the year they occur as outlined in the policy.

- DC exemptions from July 17, 2019, to December 31, 2023, totaled \$2,475,170.72.
- DC exemptions in 2024 totaled \$915,238.11.

Details of the DC exemptions is outlined in Attachment 7 (Summary of Development Charge Revenue Losses (Funding Development Charge Exemptions)).

### Conclusion

In accordance with the DCA, it is recommended that this report be received for information and be made available to the public on the Municipality's website. Staff have not identified any recommended actions to be taken because of the DC monitoring exercise, however debt requirements related to the Water and Wastewater DC projects will be discussed further in 2025. Although 2024 revenues are significantly below projected revenues, 2025 is anticipated to improve through higher residential and non-residential revenues because of the improving market conditions and drive to build more housing from both the federal and provincial governments. Staff will continue to actively monitor the health and financial sustainability of the reserve funds.

At the end of 2024, the DC reserve funds are still in a negative position, and the Municipality is borrowing the funding from its general bank account to fund the deficit. There is no inter-borrowing occurring between the DC service categories. All interest is borrowed at 4.75% in accordance with the DCA as outlined in the DC Background Study 2024.

On May 12, 2025, the Government announced further changes with a bill being introduced with changes to development charges; namely, offsetting when DCs would be payable (at time of occupancy, not at issuance of permit), along with a number of other changes. Staff are in review of this and will report back to Council once all information is provided.

### **Financial Implications:**

When applicable, development charges are collected at the time of building permit issuance and are to be used to offset growth-related component of eligible capital works. Although this report details the receipt, retention, and application of those funds for capital purposes during the year, there is no financial impact to receiving this report. The amount of development charges can vary widely from year to year based on fluctuations on building activity, such as the number and size of non-residential developments or changes in the type and/or number of housing units.

### **Strategic Plan:**

This matter aligns with following strategic priorities:

- Responsive Municipal Government

The annual report on Development Charges (Treasurer Statement) is a legislative requirement under the Development Charges Act and additionally it responds directly to Objective 5.3 – Foster a culture of innovation, continuous improvement, and cost-effective services by sharing information and gathering input, by continuing our timely and effective communication to the public.

### **Attachments:**

A1 - Annual Treasurer's Statement of Development Charge Reserve Funds

A2 - Amount Transferred to Capital (or Other) Funds - Capital Fund Transactions

A3 – Statement of Reserve Fund Balance Allocations

A4 – Description of the Service (or Class of Service) for which each Development Charge Reserve Fund was Established

A5 – Statement of Credit Holder Transactions

A6 – Statements Related to Development Charge Reserve Funds

A7 – Summary of Development Charge Revenue Losses (Funding Development Charge Exemptions)