The State of DCs in Ontario

Recommendations for Fine-Tuning AND Overhauling Ontario's Development Charges System

January 24, 2025

KPEC
Planning + Economics

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Prepared for:

BILD/OHBA

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Planning + Economics

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EXECUTIVE SUMMARY

The Development Charges Act ("DC Act") and regulations are an important legal code to manage and allocate responsibility for funding growth-related capital works in Ontario. Largely, the DC Act works well as a legal system. Removal of DCs solely to reduce costs imposed on developing landowners would be counter-productive if it were replaced with a more informal, negotiation-based approach.

The DC Act and its prescriptive approach to rate calculations, emphasis on transparency, and fully-formed legal system enabling both site-specific complaints and broader appeals of municipal by-laws, all provide important checks and balances on both the establishment and estimation of capital funding needs as well as how those funds are used.

The DC Act does, however have numerous obvious shortcomings that could be cleared in short order to improve how the existing DC Act functions and reduce legal disputes, including:

- Mandate preparation of local service policies and prescribe they contain specific elements to ensure they are clear and easily interpretable, so as to reduce the amount of negotiation related to terms of subdivision agreements and promote consistency and transparency of application.
- Reduce subjectivity and variability in estimation of "Benefit to Existing" allocations, which are designed to ensure existing tax/ratepayers pay their benefitting share of capital works needed by new development, by promoting standardized calculations and guidelines for how it is to be estimated;
- Standardize inputs in historic level of service calculations – values used should be based on parallel financial documents regularly prepared by municipalities (such as Financial Information Returns, Asset Management Plans, etc.)
- Increase Provincial oversight:
    - Consider use of 'forms' to be submitted to Province prior to a DC by-law being adopted (similar to how EDCs are treated)
    - Streamline Section 20 complaint process – consider written evidence in certain cases
- Revisit efficacy, terms and usage of DC 'freeze' under Section 26 of DC Act.
- Merge certain DC services together for purposes of calculating available DC credit 'room' to match municipal master planning exercises, which often consider numerous discrete DC services together. By combining DCs payable for Transit/Roads, or Library/Indoor Recreation the additional DC credit room available may incentivize front-funding of infrastructure if DC credits are easier to obtain.
- Tie municipal DC by-law reviews such that they can only be re-opened once the corresponding master planning exercise has been completed
- Strengthen DCs through elimination and additional levies and alternative charges under Municipal Act, or others, as the case may be.

However, there are also more extensive changes that are well worth considering that would significantly re-orient how DCs are calculated and imposed, but without eliminating the rigorous and transparent system that DCs today are built on:

- Move water and sewer DCs away from existing 'up-front' payment model to a debt-financed, long-term rate-repayment model imposed only on new growth;
- Adjusting how land costs are included in DC rate calculations, including:
    - Eliminating land from level of service 'cap' calculations (similar to how land for parks is already excluded),
    - Only allow actual 'incurred' land costs to be funded by DCs, rather than the current model of projecting future land acquisition needs (and land values) 10-25 years into the future, estimates which are prone to overestimation.

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1. INTRODUCTION

Keleher Planning & Economic Consulting Inc. (KPEC) was retained by BILD and OHBA to undertake a multi-phase process to study the efficacy of the development charges ("DCs") system in Ontario.

The first phase involved the creation of a Discussion Paper to inform and guide an expert-oriented workshop about whether the Development Charges Act ("DC Act") continues to provide a stable, predictable capital funding tool for municipalities to estimate DC rates needed to fund infrastructure works deemed necessary to service new residential and non-residential growth. The workshop session was held in Toronto in early November 2024.

This Phase 2 paper, informed by the discussion in the DC Workshop, as well as the author's experience peer reviewing, auditing the calculation and imposition of development charges ("DCs") across Ontario, provides an analysis of factors driving DC rates, inefficiencies in the calculation and imposition of DCs, and offers a set of recommendations (major and minor) to remodel Ontario's DC system to ensure that it is encouraging of growth through the timely delivery of housing-supportive infrastructure, and not placing undue financial burden on prospective growth.

1.1. Experience of the Author

The sole author of this report, Daryl Keleher, is Principal of Keleher Planning & Economic Consulting Inc. (KPEC), and practices as both a Professional Land Economist (PLE) and Registered Professional Planner (RPP). He is a full member of the Ontario Professional Planners Institute (OPPI), the Canadian Institute of Planners (MCIP) and the Association of Ontario Land Economists (AOLE). Mr. Keleher's current practice is entirely focused on work within the Province of Ontario, but he has previously done work related to municipal finance matters in British Columbia, Alberta, Manitoba, and Nova Scotia.

During his 17 years as a planning consultant, he has peer reviewed hundreds of development charge background studies in approximately 75 different municipalities across Ontario. He also has significant experience peer reviewing background studies and reports underpinning other municipal finance tools such as Community Benefits Charges, Parkland By-laws, Inclusionary Zoning by-laws and Community Improvement Plans. He has been involved in the creation and implementation of numerous front-ending agreements and cost sharing arrangements between municipalities and/or developing landowners through Ontario that rely upon the DC Act and its related rules and statutes as a legal backbone to the delivery of growth-related infrastructure.

Mr. Keleher has provided oral and written evidence for Ontario Land Tribunal ("OLT") on dozens of matters related to land economics, urban planning, municipal finance and DCs, and has also been involved in dozens of other related OLT-guided mediations and experts meetings related to DC by-law appeals. He has also appeared before the Nova Scotia Utility and Review Board (NSUARB) on issues raised with respect to capital charges for water infrastructure imposed by a government entity in the Halifax area.

He has authored numerous research studies, commissioned by organizations such as BILD, OHBA, NAIOP, CHBA, CHBA-BC, the City of Ottawa, the Toronto Transit Commission, the Ontario

Architects Association, analyzing trends and emerging issues pertaining to municipal finance dating back as far back as 2013.

He is a frequent public speaker at events including conference keynotes, workshops and panels, and has led education-oriented and webinar sessions for organizations such as OPPI, the Law Society of Ontario, and numerous industry workshops. He is a regular resource for established news media (CBC, Toronto Star, Globe and Mail, Nova Res Urbis) informing reporting on matters pertaining to municipal finance, housing policy, and other economic matters that affect the day-to-day life of cities in Ontario.

Prior to practicing as an urban planner, he worked for a major market research firm, compiling and analyzing consumer market and demographic data for major international consumer packaged good brands. He has also worked for a major non-profit urban research organization based in Toronto.

1.2. Objective of Report

Given the current housing supply and housing affordability crisis, and the importance of the *DC Act* to land use planning in Ontario, it is an appropriate time to ensure that the legislation as currently composed is assessed against its ability to support the public interest by:

- Providing a robust and complete rules-based system that enables municipalities to estimate and recover funds necessary to finance growth-related capital needs;
- Ensuring that infrastructure and public service facilities are optimized and provided in an efficient manner, and are coordinated and integrated with land use planning and growth management so as to be financially viable over their lifecycle;
- Ensure needed housing supply is not unduly constrained by financial burdens driven by outdated, unclear or unnecessary provisions of the legislation and regulations, and is encouraging of a range and mix of housing forms to meet future needs.

In some cases, the outcome of recommendations made in this report may result in downward pressure on DC rates, though other recommendations may have an offsetting effect. It is important to note that in and of itself, modifications to the legislation to correct long-standing legislative flaws, or to clean-up outdated or ineffective provisions such that DC rates decrease does not necessarily mean that “growth isn’t paying for growth”. Rather, one of the research findings is that the various changes to the legislation and regulations over the past 25-35 years has resulted in the legislation containing provisions generating substantial confusion in implementation, creating uncertainty through unnecessary flexibility and subjectivity in DC calculations, and allowing escalating cost factors (particularly land values) to have an undue influence on DC rates.

This paper therefore seeks to clear the shortcomings in the legislation by offering recommendations to both modify the existing system with numerous short-term fixes, and overhaul other aspects of the DC system to make it more functional, efficient and encouraging of growth.

1.3. Why Consider DC Reform, and Why Now?

Based on my experience practicing in the field of municipal finance and development charges, the time is right to consider what changes may be necessary to the DC Act and associated regulations, for the following reasons (among others):

- Since the 1997 version of the DC Act, there have been countless legislative and regulatory changes made, with a particularly substantive number of changes made in the past few years. These changes have made both the calculation and imposition of DC rates increasingly complex and difficult for stakeholders to understand.
    - A clearer, simpler system for calculating DCs payable and imposing DCs would reduce conflict between stakeholders and municipalities and reduce backlogs in the legal system tasked with Section 20 complaints to fix issues with how DCs are imposed and invoiced to end-users;
- As DC rates escalate, the 'stakes' for DC by-law appeals in correcting issues with DC rate calculations have also become higher and DC appeals are becoming far more common.
    - A clearer, simpler methodology for calculating DC rates as prescribed in the legislation and regulations would reduce conflict between stakeholders and municipalities and reduce backlogs in the legal system tasked with DC by-law appeals;
- As DC rates have escalated, the 'cost' of providing statutory and discretionary exemptions for things such as affordable housing, office and industrial incentives, etc. also becomes higher for municipalities to afford, particularly in areas where housing demand is the highest. The DC Act mandates that the costs of DC exemptions and discounts are to be funded by non-DC sources, rather than higher DC rates on other forms of development.
    - Right-sizing DCs by removing unnecessary elements in the DC Act that are unnecessarily driving DC rates higher than necessary could make DC exemptions for things such as affordable housing more politically palatable[1], and easier for existing taxpayers to afford.
- There are increasingly creative approaches being utilized to imposing charges and fees for capital infrastructure that go beyond the 'four corners' of the DC Act. However, these tools do not have the same rigour in estimating rates to be imposed, nor do they have the mandated transparency in reporting of revenues and expenditures or the ability to test rates through an OLT-led process. This includes use of *Municipal Act* to impose growth-related charges.
    - Rather than allow unbridled use of alternate tools, the DC Act should be strengthened to ensure that the imposition of growth-related capital charges is as transparent, objective and rules based as possible.

[1] As was evident in the roll-out of Bill 23, which included provisions for exempting affordable housing and social housing from the imposition of DCs, among other changes. Of AMO's estimated $5.1 billion in 10-year impacts from Bill 23, $3.4 billion was for the funding of DC and other exemptions for affordable housing units. Sources:
https://www.amo.on.ca/sites/default/files/assets/DOCUMENTS/Submissions/SC_HICP-LTR_AP_AMO_Submission_Bill%2023_More_Homes_Built_Faster_Act_20221116.pdf
https://www.ohba.ca/wp-content/uploads/2022/11/white-paper-bill-23-commentary-municipal-finance-considerations-nov-29-2022.pdf

- The new *2024 Provincial Planning Statement* provides municipalities the opportunity to base plans on municipal-led forecasts, and expand settlement area boundaries at any time, which may mean that the current DC Act system is incompatible with some aspects of the new planning environment and may need to be rethought to ensure it is sufficient to meet varying needs and geographies.

1.4. Caveats

This report presents the opinions and views of the author, and the contents of this report do not necessarily reflect the views of BILD or OHBA, their staff, or any particular members of the organizations.

This report follows the expert-led workshop that enabled a wide range of people who are involved in the day-to-day implementation of development charges to provide feedback about the efficacy of the existing legislation. The workshop involved discussion about areas where the DC Act is working, areas where it is not, and in those cases, test ideas about what could be adjusted and/or overhauled. While the discussion was confidential, the content of the discussion did enable the author of the report to refine his recommendations and helped identify additional issues.

This report uses numerous real-world examples in demonstrating issues with DCs in Ontario, including data from Financial Information Returns, Development Charge Background Studies, municipal DC pamphlets, DC by-laws, DC reserve fund statements, etc. The choice of municipalities in the analysis are instead an indication of those where data was made available to enable analysis, rather than a suggestion that those municipalities are contravening the DC Act. The issues presented in this report are meant to demonstrate issues with the underlying legislation and regulations, rather than any specific interpretation of them as they exist today.

2. BACKGROUND

2.1. Changes to DC Rates, 2011-2023

Over the 2011-2023 period, DC rates in the Greater Toronto Area (GTA) have increased by an average of 176%, with the average DC rate per single-detached unit (SDU) being $101,190 as of 2023, up $36,666 per SDU in 2011. Of the 29 lower-tier municipalities in the GTA and South Simcoe, 15 municipalities have combined DCs (upper- and lower-tier) in excess of $100,000 per SDU.

Figure 1

Changes to DC Rates per Single-Detached Unit, GTA Municipalities 2011-2023

	2011	2023	Change	% Change
City of Toronto	$ 14,025	$ 97,041	$ 83,016	592%
HALTON REGION				
Oakville	$ 47,690	$ 103,832	$ 56,142	118%
Milton	$ 59,168	$ 87,176	$ 28,008	47%
Halton Hills	$ 37,768	$ 89,077	$ 51,309	136%
Burlington	$ 31,720	$ 77,835	$ 46,115	145%
DURHAM REGION				
Ajax	$ 30,841	$ 105,430	$ 74,589	242%
Brock	$ 32,825	$ 93,261	$ 60,436	184%
Clarington	$ 34,151	$ 94,457	$ 60,306	177%
Oshawa	$ 26,517	$ 100,115	$ 73,598	278%
Pickering	$ 29,229	$ 95,759	$ 66,530	228%
Scugog	$ 31,725	$ 88,914	$ 57,189	180%
Uxbridge	$ 30,227	$ 85,579	$ 55,352	183%
Whitby	$ 29,947	$ 111,516	$ 81,569	272%
PEEL REGION				
Brampton	$ 40,918	$ 130,593	$ 89,675	219%
Caledon	$ 35,355	$ 132,480	$ 97,125	275%
Mississauga	$ 33,140	$ 124,025	$ 90,886	274%
YORK REGION				
Aurora	$ 46,473	$ 108,580	$ 62,107	134%
East Gwillimbury	$ 42,596	$ 129,642	$ 87,046	204%
Georgina	$ 35,937	$ 96,195	$ 60,258	168%
King	$ 42,974	$ 125,006	$ 82,032	191%
Markham	$ 49,942	$ 132,419	$ 82,477	165%
Newmarket	$ 45,013	$ 108,397	$ 63,384	141%
Richmond Hill	$ 43,108	$ 101,802	$ 58,694	136%
Vaughan	$ 43,917	$ 144,941	$ 101,024	230%
Whitchurch-Stouffville	$ 43,199	$ 104,222	$ 61,023	141%
SIMCOE				
Barrie	$ 27,289	$ 89,498	$ 62,209	228%
BWG	$ 33,150	$ 52,158	$ 19,008	57%
Innisfil	$ 28,725	$ 61,455	$ 32,730	114%
New Tecumseth	$ 35,739	$ 63,111	$ 27,372	77%
GTA Average	$ 36,666	$ 101,190	$ 64,524	176%

Note: DC rates quoted from 2023 will differ from those cited from 2022 FIRs due to changes over 2022-2023 period, such as DC indexing (10-18%), Bill 23, newly adopted DC by-laws, OLT decisions, etc.
Source: KPEC based on DC rates from July 2011 and September 2023, as compiled by BILD and KPEC

The largest increase in DCs was in the City of Toronto, which saw a 592% increase in DC rates over the 2011-2023 period.[2] There are numerous other municipalities that have seen increases above 200% over the 12-year period, meaning DCs have more than tripled during that period of time.

DC rates in the 10 largest Ontario municipalities **outside** of the GTA have also increased substantially over the 2011-2023 period, but the average increase seen in these municipalities is moderately lower (+157%) than the average increases seen in the 10 largest GTA municipalities (+208%). Not only have DC rates risen faster in the GTA than outside of the GTA, the average DC rate in large GTA municipalities is also substantially higher – as of 2023, the average DC rate in the 10 largest GTA municipalities is 2.2-times higher than the 10 largest non-GTA municipalities (up from 1.9-times higher in 2011).

Between the 2011 Census and 2021 Census, population growth in the 10 largest non-GTA municipalities (+12.2%) outpaced by population growth in the 10 largest GTA municipalities (+9.2%)

Figure 2

Changes to DC Rates per Single-Detached Unit, 10 Largest Municipalities Outside GTA

Municipality	2011	2023	Change	% Change
City of Ottawa (OGB)	$ 23,376	$ 46,993	$ 23,617	101%
City of Hamilton	$ 26,407	$ 66,964	$ 40,557	154%
City of London	$ 17,005	$ 44,067	$ 27,062	159%
City of Kitchener (incl. ROW)	$ 21,458	$ 68,761	$ 47,303	220%
City of Windsor (excl. SSPD) (2)	$ 17,792	$ 41,386	$ 23,594	133%
City of Greater Sudbury (2)	$ 14,829	$ 22,162	$ 7,333	49%
City of Guelph (2)	$ 24,208	$ 64,813	$ 40,605	168%
City of Cambridge (incl. ROW)	$ 24,165	$ 71,938	$ 47,773	198%
City of St. Catharines (incl. RON) (1)	$ 9,090	$ 36,014	$ 26,924	n.a.
City of Kingston (incl. Impost)	$ 14,050	$ 31,026	$ 16,976	121%
10 Largest Non-GTA Municipal Average	$ 19,238	$ 49,412	$ 30,174	157%
10 Largest GTA Municipality Average	$ 35,827	$ 110,210	$ 74,383	208%
Ratio - GTA : Non-GTA	1.9	2.2	2.5	

Note (1): the City of St. Catharines did not have a City DC prior to 2020, but would have collected Regional DCs on behalf of Niagara Region
Note (2): Data not available for 2011, but rates shown are from early 2013
Source: KPEC based on DC rates from July 2011 and September 2023, as compiled by KPEC

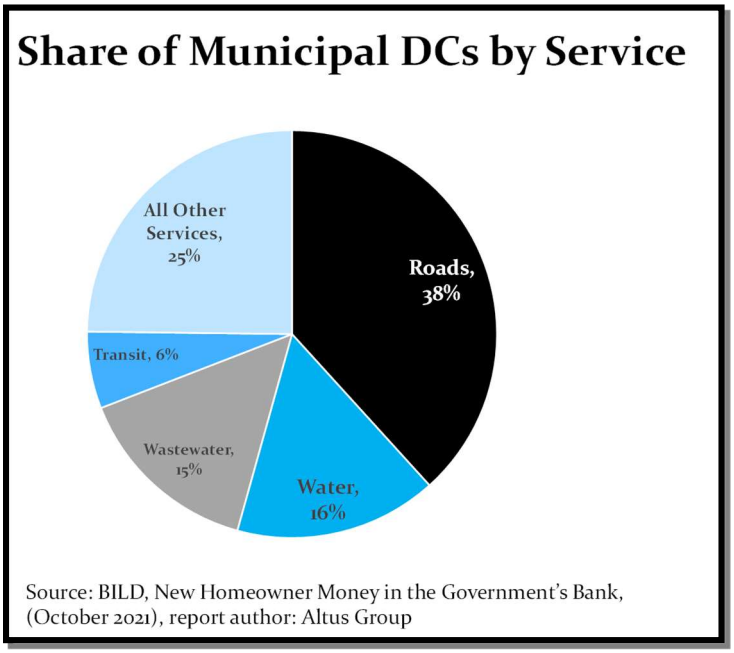
[2] The % increase shown for Toronto should be used with some caution as the City of Toronto's 2008 DC by-law phased-in DC rates over a 5-year span, with 'maximum' rates only phased-in each year if certain building permit targets were met in the prior year (full phase-in allowed if permits for 9,000 units were issued per year). Further, since 2008, changes to how municipalities can levy Transit DCs (uncapped by existing levels of service) have also allowed the City to significantly increase its Transit DC to the 'planned' level of service.

2.2. Composition of DC Rates

The DC Act allows municipalities to impose charges for a range of eligible services, as set out in the table below.

Figure 3

Hard Services
Water
Waste Water
Roads
Transit
Community Services
Waste Diversion
Protection (Police, Fire, Ambulance)
Libraries
Long-Term Care
Parks & Recreation (excl. land for parks)
Public Health
Child Care
Provincial Offences Act
Stormwater Drainage
Other
Electrical power services
Emergency Preparedness
Airport (Waterloo Region only)



The vast majority of DC rates are made up of DCs for hard services such as roads (38%), water (16%), wastewater (15%), and transit (6%). All of the remaining services combined make up the remaining 25%, and among those, the largest is typically the Parks & Recreation DC. DC rates for the same service can vary significantly from one municipality to the next.

The inclusion of land in DC rate calculations has been a force pushing DC rates upward, particularly so as land values escalate. The analysis below shows that for DC services that have higher proportions of non-land elements (both in terms of existing asset inventories and future-looking capital programs) tend to be more consistent in their calculated rates regardless of geography within the Province. However, for more land-intensive DC services (such as Roads and Indoor Recreation services) DC rates tend to be highest where the land values are the highest.

Figure 4

2022 DC Rates (source: FIR[3])	Highest ($/SDU)	Avg. of Highest 40 DC Rates by Service	Count of GTA Munis in Top 20	Non-GTA municipalities*
Police	$2,158	$424	6/20	Brantford, Ottawa, Smiths Falls, Waterloo Region, Guelph
Waste Diversion	$852	$186	6/20	Hamilton, Guelph, Thames Centre, Bluewater, Waterloo Region
Fire	$3,656	$1,998	8/20	Norwich Twp., Frontenac Islands Twp., Town of Erin, Blandford-Blenheim Twp., Wilmot Twp.
Ambulance	$1,691	$265	9/20	Oxford County, Haldimand County, Dufferin County, Niagara Region, Grey County
Library	$2,779	$1,529	16/20	Grand Valley, Grimsby, Cobourg, Mississippi Mills
Parks & Recreation	$33,502	$12,474	17/20	Strathroy-Caradoc, Kitchener, Guelph
Roads	$41,813	$23,108	18/20	Windsor, Peterborough City
** Where non-GTA municipalities among 20 highest are greater than five, only the five highest are shown*				

2.3. Changes in DC Reserve Fund Balances, 2009-2021

As of 2022, the combined DC reserve fund balance across all municipalities with DCs[4] reached $10.6 billion, which is a 278% increase over the combined $2.8 billion balance in 2009, a percentage increase that has outpaced[5] growth in DC rates over a similar period of time. In 2022, the Province removed the 10% statutory discount from the DC Act making all services 'non-discounted'. However, over the 2009-2021 period when DCs were based on discounted and non-discounted DC services:

- The balances in "non-discounted" reserve funds, being those without a 10% statutory discount, largely 'hard' services such as roads, water and wastewater, increased by 230%;
- The balances in reserve funds for "discounted" services, which would include 'soft' services such as Parks & Recreation and Library Services, saw an increase in DC reserves of 182%.

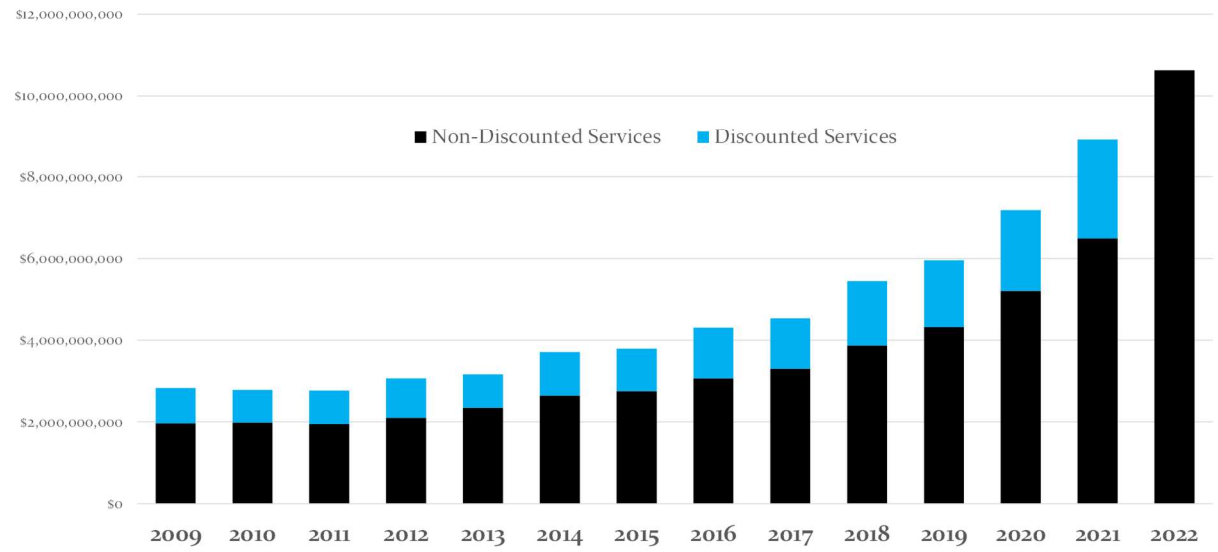
[3] The analysis is based on tabulations from Financial Information Return Schedule 62 data, using data from 2022 due to more limited data availability for 2023. Some DC services are labelled in FIRs inconsistently across municipalities and there may be omissions from the analysis. However, given the size of the sample size (160-180 municipalities for each DC service), the findings can be considered a reasonable depiction of the ranges of DC rates by service and examples of where DC rates tend to be highest.

[4] Based on data available from Financial Information Returns, just over 200 Ontario municipalities (out of 444 in total) have had a development charge in some form.

[5] See Figure 2

Figure 5

Total Development Charge Reserve Fund Balances, Ontario Municipalities, 2009-2021



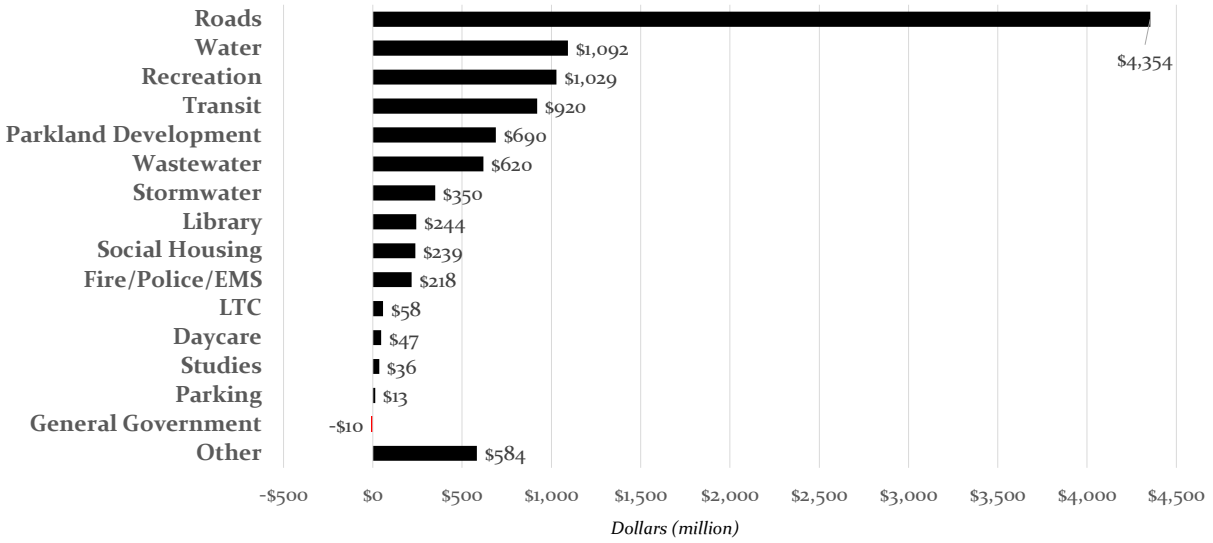
Source: Ontario Financial Information Returns, Schedule 62

Of the $10.6 billion in Ontario municipal DC reserve funds as of 2022, over $4.3 billion, or 41%, was in Roads DC reserve funds. Another $1.7 billion was in Water/Wastewater DC reserve funds. It is noted that the balances represent cash balances – municipalities typically account for 'works-in-progress', scheduled debt repayments, or projects where Council has approved the in-year expenditures of funds.[6]

[6] Whether the funds are a mix of committed and uncommitted spending, the combined unspent balance of $10.6 billion undeniably reflects a vast amount of infrastructure that municipalities are responsible to construct, given the funds were collected specifically to fund necessary capital works needed by growth. Regardless of the proportion of the balance that is 'committed', a significantly high cash surplus can nonetheless be considered a significant backlog in delivery of new infrastructure, as onerous as the 'infrastructure deficit' that has accrued with respect to state-of-good-repair projects to maintain and renew existing infrastructure on a per new/existing unit basis, respectively. In some municipalities, 'cash' reserve fund balances represent approximately 5 years of planned capital project plans. If time from permit to occupancy is less than 5 years, it implies that many residents are living in communities with incomplete amenities, and leaves municipalities to build the works at later-than planned, exposed to risks like cost escalation, etc.

Figure 6

Total Development Charge Reserve Fund Balances, Ontario Municipalities, by Service, 2022



Source: Ontario Financial Information Returns, Schedule 61/62

2.4. DCs as Percentage of Prices

Over the 2011-2023 period, in the 10 largest GTA municipalities, DC rates per single-detached unit (SDU) have increased by 201%, while average prices of absorbed SDUs have increased by 126%.[7] The disparity of increase in DCs relative to housing prices has caused DCs to increase as a share of housing prices, from 5.5% to 7.3%. During the same period, in the 10 largest municipalities outside of the GTA, DC rates per SDU have increased by 139%, while prices have increased by 132%, causing DCs to moderately rise as a share of average prices from 5.2% to 5.4% of average prices.

[7] Based on CMHC data

Figure 7

Changes to DC Rates and Average Prices of Absorbed Single-Detached Units, 10 Largest GTA and Non-GTA Municipalities, 2011-2023

	DC Rates per SDU			Average Price - Absorbed SDUs			DCs as % of Price	
	2011	2023	% Increase	2011	2023	% Increase	2011	2023
City of Toronto	$ 14,025	$ 97,041	592%	$ 1,252,512	$ 2,064,866	65%	1.1%	4.7%
Oakville (2)	$ 47,690	$ 103,832	118%	$ 1,137,480	$ 1,226,957	8%	4.2%	8.5%
Burlington	$ 31,720	$ 77,835	145%	$ 787,296	$ 1,966,250	150%	4.0%	4.0%
Oshawa	$ 26,517	$ 100,115	278%	$ 370,253	$ 1,199,216	224%	7.2%	8.3%
Brampton	$ 40,918	$ 130,593	219%	$ 524,958	$ 1,054,715	101%	7.8%	12.4%
Mississauga	$ 33,140	$ 124,025	274%	$ 895,205	$ 2,261,632	153%	3.7%	5.5%
Markham	$ 49,942	$ 132,419	165%	$ 564,458	$ 1,630,027	189%	8.8%	8.1%
Richmond Hill	$ 43,108	$ 101,802	136%	$ 681,767	$ 2,539,306	272%	6.3%	4.0%
Vaughan	$ 43,917	$ 144,941	230%	$ 679,904	$ 2,261,241	233%	6.5%	6.4%
Barrie	$ 27,289	$ 89,498	228%	$ 377,113	$ 974,010	158%	7.2%	9.2%
WEIGHTED AVG	**$ 37,615**	**$ 113,258**	201%	**$ 688,556**	**$ 1,554,498**	126%	**5.5%**	**7.3%**
Ottawa	$ 23,376	$ 46,993	101%	$ 492,380	$ 1,032,213	110%	4.7%	4.6%
Hamilton	$ 26,407	$ 66,964	154%	$ 419,949	$ 710,968	69%	6.3%	9.4%
London	$ 17,005	$ 44,067	159%	$ 354,114	$ 1,002,665	183%	4.8%	4.4%
Kitchener	$ 21,458	$ 68,761	220%	$ 413,267	$ 923,703	124%	5.2%	7.4%
Windsor	$ 17,792	$ 41,386	133%	$ 267,039	$ 1,123,791	321%	6.7%	3.7%
Greater Sudbury	$ 14,829	$ 22,162	49%	$ 371,831	$ 655,857	76%	4.0%	3.4%
Guelph	$ 24,208	$ 64,813	168%	$ 431,589	$ 1,468,900	240%	5.6%	4.4%
Cambridge	$ 24,165	$ 71,938	198%	$ 360,709	$ 1,175,589	226%	6.7%	6.1%
St. Catharines	$ 9,090	$ 36,014	296%	$ 361,500	$ 1,232,931	241%	2.5%	2.9%
Kingston	$ 14,050	$ 31,026	121%	$ 301,982	$ 983,301	226%	4.7%	3.2%
WEIGHTED AVG	**$ 21,855**	**$ 52,207**	139%	**$ 416,829**	**$ 965,362**	132%	**5.2%**	**5.4%**

Note (1) - averages presented are weighted average to avoid bias in average towards jurisdictions with smaller numbers of higher priced single-detached homes
Note (2) - for Oakville, three-year average of around 2011/2023 was used as single-year data was unreliable due to small sample size and changing nature of SDU product as North Oakville began build-out
Source: KPEC based on CMHC data and municipal DC rates

When DC rates are compared to the Provincially defined affordable price thresholds:

- The DCs imposed in GTA municipalities are on average one-quarter (25.4%) of the affordable purchase price as defined in the DC Act.
- In municipalities outside of the GTA, the average DC rate is only 13.2% of affordable purchase prices.

Most operative definitions of 'affordable price' are based on prices that amount to 30% local incomes, based on 60th percentile gross household income. Therefore, while there are wide ranges of prices across Ontario, the variance in affordable price thresholds is far less given the relatively tight distribution of incomes across Ontario.

Figure 8

Comparison of DC Rates and Affordable Price Thresholds by Municipality, Inside and Outside GTA, 2023/2024

	DC Rates (per SDU) - 2023	Affordable Price Threshold (2024)	DC Rates as % of APT
GTA			
City of Toronto	$ 97,041	$ 366,500	26.5%
Oakville	$ 103,832	$ 564,100	18.4%
Burlington	$ 77,835	$ 474,300	16.4%
Oshawa	$ 100,115	$ 362,900	27.6%
Brampton	$ 130,593	$ 463,500	28.2%
Mississauga	$ 124,025	$ 434,800	28.5%
Markham	$ 132,419	$ 456,300	29.0%
Richmond Hill	$ 101,802	$ 452,700	22.5%
Vaughan	$ 144,941	$ 531,800	27.3%
Barrie	$ 89,498	$ 391,600	22.9%
WEIGHTED AVG	**$ 113,258**	**$ 446,415**	**25.4%**
Outside GTA			
Ottawa	$ 46,993	$ 438,300	10.7%
Hamilton	$ 66,964	$ 370,100	18.1%
London	$ 44,067	$ 330,600	13.3%
Kitchener	$ 68,761	$ 370,100	18.6%
Windsor	$ 41,386	$ 301,800	13.7%
Greater Sudbury	$ 22,162	$ 366,500	6.0%
Guelph	$ 64,813	$ 398,800	16.3%
Cambridge	$ 71,938	$ 391,600	18.4%
St. Catharines	$ 36,014	$ 309,000	11.7%
Kingston	$ 31,026	$ 341,300	9.1%
WEIGHTED AVG	**$ 52,207**	**$ 396,362**	**13.2%**

Note (1) - averages presented are weighted average to avoid bias in average towards jurisdictions with smaller numbers of higher priced single-detached homes
Source: KPEC based on CMHC data and municipal DC rates, Province of Ontario Annual Bulletin

2.5. Municipal Debt and Annual Repayment Limit

Analysis of the 60 largest municipalities reporting annual debt charges data for 2023 through their annual FIR[8] allows for insights into existing borrowing trends, available debt capacity and capital funding capacity. These 60 largest municipalities with available data are split among 20 upper-tier (UT) municipalities, 19 single-tier (ST) municipalities and 21 lower-tier (LT) municipalities.

- On average in 2023, across all 60 municipalities, annual debt charges were 4.3% of annual net revenues, totalling $2.4 billion in debt charges (principal repayment and interest charges), against $36.5 billion in net annual revenues (taxes, user rates, etc.).
- The Provincial Annual Repayment Limit ("ARL") seeks municipalities to keep annual debt charges to no more than 25% of net annual revenues, which for the 60 studied municipalities would allow for additional annual debt charges of $5.47 billion to be incurred without exceeding the ARL.[9] This would be 2.3-times higher than current annual debt charges of $2.4 billion, and

[8] As of the date of writing this report (Sept/Oct 2024), several municipalities have not yet reported data, including the City of Hamilton as a notable omission
[9] A high-end estimate as it would require all 60 municipalities to meet the maximum.

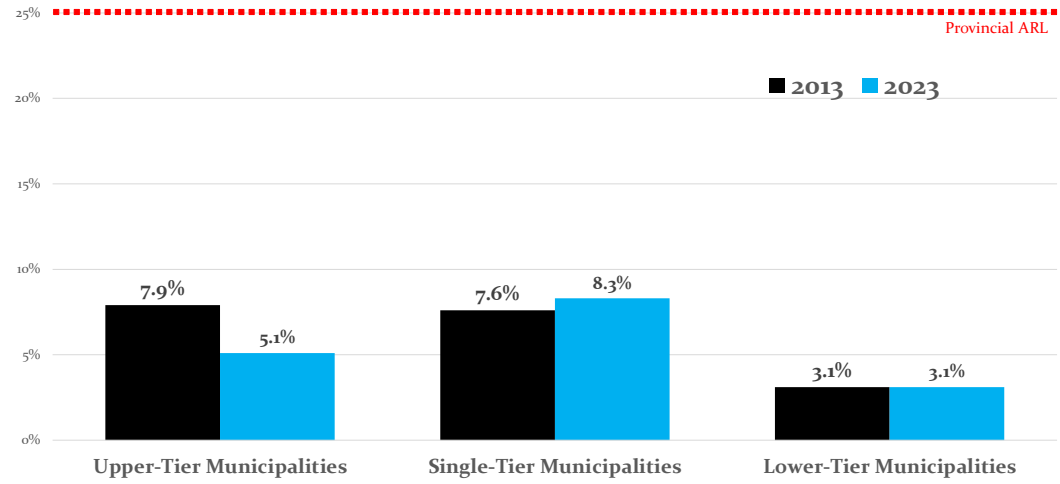
would indicate that there is vast debt financing capacity within Provincial limits that is not being utilized:

  - Using assumed terms of 5% interest, 10-year term, if available room was perfectly optimized in each municipality, it would allow for $51.9 billion in capital works to be funded.
  - If a 25-year term was used instead, a total of $94.8 billion in infrastructure works could be debt-financed within the ARL. Given that municipalities should continue to borrow for state-of-good-repair, if even only 20-50% of this available 'optimized' ARL room were, this would represent $18-$47 billion in available and usable capital financing capacity.

- Many municipal councils have an internal limit of 15%. Of those municipalities with 2023 data, only three municipalities are above a 15% ARL.[10] The utilization of all available room under a 15% across the 60 municipalities would allow for annual debt charges of $5.47 billion, which would also provide for substantial borrowing capacity that can be utilized:
  - At 5% interest with a 10-year term, the amount of debt charges room under the ARL would allow for the financing of up to $23.7 billion in infrastructure costs;
  - At a 25-year term, the available debt capacity under the ARL would allow for $43.4 billion in capital works to be funded through municipal debt, or $10-21 billion in the above-cited more realistic scenario.
- Since 2013, Net Debt Charges as a share of Net Revenues is unchanged for lower-tier municipalities, increased moderately for single-tier municipalities and decreased significantly for upper-tier municipalities, who saw their Debt Charges fall from 7.9% of net revenues in 2013 to 5.1% in 2023.

Figure 9

Debt Charges as % of Annual Net Revenues, 60 Largest Municipalities Reporting Data, 2013 - 2023



Source: KPEC based on Financial Information Return, Schedule 81

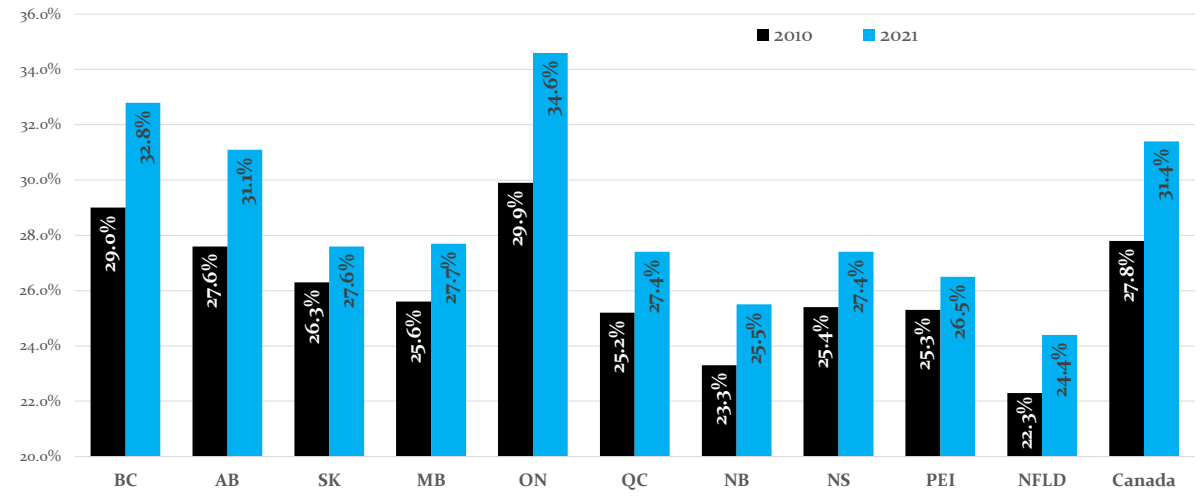
[10] Township of Chamberlain (18.6%), Municipality of Casselman (18.2%), Joly Township (16.1%)

2.6. Changes in Household Spending Patterns

Based on Statistics Canada data on household spending, total shelter costs, which includes mortgage payments/rents, property taxes, condominium fees, insurance premiums, repairs and maintenance costs, Ontario households are spending the highest proportion of annual consumption spending on shelter costs at 34.6%, up from 29.9% in 2010 – the Ontario share of consumption (34.6%) and the increase from 2010 are each the largest of any Province in Canada.

Figure 10

Shelter Costs as % of Total Household Consumption, 2010 & 2021



Note: Total Household Consumption = Total Expenditures less Income Taxes, Insurance/Pension Contributions and Gifts/Charitable Donations

Source: KPEC based on Statistics Canada, Survey of Household Spending, Table 11-10-0222-01

3. IDENTIFIED AREAS OF CONCERN AND HIGH-LEVEL RECOMMENDATIONS

3.1. Issue: Uncertainty and Inconsistency in How Local Services Are Defined and Applied

Municipalities utilize 'local service policies' ("LSPs", or also referred to as 'local service guidelines') to set out rules to ensure that subdivision conditions requiring installation of infrastructure, and providing definitions of:

- 'Local' work, for which no DC credit is provided when the developer performs the work;
- 'DC eligible' work, for which a DC credit shall be provided, to avoid directly or indirectly imposing a charge on a landowner under Section 59 of the DC Act.

The *DC Act* does not specifically prescribe how LSPs are to be defined or what they are to include. Given the importance of ensuring fair and consistent treatment of developing landowners across a municipality in negotiating development agreements, there is a need to make these local service policies clear and easy to interpret for municipal staff, developing landowners and other stakeholders.

Ideally, LSPs would **reduce uncertainty** in determining the types of works that landowners can be obligated to construct at their own cost (as a local service) and those capital works that the municipality is obligated to provide DC credits and other reimbursements for, even if the landowner has agreed to construct them.

However, in my experience, the following summarizes the issues related to the area of formulating and interpreting local service policies in Ontario:

- There is too much uncertainty in determining what is a "DC eligible" work and what is a "local" work – definitions are often lacking in the LSP document, and policies themselves are often worded in such a way as to confuse matters or conflict with each other.
- While some flexibility is necessary to ensure that localized context can be reflected in LSPs, even when policies are similar to those from other municipalities, there is often inconsistency in application;
- Misunderstanding about the requirement to provide DC credits when a DC-eligible work (as defined in a local service policy) is built by a developing landowner. Section 38 of the DC Act obligates municipalities to provide a DC credit where a landowner performs the work. There is common belief that municipalities are agreeing to provide a DC credit, and if no DC Credit Agreement is struck, a landowner is required to fund a work, without reimbursement, no matter the type of work being installed (Arterial Road, Major Collector Road, etc.)

Each of the above issues is causing significant volumes of Section 20 complaints under the DC Act that is creating delays in getting subdivision agreements finalized, or causing years-long legal disputes about the contents of agreements and obligations contained therein.

Adjustments and amendments to legislation and regulations to improve the standard of LSPs would reduce the number of, and complexity of disputes at the Ontario Land Tribunal regarding whether DC credits are owed.

The following table presents recommendations for the "Local Services" system to improve the clarity and objectivity in how they are imposed and applied.

Figure 11

Recommendations: Local Services			
Cat.	**#**	**Recommendation**	**Benefit**
LS	**1**	Provide guidance on how local service policies are to be used and interpreted for stakeholders	Would make LSPs easier to interpret and reduce the number of disputes regarding interpretation and application of LSPs.
LS	**2**	Consider standardizing local service policy language in certain areas, such as watermain sizing/oversizing provisions, though sizes used in policies could vary.	
LS	**3**	Encourage municipalities to incorporate visuals to assist with interpretation of LSPs.	

3.2. Issue: Estimating Benefit to Existing – Difficult & Subjective

Paragraph 5(1)6 of the DC Act provides direction requiring reductions to estimated capital costs necessary to deliver capital works necessary to meet increased needs for service by new development to reflect the extent to which an increase in service to meet increased need would benefit existing development.

> *6. The increase in the need for service must be reduced by the extent to which an increase in service to meet the increased need would benefit existing development. The extent to which an increase in service would benefit existing development may be governed by the regulations.*

Many municipalities use subjective approaches to estimating BTE, or other related high-level estimates and assumptions. Many OLT appeals of municipal DC by-laws involve disputes with a relative lack of BTE applied to capital works.

For certain types of capital works, such as linear water/sewer or roads infrastructure or 'vertical' infrastructure such as wastewater treatment plants, there are objective measurements of existing and planned capacity that can be used to estimate:

- The extent to which new growth requires the additional capacity provided by a capital work, and
- The extent to which the existing community will benefit from costs associated with:
    - Renewal and refurbishment of existing capacity (costs that would have been incurred even without new growth occurring),
    - Correction of existing deficiencies, including restoration of works to restore original installed capacity,
    - The introduction of a new type of capital work/service (building a new indoor pool where a municipality had not had one before);
    - Avoidance of infrastructure failure or deterioration in service at the end of useful life deterioration where an asset is replaced mid-way through its lifecycle, extending the lifespan of the capital work;
    - Incorporating modern infrastructure standards in replacing older assets through an otherwise growth-related project.

It is not uncommon for municipal DC studies to provide little explanation for the BTE allocations made for each project or each category of projects – background information setting out the rationale for applied BTE percentages is often only available upon specific request through the peer review process.

The lack of direction in the DC Act regarding how to estimate BTE result in substantial variation in application of BTE from one municipality to the next. The subjectivity in assigning BTE can result in DC rates being less precise in determining the true proportion of capital costs that benefit new growth.

As DC rates have continued to increase over time, getting the DC/BTE shares right is increasingly crucial:

- If BTE is **understated** relative to the true benefit received from a capital work, it would represent new growth subsidizing existing tax/rate payers for works (or portions thereof) they benefit from;
- If BTE is **overstated**, the taxpayer would be subsidizing new growth through DC rates that are otherwise too low relative to growth-related need.

Some municipalities utilize a detailed set of calculations involving marginal cost of existing works to be replaced as a share of cost of the new expanded works, others use 'informed' or 'structured' approximation with benchmark BTE shares assigned to project categories. Using the list of potential approaches from the Niagara Region 2022 DC Study, the range of potential options to calculate BTE includes those listed in the table below.

Figure 12

Identified Potential Approaches to Estimating "Benefit to Existing", Niagara Region, 2022		
Approach	**Summary**	**Rationale**
Structured Approximation	Fixed BTE categories/percentages with defined BTE percentages – each project is evaluated to determine which category best fits the project.	Applies broad-brush BTE percentages to like projects
Population & Employment Based	For each project, determine the ratio of existing benefitting users relative to the total of existing and growth-related benefitting users.	Based on the concept that all existing users derive benefit from a new project
Demand Based	For each project, determine ratio of benefitting service area relative to total demands of existing and growth-related benefitting areas.	This approach can take into consideration whether there is an existing deficiency or not
Capacity Based	Determine ratio of existing capacity in the infrastructure relative to the future capacity of the infrastructure.	In lieu of using population or demand-based approaches
Calculated Age	Incorporation of age of asset for instances where growth infrastructure is replacing existing infrastructure.	Age being used as a proxy for condition of existing asset

It is noted that one impediment to a fully objective approach to estimating BTE is the availability of data related to elements such as asset age/lifespan, condition.

Recommendations: Benefit to Existing			
Cat.	**#**	**Recommendation**	**Benefit**
BTE	**4**	Set out guidelines and instructions for how to estimate BTE for certain project types (grade separations, road reconstruction works, etc.)	Improve the extent to which "BTE" is objectively derived and reduce conflicts in creation of new DC by-laws.
BTE	**5**	Set requirements for background data and assumptions to BTE calculations be provided in DC studies.	Make BTE calculations more transparent to stakeholders.

3.3. Issue: Uncertainty and Inconsistency in Estimating Historic Service Levels Used to Establish Allowable DC Rates

3.3.1. Inconsistency in Reported Values of Existing Assets with Other Municipal Documents

In establishing the 'level of service' used to estimate the maximum allowable DC rate that can be imposed for many DC services, a municipality is directed in DC regulations to use the replacement value (exclusive of any depreciation) of existing municipal capital assets. However, the values assigned to existing assets in DC studies, used for setting allowable DC rates, are significantly greater than the reported 'cost' value of municipal assets in documents such as annual Financial Information Returns ("FIRs") or Asset Management Plans ("AMPs")

Figure 13

Sample Comparison of Values for Capital Assets - Annual Report to MMAH and 2022 DC Study, City of Mississauga

	FIR Schedule 51A - Cost of Tangible Capital Assets (before Amortization)	2022 DC Study (Replacement Value)	FIR as % of DC Study
Fire	**$ 164,280,413**	**$ 526,895,800**	**31%**
Roads	**$ 5,475,867,597**	**$ 10,056,101,086**	**54%**
Paved Roads (includes land)	$ 4,565,690,025	$ 8,005,155,577	57%
Bridges/Culverts	$ 382,877,909	$ 1,320,271,620	29%
Traffic Operations	$ 331,766,359	$ 564,866,889	59%
Streetlighting	$ 195,533,304	$ 165,807,000	118%
Parks & Recreation	**$ 2,952,464,322**	**$ 4,629,528,400**	**64%**
Parks	$ 2,315,173,296	$ 2,438,681,000	95% (Note 1)
Recreation Facilities/Programs	$ 637,291,026	$ 2,190,847,400	29%
Libraries	**$ 144,857,705**	**$ 406,948,300**	**36%**

Note (1): FIR as % of DC Study for Parks is overstated, as FIR includes land value, but DC Study excludes land value
Source: KPEC based on Financial Information Returns, Schedule 51A, City of Mississauga 2022 DC Study

Using the City of Mississauga as an example, the value of the City's library assets is estimated to be $145 million in their annual FIR (before deducting for depreciation) but is estimated to be $407 million in the DC Study, meaning that the reported values in the FIR are just 36% of the values used to establish DC rates. Put another way, the values used in the DC Study to establish the maximum allowable funding envelope (based on value of historic service levels) is 2.8-times higher than the reported book cost of the assets. If the replacement value of assets used in DC studies to set maximum allowable DC rates are being overstated relative to the true value of the assets, it would result in DC rates that are higher than necessary to adequately recover DC revenues from new development that are equivalent to (but not higher than) existing service levels.

That municipalities already undertake annual estimates of the value of their existing inventory of assets could present an opportunity for standardization and streamlining of DC rate calculations, even if only for purposes of relying on the FIR data as the basis for upscaling values for purposes in DC studies.

3.3.2. Lack of Standardized Approach to Estimating Value of Assets Leads to Substantial Variation and Unpredictability in DC Rates

Not only is there significant disparity between reported costs in official financial documents submitted to MMAH and those used in DC studies for setting service level caps and DC rates, but there are also significant disparities in estimated replacement costs for similar assets from one municipality to the next. The figure below shows the range of values assigned to existing large recreation centres in various Ontario DC studies – with replacement values ranging from $194/SF to $971/SF.

Figure 14

Assumed Replacement Value of Large Recreation Centres, Various DC Studies in Ontario, 2023-2024

Low	$	194
High	$	971

Recreation Centres >50,000 SF	Municipality	$/SF	SF
Turner Park YMCA	Hamilton	$ 971	59,490
Progressive Auto Sales Arena	Sarnia	$ 900	144,200
Bernie Morell RC	Hamilton	$ 896	54,895
Tribute Communities Centre	Oshawa	$ 854	105,000
Allandale - Phase 1&2	Barrie	$ 820	121,383
Dundas Market Street Arena	Hamilton	$ 790	124,578
East Bayfield	Barrie	$ 730	152,331
Cassie Campbell CC	Brampton	$ 696	163,063
Mohawk 4 Arena	Hamilton	$ 664	136,000
Chedoke Twin Pad Arena	Hamilton	$ 664	89,421
Ancaster CC	Hamilton	$ 618	92,570
Delpark Homes Centre	Oshawa	$ 584	190,901
Sleeman Centre	Guelph	$ 550	140,000
West End Community Centre	Guelph	$ 550	57,756
Century Gardens Recreation Centre	Brampton	$ 497	119,924
CAA Centre	Brampton	$ 487	175,000
South Fletcher's Sportsplex	Brampton	$ 464	173,546
Eddie Bush Memorial Arena	Collingwood	$ 450	66,000
Central Park Arena	Collingwood	$ 450	60,000
Brampton Soccer Centre	Brampton	$ 415	152,717
Civic Recreation Complex	Oshawa	$ 387	211,474
Earnscliffe Recreation Centre	Brampton	$ 326	112,560
Gore Meadows CC	Brampton	$ 194	136,000

Source: KPEC based on various DC studies

Construction costs for buildings should have a relative smaller range than land values will from one municipality to the next. A 2024 estimate of construction costs for public sector buildings in numerous jurisdictions across Canada found that the range of costs had a far smaller range of values than is evident from DC studies throughout Ontario.

Figure 15

Comparison of Construction Costs per SF, Public Sector Uses

Geography	Fire/EMS Station	Police Station	Library	Arena	Aquatic Facility	Multi-Use Rec. Centre	Municipal Average
Vancouver	$ 590	$ 470	$ 440	$ 350	$ 535	$ 515	$ 483
Calgary	$ 525	$ 435	$ 410	$ 345	$ 475	$ 420	$ 435
Edmonton	$ 525	$ 435	$ 410	$ 345	$ 475	$ 420	$ 435
Winnipeg	$ 520	$ 430	$ 405	$ 340	$ 470	$ 415	$ 430
GTA	$ 570	$ 500	$ 550	$ 355	$ 610	$ 670	$ 543
Ottawa	$ 565	$ 465	$ 465	$ 340	$ 565	$ 585	$ 498
Montreal	$ 500	$ 435	$ 425	$ 330	$ 510	$ 530	$ 455
Halifax	$ 400	$ 360	$ 410	$ 335	$ 615	$ 510	$ 438
St. John's	$ 400	$ 350	$ 400	$ 340	$ 510	$ 460	$ 410
Average	**$ 511**	**$ 431**	**$ 435**	**$ 342**	**$ 529**	**$ 503**	$ 459
High	*$ 590*	*$ 500*	*$ 550*	*$ 355*	*$ 615*	*$ 670*	*$ 543*
Low	*$ 400*	*$ 350*	*$ 400*	*$ 330*	*$ 470*	*$ 415*	*$ 410*

Note (1): low-end of reported ranges provided
Source: Altus Group, 2024 Canadian Cost Guide

Figure 16

Recommendations: Historic Service Level Analysis			
Cat.	**#**	**Recommendation**	**Benefit**
LOS	**6**	Prescribe (in regulations) a data source for estimated replacement values of existing assets in LOS analysis.	Would provide for a more objectively derived, consistent, and predictable source of data for input into DC studies.
LOS	**7**	Require LOS analysis and estimated LOS caps to be inputted into standardized “Forms” to be submitted to Province for approval.	Would improve oversight on DCs by standardizing DC calculations. This approach would be similar to what is used for Education Development Charges in Ontario.

3.4. Issue: Hidden Influence of Rising Land Values in Causing Escalation of DC Rates

DC rate calculations are heavily reliant on land values in establishing how high DC rates can be. The inclusion and influence of land values in how DCs are calculated have played a key role in the general escalation of DC rates over the past 5-10 years. There are two areas where land values have significant influence on calculated DC rates:

- In setting the value of the existing service, data regarding quantities of land assets owned by municipalities, and “replacement cost” values for land assets owned by municipalities are used

in setting the allowable DC rate 'room'. As land values escalate, service levels based on estimates of the 'value' of a service will escalate.

- On a forward-looking basis, once the amount of 'cap room' is known, municipalities then have to estimate what the land acquisition needs will be over the forecast planning horizon. The amount of projected DC-funding needs for land acquisitions, building construction, equipment costs, etc., will formulate the capital forecast used to establish what the anticipated costs are to provide increased services to new development.

3.4.1. Escalating Land Values Push Calculated Service Levels Upward Despite a Relative Lack of Actual New Services

The quantity of existing land assets (hectares) and associated 'replacement cost' of these land parcels are used to measure the value existing municipal service levels, thereby setting the maximum allowable 'funding envelope'. If the calculated value of municipal assets is $100/capita, the DC rate imposed on new development can be as high as $100/capita without contravening Section 5(1) paragraph 4 of the DC Act.

However, this approach presents numerous issues in today's planning and development environment:

- The value assigned in DC studies to these public land assets is not based on their appraised values or what they were acquired for but are based on the 'replacement cost' of the land.
    - This is typically interpreted as being the market value (with residential land values often used as a proxy) of purchasing replacement sites elsewhere in the City for those same public uses (recreation centres, libraries, road rights-of-way)
    - Yet, when land is purchased, the actual land values necessary to purchase needed lands is often lower than average municipal market land values, especially when lands are needed on the fringe of a municipality for developing areas.
    - Using the purchasing power created by high land values to purchase lower value lands on the fringes of municipalities, creating the potential for 'arbitrage'.[11]
- Therefore, as residential land values have escalated across Ontario[12] in recent years, calculated service levels get disproportionately inflated by land values, without any regard for true 'service levels' as typically measured in buildings, furniture, equipment, etc.
- Whether value of existing land assets makes up 5% or 85% of the calculated service levels, this room can be used for any combination of eligible capital cost related to that DC service. Therefore, the 'room' being created in LOS calculations by escalating land value can be used entirely for new buildings or any other capital work.
- This allowance in the DC Act to construct buildings (or build higher-quality buildings) based on 'room' created due to escalating land values advantages municipalities that have a

[11] Arbitrage refers to the buying and selling of commodities to take advantage of differing prices for the same asset – using heightened land values in existing urban areas to (in part) buy cheaper land on the urban fringe.
[12] Driven higher by shortage of housing supply relative to demand

disproportionately large quantity of municipal land assets or a high-value land base, regardless of what the true 'on the ground' service levels are (square feet per capita, etc.)

Figure 17

Changes from 2013 DC Study to 2022 DC Study – City of Toronto	Indoor Recreation	Library	Fire
Change in Land Area	+36%	+1%	+2%
Change in Value of Land	+1566%	+915%	+408%
Change in Building Area	+19%	+3%	+6%
Change in Value of Buildings	+160%	+108%	+39%
Change in Estimated Service Levels			
$/Capita – WITH land	+128%	+117%	+204%
$/Capital – WITHOUT land	+26%	+65%	+47%
Actual Service Level	+7%	-7%	-4%

An analysis of data from the City of Toronto's DC studies from 2013 and 2022 shows that while the quantum of land and buildings in certain key soft services have not changed significantly over the past 10 years, the **value** assigned to land assets have put substantial upward pressure on calculations of existing service levels. In the case of Fire Services[13]:

- The City only added 2% to its inventory of land – increasing by less than 1 hectare (from 56.29 hectares to 57.25 hectares) over the 10-year period from 2013-2022. The value of the inventory of land assets, however, increased by 408% owing to the increase in average land values applied in the DC study from $5.4 million/ha in 2013 to $26.9 million/ha in 2022.
- Over the 10-year period, the City added 6% to its inventory of Fire buildings, increasing the footprint of buildings from 763,300 SF in 2013 to 808,225 SF in 2022. The value of the inventory of building assets increased by 39%, owing to the increase in building values from $450/sf in the 2013 to $590/sf in the 2022 DC Study.
- Therefore, while the 'service level' when estimated inclusive of land value increased by 204%, when land value is netted out, the increase in the value of the City's Fire Service buildings increased by only 47%.
- However, in terms of tangible services provided, the 6% increase in building area, when combined with a 11% population increase, resulted in a **4% reduction in service levels per capita** from 0.288 sf/capita in 2013 to 0.275 sf/capita in 2022.

[13] Detailed calculations are in Appendix A

3.4.2. Various Tools Available to Acquire Land Often Not Considered in Estimating Future Capital Needs

In setting out the capital program that needs to be funded by DCs, the current DC Act models allow for a significant overstatement of how much land municipalities need to buy with DCs.

The DC Act specifically allows for capital costs to be included in capital forecasts used for DC rate setting, based on costs both "incurred or proposed to be incurred".

Often, DC rate calculations estimate that all future land acquisitions will need to be purchased with DC funds. However, this conservative approach ignores that municipalities may acquire land through numerous other means, including:

- Planning Act dedications for road rights-of-way[14];
- Parkland conveyance or provision of cash-in-lieu of parkland, the latter of which can be used for acquisition of parkland or other public recreation uses (s.42/51 of Planning Act);
- Through Community Benefits Charges, either with purchase with CBC funds, or as in-kind contribution (s.37 of Planning Act)[15];
- Through purchases, donations or transfers from other government entities (i.e., purchasing an underutilized school parcel);
- Purchasing of encumbered or undesignated land ahead of anticipated urban expansion.[16]
- Expropriation;
- Repurposing or making more efficient use of existing municipal-owned lands.

3.4.3. Implications of Inclusion of Land Value in DC Calculations

There are numerous issues and risks caused by the continued inclusion of land in DC rate setting on LOS/cap side of DC studies, and the existing orientation of land acquisition capabilities in capital forecasting used to establish DC rates that could be reconsidered to better 'right-size' DCs in Ontario:

The ability to leverage escalating land values into funding 'room' that can be charged to fund any combination of buildings, equipment or land (which for development paying DCs, is often acquired during subdivision process, years before housing is permitted and imposed DCs)[17] would appear to allow a disproportionate use of available 'room' for buildings (relative to proportion of existing value), allowing for either:

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[14] While land is dedicated to municipalities at no cost, if all or part of lands acquired for road widening purposes, certain municipalities allow abutting property owners to re-purchase the excess land at a fair market value, unless the owner is the originally grantor of the lands, in which case lands can be returned at a nominal sum. Source: Halton Region, Highway Dedication Guidelines

[15] City of Toronto Staff Report, 45, 57-93 Balliol Street, Community Benefits Charge In-kind Offer, (January 8, 2024)

[16] The Town of Oakville purchased lands (192 acres) for North Park in 1991 at approximately $34,375 per acre, saving roughly $110 million by purchasing lands. Source: Altus Group Economic Consulting, New Homeowner Money in the Government's Bank, (October 2021)

[17] And yet DC rates are calculated based on land values for presumed land acquisitions over next 10-25 years.

- Escalation of service levels on SF/capita basis (but which would have significant operating cost implications); or

- Upscaling value and quality of facilities provided to new development relative to existing service level standards ('gold plating'); or[18]

- If neither of the above are done and instead existing service levels are maintained (opposed to bullet one) and existing building standards are maintained in new buildings (opposed to bullet two), a build-up of reserves may ensue.

By incorporating land value into DC calculations, it eliminates the possibility that key soft service DC categories cannot be measured solely (and simply) on a "SF/capita" basis or other similar ratio-based measurements typically used in master planning exercises. Instead, the existing approach requires the incorporation of a financial measurement to account for value of land base within DC service (capitalizing on escalation in land values through scenarios mentioned in prior bullet).

As an example to illustrate the value of land underlying municipal assets is having and putting upward pressure on allowable DC rates, in the City of Mississauga's 2022 DC Study (as shown in the Figure below) land value makes up 42.3% of existing service level value, including as much as 66% of the value of the City's Roads level of service funding 'envelope' available to it.

Figure 18

Composition of Existing Service Level Value - City of Mississauga, 2022 DC Study

	Value of Existing Inventory (2021, $M)			
Service	Buildings	Land	All Other	Total
By-law Enforcement	$ 62,190	$ 24,834	$ 1,236	$ 88,259
Library Services	$ 280,475	$ 94,269	$ 32,204	$ 406,948
Fire Services	$ 232,210	$ 209,982	$ 84,704	$ 526,896
Parks & Recreation	$ 1,957,814	$ 549,142	$ 2,122,572	$ 4,629,528
Public Works	$ 144,803	$ 110,083	$ 33,661	$ 288,546
Roads	n.a.	$ 6,666,602	$ 3,389,770	$ 10,056,371
TOTAL	$ 2,677,491	$ 7,654,911	$ 5,664,147	$ 15,996,549

	Land as % of Total	Service Level ($/capita)	Service Level w/o Land ($/capita)
By-law Enforcement	28.1%	$ 72	$ 51
Library Services	23.2%	$ 551	$ 423
Fire Services	39.9%	$ 438	$ 263
Parks & Recreation	11.9%	$ 6,119	$ 5,393
Public Works	38.2%	$ 242	$ 150
Roads	66.3%	$ 8,336	$ 2,810
TOTAL	42.3%	$ 15,758	$ 9,091

Note: Other DC services have no LOS analysis (Studies, Transit, Living Arts Centre Debt)
Source: KPEC based on Hemson Consulting, City of Mississauga 2022 DC Study

As another example, the City of Markham's 2022 DC Study, 75% of the value of the City-wide Road assets of $10.68 billion was from the value of the land underlying the roads ($8.01 billion). This land

[18] A windshield scan of Ontario park facilities and recreation centres shows this approach is certainly being used in some municipalities

value resulted in a calculated 'maximum allowable funding envelope' of $3.3 billion, although the City only utilized $1.2 billion of this envelope. If the land was removed from the City's DC study calculations, the maximum allowable funding envelope would decrease from $3.3 billion (over 10 years) to $811 million.

In most Ontario municipalities, there are typically large quantities of unused, but available capital funding 'room' under the DC Act provisions. Therefore, in many municipalities and for many services where the full extent of the available funding envelope is not used, or the capital program is unaffected by the reduced LOS cap, the impact of removing land from the LOS calculations may have little to no impact on calculated DC rates.

Removing land from LOS calculations can also ensure that municipalities are limited to measuring level of service and capital need based solely on actual service levels (SF/capita, etc.), rather than being enabled to unnecessarily (and expensively) over build infrastructure on the back room created by escalated land values. In the case of Markham's 2022 DC Study, if the 75% land value share of the value of the LOS inventory was removed, roughly $149 million of the remaining $960 million of forecast costs for works would be ineligible on the basis that this amount would increase service levels imposed on new development above existing (non-land) service level measurements (see figure below).

Figure 19

Comparison of Roads DC Rate Calculation with and without Land Value, based on City of Markham 2022 DC Study

LOS Calculation	With Land	Without Land	Change	% Chg
Level of Service ($/capita)	$ 22,688.49	$ 5,571.43	$ (17,117.06)	-75%
10-Year Population/Employment Growth	145,660	145,660		
Maximum Allowable Funding Envelope	$ 3,304,805,453	$ 811,534,494	$ (2,493,270,960)	-75%
DC Recoverable Costs				
Property Acquisition	$ 245,036,345	$ -	$ (245,036,345)	-100%
All Other Costs	$ 960,883,371	$ 960,883,371	$ -	0%
Total	$ 1,205,919,716	$ 960,883,371	$ (245,036,345)	-20%
Reduction for LOS Cap	$ -	$ 149,348,877	$ 149,348,877	n.a.
Total after Application of LOS Cap	$ 1,205,919,716	$ 811,534,494	$ (394,385,222)	-33%
Residential Share	61.90%	61.90%		
Residential DC Recoverable	$ 746,464,304	$ 502,339,852	$ (244,124,453)	-33%
Population in New Units	90,381	90,381		
DC per Capita (unadjusted)	$ 8,259.08	$ 5,558.02	$ (2,701.06)	-33%

Source: KPEC based on City of Markham 2022 DC Study

In the case of the City of Mississauga's Roads DC calculations, the component related to property value has increased by 180% over the 2009-2022 period, or nearly double that of all other elements combined (+99%), despite no new land being included in the City's inventory of road-related property.

The share of estimated total value in the City's roads network attributable land value has increased from 58% in the 2009 DC Study to 66% in the 2022 DC Study (despite no new land being acquired). A similar trend is evident in other Mississauga DC services where the quantity of building area being provided is lagging well behind changes to land area: [19]

Figure 20

	Change 1999-2021	Change SF/ or Ha/Capita 1999-2021	Change in Value of Service Level
Library – Buildings GFA (sf)	+18%	-9%	+211%
Library – Land Area (ha.)	+64%	+26%	+360%
Fire – Buildings GFA (sf)	+55%	+18%	+456%
Fire – Land Area (ha.)	+261%	+176%	+885%

3.4.4. Recommendations: Land Value in DCs

Figure 21

Recommendations: Land Value			
Cat.	**#**	**Recommendation**	**Benefit**
LV	**8**	Exclude land from 15-year historic average 'level of service' calculations	Would mitigate influence that land values have on DC rates, by Disconnecting LOS calculations that use escalating land values (often due to under-supplied housing market) to create more "LOS cap" room to increase DCs. Inventory of municipal-owned land for a given DC service does not do anything to provide "service". Escalating land values may increase the "dollar value" of a given service, but not necessarily have any bearing on measuring the true service levels (SF/capita) Potential DC Act wording change is provided in the table below.
LV	**9**	Exclude 'projected' land needs as an eligible capital cost, and only allow for 'incurred' land costs to be recovered in DC rate calculations. Continue to allow land to be acquired (where needed) from DCs, but limit land cost recoveries in DC rate setting to 'incurred' costs only – more appropriate to have developments paying DCs today based on cost of recent land acquisitions (which is likely more co-terminus with those lands being permitted), rather than estimates of land values 10-25 years in future.	

[19] The background data for this analysis can be found in the appendix to this report

Recommendations: Land Value			
Cat.	**#**	**Recommendation**	**Benefit**
LV	**10**	In absence of the above changes to land inclusion in LOS and eligible capital costs: A) Mandate LSPs to include language requiring provision of DC credits where capital project carried in a DC Study includes land costs. B) Require DC studies to specify projects where future land acquisition costs are included, as well as quantity and value assigned to it.	Would provide for an alternate fix to the potential over-collection of land costs, though would require significant additional detail added to DC studies and annual reserve fund reporting, involving potentially sensitive matters regarding future land acquisition negotiations.

Figure 22

Proposed Changes to Wording of DC Act to Limit Eligible Land Acquisitions Costs to "Incurred" Costs Only

Existing DC Act Wording	Proposed Revised DC Act Wording
Capital costs, inclusions (3) The following are capital costs for the purposes of paragraph 7 of subsection (1) if they are incurred or proposed to be incurred by a municipality or a local board directly or by others on behalf of, and as authorized by, a municipality or local board: 1. Costs to acquire land or an interest in land, including a leasehold interest, except in relation to such services as are prescribed for the purposes of this paragraph. 2. Costs to improve land. 3. Costs to acquire, lease, construct or improve buildings and structures. 4. Costs to acquire, lease, construct or improve facilities including, i. rolling stock with an estimated useful life of seven years or more, ii. furniture and equipment, other than computer equipment, and iii. materials acquired for circulation, reference or information purposes by a board within the meaning of the *Public Libraries Act*. 5. Costs to undertake studies in connection with any of the matters referred to in paragraphs 1 to 4. 6. Costs of the development charge background study required under section 10. 7. Interest on money borrowed to pay for costs described in paragraphs 1 to 4. 1997, c. 27, s. 5 (3); 2020, c. 18, Sched. 3, s. 2; 2022, c. 21, Sched. 3, s. 5 (3, 4); 2024, c. 16, Sched. 6, s. 1 (1).	**Capital costs, inclusions** (3) The following are capital costs for the purposes of paragraph 7 of subsection (1) **if they are incurred or proposed to be incurred by a municipality** or a local board directly or by others on behalf of, and as authorized by, a municipality or local board: ~~1. Costs to acquire land or an interest in land, including a leasehold interest, except in relation to such services as are prescribed for the purposes of this paragraph.~~ 2. Costs to improve land. 3. Costs to acquire, lease, construct or improve buildings and structures. 4. Costs to acquire, lease, construct or improve facilities including, i. rolling stock with an estimated useful life of seven years or more, ii. furniture and equipment, other than computer equipment, and iii. materials acquired for circulation, reference or information purposes by a board within the meaning of the *Public Libraries Act*. 5. Costs to undertake studies in connection with any of the matters referred to in paragraphs 1 to 4. 6. Costs of the development charge background study required under section 10. 7. Interest on money borrowed to pay for costs described in paragraphs 1 to 4. 1997, c. 27, s. 5 (3); 2020, c. 18, Sched. 3, s. 2; 2022, c. 21, Sched. 3, s. 5 (3, 4); 2024, c. 16, Sched. 6, s. 1 (1). [RECOMMENDED FOR ADDITION] - (3.1) The following are capital costs for the purposes of paragraph 7 of subsection (1) **if they have been incurred** by a municipality or a local board directly or by others on behalf of, and as authorized by, a municipality or local board: 1. Costs to acquire land or an interest in land, including a leasehold interest.

3.5. Issue: DC Service Categories and Eligible Capital Costs

Through Bill 108, Section 2(4) of the DC Act has been reoriented to only list the services that DCs can be imposed for, with the list including 19 specific services as being eligible.

Figure 23

DC Eligible Services – Section 2(4) Development Charges Act			
Water Supply, including distribution and treatment	Waste Water, including sewers and treatment	Storm Water Drainage and Control	Services related to a highway
Electrical power	Toronto-York subway	Yonge North subway	Waste Diversion
Policing	Fire Protection	Ambulance	Libraries
Long-Term Care	Parks & Recreation (but not land for parks)	Public Health	Child Care
Provincial Offences Act	Emergency Preparedness	Airports (Waterloo Region only)	

Prior to Bill 108, section 2(4) of the DC Act listed services which were **ineligible** for recovery from development charges, and included:

- Cultural or entertainment facilities, including museums, theatres and art galleries;
- Tourism facilities, including convention centres;
- Acquisition of land for parks;
- Provision of a hospital;
- Waste management services;
- Headquarters for general administration of municipalities and local boards

Any review of the DC system in Ontario should include an evaluation of what municipal services are eligible (or ineligible) for recovery.

There may be potential to merge certain DC services based on how municipal services are combined in master planning processes, or how they are often bundled within the same facilities. Merging DC services can make front-ending agreements easier to manage as combined DC services allows for more DC credit 'room' to receive reimbursement for work performed. Alternatively, even if certain DC services are maintained as separate calculations for DC rate setting purposes, consideration could be given to merging certain DC services for the purposes of estimating DC credit 'room', to mitigate limitations in available DC credits driven by amounts payable for a given DC service, and reduce non-DC reimbursements that may be owed.

Figure 24

Recommendations: DC Service Categories			
Cat.	**#**	**Recommendation**	**Benefit**
SC	**11**	Merge transit and roads DC services (or at a minimum for DC crediting purposes), consistent with how Transportation Master Plans typically consider both services	Would allow for increased DC credit 'room' for proponents' front-ending road works or transit works.
SC	**12**	Merge soft services such as libraries, indoor recreation, and parks development (or others, where applicable) when they are provided jointly, or studied through the same master planning process (or at a minimum for DC credit purposes)	Would simplify DC calculations and allow for increased DC credit 'room' for front-enders
SC	**13**	For greater clarity, include lists of both 'eligible' and 'ineligible' services in DC Act	Would provide clarity in DC Act regarding what is an eligible service and what is an ineligible service

3.6. Miscellaneous Issues

The following table presents numerous other recommendations that do not fit into any of the broader issues with DC calculation and imposition.

Figure 25

Recommendations: Miscellaneous Issues			
Cat.	**#**	**Recommendation**	**Benefit**
M	**14**	Consider changing 'up-front' nature of existing DC model to a long-term debt repayment model to better utilize public sector borrowing power.	Moving DC imposition from an up-front payment model to a model that relies more on debt financing and longer-term payback through taxes and/or user rates would improve affordability for end users and reduce the need to finance DC-funded costs through mortgage financing. Would allow for ongoing monitoring of costs and allow end-users to pay 'actuals' rather than projected costs as embedded in today's DC rate calculations. A model demonstrating how this approach would work and ensure both full funding for municipalities and cost relief (or neutrality at

Recommendations: Miscellaneous Issues			
Cat.	**#**	**Recommendation**	**Benefit**
			worst) for homeowners is provided in Section 5.3 of this report.
M	**15**	Strengthen or enforce provisions regarding illegality of 'additional levies' and confine all development charges for growth-related capital infrastructure to those allowed under the DC Act.	Revisions to the DC Act and Municipal Act to fully eliminate the usage of additional levies outside of the DC Act would confirm that the DC Act represents a 'complete code' for the funding of growth-related infrastructure.
M	**16**	Streamline Section 20 DC Complaints with revised approach to OLT hearings	Moving some/most Section 20 complaints to written evidence hearings would save considerable time at the OLT and free-up capacity among industry and municipal stakeholders.
M	**17**	Revisit efficacy of DC freeze model. Study how often frozen DCs are preserved with permits (which need to be 18 months from approval). Clarify legislation for instances when DC rates are decreasing such that frozen DC rate may be higher than in-force rates.	The current DC freeze system has created confusion among industry stakeholders and could be modified or simplified to achieve Provincial objectives. The current system may result in situations where DC rates are not increasing above inflation/interest rates (or are decreasing), which would create incentive for applicants to withdraw applications and resubmit to obtain lower available DC rates.
M	**18**	Add reference in DC regulations to newly added London CMA to existing prescribed DC index.	London CMA data was recently added to StatsCan dataset - this would allow for DC indexing in Southwestern Ontario to better reflect changes in costs in that area of the Province.
M	**19**	Refine concept of DC by-law 'expiry' for certain services, and only allow DC by-laws to be reviewed after the Master Planning exercise for a given DC service is completed.	Would incentivize municipalities to renew master plans on a regular basis. By making DC capital programs directly based on master plans, it would effectively add significant time to DC peer review period.

Figure 26 – Legislative Changes – Recommended Changes to Municipal Act and Development Charges Act to Eliminate Additional Levies Outside of DC Act

Existing Wording	Proposed Wording
Municipal Act O.Reg 584/06	
Capital costs ***2.*** *(1) A municipality and a local board do not have power under the Act to impose fees or charges to obtain revenue to pay capital costs, if as a result of development charges by-laws or front-ending agreements under the Development Charges Act, 1997 or a predecessor of that Act that was passed or entered into before the imposition of the fees or charges, payments have been, will be or could be made to the municipality or local board to pay those costs. O. Reg. 584/06, s. 2 (1).* *(2) For the purpose of subsection (1),* *"capital costs" has the same meaning as it has in the Development Charges Act, 1997; ("dépenses en immobilisations")* *"payments" do not include amounts the municipality or local board has refunded or is required to refund under the Development Charges Act, 1997. ("paiements") O. Reg. 584/06, s. 2 (2).*	***Capital costs*** ***2.*** *(1) A municipality and a local board do not have power under the Act to impose fees or charges to obtain revenue to pay capital costs, ~~if as a result of development charges by-laws or front-ending agreements under~~ for growth related services listed in subsection 2(4) of the Development Charges Act, 1997 ~~or a predecessor of that Act that was passed or entered into before the imposition of the fees or charges, payments have been, will be or could be made to the municipality or local board to pay those costs.~~ O. Reg. 584/06, s. 2 (1).* *(2) For the purpose of subsection (1),* *"capital costs" has the same meaning as it has in the Development Charges Act, 1997; ("dépenses en immobilisations")* *~~"payments" do not include amounts the municipality or local board has refunded or is required to refund under the Development Charges Act, 1997. ("paiements") O. Reg. 584/06, s. 2 (2).~~*
Development Charges Act, Section 59.1	
No additional levies *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.*	***No additional levies*** *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.*

4. RECOMMENDATIONS TO AMEND AND IMPROVE THE EXISTING DC MODEL

The existing DC system has been in place in Ontario for roughly 35 years, although changes were made in 1997 and other smaller changes have been made since then. Given the number of municipalities that utilize development charges, the number of major disputes regarding adopted DC by-laws has generally been moderately low. However, with DC rates continuing to escalate over time, the impact of issues in DC by-law appeals has grown, and is likely to result in more disputes in the coming years if substantial change is not made to simplify or standardize inputs, assumptions and methods used to calculate DCs, or right-size DC rates to better reflect actual/incurred capital costs.

The DC Act provides opportunity for stakeholders to make a complaint (under s.20 of the Act) that DCs have been incorrectly determined, that amount of available DC credits were incorrectly determined, or that there was an error in the application of the DC by-law. In my experience, Section 20 complaints had been relatively rare until the last few years, when DC rate increases and legislative changes added numerous layers of complexity with respect to how DCs are imposed[20], such that the calculation of DCs payable has grown overly complex, and prone to error or misunderstanding of the various moving parts that need to be considered.

A theme of the identified issues and flaws in the existing DC calculation model is that it has become:

- Unnecessarily complicated, arcane and opaque to general planning practitioners, home buyers and politicians,
- Susceptible to exponential escalation due to sensitivity to certain inputs (such as land prices) that themselves are impacted by housing supply shortages or real estate speculation, and
- Prone to inconsistent application through a lack of legislative direction allowing subjective assumptions in areas such as:
    - estimation of benefit to existing
    - interpretation of what a local service is,
    - how DC by-law definitions are composed, etc.

Therefore, while the DC Act has been operable for several decades, and provides a complete code for how to handle development-related capital finance in Ontario, the time may be overdue for consideration of what amendments and adjustments may be necessary to ensure that the DC Act can continue to be a useful tool in ensuring that the capital needs of land use plans can be funded and constructed in a timely and efficient manner.

[20] DC freeze provisions, deferred DC payments, application of interest to DC freeze, application of interest to deferred payments, temporarily imposed phase-in requirements, expansion of statutory discounts and exemptions for affordable housing, discounts for purpose-built rental housing, etc.

Figure 27

Recommendations to Standardize DCs		
Cat.	**#**	**Recommendation**
BTE	**4**	Set out guidelines and instructions for how to estimate BTE for certain project types (grade separations, road reconstruction works, etc.)
BTE	**5**	Set requirements for background data and assumptions to BTE calculations to be provided in DC studies.
LOS	**6**	Prescribe (in regulations) a data source for estimated replacement values of existing assets in LOS analysis
LOS	**7**	Require LOS analysis and estimated LOS caps to be inputted into standardized "Forms" to be submitted to Province for approval and require Ministry approval of Forms before DC by-law can be adopted.
LV	**10**	In absence of the above changes to land inclusion in LOS and eligible capital costs: A) Mandate LSPs to include language requiring provision of DC credits where capital project carried in a DC Study includes land costs. B) Require DC studies to specify projects where future land acquisition costs are included, as well as quantity and value assigned to it.
M	**15**	Strengthen or enforce provisions regarding illegality of 'additional levies' and confine all development charges for growth-related capital infrastructure to those allowed under the DC Act.
M	**18**	Add reference in DC regulations to newly added London CMA to existing prescribed DC index.
M	**19**	Refine concept of DC by-law 'expiry' for certain services, and only allow DC by-laws to be reviewed after the Master Planning exercise for a given DC service is completed.

Figure 28

Recommendations to Simplify		
Cat.	**#**	**Recommendation**
LS	**1**	Provide guidance on how local service policies are to be used and interpreted for stakeholders
LS	**2**	Consider standardizing local service policy language in certain areas, such as watermain sizing/oversizing provisions, though sizes used in policies could vary.
LS	**3**	Encourage municipalities to incorporate visuals to assist with interpretation of LSPs.
SC	**11**	Merge transit and roads DC services (or at a minimum for DC crediting purposes), consistent with how Transportation Master Plans typically consider both services
SC	**12**	Merge soft services such as libraries, indoor recreation, and parks development (or others, where applicable) when they are provided jointly, or studied through the same master planning process (or at a minimum for DC credit purposes)
SC	**13**	For greater clarity, include lists of both 'eligible' and 'ineligible' services in DC Act
M	**16**	Streamline Section 20 DC Complaints with revised approach to OLT hearings
M	**17**	Revisit efficacy of DC freeze model. Study how often frozen DCs are preserved with permits (which need to be 18 months from approval). Clarify legislation for instances when DC rates are decreasing such that frozen DC rate may be higher than in-force rates.

5. AN APPROACH TO OVERHAUL ONTARIO'S GROWTH FUNDING MODEL

Given the complexity of the development charges system, and the numerous areas of interest that need to be considered for potential reform and modernization of DCs, this section presents an approach that would largely maintain the base DC system (with the adjustments to simplify and standardize as recommended in the previous chapter), but which would introduce two major changes – 1) imposing the associated costs for some DC services through an annual surcharge on newly constructed homes rather than an upfront charge, and 2) reduce the influence that land values are having on DC rate calculations.

5.1. Going Back to Original Intent of Development Charges

Some of the short-term recommendations can be used to re-establish the basic intent of development charges, removing unnecessary complications added to the system such as simplifying and standardizing concepts such as "Benefit to Existing", local services, and re-thinking provisions for DC freezes, DC deferrals, to avoid undue strain on the Province's legal system, and create certainty for municipalities and developers.

5.1.1. As Expressed in City of Toronto 1999 Staff Report

A City of Toronto staff report from 1999[21], prepared to inform a Council decision regarding how to transition from the DC by-laws adopted by each of the City's recently six separated cities to an approach to DCs appropriate for the newly amalgamated City of Toronto. The discussion presented in the 1999 Staff Report provides a glimpse into what DCs were used for:

- The City-wide DCs proposed through the 1999 DC update were $4,795 per single-detached unit, $3,846 per multiple dwelling (townhouse), $3,205 per 2BR+ apartment, and $2,051 per 1BR/Studio apartment, and $3.24 per square foot of non-residential development.
- The City chose to only recover costs for roads, sanitary sewer, water, fire, transit, parks and recreation, libraries and 'general government'.
- Despite the residential rates being "69 percent lower than the average charge currently imposed in the GTA", the Staff Report notes that DCs can act as a disincentive to growth:

> *While the use of development charges as a capital financing tool is integral in addressing some of the City's capital pressures, its impact on development must also be considered. It is important that the charges do not act as a disincentive to growth and development occurring in the City.*

[21] City of Toronto, Recommendations to Strategic Policies and Priorities Committee, re: New Development Charges By-law, (May 1999)

- In considering non-residential DCs, the Staff Report contemplated how while DCs are a one-time charge, that owners of non-residential properties will amortize this expense over time:

  > *From the development community's perspective, both development charges and property taxes will have an impact on their business decisions. Property taxes represent an ongoing operating cost to the occupant. A development charge, from a cash-flow perspective, is a one-time charge representing capital investment in municipal services that will generally serve the development over its life expectancy. As a capital investment, this charge would be amortized and expensed over a period of time. In such a way, property taxes and the amortized development charge expenses, represent the annual costs (capital and operating) related to municipal services.*

- The following principles were listed as considerations to be assessed in deciding upon the various options available to impose DCs:
  - *"Growth ought to pay for itself so that the burden arising from development related costs should not fall on existing residents in the form of higher taxation and user fees;*
  - *Development charges should be used to mitigate the City's capital pressures and to assist in providing the infrastructure required by future development in the City;*
  - *Development charges should be fair and equitable to all stakeholders;*
  - *Development charges should not act as an unnecessary disincentive to growth and development occurring in the City".*

5.1.2. Intergovernmental Committee on Urban and Regional Research – July 1994

A 1994 study by Enid Slack for the Intergovernmental Committee on Urban and Regional Research, titled "Development Charges in Canadian Municipalities: An Analysis" (the "ICURR Paper") included a detailed analysis of issues arising from the use of DCs. The analysis noted numerous issues and difficulty in making certain determinations (BTE, local services) which are still causing issues and uncertainty in the DC system today:

- The ICURR Paper talked about the necessary step to differentiate usage of new assets between existing and new residents in allocating project costs of new capital works (known as BTE today):

  > *"The municipality also has to determine the proportion of capital expenditures required by growth. For example, where capital expenditures for a new road are projected, it is necessary to determine what proportion of the use of that road will be by existing residents as opposed to new residents."*

- In describing how 'local services' (referred to as 'on-site' versus 'off-site' costs) are determined, the ICURR paper talked about the difficulty in determining what an on-site or off-site cost was, and the confusion caused by location of works and relative benefit/usage of works being installed:

> *It is difficult to determine whether some services are off-site or on-site. Some examples include the costs associated with the connection or hookup to water and sewers. While the facilities are off-site, the pipes connecting to the facilities are on-site. It is unclear whether the connections are on-site or off-site.*

- The ICURR Paper identified issues with 'informal exactions', being payments determined on a negotiated basis with a municipality, including provision of services or cash payments as conditions of subdivision approval. The issues with these negotiated exactions were raised by the ICURR paper as being:

  > *There is no certainty for the developer or the municipality about how much the charge will be*
  >
  > *There is no guarantee that similar projects will be treated in the same way*
  >
  > *The exactions may be influenced by political pressure*
  >
  > *There is no guarantee that the exactions will be used towards the purpose for which they were levied.*
  >
  > *Development charges are considered to be preferable to the alternative of negotiated exactions because they alleviate the above problems.*

The ICURR Paper provides insights into the implications of the DC system of up-front payments and associated up-front costs being passed onto new residents and funded by mortgages, rather than being debt financed by municipalities and levying taxes/rate revenues to pay back those costs. The ICURR Paper found that relying on up-front payments may be more likely to cause borrowing constraints and that relying on public sector borrowing instead could result in cheaper borrowing costs.

> *…prior to levying development charges, municipalities generally borrowed funds to pay for infrastructure and then passed the costs of the infrastructure (plus the borrowing costs) onto taxpayers through the property tax. With development charges, the developer pays the charge up front using borrowed funds (or equity) and then passes these costs onto residents. In theory, in the absence of interest-rate differentials, a new homebuyer should be indifferent to the difference between a development charge financed over the mortgage period and annual property tax payments. In reality, however, homebuyers face borrowing constraints. An addition to the purchase price of the house (resulting, for example, from a development charge) may mean that a new homebuyer facing a borrowing constraint can no longer purchase the house.*
>
> *One of the differences between levying development charges and levying property taxes to pay for capital costs is who borrows. In the case of the property tax, the municipality borrows funds; in the case of the development charge, developers and new homebuyers borrow funds. It is probably the case that municipalities can borrow more cheaply than new homebuyers and likely more cheaply than developers as well. With respect to borrowing considerations, development charges are less efficient for financing infrastructure than municipal borrowing.*

The issues raised regarding how to allocate and estimate "BTE", difficulty defining local services, avoidance of informal levies, and the implications of up-front charges (as opposed to annual payments) all persist today, 30 years after the preparation of the ICURR paper.

5.2. Incorporating Best Practices from Other Jurisdictions

5.2.1. Texas – Municipal Utility Districts

The State of Texas utilizes "Municipal Utility Districts", which is a government entity that provides utility services to geographically defined areas. The MUDs can cover services such as water, sewage, drainage, parks and roads. MUDs work (in simple terms) as follows:

- Landowner funds infrastructure necessary for development;
- The MUD issues bonds to payback the developer for the front-funding of initial infrastructure costs;
- The bond is repaid to the MUD once development occurs, and taxable value emerges.

There are limits to the tax rates that a MUD can impose ranging from 1% to 1.5% of assessed value, depending on the location within the state of Texas. The taxes imposed under a MUD are in addition to County, school district, and other local property taxes. These MUD arrangements are temporary as once the initial capital outlay is fully funded, the tax is no longer required. As additional development locates within the district, the tax rate will decrease over time. Administrators have options to refinance debt over time at lower rates.

Examples of MUDs in use in Texas and how the tax rate imposed on benefitting developments decline over time based on continued development of the affected area are provided in the chart below.

Figure 29

Description	Services	Year Created	Current Rate	Initial Rate
Montgomery County MUD No. 89	Water, WW, Drainage and Solid Waste	2002	0.64% of assessed value, including: 0.39% for debt service and 0.25% for maintenance	1.03%
Harris County MUD No. 502	Water, WW, Roads and Drainage	2019	1.02%	1.50%

A MUD is created through a process that involves the following steps:

- Landowners seek consent from municipality within which the MUD would be located;
- If City consents to create the MUD, it must do so 90 days after the initial request;
- The City has 120 days to make a contract with the landowners, and the contract must provide for construction of the facilities to begin within 2 years and completed within 4.5 years.

A study of MUDs noted the benefits and purpose of these capital financing arrangements:[22]

> *Large population growth requires the development of new communities. Massive capital outlays must be made in order to provide quality water, sewer, drainage, and other municipal services to these new communities. General units of* ***government (e.g., states, counties, and cities) historically have been unwilling or unable to finance these large capital outlays****. In Texas, this inability has been due to legal restrictions in the Constitution on municipal debt and taxing authority, combined with the unwillingness of one constituency to incur debt for the benefit of another, especially when risks associated with new development are involved.*
>
> ***Private financing of these capital outlays failed in Texas because the infrastructure costs were recovered through the sale of land, resulting in higher lot prices and unaffordable housing.*** *Attempts at private ownership of the needed facilities led to the construction of substandard systems because the fees required to recover the capital costs were excessive. In addition, because there are no periodic charges associated with drainage facilities, the cost of such facilities could not be recovered through user fees.*
>
> *States like Texas, Florida, and California that have experienced rapid growth have addressed the shortcomings described above by using special district governments to finance all or part of the required utility and community support facilities. Special districts are local governmental entities that can be endowed with special powers to provide one or more specific services when general purpose governments cannot or will not provide a necessary service to an area. This flexibility makes special districts efficient tools for the stimulation of urban growth and enables them to function in the development of commercial, industrial, and residential properties, and in projects ranging from small subdivisions to large master-planned communities.* ***[emphasis added]***

5.2.2. Florida Community Development Districts

Similar to the MUD model used in Texas, the State of Florida, through Chapter 190 of the Florida Statues enables the use of Community Development Districts ("CDDs"), which enables the District the power to levy taxes and special assessments to charge, collect and enforce fees to recover funds and finance basic community services, such as roads, stormwater management systems, wastewater collection systems, water distribution systems, among other works. As of 2021, there were 763 active CDDs in Florida.

State laws require CDDs to be dissolved when their purposes are fulfilled and prohibits duplication of local government services. CDD broad meetings, assessments and budgets are publicly available and subject to an annual independent audit.

[22] Texas Legislature, https://capitol.texas.gov/tlodocs/83R/handouts/C2102013022110301/e1679693-0fc0-4fdb-92eb-45c54db5758f.PDF

5.3. Action 1: Moving Water & Sewer DCs to a Rate-Funded Amortization Model

It is recommended that Ontario consider moving away from up-front DCs, particularly for water and sewer services, and instead utilize a funding model that relies on debt funding with long-term reimbursement from taxes/rates imposed on the new homes/businesses using the growth-related capital works, similar to the "MUD" model used in the State of Texas.

The Texas MUD model is heavily used, with over 1,300 such special districts.[23] While in Texas, the model creates special government entities, in Ontario, the financial model could be used by municipalities directly rather than creating new entities, either on a municipal-wide basis like many DCs are imposed today, or through an area-specific model as is used by many municipalities.

The Province could maintain the existing DC methodology (with recommended changes to improve the DC calculation process), with the MUD model taking the estimated capital infrastructure costs, and amortizing these costs over the long-term from development occurring with the defined geography. Payments would be made by new growth over the long-term until the initial debt outlay is paid-off, these payments would be temporary.

This model is likely best suited to water and wastewater services (at least initially), as those services, more than other DC services, must be present before development can occur, involve major capital projects typically with capacity far beyond any single development, that are appropriately funded by debt financing, can be funded by an existing revenue source (water/sewer rates).

5.3.1. Benefits

The model illustrates an approach that would (fully or partially) eliminate DCs for certain services and replace it with a short-term increase to property taxes and/or user rates imposed solely on new development. This model presents numerous benefits:

- The amount of the additional rate payment necessary to pay-down the amortized DC amount would effectively 'crowd out' mortgage room in a household's monthly budget, with the lower mortgage payments (and associated pricing) necessary to allow for higher monthly water/sewer bills. This constraint would ensure that the removal of DCs would force downward pressure on prices.
- Allows for long-term and ongoing adjustment and/or correction of infrastructure costs to reflect actual costs incurred, rather than relying on calculation of an up-front DC rate that is calculated and imposed based on long-term projections of future costs, often 10-25 years in advance, which may be inaccurate without any ability to reconcile differences in actuals vs. projected costs over time.
- Is temporary and only impacts new homes – existing tax/ratepayers are unaffected by the model (except for provisions related to statutory deductions for existing benefit);

[23] Association of Water Board Directors – Texas, https://awbd.org/learn/what-is-a-water-district/

- Would enable municipalities to regularly borrow if the funds raised from new development to payback borrowing costs was specifically devoted to any additional debt payments that would be due. Raising both the annual debt payments and the annual own revenues at the same time would have a dampening effect on the impact of increased debt on the estimated Annual Repayment Limit;
- Motivate municipalities to ensure developments in their approvals pipeline are approved in a timely manner to ensure that sufficient funds are being generated from new development to payback scheduled debt payments;

5.3.2. Analysis of Cost Implications for End Users

The table below presented three scenarios demonstrating how the shift from an up-front DC to a rate-based surcharge (called “Debt Retirement Charge” in the table, for lack of official nomenclature).

In each of the three scenarios presented, the shift from an up-front DC to an on-going ‘debt retirement charge’ to repay the DC amount through ongoing water/sewer rates results in some combination of reduced prices necessary to clear development costs and is at-worst cost neutral to the end user on a monthly basis.

- **Scenario 1:** the downpayment is kept constant in dollar terms both with and without the upfront DC, and the assumed price is decreased by an amount equivalent to the removed DC, and replaced with a monthly payment such that over the long-term, the DC amount will be fully repaid with rate revenues;
- **Scenario 2:** the downpayment is kept constant in dollar terms both with and without the upfront DC, and the assumed price is decreased by an amount that brings the total monthly costs to the homebuyer the same as it was when the upfront DC was included in the price. This results in no change to the homebuyer’s monthly budget, but the purchase price falls by $33,581, resulting in a reduced mortgage amount;
- **Scenario 3:** the downpayment is kept constant in percentage terms (10%) both with and without the upfront DC, and the assumed price is decreased by an amount that brings the total monthly costs to the homebuyer the same as it was when the upfront DC was included in the price. This results in no change to the homebuyer’s monthly budget, but the purchase price falls by $37,312, and the downpayment amount falls by $3,731, for a net change in mortgage amounts of $33,581.

Figure 30

Estimated Implications of Moving from an Up-Front Water/WW DC Model to an Amortized Rate-Repayament Surcharge on New Growth

Based on Peel Region 2020 DC Study

Assumptions		
PPU for Single-Detached Units (SDU)		4.202
Current W/WW DCs	$	58,834
Public Sector Borrowing Rate		4.25%
Public Sector Borrowing Term		25 years
DCs Converted to Annual Payment Over Borrowing Term	$	2,353

Scenario 1 - Fixed Downpayment, Full Removal of DC from Price	Existing Model	Removal of Upfront W/WW DC	Revised Approach	Difference
Home Price	$ 950,000	$ 58,834	$ 891,166	-$ 58,834
Downpayment (Note 1)	$ 95,000		$ 95,000	
Mortgage	$ 855,000		$ 796,166	-$ 58,834
Mortgage Rate	4.99%		$ 0	
Term	25		25	
Number of Annual Payments	12		12	
Monthly Mortgage Payment	$ 4,993.26		$ 4,649.67	-$ 343.60
Monthly DC Rate-Repayment Surcharge	$ -		$ 196.11	$ 196.11
Total Monthly Expenditure	$ 4,993.26		$ 4,845.78	-$ 147.48

Scenario 2 - Fixed Downpayment, Fixed Monthly Expenditure	Existing	Removal of Upfront W/WW DC	Revised Approach	Difference
Home Price	$ 950,000	$ 58,834	$ 916,419	-$ 33,581
Downpayment (Note 1)	$ 95,000		$ 95,000	
Mortgage	$ 855,000		$ 821,419	-$ 33,581
Mortgage Rate	4.99%		4.99%	
Term	25		25	
Number of Annual Payments	12		12	
Monthly Mortgage Payment	$ 4,993.26		$ 4,797.15	-$ 196.11
Monthly DC Rate-Repayment Surcharge	$ -		$ 196.11	$ 196.11
Total Monthly Expenditure	$ 4,993.26		$ 4,993.26	$ -

Scenario 3 - 10% Downpayment, Fixed Monthly Expenditure	Existing	Removal of Upfront W/WW DC	Revised Approach	Difference
Home Price	$ 950,000	$ 58,834	$ 912,688	-$ 37,312
Downpayment (Note 1)	$ 95,000		$ 91,269	-$ 3,731
Mortgage	$ 855,000		$ 821,419	-$ 33,581
Mortgage Rate	4.99%		4.99%	
Term	25		25	
Number of Annual Payments	12		12	
Monthly Mortgage Payment	$ 4,993.26		$ 4,797.15	-$ 196.11
Monthly DC Rate-Repayment Surcharge	$ -		$ 196.11	$ 196.11
Total Monthly Expenditure	$ 4,993.26		$ 4,993.26	$ -

Note (1): Assumes downpayment would remain fixed at dollar amount as Existing Model
Source: KPEC

5.4. Action 2: Right-Sizing How Land Affects DCs

The influence land values are having on DC rates is increasingly disproportionate and creating a vicious cycle where higher land values from shortages of housing supply are putting upward pressure on DC rates, which are themselves hindering supply from being feasible, and so on.

Therefore, it is imperative that the DC Act be revisited to better 'right-size' how land is incorporated into DC rate calculations, and ensure that there is a nexus between the land values used with the capital costs necessary to service units paying DCs.

In summary, the recommendations related to land in DC rate setting and usage of DCs are as follows:

- Remove land as an eligible service in level of service inventories; and
- Limit DC capital costs for newly acquired land to actual 'incurred' land costs only, rather than long-term projections of future land costs.

The below table summarizes a recalculated municipal DC where land is removed from DC calculations – detailed calculations are provided in the appendix to this report. Using the City of Markham's 2022 DC Study as a case study, the City's DC rates would be 31% lower with land excluded from DC rate calculations.

Figure 31

Revised City of Markham DC, without Land

	2022 DC Study	Re-Calculated	Change	% Change
General Government	$ 898	$ 898	$ -	0%
Library	$ 2,232	$ 1,433	-$ 799	-36%
Fire	$ 1,232	$ 645	-$ 587	-48%
Indoor Recreation	$ 13,611	$ 7,666	-$ 5,945	-44%
Parks Development	$ 7,491	$ 7,491	$ -	0%
Public Works	$ 1,196	$ 795	-$ 401	-34%
Waste Diversion	$ 300	$ 196	-$ 104	-35%
Subtotal Soft Services	$ 26,960	$ 19,123	-$ 7,837	-29%
City-Wide Hard Services	$ 31,268	$ 20,999	-$ 10,269	-33%
Total City-Wide	$ 58,228	$ 40,121	-$ 18,107	-31%

Source: KPEC based on City of Markham 2022 DC Study

An offset to the reductions presented in the table below, would need to be made to reflect the amount of land acquired from DCs over the prior 5-10 year period. However, without information from municipalities indicating how much land was acquired with DC funds, an analysis of how much the above decreases would be offset is not possible at this point.

5.5. Summary of Recommendations to Right-Size DCs

Figure 32

Recommendations to Right-Size DCs		
Cat.	**#**	**Recommendation**
LV	**8**	Exclude land from 15-year historic average 'level of service' calculations
LV	**9**	Exclude 'projected' land needs as an eligible capital cost and only allow for 'incurred' land costs to be recovered in DC rate calculations. Continue to allow land to be acquired (where needed) from DCs, but limit land cost recoveries in DC rate setting to 'incurred' costs only – more appropriate to have developments paying DCs today based on cost of recent land acquisitions (which is likely more co-terminus with those lands being permitted), rather than estimates of land values 10-25 years in future.
M	**14**	Consider changing 'up-front' nature of existing DC model to a long-term debt repayment model to better utilize public sector borrowing power.

6. CONCLUSIONS

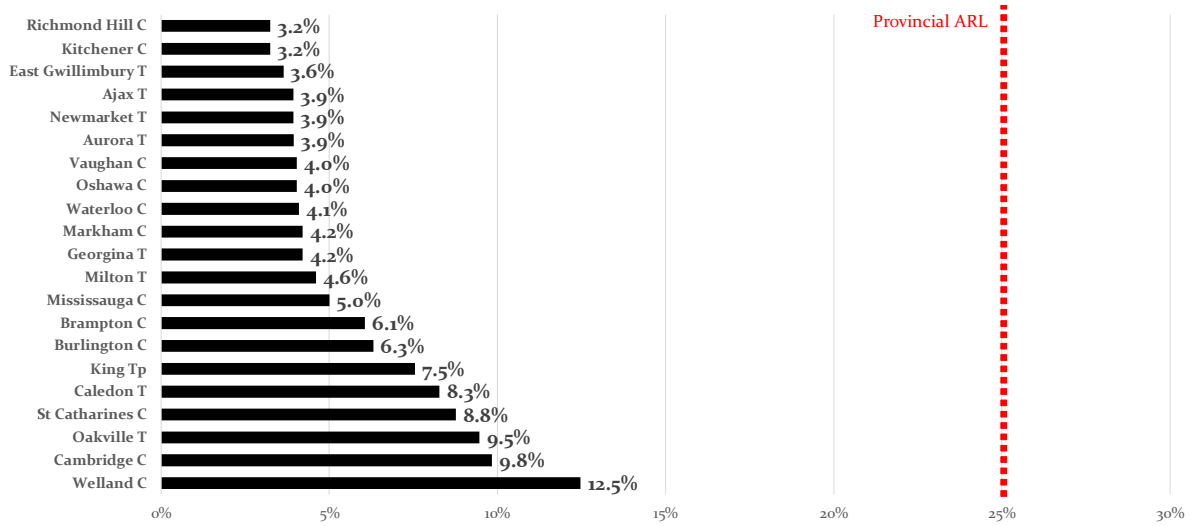
In summary, the recommendations for changing the DC model includes the following key elements:

- **Eliminate "Up-Front" payment model for Water/Sewer works** – use public or private-sector debt capacity to move Water/Sewers DCs to an amortization payment model through a monthly rate surcharge, imposed only on new homes, to payback debt-financed capital program.
- **Remove land from 'level of service' calculations used to set DC rate caps** – have service levels reflect tangible service levels, and have DCs increase at pace of inflation for buildings, equipment, rather than susceptible to land value escalation. This practice is already used in excluding 'land for parks' from DCs entirely
- **Limit inclusion of land costs in DC capital programs to 'actual' costs** only – allow continued use of DCs to purchase land (other than parkland which is already excluded), but acknowledging numerous other sources of land acquisition available to municipalities, only allow 'incurred' land costs to be recovered through DC rates.
- **Reduce subjectivity in DC rate calculations and implementation of DC Act**:
    - Mandate preparation of local service policies and prescribe certain elements of what they are to contain to ensure they are clear and easily interpretable, reducing the amount of negotiation involved in subdivision agreements;
    - Standardize "BTE" calculations where possible;
- **Allow for pooling of capital costs for DC Credit purposes** – merge "Roads" and "Transit", and certain soft services for purposes of calculating available DC credit room, better enabling front-end financing and cost recovery by developing landowners.
- **Require Provincial oversight and approval of key elements of DC study** – require DC by-laws and certain inputs to them to be reviewed and approved by Province (similar to current model used for Education Development Charges).

Appendix A – Detailed Tables

Figure 33

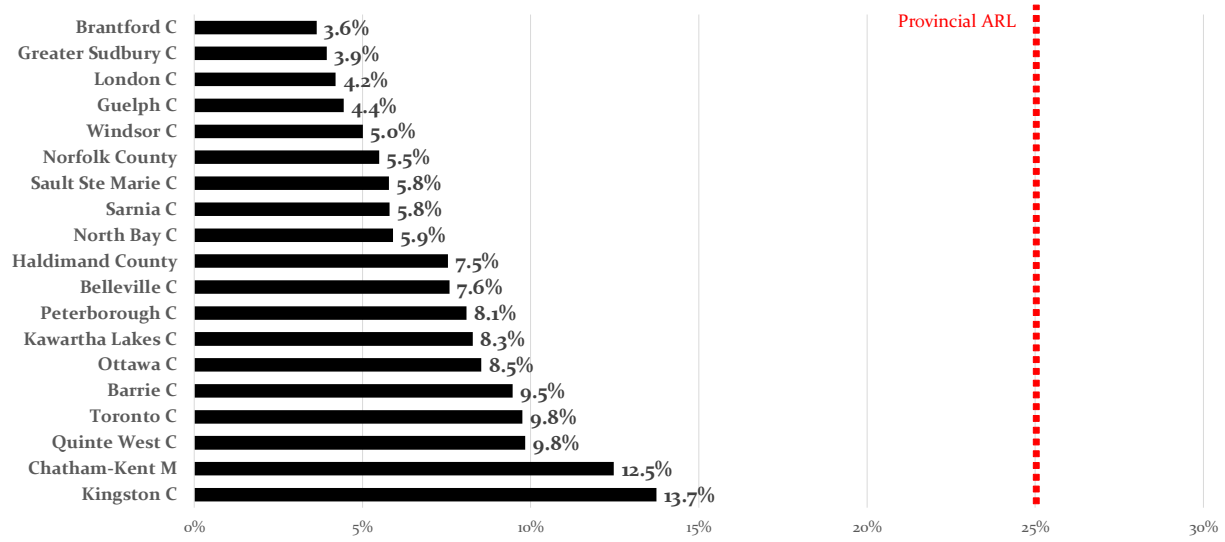
Debt Charges as % of Annual Net Revenues, 60 Largest Municipalities Reporting Data in 2023, Lower-Tier Municipalities



Source: KPEC based on Financial Information Return, Schedule 81

Figure 34

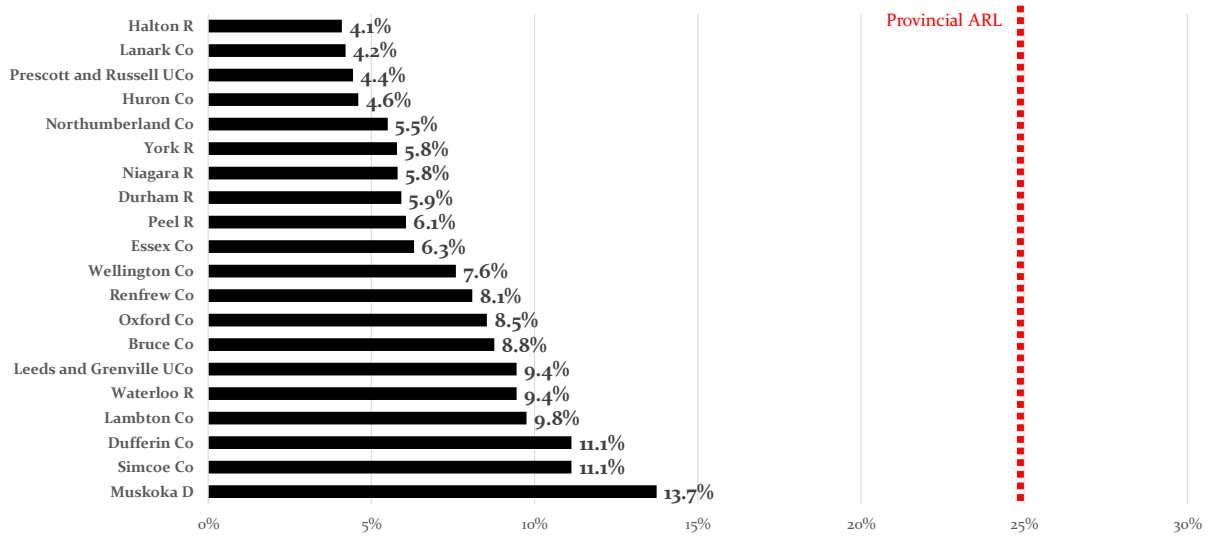
Debt Charges as % of Annual Net Revenues, 60 Largest Municipalities Reporting Data in 2023, Single-Tier Municipalities



Source: KPEC based on Financial Information Return, Schedule 81

Figure 35

Debt Charges as % of Annual Net Revenues, 60 Largest Municipalities Reporting Data in 2023, Upper-Tier Municipalities



Source: KPEC based on Financial Information Return, Schedule 81

Figure 36

Trend in Composition of Mississauga Roads Level of Service, 2009-2022

	Value of Capital Assets ($000)				
	2009 DC Study	2014 DC Study	2019 DC Study	2022 DC Study	
Road Network	$ 777,784	$ 835,736	$ 1,074,232	$ 1,338,554	72%
Traffic Signals	$ 66,620	$ 85,415	$ 81,750	$ 99,741	50%
Bridges	$ 253,257	$ 257,352	$ 543,540	$ 604,590	139%
Culverts	$ 155,496	$ 155,496	$ 153,654	$ 172,482	11%
Noise Barriers	$ 34,400	$ 46,017	$ 64,139	$ 143,586	317%
Sidewalks	$ 44,468	$ 40,158	$ 72,679	$ 70,405	58%
Illumination	$ 78,155	$ 87,878	$ 46,053	$ 165,807	112%
Landscaping	$ 25,446	$ 35,300	$ 28,541	$ 44,712	76%
Rail Grade Separations	$ 175,000	$ 250,000	$ 408,000	$ 543,200	210%
Special Items	$ 90,886	$ -	$ 140,583	$ 205,172	126%
Crosswalks	$ 308	$ 140	$ 90	$ 2,251	632%
Property ROW	$ 2,382,196	$ 3,008,084	$ 4,144,494	$ 6,666,602	180%
Total	$ 4,084,015	$ 4,801,576	$ 6,757,754	$ 10,057,101	146%
Subtotal - all but ROW	$ 1,701,819	$ 1,793,492	$ 2,613,260	$ 3,390,500	99%
ROW	58%	63%	61%	66%	

Source: KPEC based on City of Mississauga DC Studies, 2009-2022

Figure 37

Trends in Components of Level of Service Calculations, Mississauga, 2009-2022

Library	Buildings	Land	Materials / Fleet	Total Service Level / Capita	Land as % of TSL	10YR Growth	Calculated Service Level Cap	Adjustments (10%, EC)	Maximum Allowable
2009 DC Study	$ 170.35	$ 33.62	$ 59.21	$ 263.18	12.8%	56,433	$ 14,852,037	$ 2,269,637	$ 12,582,400
2014 DC Study	$ 165.29	$ 35.56	$ 40.82	$ 241.67	14.7%	54,414	$ 13,150,231	$ 1,314,980	$ 11,834,823
2019 DC Study	$ 338.21	$ 67.80	$ 45.59	$ 451.60	15.0%	49,254	$ 22,243,106	$ 2,224,257	$ 20,018,313
2024 DC Study	$ 375.19	$ 126.08	$ 49.46	$ 550.73	22.9%	54,800	$ 30,180,004	n.a.	$ 30,180,004
Change 2009-2024	120%	275%	-16%	109%			103%		140%
Fire									
2009 DC Study	$ 45.75	$ 24.04	$ 34.36	$ 104.15	23.1%	112,086	$ 11,673,757	$ 385,700	$ 11,288,057
2014 DC Study	*response / travel time based LOS*								
2019 DC Study	$ 124.53	$ 85.94	$ 66.60	$ 277.07	31.0%	110,843	$ 30,711,270	n.a.	$ 30,711,270
2024 DC Study	$ 191.98	$ 175.19	$ 70.59	$ 437.76	40.0%	96,890	$ 42,414,566	n.a.	$ 42,414,566
Change 2009-2024	320%	629%	105%	320%			263%		276%

Source: KPEC based on City of Mississauga DC Studies, 2009-2022

Figure 38

Changes in Building and Land Inventories, City of Mississauga, 1999-2021

		Building Area						La	
Year	Population	Gross Floor Area	Building Value ($m)	Avg. Value / SF	SF / Capita	Value of Assets (incl. land)	Value of Assets (excl. land)	Land Area (Ha.)	Land Value ($m)
Library									
1999	584,529	288,952	$ 90.2	$ 312	0.494	$ 263.18	$ 229.56	5.04	$ 20.5
2021	763,300	342,043	$ 280.5	$ 820	0.448	$ 550.73	$ 424.65	8.26	$ 94.3
% Change 1999-2021		18%	211%	163%	-9%	109%	85%	64%	360%
Fire									
1999	584,529	156,532	$ 41.8	$ 267	0.268	$ 104.15	$ 80.11	6.66	$ 21.3
2021	763,300	242,007	$ 232.2	$ 960	0.317	$ 437.77	$ 262.58	24.04	$ 210.0
% Change 1999-2021		55%	456%	259%	18%	320%	228%	261%	885%

Source: City of Mississauga, 2009 and 2022 DC Studies

Figure 39

Changes in Service Levels - Value Measurements and Building-Only Measurements, City of Toronto, 2013-2022

Population	2,651,628	2,937,500	11%

Indoor Recreation	2013	2022	% Change 2013-2022
Land			
Quantity (Hectares)	134.42	183.06	36%
Value of Inventory ($000)	$ 400,851	$ 6,679,696	1566%
Avg. Value / Hectare	$ 2,982,080	$ 36,489,109	1124%
Buildings			
Quantity (SF)	4,284,905	5,083,493	19%
Value of Inventory ($000)	$ 1,367,511	$ 3,551,617	160%
Avg. Value / SF	$ 319	$ 699	119%
Service Level Value w/ Land	$ 2,164.30	$ 4,929.19	128%
Service Level Value w/o Land	$ 2,007.81	$ 2,530.96	26%
SF/Capita	1.616	1.731	7%

Library	2013	2022	% Change 2013-2022
Land			
Quantity (Hectares)	22.68	22.97	1%
Value of Inventory ($000)	$ 95,300	$ 967,297	915%
Avg. Value / Hectare	$ 4,201,940	$ 42,111,319	902%
Buildings			
Quantity (SF)	1,974,388	2,031,411	3%
Value of Inventory ($000)	$ 814,247	$ 1,696,783	108%
Avg. Value / SF	$ 412	$ 835	103%
Service Level Value w/ Land	$ 556.14	$ 1,206.08	117%
Service Level Value w/o Land	$ 519.06	$ 855.59	65%
SF/Capita	0.745	0.692	-7%

Fire	2013	2022	% Change 2013-2022
Land			
Quantity (Hectares)	56.29	57.25	2%
Value of Inventory ($000)	$ 303,550	$ 1,540,556	408%
Avg. Value / Hectare	$ 5,392,613	$ 26,909,273	399%
Buildings			
Quantity (SF)	763,326	808,225	6%
Quantity (SF)	$ 343,497	$ 476,853	39%
Value of Inventory ($000)	$ 450	$ 590	31%
Avg. Value / SF			
Service Level Value w/ Land	$ 179.90	$ 546.81	204%
Service Level Value w/o Land	$ 106.05	$ 155.62	47%
SF/Capita	0.288	0.275	-4%

Source: KPEC based on City of Toronto 2013 and 2022 DC Studies

Appendix B – Recalculated Development Charge Rates based on Recommendations

City of Markham – Summary of Changes

If land was removed from both level of service calculations, and as an eligible capital cost under the DC, the City's DC rates would decrease by 31%, and allow for the entirety of the City's capital program for facilities, equipment, furniture and vehicles to remain fully funded at historic service levels for those items.

Revised City of Markham DC, without Land

	2022 DC Study	Re-Calculated	Change	% Change
General Government	$ 898	$ 898	$ -	0%
Library	$ 2,232	$ 1,433	-$ 799	-36%
Fire	$ 1,232	$ 645	-$ 587	-48%
Indoor Recreation	$ 13,611	$ 7,666	-$ 5,945	-44%
Parks Development	$ 7,491	$ 7,491	$ -	0%
Public Works	$ 1,196	$ 795	-$ 401	-34%
Waste Diversion	$ 300	$ 196	-$ 104	-35%
Subtotal Soft Services	$ 26,960	$ 19,123	-$ 7,837	-29%
City-Wide Hard Services	$ 31,268	$ 20,999	-$ 10,269	-33%
Total City-Wide	$ 58,228	$ 40,121	-$ 18,107	-31%

Source: KPEC based on City of Markham 2022 DC Study

Detailed Tables – City of Markham

Markham DC - Library					
	DC Study - w/Land			DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS		Level of Service ($/capita)	Share of LOS
Buildings	$ 274.91	46.9%		$ 274.91	73.1%
Land	$ 209.79	35.8%		n.a.	n.a.
Materials	$ 72.83	12.4%		$ 72.83	19.4%
FF&E	$ 28.41	4.8%		$ 28.41	7.6%
Total	$ 585.94	100.0%		$ 376.15	100.0%
Pop'n Growth	90,071			90,071	
LOS Cap	$ 52,776,202			$ 33,880,207	
Capital Program	DC Recoverable Costs	Share of DC Recoverable		DC Recoverable Costs	Share of DC Recoverable
Buildings	$ 30,941,818	58.6%		$ 24,761,419	73.1%
Land	$ 6,685,575	12.7%		n.a.	n.a.
Materials	$ 10,402,234	19.7%		$ 6,559,871	19.4%
FF&E	$ 4,747,270	9.0%		$ 2,558,917	7.6%
Total	$ 52,776,897	100.0%		$ 33,880,207	100.0%
Res. Share	$ 52,776,897	100%		$ 33,880,207	
Population in New Units	90,381			90,381	
DC per Capita (unadjusted)	$ 583.94			$ 374.86	
DC per Capita (adjusted)	$ 598.39			$ 384.14	
	2.5%				
PPU (singles)	3.73				
DC per SDU	$ 2,231.99			$ 1,432.83	
Source: KPEC based on City of Markham 2022 DC Study					

Markham DC - Fire

	DC Study - w/Land		DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS	Level of Service ($/capita)	Share of LOS
Buildings	$ 100.44	31.8%	$ 100.44	58.0%
Land	$ 142.66	45.2%	n.a.	n.a.
FF&E	$ 28.26	9.0%	$ 28.26	16.3%
Vehicles	$ 44.37	14.1%	$ 44.37	25.6%
Total	$ 315.73	100.0%	$ 173.07	100.0%
Pop'n Growth	145,660		145,660	
LOS Cap	$ 45,989,232		$ 25,209,376	
Capital Program	DC Recoverable Costs	Share of DC Recoverable	DC Recoverable Costs	Share of DC Recoverable
Buildings	$ 16,848,328	36.6%	$ 16,848,328	70.1%
Land	$ 21,942,400	47.7%	n.a.	n.a.
Materials	$ 2,572,979	5.6%	$ 2,572,979	10.7%
FF&E	$ 4,625,650	10.1%	$ 4,625,650	19.2%
Total	$ 45,989,357	100.0%	$ 24,046,957	100.0%
Res. Share	$ 28,467,412	61.9%	$ 14,885,066	61.9%
Population in New Units	90,381		90,381	
DC per Capita (unadjusted)	$ 314.97		$ 164.69	
DC per Capita (adjusted)	$ 330.46		$ 172.79	
	4.9%			
PPU (singles)	3.73			
DC per SDU	$ 1,232.62		$ 644.51	

Source: KPEC based on City of Markham 2022 DC Study

Markham DC - Indoor Recreation

	DC Study - w/Land		DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS	Level of Service ($/capita)	Share of LOS
Buildings	$ 2,029.64	52.4%	$ 2,029.64	98.2%
Land	$ 1,806.88	46.7%	n.a.	n.a.
FF&E	$ 36.61	0.9%	$ 36.61	1.8%
Vehicles	$ -	0.0%	$ -	0.0%
Total	$ 3,873.13	100.0%	$ 2,066.25	100.0%
Pop'n Growth	90,071		90,071	
LOS Cap	$ 348,856,692		$ 186,109,204	
Capital Program	DC Recoverable Costs	Share of DC Recoverable	DC Recoverable Costs	Share of DC Recoverable
Buildings	$ 203,728,432	61.6%	$ 182,811,704	98.2%
Land	$ 109,600,000	33.2%	n.a.	n.a.
FF&E	$ 17,158,500	5.2%	$ 3,297,499	1.8%
	$ -	0.0%	$ -	0.0%
Total	$ 330,486,932	100.0%	$ 186,109,204	100.0%
Res. Share	$ 330,486,932	100.0%	$ 186,109,204	
Population in New Units	90,381		90,381	
DC per Capita (unadjusted)	$ 3,656.60		$ 2,059.16	
DC per Capita (adjusted)	$ 3,649.65		$ 2,055.25	
	-0.2%			
PPU (singles)	3.73			
DC per SDU	$ 13,613.19		$ 7,666.08	
Source: KPEC based on City of Markham 2022 DC Study				

Markham DC - Public Works

	DC Study - w/Land		DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS	Level of Service ($/capita)	Share of LOS
Buildings	$ 46.12	16.3%	$ 46.12	24.5%
Land	$ 94.88	33.5%	n.a.	n.a.
FF&E	$ 3.18	1.1%	$ 3.18	1.7%
Fleet	$ 138.68	49.0%	$ 138.68	73.8%
Total	$ 282.86	100.0%	$ 187.98	100.0%
Pop'n Growth	145,660		145,660	
LOS Cap	$ 41,201,388		$ 27,381,167	
Capital Program	DC Recoverable Costs	Share of DC Recoverable	DC Recoverable Costs	Share of DC Recoverable
Buildings	$ 2,347,898	5.7%	$ 24,380,602	89.0%
Land	$ 35,853,095	87.0%	n.a.	n.a.
FF&E	$ 285,560	0.7%	$ 285,560	1.0%
Fleet	$ 2,715,005	6.6%	$ 2,715,005	9.9%
Total	$ 41,201,558	100.0%	$ 27,381,167	100.0%
Res. Share	$ 25,503,764	61.9%	$ 16,948,942	
Population in New Units	90,381		90,381	
DC per Capita (unadjusted)	$ 282.18		$ 187.53	
DC per Capita (adjusted)	$ 320.59		$ 213.05	
	13.6%			
PPU (singles)	3.73			
DC per SDU	$ 1,195.80		$ 794.69	
Source: KPEC based on City of Markham 2022 DC Study				

Markham DC - Waste Diversion

	DC Study - w/Land		DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS	Level of Service ($/capita)	Share of LOS
Buildings	$ 14.94	20.2%	$ 14.94	30.9%
Land	$ 25.67	34.7%	n.a.	n.a.
Vehicles	$ 30.26	40.9%	$ 30.26	62.6%
FF&E	$ 3.11	4.2%	$ 3.11	6.4%
Total	$ 73.98	100.0%	$ 48.31	100.0%
Pop'n Growth	90,771		90,771	
LOS Cap	$ 6,715,239		$ 4,385,147	
Capital Program	DC Recoverable Costs	Share of DC Recoverable	DC Recoverable Costs	Share of DC Recoverable
Buildings	$ 1,591,800	23.7%	$ 1,591,800	36.3%
Land	$ 3,590,377	53.4%	n.a.	n.a.
Vehicles	$ 450,012	6.7%	$ 450,012	10.3%
FF&E	$ 1,091,237	16.2%	$ 2,343,335	53.4%
Total	$ 6,723,426	100.0%	$ 4,385,147	100.0%
Res. Share	$ 6,723,426	100.0%	$ 4,385,147	
Population in New Units	90,381		90,381	
DC per Capita (unadjusted)	$ 74.39		$ 48.52	
DC per Capita (adjusted)	$ 80.47		$ 52.48	
	8.2%			
PPU (singles)	3.73			
DC per SDU	$ 300.15		$ 195.77	
Source: KPEC based on City of Markham 2022 DC Study				

Markham DC - Roads

	DC Study - w/Land		DC Study - w/o Land	
Existing Assets	Level of Service ($/capita)	Share of LOS	Level of Service ($/capita)	Share of LOS
Roads	$ 3,478.02	15.3%	$ 3,478.02	62.4%
Land	$ 17,117.06	75.4%	n.a.	n.a.
Other	$ 2,093.41	9.2%	$ 2,093.41	37.6%
		0.0%	$ -	0.0%
Total	$ 22,688.49	100.0%	$ 5,571.43	100.0%
Pop'n Growth	145,660		145,660	
LOS Cap	$ 3,304,805,453		$ 811,534,494	
Capital Program	DC Recoverable Costs	Share of DC Recoverable	DC Recoverable Costs	Share of DC Recoverable
Roads	$ 170,250,156	14.1%	$ 170,250,156	21.0%
Land	$ 245,036,345	20.3%	n.a.	n.a.
Other	$ 793,285,991	65.6%	$ 641,284,338	79.0%
	$ -	0.0%	$ -	0.0%
Total	$ 1,208,572,492	100.0%	$ 811,534,494	100.0%
Res. Share	$ 748,106,373	61.9%	$ 502,339,852	
Population in New Units	90,381		90,381	
DC per Capita (unadjusted)	$ 8,277.25		$ 5,558.02	
DC per Capita (adjusted)	$ 8,383.90		$ 5,629.64	
	1.3%			
PPU (singles)	3.73			
DC per SDU	$ 31,271.95		$ 20,998.54	

Source: KPEC based on City of Markham 2022 DC Study