COUNCIL REPORT

Meeting Date: August 6, 2024
Department: Building, By-law & Planning
Report No.: BBP-2024-94
Submitted by: Connor McEachen, Chief Building Official
Reviewed by: Jennifer Huff, Director, Building and Planning
William Dakin, Director of IT / Finance
Approved by: Trisha McKibbin, Chief Administrative Officer

SUBJECT: **Development Charge Interest Rate Policy**

RECOMMENDATION: THAT: Council receive report BBP-2024-94 Development Charge Interest Rate Policy for information, and further;

THAT: Council direct staff to complete the Development Charge Interest Policy.

BACKGROUND

The purpose of this report is to seek direction from Council on whether to implement a development charge interest rate policy.

By way of background, the province has made significant changes to the Development Charge Act, which has implications on how development charges (D.C.s) are calculated and collected. The changes also include providing new opportunities for municipalities to apply an interest rate under certain circumstances. There are two different situations in which development charges could be subject to interest rates:

1. Rental housing or institutional developments, and
2. Development subject to “lock-in” rates.

Rental Housing or Institutional Developments
The provincial amendments to the Development Charges Act (D.C.A.) changed when D.C.s for rental housing or institutional development are payable. Under the current Act, these charges are payable in 6 equal instalments, with the first being due at occupancy and the subsequent payments due annually on the anniversary date of occupancy. D.C.s were traditionally collected at time of permit issuance,

however, these amendments were made to encourage these types of developments by deferring the charges to when the construction of the building is completed. That being said, the D.C.A. states that municipalities “may” charge interest meaning that this is strictly discretionary and not a legislated requirement. The interest is accrued from the time of permit issuance to the time of the payment of each instalment.

Lock-in Rates

The provincial amendments to the Development Charges Act (D.C.A.) changed the effective D.C. rate based on if/when a complete planning application (rezoning or site plan only) was made. The applicable D.C. for a development is based on the effective D.C. rate at the time of the complete planning application. This “lock-in rate” is applicable for 18 months (recently reduced from 24 months) past the approval of the planning application. The ‘lock-in rates” cause municipalities to typically collect less in development charges as the rates could be based on outdated by-laws or not inclusive of indexing increases. The D.C.A. also states that municipalities “may” charge interest on the lock-in rates, which again means that this is discretionary. The interest would accrue from the date of the complete application to the date that the development charge is payable.

The purpose of this policy would be to help recoup lost revenue from lock-in rates and D.C. deferrals. The attached draft policy is consistently applied across the County where D.C.s are collected.

It is noted that ‘affordable housing’ as defined in the DC Act is now exempt from paying Development Charges.

ANALYSIS:

Staff have prepared a draft DC interest rate policy for Council’s consideration. The policy would provide the basis for the determination of the interest rate. The approach recommended by staff would be the Bank of Canada Prime Rate plus 1%. The current prime rate is 6.95%, meaning the applicable interest rate would be 7.95%. The interest rate would be compounded annually and calculated monthly.

There are benefits to applying an interest rate to development charges, where applicable:

- This would hedge against outdated D.C. rates being levied and help the Municipality recoup lost revenue
- This could help increase our development charge reserves
- Could push applicants to move forward with construction quicker – i.e. more financial incentive to start construction sooner
- Could push developers to enter into agreements to pay D.C.s ahead of time – i.e. paying for a rental housing development at time of permit issuance rather than over 6 equal instalments starting at time of occupancy could save them paying for interest

Negatives

- Depending on how long the process takes from complete application to approval, the lock-in D.C.s could be higher than the current rates, dependent on the interest rate
- Could deter certain types of developments if the interest rates are too high – for example, it could take a rental housing development more than a year to construct while also accruing interest. This could increase the overall cost of construction of the building
- Increased staff time in calculating and collecting development charges
- This adds another layer in the complexity of calculating development charges
- Difficulty in determining applicable development charges – less assurances for developers as it would depend on the length of the process from application to potentially completion of construction. Construction delays could cost them interest payments

Other considerations:

- Collect interest on lock-in rates, but not rental housing or institutional is a possibility
- Difficult to determine how much of a financial impact this would have, as the collected interest would vary significantly based on how long the construction and design process takes
- There is the ability for municipalities and developers to enter into agreements to pay the D.C.s before or after they would be typically due. We have had some interest from developers to enter into these agreements to save having to pay interest

It is noted that since the changes to the Development Charges Act, the municipality has two building permit applications that the policy could apply to and several applications anticipated in the next year.

CONSULTATION:
The draft interest rate policy is based on a similar policy in the Municipality of Middlesex Centre.

Director of IT/Finance-Treasurer, Director of Building and Planning, and Director of Finance, Middlesex Centre.

FINANCIAL IMPLICATIONS:
Funds collected for D.C.s could be increased.

ALTERNATIVE(S) TO THE RECOMMENDATION:

1. Council to direct the revision of the DC Interest Rate policy so that it applies only to lock-in rates and not to rental housing or institutional developments.

2. Council direct staff to bring back the draft DC Interest Rate policy in its current form to the next meeting of Council for consideration of approval.

3. Council direct staff to not collect interest payments on Development Charges.

4. Council to provide alternate direction.

STRATEGIC PLAN ALIGNMENT:
This matter is in accordance with the following strategic priorities:

Local Infrastructure and Capital Investment: Households and businesses in Strathroy-Caradoc will be supported by reliable, financially responsible, and well-maintained infrastructure networks.

ATTACHMENTS:
Draft Development Charge Interest Policy