

 Region of Waterloo Finance		Section #	Policy #
		NA	1
		Approval Date: TBD	Revision Date:
Title:	Development Charges Interest Policy		
Responsibility:	Financial Services & Development Financing	Approval Level:	
Applies to:	N/A		

Policy Statement:

This policy governs the charging of interest, as permitted under sections 26.1 and 26.2 of the Development Charges Act, 1997 (DCA).

Definitions:

1. Institutional Development

- For the purposes of this policy only, is defined as per O.Reg 454/19 (or as updated) meaning development of a building or structure intended for the following uses:
 - A long term care home within the meaning of subsection 2 (1) of the Long Term Care Homes Act, 2007;
 - A retirement home within the meaning of subsection 2 (1) of the Retirement Homes Act, 2010;
 - A university in Ontario that receives direct, regular and ongoing operating funding from the Government of Ontario;
 - A college or university affiliated with a university described above;
 - An Indigenous Institute prescribed for the purposes of section 6 of the Indigenous Institutes Act, 2017;
 - A memorial home, clubhouse or athletic grounds by an Ontario branch of the Royal Canadian Legion; or
 - A hospice to provide end of life care

2. Non-Profit Housing Development

- For the purposes of this policy only, is defined as per O.Reg 454/19 (or as updated) meaning development of a building or structure intended for use as residential premises by:

-
- A corporation to which the Not-for Profit Corporations Act, 2010 applies, that is in good standing under that Act and whose primary object is to provide housing;
 - A corporation without share capital to which the Canada Not-for-profit Corporations Act applies, that is in good standing under that Act and whose primary object is to provide housing; or
 - A non-profit housing co-operative that is in good standing under the Cooperative Corporations Act.

3. Rental Housing Development

- For the purposes of this policy only, is defined as per O.Reg 454/19 (or as updated) meaning development of a building or structure with four or more dwelling units all of which are intended for use as rented residential purposes.

4. Prime Interest Rate

- Refers to the Prime Interest Rate as published on the Bank of Canada's website

Operating Principles:

The fundamental principle of funding growth-related capital costs is that 'Growth should pay for Growth'. This policy serves to ensure that there is compensating interest income to fund the lost development charges (DC) that will result from the legislated DC rates being set earlier in the planning application process rather than at building permit issuance and the deferred payment program for certain types of development.

Operating Details:

Applicability

This policy applies to the charging of interest, as permitted under sections 26.1 and 26.2 of the Development Charges Act, 1997. This includes all types of development in the Region of Waterloo that:

1. Are eligible for annual instalment payments under section 26.1 of the Development Charges Act, 1997 (DC Deferral).
2. Have a DC Rate frozen under section 26.2 of the Development Charges Act, 1997, where an application has been made for a zoning by-law amendment passed under section 34 of the Planning Act, 1990 or where an application for approval of development in a site plan control area under subsection 41(4) of the Planning Act, 1990 has been made after January 1, 2020 (DC Rate Freeze).

Interest Rates and Charges

1. Development Charge Rate Freeze (Section 26.2 DCA)
 - a. An annual interest rate of Prime + 2% will be charged for any DC rate frozen during the development process.
 - b. The Prime interest rate to be used will be the prime rate in effect on the date deemed by municipal staff that a complete application has been received. As noted in Subsection 26.2(1) of the DCA, the rate can be frozen for either:
 - i. Site Plan Control – Subsection 41(4) of the Planning Act, or
 - ii. Zoning By-law Amendment - Section 34 of the Planning Act.
 - c. Interest will accrue from the date that a complete Site Plan / Zoning application has been received until the date that the Development Charge is paid (i.e. building permit issuance for all development not eligible for the deferred payment plans under s26.2 DCA)
 - i. The Region considers an application for a Site Plan Control or Zoning Amendment to be received as of the date that the submitted application is deemed to be complete according to the applicable local municipalities Planning staff
 - ii. If a development was subject to both site plan and re-zoning applications, it is the date of the later one that is applicable
 - d. Payment of interest is to be made in conjunction with the payment for the assessed development charges (i.e. when the building permit is issued for all development except those that are eligible for, and participating in, deferred payment plans under section 26.1 of the DCA).
 - e. For developments that are eligible for, and participating in, deferred payment plans, the interest (if applicable) accrued from the date of receipt of a site plan/zone change application to the date of the building permit issuance, will be added to the assessed development charges to determine the total development charge to be paid in instalments as set out in Section 26.1 of the DCA
2. Development Charge Deferral (Section 26.1 DCA)
 - a. An annual interest rate of Prime + 2% will be charged for any DC charges deferred in relation to qualifying:
 - i. Rental housing development (that is not considered “non-profit”)
 - ii. Institutional development

-
- b. An annual interest rate of 0% will be charged for any DC charges deferred in relation to qualifying:
 - i. Non-profit housing development
 - c. The Prime interest rate to be used will be the prime rate in effect at the time of the building permit issuance
 - d. Interest will be applied from the date of the issuance of the building permit until the date that the development charges have been paid in full
 - e. Section 27 of the DCA permits the payment of DCs before or after they would otherwise be due through agreements between municipalities and developers:
 - i. Developers may submit a request to pay the development charges earlier than prescribed by the DCA through the local municipalities building department
 - ii. The Region may enter into an early payment agreement with the developer at the Region's discretion
 - iii. The Commissioner, Corporate Services/CFO has delegated authority to enter into such agreements on behalf of the Region

Other Matters

1. Effective Date
 - Upon approval by Regional Council, this policy shall take effect retroactive to January 1, 2020. This policy may be repealed and/or modified by Regional Council at any time.
2. Publication and Notification
 - Upon Council approval, this policy and the applicable interest rates shall be made available on the Region's development charges website.
 - The interest rates shall also be published as part of the Region's development charges pamphlet publication.
3. Security
 - At this time, the Region will not require additional security for deferrals eligible under Section 26.1 of the DCA. The deferral plans will be monitored and will be addressed should non-payment become an issue, with any unpaid DC's transferred to the tax roll of the property.

Appendix 1: Sample Calculations

Note: Rates are for illustrative purposes only and do not reflect the Region's current Development Charge Rates

1. DC Rate Freeze (s.26.2 DCA)

For this example, it is assumed that, at the time a complete site plan/zone change application was received, the applicable development charge rate (DC) for an apartment was \$15,000 per unit and the prevailing Prime interest rate was 2.45%. Assuming the development takes 1.5 years to proceed to building permit, then an effective interest rate of 6.67% (4.45% x 1.5 years) is applied to the rate that was in effect at the application date (\$15,000) resulting in a DC rate of \$16,000 per unit assessed at building permit issuance.

DC Rate Freeze (s. 26.2 DCA) Example		
DC Rate at Site Plan/Zone Change	\$15,000	per unit
Prime Interest Rate + 2%	4.45%	per year
Years Frozen	1.5	years
Effective Interest Rate	6.67%	
Applicable DC Rate	\$ 16,000	per unit

Assuming that the development consists of 10 apartment units, and that it does not qualify for a deferred payment plan under s.26.1, then the DC owing at building permit issuance would be \$16,000 x 10 units = \$160,000.

2. DC Deferred Payment Plan (s.26.1 DCA)

Assuming that the development from the example above qualifies for a deferred payment plan under s.26.1 DCA, and assuming that the Prime rate as of the date of the building permit is now 3% resulting in an applicable interest rate of 5% (3% Prime + 2%), then the payment schedule and interest charges for the development would be as set out in the table below with the first payment occurring at occupancy and annually over the subsequent 5 years:

DC Deferral Payment Example (s.26.1 DCA)

Interest Rate

5.00%

Date	Outstanding Balance	Principal Payment	Interest Payment	Total Payment
Building Permit (BP)	\$ 160,000	\$ -	\$ -	\$ -
Occupancy = BP + 6 months	\$ 160,000	\$ 26,667	\$ 4,000	\$ 30,667
Occupancy + 1 year	\$ 133,333	\$ 26,667	\$ 6,667	\$ 33,333
Occupancy + 2 years	\$ 106,667	\$ 26,667	\$ 5,333	\$ 32,000
Occupancy + 3 years	\$ 80,000	\$ 26,667	\$ 4,000	\$ 30,667
Occupancy + 4 years	\$ 53,333	\$ 26,667	\$ 2,667	\$ 29,333
Occupancy + 5 years	\$ 26,667	\$ 26,667	\$ 1,333	\$ 28,000
TOTAL		\$ 160,000	\$ 24,000	\$ 184,000