

# Corporate Policy and Procedure



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Policy	Development Charge Interest Policy
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Related Documents	Development Charge By-Laws, General Reserve and Reserve Fund Policy, Letter of Credit Policy, Investment Policy

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## Background

Development charges (DCs) are fees levied on new development to fund the cost of infrastructure needed to accommodate growth. The City charges DCs in alignment with the Development Charge Act (DCA), and the City’s Development Charges By-Laws (DC By-laws).

Developments with a site plan application (SPA) or zoning by-law application (ZBA) are entitled to a “freeze” in DC rates, per the DC By-Laws. Additionally, in some circumstances, DCs can be collected in instalments. This creates the potential for misalignment between the ultimate DCs collected and the cost of capital infrastructure required to support development.

The capital cost of meeting growth-related demands should not place an undue financial burden on the City of Guelph, its taxpayers, or its ratepayers. The fundamental principle for funding growth-related capital costs is that growth should pay for growth.

## Policy Statement

It is the City’s policy to charge interest on frozen DC rates at the maximum interest rate permitted under the DCA.

## Purpose

This policy provides clarity about how and why the City charges interest to fund revenue loss resulting from the delayed collection of DCs due to rate freezes and instalment payments.

## Definitions

**Adjustment date** means January 1, April 1, July 1 or October 1, per the Development Charges Act.

**Base Rate**, on a particular date, means the mean, rounded to the nearest hundredth of a percentage point, of the annual rates of interest announced by each of the Royal Bank of Canada, The Bank of Nova Scotia, the Canadian Imperial Bank of Commerce, the Bank of Montreal, and the Toronto-Dominion Bank to be its prime or reference rate of interest in effect on that date for determining interest rates on Canadian dollar commercial loans by that bank in Canada.

**Institutional Development** means development of a Building deemed institutional as defined in the DCA and/or regulations thereunder.

**Interest Rate** means the annual rate of interest calculated as per this policy.

**Occupancy** means the earliest of either (1) the date on which an Occupancy Permit or a Partial Occupancy Permit is issued by the City of Guelph, or (2) the earliest date on which the use or intended use of a building or part of a building for the shelter or support of persons, animals or property commences.

**Rental Housing Development** means the residential housing development of a Building on a Lot with four or more Dwelling Units all of which are intended for use as rented residential premises.

## Maximum Interest Rate

The DCA defines the maximum interest rate that can be charged for SPA and ZBA developments, and instalments paid by rental housing and institutional developments, under Section 26.3.

The maximum interest rate is calculated as follows:

A base rate of interest will be determined for April 1, 2022 and for each adjustment date after April 1, 2022. The base rate is equal to the average prime rate on,

- i) October 15 of the previous year, if the adjustment date is January 1,
- ii) January 15 of the same year, if the adjustment date is April 1,
- iii) April 15 of the same year, if the adjustment date is July 1, and
- iv) July 15 of the same year, if the adjustment date is October 1.

The base rate of interest in effect on a particular date is defined as:

- i) The base rate for the particular date, if the particular date is an adjustment date, and
- ii) The base rate for the last adjustment date before the particular date, otherwise.

The maximum rate of interest that can be charged is one percentage point higher than the base rate of interest in effect at the time that the interest is calculated.

## **Rate Freeze**

Development charges are set (i.e. "frozen") for developments requiring either a site plan application (SPA) or a zoning by-law amendment (ZBA), submitted after January 1, 2020. Once an application is approved, the DC rate in effect at the time of the submission of the completed application is frozen for two years.

Section 26.3 of the DCA permits a municipality to charge interest on DCs for SPA and ZBA developments, from the date a complete application is received to the date the DC is payable.

If there is no change in the DC rates between when the complete SP or ZBL application was submitted and when the DCs become payable, there is no revenue loss resulting directly from the rate freeze, and therefore no interest will be charged.

If the calculation of the frozen DC rate plus interest results in a higher amount than the DC rate currently in effect, the lower of the two will be charged.

If the DCs become payable after the rate freeze period has expired, the DCs will be calculated based on the DC rates in effect at the time they are payable and no interest will be charged.

## **DC Deferral and Instalment Payments**

Subsection 26.1 (2) of the DCA identifies the following development types eligible for a DC deferral:

1. Rental housing development.
2. Institutional development.

The DC owing shall be paid in equal annual instalments beginning on the earlier of the date of occupancy permit issuance and the date the building is first occupied, per section 26.1 (3) of the DCA, and continuing on the following five anniversaries of that date.

To compensate the City for the revenue loss associated with time value of money, interest shall be charged on the outstanding balance as at each anniversary date, until the DCs receivable are paid in full, in accordance with section 26.1 (7) of the DCA. The maximum interest rate shall be charged, as defined in this policy, in accordance with the DCA.

If any part of a development is changed so that it no longer constitutes a type of development eligible for instalment payments, per section 26.1 (2) of the DCA, the development charge and any interest payable, but excluding any instalments already paid, is payable immediately.

## **Compounding**

All interest shall be compounded annually and shall accrue from the date the applicable application is deemed complete until the date the accrued amount is calculated and payable. The applicant shall have fourteen (14) days interest free to

make the payment. After the fourteen (14) day period, if payment has not been made, the interest will be recalculated to reflect the new amount owing.

**Revision History**

Version #	Description of change	Approver, Title	Approval	Effective Date
01		Council		Nov 13, 2024