



Report to: General Committee

Meeting Date: April 8, 2019

SUBJECT: Development Charges December 31, 2018 Reserve Balances and Annual Activity of the Accounts

PREPARED BY: Shannon Neville, Financial Analyst, ext. 2659
Kevin Ross, Manager, Development Finance, ext. 2126

RECOMMENDATION:

- 1) That the report titled "Development Charges December 31, 2018 Reserve Balances and Annual Activity of the Accounts" be received by Council as required under Section 43(1) of the *Development Charges Act, 1997, as amended*;
- 2) And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

Section 43(1) of the *Development Charges Act, 1997, as amended*, requires the Treasurer to submit annually to Council a financial statement relating to Development Charges by-laws and reserve funds established under Section 33 of the *Development Charges Act, 1997*. This report includes that financial statement and also provides Council with information regarding the semi-annual indexing that occurred during 2018.

BACKGROUND:

As part of the *Development Charges Act, 1997, as amended*, the Treasurer is to report annually on the funds received and dispersed as shown in the attached schedules.

Enclosed are the statistics for the twelve (12) months ended December 31, 2018.

FINANCIAL CONSIDERATIONS:

The December 31, 2018 the closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$47,178,917 (Schedule A). This balance represents the cash, letters of credit and receivable balances in the reserves, but does not take into account commitments for approved capital projects.

Approved capital commitments against the reserves as at December 31, 2018 totaled \$28,611,850 resulting in an adjusted (committed) reserve balance of \$18,567,067 (\$47,178,917 less \$28,611,850). The net increase in the reserve fund before capital commitments from January 1, 2018 to December 31, 2018 was \$37,845,612 (\$47,178,917 less \$9,333,305 - Schedule B).

Schedule B outlines the net amount of \$12,441,964 transferred to capital projects in 2018, which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$18,761,365 of growth-related projects (Schedule C) funded from development charges, as well as transfers to development charges of \$6,319,401 resulting mainly from the closure of capital projects as well as the realignment of funding sources. In addition to the \$12,441,964 of growth-related capital projects funded from development charges in 2018, there are other associated sources of project funding which are identified in Schedule C.

A summary of the development charge activity for the year is detailed as follows:

January 1, 2018 opening balance	\$9,333,305
Development Charges received	\$50,324,175
Interest	(\$36,599)
Net amount transferred to capital projects	<u>(\$12,441,964)</u>
Balance as at December 31, 2018	<u><u>\$47,178,917</u></u>

The balance of the Development Charge Reserve Fund is made up of the following major categories:

City Wide Soft	(\$13,220,358)
City Wide Hard	\$53,416,339
Area Specific	<u>\$6,982,936</u>
Total	<u><u>\$47,178,917</u></u>

In September 2016, the City loaned \$20,000,000 to the development charges reserve to offset the negative balances of some reserves, and assist with cash flow. In February 2018, the City loaned another \$20,000,000 to the reserve; both loans were allowed as per the Council-approved Development Charges Borrowing Policy. The negative reserves resulted from the pre-employment of facilities ahead of growth (i.e. Pan Am Facility). In August 2018, the \$40,000,000 loan was repaid from the DC reserves as the reserves had recovered and had an overall positive balance. The City charged interest at the prime rate on the loan, and this moved from 3.2% to 3.45% between January and August 2018 when the loan was repaid.

INTEREST

During 2018, there were no long term investments of development charge reserve funds; however, the cash on hand earned interest at a competitive rate at the bank in line with short term investment rates. The interest cost on the internal borrowing of \$40,000,000, which was repaid from the development charge reserves in August of 2018, exceeded the interest earned and resulted in a negative net interest of \$36,599 (Schedule D).

DEVELOPMENT CHARGE CREDITS

Schedule E provides information on credit agreements that the City has with developers. The City has future credit obligations in the amount of \$8,432,794, which is to be offset from development charges payable when the respective developers execute their agreements.

COMPONENT CATEGORIES

Schedule F provides the year-end balance of each reserve for 2016 through 2018 along with the percentage change over the three-year period.

The chart below summarizes the year-end DC reserve balances by component category, taking approved capital commitments into account:

	YEAR-END BALANCES			%
	2016	2017	2018	CHANGE 2016 - 2018
CITY WIDE SOFT SERVICES	(\$31,157,446)	(\$35,948,450)	(\$13,220,358)	58%
CITY WIDE HARD SERVICES	\$40,860,694	\$37,787,651	\$53,416,339	31%
AREA SPECIFIC CHARGES	\$5,077,270	\$7,494,104	\$6,982,936	38%
TOTAL DEVELOPMENT CHARGE RESERVE	\$14,780,518	\$9,333,305	\$47,178,917	219%
CAPITAL COMMITMENTS AT YEAR-END	(\$68,833,129)	(\$38,748,797)	(\$28,611,850)	58%
ADJUSTED DC RESERVE BALANCES	(\$54,052,610)	(\$29,415,492)	\$18,567,067	134%

The City Wide Soft services reserves have increased since 2016. In previous years, the City Wide Soft services reserves have been depleted by the pre-emplacement of recreation facilities, such as the Pan Am Centre, as well as the Ontario Municipal Board ruling issued in January 2016 against the City's calculation of the soft services charge in the 2009 and 2013 by-laws, which resulted in the City refunding approximately \$19M to landowners. The increase in the City Wide Hard and Area Specific reserves is primarily due to expenditures on engineering-related infrastructure being done at a slower pace than anticipated to match growth patterns. The approval of the DC Background Study on December 13, 2017 also resulted in the application of increased development charge rates in 2018 for both City Wide Hard and City Wide Soft services and these are reflected in the reserve balances.

DEVELOPMENT CHARGES COMMITTED TO APPROVED PROJECTS

Growth-related capital projects that are approved as part of the annual budgets generally denote development charges as the major funding source, but the actual cash funding for capital expenditures totaling one million dollars or greater is not transferred to the project until required. This process retains cash within the Development Charge Reserve Fund to earn as much interest as possible for the reserve. Upon the approval of the budget, the reserve balances in the Development Charge Reserve Fund are considered to be committed to projects underway, or about to start.

The reserve balance for the year ended December 31, 2018 is significantly lower when capital commitments of \$28,611,850 are taken into account, leaving an adjusted (committed) reserve balance of \$18,567,067. The total capital commitments for 2018 represent a decrease of \$10,136,947 (\$28,611,850 less \$38,748,797) compared to the prior year. A large portion of this reduction can be attributed to the removal of the construction of Miller Avenue project from Woodbine Avenue to Rodick (\$7.2M). The project has been held up by the implementation of the storm pond and it was determined in 2018 that the funds were not currently required. The project will be requested as part of the future capital budget process and therefore, has been removed from the current capital commitments.

The capital commitments relate mainly to City Wide Hard and City Wide Soft services projects which total approximately \$14M for each service. The City Wide hard includes projects such as the Rodick Extension Phase 2 of 3 – Miller to 14th (\$5M), Miller Avenue – CN to Kennedy Road Phase 4 PA (\$4M), and Highway 404 Ramp Extension North of Highway 7 (\$3M). The City Wide Soft capital commitments contain several smaller projects relating to park development, such as the construction of Kirkham Drive Park Phase 2 (\$3M), Cornell Community Park Phase 1 of 3 (\$3M), and Box Grove Community Park East Phase 1 (\$2M). The adjusted (committed) reserve balance of \$18.6M represents a \$48M increase from the prior year closing balance of negative \$29.4M.

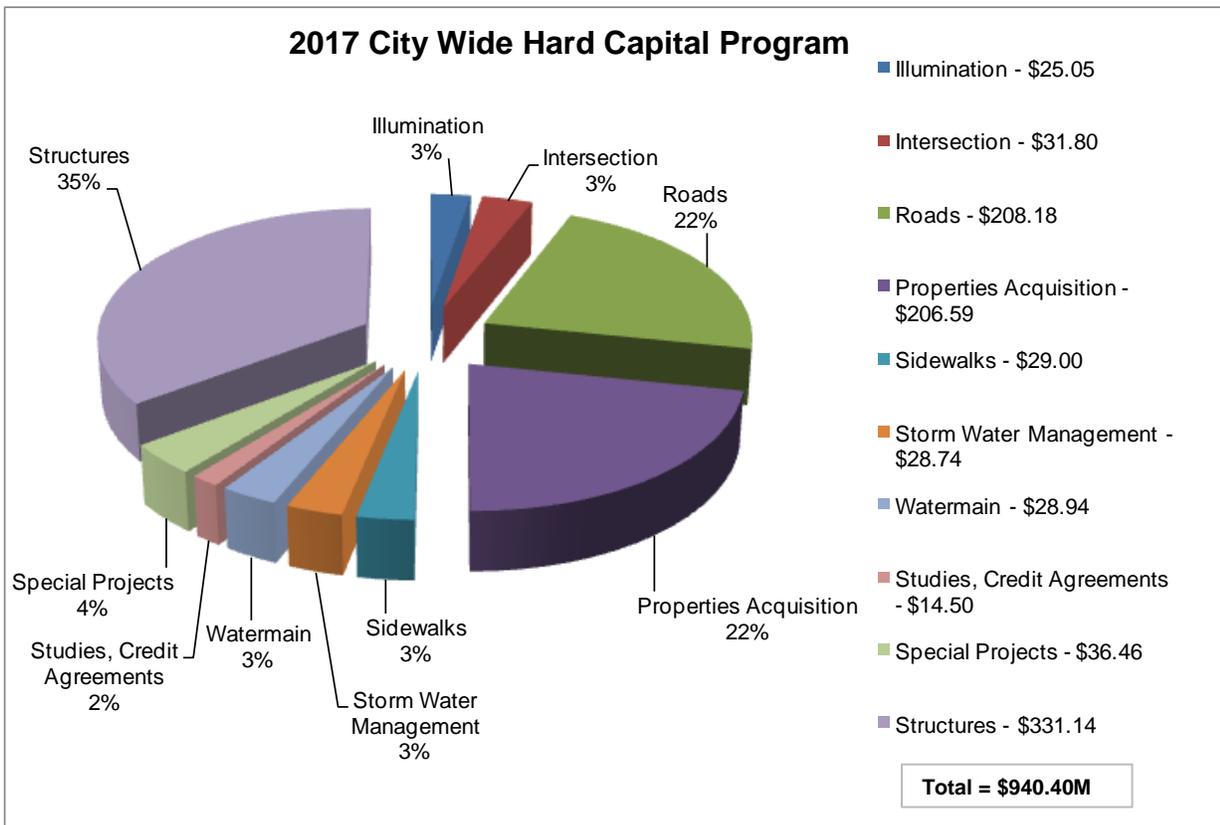
The chart below summarizes the 2018 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY WIDE SOFT SERVICES	(\$13,220,358)	\$13,833,520	(\$27,053,878)
CITY WIDE HARD SERVICES	\$53,416,339	\$13,797,370	\$39,618,969
AREA SPECIFIC CHARGES	\$6,982,936	\$980,960	\$6,001,976
TOTAL DEVELOPMENT CHARGE RESERVE	\$47,178,917	\$28,611,850	\$18,567,067

HIGHLIGHTS OF THE 2017 BACKGROUND STUDY

The Development Charges (“DC”) Background Study was completed as projected in December 2017. After receiving approval from Council, the 2017 Development Charges By-laws for City Wide Hard, City Wide Soft, and Area Specific went into effect as at December 13, 2017.

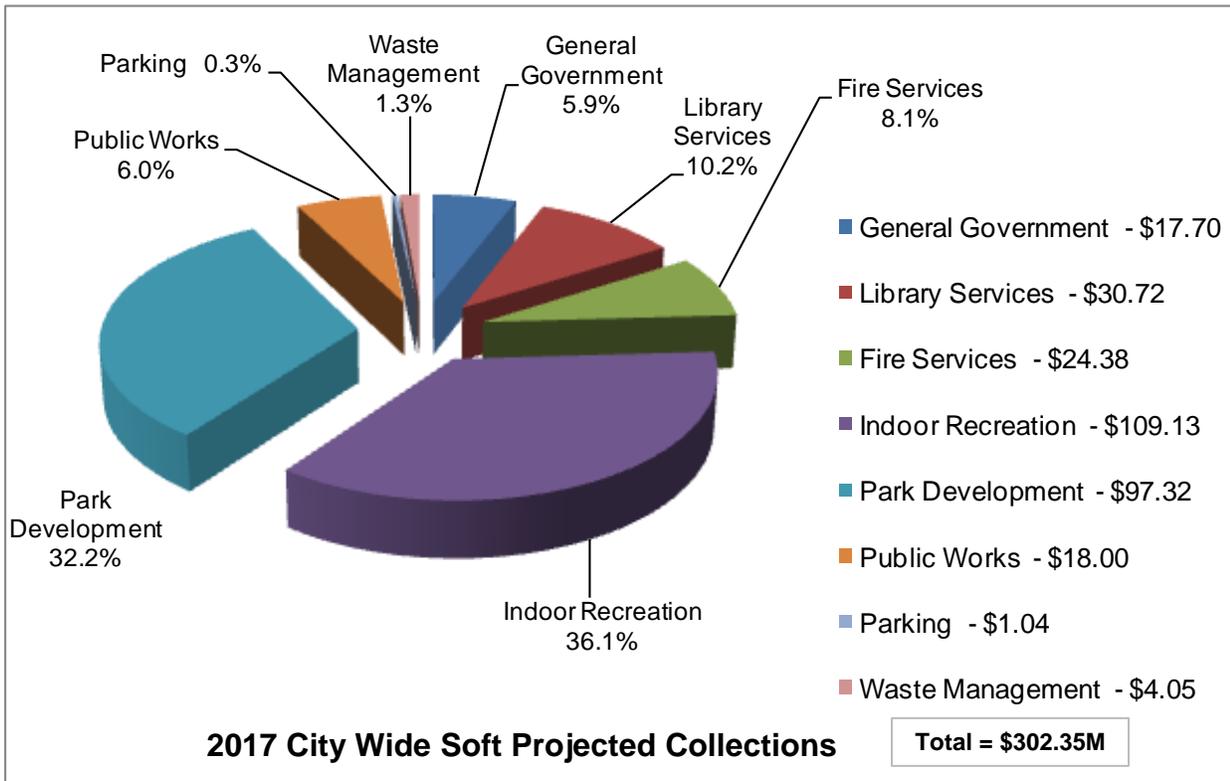
Hard Services include infrastructure such as roads, bridges, sidewalks, intersections, illumination, property acquisition (roads), storm water management, and studies. The DC Background Study identified \$940M of DC funded infrastructure required until 2031 comprised mainly of roads, structures (e.g. bridges) and property acquisition costs. Below is the breakdown of the cost per category and the percentage share of the infrastructure as included in the DC Background Study.



Hard Services DC rates are derived by taking the forecasted hard infrastructure and dividing by the projected population in new households. Existing service levels do not generally impact what can be collected from future development however, any increase in service levels are not typically recovered through DCs.

Soft Services include all of the other categories outlined in the chart below. Soft services DCs differ from hard services DCs in that the rates are calculated using an average 10-year historic service level, and the future capital program is also limited to a 10-year planning horizon. Therefore, every soft service category has a forecasted 10-year “funding envelope”, and any expenditures over and above this amount may need to identify a non-DC funding source or be recovered through future (post 10-year) DC collections.

The 10-year soft services forecasted funding envelopes (projected collection) in the 2017 DC Background Study is depicted in the chart below and also shows how each dollar of DC collection is allocated.



As shown in the chart above, the study projected \$302M in DC collection over the period 2017-2026 with recreation and park development accounting for 68.3% of the total. These collections however need to be adjusted by the amount currently in the reserve of the various services to determine the funds available for capital programs to 2026, with totals \$271M. Negative reserve balances occur when facilities are built in advance of growth (pre-emplaced) and collections are required to fund these negative balances prior to funding being available for capital programs. The chart below shows the collections and available DC funds after adjusting for the reserve balances.

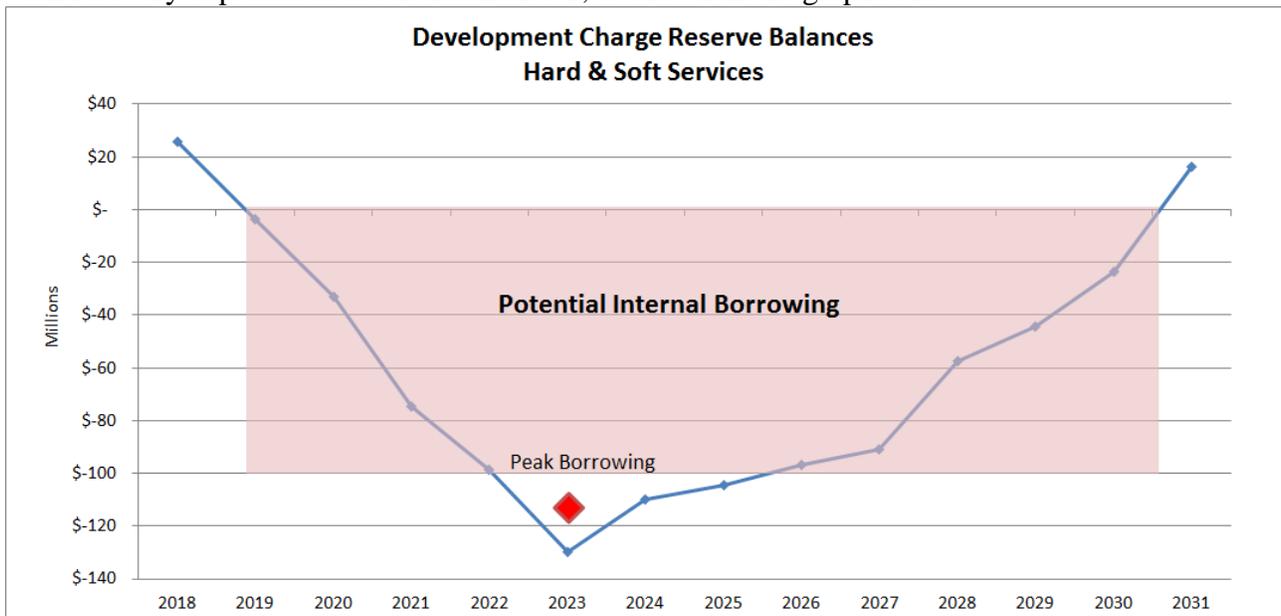
Service	Projected Collections 2017-2026 \$'000	Reserve Balance Adjustment \$'000	Available Funds \$'000	Capital Program ¹ 2017 - 2026
Indoor Recreation	\$109,130	(\$69,530)	\$39,601	35,000 sq.ft. of space
Park Development & Facilities	\$97,320	\$36,600	\$133,921	Approx. 97 parks
Library Service	\$30,718	(\$1,668)	\$29,050	35,000 sq.ft. of space
Fire Service	\$24,384	(\$441)	\$23,943	30,000 sq.ft. of space + accompanying vehicles
Public Works	\$18,000	\$13,948	\$31,948	East Works Yard + fleet
General Government	\$17,701	(\$10,755)	\$6,946	Growth Studies
Waste Management	\$4,049	N/A	\$4,049	5,000 sq.ft. of depot space + additions to collection fleet
Parking	\$1,043	\$81	\$1,124	
TOTAL	\$302,345	(\$31,763)	\$270,582	

1) - Takes into account the estimated cost of land and FF&E

The projected DC collections for the Hard and Soft services are linked to the population and employment forecasted for the period; that is 2031 for the Hard services and 2026 for the Soft services. If this forecast is not achieved for any reason, the City’s ability to fund the capital program included in the 2017 DC Background Study will be diminished and, this may lead to the City having to make decisions on whether to scale down the program – less population and employment growth should however result in less infrastructure requirements.

DEBT

A DC cash-flow forecast was developed taking into consideration current capital commitments, identified growth-related projects included in the 2017 DC Background Study capital program, and anticipated DC collections. Peak borrowing is projected to occur in 2023 at approximately \$130M with recovery expected to occur around 2031, as shown in the graph below.



INDEXING

Section 15 of the City's Development Charge by-laws state that the charges referred to in each of the by-laws' shall be increased, if applicable, semi-annually without an amendment to the by-laws, on the first day of January and the first day of July, of each year, in accordance with the most recent change in the Statistics Canada Quarterly, *Construction Price Statistics* (Catalogue No. 62-007). Indexing the City's development charges helps to partially mitigate the impact of inflationary increases on future growth-related costs.

With the approval of the 2017 DC By-laws which went into effect as at December 13, 2017, the newly-approved development charge rates were not indexed as at January 1, 2018 but were indexed up by 4.2% as at July 1, 2018. This represents the increase in the prescribed index, the Statistics Canada Quarterly, *Construction Price Statistics* for non-residential buildings in Toronto over the 15-month period from when the development charge rates were initially established to the end of the first quarter of 2018, as stated in Section 15 of the City's 2017 DC by-laws approved by Council. Semi-annual indexing of the City's development charge rates will continue on January 1st and July 1st beginning in 2019.

COMPLIANCE WITH DEVELOPMENT CHARGES ACT, 1997

For the year ended December 31, 2018, the Reserve Balance and Annual Activity Statement is in compliance with the DCA 1997, as amended. The City has not imposed additional levies in accordance with Subsection 59.1 (1) of the Act.

BUSINESS UNITS CONSULTED & AFFECTED:

N/A

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

Schedule A – Summary Statement - Balances by Component of the Reserve Fund
Schedule B – Continuity Statement - Funds Received and Dispersed by Category
Schedule C – Capital Fund Transfers Addendum
Schedule D – Summary of Investments - Reg. 74/97 Section 8 of the Municipal Act
Schedule E – Credit Obligation Summary
Schedule F – Statement of Change in Year-end Balances