



Report to: General Committee

Meeting Date: April 20, 2020

SUBJECT: Development Charges December 31, 2019 Reserve Balances and Annual Activity of the Accounts

PREPARED BY: Heena Mistry, Financial Analyst, ext. 2659
Kevin Ross, Manager, Development Finance & Payroll, ext. 2126

RECOMMENDATION:

1. That the report titled “Development Charges December 31, 2019 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*; and,
2. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Not applicable.

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 2019.

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, 2019.

OPTIONS/ DISCUSSION:

Not applicable.

FINANCIAL CONSIDERATIONS

Summary of Activity

The December 31, 2019 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$43,562,485 (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, 2019 totaled \$50,982,025 resulting in an adjusted (committed) reserve balance of (\$7,419,540) (\$43,562,485 less \$50,982,025).

As depicted in Schedule B, the net decrease in the reserve fund before capital commitments from January 1, 2019 to December 31, 2019 was \$3,616,432 (\$43,562,485 less \$47,178,917). Schedule B also outlines the net amount of \$40,279,118 transferred to capital projects in 2019, which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$45,783,569 of growth-related projects funded from development charges (Schedule C), as well as transfers to development charges of \$5,504,451 resulting mainly from the closure of capital projects as well as the realignment of funding sources.

In addition to the \$40,279,118 of growth-related capital projects funded from development charges in 2019, 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, 2019 opening balance	\$47,178,917
Development Charges received	\$36,124,063
Interest	\$538,624
Net amount transferred to capital projects	<u>(\$40,279,118)</u>
Balance as at December 31, 2019	<u><u>\$43,562,485</u></u>

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

City Wide Soft	(\$22,945,786)
City Wide Hard	\$60,034,173
Area Specific	<u>\$6,474,098</u>
Total	<u><u>\$43,562,485</u></u>

Interest

During 2019, 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 (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 \$9,727,187, 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 2017 through 2019 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			% CHANGE 2017 - 2019
	2017	2018	2019	
CITY-WIDE SOFT SERVICES	(\$35,948,450)	(\$13,220,358)	(\$22,945,786)	36%
CITY-WIDE HARD SERVICES	\$37,787,651	\$53,416,339	\$60,034,173	59%
AREA SPECIFIC CHARGES	\$7,494,104	\$6,982,936	\$6,474,098	-14%
TOTAL DEVELOPMENT CHARGE RESERVE	\$9,333,305	\$47,178,917	\$43,562,485	367%
CAPITAL COMMITMENTS AT YEAR-END	(\$38,748,797)	(\$28,611,850)	(\$50,982,025)	-32%
ADJUSTED DC RESERVE BALANCES	(\$29,415,492)	\$18,567,067	(\$7,419,540)	75%

The City Wide Soft services reserves negative balance has improved since 2017 due to reduced capital spending. The City Wide Soft services reserves are in a negative balance due to the pre-emplacement of recreation facilities. The reduction from 2018 to 2019 was as a result of the acquisition of land for the new works yard.

The increase in the City Wide Hard reserve is primarily due to expenditures on engineering-related infrastructure being done at a slower pace than anticipated to match growth patterns.

The Area Specific reserves reduced mainly due to funding for the Rodick Road extension from Miller Avenue to 14th Avenue.

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, 2019 is significantly lower when capital commitments of \$50,982,025 are taken into account, leaving an adjusted (committed) reserve balance of (\$7,419,540). The total capital commitments for 2019 represent an increase of \$22,370,175 (\$50,982,025 less \$28,611,850) compared to the prior year. A large portion of this increase can be attributed to the Miller Pond Site Preparation project (\$15M), which was approved by Council as part of the 2019 Capital Budget process, and the design and construction of a new works yard (\$8M), which was approved by Council on April 30th, 2019. This project relates to the initial servicing, design and construction of salt, sand and brine storage facilities, construction of parking and the environmental assessment and design of a bridge to access the rear portion of the property located at 10192 Ninth Line.

The capital commitments relate mainly to City Wide Hard and City Wide Soft services projects which total approximately \$30M and \$20M respectively. The City Wide Hard includes projects such as the Miller Pond Site Preparation and Property Acquisition (\$15M), Highway 404 Midblock Crossing, North of 16th Ave (\$5M), Miller Avenue – CN

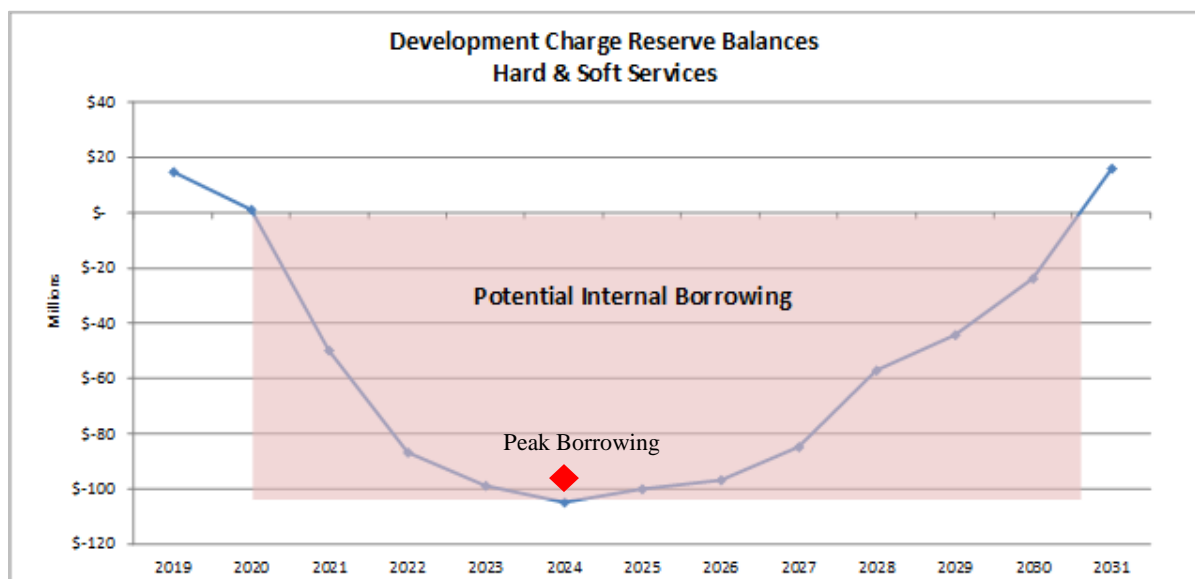
to Kennedy Road (\$5M), and construction of the John Street Multi-Use Pathway (\$3M). The City Wide Soft capital commitments includes projects such as the design & construction of works yard (\$8M) and several smaller projects relating to park development, such as the construction of Kirkham Drive Park Phase 2 (\$3M), Cornell Community Park Phase 1 of 3 (\$3M), and Box Grove Community Park East Phase 1 (\$3M). The adjusted (committed) reserve balance of (\$7.4M) represents a \$26M decrease from the prior year closing balance of \$18.6M.

The chart below summarizes the 2019 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY WIDE SOFT SERVICES	(\$22,945,786)	(\$20,071,137)	(\$43,016,923)
CITY WIDE HARD SERVICES	\$60,034,173	(\$30,034,708)	\$29,999,465
AREA SPECIFIC CHARGES	\$6,474,098	(\$876,180)	\$5,597,918
TOTAL DEVELOPMENT CHARGE RESERVE	\$43,562,485	(\$50,982,025)	(\$7,419,540)

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. The capital infrastructure to service anticipated growth is required to be installed ahead of the new population and, this pre-emplacment of facilities will result in debt in the DC reserves (expenditure preceding revenue inflow). The forecast shows that peak borrowing is projected to occur in 2024 at approximately \$100M with recovery expected to occur around 2030, as shown in the graph below. The anticipated debt will mainly be financed through internal borrowing from the City's reserves.



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.

In accordance with the by-laws, the development charge rates were indexed up by 3.3% on January 1, 2019 and 1.7% on July 1, 2019. This represents the increase in the prescribed index, the Statistics Canada Quarterly, *Construction Price Statistics* for non-residential buildings in Toronto.

Compliance with the Development Charges Act, 1997

For the year ended December 31, 2019, 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.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

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