



Report to: General Committee

Meeting Date: April 6, 2021

SUBJECT:	Development Charges December 31, 2020 Reserve Balances and Annual Activity of the Accounts
PREPARED BY:	Shannon Neville, Financial Analyst, ext. 2659 Kevin Ross, Manager, Development Finance & Payroll, ext. 2126

RECOMMENDATION:

- 1) That the report titled “Development Charges December 31, 2020 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 further,
- 2) That staff be directed to do all things necessary to give effect to this report.

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 the financial statement required under the Act, as well as information regarding the semi-annual indexing that occurred during 2020.

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, 2020.

FINANCIAL CONSIDERATIONS

Summary of Activity

The December 31, 2020 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$78,662,719 (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, 2020 totaled \$57,117,182 resulting in an adjusted (committed) reserve balance of \$21,545,537 (\$78,662,719 less \$57,117,182).

As depicted in Schedule B, the net increase in the reserve fund before capital commitments from January 1, 2020 to December 31, 2020 was \$35,100,234 (\$78,662,719 less \$43,562,485). Schedule B also outlines the net amount of \$3,922,523 transferred to capital

projects in 2020, which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$25,747,349 of growth-related projects funded from development charges (Schedule C), as well as transfers to development charges of \$21,824,826 resulting mainly from the closure of capital projects as well as the realignment of funding sources.

In addition to the \$25,747,349 of growth-related capital projects funded from development charges in 2020, 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 as follows:

January 1, 2020 opening balance	\$43,562,485
Development Charges received	\$38,900,721
Interest	\$122,036
Net amount transferred to capital projects	(\$3,922,523)
Balance as at December 31, 2020	<u>\$78,662,719</u>

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

City-Wide Soft	(\$5,174,711)
City-Wide Hard	\$76,371,372
Area-Specific	\$7,466,058
Total	<u>\$78,662,719</u>

In accordance with the Council-approved Development Charges Borrowing Policy, the City loaned \$20,000,000 to the development charges reserve in February 2020 to offset the negative balances of some reserves, and assist with cash flow. The negative reserves resulted from the pre-emplacement of facilities ahead of growth (i.e. Aaniin Community Centre). In June 2020, the \$20,000,000 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, which dropped from 3.95% to 2.45% between February and June 2020 when the loan was repaid.

Interest

During 2020, 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 \$20,000,000, which was repaid from the development charge reserves in June of 2020, amounted to less than the interest earned and therefore resulted in a positive net interest of \$122,036 (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 \$10,230,087, 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 2018 through 2020 along with the percentage change over the three-year period.

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

	YEAR-END BALANCES			% CHANGE
	2018	2019	2020	2018 - 2020
CITY-WIDE SOFT SERVICES	(\$13,220,358)	(\$22,945,786)	(\$5,174,711)	61%
CITY-WIDE HARD SERVICES	\$53,416,339	\$60,034,173	\$76,371,372	43%
AREA SPECIFIC CHARGES	\$6,982,936	\$6,474,098	\$7,466,058	7%
TOTAL DEVELOPMENT CHARGE RESERVE	\$47,178,917	\$43,562,485	\$78,662,719	67%
CAPITAL COMMITMENTS AT YEAR-END	(\$28,611,850)	(\$50,982,025)	(\$57,117,182)	-100%
ADJUSTED DC RESERVE BALANCES	\$18,567,067	(\$7,419,540)	\$21,545,537	16%

The City Wide Soft services reserves negative balance has improved since 2018 due to reduced capital spending. The City Wide Soft services reserves are in a negative balance due to the pre-employment of recreational facilities.

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

Development Charges Committed To Approved Projects

Growth-related capital projects 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, 2020 is significantly lower when capital commitments of \$57,117,182 are taken into account, leaving an adjusted (committed) reserve balance of \$21,545,537. The total capital commitments for 2020 represent an increase of \$6,135,157 (\$57,117,182 less \$50,982,025) compared to the prior year.

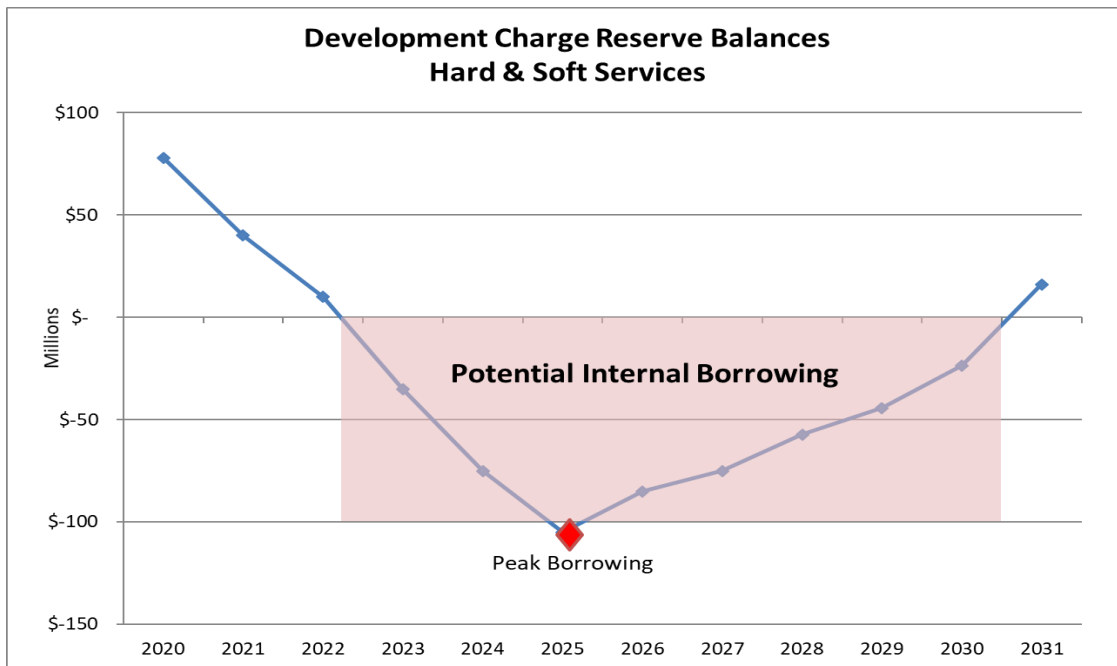
The capital commitments relate mainly to City Wide Hard and City Wide Soft services projects which total approximately \$32M and \$25M respectively. The City Wide Hard includes projects such as the Miller Pond Site Preparation and Property Acquisition (\$15M), Highway 404 Midblock Crossing, North of 16th Ave (\$5M), Miller Avenue – CN to Kennedy Road (\$4M), and construction of the John Street Multi-Use Pathway (\$3M). The City Wide Soft capital commitments includes projects such as the design & construction of the East Works Yard (\$8M) and projects relating to park development, such as construction for the Cornell Community Park (\$8M) and Box Grove Community Park (\$4M). The adjusted (committed) reserve balance of \$21.5M represents a \$28.9M increase from the prior year closing balance of (\$7.4M).

The chart below summarizes the 2020 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	(\$5,174,711)	(\$24,840,698)	(\$30,015,409)
CITY-WIDE HARD SERVICES	\$76,371,372	(\$32,276,484)	\$44,094,888
AREA-SPECIFIC CHARGES	\$7,466,058	\$0	\$7,466,058
TOTAL DEVELOPMENT CHARGE RESERVE	\$78,662,719	(\$57,117,182)	\$21,545,537

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 2025 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. The timing and quantum of projected debt will be updated when the new Regional growth forecast (to 2051) and associated infrastructure requirements are received and assessed.



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 1.7% on January 1, 2020 and 1.2% on July 1, 2020. 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, 2020, 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