



Report to: General Committee

Meeting Date: May 24<sup>th</sup>, 2022

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**SUBJECT:** Development Charges December 31, 2021 Reserve Balances and Annual Activity of the Accounts

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

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**RECOMMENDATION:**

- 1) That the report titled “Development Charges December 31, 2021 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 2021.

**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, 2021.

**FINANCIAL CONSIDERATIONS**

**Summary of Activity**

The December 31, 2021 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$111,377,529 (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, 2021 totaled \$41,068,941 resulting in an adjusted (committed) reserve balance of \$70,308,588 (\$111,377,529 less \$41,068,941).

As depicted in Schedule B, the net increase in the reserve fund before capital commitments from January 1, 2021 to December 31, 2021 was \$32,714,810 (\$111,377,529 less \$78,662,719). Schedule B also outlines the net amount of \$38,390,673 transferred to capital projects in 2021, which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$44,686,019 of growth-related projects funded from development charges (Schedule C), as well as transfers to development

charges of \$6,295,346 resulting mainly from the closure of capital projects as well as the realignment of funding sources.

In addition to the \$44,686,019 of growth-related capital projects funded from development charges in 2021, 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, 2021 opening balance	\$78,662,719
Development Charges received	\$70,682,229
Interest	\$423,254
Net amount transferred to capital projects	(\$38,390,673)
Balance as at December 31, 2021	<u>\$111,377,529</u>

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

City-Wide Soft	(\$2,576,698)
City-Wide Hard	\$106,233,021
Area-Specific	\$7,721,206
Total	<u>\$111,377,529</u>

### **Interest**

During 2021, 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 earned for the year amounted to \$423,254 (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 \$8,806,873, 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 2019 through 2021 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
	2019	2020	2021	2019 - 2021
CITY-WIDE SOFT SERVICES	(\$22,945,786)	(\$5,174,711)	(\$2,576,698)	89%
CTIY-WIDE HARD SERVICES	\$60,034,173	\$76,371,372	\$106,233,021	77%
AREA SPECIFIC CHARGES	\$6,474,098	\$7,466,058	\$7,721,206	19%
TOTAL DEVELOPMENT CHARGE RESERVE	\$43,562,485	\$78,662,719	\$111,377,529	156%
CAPITAL COMMITMENTS AT YEAR-END	(\$50,982,025)	(\$57,117,182)	(\$41,068,941)	19%
<b>ADJUSTED DC RESERVE BALANCES</b>	<b>(\$7,419,540)</b>	<b>\$21,545,537</b>	<b>\$70,308,588</b>	<b>1048%</b>

The City Wide Soft services reserves negative balance has improved since 2019 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, 2021 is significantly lower when capital commitments of \$41,068,941 are taken into account, leaving an adjusted (committed) reserve balance of \$70,308,588. The total capital commitments for 2021 represent a decrease of \$16,048,241 (\$41,068,941 less \$57,117,182) compared to the prior year.

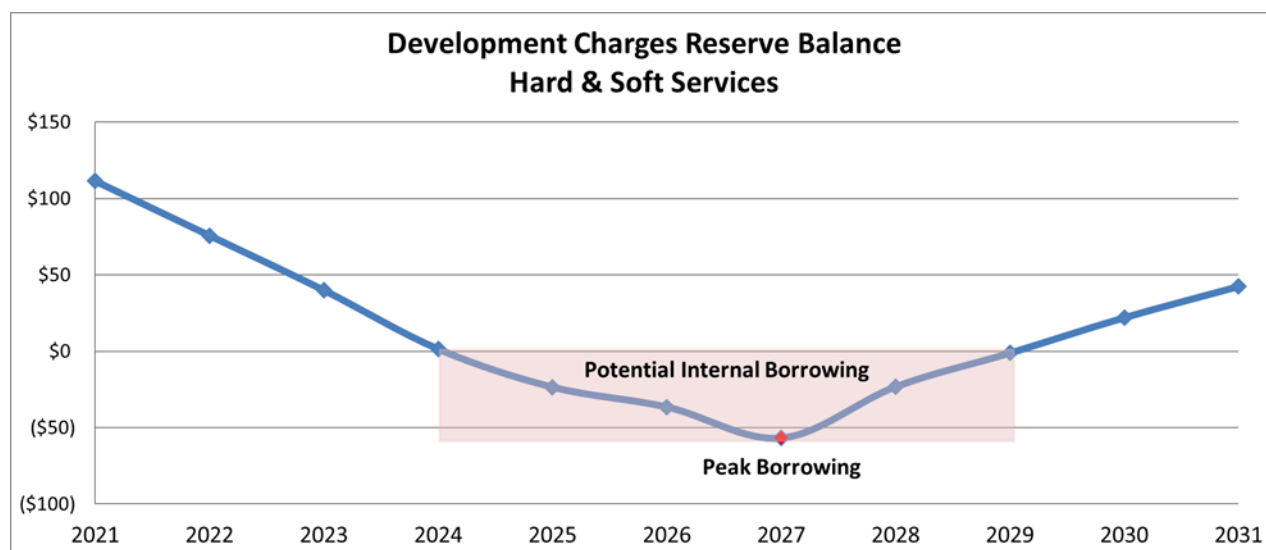
The capital commitments relate to City Wide Hard and City Wide Soft services projects which total approximately \$28M and \$13M respectively. The City Wide Hard includes projects such as the Miller Pond Site Preparation and Property Acquisition (\$15M), Miller Avenue – CN to Kennedy Road (\$4M), and construction of the John Street Multi-Use Pathway (\$3M). The City Wide Soft capital commitments includes projects such as the construction of Celebration Park (\$7M) and the Cornell Community Park (\$3M). The adjusted (committed) reserve balance of \$70.3M represents a \$48.8M increase from the prior year closing balance of \$21.5M.

The chart below summarizes the 2021 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	(\$2,576,698)	(\$12,709,015)	(\$15,285,713)
CITY-WIDE HARD SERVICES	\$106,233,021	(\$28,359,926)	\$77,873,095
AREA-SPECIFIC CHARGES	\$7,721,206	\$0	\$7,721,206
<b>TOTAL DEVELOPMENT CHARGE RESERVE</b>	<b>\$111,377,529</b>	<b>(\$41,068,941)</b>	<b>\$70,308,588</b>

## **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 necessary to service anticipated growth, is required to be installed ahead of the new population and, this pre-emplacement 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 2027 at approximately \$60M with recovery expected to occur around 2029, as shown in the graph below. A Council approved Development Charges Internal Borrowing Policy allows the City to loan the DC Reserves up to a cumulative maximum of 25% of the previous year's average general portfolio balance. Based on the 2021 General Portfolio balance, internal borrowing would be capped at \$115M. Therefore, it is anticipated the projected 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 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 1.1% on January 1, 2021 and 2.1% on July 1, 2021. 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, 2021, 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.

**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