



Report to: General Committee

Meeting Date: May 22, 2018

SUBJECT: Development Charges December 31, 2017 Reserve Balances and Annual Activity of the Accounts

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

RECOMMENDATION:

- 1) That the report titled “Development Charges December 31, 2017 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 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 that financial statement and also provides Council with information regarding the semi-annual indexing that occurred during 2017.

BACKGROUND:

As part of the *Development Charges Act, 1997* 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, 2017.

FINANCIAL CONSIDERATIONS:

The December 31, 2017 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$9,333,304 (Schedule A). This balance is net of \$20,000,000 in internal borrowing, and represents the cash, letters of credit and receivable balances in the reserves, but does not take into account commitments for approved capital projects. The City loaned \$20,000,000 to the development charges reserves to offset the negative balances of some reserves, and assist with cash flow. The negative reserves are a result of the pre-emplacment of facilities. The City charges interest at prime on the loan which increased by 25 basis points in July and September – as a result, the rate moved from 2.7% to 3.2% by year end.

Approved capital commitments against the reserves as at December 31, 2017 totaled \$38,748,797 resulting in an adjusted (committed) negative reserve balance of \$29,415,493 (\$9,333,304 less \$38,748,797). The net decrease in the reserve fund before capital commitments from January 1, 2017 to December 31, 2017 was \$5,447,213 (\$14,780,517 less \$9,333,304 - Schedule B).

Schedule B outlines the net amount transferred to capital projects in 2017 as \$43,753,100 which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$47,016,538 of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$3,263,438 resulting mainly

from the closure of capital projects as well as the realignment of funding sources. In addition to the \$47,016,538 of growth-related capital projects funded from development charges in 2017, Schedule C also identifies any associated funding from other sources.

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

January 1, 2017 opening balance	\$14,780,517
Development Charges received	\$38,307,902
Interest	(\$2,015)
Net amount transferred to capital projects	(\$43,753,100)
Balance as at December 31, 2017	<u>\$9,333,304</u>

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

City-Wide Soft	(\$35,948,452)
City-Wide Hard	\$37,787,652
Area-Specific	\$7,494,104
Total	<u>\$9,333,304</u>

INTEREST

During 2017, investment of development charge reserves through a government bond, plus bank interest, less interest paid on internal borrowing of \$20,000,000, yielded a negative net interest of \$2,015 (Schedule D). The interest on the \$20,000,000 loan amounted to \$588,876 and this is reflected in the City’s investment portfolio.

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 \$7,505,567 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 2015 through 2017 along with the percentage change over the three-year period.

The chart below summarizes the year-end DC reserve balances by component category:

	YEAR-END BALANCES			% CHANGE 2015 - 2017
	2015	2016	2017	
CITY-WIDE SOFT SERVICES	(\$8,512,303)	(\$31,157,446)	(\$35,948,452)	-322%
CTIY-WIDE HARD SERVICES	\$37,088,642	\$40,860,694	\$37,787,652	2%
AREA SPECIFIC CHARGES	\$3,918,119	\$5,077,270	\$7,494,104	91%
TOTAL DEVELOPMENT CHARGE RESERVE	\$32,494,458	\$14,780,518	\$9,333,304	-71%
CAPITAL COMMITMENTS AT YEAR-END	(\$62,136,926)	(\$68,833,129)	(\$38,748,797)	-38%
ADJUSTED DC RESERVE BALANCES	(\$29,642,468)	(\$54,052,610)	(\$29,415,493)	-1%

The City-wide soft services reserves have decreased significantly since 2015. This reduction is primarily related to the residual funding of the Aaniin Community Centre and Library (\$23M funded from 2016 to 2017), 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 – this 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.

DEVELOPMENT CHARGES COMMITTED TO APPROVED PROJECTS

Growth-related 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.

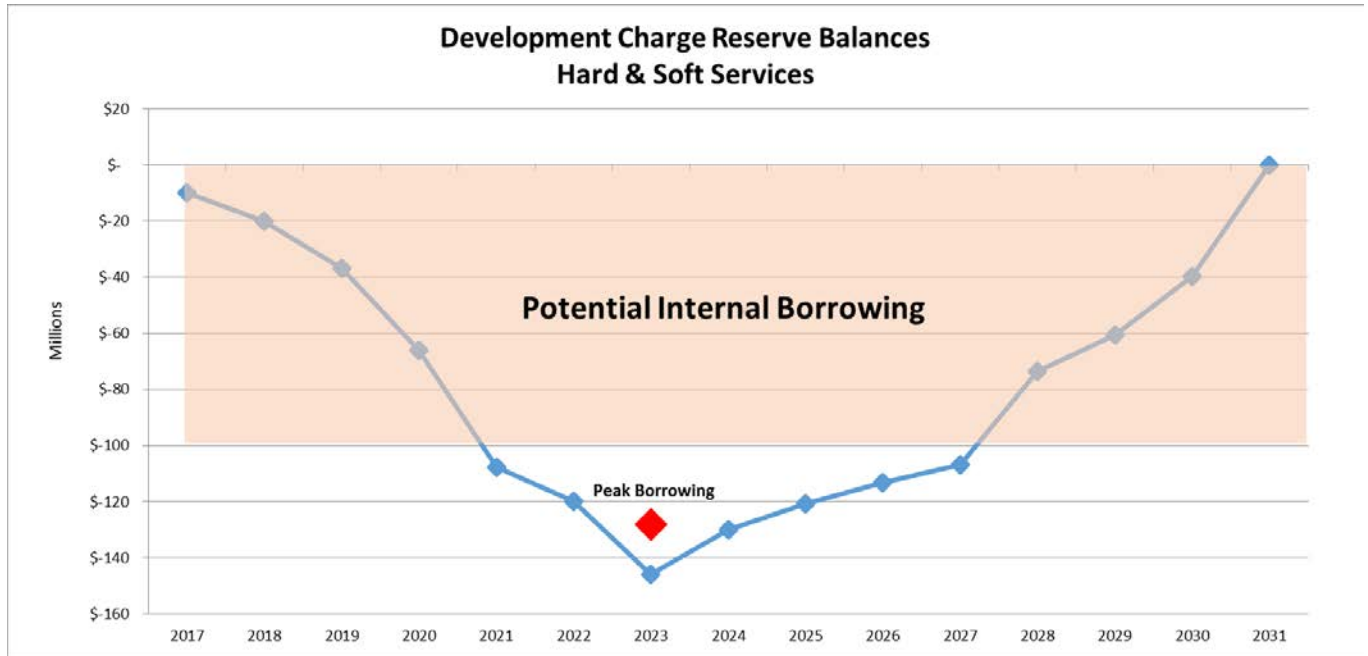
The reserve balance for the year ended December 31, 2017 is significantly lower when capital commitments of \$38,748,797 are taken into account, leaving an adjusted (committed) negative reserve balance of \$29,415,493. The total capital commitments for 2017 represent a decrease of \$30,084,332 (\$38,748,797 less \$68,833,129) compared to the prior year. This reduction can be mainly attributed to the amount transferred to complete the funding for the Aaniin Community Centre (\$12M), as well as the funding of the Highway 404 Ramp Extension North of Highway 7 (\$6M) and the Verclair Crossing at Rouge River (\$5M).

The capital commitments relate mainly to City-wide hard and City-wide soft services projects which total approximately \$24M and \$14M for each service, respectively. The City-wide hard includes projects such as the construction of Miller Avenue – Woodbine to Rodick (\$7M), 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) negative reserve balance of \$29.4M represents a \$24.7M increase from the prior year closing balance of negative \$54.1M.

The chart below summarizes the 2017 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	(\$35,948,452)	\$13,937,287	(\$49,885,739)
CITY-WIDE HARD SERVICES	\$37,787,652	\$23,830,550	\$13,957,102
AREA-SPECIFIC CHARGES	\$7,494,104	\$980,960	\$6,513,144
TOTAL DEVELOPMENT CHARGE RESERVE	\$9,333,304	\$38,748,797	(\$29,415,493)

A DC cash-flow forecast was developed taking into consideration current capital commitments, identified growth-related projects, and anticipated DC collections. Peak borrowing is projected to occur in 2023 at approximately \$146M 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.

In accordance with the by-laws, the development charge rates were indexed up by 2.2% on January 1, 2017 and 1.7% on July 1, 2017. This represents the increase in the prescribed index, the Statistics Canada Quarterly, *Construction Price Statistics* for non-residential buildings in Toronto.

COMPLIANCE WITH DEVELOPMENT CHARGES ACT, 1997

For the year ended December 31, 2017, 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.

2017 BACKGROUND STUDY

The Development Charges 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.

BUSINESS UNITS CONSULTED & AFFECTED:

N/A

RECOMMENDED BY:

2018-05-14

X 

Joel Lustig
Treasurer
Signed by: cxa

2018-05-14

X 

Trinela Cane
Commissioner, Corporate Services
Signed by: cxa

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](#)