



Report to: General Committee

Meeting Date: June 6, 2017

SUBJECT: Development Charges December 31, 2016 Reserve Balances and Annual Activity of the Accounts

PREPARED BY: Victoria Botvinnik, Financial Analyst, ext. 2659
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RECOMMENDATION:

- 1) That the report titled “Development Charges December 31, 2016 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 2016.

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, 2016.

FINANCIAL CONSIDERATIONS:

The December 31, 2016 closing balance of the development charges (DC) reserve accounts, before accounting for approved capital commitments, was \$14,780,518 (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 cashflows. The negative reserves are a result of the pre-placement of facilities. The City charges interest at prime (2.7%) on the loan.

Approved capital commitments against the reserves as at December 31, 2016 totaled \$68,833,129 resulting in an adjusted (committed) reserve balance of (\$54,052,610) [\$14,780,518 less \$68,833,129]. The net decrease in the reserve fund before capital commitments from January 1, 2016 [\$32,494,458] to December 31, 2016 [\$14,780,518] was \$17,713,940 (Schedule B).

Schedule B outlines the net amount transferred to capital projects in 2016 as \$32,509,406 which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$40,539,743, of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$8,030,337 resulting mainly from the closure of capital projects as well as the realignment of funding sources. In addition

to the \$40,539,743 of 2016 growth-related capital projects funded from development charges, 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, 2016 opening balance	\$32,494,458
Development Charges received	\$31,776,619
Development Charges refunded	(\$16,837,473)
Interest	(\$143,681)
Net amount transferred to capital projects	(\$32,509,406)
Balance as at December 31, 2016	<u>\$14,780,518</u>

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

City-Wide Soft	(\$31,157,446)
City-Wide Hard	\$40,860,694
Area-Specific	<u>\$5,077,270</u>
Total	<u>\$14,780,518</u>

Interest

During 2016, 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 \$143,681 (Schedule D). The interest on the \$20,000,000 loan amounted to \$534,082 and this is reflected in the City's investment portfolio.

Refunds

The City adopted new City Wide Soft services development charge by-laws in 2009 and 2013 to recover the cost of services including libraries, fire services, indoor recreation, park development, public works (buildings and fleet), and growth studies. Both by-laws included changes in the approach to the calculation, which was aimed at making sure that growth pays for growth; an underlying tenet of the *Development Charges Act, 1997, as amended (DCA)*.

Both by-laws were appealed by the Building Industry and Land Development Association (BILD), and following a Hearing at the Ontario Municipal Board (Board), it was ruled in January 2016 that the approach adopted by the City did not conform to the DCA. As a result of the ruling, the City was required to refund the incremental amounts collected, plus interest, to the landowners who paid under both by-laws.

The refund amount inclusive of interest amounted to \$18,893,384 made up of \$16,837,473 (shown in the table above) plus \$2,055,911 which was already set aside from 2015 DC collections. The City started to set aside an amount representing the difference in both approaches, following a Board decision against the City's approach in 2015.

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 \$8,102,808 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 2014 through 2016 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
	2014	2015	2016	2014 - 2016
City-Wide Soft Services	\$10,906,409	(\$8,512,303)	(\$31,157,446)	-386%
City-Wide Hard Services	\$37,301,771	\$37,088,642	\$40,860,694	10%
Area Specific Charges	\$3,295,967	\$3,918,119	\$5,077,270	54%
Total DC Reserve	\$51,504,147	\$32,494,458	\$14,780,518	-71%
Capital Commitments at Year-End	(\$58,999,333)	(\$62,136,926)	(\$68,833,129)	17%
Adjusted DC Reserve Balance	(\$7,495,186)	(\$29,642,468)	(\$54,052,610)	621%

The reduction in the City-wide soft services reserves is primarily related to the funding of the Aaniin Community Centre and Library [\$47.4M], and the refunds to landowners in accordance with the OMB's ruling. 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, 2016 is significantly lower when capital commitments of \$68,833,129 are taken into account, leaving an adjusted (committed) reserve balance of (\$54,052,610). The total capital commitments for 2016 represent an increase of \$6,696,203 [\$68,833,129 less \$62,136,926] compared to the prior year, which is mainly the result of the construction of Miller Avenue from Woodbine Avenue to Rodick Road and the Verclair Bridge Crossing. The capital commitments relate to City-wide hard and City-wide soft services projects which total approximately \$45M and \$23M for each service, respectively. The City-wide hard includes projects such as the Highway 404 Ramp Extension North of Highway 7 [\$8.7M], Verclair

Crossing at Rouge River [\$7.4M], and Miller Avenue between Woodbine Avenue and Rodick Road [\$7.2M]. The City-wide soft capital commitments relate to the residual amount for the Aaniin Community Centre [\$12.3M], along with several smaller soft services programs such as the construction of the Kirkham Drive Park – Phase 2 [\$3.2M] and the phase 1 construction of the Box Grove Community Park East [\$2.2M]. The adjusted (committed) reserve balance of (\$54.1M) represents a \$24.4M decrease from the prior year closing balance of (\$29.6M).

The chart below summarizes the 2016 year-end reserve balances and capital commitments:

	Year-End Reserve Balance	Capital Commitments	Adjusted Reserve Balance
City-Wide Soft Services	(\$31,157,446)	\$23,192,208	(\$54,349,653)
City-Wide Hard Services	\$40,860,694	\$44,643,321	(\$3,782,627)
Area-Specific Charges	\$5,077,270	\$997,600	\$4,079,670
Total Development Charge Reserve	\$14,780,518	\$68,833,129	(\$54,052,610)

Further details on the specific City-Wide Soft reserves with commitments are shown in Schedule A.

INDEXING

Section 15 of the City's Development Charge by-laws states 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 0.6% on January 1, 2016 and 1.0% on July 1, 2016. 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, 2016, 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 UPDATE

The current development charges by-laws were enacted in May 2013 and will expire in May 2018. Staff are currently in the process of updating the Development Charges Background Study and associated by-laws, with approval anticipated in December 2017. An analysis of the long-term cash flow projection for the development charge reserves will be incorporated as a part of the Background Study update report.


BUSINESS UNITS CONSULTED & AFFECTED:

N/A

RECOMMENDED BY:


X

Joel Lustig
Treasurer


X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

[Schedules A – F: 2016 Development Charges Reserve Balances and Annual Activity of the Accounts](#)