



Report to: General Committee

Meeting Date: June 13 2016

SUBJECT: Development Charges December 31, 2015 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, 2015 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) That Council approve a new 2016 capital budget with an upset limit of \$250,000.00, inclusive of HST impact, for Engineering-related studies required for the upcoming 2018 Development Charges Background Study Update to be funded from Development Charges;
- 3) 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 2015, and seeks Council’s approval for funds to commence Engineering-related studies required in order to support the upcoming 2018 Development Charges Background Study update.

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, 2015.

FINANCIAL CONSIDERATIONS:

The December 31, 2015 closing balance of the development charges (DC) reserve accounts before approved capital commitments was \$32,494,458 (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, 2015 totaled \$62,136,926 resulting in an adjusted (uncommitted) reserve balance of (\$29,642,468) [\$32,494,458 less \$62,136,926]. The net decrease in the reserve fund before capital commitments from January 1, 2015 [\$51,504,147] to December 31, 2015 [\$32,494,458] was \$19,009,689 (Schedule B).

Schedule B outlines the net amount transferred to capital projects in 2015 as \$40,523,179 which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$48,804,078, of growth-related projects (Schedule C) funded

from development charges as well as transfers to development charges of \$8,280,899 resulting mainly from the closure of capital projects as well as the realignment of funding sources. In addition to the \$48,804,078 of 2015 growth-related capital projects funded from development charges, Schedule C also identifies any associated funding from other sources.

During 2015, investment of development charge reserves through various investment vehicles yielded net interest of \$176,106 (Schedule D).

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

January 1, 2015 opening balance	\$51,504,147
Development Charges received	\$21,337,384
Interest earned	\$176,106
Net amount transferred to capital projects	(\$40,523,179)
Balance as at December 31, 2015	<u>\$32,494,458</u>

Schedule E provides information on credit agreements that the City has with developers. The City has future credit obligations in the amount of \$8,491,139 which is to be offset from development charges payable when the respective developers execute their agreements.

COMPONENT CATEGORIES

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

City-Wide Soft	(\$8,512,303)
City-Wide Hard	\$37,088,642
Area-Specific	<u>\$3,918,119</u>
Total	<u>\$32,494,458</u>

Schedule F provides the year-end balance of each reserve for 2013 through 2015 along with the percentage change over the three-year period.

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

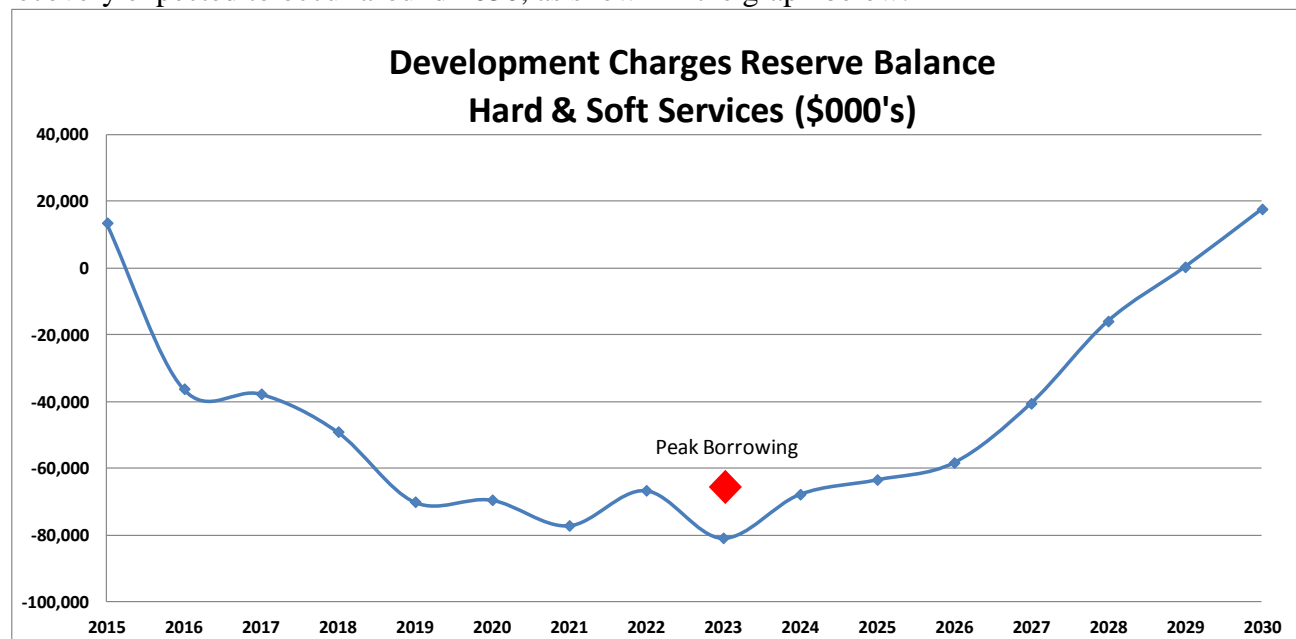
	Year-End Balances			% Change
	2013	2014	2015	2013 - 2015
City-Wide Soft Services	\$41,904,890	\$10,906,409	(\$8,512,303)	-120%
City-Wide Hard Services	\$59,031,398	\$37,301,771	\$37,088,642	-37%
Area Specific Charges	\$1,853,919	\$3,295,967	\$3,918,119	111%
Total DC Reserve	<u>\$102,790,207</u>	<u>\$51,504,147</u>	<u>\$32,494,458</u>	<u>-68%</u>
Capital Commitments at Year-End	<u>(\$86,883,199)</u>	<u>(\$58,999,333)</u>	<u>(\$62,136,926)</u>	<u>-28%</u>
Adjusted DC Reserve Balance	<u>\$15,907,008</u>	<u>(\$7,495,186)</u>	<u>(\$29,642,468)</u>	<u>-286%</u>

The reduction of the City-wide soft services reserves is primarily related to the funding of the South East Markham Community Centre and Library [\$18.5M], while the reduction of the City-wide hard services reserves is primarily related to the Highway 404 Mid-Block Crossing North of Highway 7 [\$6M], as outlined in Schedule C.

It should be noted that a number of large growth-related capital projects have been identified but are not yet reflected in the DC capital commitments as at December 31, 2015. These projects are slated for completion within the next 4 – 5 years and their preliminary funding requirements include, but are not limited to the following:

Project Description	Estimate of DC Funding
Markham Sports Park	\$39M
East Precinct YDSS Relocation	\$22M
Public Works East Yard	\$19M
City-Wide Bridge/Crossing Projects (Minor Collectors)	\$14M
New Fire Facility (Markham Centre)	\$14M
Langstaff North Crossing	\$12M
Cornell Community Park	\$11M
Highway 404 Mid-Block Crossing – North of 16 th Ave	\$10M
Total	<u>\$141M</u>

The large capital projects of \$141M highlighted above, coupled with Council approved capital commitments of \$62M, already account for \$203M in planned capital expenditure, before considering the numerous smaller projects undertaken every year. Annual expenditures on growth-related capital infrastructure are projected to continue exceeding annual revenues in the upcoming years, thereby resulting in a further depletion of the DC reserves. The main driver for the negative reserve balance is the pre-emplacment of facilities ahead of growth (e.g. Pan Am Centre and South East Community Centre and Library). A DC cash-flow forecast was developed taking into consideration current capital commitments, identified growth-related projects, and anticipated DC collections. Previous projections indicated the reserves would be sufficient to fund capital commitments through 2015, after which the City will be required to borrow in order to finance its growth-related projects. Peak borrowing is projected to occur in 2023 at approximately \$81M with recovery expected to occur around 2030, as shown in the graph below.



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, 2015 is significantly lower when capital commitments of \$62,136,926 are taken into account, leaving the adjusted (uncommitted) reserve balance at (\$29,642,468). The total capital commitments for 2015 represent an increase of \$3,137,593 [\$62,136,926 less \$58,999,333] compared to the prior year, which is mainly the result of the Highway 404 Mid-block Crossing. The capital commitments relate to City-wide hard and City-wide soft services projects which total approximately \$30M for each service. The City-wide hard includes projects such as the Highway 404 Ramp Extension North of Highway 7 [\$12.3M], Phase 2 of the Rodick Extension - Miller to 14th [\$5.1M], and the Municipal Road South of 14th Avenue [\$4.0M]. The City-wide soft capital commitments relate to the residual amount for the South East Community Centre [\$20.3M], along with several smaller soft services programs such as the construction of the Kirkham Drive Park – Phase 2 [\$3.1M] and the final phase of construction for the Angus Glen Community Park [\$1.5M]. The adjusted (uncommitted) reserve balance of (\$29.6M) represents a \$22.1M decrease from the prior year closing balance of (\$7.5M).

The chart below summarizes the 2015 year-end reserve balances and capital commitments:

	Year-End Reserve Balance	Capital Commitments	Adjusted Reserve Balance
City-Wide Soft Services	(\$8,512,303)	\$30,260,226	(\$38,772,529)
City-Wide Hard Services	\$37,088,642	\$30,879,100	\$6,209,542
Area-Specific Charges	\$3,918,119	\$997,600	\$2,920,519
Total Development Charge Reserve	\$32,494,458	\$62,136,926	(\$29,642,468)

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 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 0.9% on January 1, 2015 and 1.2% on July 1, 2015. This represents the increase in the prescribed index, the Statistics Canada Quarterly, *Construction Price Statistics* for non-residential buildings in Toronto.

BACKGROUND STUDY UPDATE

The current development charges by-laws were enacted in May 2013 and will expire in May 2018. In order to update the Hard Services (Engineering) by-laws and ensure that all growth-related infrastructure are included and reflected at appropriate costs, the City conducts various studies for transportation, servicing, street lighting, storm water management, property acquisition etc. These studies constitute an important part of the update, as they highlight the infrastructure and cost required to support future growth, and by extension the development charge recovery.

The Engineering Department has multiple consultants currently retained for various projects including the Future Urban Area, Markham Centre, Buttonville Airport, City Wide Master Servicing, Erosion, etc. From a scheduling and budget perspective, it is advantageous for the City to retain the consultants who already have the background information in these areas, and utilize them to assist staff in preparing preliminary design concepts and cost estimates.

The Engineering Department needs to have consultants retained and commence the background studies for the Hard Services by September 2016, in order to have the required projects and cost estimates completed by late Spring 2017. Until this information is available, the Finance Department cannot undertake their calculation and financial analysis of the proposed rates, which is required in advance of the consultation process. It is important that these studies be commenced as soon as possible, as the costs estimates for the infrastructure, will be utilized by staff (along with other metrics such as population forecast) to calculate the development charge recovery rate.

Staff are seeking Council approval for up to \$250,000, inclusive of HST, to conduct the required Engineering studies.

BUSINESS UNITS CONSULTED & AFFECTED:

Engineering Department

RECOMMENDED BY:

6/6/2016


X

Joel Lustig
Treasurer

06/06/2016


X

Trinela Cane
Commissioner, Corporate Services**ATTACHMENTS:**

[Schedule A – Balances in the individual components of the reserve fund](#)

[Schedule B – Funds received and dispersed by category](#)

[Schedule C – Capital projects funded in 2015](#)

[Schedule D – Investment details as required under Reg. 74/97 Section 8 of the Municipal Act](#)

[Schedule E – Credit Agreement Summary](#)

[Schedule F – Statement of change in year-end balances](#)