MARKHAM

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Journey to Excellence

DEVELOPMENT CHARGES

CASH FLOW UPDATE

May 11, 2015

Purpose

1) To provide General Committee with an update on Development Charge Balances and the impact of decisions on future cash flows

2) Discuss upcoming period of debt and the impact to borrowing and operating budgets

3) Provide options to mitigate future borrowing

Agenda

1. What are Development Charges?
2. 2014 Year End Development Charge Balances
3. Development Charge Cash Flow Forecast
4. Debt
5. Impacts of Debt and Pre-emplacing Infrastructure
6. Strengthening Support to Decision Making
7. Potential Mitigating Strategies

1. What are Development Charges?

- As the City grows, new infrastructure and facilities are required to maintain service levels, e.g. Roads, Community Centres, Fire Stations, Libraries, Parks
- A development charge (DC) is a fee charged to new development to finance the cost of new growth-related capital facilities and infrastructure
- DCs provide a major source of funding for growth-related capital expenditures – DCs help to reduce the burden on existing taxpayers
- The maintenance and replacement of new and existing facilities and infrastructure are funded through tax dollars, not DCs
- The maximum life of a DC By-law is 5 years from date of passage
  - ❑ City passed its By-laws in May 2013

1. What are Development Charges?

- Eligible growth-related services that can be funded 100% from DCs:
  - Water
  - Waste Water
  - Storm Water Drainage and Control
  - Roads and Related Works
  - Fire Protection
  - Public Works – e.g. Fleet, Works Yards

- Eligible growth-related services that require 10% funding from non-DC sources:
  - General Government – e.g. Studies, Staff/Consultants
  - Library Services
  - Indoor Recreation
  - Park Development and Facilities – e.g. Soccer Fields
  - Parking

1. What are Development Charges?

- Services that are excluded from DCs:
  - Cultural and entertainment facilities, including museums, theatres and art galleries
  - Tourism facilities including convention centres
  - Parkland acquisition including open spaces and trails
  - Hospitals
  - Headquarters for general administration of municipalities and local boards
  - Waste management (under review)

1. What are Development Charges?

Types of DCs

- **City Wide Hard (CWH)**
  - Infrastructure such as roads, bridges, sidewalks, intersections, illumination, and related property acquisition and studies
  - Benefits entire City
  - Charge is based on future expected costs

- **Area Specific (ASDC)**
  - Mainly for stormwater management and sanitary sewers
  - Benefits a smaller defined land area
  - Charge is based on future expected costs

- **City Wide Soft (CWS)**
  - Services such as Indoor Recreation, Park Development, Fire, Libraries, Public Works, Parking, and General Government (studies, staff/consultants)
  - Benefits entire City
  - Charge is based off 10-year average historic service levels

2. 2014 Year End Development Charge Balances

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS*	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	$10,906,409	$44,229,233	($33,322,824)
CITY-WIDE HARD SERVICES	$37,301,771	$13,772,500	$23,529,271
AREA-SPECIFIC CHARGES	$3,295,967	$997,600	$2,298,367
TOTAL DC RESERVE	**$51,504,147**	**$58,999,333**	**($7,495,186)**

* Does not include 2015 budget. (The forecasted 2015 Year End Adjusted Reserve Balance is approximately negative $50-55 million if the entire 100-acre Sports Park is included as a Capital Commitment)

2. 2014 Year End Development Charge Balances

2011-2014 Council Approved DC Projects = $240M

Bridges (Rodick, Main St, Birchmount & Hwy 404)	South East Community Centre	Markham Pan Am Centre	Parks, Roads, Studies, Fleet, SWM, etc.
$74M	$60M	$54M	$52M

3. Development Charge Cash Flow Forecast

2015-2018 Projected DC Projects = $200M

Engineering $89M	Parks $78M	Other Services $33M
Miller Avenue **$12M**	Markham Sports Park **$39M**	Public Works Yard **$11M**
Hwy 404 Mid-Block **$11M**	Cornell Community Park **$11M**	General Gov't/Studies **$9M**
Roads, Sewers, Structures, etc. **$66M**	Other (Angus Glen, Kirkham, Boxgrove, Berczy) **$28M**	Fire Station, Other **$13M**

3. Development Charge Cash Flow Forecast

	2011-2014	2015-2018
Expenses (Transfer from DC Reserves)	**$235M**	**$218M**
Revenues (Inflow to DC Reserves)	**$165M**	**$168M**
Net Draw on DC Reserves	**($70M)**	**($50M)**

3. Development Charge Cash Flow Forecast

- Previous reports and presentations assumed borrowing would commence in 2012-2015 with peak borrowing of $125M - $160M in 2019

- Borrowing is now expected to begin by early 2016 with peak borrowing of $90M - $100M in 2023

- These changes are a result of:
  - Increased revenues (2011-2014): $165M actual vs. $120M forecasted
  - Decreased expenditures (2011-2014): $235M actual vs. $340M forecasted – as a result of the delay in approving of projects

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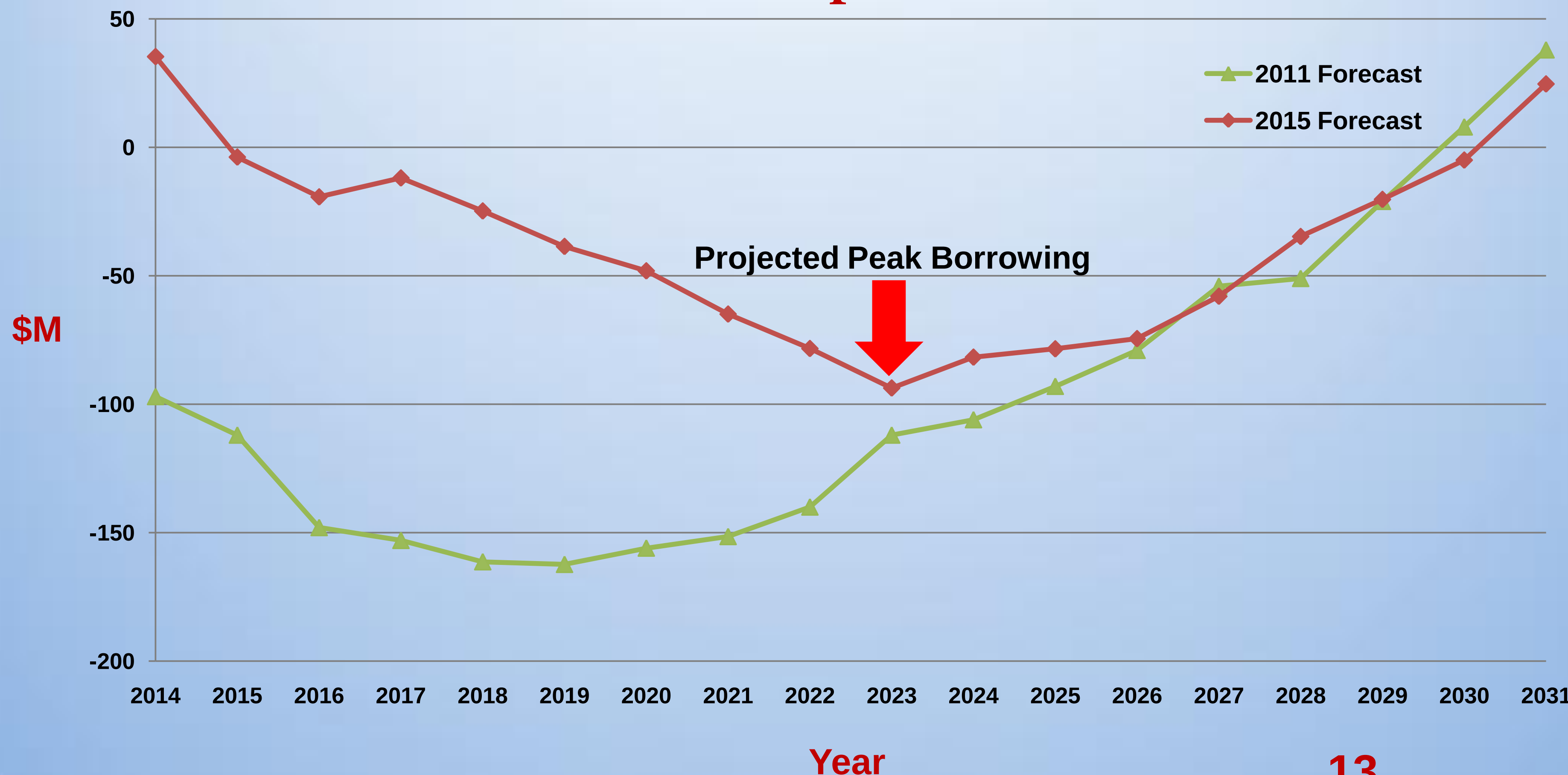
3. Development Charge Cash Flow Forecast
Current DC Forecast Compared to Prior Forecast



3. Development Charge Cash Flow Forecast

- Other changes (and potential changes) besides timing of revenues and expenditures that will (or can) impact the Cash Flow Forecast:
  - ❑ Province is currently reviewing DC Legislation (Bill 73) which may impact the amount Markham can collect in the future
  - ❑ DC Background Study to be updated by 2018 – will have an impact on the rates
  - ❑ Development forecasts can be significantly impacted by the economy
  - ❑ DC Rates adjusted down to reflect recent OMB decision regarding the Soft Services Calculation Methodology Appeal ("Gross vs. Net") – also includes a refund of DCs collected from 2009 -2015

3. Development Charge Cash Flow Forecast

OMB Soft Services Methodology Appeal

- In the 2009 and 2013 By-Laws, Markham opted not to use the Net methodology for calculating Soft Services DCs.

- The Net methodology essentially states that the DC rates be reduced to reflect declining population in existing units, i.e. if 1,000 people buy new houses in Cornell and 100 people leave existing units in Thornhill, the municipality is only allowed to collect enough DC's to build infrastructure for 900 people

- In 2009, the City utilized the Gross methodology which would have allowed Markham to collect DC's to build infrastructure for the 1,000 new people. This approach was appealed by the Building Industry and Land Development Association (BILD)

- In 2013, the City utilized the Alternate methodology which used population and households as a means to calculate service levels. Depending on the service, this would have allowed the City to collect enough DCs to build infrastructure for 925-975 people. This approach was also appealed by BILD.

3. Development Charge Cash Flow Forecast

OMB Soft Services Methodology Appeal

- After several years of attempted negotiations, an Ontario Municipal Board hearing commenced in October 2014
- In March 2015, the Board concluded that the Net methodology is the only acceptable approach and that the municipalities that utilized the Gross or Alternate methodologies when calculating their service levels (Markham, Mississauga, Clarington) must reduce their DC rates to Net and refund the incremental DCs collected since the By-laws were enacted
- For Markham, this equates to approximately:
  - ❑ $17M in refunds
  - ❑ $1.5-3.0M per year in reduced DC revenues going forward

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3. Development Charge Cash Flow Forecast

4. Debt

Potential Implications

- Markham will be dependant on growth to service debt incurred for existing/future infrastructure, otherwise taxes (or other funding sources) will need to be used to fund debt

- DC cash flows would not be expected to recover until approximately 2031, limiting the ability to fund future growth-related capital programs

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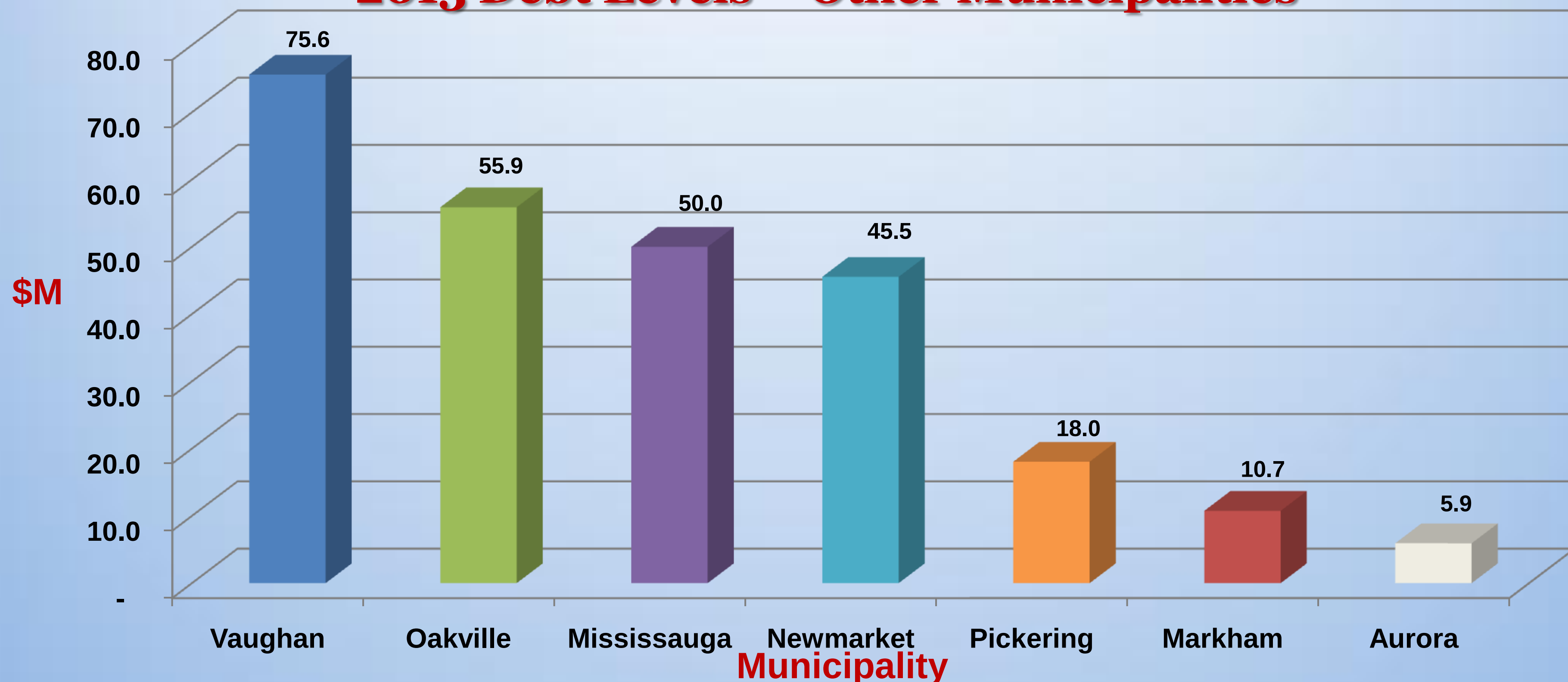
4. Debt
2013 Debt Levels – Other Municipalities



Source: 2013 FIR Note: Richmond Hill & Brampton do not have any long term liabilities listed on Schedule 74A, Line 9930

Markham has one of the lower levels of debt among GTA municipalities

4. Debt

- City's Annual Debt Repayment Limit as provided by the Ministry of Municipal Affairs and Housing indicates the City is allowed to borrow up to $1 Billion (assuming a 20 year loan at 4%)
- City has not borrowed externally to fund capital projects in over 20 years
- Debt needs to be managed properly (i.e., mortgage)
- City can only borrow through York Region or through internal sources
- Council-approved DC Borrowing Policy which allows the City to loan the DC Reserves up to a cumulative maximum of 25% of the previous year's average general portfolio balance
  - ❑ (2014 General portfolio balance = $258M; therefore internal borrowing would be capped at $64.5M)
  - ❑ Can be advantageous to City's operating budget

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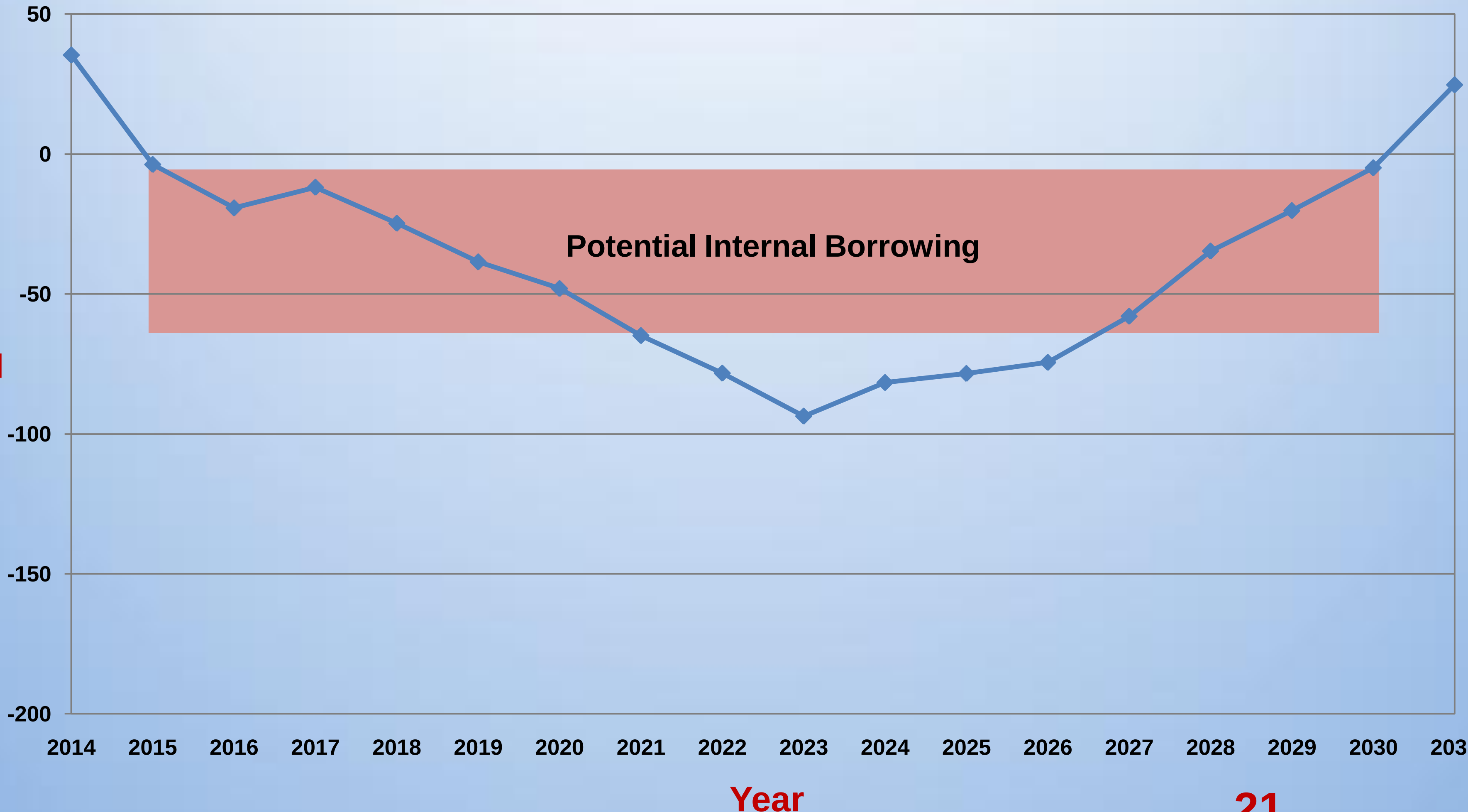
4. Debt



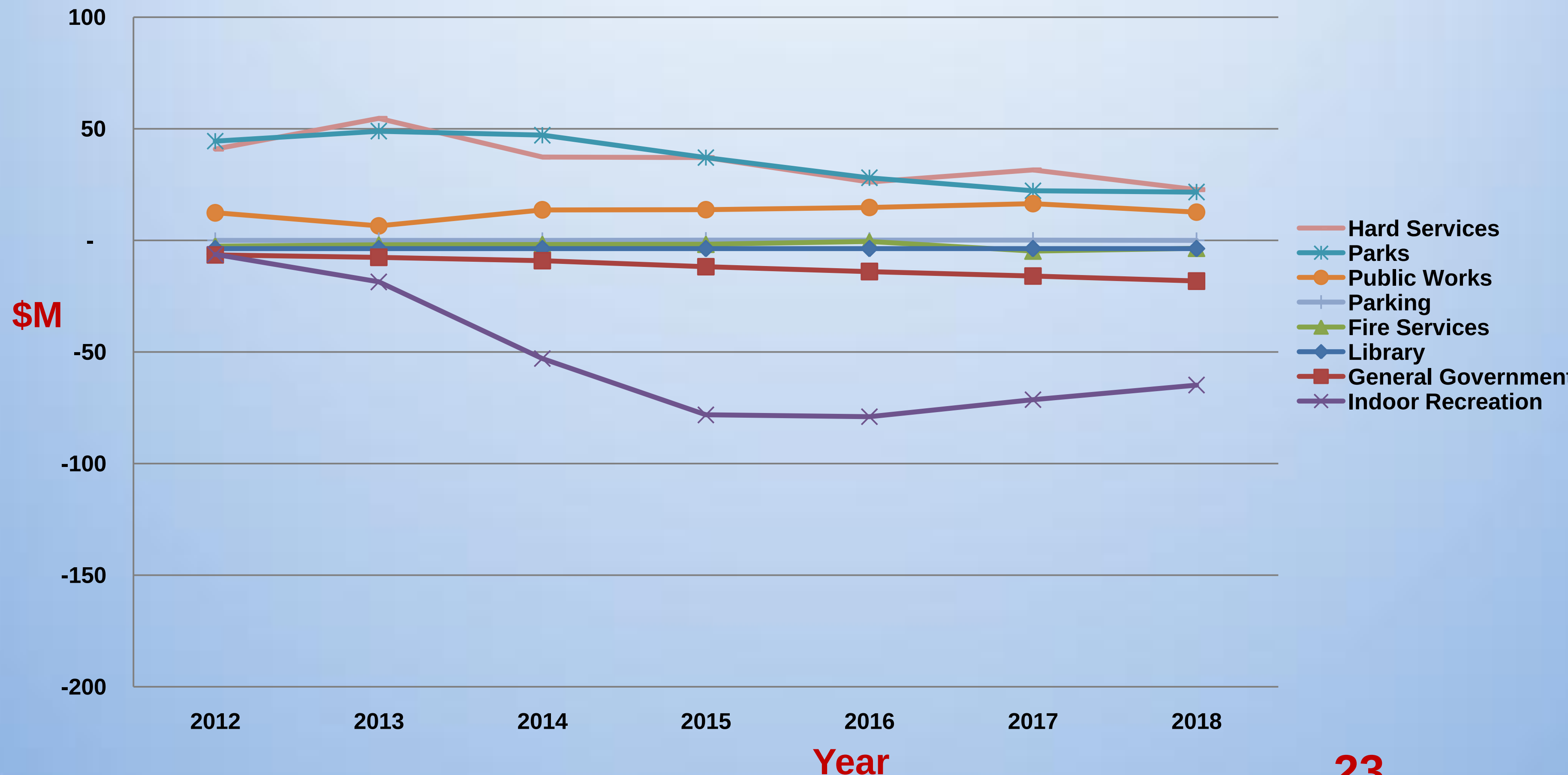
4. Debt

- Debt may also be an indicator of other potential financial issues as it can signify that infrastructure has been built before the people are in place to fully utilize it, which can also impact:
  - Operating budget
  - Lifecycle Reserve
  - Non-DC Funding Sources (takes away from the ability to approve other projects)

- To best illustrate the potential impacts, the construction of three major Community Centres in the span of 5 years will be examined:
  - Cornell
  - Pan Am
  - Southeast

4. Debt

DC Cash Flow Forecast By Service



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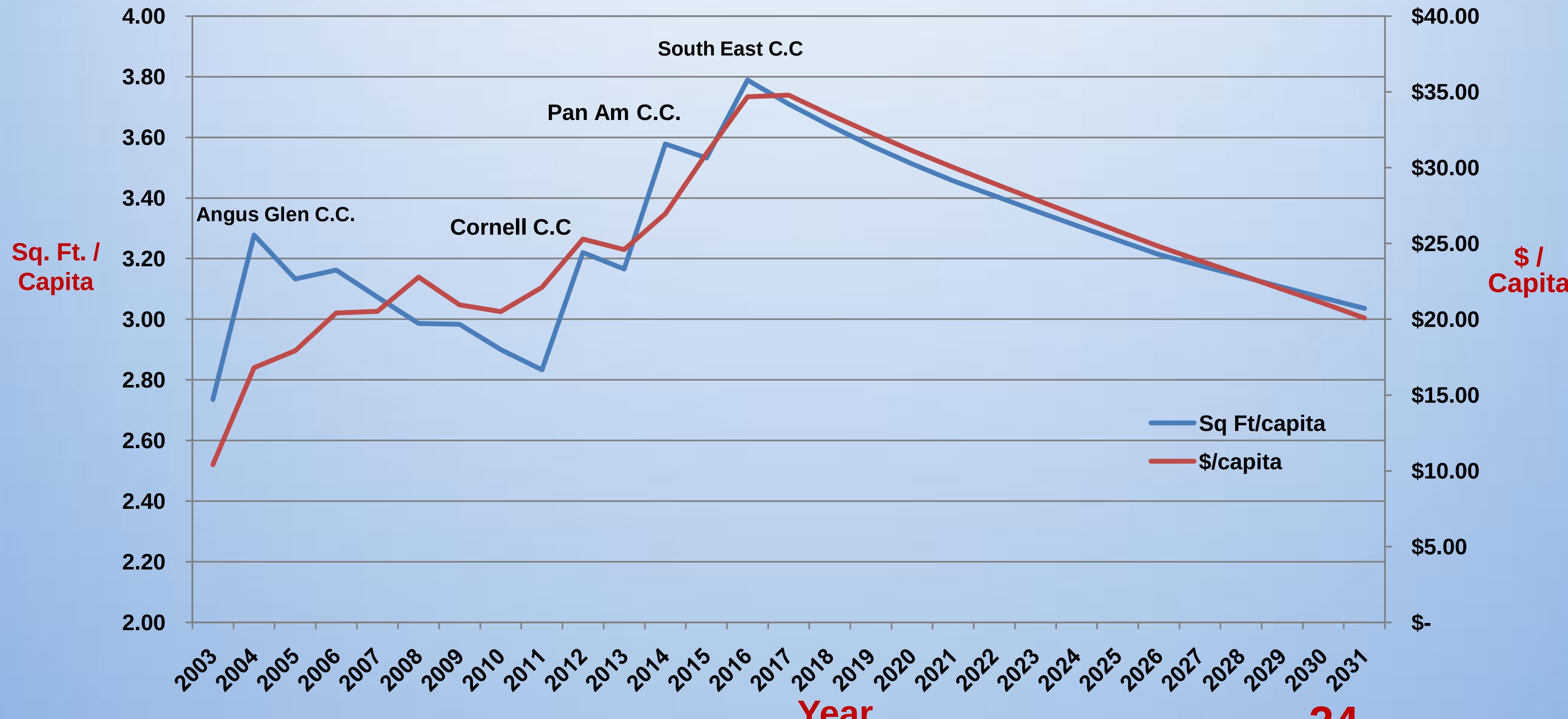
5. Impacts of Debt and Pre-emplacing Infrastructure

Recreation Metrics per Capita



5. Impacts of Debt and Pre-emplacing Infrastructure

Recreation Statistics 2003-2017

	2003 Actual	2009 Actual	2014 Actual	2015 Budget	2017 Forecast
Sq Ft/ Capita	2.73	2.98	3.58	3.53	3.71
Cost Recovery Ratio	82.80%	71.80%	66.60%	66.80%	63.00%
Operating Cost	$1.9M	$5.4M	$8.5M	$9.4M	$12.2M
Transfer to Lifecycle	$2.0M	$2.8M	$4.3M	$4.3M	$5.5M
Cost/Capita	$17	$29	$41	$43	$53

5. Impacts of Debt and Pre-emplacing Infrastructure

Recreation 3 Year Operating Plan

Challenge: How to increase participation in Recreation Services in the City of Markham?

Background Information:

A look at trending and what it means

- Participation – trending, what types of programs
- Recovery Ratio

Recreation Service Delivery Review

- Alternative Programming Strategies – program mix
- Use of Environics
- Development of a Marketing/Branding plan
- Performance measures

6. Strengthening Support to Decision Making

- Moving forward, during the Capital approval process, staff will provide, and be seeking approval from Council on, any budget impacts related to a project

- 2016 Capital Budget forms will include:
  - ❑ Associated operating budget increases
  - ❑ Required transfer to the Lifecycle Reserve (i.e. funding of depreciation)

7. Potential Mitigating Strategies

1. **Re-Evaluate Requirement and/or Timing of Proposed Infrastructure**
   - ❑ Milliken C.C. & Library Expansion → $14M
   - ❑ Angus Glen C.C. Fitness Expansion → $8M
   - ❑ Public Works East Yard → $19M
   - ❑ Public Works Expansions → $11M
   - ❑ New Fire Training Facility → $14M
   - ❑ Markham Centre Library → $11M
   - ❑ Victoria Square C.C. Expansion → $4M

Result:

→Reduced Borrowing
→Earlier Recovery from Debt
→Less Impact on DC Rates
→Match Assessment Dollars to Operating Costs

2. **Review Quality of Infrastructure – e.g. lower cost per sq. ft of infrastructure**
3. **Explore Partnership Opportunities**

Note: Dollar values represent DC-related portion of project costs

Summary

1) An update has been provided on the state of Development Charge Balances and the impact of decisions on future cash flows

2) Communicated the upcoming period of debt and the impact to borrowing and operating budgets

3) Provided options to mitigate future borrowing and committed to providing Council with more financial information to enhance the decision making process

QUESTIONS