



Report to: General Committee

Report Date: March 10<sup>th</sup>, 2015

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**SUBJECT:** Development Charges December 31, 2014 Reserve Balances and Annual Activity of the Accounts

**PREPARED BY:** Shannon Kellam, Financial Analyst, ext. 2659  
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**RECOMMENDATION:**

That the report titled “Development Charges December 31, 2014 Reserve Balances and Annual Activity of the Accounts” be received by Council as required under Section 43(1) of the *Development Charges Act, 1997*.

**PURPOSE:**

Section 43(1) of the *Development Charges Act, 1997* 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*.

**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. Once received by Council, a copy of this report will be forwarded to the Ministry of Municipal Affairs and Housing as required by the *Development Charges Act, 1997*.

Enclosed are the statistics for the twelve (12) months ended December 31, 2014.

**FINANCIAL CONSIDERATIONS:**

The December 31, 2014 closing balance of the development charges (DC) reserve accounts before capital commitments was \$51,504,147 (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, 2014 totaled \$58,999,333 resulting in an adjusted (uncommitted) reserve balance of (\$7,495,186) [\$51,504,147 less \$58,999,333].

The net decrease in the reserve fund before capital commitments from January 1, 2014 [\$102,790,207] to December 31, 2014 [\$51,504,147] was \$51,286,060 (Schedule B).

Schedule B outlines the net amount transferred to capital projects in 2014 as \$78,259,177 which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$101,368,311, of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$23,109,134 resulting mainly from the closure of capital projects as well as the realignment and updating of funding sources.

During 2014, investment of development charge reserves through various investment vehicles yielded net interest of \$968,963 (Schedule D).

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

January 1, 2014 opening balance	\$102,790,207
Development Charges received	\$26,004,154
Interest earned	\$968,963
Net amount transferred to capital projects	(\$78,259,177)
Balance as at December 31, 2014	<u>\$51,504,147</u>

Schedule E provides information on the service-in-lieu agreements and indicates that the City has future credits in the amount of \$11,046,563 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	\$10,906,409
City-Wide Hard	\$37,301,771
Area-Specific	<u>\$3,295,967</u>
Total	<u>\$51,504,147</u>

Schedule F provides the year-end balance of each reserve for 2012 through 2014 along with the percentage change over the three-year period.

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

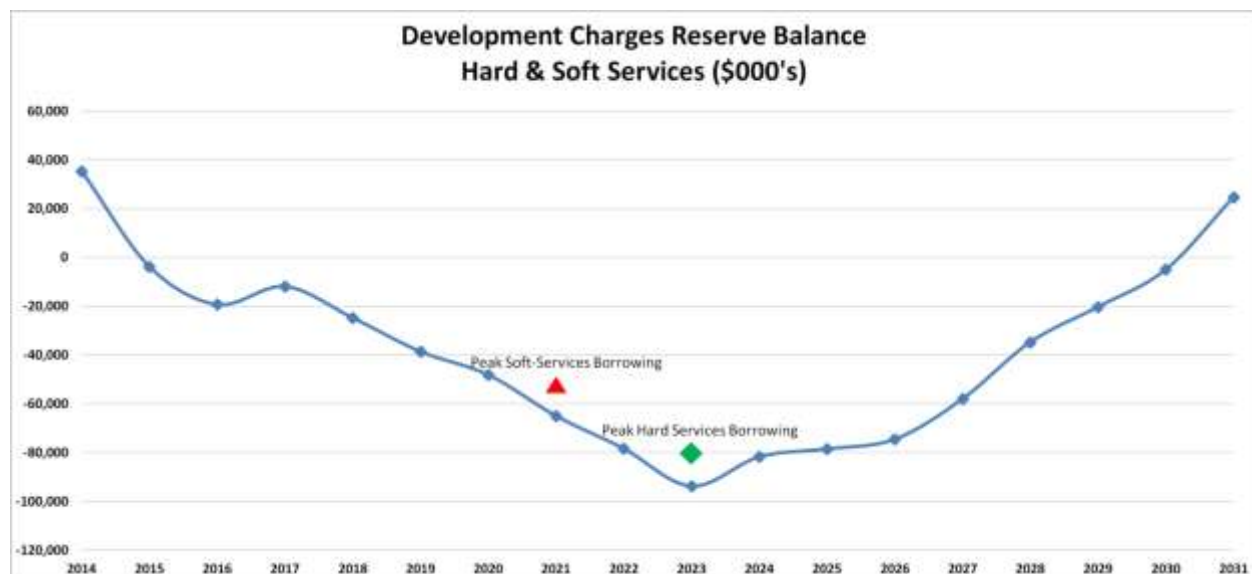
	YEAR-END BALANCES			% CHANGE
	2012	2013	2014	2012 - 2014
CITY-WIDE SOFT SERVICES	\$59,641,201	\$41,904,890	\$10,906,409	-82%
CITY-WIDE HARD SERVICES	\$54,946,843	\$59,031,398	\$37,301,771	-32%
AREA SPECIFIC CHARGES	\$22,909	\$1,853,919	\$3,295,967	14287%
<b>TOTAL DEVELOPMENT CHARGE RESERVE</b>	<b>\$114,610,953</b>	<b>\$102,790,207</b>	<b>\$51,504,147</b>	<b>-55%</b>
<b>CAPITAL COMMITMENTS AT YEAR-END</b>	<b>(\$59,587,050)</b>	<b>(\$86,883,199)</b>	<b>(\$58,999,333)</b>	<b>-1%</b>
<b>ADJUSTED DC RESERVE BALANCES</b>	<b>\$55,023,903</b>	<b>\$15,907,008</b>	<b>(\$7,495,186)</b>	<b>-114%</b>

The reduction of the City-wide soft services reserves is primarily related to the funding of the Markham Pan Am Centre [\$24.5M] and South East Markham Community Centre and Library [\$17.2M], while the reduction of the City-wide hard services reserves is primarily related to the construction of Main Street Markham [\$11.8M], 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, 2014. 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:

<b>PROJECT DESCRIPTION</b>	<b>PRELIMINARY ESTIMATE OF DC FUNDING</b>
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
<b>TOTAL</b>	<b><u>\$131M</u></b>

The large capital projects of \$131M highlighted above, coupled with Council approved capital commitments of \$59M, already account for \$190M in planned capital expenditure, before considering the numerous smaller projects undertaken every year. Annual expenditures on growth-related capital infrastructure are projected to exceed annual revenues in the upcoming years, thereby resulting in a depletion of the DC reserves. The main driver for the projected 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. Initial indications are that the reserves are forecasted to be sufficient to fund capital commitments through late-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 \$94M with recovery expected to occur around 2031, 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 large capital expenditures 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, 2014 is significantly lower when capital commitments of \$58,999,333 are taken into account, leaving the adjusted (uncommitted) reserve balance at (\$7,495,186). The total capital commitments for 2014 represent a decrease of \$27,883,866 [\$58,999,333 less \$86,883,199] compared to the prior year, which is mainly the result of large capital transfers completed in 2014 related to the Markham Pan Am Centre and the South East Markham Community Centre and Library. The largest share of the capital commitments are related to City-wide soft services projects which total approximately \$44.2M and includes projects such as the remaining commitment for the South East Markham Community Centre and Library [\$36.4M] and the final phase of construction for the Angus Glen Community Park [\$3.4M]. The remainder of the total capital commitments is related to various Engineering projects, including Phase 2 of 3 of the Rodick Road extension [\$5.1M]. The adjusted (uncommitted) reserve balance of (\$7.5M) represents a \$23.4M decrease from the prior year closing balance of \$15.9M.

The chart below summarizes the 2014 year-end reserve balances and capital commitments:

	<b>YEAR-END RESERVE BALANCE</b>	<b>CAPITAL COMMITMENTS</b>	<b>ADJUSTED RESERVE BALANCE</b>
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
<b>TOTAL DEVELOPMENT CHARGE RESERVE</b>	<b>\$51,504,147</b>	<b>\$58,999,333</b>	<b>(\$7,495,186)</b>

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

**RECOMMENDED BY:**

04/05/2015

04/05/2015

**X**

Joel Lustig  
Treasurer

**X**

Trinela Cane  
Commissioner, Corporate Services

**ATTACHMENTS:**

[Development Charges December 31, 2014 Reserve Balances and Annual Activity of the Accounts - Appendices](#)