



Report to: General Committee

Report Date: April 27, 2011

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**SUBJECT:** Development Charges December 31, 2010 Reserve Balances and Annual Activity of the Accounts

**PREPARED BY:** Raymond Law, Senior Financial Analyst – Ext. 3585  
Kevin Ross, Manager, Development Finance – Ext. 2126

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**RECOMMENDATION:**

That the report titled “Development Charges December 31, 2010 Reserve Balances and Annual Activity of the Accounts” be received for information purposes.

**PURPOSE:**

Section 43(1) of the *Development Charges Act, 1997* requires the Treasurer to submit annually to Council a financial statement relating to Development Charge 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, 2010.

**FINANCIAL CONSIDERATIONS:**

The December 31, 2010 closing balance of the Development Charge Reserve Accounts before capital commitments was \$106,861,872 (Schedule A). This balance represents cash of \$61,194,187 letters of credit of \$18,159,321 and receivables of \$27,508,364 in the reserves. This balance does not take into account commitments for approved capital projects. Approved capital commitments against the reserves as at December 31, 2010 totaled \$89,650,240. The uncommitted reserve balance is \$17,211,632 [\$106,861,872 less \$89,650,240]. Although \$89,650,240 is committed to existing capital projects, the cash-flow associated with this commitment spans the next 3 years.

The net increase in the reserve fund, before capital commitments, from January 1, 2010 [\$75,006,930] to December 31, 2010 [\$106,861,872] was \$31,854,942 as outlined in Schedule B. This increase was primarily due to the fast-tracking of subdivision agreements in the face of an increase to Regional Development Charges rates as of September 24, 2010.

The net amount transferred to capital projects in 2010 was \$28,668,906 which is broken down into two components; transfer to capital and transfer from capital (Schedule B). These two components of the transfer include \$31,701,493 of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$3,032,587 resulting mainly from the closure of capital projects.

A summary of the Development Charges (DC) activity for the year is detailed as follows:

January 1, 2010 opening balance	\$ 75,006,930
Development Charges received	\$ 59,798,002
Interest earned (Schedule E)	\$ 725,846
Net amount transferred to capital projects	\$ (28,668,906)
Balance as at December 31, 2010	<u>\$ 106,861,872</u>

Schedule D provides details of the service-in-lieu agreements, and indicates that the Town has an obligation in the amount of \$4,015,497 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:

Town-Wide Soft	\$ 73,573,211
Town-Wide Hard	\$ 33,835,710
Area-Specific	<u>\$ (547,048)</u>
Total	<u>\$106,861,872</u>

Schedule F provides the year-end balance of each component for 2008 through 2010 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
	2008	2009	2010	2008 - 2010
TOWN-WIDE SOFT SERVICES	\$74,044,789	\$64,997,407	\$73,573,211	-1%
TOWN-WIDE HARD SERVICES	\$14,476,544	\$12,229,472	\$33,835,710	134%
AREA-SPECIFIC CHARGES	\$13,146,465	(\$2,219,948)	(\$547,048)	-104%
<b>TOTAL DEVELOPMENT CHARGE RESERVE</b>	<b>\$101,667,798</b>	<b>\$75,006,930</b>	<b>\$106,861,872</b>	<b>5%</b>
<b>CAPITAL COMMITMENTS</b>				
PROJECTED CASH OUTFLOW				
2011			\$49,759,730	
2012			\$30,509,586	
2013			\$9,380,924	
CAPITAL COMMITMENTS AT YEAR-END	(\$94,421,937)	(\$101,927,444)	(\$89,650,240)	-5%
<b>ADJUSTED DC RESERVE BALANCES</b>	<b>\$7,245,861</b>	<b>(\$26,920,514)</b>	<b>\$17,211,632</b>	<b>138%</b>

The total capital commitment as at December 31, 2010 was \$89,650,240. Significant amounts of these capital commitments are expected to be expended in the next two years (e.g. East Markham Community Centre where the majority of costs are expected in 2011) and will therefore impact the cash available for growth-related capital projects in the medium term. A preliminary cash flow projection (based on past trends and current expectations) to establish a timeline in which the committed [\$89,650,240] DC funding may be required indicates that the funds may be utilized as follows: 55% in 2011, 34% in 2012 and the remainder in 2013, as indicated in the previous chart.

Capital commitments from 2008 to 2010 have decreased by 5%. This is primarily due to the funding of a number of large capital projects, including:

<b><u>Project Description</u></b>	<b><u>Amount Funded</u></b> as at December 31, 2010
East Markham Community Centre (EMCC)	\$16,531,468
14 <sup>th</sup> Avenue Watermain – McCowan/Boxwood	\$5,580,000
Enterprise Drive – Phase 2 Construction	\$5,250,000
Cathedral Fire Station – Construction	\$3,725,250

#### **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 (over \$1,000,000) 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 2010 is significantly lower when capital commitments of \$89,650,240 are taken into account, leaving the adjusted (uncommitted) reserve balance at \$17,211,632. The total capital commitment for 2010 represents a decrease of \$12,277,204 [\$89,650,240 less \$101,927,444] compared to the prior year. The largest share of the capital commitments are related to the EMCC [\$50,696,872], Birchmount Utility Relocations [\$11,462,500] and other engineering projects [\$14,567,712]. The remainder of the total capital commitments is related to various projects for Recreation Services, Fire Services and Parks. The adjusted (uncommitted) reserve balance of \$17,211,632 represents a \$44,132,146 increase from the prior year closing balance of negative \$26,920,514.

A reduction in the reserve balances would have been consistent with projections presented as part of the Integrated Leisure Master Plan, which also indicated a need to consider borrowing options in the near future. However, a significant increase of the Region of York's Development Charges rates in 2010 incited many developments to occur sooner than anticipated, thereby increasing the DC cash-flow to the Town in 2010.

Based on the forecast of the capital program included in the Development Charges Background Study and the Integrated Leisure Master Plan, capital expenditures will exceed cash receipts during the 2011-2014 timeframe and will in all likelihood result in borrowing in the period.

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A development charges cash-flow forecast and borrowing policy was brought forward in Q3 2010. The timing of capital projects along with other variables (i.e. future collections and capital commitments) will be continued to be monitored to determine when the Town will be required to borrow to finance its growth-related projects.

**RECOMMENDED BY:**

02/05/2011

03/05/2011

**X** 

Joel Lustig  
Treasurer

**X** 

Andy Taylor  
Commissioner, Corporate Services

**ATTACHMENTS:**[Schedules A-F](#)

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 2010

Schedule D – Statement of service-in-lieu credits

Schedule E – Investment details as required under Reg. 74/97 Section 8 of the Municipal Act

Schedule F – Statement of change in year-end balances