



Report to: General Committee

Report Date: May 26th, 2014

SUBJECT: Development Charges December 31, 2013 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, 2013 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 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, 2013.

FINANCIAL CONSIDERATIONS:

The December 31, 2013 closing balance of the development charges (DC) reserve accounts before capital commitments was \$102,790,207 (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, 2013 totaled \$86,883,199 resulting in an adjusted (uncommitted) reserve balance of \$15,907,008 [\$102,790,207 less \$86,883,199].

The net decrease in the reserve fund before capital commitments from January 1, 2013 [\$114,610,953] to December 31, 2013 [\$102,790,207] was (\$11,820,746) (Schedule B).

Schedule B outlines the net amount transferred to capital projects in 2013 as \$46,373,801 which is broken down into two components: transfer to capital and transfer from capital. These two components of the transfer include \$59,711,036 of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$13,337,235 resulting mainly from the closure of capital projects.

During 2013, investment of development charge reserves through various investment vehicles yielded net interest of \$1,022,795 (Schedule D).

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

January 1, 2013 opening balance	\$114,610,953
Development Charges received	\$33,530,260
Interest earned	\$1,022,795
Net amount transferred to capital projects	(\$46,373,801)
Balance as at December 31, 2013	<u>\$102,790,207</u>

Schedule E provides information on the service-in-lieu agreements and indicates that the City has an obligation in the amount of \$5,617,650 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	\$41,904,890
City-Wide Hard	\$59,031,398
Area-Specific	<u>\$1,853,919</u>
Total	<u>\$102,790,207</u>

Schedule F provides the year-end balance of each reserve for 2011 through 2013 along with the percentage change over the three-year period.

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

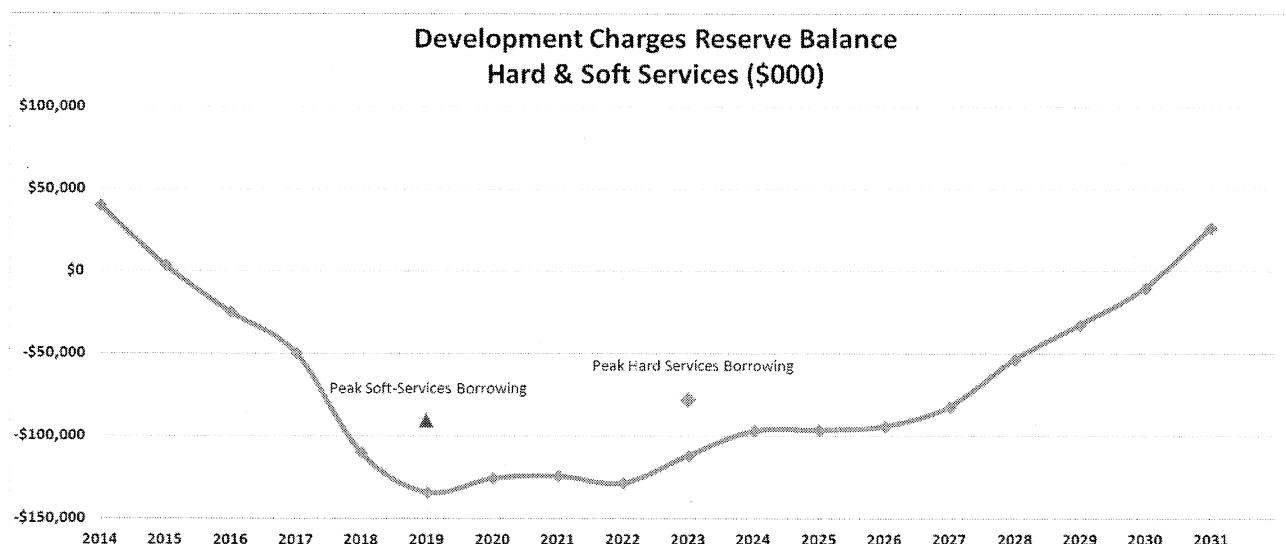
	YEAR-END BALANCES			% CHANGE 2011 - 2013
	2011	2012	2013	
CITY-WIDE SOFT SERVICES	\$58,533,663	\$59,641,201	\$41,904,890	-28%
CITY-WIDE HARD SERVICES	\$30,343,577	\$54,946,843	\$59,031,398	95%
AREA SPECIFIC CHARGES	\$2,477,319	\$22,909	\$1,853,919	-25%
TOTAL DEVELOPMENT CHARGE RESERVE	<u>\$91,354,559</u>	<u>\$114,610,953</u>	<u>\$102,790,207</u>	<u>13%</u>
CAPITAL COMMITMENTS AT YEAR-END	<u>(\$65,223,431)</u>	<u>(\$59,587,050)</u>	<u>(\$86,883,199)</u>	<u>33%</u>
ADJUSTED DC RESERVE BALANCES	<u>\$26,131,128</u>	<u>\$55,023,903</u>	<u>\$15,907,008</u>	<u>-39%</u>

The reduction of the City-wide soft services reserves is primarily related to the funding of the Markham Pan Am Centre as outlined in Schedule C. In addition, capital commitments from 2011 to 2013 have increased by 33%. Projects such as the South East Markham Community Centre and Library [\$54.7M], the remaining commitment for the Markham Pan Am Centre [\$8.1M], and the Birchmount Road Crossing at Rouge River [\$3.5M] have resulted in significant increases to capital commitments.

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, 2013. 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	PRELIMINARY ESTIMATE OF DC FUNDING
Markham Sports Park	\$40,000,000
Public Works Yard	\$18,952,907
City Wide Bridge/Crossing Projects (Minor Collectors)	\$18,084,555
Pan-Am Facility Construction – Year 2	\$15,209,600
Warden/Steeles Corridor – Sewer Upgrade	\$12,600,000
Langstaff North Crossing	\$12,320,280
Main St. Markham – Hwy 407 to Hwy 7 (Construction)	\$11,773,056
Cornell Community Park	\$10,508,983
TOTAL	<u>\$139,449,381</u>

The large capital projects of \$139M highlighted above, coupled with capital commitments of \$87M, already account for \$226M 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. 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 mid-2015 to early 2016, after which the City will be required to borrow in order to finance its growth-related projects. Peak borrowing is projected to occur in 2019 at approximately \$135M 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 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, 2013 is significantly lower when capital commitments of \$86,883,199 are taken into account, leaving the adjusted (uncommitted) reserve balance at \$15,907,008. The total capital commitments for 2013 represent an increase of \$27,296,149 [\$86,883,199 less \$59,587,050] compared to the prior year. The largest share of the capital commitments are related to City-wide soft services projects which total approximately \$73.1M and includes projects such as, the South East Markham Community Centre and Library [\$54.7M] and the remaining commitment for the Markham Pan Am Centre [\$8.1M]. The remainder of the total capital commitments is related to various Engineering projects. The adjusted (uncommitted) reserve balance of \$15.9M represents a \$39.1M decrease from the prior year closing balance of \$55.0M.

The chart below summarizes the 2013 year-end reserve balances and capital commitments:

	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
CITY-WIDE SOFT SERVICES	\$41,904,890	\$73,126,585	(\$31,221,695)
CITY-WIDE HARD SERVICES	\$59,031,398	\$13,756,614	\$45,274,784
AREA-SPECIFIC CHARGES	\$1,853,919	\$0	\$1,853,919
TOTAL DEVELOPMENT CHARGE RESERVE	\$102,790,207	\$86,883,199	\$15,907,008

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

RECOMMENDED BY:

15/05/2014

X 

Joel Lustig
Treasurer

15/05/2014

X 

Joel Lustig for Trinela Cane
Acting 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 2013

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

Schedule E – Statement of service-in-lieu credits

Schedule F – Statement of change in year-end balances