



Report to: General Committee

Report Date: April 27, 2012

SUBJECT: Development Charges December 31, 2011 Reserve Balances and Annual Activity of the Accounts
PREPARED BY: Raymond Law, Senior Financial Analyst – Ext. 3585
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RECOMMENDATION:

That the report titled “Development Charges December 31, 2011 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, 2011.

FINANCIAL CONSIDERATIONS:

The December 31, 2011 closing balance of the Development Charge Reserve Accounts, before capital commitments, was \$91,354,559 (Schedule A). This balance represents the cash, letter of credit and receivable balances in the reserves, and does not take into account commitments for approved capital projects. Approved capital commitments against the reserves as at December 31, 2011 totaled \$65,223,431 resulting in an adjusted (uncommitted) reserve balance of \$26,131,128 [\$91,354,559 less \$65,223,431]. Although \$65,223,431 is committed to approved capital projects, the cash-flow associated with this commitment spans the next 2 years.

The net reduction in the reserve fund, before capital commitments, from January 1, 2011 [\$106,861,872] to December 31, 2011 [\$91,354,559] was \$15,507,313 as seen in Schedule B.

The net amount transferred to capital projects in 2011 was \$55,490,681 which is broken down into two components – transfer to capital and transfer from capital – as seen in Schedule B. These two components of the transfer include \$59,307,786 of growth-related projects (Schedule C) funded from development charges as well as net transfers to development charges of \$3,817,105 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, 2011 opening balance	\$ 106,861,872
Development Charges received	\$ 38,909,750
Interest earned (Schedule E)	\$ 1,073,618
Net amount transferred to capital projects	\$ (55,490,681)
Balance as at December 31, 2011	<u>\$ 91,354,559</u>

Schedule D provides information on the service-in-lieu agreements and indicates that the Town has an obligation in the amount of \$6,946,728 to be offset from development charges payable when the respective developers execute their agreements.

Schedule E shows the investment vehicles which yielded net interest of \$1,073,618 during 2011.

COMPONENT CATEGORIES

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

Town-Wide Soft	\$ 58,533,663
Town-Wide Hard	\$ 30,343,577
Area-Specific	<u>\$ 2,477,319</u>
Total	<u>\$ 91,354,559</u>

Schedule F (attached) provides the year-end balance of each reserve for 2009 through 2011 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 2009 - 2011
	2009	2010	2011	
TOWN-WIDE SOFT SERVICES	\$64,997,407	\$73,573,211	\$58,533,663	-10%
TOWN-WIDE HARD SERVICES	\$12,229,472	\$33,835,710	\$30,343,577	148%
AREA-SPECIFIC CHARGES	(\$2,219,948)	(\$547,048)	\$2,477,319	212%
TOTAL DEVELOPMENT CHARGE RESERVE	\$75,006,930	\$106,861,872	\$91,354,559	22%
CAPITAL COMMITMENTS				
PROJECTED CASH OUTFLOW				
2012			(\$56,590,898)	
2013			(\$8,632,533)	
CAPITAL COMMITMENTS AT YEAR-END	(\$101,927,444)	(\$89,650,240)	(\$65,223,431)	-36%
ADJUSTED DC RESERVE BALANCES	(\$26,920,514)	\$17,211,632	\$26,131,128 *	197%

* Does not take into account DC revenues in years subsequent to 2011 and future growth-related capital projects.

The reduction of the town-wide soft services reserves is primarily related to the funding of the East Markham Community Centre (EMCC) as outlined in Schedule C. In addition, capital commitments from 2009 to 2011 have decreased by 36% as a number of large capital projects approach completion. The transfer of funds related to East Markham Community Centre (EMCC), Rodick Road extension between 14th Avenue and Esna Park Drive, and Birchmount Road, Phase 2 Construction resulted in significant reductions to capital commitments. A cash flow projection (based on past trends and current expectations) to establish a timeline in which the committed (\$65.2M) DC funding may be required indicates that the funds may be utilized as follows: \$56.6M in 2012 and \$8.6M in 2013, as indicated in the previous chart.

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. These projects and their preliminary funding requirements include, but are not limited to the following:

<u>Project Description</u>	<u>Preliminary Estimate of DC Funding</u>
South East Markham Community Centre	\$46.1M
Pan-Am Facility	\$54.6M
Sportsfield Park	\$15.4M
Public Works Yard	\$21.6M
Main St. Markham, Reconstruction Phase III	\$10.8M
Birchmount Bridge at Rouge River	\$14.8M
<u>CN Bridge Construction</u>	<u>\$5.7M</u>
TOTAL	\$169.0M

A preliminary DC cash-flow forecast was done taking into consideration current capital commitments and identified growth-related projects, and initial indications are that the reserves may be sufficient to fund capital commitments through to 2013.

The timing of capital projects along with other variables (i.e. future collections and 2011 capital commitments) will continue to be monitored and assessed, to determine when the Town will be required to borrow, in order to finance its growth-related projects.

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, 2011 is significantly lower when capital commitments of \$65,223,431 are taken into account, leaving the adjusted (uncommitted) reserve balance at \$26,131,128. The total capital commitment for 2011 represents a decrease of \$24.4M [\$65.2M less \$89.6M] compared to the prior year. The largest share of the capital commitments are related to the EMCC [\$24.1M], Main St. Markham, Reconstruction Phase I [\$5.2M], and other

engineering projects [\$21.7M]. 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 \$26.1M represents an \$8.9M change from the prior year closing balance of \$17.2M.

The chart below summarizes the 2011 year-end reserve balances and capital commitments:

	2011 RESERVE BALANCES		
	YEAR-END RESERVE BALANCE	CAPITAL COMMITMENTS	ADJUSTED RESERVE BALANCE
TOWN-WIDE SOFT SERVICES	\$58,533,663	\$38,265,174	\$20,268,489
TOWN-WIDE HARD SERVICES	\$30,343,577	\$26,958,257	\$3,385,320
AREA-SPECIFIC CHARGES	\$2,477,319	\$0	\$2,477,319
TOTAL DEVELOPMENT CHARGE RESERVE	\$91,354,559	\$65,223,431	\$26,131,128

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

RECOMMENDED BY:

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Joel Lustig
Treasurer

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Nasir Kenea
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 2011
- 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