



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 22, 2015
SUBJECT/REPORT NO:	Development Charges Reserves Status Report as of December 31, 2014 (FCS15047) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Lindsay Gillies 905-546-2424 Ext. 2790
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That Report FCS15047 "Development Charges Reserve Status Report as of December 31, 2014" be forwarded to the Ministry of Municipal Affairs and Housing.

EXECUTIVE SUMMARY

As per the requirements of the *Development Charges Act, 1997*, as amended, an annual report of Development Charges (DC) reserves activity must be provided to Council. A copy of the report must also be provided to the Minister of Municipal Affairs and Housing.

This report summarizes the changes in the DC reserves for the year ended December 31, 2014. The consolidated DC reserves balance as of December 31, 2014 was \$98.27 million. The increase in the DC reserves balance of \$16.28 million is due to DC collections exceeding actual DC funding of capital projects and other outflows, as reported in Table 1. The DC outflows have been controlled by delaying the issuance of DC debt. Ideally, debt is only issued after the projects have reached substantial completion. Table 4 shows the required debt issuance based on approved DC projects spending the funding approved; this figure has increased \$82 million, to \$161 million, since the 2013 report.

The DC reserves balance as at December 31, 2014 reflect the application of Public Sector Accounting Board (PSAB) reporting requirements for obligatory reserve funds.

The PSAB reporting requirements require the City to return any DC reserve funding exceeding actual expenditures. Therefore, the DC reserve balances are based on actual expenses to date and not the amounts Council has committed. Table 4 shows

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the DC reserve balances if all commitments and required debt issuances were to be cash funded.

DC collections in 2014 totalled \$48.08 million, \$3.89 million more than in 2013.

Residential DC collections increased to \$43.10 million in 2014 from \$40.46 million in 2013, while non-residential DC collections increased to \$4.98 million in 2014 from \$3.69 million in 2013.

Table 1 provides a summary of inflows and outflows to the DC reserves in 2014 resulting in a consolidated balance of \$98.27 million.

TABLE 1 (\$ millions)

Balance as of January 1, 2014	\$ 81.99
<u>Funding Inflows:</u>	
Interest	\$ 0.16
Collections	\$ 48.08
DC Exemption funding	\$ 8.00
Internal Borrowing repayment	\$ 0.48
Sub-total of Inflows:	<u>\$ 56.72</u>
<u>Funding Outflows:</u>	
External Debt Payments	\$ 12.13
Other Transfers	\$ 1.45
Capital Financing	\$ 26.86
Sub-total of Outflows:	<u>\$ 40.44</u>
Balance as of December 31, 2014	<u>\$ 98.27</u>

Table 2 provides a summary of DC activity in 2014 within the various service categories. Summaries of each individual DC reserve can be found in Appendix "A" to Report FCS15047.

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TABLE 2

Consolidated Summary of DC Reserve Fund Activity by Service Period of January 1, 2014 to December 31, 2014							
	Balance as of Jan 1/14 \$	Interest \$	Collections \$	External Debt \$	Other Transfers(1) \$	Capital Financing \$	Balance as of Dec 31/14 \$
Water, WW, Storm	80,609,330	1,015,335	27,678,733	(2,735,517)	7,269,999	(31,409,532)	82,428,348
Services R/t Highway	(4,151,269)	(783,184)	10,768,187	(7,521,158)	-	7,823,252	6,135,828
Transportation	45,962	7,237	988,660	-	-	157,298	1,199,157
Emergency	910,358	(16,231)	996,014	(1,534,856)	161,656	(172,234)	344,707
Recreation	3,661,139	(70,573)	4,382,060	(281,493)	323,311	(5,002,746)	3,011,698
Admin	(5,115,239)	(140,667)	738,410	(61,178)	-	1,764,617	(2,814,057)
Waterdown Fees	2,171,212	52,884	1,429,589	-	-	(8,407)	3,645,278
Social	3,651,536	95,720	983,024	-	-	(10,956)	4,719,324
GO Transit	-	3,768	368,323	-	(372,091)	-	-
Developer Recoveries	207,206	(708)	(249,316)	-	(360,735)	-	(403,553)
Consolidated Total	81,990,235	163,581	48,083,684	(12,134,202)	7,022,140	(26,858,708)	98,266,730
(Consolidated Total may not exactly match Appendix "A" due to rounding)							
Note 1: Other Transfers include all internal borrowing transactions, DC exemption Funding, and transfers to operating							

Unlike other municipal reserves, it is common to find a negative balance in some DC reserves. This is acceptable per the City's Development Charges Reserve Policy (Report FCS13035) as long as the consolidated balance remains in excess of the outstanding DC Deferral Agreements. Municipalities require most growth infrastructure prior to full development being completed, and therefore DC collections lag expenditures. Significant negative balances can usually be mitigated by financing large projects over longer terms through debt financing.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial:

The DC Reserve Status Report reflects balances in the City's audited financial statements and schedule 61 of the financial information return (FIR). The consolidated DC reserve balance in 2014 reflects the application of PSAB reporting requirements for obligatory reserve funds whereby funds collected remain in the DC reserves and are not transferred to capital projects until expenditures are incurred. The year-end adjusted consolidated DC reserve balance is \$98.27 million, as outlined in Table 3.

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TABLE 3
Development Charge Service Specific Reserve Balances
as of December 31, 2014

DC Service	Res (\$)	Non-Res (\$)	Total (\$)
Water Services	17,561,630	6,716,224	24,277,854
Wastewater Services	15,071,767	3,524,056	18,595,823
LinearWastewater	17,745,121	8,830,714	26,575,835
Storm Water Drainage	17,130,422	(4,151,587)	12,978,835
Roads	13,616,981	(8,960,977)	4,656,004
Public Wks&Roll Stock	1,484,454	(4,629)	1,479,825
Transit Services	2,100,734	(570,137)	1,530,597
Airport	21,786	(576,731)	(554,945)
Fire Protection	2,831,371	(2,361,105)	470,266
Police Services	943,818	(753,659)	190,159
Ambulance Services	(188,231)	(127,489)	(315,720)
Outdoor Recreation	(2,528,071)	(288,904)	(2,816,975)
Indoor Recreation	7,170,862	(95,460)	7,075,402
Library Services	(1,077,591)	(184,584)	(1,262,175)
Admin Studies	417,942	(3,232,000)	(2,814,058)
OPA 28 Fee	1,771,155	-	1,771,155
Burlington roads SAC	1,836,861	37,263	1,874,124
Homes for Aged	134,367	2,665	137,032
Health	313,159	-	313,159
Social&Child	373,705	11,911	385,616
Housing	3,868,734	-	3,868,734
Parking	210,210	13,295	223,505
Provincial Offences Act	14,118	665	14,783
Hamilton Consrevation Authority	14,118	1,330	15,448
Binbrook SAC	(517,701)		(517,701)
Dundas/Waterdown SAC	32,837	81,311	114,148
TOTAL	100,354,558	(2,087,828)	98,266,730

In order to understand the true position of the DC reserves consideration needs to be given to the approved budgets that have not yet been funded from DC reserves. At December 31, 2014 there was \$273 million in approved DC funding that hasn't been transferred to projects (including DC Debt that hasn't yet been issued). Table 4 provides the actual DC reserve balance at December 31, 2014, the approved funding that hasn't yet been transferred to projects, and the adjusted DC reserve balances. The adjusted DC reserve balance illustrates that if all of the expenditures had occurred, and DC funding transferred from reserves (including DC Debt that hasn't yet been issued), the consolidated DC reserve balances would be in a deficit position of \$175 million.

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TABLE 4

DC Service	Dec 31/14 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Reserve Funding (\$)	DC Debt (\$)	
Water Services	24,277,854	(17,306,652)	(23,082,000)	(16,110,798)
Wastewater Services	18,595,823	-	(2,613,000)	15,982,823
Linear Wastewater	26,575,835	(18,812,815)	(53,800,000)	(46,036,980)
Storm Water Drainage	12,978,835	(9,979,182)	(43,459,070)	(40,459,418)
Roads	4,656,004	(33,827,666)	(37,999,241)	(67,170,902)
Public Wks&Roll Stock	1,479,825	(1,232,578)	-	247,247
Transit Services	1,530,597	-	-	1,530,597
Airport	(554,945)	-	-	(554,945)
Fire Protection	470,266	(64,498)	-	405,768
Police Services	190,159	(700,467)	-	(510,308)
Ambulance Services	(315,720)	(140,093)	-	(455,813)
Outdoor Recreation	(2,816,975)	(5,373,326)	-	(8,190,301)
Indoor Recreation	7,075,402	(7,895,199)	-	(819,797)
Library Services	(1,262,175)	(2,219,369)	-	(3,481,544)
Admin Studies	(2,814,058)	(4,940,888)	-	(7,754,946)
OPA 28 Fee	1,771,155	(5,850,000)	-	(4,078,845)
Burlington roads SAC	1,874,124	(1,874,124)	-	-
Homes for Aged	137,032	-	-	137,032
Health	313,159	(810,000)	-	(496,841)
Social&Child	385,616	(1,045,800)	-	(660,184)
Housing	3,868,734	-	-	3,868,734
Parking	223,505	-	-	223,505
Provincial Offences Act	14,783	-	-	14,783
Hamilton Conservation Aut	15,448	-	-	15,448
Binbrook SAC	(517,701)	-	-	(517,701)
Dundas/Waterdown SAC	114,148	-	-	114,148
TOTAL	98,266,730	(112,072,656)	(160,953,311)	(174,759,237)

Note: The DC Reserve Policy (Report FCS13035) permits the General Manager of Finance & Corporate Services to change approved DC funding from debt funded to reserve funded or from reserve funded to debt funded in order to maintain the sustainability of the DC reserves. Table 4 reflects current estimates under this authority by showing reserve funding from the rates (water, linear wastewater, storm water) reserves and showing debt funding from the roads DC reserves.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Report FCS15047 is historical in nature, and details the 2014 activity in the DC reserves.

The DC revenues were collected through authorization of Municipal DC By-law 09-143, as amended, By-law 11-175, as amended, and By-law 14-153, which were passed by

Council in 2009, 2011, and 2014 respectively. Collections under By-laws 09-143, 11-175, and 14-153 are deposited into DC reserves.

GO Transit DC By-law 11-174, as amended, was also passed in 2011 to recover the growth-related share of the City's annual contribution to GO Transit's growth capital budget. Collections under the GO Transit DC By-law are deposited into a separate DC reserve and are to be used solely to fund the City's contribution to GO Transit's growth related capital budget.

Appendix "A" to Report FCS15047 summarizes the 2014 activity for each DC reserve.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The DC Reserves Status Report is the "Treasurer's Statement" as outlined in the DC Act, 1997, which must be sent to the Ministry of Municipal Affairs and Housing.

RELEVANT CONSULTATION

In their correspondence regarding the 2014 DC Background Study, the Hamilton Halton Homebuilders Association requested that the City include a summary of the funding for all projects completed and closed in the period with the annual DC reserve report. Staff have included Appendix "D" to Report FCS15047 in response to this request.

ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)

As per the requirements of the *Development Charges Act, 1997*, as amended, an annual report of Development Charges (DC) reserves activity must be provided to Council. A copy of the report must also be provided to the Minister of Municipal Affairs and Housing.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not Applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.1 Continue to grow the non-residential tax base.
- 1.2 Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit.
- 1.3 Promote economic opportunities with a focus on Hamilton's downtown core, all downtown areas and waterfronts.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS15047 – Development Charges Reserves Status Report as of December 31, 2014

Appendix "B" to Report FCS15047 – Development Charges Funded Projects for the Year Ended December 31, 2014

Appendix "C" to Report FCS15047 – 5-Year Development Charges Exemption Summary

Appendix "D" to Report FCS15047 – Development Charges Capital Projects closed in 2014