



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
*Financial Planning and Policy Division*

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	October 24, 2016
<b>SUBJECT/REPORT NO:</b>	Development Charges Reserves Status Report as of December 31, 2015 (FCS16080) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Abe Chegou (905) 546-2424 Ext. 4047 Lindsay Gillies (905) 546-2424 Ext. 2790 Joshua Van Kampen (905) 546-2424 Ext. 1434
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance and Corporate Services Department
<b>SIGNATURE:</b>	

## RECOMMENDATIONS

- (a) That Report FCS16080 "Development Charges Reserves Status Report as of December 31, 2015" be received and made available to the public;
- (b) That Report FCS16080 "Development Charges Reserves Status Report as of December 31, 2015" be forwarded, if requested, 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. The DC Reserves Status Report is the "Treasurer's Statement" as outlined in the *DC Act, 1997*, as amended, which must be made available to the public and forwarded to the Ministry of Municipal Affairs and Housing at their request.

The overall 2015 DC Reserves balances have increased \$33.26 M since 2014 to a balance of \$131.53 M. The increase is due to collections exceeding direct capital funding and other outflows. The balance of \$131.53 M reflects Public Sector Accounting Board (PSAB) standards which require that any DC funds which have not been expended remain in (or are returned to) the DC reserves. Table 2 to Report FCS16080

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shows that if all approved direct capital funding were allocated to the projects the DC reserves balances would be reduced by \$86.61 M. Table 2 to Report FCS16080 also shows what the impacts on the reserves would be if amounts budgeted to be debt funded were to be cash funded from the reserves.

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 (2015 - \$17.8 M), service specific DC Reserves may incur a negative balance with staff working on financing strategies to remedy said negative balance for the future. Municipalities require most growth infrastructure to be constructed prior to the development (e.g., subdivision, industrial park) 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**

Financial:

The DC Reserves 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 2015 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 \$131.53 M, as outlined in Table 1.

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**TABLE 1**  
**Development Charge Service Specific Reserve Balances**  
**as of December 31, 2015**

<u>DC Service</u>	<u>Res (\$)</u>	<u>Non-Res (\$)</u>	<u>Total (\$)</u>
Water Services	16,925,964	6,735,632	23,661,596
Wastewater Services	31,447,052	11,690,492	43,137,544
LinearWastewater	15,152,980	6,817,728	21,970,708
Storm Water Drainage	23,164,325	(307,571)	22,856,754
Roads	15,854,940	(12,329,399)	3,525,541
Public Wks&Roll Stock	1,387,286	(258,143)	1,129,143
Transit Services	2,704,619	(472,290)	2,232,329
Airport	314,677	(534,028)	(219,351)
Fire Protection	3,276,987	(2,122,721)	1,154,266
Police Services	575,168	(1,162,704)	(587,536)
Ambulance Services	(281,873)	(202,692)	(484,565)
Outdoor Recreation	(894,049)	(211,195)	(1,105,244)
Indoor Recreation	7,878,138	(163,739)	7,714,399
Library Services	(744,082)	(177,851)	(921,933)
Admin Studies	997,419	(4,413,298)	(3,415,879)
OPA 28 Fee	1,809,384	-	1,809,384
Burlington roads SAC	2,256,318	-	2,256,318
Homes for Aged	427,103	17,786	444,889
Health	351,515	-	351,515
Social&Child	415,167	12,107	427,274
Housing	4,602,857	-	4,602,857
Parking	625,943	88,989	714,932
Provincial Offences Act	42,355	4,449	46,804
Hamilton Conservation Authority	41,953	8,899	50,852
Binbrook SAC	(422,979)	-	(422,979)
Go Transit	(4,166)	-	(4,166)
Dundas/Waterdown SAC	(14,463)	105,594	91,131
Capital DC Funds Holding	339,325	170,820	510,145
<b>TOTAL</b>	<b>128,229,863</b>	<b>3,296,865</b>	<b>131,526,728</b>

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, 2015 there was \$273 M in approved DC funding that hasn't been transferred to projects (including DC Debt that hasn't yet been issued). Table 2 provides the actual DC reserve balance at December 31, 2015, 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 was transferred from reserves (including DC Debt that hasn't yet been issued), the consolidated DC reserve balances would be in a deficit position of \$141.22 M.

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**TABLE 2**

DC Service	Dec 31/15 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Services	23,661,596	(7,170,065)	(33,194,000)	(16,702,469)
Wastewater Services	43,137,544	-	(7,873,000)	35,264,544
Linear Wastewater	21,970,708	(6,837,197)	(53,800,000)	(38,666,489)
Storm Water Drainage	22,856,754	(12,904,042)	(52,967,000)	(43,014,288)
Roads	3,525,541	(29,134,776)	(38,302,102)	(63,911,337)
Public Wks&Roll Stock	1,129,143	(771,032)	-	358,111
Transit Services	2,232,329	-	-	2,232,329
Airport	(219,351)	-	-	(219,351)
Fire Protection	1,154,266	(485,058)	-	669,208
Police Services	(587,536)	-	-	(587,536)
Ambulance Services	(484,565)	-	-	(484,565)
Outdoor Recreation	(1,105,244)	(7,333,404)	-	(8,438,648)
Indoor Recreation	7,714,399	(6,879,012)	-	835,387
Library Services	(921,933)	(2,141,699)	-	(3,063,632)
Admin Studies	(3,415,879)	(5,249,161)	-	(8,665,040)
OPA 28 Fee	1,809,384	(5,850,000)	-	(4,040,616)
Burlington roads SAC	2,256,318	-	-	2,256,318
Homes for Aged	444,889	-	-	444,889
Health	351,515	(810,000)	-	(458,485)
Social&Child	427,274	(1,045,800)	-	(618,526)
Housing	4,602,857	-	-	4,602,857
Parking	714,932	-	-	714,932
Provincial Offences Act	46,804	-	-	46,804
Hamilton Conservation Aut	50,852	-	-	50,852
Binbrook SAC	(422,979)	-	-	(422,979)
Go Transit	(4,166)	-	-	(4,166)
Dundas/Waterdown SAC	91,131	-	-	91,131
Capital DC Funds Holding	510,145	-	-	510,145
<b>TOTAL</b>	<b>131,526,728</b>	<b>(86,611,246)</b>	<b>(186,136,102)</b>	<b>(141,220,620)</b>

*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 2 reflects current estimates under this authority by showing some reserve funding from the rates (water, linear wastewater, storm water) reserves and showing some debt funding from the roads DC reserves.*

Staffing: None.

Legal: None.

## **HISTORICAL BACKGROUND**

Report FCS16080 is historical in nature, and details the 2015 activity in the DC reserves.

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The DC revenues were collected through authorization of Municipal DC By-law 14-153, which was passed by Council in 2014. Collections under By-law 14-153 are deposited into DC reserves.

GO Transit DC By-law 11-174, as amended, was 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 FCS16080 summarizes the 2015 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 if requested.

## **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 included Appendix "D" to Report FCS16080 in response to this request.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

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. The report must be made available to the public and provided to the Minister of Municipal Affairs and Housing if requested.

The *Development Charges Act, 1997* was updated through the *Smart Growth for Our Communities Act, 2015* which received Royal Assent on December 3, 2015. The resulting changes to the *Development Charges Act, 1997* came into effect for the year ended December 31, 2015.

This DC Reserves Status Report and appendices have been modified from prior year versions to reflect the new requirements. Notably, municipalities are required to show which projects have been funded from each DC reserve during the year and the other amounts funded to those projects during the year. Appendices "B" and "C" of Report FCS16080 work together to fulfil this requirement. There is also the requirement that Council makes the statement available to the public. The DC Reserves Status Report

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has always been made available to the public through either Committee minutes or on request.

A municipality is required to confirm compliance with s.s. 59(1) of the *Development Charges Act, 1997*, as amended, which states that a “municipality shall not impose, directly or indirectly, a charge related to a development or a requirement to construct a service related to development, except as permitted by the D.C.A. or another Act”. The City of Hamilton is in compliance with this requirement.

This report summarizes the changes in the DC reserves for the year ended December 31, 2015. The consolidated DC reserves balance as of December 31, 2015 was \$131.53 M. The increase in the DC reserves balance of \$33.26 M is due to DC collections exceeding actual DC funding of capital projects and other outflows, as reported in Table 3. The DC outflows have been controlled by delaying the issuance of DC debt until the project is substantially completed and delaying projects where the required draw on DC Reserves would jeopardize the sustainability of the future balance. Table 2 shows the required debt issuance based on approved DC projects spending the funding approved; the calculated deficit has decreased \$34 M to \$141 M since the 2014 report.

The DC reserves balance as at December 31, 2015 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 Council approved budgeted amounts. Table 2 shows the DC reserve balances if all Council approved budgeted amounts were to be cash funded.

Since project funding from DC reserves can only be allocated after the expenses have been incurred there is often a timing difference between when levy, other source funding and DC funding are allocated to the projects. For this reason, the current year funding to each project often does not reflect the funding ratios identified in the DC background study. Staff included Appendix “D” to Report FCS16080 to show the DC funded projects closed in the year and their final revenue funding from all sources.

DC collections in 2015 totalled \$50.33 M, \$2.24 M more than in 2014.

Residential DC collections decreased to \$42.22 M in 2015 from \$43.10 M in 2014, while non-residential DC collections increased to \$8.11 M in 2015 from \$4.98 M in 2014.

Any DC exemptions authorized by Council through By-law 14-153 (e.g., reduced industrial rate, stepped commercial rate) or through a Council meeting (i.e., exemptions

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for non-profits) are required to be recovered through other sources. Council has approved amounts in the rates budget, and on a go forward basis, the tax budget to enable staff to recover a greater portion of these exemptions. A five-year summary of the exemptions is included as Appendix “E” to Report FCS16080.

Table 3 provides a summary of inflows and outflows to the DC reserves in 2015 resulting in a consolidated balance of \$131.53 M.

**TABLE 3 (\$ millions)**

Balance as of January 1, 2015	\$ 98.27
<u>Funding Inflows:</u>	
Interest	\$ 0.19
Collections	\$ 50.33
DC Exemption funding	\$ 7.75
Internal Borrowing repayment	\$ 0.48
Sub-total of Inflows:	<u>\$ 58.75</u>
<u>Funding Outflows:</u>	
External Debt Payments	\$ 9.52
Other Transfers	\$ 1.65
Direct Capital Funding	\$ 14.32
Sub-total of Outflows:	<u>\$ 25.49</u>
Balance as of December 31, 2015	<u>\$ 131.53</u>

Table 4 provides a summary of DC activity in 2015 within the various service categories. Summaries of each individual DC reserve can be found in Appendix “A” to Report FCS16080.

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**TABLE 4**

Consolidated Summary of DC Reserve Fund Activity by Service Period of January 1, 2015 to December 31, 2015							
	Balance as of Jan 1/15 \$	Interest \$	Collections \$	External Debt Payments \$	Other Transfers(1) \$	Direct Capital Funding \$	Balance as of Dec 31/15 \$
Water, WW, Storm	82,428,348	935,779	26,489,627	(209,226)	6,445,252	(4,463,177)	111,626,603
Services R/t Highway	6,135,828	(709,229)	13,277,511	(7,454,461)	62,181	(6,657,147)	4,654,683
Transportation	1,199,157	40,220	1,507,386	-	-	(18,854)	2,727,909
Emergency	344,707	(25,733)	1,116,889	(1,510,992)	161,656	(4,359)	82,168
Recreation	3,011,698	(76,736)	5,018,928	(281,493)	323,311	(2,257,637)	5,738,071
Admin	(2,814,057)	(172,190)	1,048,774	(61,178)	-	(1,417,226)	(3,415,877)
Waterdown Fees	3,645,278	83,307	341,743	-	-	(4,627)	4,065,702
Social	4,719,324	117,826	1,043,661	-	-	(7,472)	5,873,338
GO Transit	-	-	344,030	-	(348,196)	-	(4,166)
Developer Recoveries	(403,553)	(119)	137,002	-	(65,178)	-	(331,848)
Capital DC Funds Holding	-	-	-	-	-	510,145	510,145
<b>Consolidated Total</b>	<b>98,266,730</b>	<b>193,126</b>	<b>50,325,551</b>	<b>(9,517,350)</b>	<b>6,579,026</b>	<b>(14,320,355)</b>	<b>131,526,728</b>
(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							

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 (2015 - \$17.8 M), service specific DC Reserves may incur a negative balance with staff working on financing strategies to remedy said negative balance for the future. Municipalities require most growth infrastructure to be constructed prior to the development (e.g., subdivision, industrial park) 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

## **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

### **Community Engagement and Participation**

*Hamilton* has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

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**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS16080 – Development Charges Reserve Funds for the period January 1, 2015 to December 31, 2015

Appendix “B” to Report FCS16080 – Development Charges Funded Projects for the year ended December 31, 2015

Appendix “C” to Report FCS16080 – Development Charges Funded Projects by Reserve for the year ended December 31, 2015

Appendix “D” to Report FCS16080 – Development Charges Capital Projects closed in 2015

Appendix “E” to Report FCS16080 – 5-Year Development Charges Exemption Summary