



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	June 21, 2017
SUBJECT/REPORT NO:	Development Charges Reserves Status Report as of December 31, 2016 (FCS17058) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Lindsay Gillies (905) 546-2424 Ext. 2790
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That Report FCS17058 “Development Charges Reserves Status Report as of December 31, 2016” be received;
- (b) That Report FCS17058 “Development Charges Reserves Status Report as of December 31, 2016” 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 Charge (DC) reserves activity must be provided to Council. The DC Reserves Status Report is the “Treasurer’s Statement” as outlined in the *Development Charges 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 2016 DC Reserves balances have decreased \$3.57 M since 2015 to an overall balance of \$127.96 M. The decrease is due to direct capital funding exceeding collections and other inflows. The balance of \$127.96 M reflects Public Sector Accounting Board (PSAB) standards which requires that any DC funds remain in (or are returned to) the DC reserves until the eligible capital project has expended the funds.

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Table 2 to Report FCS17058 shows that if all approved direct capital funding were allocated to the approved projects, the DC reserves balances would be reduced by \$84.85 M. Table 2 to Report FCS17058 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 (2016 - \$20.7 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 2016 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 consolidated DC reserve balance is \$127.96 M, as outlined in Table 1.

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**TABLE 1
Development Charge Service Specific Reserve Balances
as of December 31, 2016**

<u>DC Service</u>	<u>Res (\$)</u>	<u>Non-Res (\$)</u>	<u>Total (\$)</u>
Water Services	20,229,050	7,317,615	27,546,665
Wastewater Services	38,164,044	14,015,922	52,179,966
LinearWastewater	20,704,911	8,546,666	29,251,577
Storm Water Drainage	24,243,459	(8,435,543)	15,807,916
Roads	18,867,258	(22,476,419)	(3,609,161)
Public Wks&Roll Stock	1,872,849	(177,646)	1,695,203
Transit Services	1,308,988	(1,246,271)	62,717
Airport	705,128	(457,365)	247,763
Fire Protection	3,396,086	(2,301,263)	1,094,823
Police Services	949,872	(1,281,857)	(331,985)
Ambulance Services	(273,978)	(217,656)	(491,634)
Outdoor Recreation	(1,811,080)	(319,946)	(2,131,026)
Indoor Recreation	(207,107)	(699,479)	(906,586)
Library Services	(2,029,250)	(285,026)	(2,314,276)
Admin Studies	1,208,489	(4,681,764)	(3,473,275)
OPA 28 Fee	2,597,180	-	2,597,180
Burlington roads SAC	1,879,946	-	1,879,946
Homes for Aged	814,271	40,732	855,003
Health	399,185	-	399,185
Social&Child	467,565	12,821	480,386
Housing	5,546,302	-	5,546,302
Parking	1,176,005	208,453	1,384,458
Provincial Offences Act	80,702	10,318	91,020
Hamilton Conservation Authority	78,514	20,635	99,149
Binbrook SAC	(212,738)	-	(212,738)
Dundas/Waterdown SAC	89,856	120,454	210,310
TOTAL	140,245,507	(12,286,619)	127,958,888

Note: Consolidated Total may not match Appendix "A" due to rounding.

As at December 31, 2016, there was \$317 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, 2016, the approved funding that hasn't yet been transferred to projects, the debt funding that has not yet been incurred and the adjusted DC reserve balances. The adjusted DC reserve balance illustrates that if all of the budgeted expenditures had occurred and budgeted 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 \$189 M.

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Of note, the funding commitments (including debt) are only included in the Capital Budgets to the extent that current (and future) DC collections can be expected to fund the commitments. Should development activity vary from the existing development forecasts, staff would ensure that future years' collections can meet existing commitments or undertake a review to determine which growth projects can be delayed or cancelled.

TABLE 2

DC Service	Dec 31/16 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Services	27,546,665	(11,094,871)	(39,031,123)	(22,579,328)
Wastewater Services	52,179,966	-	(2,613,000)	49,566,966
Linear Wastewater	29,251,577	(5,240,233)	(115,538,100)	(91,526,756)
Storm Water Drainage	15,807,916	(10,609,975)	(34,469,002)	(29,271,061)
Roads	(3,609,161)	(33,022,196)	(33,202,331)	(69,833,688)
Public Wks&Roll Stock	1,695,203	(645,994)	-	1,049,209
Transit Services	62,717	(9,432)	-	53,285
Airport	247,763	-	-	247,763
Fire Protection	1,094,823	(699,000)	-	395,823
Police Services	(331,985)	-	(3,000,000)	(3,331,985)
Ambulance Services	(491,634)	-	-	(491,634)
Outdoor Recreation	(2,131,026)	(5,615,901)	-	(7,746,927)
Indoor Recreation	(906,586)	(3,739,652)	-	(4,646,238)
Library Services	(2,314,276)	-	(2,016,500)	(4,330,776)
Admin Studies	(3,473,275)	(6,464,282)	-	(9,937,557)
OPA 28 Fee	2,597,180	(5,850,000)	-	(3,252,820)
Burlington roads SAC	1,879,946	(118,002)	-	1,761,944
Homes for Aged	855,003	-	-	855,003
Health	399,185	(691,830)	-	(292,645)
Social&Child	480,386	(1,045,800)	-	(565,414)
Housing	5,546,302	-	-	5,546,302
Parking	1,384,458	-	-	1,384,458
Provincial Offences Act	91,020	-	(2,323,000)	(2,231,980)
Hamilton Conservation Authd	99,149	-	-	99,149
Binbrook SAC	(212,738)	-	-	(212,738)
Dundas/Waterdown SAC	210,310	-	-	210,310
TOTAL	127,958,888	(84,847,166)	(232,193,055)	(189,081,334)

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, police, library and POA DC reserves.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

As per the requirements of the *Development Charges Act, 1997*, as amended, an annual report of Development Charge (DC) reserves activity must be provided to Council. The DC Reserves Status Report is the “Treasurer’s Statement” as outlined in the *Development Charges 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.

Appendix “A” to Report FCS17058 summarizes the 2016 activity for each DC reserve. 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 (GO Transit is also referred to as Metrolinx). Collections under the GO Transit DC By-law are deposited into a separate DC reserve and are used solely to fund the City’s contribution to GO Transit’s growth related capital budget.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The DC Reserves Status Report is the “Treasurer’s Statement” as required in the *Development Charges Act, 1997*, which must be sent to the Ministry of Municipal Affairs and Housing, if requested.

RELEVANT CONSULTATION

Staff from the City’s Planning and Economic Development Department confirmed that the City is in compliance with s.s. 59.1(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 this Act or another Act”.

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 FCS17058 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 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.

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Appendix “A”, “B” and “C” to Report FCS17058 contain the financial information required to meet the disclosure requirements as set out in Section 43 of the *Development Charges Act, 1997*, as amended.

In addition to disclosing financial information, a municipality is required to confirm compliance with s.s. 59.1(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 this Act 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, 2016. The consolidated DC reserves balance as of December 31, 2016 was \$127.96 M. The decrease in the DC reserves balance of \$3.57 M is due to actual DC funding of capital projects exceeding collections and other inflows, 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 increased \$48 M to \$189 M since the 2015 report due to additional DC debt being approved and only a negligible amount of DC debt having been issued with the 2016 debt issuance (Report FCS16048).

The DC reserves balance as at December 31, 2016 reflects the application of Public Sector Accounting Board (PSAB) reporting requirements for obligatory reserve funds.

The PSAB reporting requirements require the City to only recognize DC revenue in capital projects once the expenses have been incurred. Therefore, the DC reserve balances are based on actual expenses to date and not the Council approved budgeted amounts. Table 2 shows the adjusted DC reserve balances if all Council approved budgeted amounts were to be cash funded.

Since project funding from DC reserves can only be allocated to capital projects after the expenses have been incurred there is often a timing difference between when current budget contribution, 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 FCS17058 to show the DC funded projects closed in the year and their final revenue funding from all sources.

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DC collections in 2016 totalled \$65.55 M, \$15.23 M more than in 2015. Residential DC collections increased to \$55.66 M in 2016 from \$42.22 M in 2015, while non-residential DC collections increased to \$9.89 M in 2016 from \$8.11 M in 2015. The increase was partially a result of the final phase in to the full DC charge as calculated by the 2014 DC background study coming into effect on July 6, 2015.

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 for non-profits) are required to be recovered through other sources. Council has approved amounts in the Rates and Tax Capital Budgets 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 FCS17058.

Appendix “E” to Report FCS17058 shows that even with a reduced DC exemption in the Downtown Hamilton Community Improvement Area, the dollar value of exemptions for downtown are not seeing a corresponding decrease due to continued downtown development. Further, the City is experiencing a significant increase in the amount of building permits to add additional dwelling units to existing single family homes (e.g. basement rental units, in-law suites). This increase in intensification can be correlated to the increase in the market value of residential properties in Hamilton as residents attempt to live within their means. These additional (intensification) units are not subject to DCs as per the requirements of the *Development Charges Act, 1997*, as amended.

Table 3 provides a summary of inflows and outflows to the DC reserves in 2016 resulting in a consolidated balance of \$127.96 M.

TABLE 3 (\$ millions)

Balance as of January 1, 2016	\$ 131.53
<u>Funding Inflows:</u>	
Interest	\$ 1.75
Collections	\$ 65.55
DC Exemption funding	\$ 10.64
Internal Borrowing repayment	\$ 0.48
Sub-total of Inflows:	<u>\$ 78.42</u>
<u>Funding Outflows:</u>	
External Debt Payments	\$ 9.53
Other Transfers	\$ 1.35
Direct Capital Funding	\$ 71.11
Sub-total of Outflows:	<u>\$ 81.99</u>
Balance as of December 31, 2016	<u>\$ 127.96</u>

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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 (2016 - \$20.7 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 & 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.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" – Development Charges Reserve Funds for the period of January 1, 2016 to December 31, 2016

Appendix "B" – Development Charges Funded Projects for the year ended December 31, 2016

Appendix "C" – Development Charges Project Funding by Reserve for the year ended December 31, 2016

Appendix "D" – Development Charges Capital Projects' Closing Summary for the year ended December 31, 2016

Appendix "E" – Five Year Development Charges Exemption Summary

LG/dt