



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

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	June 11, 2018
<b>SUBJECT/REPORT NO:</b>	Development Charges Reserves Status Report as of December 31, 2017 (FCS18060) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Alicia Li (905) 546-2424 Ext. 1434
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance and Corporate Services
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That Report FCS18060 “Development Charges Reserves Status Report as of December 31, 2017” be received and made available to the public;
- (b) That Report FCS18060 “Development Charges Reserves Status Report as of December 31, 2017” 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 accounting balance of the 2017 DC Reserves balances has increased \$31.04M since 2016 to an overall balance of \$159M. The increase is due to collections and other inflows exceeding direct capital funding. The balance of \$159M 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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Of note, while the accounting balance increased, the adjusted balance shown in Table 2, which considers cash and debt commitments from the DC Reserves, has decreased \$25M to a deficit of \$214M in 2017 due to Capital Budget approvals exceeding the net of collections and actual capital funding.

Table 2 to Report FCS18060 shows that if all approved direct capital funding were allocated to the approved projects, the DC reserves balances would be reduced by \$115.99M. Table 2 to Report FCS18060 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 (2017 – \$24.3M), 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 2017 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 \$159M, as outlined in Table 1.

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**TABLE 1  
Development Charge Service Specific Reserve Balances  
as of December 31, 2017**

<u>DC Service</u>	<u>Res (\$)</u>	<u>Non-Res (\$)</u>	<u>Total (\$)</u>
Water Services	26,774,993	9,104,764	35,879,757
WWTP Services	45,395,309	16,479,549	61,874,858
Linear Wastewater	28,561,426	11,232,220	39,793,646
Storm Water Drainage	33,633,267	(8,572,042)	25,061,225
Roads	17,923,368	(24,990,381)	(7,067,013)
Public Wks&Roll Stock	2,203,368	(109,626)	2,093,742
Transit Services	1,550,558	(1,435,080)	115,478
Airport	1,132,165	(396,144)	736,021
Fire Protection	3,641,742	(2,465,354)	1,176,388
Police Services	1,237,251	(1,423,842)	(186,591)
Ambulance Services	(263,303)	(233,127)	(496,430)
Outdoor Recreation	(2,619,735)	(442,094)	(3,061,830)
Indoor Recreation	347,601	(819,298)	(471,697)
Library Services	(1,349,327)	(272,067)	(1,621,394)
Admin Studies	1,695,554	(4,879,356)	(3,183,802)
OPA 28 Fee	2,922,080	-	2,922,080
Burlington roads SAC	2,223,316	-	2,223,316
Homes for Aged	1,326,465	61,277	1,387,742
Health	451,967	-	451,967
Social&Child	525,048	13,061	538,110
Housing	6,576,900	-	6,576,900
Parking	1,781,572	312,499	2,094,072
Provincial Offences Act	122,815	15,287	138,102
Hamilton Conservation Authority	118,861	30,752	149,613
Binbrook SAC	(217,232)	-	(217,232)
Dundas/Waterdown SAC	(5,152,162)	(2,758,750)	(7,910,912)
<b>TOTAL</b>	<b>170,543,866</b>	<b>(11,547,751)</b>	<b>158,996,115</b>

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

As at December 31, 2017, there was \$373M in approved DC funding that hasn't been transferred to projects (including DC Debt that hasn't yet been issued). Table 2 provides the accounting DC reserve balance at December 31, 2017, the approved funding that has not 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 \$214M.

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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 31/17 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Services	35,879,757	(15,803,553)	(60,473,000)	(40,396,796)
WWTP Services	61,874,858	(1,449,000)	(946,000)	59,479,858
Linear Wastewater	39,793,646	(7,481,785)	(121,427,799)	(89,115,938)
Storm Water Drainage	25,061,225	(13,943,639)	(32,885,000)	(21,767,415)
Roads	(7,067,013)	(44,743,257)	(33,202,331)	(85,012,601)
Public Wks&Roll Stock	2,093,742	(799,232)	-	1,294,510
Transit Services	115,478	(7,188,122)	-	(7,072,644)
Airport	736,021	-	-	736,021
Fire Protection	1,176,388	(699,000)	-	477,388
Police Services	(186,591)	-	(3,000,000)	(3,186,591)
Ambulance Services	(496,430)	-	-	(496,430)
Outdoor Recreation	(3,061,830)	(4,709,174)	-	(7,771,003)
Indoor Recreation	(471,697)	(3,708,565)	-	(4,180,262)
Library Services	(1,621,394)	-	(2,966,500)	(4,587,894)
Admin Studies	(3,183,802)	(7,758,831)	-	(10,942,632)
OPA 28 Fee	2,922,080	(5,850,000)	-	(2,927,920)
Burlington roads SAC	2,223,316	(118,002)	-	2,105,314
Homes for Aged	1,387,742	-	-	1,387,742
Health	451,967	(691,830)	-	(239,863)
Social&Child	538,110	(1,045,800)	-	(507,690)
Housing	6,576,900	-	-	6,576,900
Parking	2,094,072	-	-	2,094,072
Provincial Offences Act	138,102	-	(2,323,000)	(2,184,898)
Hamilton Conservation Authority	149,613	-	-	149,613
Binbrook SAC	(217,232)	-	-	(217,232)
Dundas/Waterdown SAC	(7,910,912)	-	-	(7,910,912)
<b>TOTAL</b>	<b>158,996,115</b>	<b>(115,989,789)</b>	<b>(257,223,630)</b>	<b>(214,217,304)</b>

*Note: The DC Reserve Policy (Report FCS13035) permits the General Manager of Finance and 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.

*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.*

## **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 FCS18060 summarizes the 2017 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 Section 43 of *Development Charges Act, 1997*, which must be made available to the public and 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 FCS18060 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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Appendices “A”, “B” and “C” to Report FCS18060 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, 2017. The consolidated DC reserves balance as of December 31, 2017 was \$159M. The increase in the DC reserves balance of \$31.04M is due to collections and other inflows exceeding direct capital funding, 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 \$25M to \$214M since the 2016 report due to additional DC budget approvals in 2017 exceeding the net of collections and actual capital funding in 2017.

The DC reserves balance as at December 31, 2017 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 FCS18060 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 2017 totalled \$67.79M, \$2.24M more than in 2016. Residential DC collections increased to \$58.40M in 2017 from \$55.66M in 2016, while non-residential DC collections decreased to \$9.39M in 2017 from \$9.89M in 2016.

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 FCS18060.

Appendix “E” to Report FCS18060 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 2017 resulting in a consolidated balance of \$159M.

**TABLE 3 (\$ millions)**

Balance as of January 1, 2017	\$ 127.96
<u>Funding Inflows:</u>	
Interest	\$ 2.62
Collections	\$ 67.79
DC Exemption funding	\$ 10.44
Internal Borrowing repayment	\$ 0.48
Sub-total of Inflows:	<u>\$ 81.33</u>
<u>Funding Outflows:</u>	
External Debt Payments	\$ 9.54
Dundas / Waterdown Payout <sup>[1]</sup>	\$ 8.73
Other Transfers	\$ 0.46
Direct Capital Funding	\$ 31.56
Sub-total of Outflows:	<u>\$ 50.29</u>
Balance as of December 31, 2017	<u>\$ 159.00</u>

[1] Payout required related to the Dundas / Waterdown Special Area Charge.  
For more detail please refer to Report FCS17049.

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 (2017 – \$24.3M), 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, 2017 to December 31, 2017

Appendix "B" – Development Charges Funded Projects for the year ended December 31, 2017

Appendix "C" – Development Charges Project Funding by Reserve for the year ended December 31, 2017

Appendix "D" – Development Charges Capital Projects' Closing Summary for the year ended December 31, 2017

Appendix "E" – Five Year Development Charges Exemption Summary

AL/dt