



**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>	August 15, 2019
<b>SUBJECT/REPORT NO:</b>	Development Charges Reserves Status Report as of December 31, 2018 (FCS19064) (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 Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That Report FCS19064 “Development Charges Reserves Status Report as of December 31, 2018” be received and made available to the public;
- (b) That Report FCS19064 “Development Charges Reserves Status Report as of December 31, 2018” 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 (DC Act), 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 DC Act, 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 2018 DC Reserves balances has decreased \$30.85 M since 2017 to an overall balance of \$128.15 M. The decrease is due to increased direct capital funding in switching \$90.38 M of rates projects from DC debt funded to reserve funded as permitted by policy (FCS13035) offset by DCs collected in 2018. The balance of \$128.15 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.

Of note, while the accounting balance has decreased, the adjusted balance shown in Table 2, which considers cash and debt commitments from the DC Reserves, has increased \$62.99 M to a deficit of \$151.23 M in 2018 due to the net of collections and actual capital funding in 2018 exceeding the additional DC budget approvals in 2018.

Table 2 to Report FCS19064 shows that if all approved direct capital funding were allocated to the approved projects, the DC reserves balances would be reduced by \$104.72 M. Table 2 to Report FCS19064 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 (2018 - \$34.58 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 2018 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 \$128.15 M, as outlined in Table 1.

There are several DC Reserves in Table 1 which have negative balances. This is in part due to foregone DC revenues in the form of DC exemptions to incentivise development in areas such as industrial uses (non-residential) and also due to development not meeting the Province's "Places to Grow" development targets (i.e. non-residential development targets of 2 M to 2.3 M square feet annually versus actuals of approximately 1 M square feet).

**Table 1  
Development Charge Service Specific Reserve  
Balances as of December 31, 2018**

<b>DC Service</b>	<b>Res (\$)</b>	<b>Non-Res (\$)</b>	<b>Total (\$)</b>
Water Services	20,951,054	5,226,058	26,177,112
Wastewater Services	48,870,458	15,795,503	64,665,961
Linear Wastewater	7,432,854	-2,789,450	4,643,404
Storm Water Drainage	32,036,012	-8,050,073	23,985,939
Roads	25,137,237	-16,798,642	8,338,595
Public Wks and Roll Stock	2,630,520	67,999	2,698,519
Transit Services	-139,617	-2,418,396	-2,558,013
Airport	1,553,376	-316,062	1,237,314
Fire Protection	4,323,942	-2,396,485	1,927,456
Police Services	1,522,467	-1,551,000	-28,532
Ambulance Services	-255,373	-247,521	-502,894
Outdoor Recreation	-1,763,950	-459,074	-2,223,025
Indoor Recreation	2,002,186	-860,163	1,142,023
Library Services	-614,952	-256,185	-871,136
Admin Studies	1,376,906	-5,437,655	-4,060,750
Burlington Roads SAC	2,682,943	0	2,682,943
Homes for Aged	1,661,662	85,638	1,747,300
Health	506,121	0	506,121
Social and Child	584,624	13,355	597,979
Housing	2,524,775	0	2,524,775
Parking	2,376,981	440,371	2,817,352
Provincial Offences Act	163,991	21,375	185,366
Hamilton Conservation Authority	158,626	42,933	201,559
Binbrook SAC	-4,381	0	-4,381
Dundas / Waterdown SAC	-4,914,358	-2,771,062	-7,685,420
<b>Total</b>	<b>150,804,104</b>	<b>-22,658,536</b>	<b>128,145,567</b>

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

As at December 31, 2018, there was \$279.37 M in approved DC funding that has not been transferred to projects (including DC Debt that has not yet been issued). Table 2 provides the accounting DC reserve balance at December 31, 2018, 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 has not yet been issued), the consolidated DC reserve balances would be in a deficit position of \$151.23 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 deferred.

**Table 2**

DC Service	Dec.31/18 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Service	26,177,112	-17,766,445	-40,086,000	-31,675,333
WWTP Services	64,665,961	0	0	64,665,961
Linear Wastewater	4,643,404	-7,567,347	-76,298,000	-79,221,943
Storm Water Drainage	23,985,939	-15,586,024	-22,725,000	-14,325,085
Roads	8,338,595	-42,648,538	-17,362,528	-51,672,471
Public Wks & Roll Stock	2,698,519	-1,228,717	0	1,469,802
Transit Services	-2,558,013	-3,564,410	-4,250,000	-10,372,423
Airport	1,237,314	0	0	1,237,314
Fire Protection	1,927,457	0	0	1,927,457
Police Services	-28,533	0	-3,000,000	-3,028,533
Ambulance Services	-502,894	0	0	-502,894
Outdoor Recreation	-2,223,024	-4,316,098	0	-6,539,122
Indoor Recreation	1,142,023	-3,696,781	-364,500	-2,919,258
Library Services	-871,137	0	-5,190,500	-6,061,637
Admin Studies	-4,060,749	-6,340,084	0	-10,400,833
Burlington Roads SAC	2,682,943	0	-5,380,000	-2,697,057
Homes for Aged	1,747,300	0	0	1,747,300
Health	506,121	-34,740	0	471,381
Social and Child	597,979	-1,045,800	0	-447,821
Housing	2,524,775	-920,500	0	1,604,275
Parking	2,817,352	0	0	2,817,352
Provincial Offences Act	185,366	0	0	185,366
Hamilton Conservation Authority	201,559	0	0	201,559
Binbrook SAC	-4,381	0	0	-4,381
Dundas / Waterdown SAC	-7,685,420	0	0	-7,685,420
<b>Total</b>	<b>128,145,568</b>	<b>-104,715,484</b>	<b>-174,656,528</b>	<b>-151,226,444</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.

## **HISTORICAL BACKGROUND**

As per the requirements of the DC Act, as amended, an annual report of DC reserves activity must be provided to Council. The DC Reserves Status Report is the “Treasurer’s Statement” as outlined in the DC Act, 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 FCS19064 summarizes the 2018 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.

City By-law 11-174 – GO Transit Development Charges will remain in effect. The Province passed Ontario Regulation 468/16 and Ontario Regulation 469/16 which permits municipalities to collect GO Transit charges until December 31, 2019. During the extension period, the Ministry of Transportation is to undertake a broader review of the framework governing municipal contributions to GO Transit. To date, the City has not received communications regarding the future of GO Transit as it relates to DC collections.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The DC Reserves Status Report is the “Treasurer’s Statement” as required in Section 43 of the DC Act, which must be made available to the public and sent to the Ministry of Municipal Affairs and Housing, if requested.

### **Bill 108**

On May 2, 2019, the Minister of Municipal Affairs and Housing announced the Province’s Housing Supply Action Plan and introduced Bill 108: *More Homes, More Choice Act* (Bill 108) in Legislature, which proposes to amend 13 different statutes. Schedule 3 of the Act makes amendments to the DC Act and Schedule 12 of the Act makes amendments to the *Planning Act*, R.S.O. 1990 c.P.13 (Planning Act).

The amendments resulting from Bill 108 are a significant departure from the current legislative framework. The most significant change it causes to DCs is the limitation on what services can be included in DCs. Specifically, for those services which capital costs must be reduced by 10%, or so called soft services, are no longer permitted to be included in the DC By-law. Instead, a new Planning Act tool, Community Benefits Charge (CBC) By-law is to replace the soft services component in DCs. Soft services make up almost 20% of the total DCs.

Bill 108 received Royal Assent at the Ontario Legislature on June 6, 2019 and the Province released proposed regulation content and commenced the commenting period until August 21, 2019. The current DC Act applies until Bill 108 is proclaimed. Based on the information within the proposed regulation contact, it is anticipated that Bill 108 will be proclaimed into force between Augusts 21, 2019 and January 1, 2020. A separate report, FCS19057(a) / LS19023(a), provides additional information and comments related to the regulation proposals.

Hamilton Conservation Authority (HCA)

The Region of Halton DC By-law for 2012 was appealed by the Hamilton-Halton Home Builders' Association (HHHBA) on the grounds that the Region of Halton did not have the authority to include conservation authority capital costs in its DC By-law. Ontario Municipal Board, now the Local Planning Appeal Tribunal (LPAT), rendered a decision of the HHHBA's appeal to Region of Halton and the decision allowed HHHBA's appeal. This issue was also appealed by HHHBA on the same ground for the 2014 City of Hamilton DC By-law. Refunds of HCA DCs collected by the City will be issued once the settlement minutes have been executed by all parties.

## **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 DC Act, 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 HHHBA 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 FCS19064 in response to this request.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

As per the requirements of the DC Act, as amended, an annual report of 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.

Appendices "A", "B" and "C" to Report FCS19064 contain the financial information required to meet the disclosure requirements as set out in Section 43 of the DC Act, as amended.

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In addition to disclosing financial information, a municipality is required to confirm compliance with s.s. 59.1(1) of the DC Act, 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.

Report FCS19064 summarizes the changes in the DC reserves for the year ended December 31, 2018. The consolidated DC reserves balance as of December 31, 2018 was \$128.15 M. The decrease in the DC reserves balance of \$30.85 M is due to direct capital funding 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 decreased \$62.99 M to \$151.23 M since the 2017 report due to additional DC budget approvals being less than collections and exemption funding allocated to the DC reserves.

The DC reserves balance as at December 31, 2018 reflects the application of 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 FCS19064 to show the DC funded projects closed in the year and their final revenue funding from all sources.

DC collections in 2018 totalled \$62.19 M, \$5.60 M less than in 2017. Residential DC collections decreased to \$56.78 M in 2018 from \$58.40 M in 2017 and non-residential DC collections decreased to \$5.41 M in 2018 from \$9.39 M in 2017.

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 six-year (2013-2018) summary of the exemptions is included as Appendix “E” to Report FCS19064.

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Appendix “E” to Report FCS19064 shows that the total exemptions provided in 2018 has reduced \$7.56 M to \$18.38 M, from \$25.94 M in 2017. A significant portion of the decrease is due to reduced development in Downtown Hamilton CIPA in 2018 compared to 2017.

Table 3 provides a summary of inflows and outflows to the DC reserves in 2018 resulting in a consolidated balance of \$128.15 M.

<b>Balance as of January 1, 2018</b>		<b>\$159.00</b>
<b>Funding Inflows</b>		
Interest	\$	3.69
Collections		62.19
DC Exemption Funding		22.53
Internal Borrowing Repayment		0.48
<b>Sub-total of Inflows</b>	<b>\$</b>	<b>88.89</b>
<b>Funding Outflows</b>		
External Debt Payments	\$	7.70
Other Transfers		0.42
Direct Capital Funding		111.62
<b>Sub-total of Outflows</b>	<b>\$</b>	<b>119.74</b>
<b>Balance as of December 31, 2018</b>		<b>\$128.15</b>

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 (2018 - \$34.58 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.



**Economic Prosperity and Growth**

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

**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” to Report FCS19064 – Development Charges Reserve Funds for the period of January 1, 2018 to December 31, 2018

Appendix “B” to Report FCS19064 – Development Charges Funded Projects for the year ended December 31, 2018

Appendix “C” to Report FCS19064 – Development Charges Project Funding by Reserve for the year ended December 31, 2018

Appendix “D” to Report FCS19064 – Development Charges Capital Projects’ Closing Summary for the year ended December 31, 2018

Appendix “E” to Report FCS19064 – Six Year (2013 – 2018) Development Charges Exemption Summary

AL/dt