



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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 9, 2020
SUBJECT/REPORT NO:	Development Charges Reserves Status Report as of December 31, 2019 (FCS20059) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Shivon Azwim (905) 546-2424 Ext. 2790
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That Report FCS20059 “Development Charges Reserves Status Report as of December 31, 2019” be received and made available to the public;
- (b) That Report FCS20059 “Development Charges Reserves Status Report as of December 31, 2019” 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 2019 DC Reserves has increased \$58.85 M since 2018 to an overall balance of \$187.00 M. The increase is due to in-year collections exceeding in-year capital financing. The balance of \$187.00 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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Of note, while the accounting balance has increased, the adjusted balance shown in Table 1, which considers cash and debt commitments from the DC Reserves, has decreased by \$3.13 M to a deficit of \$154.36 M in 2019 due to the net of additional DC budget approvals exceeding collections and actual capital funding in 2019.

Table 1 to Report FCS20059 shows that if all approved direct capital funding were allocated to the approved projects, the DC reserves balances would be reduced by \$132.12 M. Table 2 to Report FCS20059 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 (2019 - \$27.37 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 2019 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 \$187.00 M, as outlined in Appendix "A" to Report FCS20059.

There are a few DC services in Appendix "A" to Report FCS20059 which have negative balances. This occurs either because (1) capital infrastructure has been developed at a pace which exceeds the actual growth realized or (2) expenses for growth-related studies must be incurred prior to the growth occurring.

DC reserves are permitted to borrow from each other and therefore a negative balance in one service can be offset with a surplus balance in another service. In order to minimize the overall debt financing costs to be charged through the calculation of the DC, it is prudent to allow DC services to go into a deficit position with a controlled plan for the overall forecast for each service.

In addition, the City is required to fund foregone DC collections as a result of DC exemptions. These exemptions are provided through legislation or at Council's discretion through the DC By-law. Discretionary exemptions have been provided as a way to incentivise specific forms or locations of development. For example, industrial development is charged a reduced rate and an exemption exists for all development within the Downtown Hamilton Community Improvement Project Area (CIPA). DC exemptions increased from \$18.38 M in 2018 to \$41.34 M in 2019, mainly due to increased development in the Downtown Hamilton CIPA.

The City's backlog of unfunded DC exemptions is highlighted in Appendix "E" to Report FCS20059. As of December 31, 2019, the City has \$52.10 M in unfunded discretionary DC exemptions and \$22.51 M in statutory DC exemptions. This unfunded backlog, while substantial and which has grown since the end of 2018, will be stagnated by the reduction in the amount of discretionary exemptions as provided through the approval of the 2019 DC By-law 19-142. It will take time to see the effect of the revised discretionary exemption policies and staff will continue to address the backlog through annual budget requests and the allocation of the annual operating budget surplus as able. Staff will be looking to develop a long-term, sustainable strategy to fully address this backlog.

As at December 31, 2019, there was \$341.35 M in approved DC funding that has not been transferred to projects (including DC Debt that has not yet been issued). Table 1 provides the accounting DC reserve balance at December 31, 2019, 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 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 \$154.36 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. Staff is actively analyzing scenarios for recasting the 2021 Capital Budget and 10-year forecast given the challenges that COVID-19 has posed for all municipalities, as outlined in Report FCS20040(a)

Table 1 - DC Adjusted Balance as at December 31, 2019

DC Service	Dec. 31/19 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Services	39,046,669	(26,728,459)	(40,840,000)	(28,521,790)
Wastewater Services	75,028,978	(1,500,000)	-	73,528,978
LinearWastewater	17,707,918	(17,177,357)	(90,403,000)	(89,872,439)
Storm Water Drainage	23,163,250	(24,531,822)	(26,715,000)	(28,083,572)
Roads	19,347,536	(47,186,333)	(18,549,955)	(46,388,752)
Public Wks&Roll Stock	2,806,874	(1,816,612)	-	990,261
Transit Services	(2,762,976)	(20,273)	(4,250,000)	(7,033,250)
Airport	2,172,141	-	-	2,172,141
Fire Protection	2,471,188	(648,240)	(849,000)	973,948
Police Services	593,420	-	(3,000,000)	(2,406,580)
Ambulance Services	(367,632)	-	-	(367,632)
Outdoor Recreation	(3,509,722)	(2,610,036)	(8,100,000)	(14,219,757)
Indoor Recreation	6,280,602	(3,369,939)	(364,500)	2,546,163
Library Services	349,729	(238,887)	(5,310,500)	(5,199,658)
Admin Studies	(3,681,777)	(6,291,194)	(90,000)	(10,062,971)
Burlington Roads SAC	3,371,069	-	(10,760,000)	(7,388,931)
Homes for Aged	2,313,541	-	-	2,313,541
Health	556,136	-	-	556,136
Social&Child	666,106	-	-	666,106
Housing	3,900,629	-	-	3,900,629
Parking	4,038,948	-	-	4,038,948
Provincial Offences Act	54,055	-	-	54,055
Hamilton Conservation Authority	236,838	-	-	236,838
Waste Diversion	711,292	-	-	711,292
Binbrook SAC	-	-	-	-
Dundas/Waterdown SAC	(7,499,865)	-	-	(7,499,865)
Go Transit	(648)	-	-	(648)
TOTAL	186,994,300	(132,119,153)	(209,231,955)	(154,356,808)

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 reserve. Table 1 reflects current estimates under this authority by showing some reserve funding from the rates (water, linear water, stormwater) reserves.

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.

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 FCS20059 summarizes the 2019 activity for each DC reserve. The DC revenues were collected through authorization of Municipal DC By-laws 14-153 and 19-142, which were passed by Council in June 2014 and June 2019, respectively. Collections under DC By-laws are deposited into DC reserves.

City By-law 11-174, GO Transit Development Charges, will remain in effect. The Province passed amending Ontario Regulation 451/19 on December 19, 2019, which permits municipalities to collect GO Transit charges until December 31, 2022. 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). Bill 108 received Royal Assent at the Ontario Legislature on June 6, 2019 and certain sections were proclaimed into force on January 1, 2020.

The City adopted new interest policies related to the proclaimed changes through Council's approval of FCS20028 / PED20105 at the May 27, 2020 Committee of the Whole meeting. The Province is in the process of reviewing feedback to the proposed Community Benefits Authority as identified in Bill 108 which has not yet been proclaimed. Staff continues to monitor the changes proposed out of Bill 108 as information is released by the Province.

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 grounds 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 has included Appendix "D" to Report FCS20059 in response to this request.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

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 FCS20059 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 FCS20059 summarizes the changes in the DC reserves for the year ended December 31, 2019. The consolidated DC reserves balance as of December 31, 2019 was \$187.00 M. The increase in the DC reserves balance of \$58.85 M is due to collections exceeding direct capital funding, as reported in Table 2.

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 1 shows the required debt issuance based on approved DC projects spending the funding approved. The calculated deficit has decreased by \$3.13 M to \$154.36 M since the 2018 report due to additional DC budget approvals being greater than collections and exemption funding allocated to the DC reserves.

The DC reserves balance as at December 31, 2019 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 1 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 FCS20059 to show the DC funded projects closed in the year and their final revenue funding from all sources.

DC collections in 2019 totalled \$95.86 M, \$33.67 M more than in 2018. Residential DC collections increased to \$78.57 M in 2019 from \$56.78 M in 2018 and non-residential DC collections increased to \$17.29 M in 2019 from \$5.41 M in 2018.

Any DC exemptions authorized by Council through DC By-laws 14-153 and 19-142 (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 seven-year (2013-2019) summary of the exemptions is included as Appendix “E” to Report FCS20059.

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Appendix “E” to Report FCS20059 shows that the total exemptions provided in 2019 has increased by \$22.96 M to \$41.34 M from \$18.38 M in 2018. A significant portion of the increase is due to large developments that occurred in Downtown Hamilton CIPA in 2019. Hamilton CIPA exemptions increased by \$19.66 M from \$493.25 K in 2018 to \$20.16 M in 2019. Additionally, an increase in industrial development in 2019 resulted in industrial DC exemption increasing by \$3.88 M compared to 2018.

Table 2 provides a summary of inflows and outflows to the DC reserves in 2019 resulting in a consolidated balance of \$187.00 M. Appendix “B” to Report FCS20059 provides shows the breakdown of \$50.4M direct capital funding.

Table 2 - DC Reserves Continuity (\$Millions)

Balance as of January 1, 2019	\$ 128.15
Funding Inflows	
Interest	\$ 3.06
Collections	\$ 95.86
DC Exemption Funding	\$ 20.08
Other Transfers	\$ 0.02
Internal Borrowing Repayment	\$ 0.48
Subtotal of Inflows	\$ 119.50
Funding Outflows	
External Debt Payments	\$ 10.23
Direct Capital Funding	\$ 50.42
Subtotal of Outflows	\$ 60.65
Balance as of December 31, 2019	\$ 187.00

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 (2019 - \$27.37 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 FCS20059 – Development Charges Reserve Funds for the period of January 1, 2019 to December 31, 2019

Appendix “B” to Report FCS20059 – Development Charges Funded Projects for the year ended December 31, 2019

Appendix “C” to Report FCS20059 – Development Charges Project Funding by Reserve for the year ended December 31, 2019

Appendix “D” to Report FCS20059 – Development Charges Capital Projects’ Closing Summary for the year ended December 31, 2019

Appendix “E” to Report FCS20059 – Seven Year (2013 – 2019) Development Charges Exemption Summary

SA/dt