



INFORMATION REPORT

TO:	Chair and Members Development Charges Stakeholders Sub-Committee
COMMITTEE DATE:	March 11, 2021
SUBJECT/REPORT NO:	Development Charges Budget – Gross and Net (FCS21023) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

The Development Charges (DC) Stakeholders Sub-Committee, at its meeting on January 29, 2021, directed that staff report back to the March 11, 2021 DC Stakeholders Sub-Committee meeting with:

- (a) A table that summarizes the total gross expenditures planned over the next five years and the net costs to be recovered from DCs;
- (b) That the table include information on the amount of net recoveries that are residential and non-residential;
- (c) That the table uses information from both the Capital Budget and Provincial Planning Policies.

INFORMATION

Appendices “A” to “D” attached to Report FCS21023 have been prepared in response to the direction received at the January 29, 2021 DC Stakeholders Sub-Committee meeting. Comments and insights have been provided to assist with interpretation of the four Appendices attached.

Table 1 provides a summary of the information.

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Table 1
Variance Analysis - Appendix "B" Versus Appendix "A"
(General Note: All Amounts are in 000s)

	Gross Expenditures	Residential DC Funding	Non-Residential DC Funding	Net
Appendix "B" - 2021 Capital Budget ¹	1,197,414	455,613	196,514	545,286
Appendix "A" - 2019 DC Background Study ²	2,849,223	923,999	476,699	1,448,526
Difference \$	(1,651,810)	(468,384)	(280,185)	(903,240)
Difference %	-0.58	-0.51	-0.59	-0.62

¹ Appendix "B" - 2021 Capital Budget includes years 2021 to 2025

² Appendix "A" - 2019 DC Background Study includes years 2019 to 2023

Appendix "A," "5-Year Totals – 2019 DC Background Study (Provincial Planning) for the Period 2019 – 2023," was prepared using the City's 2019 Development Charges Background Study. Appendix "B," "5-Year Totals – 2021 Capital Budget for the Period 2021 – 2025," was prepared using the City's 2021 Tax and Rate Capital Budgets.

Timing Difference

Appendix "A" and Appendix "B" to Report FCS21023 cover two different five-year periods: Appendix "A" to Report FCS21023 is for the period 2019 – 2023 and Appendix "B" to Report FCS21023 is for the period 2021 – 2025. The 2019 DC Background Study provides the total costs to be incurred over the five-year life of the DC By-law. Therefore, the 2019 DC Background Study does not detail costs year-by-year. Thus, while high-level insights, such as how the City's growth targets compared to the Provincial growth targets, can be gained comparing information from the 2021 Capital Budget to that generated from the Provincial Planning Policies, a timing difference between the Appendices exists. This timing difference inhibits users from determining annual variances that exist, if any, between the two reports, which could help inform decision making yet the two can still be viewed from a high level to gain insights into the difference between Provincial Planning Targets and the City's Budget practices.

Difference in Gross Expenditures

Gross expenditures as per Appendix "B" to Report FCS21023 are forecasted to be approximately 58% less than what they were forecasted to be as per Appendix "A" to Report FCS21023. Gross expenditures as per Appendix "B" are forecasted to be less than that as per Appendix "A" due to a combination of factors. Not all projects identified in the 2019 DC Background Study have been incorporated into the 2021 Capital Budget. Staff has identified this gap between the masterplans and the budget requests and are working with departments to understand the challenges in reconciling the two.

Another factor that explains why gross expenditures as per Appendix “B” to Report FCS21023 are forecasted to be less than that forecasted in Appendix “A” to Report FCS21023 is that the latter factors in provincial growth targets. Historically, the City has grown at a slower pace than the provincial growth targets suggest.

If the City were to proceed with capital infrastructure investments without regard for actual population growth experienced (residential and employment), then the City could find itself unable to fund that infrastructure from collected DCs and would need to borrow from City reserves until the DC collections caught up with the infrastructure investment to be able to pay back those borrowings. This budget strategy is not utilized due to the risk involved. Rather, the pace of capital infrastructure investment is monitored and planned to proceed at a pace that is less risky given historical and known future development applications.

Considering Collections

As per Appendix “C” to Report FCS21023, total collections for the period 2021 – 2025 are forecasted to be approximately \$556 M (or \$111.2 M annualized). Given the City’s collections of \$95.0 M in 2019 and \$109.4 M in 2020 (draft – unaudited), alongside potential implications on development applications as a result of COVID-19, staff views this forecast shown in Appendix “C” to Report FCS21023 as more likely than the amount that comes directly from the DC Background Study. Total collections as per the 2019 DC Background Study for the period 2019 – 2023 were forecasted to be approximately \$1.239 B (or \$247.8 M annualized).

Total collections are forecasted to be approximately 55% lower over a five-year period in the 2021 Capital Budget compared to the 2019 DC Background Study and this is in line with total gross expenditures which are forecasted to be approximately 58% lower as shown in Table 1 to Report FCS21023. This trend of a 51% – 62% difference is consistent across collections, gross expenditures and DC funding as shown in Table 1 and Appendix “C” to Report FCS21023.

Comparing Annual Forecasted Growth

As per Appendix “D” to Report FCS21023, the number of single detached equivalents estimated in the 2021 Capital Budget is 1,800 annually for the period 2021 – 2025. The total number of single detached equivalents based on the 2019 DC Background Study is 2,306 annually for the period 2021 – 2025. Therefore, forecasted growth as per the 2021 Capital Budget is 506 single detached equivalents or 22% less than that as per the 2019 DC Background Study.

Since the City has not experienced growth at as high of a pace as planned for in the 2019 DC Background Study and underlying masterplans, it is appropriate that the City is not proceeding with capital infrastructure investments at the same pace as planned for in the 2019 DC Background Study. The City continues to invest in expanding its' underground service network and mitigates the risk of proceeding with works required in advance of development occurring by obtaining approval to debt fund the infrastructure, if necessary.

This practice of obtaining approval to debt finance allows the City to proceed with necessary capital investments while providing the ability to spread the cost over a longer period of time should population (residential and employment) growth not occur. Annually, staff reviews the debt approvals alongside the DC reserve balances and where it is determined that sufficient collections have been made, the project is changed to being funded directly from reserve rather than from debt. This practice ensures that the City is able to spread the cost over a longer period of time if development does not proceed at the pace needed while also ensuring that the City is not issuing unnecessary debt.

One can note that the growth is forecasted at 22% less and the gross expenditures are forecasted at 58% less. The difference between these two figures can be attributed to some of the known gaps in the budget forecast. For example, CityHousing Hamilton has several projects planned but staff does not have the DC needs confirmed yet and, therefore, the amount for Housing is showing as nil in Appendix "B" to Report FCS21023 versus \$282.8 M in Appendix "A" to Report FCS21023. Stormwater needs are also typically requested a year or two in advance of construction in the City's budget and, therefore, there is a large difference showing for stormwater projects, as well, between Appendix "A" and Appendix "B" to Report FCS21023.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS21023 – 5-Year Totals – 2019 DC Background Study (Provincial Planning) for the Period 2019-2023

Appendix "B" to Report FCS21023 – 5-Year Totals – 2021 Capital Budget for the Period 2021 – 2025

Appendix "C" to Report FCS21023 – Net Collections Available for DC Funding for the period 2021 – 2025

Appendix "D" to Report FCS21023 – Annual Forecasted Growth for the Period 2021 – 2025

AD/LG/dt