



**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 17, 2021
<b>SUBJECT/REPORT NO:</b>	Development Charges Reserves Status Report as of December 31, 2020 (FCS21047) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Shivon Azwim (905) 546-2424 Ext. 2790
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

- (a) That Report FCS21047 "Development Charges Reserves Status Report as of December 31, 2020" be received and made available to the public;
- (b) That Report FCS21047 "Development Charges Reserves Status Report as of December 31, 2020" 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 2020 DC Reserves balance of \$285.42 M has increased by \$98.43 M since 2019. The increase is primarily due to in-year collections exceeding in-year capital financing. The balance of \$285.42 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. A summary is provided in Table 1 and details by DC Reserve are provided in Appendix "A" to Report FCS21047.

There are a few DC services in Appendix “A” to Report FCS21047 which have negative balances. 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 (2020 - \$22.58 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.

Additionally, if all approved direct capital funding were allocated to the approved projects of \$170.48 M and approved debt funding were to be cash funded from the DC reserves of \$296.22 M, the 2020 DC reserves adjusted balance would be a deficit balance of \$181.28 M which represents a decrease of \$26.92 M from 2019. A summary is provided in Table 2.

### **Alternatives for Consideration – Not Applicable**

### **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The consolidated DC reserve balance in 2020 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 \$285.42 M, as outlined in Appendix “A” to Report FCS21047. Summary information on the DC reserves is provided in Tables 1 and 2.

Staffing: None.

Legal: The DC Act, c. 27, s. 43, requires the Treasurer to report annually on the opening and closing balances of the DC reserve funds and the transactions related to the funds. Report FCS21047 addresses this legal requirement.

### **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 FCS21047 summarizes the 2020 activity for each DC reserve. The DC revenues were collected through authorization of Municipal DC By-law 19-142, which was passed by Council in June 2019, respectively. Collections under DC By-laws are deposited into DC reserves.

Appendix “B” to Report FCS21047 provides a summary of the development charge funding to capital projects and Appendix “C” to Report FCS21047 provides a summary of the development charge funding to capital projects by reserve.

City By-law 11-174 – GO Transit Development Charges will remain in effect. The Province passed amending Ontario Regulation 528/06 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.

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 from the HCA DC Reserves once the settlement minutes have been executed by all parties. Once all refunds are complete the HCA DC Reserves will be submitted for closure.

## **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”.

## **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”, “C” and “E” to Report FCS21047 contain the financial information required to meet the disclosure requirements as set out in Section 43 of the DC Act, as amended. Appendix “D” to Report FCS21047 is provided in addition to the legislated requirements as described below.

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.

The year-end consolidated DC reserve balance is \$285.42 M, as outlined in Appendix “A” to Report FCS21047.

The DC reserves balance as at December 31, 2020 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 FCS21047 to show the DC funded projects closed in the year and their final revenue funding from all sources. Appendix “D” to Report FCS21047 includes closed projects from January 1, 2020 to September 30, 2020. The projects closed during the period October 1, 2020 to December 31, 2020 have not yet been approved by Council as of the date of this report. As such, the closed projects from October 1, 2020 to December 31, 2020 will be included on next year’s Development Charges Reserves Status Report.

There are a few DC services in Appendix “A” to Report FCS21047 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 and debt financing is not an option. Where debt financing is an option it would have been possible to avoid the negative balances but that would have resulted in additional debt financing costs which would ultimately be passed on to the developer through the calculation of the DC. 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.

Table 1 provides a continuity of DC Reserves with a summary of inflows and outflows in 2020 resulting in a consolidated PSAB balance of \$285.42 M at December 31, 2020.

**Table 1 - DC Reserves Continuity (\$Millions)**

<b>Balance as of January 1, 2020</b>	<b>\$ 186.99</b>
<b>Funding Inflows</b>	
Interest	\$ 3.92
Collections	\$ 111.18
DC Exemption Funding	\$ 16.50
Other Transfers	\$ 0.04
Internal Borrowing Repayment	\$ 0.48
<b>Subtotal of Inflows</b>	<b>\$ 132.12</b>
<b>Funding Outflows</b>	
External Debt Payments	\$ 9.59
Direct Capital Funding	\$ 24.10
<b>Subtotal of Outflows</b>	<b>\$ 33.69</b>
<b>Balance as of December 31, 2020</b>	<b><u>\$ 285.42</u></b>

DC collections in 2020 totalled \$111.18 M, a \$15.32 M increase compared to 2019. Residential DC collections increased to \$79.72 M in 2020 from \$78.57 M in 2019 and non-residential DC collections increased to \$31.46 M in 2020 from \$17.29 M in 2019.

Any DC exemptions authorized by Council through DC By-law 19-142 (e.g. reduced industrial 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. An eight-year (2013-2020) summary of the exemptions is included as Appendix “E” to Report FCS21047. Appendix “E” to Report FCS21047 shows that the total exemptions provided in 2020 has slightly decreased by \$0.03 M from \$41.34 M in 2019 to \$41.31 M in 2020.

The City’s backlog of unfunded DC exemptions is highlighted in Appendix “E” to Report FCS21047, as of December 31, 2020 the City has \$69.37 M in unfunded discretionary DC exemptions. This unfunded backlog, while substantial and which has grown since the end of 2019, will continue to be monitored and reductions in the discretionary exemptions provided through the approval of DC By-law 19-142 will move towards the in-year budgeted exemption funding balancing to the in-year provided. It will take time to see the effect of the revised discretionary exemption policies and Finance will continue to address the backlog through annual budget requests and allocation of the annual surplus as able.

The reason that it will take time to see the effects of reduced exemption policies is due to (1) the City’s transition policy which states the DC rate payable is the rate in effect on the date that a complete building permit application is received and accepted by the City, provided that the building permit is issued within six months of the DC rate increase following the application and (2) changes to the legislation by the Province. As of January 1, 2020, DC rates and exemptions applicable to a development are based on the complete application date of a Site Plan Application or a Site-specific Zoning Amendment, only where such application is applied for on or after January 1, 2020 and where the building permit is issued within two years following the approval of said application. This rate freeze has been legislated by the Province and is found within section 26.2 of the DC Act. While interest is applicable to the locked-in DC rate from the date of the related planning application to the date of building permit issuance, it means that the Downtown Hamilton CIPA exemption in effect at planning application date will continue to apply potentially years later when the building permit is issued. Therefore, this legislated change will further increase the amount of time to balance in-year budgeted DC exemption funding with in-year exemptions provided.

Additionally, if all approved direct capital funding were allocated to the approved projects of \$170.48 M and approved debt funding were to be cash funded from the DC reserves of \$296.22 M, the 2020 DC reserves adjusted balance would be a deficit balance of \$181.28 M which represents a decrease of \$26.92 M from 2019. A summary is provided in Table 2.

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Table 2 provides the accounting DC reserve balance at December 31, 2020, 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.

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.

<b>Table 2- DC Adjusted Balance as at December 31, 2020</b>				
<b>DC Service</b>	<b>Dec. 31/20 Balance (\$)</b>	<b>Adjustments</b>		<b>Adjusted Balance (\$)</b>
		<b>Direct Capital Funding (\$)</b>	<b>DC Debt (\$)</b>	
Water Services	50,595,802	(35,720,953)	(40,240,000)	(25,365,151)
Wastewater Services	88,782,063	(1,487,038)	(9,436,000)	77,859,025
LinearWastewater	30,624,113	(24,121,774)	(119,250,000)	(112,747,661)
Storm Water Drainage	41,987,753	(46,615,267)	(29,050,000)	(33,677,513)
Roads	39,269,397	(47,281,562)	(32,106,528)	(40,118,692)
Public Wks&Roll Stock	3,558,381	(325,155)	-	3,233,226
Transit Services	450,382	(537,273)	(18,998,000)	(19,084,891)
Airport	3,043,745	-	-	3,043,745
Fire Protection	2,936,620	(648,240)	(5,049,000)	(2,760,620)
Police Services	1,570,542	(178,580)	(11,000,000)	(9,608,038)
Ambulance Services	(184,479)	-	(243,000)	(427,479)
Outdoor Recreation	(3,589,892)	(4,200,282)	(8,100,000)	(15,890,175)
Indoor Recreation	9,368,493	(2,871,702)	(5,719,500)	777,291
Library Services	1,507,655	(211,036)	(5,310,500)	(4,013,881)
Admin Studies	(3,066,582)	(6,097,346)	(90,000)	(9,253,928)
Burlington Roads SAC	4,198,145	-	(10,760,000)	(6,561,855)
Homes for Aged	6,278,450	-	-	6,278,450
Health	839,982	-	-	839,982
Social&Child	881,411	-	-	881,411
Housing	5,019,840	-	-	5,019,840
Parking	5,783,821	-	-	5,783,821
Provincial Offences Act	(29,683)	-	-	(29,683)
Hamilton Conservation Authority	242,188	-	-	242,188
Waste Diversion	1,613,435	(185,501)	(869,000)	558,934
Dundas/Waterdown SAC	(6,260,873)	-	-	(6,260,873)
Go Transit	(788)	-	-	(788)
<b>TOTAL</b>	<b>285,419,922</b>	<b>(170,481,710)</b>	<b>(296,221,528)</b>	<b>(181,283,315)</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 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.

## ALTERNATIVES FOR CONSIDERATION

Not applicable.

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.

## **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 FCS21047 – Development Charges Reserve Funds for the period of January 1, 2020 to December 31, 2020

Appendix “B” to Report FCS21047 – Development Charges Funded Projects for the year ended December 31, 2020

Appendix “C” to Report FCS21047 – Development Charges Project Funding by Reserve for the year ended December 31, 2020

Appendix “D” to Report FCS21047 – Development Charges Capital Projects’ Closing Summary for the year ended December 31, 2020

Appendix “E” to Report FCS21047 – Eight Year (2013 – 2020) Development Charges Exemption Summary

SA/dt