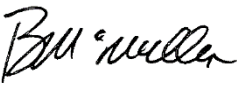




INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	February 15, 2024
SUBJECT/REPORT NO:	Alternative Financing Strategy for Discretionary Development Charge Exemptions (FCS24017) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Duncan Robertson (905) 546-2424 Ext. 4744
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

At its meeting on January 30, 2024, the General Issues Committee (Budget) provided the following direction to staff:

- (a) That staff be directed to review the phase-in strategy for discretionary development charge exemptions over a longer timeline that is sustainable while reducing the tax impact in 2024 and report back to General Issues Committee (Budget) with a recommended adjustment prior to the conclusion of the 2024 budget process; and,
- (b) That staff continue the annual process of reviewing the opportunity to fund discretionary development charges exemptions through the annual year-end disposition of Corporate surplus / deficit.

INFORMATION

Background

The Proposed 2024 Tax Budget (Report FCS24002) included a financing strategy to fund discretionary development charge exemptions provided under the City's Development Charges Bylaw with the following elements:

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1. A three-year phase-in strategy to incorporate the annual sustainable funding level required for ongoing discretionary development charge exemptions. The phase-in strategy leverages the City’s Unallocated Capital Levy Reserve (\$6.4 M in 2024 and \$3.2 M in 2025) to spread the immediate financial burden over three years; and,
2. An eight-year phase-in strategy, that commenced in 2023, to address the \$52 M funding shortfall in historical discretionary development charge exemptions incurred between 2013 to 2020. Beginning in 2023, the Capital Financing Plan incorporated an additional \$6.5 M per year over an eight-year period (ending in 2030) as dedicated funding for unfunded development charge exemptions that were realized prior to 2020.

The current complete financing strategy for development charge exemptions is summarized in Table 14 of Report FCS24002 (page 39) and presented as Table 1 below, which breaks down the anticipated liability in each year and the revenue sources in the financing strategy to eliminate the liability by the year 2030.

TABLE 1 – Development Charge Exemptions Sustainable Funding Strategy as Presented in FCS24002

	2024	2025	2026	2027	2028	2029	2030
Statutory Development Charge Exemptions <i>More Homes, More Choice Act, 2022</i>	\$ 20,830	\$ 21,363	\$ 21,910	\$ 22,471	\$ 23,046	\$ 23,636	\$ 24,241
Statutory Development Charge Exemptions <i>Development Charges Act, 1997</i>	\$ 10,190	\$ 10,451	\$ 10,718	\$ 10,993	\$ 11,274	\$ 11,563	\$ 11,859
Discretionary Development Charge Exemptions City of Hamilton DC Bylaw	\$ 24,622	\$ 25,252	\$ 25,898	\$ 26,561	\$ 27,241	\$ 27,939	\$ 28,654
Subtotal Annual Development Charge Exemptions	\$ 55,642	\$ 57,066	\$ 58,527	\$ 60,025	\$ 61,562	\$ 63,138	\$ 64,754
Unfunded Discretionary Development Charge Exemptions (2012-2020)	\$ 45,500	\$ 39,000	\$ 32,500	\$ 26,000	\$ 19,500	\$ 13,000	\$ 6,500
Total Development Charge Exemptions	\$ 101,142	\$ 96,066	\$ 91,027	\$ 86,025	\$ 81,062	\$ 76,138	\$ 71,254
Financing Strategy:							
Capital Levy	\$ 26,332	\$ 39,036	\$ 51,777	\$ 60,025	\$ 61,562	\$ 63,138	\$ 64,754
Unallocated Capital Levy Reserve	\$ 22,560	\$ 11,280					
Building Faster Fund	\$ 6,750	\$ 6,750	\$ 6,750				
Capital Financing Surplus	\$ 6,500	\$ 6,500	\$ 6,500	\$ 6,500	\$ 6,500	\$ 6,500	\$ 6,500
Total Financing	\$ 62,142	\$ 63,566	\$ 65,027	\$ 66,525	\$ 68,062	\$ 69,638	\$ 71,254
Remaining Unfunded Development Charge Exemptions	\$ 39,000	\$ 32,500	\$ 26,000	\$ 19,500	\$ 13,000	\$ 6,500	\$ 0

Over the past three years, Council has directed \$35.8 M in operating budget surpluses towards unfunded discretionary development charge exemptions (\$15.1 M in 2021, \$13.0 M in 2022 and \$7.7 M in 2023).

Alternative Financing Strategy

Given the affordability concerns within the community, City Council could amend the proposed financing strategy for discretionary development charge exemptions by increasing the timeline in which the liability is addressed, introducing additional reserve contributions into the ten-year Capital Financing Plan and continuing the process of funding discretionary development charges exemptions through the annual budget surplus.

The City of Hamilton has a DC Funding Policy that requires staff to limit the amount of risk in sustaining DC reserves. The alternative financing strategy below balances tax affordability with the required financing of DC reserves.

Table 2 below summarizes an alternative financing strategy for discretionary development charge exemptions that would:

1. Reduce the proposed 2024 Capital Levy by \$6.5 M with a residential tax impact benefit of 0.54%;
2. Extend the three-year phase-in strategy for ongoing discretionary development charge exemptions to four years;
3. Extend the eight-year phase-in strategy for historical discretionary development charge exemptions by an additional three-years to 2033;
4. Leverage an additional 2023 operating budget surplus of \$2 M towards financing the 2024 capital budget; and,
5. Leverage an additional \$9.8 M in either reserve funding or operating budget surpluses from 2025 to 2030.

TABLE 2 – Alternative Development Charge Exemptions Funding Strategy

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Statutory Development Charge Exemptions <i>More Homes, More Choice Act, 2022</i>	\$ 20,830	\$ 21,363	\$ 21,910	\$ 22,471	\$ 23,046	\$ 23,636	\$ 24,241	\$ 24,862	\$ 25,498	\$ 26,151
Statutory Development Charge Exemptions <i>Development Charges Act, 1997</i>	\$ 10,190	\$ 10,451	\$ 10,718	\$ 10,993	\$ 11,274	\$ 11,563	\$ 11,859	\$ 12,162	\$ 12,474	\$ 12,793
Discretionary Development Charge Exemptions City of Hamilton DC Bylaw	\$ 24,622	\$ 25,252	\$ 25,898	\$ 26,561	\$ 27,241	\$ 27,939	\$ 28,654	\$ 27,730	\$ 26,782	\$ 25,810
Subtotal Annual Development Charge Exemptions	\$ 55,642	\$ 57,066	\$ 58,527	\$ 60,025	\$ 61,562	\$ 63,138	\$ 64,754	\$ 64,754	\$ 64,754	\$ 64,754
Unfunded Discretionary Development Charge Exemptions (2012-2020)	\$ 45,500	\$ 43,500	\$ 41,000	\$ 38,000	\$ 34,500	\$ 28,750	\$ 23,000	\$ 17,250	\$ 11,500	\$ 5,750
Total Development Charge Exemptions	\$ 101,142	\$ 100,566	\$ 99,527	\$ 98,025	\$ 96,062	\$ 91,888	\$ 87,754	\$ 82,004	\$ 76,254	\$ 70,504
Financing Strategy:										
Capital Levy	\$ 23,142	\$ 34,992	\$ 47,168	\$ 58,315	\$ 59,808	\$ 61,339	\$ 62,910	\$ 64,520	\$ 64,754	\$ 64,755
Unallocated Capital Levy Reserve	\$ 22,560	\$ 11,280								
Building Faster Fund	\$ 6,750	\$ 6,750	\$ 6,750							
Capital Financing Surplus	\$ 5,190	\$ 6,544	\$ 7,609	\$ 5,210	\$ 7,504	\$ 7,549	\$ 7,595	\$ 5,984	\$ 5,750	\$ 5,750
Total Financing	\$ 57,642	\$ 59,566	\$ 61,527	\$ 63,525	\$ 67,312	\$ 68,888	\$ 70,505	\$ 70,504	\$ 70,504	\$ 70,505
Remaining Unfunded Development Charge Exemptions	\$ 43,500	\$ 41,000	\$ 38,000	\$ 34,500	\$ 28,750	\$ 23,000	\$ 17,250	\$ 11,500	\$ 5,750	\$ (0)

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Should Council choose to adopt this strategy, the immediate tax burden in 2024 could be reduced by \$6.5 M representing an average residential tax benefit of 0.54%. It would require leveraging additional \$2 M of the forecasted 2023 capital financing surplus towards financing the 2024 capital budget, as well as, \$9.8 M in future years of the capital plan (2025 to 2030). The proposed phase-in strategy for ongoing discretionary development charge exemptions would shift an additional year, resulting in a Capital Levy increase of 0.30% in 2027. The revised Capital Levy forecast is provided in Table 3.

TABLE 3 – Alternative Capital Levy Forecast

	2024	2025	2026	2027
Transportation Asset Management Plan	0.58%	0.89%	0.89%	0.89%
Non-Core Asset Management Plans	0.00%	0.00%	0.50%	0.50%
Statutory DC Exemptions	0.76%	0.76%	0.76%	0.63%
Unfunded Discretionary DC Exemptions (City Bylaw)	0.00%	0.30%	0.30%	0.30%
Servicing requirements for new debt	0.00%	1.24%	0.10%	0.13%
Total Net for Levy Impact	1.33%	3.18%	2.54%	2.44%

APPENDICES AND SCHEDULES ATTACHED

None

DR/dt