




# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	September 5, 2024
<b>SUBJECT/REPORT NO:</b>	Development Charges Reserves Status Report as of December 31, 2023 (FCS24043) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Kerry Meissner (905) 546-2424 Ext. 2790
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

## COUNCIL DIRECTION

Not Applicable.

## INFORMATION

### 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 DC Reserves as of December 31, 2023, is \$548.67 M, which has increased by \$81.55 M since December 31, 2022. The increase is primarily due to in-year collections exceeding in-year capital financing. The balance of \$548.67 M reflects Public Sector Accounting Board (PSAB) standards which requires that any DC funds remain in the DC reserves until the eligible capital project has expended the funds. A summary is provided in Table 1 (page 5) and details by DC Service are provided in Appendix “A” to Report FCS24043.

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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.

There are a few DC services in Appendix “A” to Report FCS24043 which have negative balances. Per the City’s Development Charges Reserve Policy (Report FCS13035), as long as the consolidated reserve balance remains in excess of the outstanding DC Deferral Agreements (2023 - \$57.15 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 being completed (e.g., subdivision, industrial park) and, therefore, expenditures often precede the collection of Development Charges. Significant negative balances can usually be mitigated by financing large projects over longer periods of time through debt financing.

If all approved direct capital funding (\$161.17 M) were allocated to the approved projects and approved debt funding (\$650.19 M) were to be cash funded from the DC reserves, the 2023 DC reserves adjusted balance would be a deficit balance of \$262.61 M, which represents an increase of \$26.05 M from 2022. A summary is provided in Table 2 (page 6).

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

**Financial:** The consolidated DC reserve balance as of December 31, 2023, reflects the application of Public Sector Accounting Board 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 \$548.67 M, as outlined in Appendix “A” to Report FCS24043. Summary information on the DC reserves is provided in Tables 1 and 2.

**Staffing:** None.

**Legal:** The DC Act 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 FCS24043 addresses this legal requirement.

## **HISTORICAL BACKGROUND**

As per the requirements of the DC Act, an annual report of Development Charges reserves activity must be provided to Council. The DC Reserves Status Report is the “Treasurer’s Statement” as outlined in the DC Act, which must be made available to the public and forwarded to the Ministry of Municipal Affairs and Housing, at their request.

## **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.

## **RELEVANT CONSULTATION**

Staff from the City’s Planning and Economic Development Department have 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**

As per the requirements of the DC Act, 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 FCS24043 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 FCS24043 is provided in addition to the legislated requirements as described below.

The 2023 year-end consolidated DC reserve balance is \$548.67 M, as outlined in Appendix “A” to Report FCS24043.

Appendix “A” to Report FCS24043 summarizes the 2023 activity for each DC reserve. DC revenues were collected through the authorization of Municipal DC By-law 19-142, as amended, which was passed by Council in June 2019 and was amended in March 2021. Collections under DC By-laws are deposited into DC reserves.

Appendix “B” to Report FCS24043 provides a summary of the development charge funding to capital projects and Appendix “C” to Report FCS24043 provides a summary of the development charge funding to capital projects by reserve.

The DC reserves balance as at December 31, 2023 reflects the application of PSAB reporting requirements for obligatory reserve funds.

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 projects. For this reason, the current year funding to each project often does not reflect the funding ratios identified in the DC background studies. Staff included Appendix “D” to Report FCS24043 to show the DC funded projects closed in the year and their final revenue funding from all sources. Appendix “D” to Report FCS24043 includes closed projects from October 1, 2022 to September 30, 2023. The projects planned to be closed during the period October 1, 2023 to December 31, 2023 have not yet been approved by Council as of the date of Report FCS24043. Accordingly, projects closed between October 1, 2023 and December 31, 2023 will be included in next year’s Development Charges Reserves Status Report.

There are a few DC services in Appendix “A” to Report FCS24043 which have negative balances. This occurs either because capital infrastructure has been developed at a pace which exceeds the actual growth realized or 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 of each service.

Table 1 provides a continuity of DC Reserves with a summary of inflows and outflows in 2023 resulting in a consolidated PSAB balance of \$548.67 M at December 31, 2023.

**Table 1 – DC Reserve Continuity Schedule  
(In Millions)**

**Balance as of January 1, 2023** **\$ 467.13**

**Funding Inflows**

Interest	\$ 16.56
Collections	\$ 93.97
DC Exemption Funding	\$ 37.12
Internal Borrowing Repayment	\$ 0.48

**Subtotal of Inflows** **\$ 148.13**

**Funding Outflows**

Other Transfers	\$ 0.14
External Debt Payments	\$ 6.94
Direct Capital Funding	\$ 59.51

**Subtotal of Outflows** **\$ 66.59**

**Balance as of December 31, 2023** **\$ 548.67**

Note: Variances in totals may exist due to rounding

DC collections in 2023 totalled \$93.97 M, a \$5.33 M decrease from 2022. Residential DC collections decreased from \$84.71 M in 2022 to \$76.50 M in 2023 and non-residential DC collections increased from \$14.59 M in 2022 to \$17.47 M in 2023.

Any DC exemptions authorized by Council through DC By-law 19-142 (e.g., reduced industrial rate) or through a Council meeting (e.g., exemptions for non-profits) are required to be recovered through other sources. Council has approved amounts in the Water, Wastewater, Stormwater Rate and Tax Budgets to enable staff to recover a portion of these exemptions. An 11-year (2013-2023) summary of the exemptions is included as Appendix “E” to Report FCS24043. Appendix “E” to Report FCS24043 shows that exemptions totalled \$50.59 M in 2022 and \$78.27 M in 2023, representing an increase of \$27.68 M.

The City’s backlog of unfunded DC exemptions is highlighted in Appendix “E” to Report FCS24043, as of December 31, 2023, where the City has \$69.63 M in unfunded discretionary DC exemptions. Through Report FCS23063(b), Council approved the transfer of \$0.6 M from the 2023 year-end surplus to fund 2023 discretionary exemptions. The 2024 Tax Budget (Report FCS24002) included an annual \$6.5 M

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funding strategy to address the remaining funding shortfall in historical discretionary Development Charges (DC) exemptions.

Table 2 provides the accounting DC reserve balance at December 31, 2023, 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.

**Table 2 – DC Adjusted Balance as at December 31, 2023**

DC Service	Dec. 31/23 Balance (\$)	Adjustments		Adjusted Balance (\$)
		Direct Capital Funding (\$)	DC Debt (\$)	
Water Services	86,439,341	(24,158,401)	(118,244,000)	(55,963,060)
Wastewater Services	109,448,429	(1,221,617)	(18,558,000)	89,668,812
Linear Wastewater	58,805,601	(14,584,666)	(226,415,637)	(182,194,702)
Storm Water - Combined System	13,374,643	(1,306,484)	-	12,068,159
Storm Water - Separated System	60,045,558	(37,808,236)	(42,893,000)	(20,655,678)
Roads	115,831,929	(49,413,193)	(135,682,672)	(69,263,936)
Public Works & Rolling Stock	10,749,394	(698,194)	-	10,051,199
Transit Services	16,472,611	(273)	(37,998,000)	(21,525,663)
Fire Protection	6,245,269	(505,972)	(18,813,800)	(13,074,503)
Police Services	5,577,235	(102,539)	(15,005,000)	(9,530,304)
Ambulance Services	(394,014)	(280,760)	(4,743,000)	(5,417,774)
Outdoor Recreation	7,012,477	(4,624,201)	(24,875,000)	(22,486,725)
Indoor Recreation	33,564,410	(11,736,437)	(6,100,000)	15,727,973
Library Services	5,887,356	(1,378,735)	-	4,508,621
Admin Studies	(4,187,344)	(2,660,939)	(790,000)	(7,638,283)
Homes for the Aged	6,985,338	(6,393,213)	-	592,125
Health	925,170	-	-	925,170
Social & Child	1,054,965	-	-	1,054,965
Housing	13,634,165	(2,068,985)	-	11,565,180
Provincial Offences Act	(287,808)	-	-	(287,808)
Hamilton Conservation Authority	66,420	-	-	66,420
Waste Diversion	6,536,531	(2,223,301)	-	4,313,229
Dundas/Waterdown SAC	(5,271,305)	-	-	(5,271,305)
GO Transit	159,626	-	-	159,626
<b>TOTAL</b>	<b>548,675,998</b>	<b>(161,166,148)</b>	<b>(650,118,109)</b>	<b>(262,608,260)</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.

As seen in Table 2, if all approved direct capital funding (\$161.17 M) were allocated to the approved projects and approved debt funding (\$650.12 M) were to be cash funded from the DC reserves, the 2023 DC reserves adjusted balance would be a deficit balance of \$262.61 M, which represents an increase of \$26.05 M from 2022.

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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.

A new requirement for 2023 opening DC Reserve balances requires municipalities to spend or allocate at least 60 percent of the monies that are in a reserve fund relating to Water Supply services, Wastewater services and Services related to a highway. Table 3 demonstrates the City's satisfaction of this requirement) as each service area is well above the 60 percent threshold.

**Table 3 – Summary of Capital Project Commitments Over the Next 10 Years as at December 31, 2023**

Table 3 - Summary of Capital Project Commitments (over the next 10 years) as at December 31, 2023								
Service	DC Reserve Funding	DC Debt Funding	Future Debt	Existing Debt	Future DC Reserve Funding	TOTAL Commitments	A / B	
							Closing Balance Dec 2023	% of Service Allocated
Roads	\$ 49,413,193	\$ 74,144,762	\$ 49,688,166	\$ 15,677,653	\$ 365,535,885	\$ 554,459,659	\$ 115,831,929	479%
Wastewater Services	\$ 1,221,617	\$ 11,714,738	\$ 142,913,622	\$ -	\$ 7,971,890	\$ 163,821,866	\$ 109,448,429	150%
Wastewater Linear Services	\$ 14,584,666	\$ 142,924,871	\$ 28,264,062	\$ 1,235,115	\$ 19,377,900	\$ 206,386,614	\$ 58,805,601	351%
Water Services	\$ 24,158,401	\$ 74,641,525	\$ 74,578,322	\$ 265,415	\$ 53,406,000	\$ 227,049,663	\$ 86,439,341	263%
<b>TOTAL</b>	<b>\$ 89,377,877</b>	<b>\$ 303,425,895</b>	<b>\$ 295,444,172</b>	<b>\$ 17,178,184</b>	<b>\$ 446,291,675</b>	<b>\$ 1,151,717,802</b>	<b>\$ 370,525,301</b>	<b>311%</b>

Introduced in 2022, O. Reg 82/98 s.s. 12 (3) 2 to the DC Act requires municipalities to state “whether, as of the end of the year, the municipality expects to incur the amount of capital costs that were estimated, in the relevant development charge background study, to be incurred during the term of the applicable development charge by-law”.

As per Table 6-7 of the 2019 DC Background Study, there was \$1.2 B in DC funding expected over the 2019-2023 period and adjusted for edits through the DC Update Study dated March 5, 2021, this amount is adjusted to \$1.3 B.

Staff first reviewed the amount of funds to be inflowed to the DC reserves over the 2019-2023 period. Inflows consist of DC collections, interest and City funding of discretionary exemptions of which \$0.71 B is forecasted to be received into the DC reserves, roughly 44% less than what the DC study forecasted would be spent on eligible capital projects. Therefore, since the City has not collected enough to support the expenses planned in the 2019 DC Background Study, it can generally be expected that the City will not fund to the level planned in the 2019 DC Background Study (as adjusted), although debt is often used to bridge timing differences.

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The DC funding for all services over the 2019-2023 period was reviewed and, aside from the exceptions noted below, all services are expected to incur +/- 15% of the estimated capital costs from the 2019 DC Background Study (as adjusted).

The following services have spent up to ~40% less than what was forecasted in the 2019 DC Study (as adjusted), which is explained by keeping spending in line with the pace of growth:

- Water Services (\$52.0 M, 26% less)
- Roads (Services related to a highway) (\$152.8 M, 41% less)
- Police Services (\$3.0 M, 16% less)
- Indoor Recreation Services (\$20.4 M, 38% less)
- Library Services (\$3.1 M, 29% less)
- Admin Studies (\$4.5 M, 30% less)

Public Works and Rolling Stock spent \$16.2 M (70%) less DCs in the 2019-2023 period versus the amount in the 2019 DC Background Study (as adjusted). This is largely a timing difference as the planned Water and Wastewater office / storage expansion (\$17 M in the 2019 DC Background Study) has yet to be programmed into the capital budget.

Housing Services has spent \$19.9 M (86%) less DCs in the 2019-2023 period versus the amount in the 2019 DC Background Study (as adjusted). Housing has experienced delays in getting projects approved and, therefore, they are not included in the capital budget forecast. While net costs estimated by the 2019 DC Study are still expected in the long run, to date, there has been minimal DC funding provided to housing projects.

Waste Diversion Services spent \$13.2 M (80%) less DCs in the 2019-2023 period versus the amount in the 2019 DC Background Study (as adjusted). The primary driver of this variance is the Material Recycling Facility Lifecycle Replacement and Upgrades project for which the 2019 DC Study estimated \$8.2 M of DC Financing. The project has experienced almost nil to date. This is because Waste Diversion Services is transitioning out of recycling in 2025 and does not know what the future of the facility is. Consequently, there has been no budget dedicated to replace or upgrade the facility.

Another requirement per O. Reg 82/98 Section 12 (3) 3. to the DC Act requires municipalities to state, regarding any service for which a development charge was collected during the year but in respect of which no money from a reserve fund was spent during the year, why there was no spending during the year. For the purpose of these comments, spending is defined as direct capital financing and payments covering external debt.



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Dundas / Waterdown Special Area Charge (SAC) had all spending completed by 2017 and, thus, the reserve represents that amount remaining to be recovered from previous spending. Accordingly, it did not see any spending.

Health Services and Social and Child Services have roughly \$1 M in reserve balances, respectively, as seen in Appendix "A" to Report FCS24043. These services do not collect substantial development charges, which is demonstrated in Appendix "A." Consequently, it is reasonable that there was no spending through these DC reserves this year.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS24043 – Development Charges Reserve Funds for the period of January 1, 2023 to December 31, 2023

Appendix "B" to Report FCS24043 – Revenue Sources for Development Charges Funded Projects for the year ended December 31, 2023

Appendix "C" to Report FCS24043 – Development Charges Project Funding by Reserve, December 31, 2023

Appendix "D" to Report FCS24043 – Development Charges Capital Projects' Closing Summary for the year ended December 31, 2023

Appendix "E" to Report FCS24043 – 11-Year Development Charges Exemption Summary, 11-Year History