




CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 17, 2024
SUBJECT/REPORT NO:	Growth Funding Tools: Reserve Fund Policy Updates (FCS24042) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ailish Brooke (905) 546-2424 Ext. 6875
SUBMITTED BY:	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the Development Charges Reserve Fund Policy, attached as Appendix “A” to Report FCS24042, be adopted;
- (b) That the Community Benefits Charges Reserve Fund Policy, attached as Appendix “B” to Report FCS24042, be adopted;
- (c) That the Development Charges – Community Benefits Charges Transition Reserve Fund Policy, attached as Appendix “C” to Report FCS24042, be adopted; and,
- (d) That the Parkland Dedication Reserve Fund Policy, attached as Appendix “D” to Report FCS24042, be adopted.

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.

EXECUTIVE SUMMARY

The purpose of Report FCS24042 is to recommend updates to the obligatory reserve fund policies for the City’s growth funding tools: Development Charges (“DC”), Community Benefits Charges (“CBC”) and Parkland Dedication fees (“PL”). These financial tools play a crucial role in ensuring that the City has the necessary resources to build complete communities and finance growth-related infrastructure.

Report FCS24042 addresses the policies for the Development Charges Reserve Funds (“DC Reserve Funds”), the Community Benefits Charges Reserve Fund and Development Charges – Community Benefits Charges Transition Reserve (collectively “CBC Reserve Funds”) and the Parkland Dedication Reserve Fund (“PL Reserve Fund”). These obligatory reserve fund policies have been revised to align with current legislation, municipal best practices and to provide clearer guidance on the use and limitations of each reserve fund. Additionally, the proposed updates to the growth funding tool reserve fund policies will enhance consistency in utilization between growth funding tools.

DC Reserve Funds Policy Update Summary: The DC Reserve Funds Policy has been updated to align with legislative requirements and restrictions. Essential changes include stating that internal borrowing from DC Reserve funds for non-DC purposes is not permitted and that projects are to be funded on a proportional basis as expenses are incurred. Staff is recommending that the DC Reserve Funds Policy attached as Appendix “A” be adopted.

CBC Reserve Fund Policies Update Summary: The CBC Reserve Fund Policies have been updated to enhance clarity and ensure legislative compliance. Key revisions from the previously approved policies include specifying that the CBC Reserve Funds do not permit borrowing or deficit positions and that projects are to be funded on a proportional basis as expenses are incurred. Staff is recommending that the CBC Reserve Funds Policies attached as Appendix “B” and “C” be adopted.

PL Reserve Fund Policy Update Summary: Historically, the PL Reserve Fund has been managed in accordance with the City’s overarching Reserve Policy, with no specific policy established. The recommended policy introduces a customized framework to formalize the PL Reserve Fund’s use and ensure compliance with legislation. Staff is recommending that the PL Reserve Fund Policy attached as Appendix “D” be adopted.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: Policies have been drafted in accordance with applicable legislation at the time of writing. The policies highlight that should a conflict arise between a policy and legislation, that the legislation takes precedence.

HISTORICAL BACKGROUND

Development Charges

DCs are a development fee applied to development or redevelopment calculated in accordance with the *Development Charges Act, 1997* (“DC Act”) and the City of Hamilton DC By-Law, 2024 (By-Law 24-072). DCs are a growth funding tool to support the capital costs of growth across a range of services.

The current DC Reserves Policy for Reserves 110300 - 110399 was adopted through the approval of the recommendations to staff Report FCS13035 on May 15, 2013. The requirements of the DC Act supersede any City of Hamilton policy and by-law.

Community Benefits Charges

CBCs are a development fee applied at building permit issuance to development or redevelopment where the proposed building will contain five or more stories and 10 or more residential units. CBCs are equivalent to four percent of the land value, subject to Section 37 and Ontario Regulation 509/20 of the *Planning Act, 1990* (“Planning Act”) and the City of Hamilton Community Benefits Charges By-Law (By-Law 22-158). The City of Hamilton began collecting CBCs on September 18, 2022. CBCs are used to fund eligible capital projects identified through the CBC Strategy or subsequent review.

The current CBC Reserve Fund Policies for Reserves 110500 and 110501 were adopted through the approval of the recommendations to staff Report FCS22015(b) on June 22, 2022. The requirements of the *Planning Act* supersede any City of Hamilton policy or by-law.

Parkland Dedication

PL is a development fee applied to development or redevelopment in the form of land conveyed to the City or cash-in-lieu for the purposes of parks or other public recreational purposes. PL is subject to Sections 42, 51.1, 53 and Ontario Regulation 509/20 of the *Planning Act* and the City of Hamilton Parkland Dedication By-Law (By-Law 22-218). PL funds are used for the purposes of parks or other public recreational purposes in accordance with the Parks Master Plan or other Council approval.

The PL Reserve Fund has historically been managed under the City's general Reserve Policy, without a specific policy for the Reserve Fund. The requirements of the *Planning Act* supersede any City of Hamilton policy or by-law.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The DC Reserve Funds, CBC Reserve Funds and PL Reserve Fund are obligatory reserve funds established in accordance with governing legislation. The recommended DC, CBC and PL Reserve Fund Policies are also subject to the City's overarching Reserve Policy.

Development Charges

DCs are regulated under the DC Act and the City of Hamilton Development Charges By-Law, 2024 (By-Law 24-072). Sections 33 through 37 and Section 43 of the DC Act outline the requirements for DC Reserve Funds. The DC Act specifically requires that:

- Reserve funds be established for each service to which the DC relates;
- DCs collected are held in the respective service's Reserve Fund to which the DC relates;
- DCs collected are spent only on eligible capital costs related to growth;
- At least 60 percent of the funds held in the Reserve Funds at the beginning of the year for prescribed services are spent or allocated;
- DCs are not utilized for interim financing of non-DC eligible capital expenditures; and,
- An annual Treasurer's Statement be provided to report on the activities of the Reserve Funds.

The policy attached as Appendix "A" conforms to all requirements of the DC Act.

Community Benefits Charges

CBCs are regulated under Section 37 and Ontario Regulation 509/20 of the *Planning Act* and the City of Hamilton Community Benefits Charges By-Law (By-Law 22-158). The *Planning Act* specifically requires that:

- CBCs collected are held in a special account;
- At least 60 percent of the funds held in the special account at the beginning of the year are spent or allocated; and
- An annual report be provided to report on the activities of the special account.

The policies attached as Appendix “B” and “C” to Report FCS24042 conform to all requirements of the *Planning Act*.

Parkland Dedication

PL is regulated under Sections 42, 51.1, 53 and Ontario Regulation 509/20 of the *Planning Act* and the City of Hamilton Parkland Dedication By-Law (By-Law 22-128). The *Planning Act* specifically requires that:

- PL fees collected are held in a special account;
- At least 60 percent of the funds held in the special account at the beginning of the year are spent or allocated; and,
- An annual report be provided to report on the activities of the special account.

The policy attached as Appendix “D” to Report FCS24042 conforms to all requirements of the *Planning Act*.

RELEVANT CONSULTATION

Legal and Risk Management Services, Corporate Services Department
Watson & Associates Economists Limited

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The DC, CBC and PL Reserve Funds are classified as obligatory reserve funds. Obligatory reserve funds are those that are mandated and regulated by legislation for specific purposes. To ensure proper financial oversight, they require individual policies that are both clear and compliant. Staff has conducted a thorough review of each reserve fund policy related to the growth funding tools and have identified necessary amendments in line with legislative requirements and municipal best practices.

Development Charges

Watson & Associates Economists Limited was engaged by the City to prepare the 2024 DC Background Study. A DC Reserve Policy Review was a part of this engagement. Watson & Associates Economists Limited conducted a municipal best practices review and that review has been used to inform the updates to the City's DC Reserve Funds Policy.

The current DC Reserve Funds Policy was adopted in 2013. Since that time, the DC Act has undergone numerous changes. The DC Reserve Funds Policy has been revised to align with legislative requirements and restrictions of the DC Act (Appendix "A"). Significant updates from the previously approved policy include:

- Formalizing transparency requirements established by the DC Act for the financial activities of the DC Reserve Funds and requiring that the policy be made publicly available through the City of Hamilton website;
- The General Manager, Finance and Corporate Services, is only permitted to approve changes in funding from debt to reserve but not reserve to debt;
- Aligning the capital project funding approach with municipal best practices to distribute funds to capital projects on a proportional basis as expenses are incurred;
- Prohibiting internal borrowing from the DC Reserve Funds for non-DC purposes in accordance with requirements of the DC Act;
- Clarifying responsibility and methodology for oversight and updating the DC Reserve Funds policy; and,
- Additional minor clarifications.

Staff is recommending that the DC Reserve Funds Policy attached as Appendix "A" to Report FCS24042 is adopted.

Community Benefits Charges

The current CBC Reserve Funds Policies were adopted in 2022. The CBC Reserve Fund Policies have been revised to enhance clarity and ensure continued compliance with the *Planning Act* (Appendices "B" and "C" to Report FCS24042). Significant updates from the previously approved policies include:

- Aligning the capital project funding approach with municipal best practices to distribute funds to capital projects on a proportional basis as expenses are incurred;
- Prohibiting internal borrowing from the CBC Reserve Funds in accordance with municipal best practices;
- Specifying that the CBC Reserve Funds are not permitted to enter deficit positions;

**SUBJECT: Growth Funding Tools: Reserve Policy Updates (FCS24042)
(City Wide) – Page 7 of 7**

- Clarifying responsibility and methodology for oversight and updating the CBC Reserve Funds policy; and
- Additional minor clarifications.

The above noted revisions aim to promote transparent and responsible financial management of the CBC Reserve Funds. Staff is recommending that the CBC Reserve Funds Policies attached as Appendix “B” and “C” to Report FCS24042 be adopted.

Parkland Dedication

The PL Reserve Fund has traditionally been managed under the City's general Reserve Policy, lacking a specific policy. The proposed policy (Appendix “D” to Report FCS24042) introduces a framework to formalize the use of the Reserve Fund and ensure legislative compliance. The proposed policy ensures clarity on the following:

- In accordance with municipal best practices, eligible capital projects are to be funded on a proportional basis as expenses are incurred;
- Internal borrowing from the PL Reserve Fund for other purposes is not permitted;
- Prohibits the PL Reserve Fund from entering a deficit position;
- Creates accountability for the oversight and update of the PL Reserve Fund Policy; and
- Ensures only obligatory PL fees are held within the PL Reserve Fund.

Staff is recommending that the PL Reserve Fund Policy attached as Appendix “D” to Report FCS24042 be adopted.

ALTERNATIVES FOR CONSIDERATION

Not Applicable

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS24042 – Development Charges Reserve Fund Policy

Appendix “B” to Report FCS24042 – Community Benefits Charges Reserve Fund Policy

Appendix “C” to Report FCS24042 – Development Charges – Community Benefits Charges Transition Reserve Fund Policy

Appendix “D” to Report FCS24042 – Parkland Dedication Reserve Fund Policy

AB/dt