

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 13, 2021

Report of the Commissioner of Finance

2020 Development Charge Reserve Fund Statement

1. Recommendations

The Regional Clerk circulate this report to the local municipalities and the Building Industry and Land Development Association, York Region Chapter.

2. Summary

This report provides a year-end summary of development charge activity and reserve balances for 2020, as required under the *Development Charges Act, 1997*, as amended (the Act).

Key Points:

- As of December 31, 2020, Development Charge Reserve balances total \$383.0 million
- Reserve balances increased by \$113.0 million from 2019 due to collections exceeding draws by \$101.4 million, as well as \$11.7 million of interest earned during the year
- As a result of legislative changes related to Bill 108, a one-time increase has been included in the reserves in the amount of \$91.2 million
- The Treasurer's Reserve Fund Statement is in compliance with the Act

3. Background

Development charges are a major funding source for the Region's capital plan

Development charges are imposed to recover growth-related capital costs from residential and non-residential developments. Since the majority of York Region's capital expenditures support growth-related projects, development charges are a key source of funding for its capital plan.

Development charge reserves are governed by the Act

The Act specifies how development charge reserves are established and reported upon.

Sections 33 and 43 of the Act require that:

- A municipality that has passed a development charge bylaw shall establish a separate reserve fund for each service to which the development charge relates and fund only eligible capital costs from the reserve fund
- The Treasurer of the municipality shall provide Council a financial statement relating to development charge bylaws and reserve funds established

The financial statement must identify all assets where capital costs were funded under a development charge bylaw. Municipalities are also required to identify all other sources of funding applied to each project funded with development charges and provide details on activities for each development charge reserve for the year.

4. Analysis

As of December 31, 2020, the Development Charge Reserves had a balance of \$383.0 million

As at December 31, 2020, the Development Charge Reserves had a balance of \$383.0 million, an increase of \$113.0 million from 2019. The activity for the year is shown on Table 1.

Table 1

Development Charge Activity in 2020 (in \$ millions)

Service	Opening Balance	Collections³	Deferral Accrual	Draws	Interest	Closing Balance¹
Regional Roads	361.8	112.7	38.1	82.9	17.3	447.0
Water Supply ⁵	(77.1)	44.0	14.3	51.6	(4.0)	(74.4)
Wastewater Servicing ⁵	(109.4)	87.2	29.2	98.3	(5.6)	(96.9)
General Services ²	<u>94.7</u>	<u>35.5</u>	<u>9.6</u>	<u>36.4</u>	<u>3.9</u>	<u>107.3</u>
Total	270.0	279.4	91.2	269.2	11.6	383.0

Note 1: Reserve balance includes opening balance plus collections, expenditures and interest accrual.

Note 2: General Services includes transit, subway, waste diversion, police, paramedic services, public health, senior services, social housing, public works, growth studies, court services and GO Transit.

Note 3: Development charge collections are reported net of development charge credits and does not include one-time accrual for deferred development charges.

Note 4: Represents the one-time accrual for deferred development charges.

Note 5: Water Supply and Wastewater Servicing components of this reserve have deficits as a result of the need to build capacity in this infrastructure in advance of planned growth. These deficits will be reduced as the growth occurs in the future and the related development charges are received.

As a result of legislative changes in accounting treatment, a one-time increase has been included in the reserves in the amount of \$91.2 million

The Region's outstanding Deferred Development Charges were previously disclosed as Contractual Rights in the notes to the financial statements. Finance staff reviewed these contracts and determined that it is appropriate to recognize the development charges when they ordinarily become payable.

Recognizing the development charges when the building permit is issued and setting up an asset/receivable (with actual draws and payments decreasing the receivable) will provide a more accurate representation on the Region's financial statements. A one-time entry has been made as of December 31, 2020, to record all the current deferrals the Region has entered in the amount of \$91.2 million. This has been included as development charge collections.

As a result of the COVID-19 pandemic and the state of emergency response, development charges were affected adversely

Development charge collections did not achieve the level forecasted during the preparation of the 2020 Budget due to effects of COVID-19, such as stay-at-home orders causing processing of development applications to initially slow down at the local and Regional level, restrictions on residential construction for about a month in April, a shift of focus of developers to complete projects already under construction (as that type of construction was allowed), a temporary slow down in the housing market due to the degree in uncertainty related to the future and worries related to a future recession brought on by the pandemic.

The Treasurer's Reserve Fund Statement is comprised of five schedules

Attached to this report are five schedules (see Attachment 1) which make up the financial statement required by the Act:

- Schedule 1 summarizes the development charge reserves established under the authority of the Act, and the Development Charge Bylaw
- Schedule 1 (A) provides a further breakdown of the General Services column on Schedule 1

- Schedule 1 (B) provides details of the development charge credits shown on Schedule 1
- Schedule 2 shows the 2020 general services capital project expenditure details
- Schedule 3 shows the 2020 roads-related development charge expenditure details
- Schedule 4 shows the 2020 water supply-related development charge expenditure details
- Schedule 5 shows the 2020 wastewater servicing-related development charge expenditure details

The Treasurer's Reserve Fund Statement is in compliance with the Act

As of December 31, 2020, this reserve fund statement is in compliance with the Act. The Region has not imposed, directly or indirectly, any additional levies or required construction of a service, except as may be permitted under the Act or another act.

5. Financial

Development charge collections were below the 2020 forecast

Development charge collections (before the deferred development charge accrual) in 2020 were \$279.4 million (based on units of 5,725 and 133,099 sq. m.), which represented \$81.7 million less than the forecast of \$362.1 million. This forecast was based on a unit forecast of 8,001 and a gross floor area forecast of 366,702 sq. m.

Development charge collection is not the same as development charge revenue

Depending on the timing of capital spending, development charge collections within a fiscal period may not equal the revenue recorded in the financial statements. The Region's financial statements are prepared in accordance with generally accepted accounting principles established by the Public Sector Accounting Board. Revenue is recorded as development charge balances are drawn down to pay for principal and interest on previously constructed growth capital or new growth capital projects.

Development charges fund debt payments as well as growth infrastructure

Development charges fund infrastructure in one of two ways; it pays for growth infrastructure directly, or it pays down debt that was issued in order to build growth infrastructure. In 2020, \$269.2 million was taken out of the Development Charge Reserves; \$226.6 million was for debt servicing for development charge funded projects, while a further \$42.6 million was used to fund capital projects directly.

As at December 31, 2020, the Region had \$2.55 billion of debt outstanding that will be funded through future development charge collections, out of a total debt of \$2.72 billion.

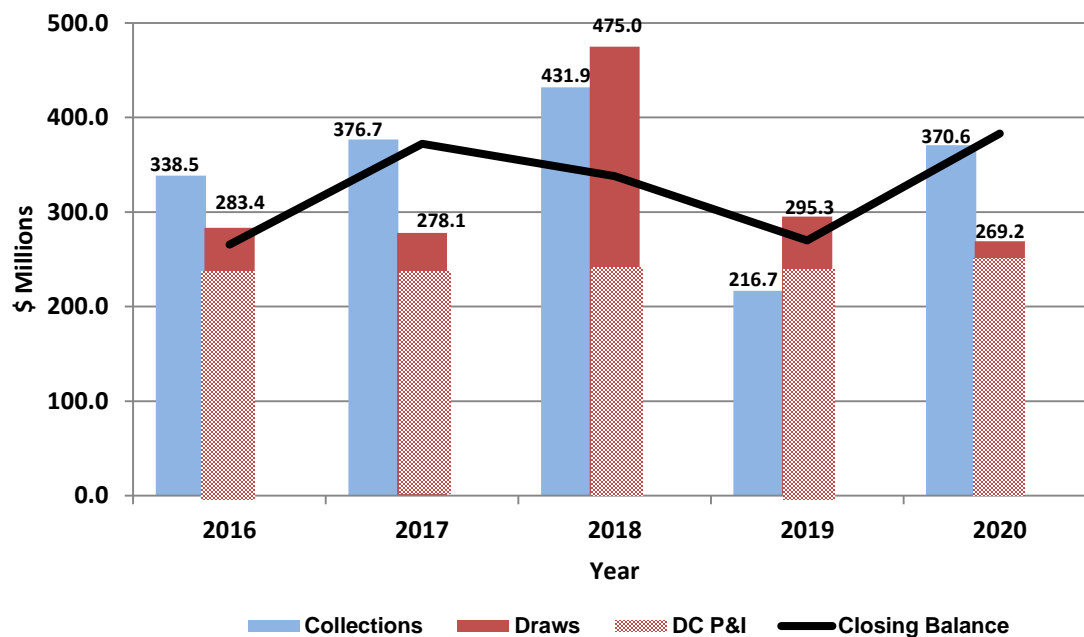
As per the Capital Financing and Debt Policy, it is the Region's practice to maintain a cash balance in the Development Charge Reserves equal to a range of 75 to 100 % of the projected annual principal and interest payments during the fiscal year for growth-related debt. In this way, the Region manages the total balance in the Development Charge Reserves against uncertainties in the development charge collections and fluctuations in the level of outstanding debt from year-to-year.

Chart 1 compares development charge collections and draws during the past five years. This chart demonstrates that for the past five years, the closing balance of the reserves have been above the principal and interest that had to be repaid.

Chart 1

York Region 2016 - 2020 Development Charge

Collections and Draws Comparison (in \$M)



6. Local Impact


Development charges are an important revenue source for funding growth-related infrastructure which benefits all municipalities in York Region.

7. Conclusion

The 2020 Development Charge Reserve Fund Statement presented in this report satisfies the Region's reporting obligations pursuant to the Act.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

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Approved for Submission: 
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April 29, 2021
Attachments (1)
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