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2004 DEVELOPMENT CHARGE RESERVE FUND STATEMENT

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, April 1, 2005, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The 2004 Development Charge Reserve Fund Statement prepared in accordance with the provisions of The Development Charges Act, 1997 be received.

2. The 2004 Development Charge Reserve Fund Statement be forwarded to the Minister of Municipal Affairs and Housing, Area Municipalities, the Urban Development Institute (York Region Chapter), the Greater Toronto Homebuilders Association, and other interested parties for information purposes.

2. PURPOSE

The purpose of this report is to provide detailed financial information regarding 2004 development charge ("DC") collections totalling $74.6 million and capital expenditures of $ 92.0 million in accordance with the reporting requirements outlined in The Development Charges Act, 1997 ("The DC Act, 1997") and to provide a year end summary of reserve balances established under the DC Act, 1997 totalling $ 423 million.

3. BACKGROUND

3.1 Development Charge Reporting Requirements

In March 1998, the Provincial government enacted the DC Act, 1997, which revised existing development charge legislation. The DC Act, 1997 outlines specific reporting requirements for DC reserves. In accordance with s.33 and s.43 of the DC Act, 1997 the following is required:

- A municipality that has passed a development charge by-law shall establish a separate reserve fund for each service to which the development charge relates, and may be spent only for eligible capital costs.

- The Treasurer of the municipality shall give to Council a financial statement relating to development charge by-laws and reserve funds established.

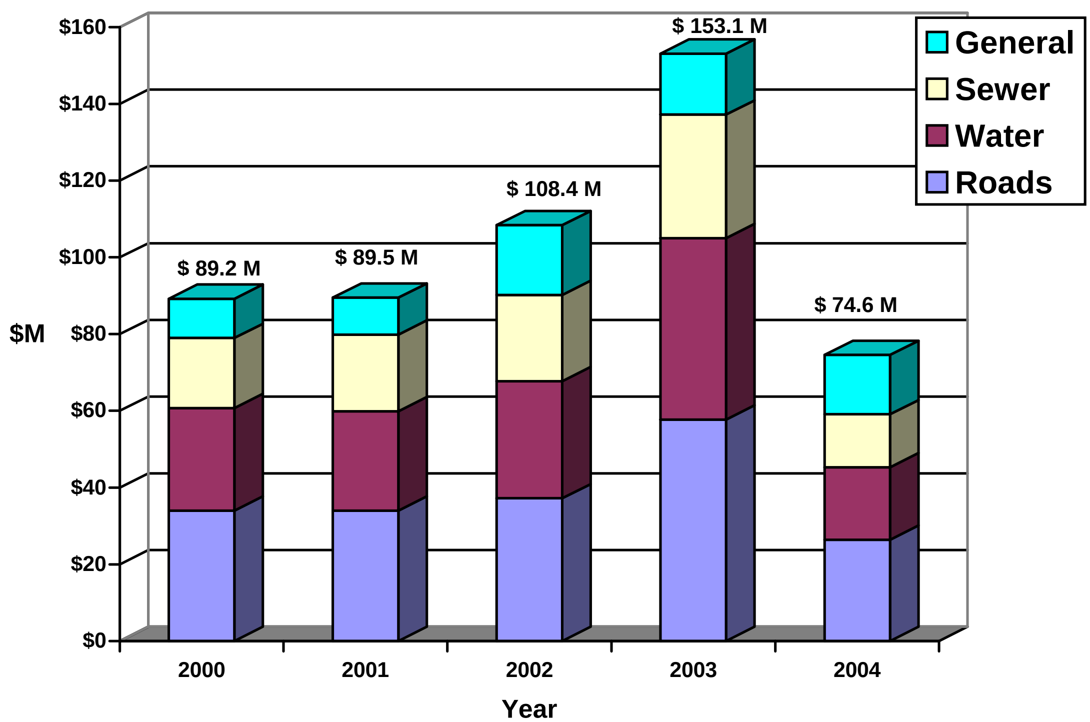
Reporting requirements also include identifying all other sources of funding applied to each project funded with development charges, and providing a detailed summary of activity for each development charge reserve for the year. This varies from Municipal reporting requirements, as DC's are treated as deferred revenue for reporting purposes.

4. ANALYSIS AND OPTIONS

4.1 2004 Development Charge Collections (five-year comparative analysis)

The following table compares the 2004 development charge collections to the previous four years collections.

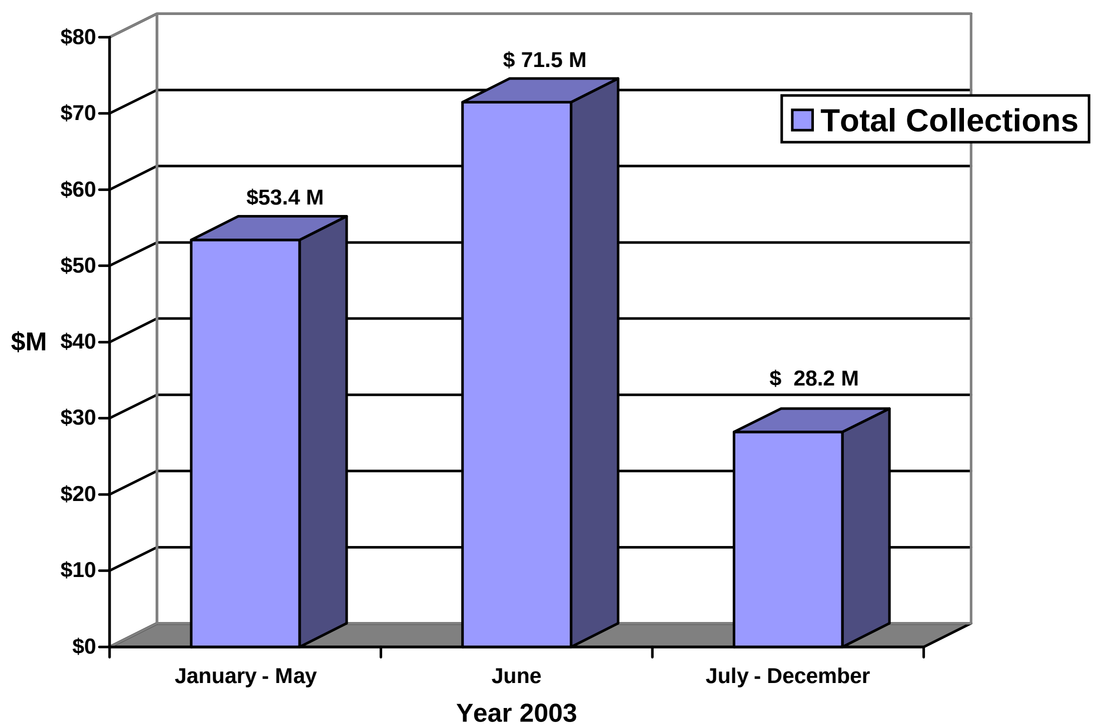
Table 1
Regional Municipality of York
Development Charges Collected by Service Component
($ millions)



York Region's population increased by 34,600 people in 2004, a growth of 4 % over 2003. 9,306 residential building permits were issued in York Region, down by 8% from 10,136 residential permits issued in 2003. Development charge collections decreased significantly in 2004, down $ 78.5 million or 51.3% from the prior year. The 5 year average from 2000-2004 is $103 million annually.

The major factor contributing to the decline in collections in 2004 is attributable to increased collections in 2003. As shown in Table 2, over $70 million in prepaid development charges were collected in the month of June prior to the enactment of the revised DC By-law effective June 23, 2003. This influx of receipts accounted for virtually half of the total collections received in 2003, significantly increasing revenue over both prior and subsequent years.

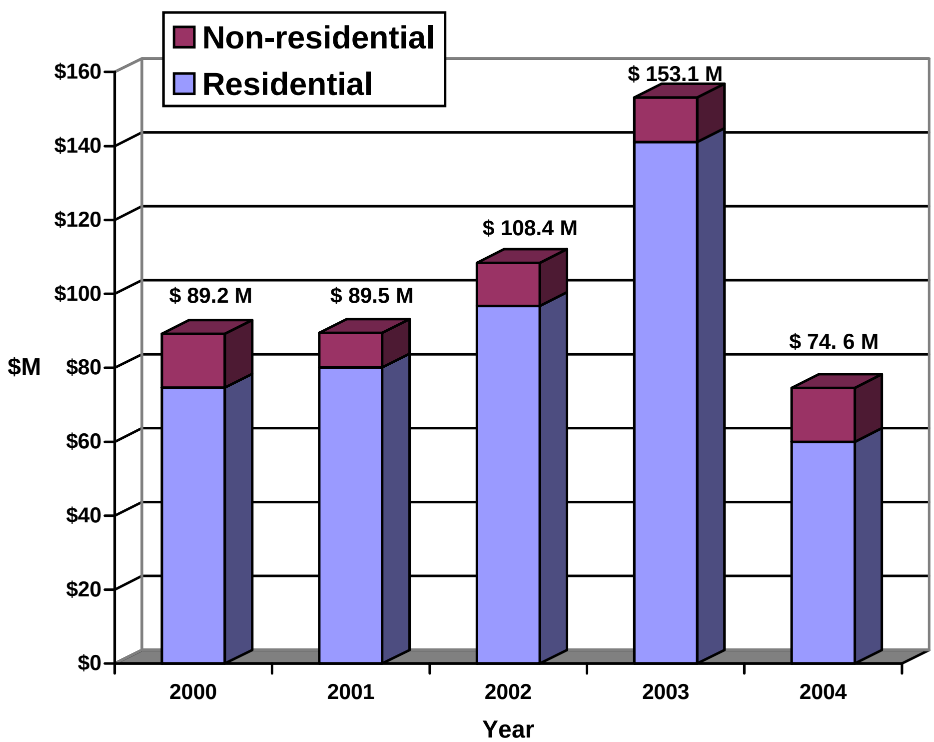
Table 2
Regional Municipality of York
Development Charges Collected
for the Year 2003
($ millions)



The Capital Plan has continued to expand at an accelerating rate and works have been undertaken to continue to support and keep pace with this program. Generally in the past five years (with the exception of year 2001), total DC reserve balances have continued to grow in excess of 15% during each year. In contrast, 2004 total DC reserve balances closed at 0.5% lower than the total balance at the beginning of the year. A major contributor to the reduction in the total DC Reserve closing balance was the Roads DC reserve. 84% of the approved 2004 Roads budget of $141 million was spent towards full delivery of the Capital Plan. As a result, the roads DC reserve balance reduced by 37% in 2004. Closing DC reserve balances for roads and transit were $48 million and $47 million respectively at the end of 2004.

As shown in Table 3, non-residential development accounted for 19.6 % of 2004 development charge revenue, and has averaged 10.7 % over the past five years. Total construction works were valued at $ 2.6 billion in 2004. Of the total construction value, non-residential construction for 2004 totalled $ 0.9 billion, with 44.5 % of this total representing commercial construction.

Table 3
Regional Municipality of York
Development Charges Collected – Residential/Non-residential
($ millions)



4.2 2004 Development Charge Detailed Activity Statements

Total development charges required to fund the 2004 Regional capital program totalled $92.0 million. The summary table below outlines the expenditures by service category:

Table 4
Regional Municipality of York
2004 Development Charge Expenditures
($millions)

Service	Expenditures
Roads	$57.4M
Water	$15.4M
Sewer	$14.4M
General	$4.8M
Total	$92.0M

Attached to this report are six schedules:

- Schedule 1- The detailed reserve fund statement for development charge reserves established under authority of the DC Act, 1997, and the DC By-law (including a summary of DC credits issued).
- Schedule 2 - The prescribed capital project addendum, which details 2004 capital project expenditures and development charge funds transferred to each project.
- Schedule 3 - A detailed analysis of Regional capital road program development charge expenditures for 2004.
- Schedule 4 - A detailed analysis of Regional capital water program development charge expenditures for 2004.
- Schedule 5 - A detailed analysis of Regional capital sewer program development charge expenditures for 2004.
- Schedule 6 - An analysis of 2004 Year End DC Reserves and Regional Capital Expenditure forecast for 2005 – 2014

4.3 Development Charge By-law Appeals

After a comprehensive review process, including several meetings with the development industry, Regional Council enacted a revised DC by-law on May 22, 2003 to be effective June 23, 2003 for a four year term.

The key elements of the revised DC By-law are listed below:

- Four year term of By-law
- Transit DC rate phase-in over term of by-law, with each step dependent upon percentage completion of the proposed transit capital plan
- Phase-in of the non-residential DC rate over the term of the By-law

- Annual indexing of the DC rate on the anniversary of the DC By-law
- Building permits issued by December 31, 2003 for apartment development be grandfathered and subject to rates under the old DC By-law.

Subsequently, the Region received appeals from four development groups. These appeals were in respect to the high-rise residential, non-residential and transit development charge rates. Regional staff began working with the appellants in order to resolve the appeals expeditiously. In 2004, two of the four appellant groups withdrew their appeals. Regional staff continue to work with the two remaining appellants (Greater Toronto Homebuilders Association & Lonsmount Properties) to resolve the appeals.

4.4 GO Transit DC By-law

In order to recover growth-related GO Transit capital costs, the GTA municipalities were required to enact development charge by-laws for GO Transit. In November 2001, Council enacted a DC By-law for GO Transit capital costs, with an expiry date of December 31, 2003.

Capital costs included in the DC calculations were apportioned to the GTA municipalities based on a negotiated cost sharing formula which was to be renegotiated in 2003. As Development charge By-laws were expiring throughout the Province on December 31, 2003 and a new cost sharing formula was not yet negotiated, the Province enacted legislation to extend all GO Transit DC By-laws until December 2004. Discussions continued in 2004, but delays regarding the requirement for municipalities to enter into agreements with GO Transit resulted in a further extension of existing by-laws to December 2005. Discussions with the Province and GTA municipalities are ongoing in order to enact a revised by-law for 2006.

5. FINANCIAL IMPLICATIONS

5.1 Development Charge – Capital Expenditure Commitments

Capital commitments to the DC reserves per the 2005 Budget and 10 year capital forecast are outlined in schedule 6. The 2005 Budget commitment from development charge reserves is $128.0 million. It is estimated that $ 464 million of debt will be required in 2005 for long term growth-related infrastructure, particularly for water, sewer, transit and roads capital. A significant portion of the debt repayment, which would commence in 2006, will be funded from development charge reserves. In addition, the proposed ten-year capital program that accommodates the significant growth within the Region of York will be funded primarily through Development Charges.

As an incentive to economic development, the current Region policy is to discount the non-residential development charge rate and to phase-in the DC rate increase. This discounting and phasing in of DC rates must be funded from non-DC sources, i.e. tax levy and user rates, and currently places significant pressure on the Region’s tax levy and user rate requirements. Staff is reviewing the existing discounting methodology in an effort to reduce the impact of the discounting on the Region's financial requirements.

Development charge revenue shortfalls attributable to reduced development charge rates, rate phasing and exemptions as approved by Regional Council, must be continually monitored through the annual budget approval process to ensure DC reserve balances are consistent with capital expenditures. This will ensure that the infrastructure required for growth is provided in a fiscally responsible manner, in accordance with Financial Growth Management policies adopted in the Regional Official Plan.

6. LOCAL MUNICIPAL IMPACT

Development charges are an important revenue source for constructing growth-related infrastructure which benefits all municipalities in York Region. The long term infrastructure master plans and detailed ten year capital plans upon which the DC Background Study is based, allows for co-ordinated planning with area municipalities.

7. CONCLUSION

The 2004 Development Charge Reserve Fund Statement is provided pursuant to the reporting requirements of the Development Charges Act R.S.O. 1997.

The Senior Management Group has reviewed this report.

(The attachments referred to in this clause were included in the agenda for the May 5, 2005 Committee meeting.)