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2003 DEVELOPMENT CHARGE RESERVE FUND STATEMENT

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, March 8, 2004, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The 2003 Development Charge Reserve Fund Statement prepared in accordance with the provisions of The Development Charges Act, 1997 be received.

2. The 2003 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 2003 development charge ("DC") collections totalling $153.1 million and capital expenditures of $ 87.9 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 $ 425.2 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

4.1 Revised Development Charge By-law Enactment

A comprehensive review of the Development Charge ("DC") By-law was initiated in September 2002. As part of the DC By-law review process, several meetings were held with several stakeholders and the development industry, particularly with Urban Development Institute (UDI) and Greater Toronto Home Builders Association (GTHBA). In accordance with statutory requirements, a public meeting was held on April 17, 2003 to discuss the background study. At its meeting on May 22, 2003, Regional Council enacted the by-law to be effective June 23, 2003 with 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

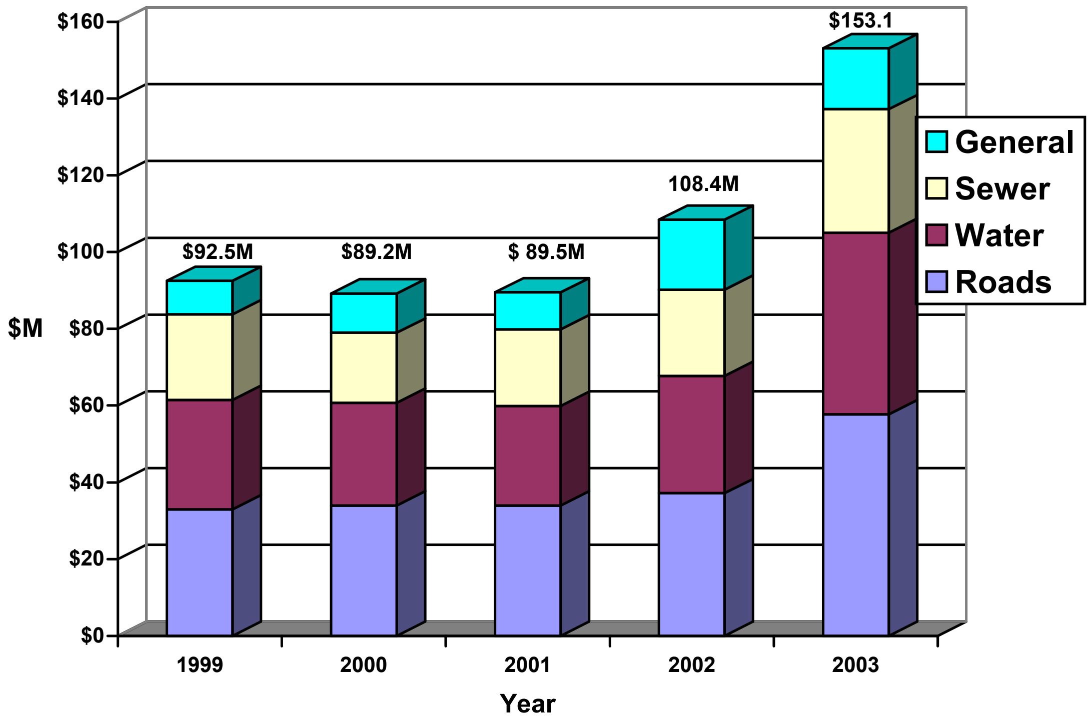
Subsequently, the Region received four appeals from the development industry. These appeals were in respect to the high-rise residential, non-residential and transit development charge rates. Council has directed staff to report to Council prior to the next increase in the DC rate regarding the status of the resolutions to the appeals and on centres and corridors and their impact on the development charge rate. Regional staff continues to work with the appellants in order to resolve the appeals expeditiously.

If the appeals are heard at the Ontario Municipal Board (OMB), and the Court rules in favour of the appellants, the Region could be ordered to refund a portion or all of the funds collected from the time of inception of the revised by-law.

4.2 2003 Development Charge Collections (five-year comparative analysis)

The following table compares the 2003 development charge collections to the previous four years collections.

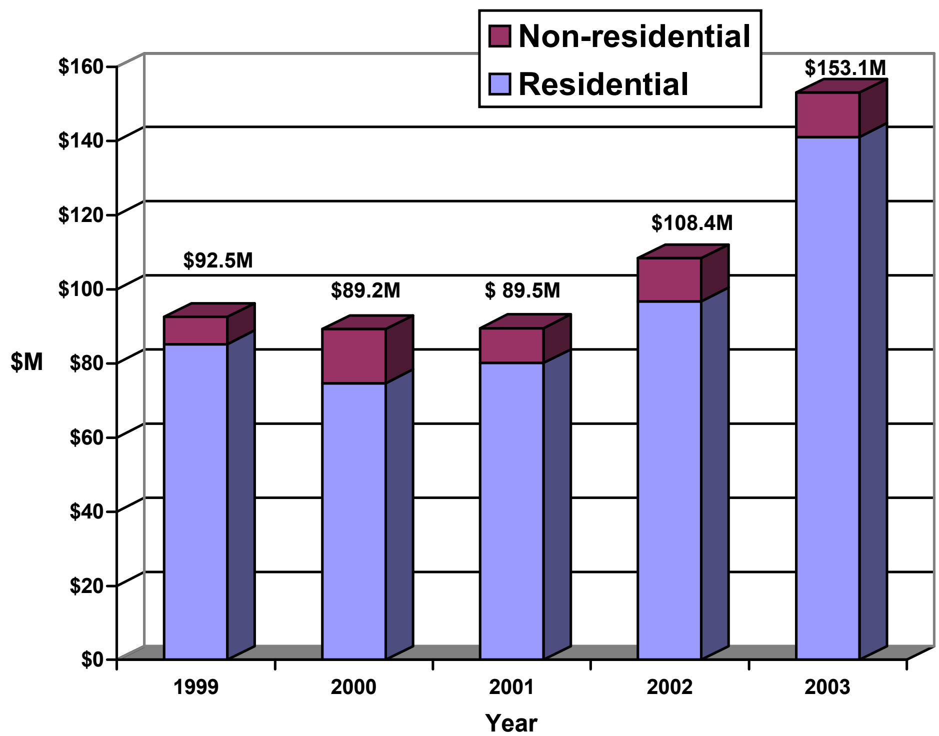
Table 1
Regional Municipality of York
Development Charges Collected by Service Component
($millions)



York Region's population increased by 34,500 people in 2003, a growth of 4.2 % over the prior year. As in the previous years, the continued rapid rate of growth experienced in York Region has resulted in a large number of subdivision registrations and building permit issuances in 2003. In 2003, 10,143 residential building permits were issued in York Region. Development charge collections increased significantly in 2003, particularly due to the rate of growth within the Region, and the significant number of subdivisions registered prior to the increase in the development charge rate.

As shown in Table 2, non-residential development accounted for 7.8 % of 2003 development charge revenue, and has averaged 10.7 % over the past five years. Total construction works were valued at $ 2.7 billion in 2003. Of the total construction value, non-residential construction for 2003 totalled $872.7 million, with 38% of this total representing commercial construction.

Table 2
Regional Municipality of York
Development Charges Collected – Residential/Non-residential
($millions)



4.2 2003 Development Charge Detailed Activity Statements

Total development charges required to fund the 2003 Regional capital program totalled $87.9 million. The summary table below outlines the expenditures by service category:

Table 3
Regional Municipality of York
2003 Development Charge Expenditures
($millions)

Service	Expenditures
Roads	$49.1 M
Water	15.3 M
Sewer	12.0 M
General	11.5 M
Total	$87.9 M

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 2003 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 2003.
- Schedule 4 - A detailed analysis of Regional capital water program development charge expenditures for 2003.
- Schedule 5 - A detailed analysis of Regional capital sewer program development charge expenditures for 2003.
- Schedule 6 - An analysis of 2003 Year End DC Reserves and Regional Capital Expenditure forecast for 2004 – 2013

4.3 Transfer of Hospital and Solid Waste DC Reserves

The current Development Charge Act does not permit municipalities to collect development charges (DC) for Hospital or Solid Waste capital works. Funds held for these purposes were to be transferred into a general capital reserve. In accordance with the Development Charges Act, 1997 ("DC Act"), the balances in the Hospital and Solid Waste DC reserve as shown on Schedule 2 being $3.1 million and $7.8 million respectively, were transferred to reserve funds to be used for those specific purposes once the revised DC by-law was enacted by Council in May 2003.

4.4 Transit Development Charges

On January 1, 2001, the Region assumed responsibility for municipal transit services from the area municipalities. The Region has proposed a $2.2 billion 10 year capital plan to introduce an enhanced transit service level in the Region. The current DC Act restricts cost recovery for transit capital expenditures based on a historical 10 year average service level standard. This would limit the Region's recovery of eligible capital costs to approximately 5% of total net costs. The revised DC By-law includes a phased charge for growth-related transit capital expenditures. The phase-in of the transit DC rate reflects an enhanced service level and is dependent upon the level of completion of the Region's transit capital plan. At the time of enactment of the revised DC By-law, Council adopted a recommendation to request the Province amend the DC legislation to permit the use of future or enhanced service levels in the calculation of costs eligible for recovery from DC. As noted previously, this has been appealed to the Ontario Municipal Board.

4.5 GO Transit DC By-law

In order to recover growth-related GO Transit capital costs, development charges are a key source of financing growth-related capital costs. Until December 31, 2001, GO Transit had been operated under the general direction and control of "The Greater Toronto Services Board" (GTSB). The development charge legislation did not permit the GTSB to enact a development charge to recover growth-related capital costs. Therefore, the GTA municipalities forming the GTSB were required to enact development charge by-laws to recover their share of growth-related capital costs 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 were apportioned to the GTA municipalities based on a negotiated cost sharing formula which was to be renegotiated in 2003. In 2002, the Provincial government assumed responsibility for the operations and co-ordination of services of GO Transit. The province assumed100% of the operating costs for GO Transit however made the GTA municipalities responsible for one-third of the growth-related capital program.

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. The GTA municipalities are about to commence a review to enact a revised By-law.

5. FINANCIAL IMPLICATIONS

5.1 Development Charge – Capital Expenditure Commitments

Capital commitments to the DC reserves per the 2004 Budget and 10 year capital forecast are outlined in schedule 6. The 2004 Budget commitment from development charge reserves is $87.1 million. It should be noted that approximately $427 million of debt is proposed to be issued in 2004 for long term growth-related infrastructure, particularly for water, sewer and transit capital. A significant portion of the debt repayment, which would commence in 2005, will be funded from development charge reserves. In addition, the proposed ten-year capital program, particularly for roads, water, sewer and transit 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.

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 sources 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 2003 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.

(A copy of the attachment referred to in the foregoing has been forwarded to each Member of Council with the April 8, 2004 Finance and Administration Committee agenda and a copy thereof is on file in the Office of the Regional Clerk.)