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2005 DEVELOPMENT CHARGE RESERVE FUND STATEMENT

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, March 1, 2006, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The 2005 Development Charge Reserve Fund Statement prepared in accordance with the provisions of The Development Charges Act, 1997 be received.

2. The 2005 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 2005 development charge ("DC") collections totalling $142.3 million and capital expenditures of $ 128.5 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 $ 456 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.

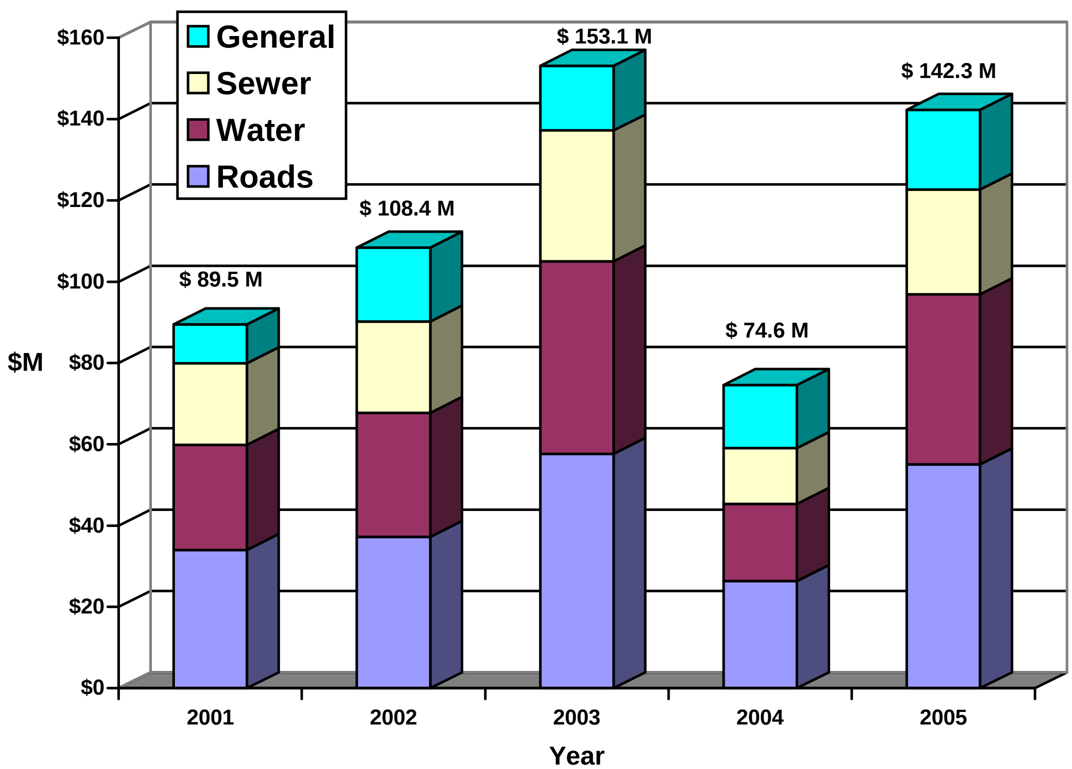
Reporting requirements also include identifying all other sources of funding applied to each project funded with development charges, and providing a detailed summary of activity for each development charge reserve for the year. This varies from Municipal reporting requirements, as DC's are treated as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

4. ANALYSIS AND OPTIONS

4.1 2005 Development Charge Collections (five-year comparative analysis)

The following table compares the 2005 development charge collections to the previous four years collections.

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



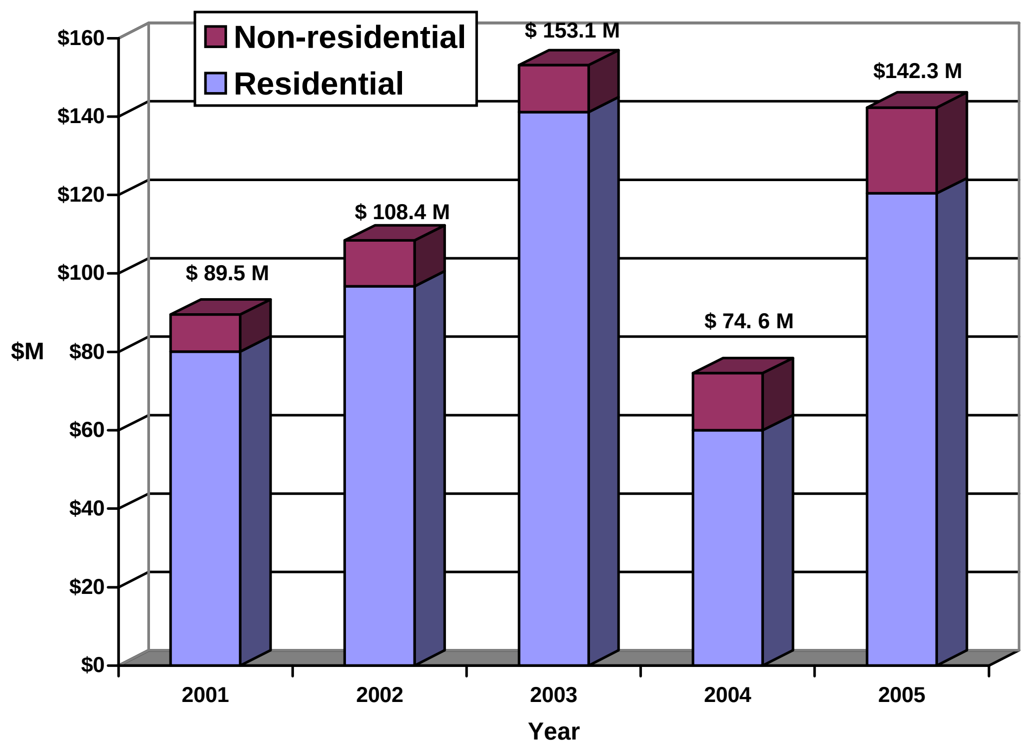
York Region's population increased by 28,800 people in 2005, a growth of 3.2% over the prior year. The continued growth in York Region resulted in 10,391 residential building permits issued in York Region, an increase of 11.7% from 2004. Development charge collections increased significantly in 2005, up $67.7 million or 90.8% from the prior year. The 5 year average from 2001-2005 is $113.6 million annually with 2005 above the average by $28.7 million or 25.3%.

The increase in the development charges collection in 2005 is due to the increase in residential building permits and the DC receipts resulting from development charge payments made prior to enactment of an amended DC By-law. Over $52 million in development charges were collected in the month of June prior to the enactment of the amended Development Charge By-law effective June 23, 2005. This influx of receipts accounted for 37% of the total collections received in 2005, significantly increasing revenue over the prior year.

As shown in Table 2, non-residential development accounted for 18.2% of 2005 development charge revenue, and has averaged 13% over the past five years. Total construction works were valued at $2.9 billion in 2005. Of the total construction value, non-residential construction for 2005 totalled $ 0.9 billion, with 41.37% of this total representing commercial construction.

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

4.2 2005 Development Charge Detailed Activity Statements



Total development charges required to fund the 2005 Regional capital program totalled $128.5 million. The summary table below outlines the expenditures by service category for the years 2003 to 2005:

Table 3
Regional Municipality of York
2003-2005 Development Charge Expenditures
($millions)

Service	Expenditures		
	2003	2004	2005
Roads	$49.1M	$57.4M	**$19.6M**
Water	$15.3M	$15.4M	**$50.0M**
Sewer	$12.0M	$14.4M	**$52.0M**
General	$11.4M	$4.8M	**$6.9M**
Total	$87.8M	$92.0M	**$128.5M**

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 2005 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 2005.
- Schedule 4 - A detailed analysis of Regional capital water program development charge expenditures for 2005.
- Schedule 5 - A detailed analysis of Regional capital sewer program development charge expenditures for 2005.
- Schedule 6 - An analysis of 2005 Year End DC Reserves and Regional Capital Expenditure forecast for 2006 – 2015

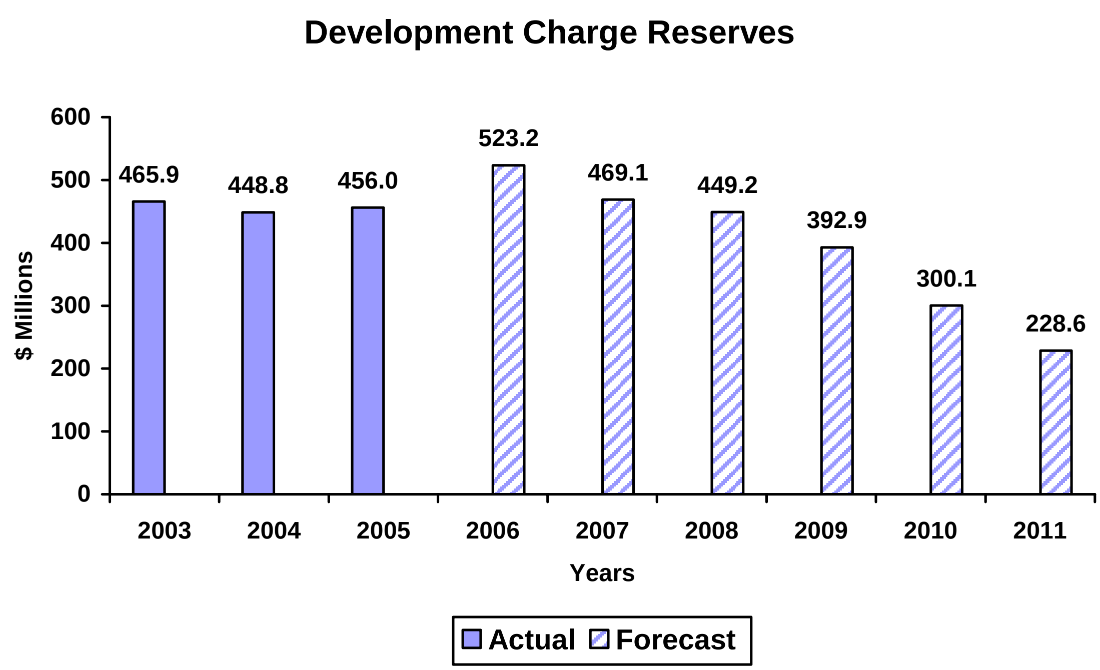
4.3 2005 Development Charge By-law Amendment

Subsequent to the enactment of the June 22, 2003 DC By-law, there have been some significant cost pressures within the water and wastewater capital program.

An update to the Toronto water supply agreement to provide increased servicing capacity to York Region has resulted in an enhanced plan to construct the necessary infrastructure and increased capital costs. In addition, further conditions for Regional wastewater projects have been imposed by the Ministry of Environment to mitigate environmental impacts. These conditions have significantly increased the cost of these projects.

In response to these cost increases, Council authorized staff to proceed with an amendment to the DC By-law incorporating these increased costs, such that the costs of growth would be captured from the development creating the need for these costs. As a result of these increased water and wastewater costs, the DC By-law was amended by Regional Council on June 23, 2005. The current DC By-law will expire on June 23, 2007 which will necessitate the completion of a Background Study, public meeting and approval of the new DC By-law. The process for this revised DC By-law is underway it is anticipated to be completed by the end of 2006 or early 2007.

Based on growth projections included in the DC By-law, below is a graph of the actual and forecasted Development Charge Reserves from 2003 to 2011 under the current DC By-law rates.



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.

The GTA municipalities have been working to enact a revised By-law, however, several issues pertaining to Development Charge Act limitations that have not been addressed by the Province and the need to negotiate new cost sharing agreements have prevented this from occurring. The Province has extended the By-laws three times as a result of these issues, with the latest expiry date of December 31, 2006. The current GO Transit 10 Year Capital plan has increased by 50% from the plan currently covered in the DC By-law, therefore the Region is not recovering sufficient costs to fund capital requirements.

The GTA municipalities are attempting to engage the Province to help resolve the outstanding issues in order to rectify this situation by the end of 2006.

5. FINANCIAL IMPLICATIONS

5.1 Development Charge – Capital Expenditure Commitments

Capital commitments to the DC reserves per the 2006 Budget and 10 year capital forecast are outlined in schedule 6. The 2006 Budget commitment from development charge reserves is $129.6 million. It is estimated that $363 million of debt will be required in 2006 for long term growth-related infrastructure, particularly for water, sewer, transit and roads capital. In 2005, the Region issued debt to fund road capital projects for the first time. Debt issuance is also planned for roads in 2006. This has resulted in lower funds initially required from Development Charges for the year. Future development charge collections will be used to pay off the principal and interest on the outstanding debt commencing in 2006. A significant portion of the debt repayment, which would commence in 2007, will be funded from development charge reserves. The balance of 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. This discounting 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 2005 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 attachment referred to in this clause was included in the agenda for the June 8, 2006 Committee meeting.)