Subject: 2018 Development Charges Grants and Exemption Funding

Report to: Corporate Services Committee

Report date: Wednesday, January 9, 2019

Recommendations

That Council **ENDORSE** the approach as outlined in this report to fund development charge grants and exemptions in excess of the budgeted amount.

Key Facts

- The purpose of this report is to provide a funding strategy for the cost of discretionary development charge grants and exemptions paid in excess of the approved budget. Staff has forecast that there will be a deficit in the operating budget available to fund these estimated at $7.5 million (forecasted actuals against available budget) as identified in **Appendix I**.
- These grant and exemptions have been previously established through the Development Charge (DC) Bylaw 2017-98 but must be funded in order to ensure dollars are available in the DC reserves to pay for the necessary infrastructure to facilitate development as per the Development Charge Background Study.
- Operating budget shortfalls were identified during the deliberations of the 2017 Regional Development Charges bylaw, as well as the preparation of the 2018 Operating Budget.
- The Niagara Region Development Charges Background Study approved by Regional Council identified previously completed capital projects in the Roads, Water and Wastewater categories that had a growth component funded from sources other than development charges (i.e., tax levy and rate requisitions) as identified in **Appendix II**. Therefore the development charge reserves need to payback the original funding source.
- Staff is recommending that funds be transferred back to operating budgets from the development charge reserve over time to align with the cost of grants and exemptions as discussed in the analysis section of this report.
- It is recommended that the transfer from the development charge reserves occur as part of the Year-End Results and Transfer report after the actual year end operating surplus/deficit is taken into consideration.

Financial Considerations

When development charge exemptions are granted, the Region pays these by way of a grant expense (reimbursement to the DC Reserve) funded from the operating budget.

This ensures that the development charge reserves are kept whole and have sufficient balances to support the financing of future growth related projects identified in the background study. These grants can create an operating pressure to the extent that the exemptions exceed the allotted operating budget for the year. In order to alleviate this pressure, staff have considered the use of the payback requirement in the Development Charge Background study as identified in **Appendix II**.

The 2018 budget for development charge grants and exemptions is approximately $4.2 million. Staff has forecast an annual expense of $11.8 million resulting in a projected 2018 deficit of approximately $7.5 million as noted in the Q3 Financial Update report. It should be noted that the projected deficit in the Q3 report is approximately $3 million greater than what was presented as part of the Q2 report as a result of updated forecast assumptions and year-to-date actuals. It is important to note, that these grant and exemptions have been previously established through the Development Charge Bylaw 2017-98. A significant portion of the forecasted deficit can be attributed to discretionary exemptions including: Phase-in costs of $2.2 Million, Brownfield Reductions of $1.5 Million, Affordable Housing Exemptions $1.1 Million and $4.4 Million in agricultural exemptions.

The projected December 31, 2018 uncommitted balance in the development charge reserves in aggregate is $60 million. The result of paying back the 2018 operating budget projected shortfall some of the funding previously used on growth related projects will reduce the uncommitted balance in the DC reserves to approximately $52.5 million as identified in Table 1.

Table 1: Projected 2018 Year-end Development Charges Reserve Balances (‘000)

	Projected Uncommitted Balances - December 31, 2018	Estimated DC Payback for 2018	Projected Uncommitted Balances - December 31, 2018 (after transfer)
Development Charges-General Government	$1,171	$0	$1,171
Development Charges-Police Services	$1,296	$0	$1,296
Development Charges-Roads	$17,715	$1,854	$15,861
Development Charges-Sewer	$30,251	$3,672	$26,579
Development Charges-Water	$6,956	$2,000	$4,956
Development Charges-Emergency Medical	$1	$0	$1
Development Charges-LT Care	$1,845	$0	$1,845
Development Charges-POA	$116	$0	$116
Development Charges-Health	$235	$0	$235
Development Charges-Social Housing	($4)	$0	($4)

Development Charges-Waste Division	$464	$0	$464
Total	**$60,046**	**($7,526)**	**$52,520**

Analysis

This report was originally presented to the Corporate Services Committee on September 5, 2018. Due to time constraints, the report was deferred to the next committee meeting. Staff have updated the report to reflect the most current financial position as of Q3 2018.

In the past, internal Regional financing was used for growth related projects and the Background Study identified that the development charge reserves are required to payback the following amounts to Regional operating budget funding sources:

- Water $20 million
- Wastewater $37 million
- Roads $10 million

These funds are available to assist with funding the cost of development charge grants and exemptions paid in excess of the approved budget. Staff is recommending that the development charge reserves payback the Regional funding source over time and to the extent that the Regions development charges grant and exemptions budgets are in a deficit position at year end. However before this strategy is adopted any other operating budget surplus available at year end will first be recommended to mitigate the shortfall in order to maximize the DCs available for investment in growth infrastructure.

Staff recommendation to fund any program shortfall at year end in the Year-end Results and Transfer report to conform to both the Budget Control By-Law and the Surplus Deficit Policy. By doing so, all year end surplus and deficit positions are taken into consideration before any transfers are recommended. It should be noted that as reported in the Q3 Financial Update, Niagara's levy supported program are in an overall projected surplus position of approximately $1 million inclusive of the $7.5 million DC grants and exemption shortfall. Therefore no 2018 payback from DC Reserves would be required.

Alternatives Reviewed

Transfer funds from the DC reserve to offset the potential deficit in DC related grants despite the overall tax supported corporate surplus. This alternative is **NOT RECOMMENDED**. With the surplus in the tax supported programs, there is sufficient dollars to fund the DC grant deficit, thus leaving the payback for future years when required.

That the overall grant program deficit be mitigated by reducing other program spending. This alternative is **NOT RECOMMENDED** and not necessary as a surplus is being forecast in the Q3 results.

Relationship to Council Strategic Priorities

This report ties to Council's strategic priorities of encouraging economic growth in Niagara.

Other Pertinent Reports

CSD 63-2017 Regional Development Charges and Proposed By-law
CSD 11-2017 Regional Development Charges and Proposed By-law
CSD 48-2018 2018 Development Charges Grant Exemptions Funding

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Appendices

Appendix I	3rd Quarter Projected Development Charge Grant Deficit
Appendix II	Growth Related Components of Works Previously Completed