

For Information

REPORT TITLE: Front-End Funding and Financing Options

FROM: Kealy Dedman, Commissioner of Public Works
Gary Kent, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide an overview of front-end funding and financing options in response to the request from the March 18, 2021 Region of Peel Planning and Growth Management Committee meeting.

REPORT HIGHLIGHTS

- At the March 18, 2021 Region of Peel Planning and Growth Management Committee, staff were directed to report back at a future meeting with information related to front-end funding and other development financing options for growth-related infrastructure.
 - Staff retained Hemson Consulting Ltd. (Hemson) to prepare a summary of various front-end funding and financing options, and to identify the advantages and disadvantages of the options.
 - The Region's growth management strategy takes an integrated approach to planning, servicing and financing growth using various strategies. Front-end funding and financing tools are one piece of the overall strategy.
 - The Region has an existing Front-end Financing Agreements and Developer Reimbursements Corporate Policy and Regional Official Plan policies related to front-end financing.
 - Hemson has prepared a summary memo outlining three main categories of funding/financing options: a) Development Charges (DCs), b) Area Specific Development Charges, and c) Front-end Funding Tool Options.
 - Staff will be reporting further on work to update the Region's Front-end Financing Agreements and Developer Reimbursements Corporate Policy and evaluate the available tools to manage growth related financial risks.
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DISCUSSION

1. Background

At the March 18, 2021 Planning and Growth Management Committee, staff were directed to report back to a future meeting of the Planning and Growth Management Committee with information on a framework, in principle, for front-end financing and area specific Development Charges or other servicing delivery arrangements that may be applied for planning and development in the Region of Peel (Recommendation PGMC-8-2021, Resolution 2021-348).

Front-End Funding and Financing Options

To assist with this work, staff developed a scope of work with Hemson Consulting Ltd. (Hemson), under their existing Settlement Area Boundary Expansion (SABE) contract, as they have extensive expertise and experience in municipal finance. This scope of work included an evaluation of front-end financing options, including developer agreements or arrangements, area-specific development charges, or other service delivery arrangements, with a particular focus on the Peel 2041+ Settlement Area Boundary Expansion (SABE) study lands.

2. Current Situation

Through the Region's growth management strategy, an integrated approach to planning, servicing and financing growth has been established, in consultation with local municipalities, the development industry and other stakeholders. Council has endorsed a proactive framework in that regard through the growth management program which is focused on achieving a financially sustainable complete community where the location and servicing of growth is optimized. The program employs a number of strategies to achieve its outcomes and front-end funding and financing tools are just one of the pieces of strategy.

Policies are in place at the Region to enable the use of these tools. The current Regional Official Plan speaks to the consideration of innovative infrastructure financing arrangements, including front-end financing, to ensure that development proceeds in a fiscally responsible manner. Additionally, the Region has an existing corporate policy on front end financing agreements and developer reimbursements that came into effect in 2003. The policy sets out an approach to evaluate proposals and enter into front end financing agreements with developers for the construction of growth-related Regional infrastructure, though it has been rarely used and not at all in recent years (see Appendix I).

3. Front-end Funding and Financing Options

Hemson has prepared a memo, attached as Appendix II, explaining various front-end funding and other financing options available to the Region through the *Development Charges Act*, and the advantages and disadvantages of these options.

Hemson's memo outlines three main categories of funding/financing options and provides examples of how these tools have been used in various municipalities:

- a) Development Charges (DCs)
- b) Area-Specific Development Charges
- c) Front-End Funding Tool Options
 - i) Front-ending Agreements under the *Development Charges Act*
 - ii) Single/Group Developer Front-End Financing & DC Credit Agreements
 - iii) DC Prepayment Agreements
 - iv) Developer Cost-Sharing Agreements

4. Lessons Learned

As outlined in the Hemson memo, these tools and examples can be used in a variety of circumstances under different contexts. By studying the application of these tools, several key best practices and lessons are apparent:

Front-End Funding and Financing Options

- The “user pays” principle holds that those who benefit from new growth-related infrastructure should be the ones who pay for it.
- Risk should be shared between municipalities and developers.
- Municipalities can use various land use planning and policy tools to facilitate coordination and funding arrangements between developers.
- Municipalities should strive to use tools that are relatively simple to administer without overly onerous reporting requirements.
- Municipalities should strive to achieve a consistent application of the various financing mechanisms. Many municipalities have found success in establishing and adhering to strong, Council-approved and publicly available policies that recognize potential risks and set appropriate parameters under which the tools should be used.
- Municipalities should attempt to maintain good fiscal health while expanding infrastructure to meet the needs of growth.
- Municipalities should consider the scale and scope of the required infrastructure when deciding which tool to use.

NEXT STEPS

Through the Peel 2041+ review, staff are reviewing existing policies and developing new growth management policies for the Regional Official Plan including the new Designated Greenfield Areas and the SABE. These policies will have a strong focus and emphasis on ensuring the appropriate phasing, staging and sequencing plans are in place at various levels of approval to protect the financial wellbeing of the Region and its local municipalities.

As of December 2020, current outstanding growth related debt at the Region is \$1.6B (\$1.2B net debt). Given the Region’s current debt level and growth that must be accommodated in coming decades, staff will be reporting further on work to update the Region’s current Front-end Financing Agreements and Developer Reimbursements Corporate Policy and evaluate the available tools to manage growth related financial risks.

APPENDICES

Appendix I - Front-End Financing Agreements and Developer Reimbursements Corporate Policy

Appendix II - Hemson Consulting Ltd. Memorandum – Front-End Financing Options

For further information regarding this report, please contact Adrian Smith, Chief Planner & Director, Regional Planning and Growth Management, Ext. 4047, adrian.smith@peelregion.ca.

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Reviewed and/or approved in workflow by:

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