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MEMORANDUM

To: Peel Region

From: Craig Binning and Julia Cziraky

Date: May 31, 2021

Re: Front-End Financing Options

This memorandum provides background and information to support the Region of Peel in evaluating front-end funding and financing options for growth-related infrastructure. This review particularly focuses on the Settlement Area Boundary Expansion (SABE) lands in southern Caledon, though the Region may also wish to consider front end financing tools, in certain instances, for major infrastructure required to support intensification where significant pressures exist.

Various tools available to Ontario municipalities are discussed, including municipal-wide and area-specific development charges, front-ending agreements (formal and informal), DC credit agreements, DC prepayment agreements, and developer cost-sharing agreements. Where available, relevant examples from other jurisdictions are presented, along with key lessons learned.

A. BACKGROUND: FINANCIAL FRAMEWORK FOR DELIVERING INFRASTRUCTURE IN THE SABE

Schedule 3 to *A Place to Grow: Growth Plan for the Greater Golden Horseshoe* (Growth Plan) requires that the Region achieve a population of 2.28 million and employment of 1.07 million by 2051. Work undertaken as part of the Region's Municipal Comprehensive Review has resulted in a preliminary allocation of part of this growth to Caledon: 300,000 persons and 125,000 jobs. An initial assessment of land needs currently estimates that approximately 4,300 hectares of SABE lands would be needed to accommodate this growth.

The re-designation of the estimated 4,300 hectares of mostly agricultural land in southern Caledon would represent the single largest urban expansion in the Region's history. The new Regional Official Plan will include phasing policies and requirements to undertake "block plans" to ensure the orderly development of the new urban lands. Co-ordinating the timing of infrastructure investment with development will also be a critical component of growth management in the SABE lands—as infrastructure should neither delay development nor sit underutilized for long while development takes place. In all cases, the Region will need to carefully consider how to finance and fund “growth-related” infrastructure.

i. Development Charges (DCs)

Development charges will be the main vehicle for recovering the capital costs of providing Regional infrastructure in the SABE. That said, the *Development Charges Act* (DCA) restricts both the services and the capital costs that are eligible for DC funding. Costs relating to infrastructure that benefit the existing community are ineligible for funding. Also ineligible for funding are costs that would result in the Region’s service levels increasing beyond the 10-year historical average.

In a very basic sense the Region’s DCs are calculated by dividing the capital cost of servicing growth over a particular period by the amount of growth in the same period. Establishing both a growth forecast and a “growth-related” capital forecast are therefore key tasks in the Region’s DC study process.

It is very important to understand that DCs can only fund a part of the cost of growth-related infrastructure in the SABE. Portions of some project costs will require additional funding from the tax levy or utility rates (to cover costs benefitting the existing community for example). For this reason, Regional Council will need to be aware of both the tax levy funding required to support the growth-related capital program as well as the operating cost impact of the program.

Under the DCA, the Region is required to establish a separate reserve fund for each service to which a development charge relates. It can also merge the reserve funds for some or all the services for the purposes of administering the funds. The DC reserve funds can only be used to fund growth-related capital expenditures for the services specified in the by-law. Such controls are based on services as defined in the by-law rather than specific capital projects that may have formed the basis for the charge in the background study. This provides a measure of flexibility to Council as projects included in the background study inevitably change in scope, cost, timing or even substitution. The DCA also requires the Region to produce an annual financial statement with respect to the activity of the reserve funds.

Inevitably, the flow of revenue into the DC reserve funds will not match the expenditures required to fund the growth-related capital program. There may be years when the reserve funds accumulate a surplus which is carried forward into future years. In other years, when large capital works are required, the reserve funds may be driven into a deficit position. The DCA anticipates that borrowing may be required to implement the capital program. For this reason the legislation allows the Region to account for the costs of borrowing when calculating the DCs.

Borrowing can be done either internally (inter-account borrowing within the Region) or externally (by issuing debt):

Internal Borrowing – When internally borrowed funds come from other DC reserve funds they must be repaid with a prescribed interest rate. The Region may also borrow from other non-DC reserves and reserve funds to fund growth-related expenditures. The latter practice carries risk, since borrowing from non-DC reserves to fund growth-related projects can undermine the Region's ability to fund other capital priorities (e.g. asset repair and replacement).

Debt Financing – A number of municipalities rely on varying degrees of external borrowing to fund the growth-related capital program. These municipalities often accept large negative reserve fund balances and have readily available tax support for the non-growth shares of project costs. In places where significant external borrowing has occurred the municipal debt capacity has often been reduced and debt per capita ratios have increased substantially.

Given that Regional "hard" services such as water, wastewater, and roads can involve large up-front expenditures, the Region may need to consider issuing debt to finance some SABE projects in the growth-related capital program. For a growth-related project, a key consideration would be whether DC revenues can be generated over a reasonable period to cover the full project cost (including interest). In such a case a high degree of confidence in the Region's growth forecast would be expected.

In all cases of debt issuance for SABE-related works, the Region will need to carefully consider the impact on overall financial sustainability and the risk that accruing debt may limit the Region's ability to respond to other capital spending priorities and objectives, unanticipated spending needs, or a slow down in growth and the economy. With this in mind, debt financing of growth-related projects will need to be approached with caution, particularly for projects that are not required prior to site preparation and building construction and/or occupancy of an entire phase of development. Deferral of such projects until funding has been secured (DC or otherwise) may need to be the default approach in such cases.

ii. Financial Risks of Managing Growth in the SABE

Over the next 30 years (to 2051), conditions may arise that may cause the Region to consider alternative methods of financing growth-related infrastructure in the SABE. This is because growth and resulting development charge receipts may not always proceed as anticipated. Should growth be slower than anticipated and DC revenue decline the Region will have to balance its DC reserve fund position with its commitment to proceed with its phasing plans.

Conversely, in times of more rapid growth than anticipated, or growth that occurs out

of sequence with phasing plans, the Region may be pressured by developers to advance the timing of capital works so that development can proceed quicker, or in different locations, than anticipated by the DC growth forecast.

The financial risk these conditions create is discussed below:

> **Changes to the Growth Forecast** – Though the Region has the ability to control its capital expenditures, it has very little ability to control the rate of growth and DC revenue. Growth in the SABE must be carefully and consistently monitored, especially in periods of market uncertainty, and appropriate mechanisms for identifying how changes in growth will affect capital infrastructure requirements should be put in place.
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> **Advancing the Timing of Works** – Peel has experienced rapid growth in recent years. The Region may find that developers in the SABE, seeking to capitalize on a robust housing market, make requests to advance the timing of their developments (i.e. ahead of when their lands are scheduled for development under the phasing plans).
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> Approving such requests may requires the Region to make significant capital investments at an earlier date than what was committed in the development charge background study and capital forecasts. Part, if not all, of the cost of the investment can often be recovered through development charges. However, the Region's development charge rates have been set on the basis of a growth forecast that does not necessarily consider the developments proceeding as requested.

There are a number of ways to mitigate the financial risks of advancing or over-expanding Regional infrastructure in the SABE. One is for the Region to enter into servicing or financing agreements with developers. The Region may also mitigate discrepancies between DC revenues and expenditures by debt financing the growth-related capital work itself. The various tools available to the Region in dealing with these risks is discussed in the following sections.

B. AREA-SPECIFIC DEVELOPMENT CHARGES

A development charges by-law may apply to an entire municipality or part of it. The Region has for many years imposed uniform development charges throughout its jurisdiction—in this way, the same type of development pays the same charge regardless of its location.

However, development charges are intended to provide a broad alignment between growth-related costs and the development that necessitates them. In some cases, the infrastructure needed will only service a specific area and population, and so an area-specific development charge (ASDC) is used.[1] An ASDC typically recovers for the cost of growth-related infrastructure that benefits a specific area, such as a watermain in a greenfield area that will only service the new neighbourhood. However, it is important to distinguish DC-eligible services from “local services” (infrastructure required as part of a subdivision agreement, such as internal roads, small water/sewer mains, park elements, etc.), which would remain under direct developer responsibility and outside of an ASDC by-law or Region-wide DC by-law.

In particular, ASDCs are a common tool to address annexed lands and greenfield areas with localized infrastructure requirements. ASDCs can also be used to set a framework for various developer front-end funding arrangements.

The advantage of an ASDC is that it establishes a greater nexus between the benefitting parties and the cost of growth, by limiting cost recovery for growth-related infrastructure to the area that will benefit from the infrastructure. It is noted that ASDCs often drive up the cost of developing a greenfield area, since the costs of infrastructure are spread out among a smaller subset of developers and not the entire municipality. Further, the municipality is often required to debt-finance the infrastructure up front and recover the costs over a long planning horizon, assuming some risk related to the pace of development and timing of DC payments.

Two case studies are provided below that illustrate the use of ASDCs in greenfield and annexed lands:

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[1] Note that a relatively recent amendment to the *Development Charges Act* requires that municipalities now consider the use of ASDCs to reflect different servicing needs in different locations.

Windsor's Sandwich South Planning District encompasses 2,530 hectares of land, transferred to the City from the neighbouring Town of Tecumseh in 2003. To date, two Secondary Plans have been prepared for lands within Sandwich South. The East Pelton and County Road 42 Secondary Plan areas are anticipated to see substantial growth in the next 20 years, in part propelled by a proposed new regional hospital. The Sandwich South lands additionally encompass the Windsor International Airport. Much of the lands remain unserviced.

In 2018, as the County Road 42 Secondary Plan and plans for the new hospital neared completion, the City of Windsor retained Hemson to undertake a DC amendment study to ensure the right tools would be in place as development pressures in the area grew. The use of an ASDC in this specific situation was deemed the most appropriate approach given the old and established nature of much of the rest of Windsor and that the infrastructure needs for the Sandwich South area were largely specific to the area with little to no benefit to the balance of the municipality.

As no master servicing plans for the area had been completed, ASDCs were calculated using high level information from previous environmental assessment studies and discussions with engineering staff. The resulting DC by-law includes ASDCs for the engineered services of Roads and Related, Sanitary Sewer, Storm Sewer and Municipal Drains, and Water, as significant infrastructure is required that will have localized benefit within the study area. Sewage Treatment DCs continue to apply on a City-wide basis as plant expansions will continue to be planned for, and broadly benefit, development across the City.

The City is currently undertaking a Sandwich South Master Servicing Plan, which is slated for completion in 2021-2022. At that time, the City intends to update its ASDCs to reflect actual servicing needs and development projections to the greatest extent possible.

Barrie-Innisfil Boundary: In 2009, the *Barrie-Innisfil Boundary Adjustment Act* annexed a portion of the Town of Innisfil to the City of Barrie, effective January 1, 2010. The annexed lands total approximately 2,300 hectares along the southern edge of Barrie. The annexation led to the creation of the Salem Secondary Plan and Hewitt's Secondary Plan, which have been incorporated into the City's Official Plan.

It is anticipated that much of the future low-density growth in Barrie will occur in these two areas.

These two areas are subject to ASDCs for water distribution systems and wastewater collection systems, in addition to the municipal-wide development charges for all other services levied in the City of Barrie. These area-specific charges are imposed on the annexed lands because the proposed growth-related infrastructure will benefit only the annexed lands, and not the intensification area.

Although Barrie is a relatively young municipality, and has experience significant "greenfield" type development over the last thirty years, the City was largely built-out, prior to the boundary adjustment, with the bulk of residential development being redevelopment and intensification. The lands added to Barrie through the boundary adjustment are greenfield and the servicing infrastructure funded through the ASDC is very specific to the area, with little benefit to the balance of the City. Therefore, use of the ASDC approach was deemed a highly appropriate funding approach.

It is noted that the City's development charges were prepared in tandem with a Fiscal Impact Analysis, which assessed whether the City could afford the infrastructure in the annexed lands in light of its budget and debt targets. The analysis concluded that, despite the ASDCs, the infrastructure was unaffordable. A Memorandum of Understanding between the City and developers in the annexed lands was signed in order to secure developer contributions over and above the ASDCs to address this problem.

In terms of their configuration, the SABE lands are not unlike the examples above; they represent a large greenfield expansion to a rapidly growing urban area. The Region may therefore wish to consider whether an ASDC approach to funding SABE-related infrastructure is appropriate and desirable. The Region could impose a single by-law for the entire SABE lands, or multiple by-laws within the SABE area based on, for example, water pressure zones. As an ASDC approach would be a significant departure from current practices, the impacts of this shift should be evaluated and reviewed through the background study process.

Occasionally, ASDCs are used at a finer-grained scale in areas with distinct and clearly delineated infrastructure requirements (e.g. in the Town of Innisfil and City of Peterborough), which may be within new or existing growth areas. However, this approach is not likely to be appropriate in Peel due to the broad and integrated nature of Regional servicing.

C. FRONT-END FUNDING TOOL OPTIONS

There are a number tools that municipalities can employ to fund the upfront infrastructure needs of development. This section describes each tool and how it is used, along with case studies from municipalities across Ontario, where available. While these tools are often most appropriately used to fund upfront infrastructure needs of greenfield areas (e.g. developers wish to advance infrastructure ahead of phasing plans), they also may be used as part of intensification of built-up areas where pressures exist.

i. Front Ending Agreements

Section 44 of the *Development Charges Act* allows the Region to enter into a cost sharing agreement (called a "front-ending agreement") for growth related capital works that benefit a specific area. Under a front-ending agreement a landowner "up-fronts" some or all of the cost of servicing an area and is later reimbursed through development charges paid by other landowners when they develop in the area. The agreement may include not only the costs of the capital but also administration and consulting costs. In some situations, the municipality also includes the financing costs incurred by the landowner(s) that up-fronts the costs, although this is not required under the DCA.

A key advantage to the Region of this approach is that the financial risk of slower growth is carried by the front-ending landowner. This risk can, however, be redistributed through "tiering", whereby subsequent benefiting landowners share in the front-ending burden of the original front-ender and that of other earlier participants.

A front ending agreement must include a description of the works, the benefitting area, the estimated costs, the proportion of costs borne by each party, the method for determining costs to be reimbursed by future development, and the manner in which reimbursements will be allocated. There are certain conditions on agreements; for instance, a municipality must give public notice of the agreement, and landowners in the benefiting area may object to the agreement and take their claim to the Local Planning Appeal Tribunal.

The benefits of front ending agreements include shifting the risks associated with the pace of development from the municipality to the private sector. It also allows for the timely construction of needed infrastructure. However, front ending agreements are highly prescriptive and administratively onerous. Because of the administrative burdens and the possibility of appeal to the LPAT, formal front ending agreements under the DCA are rare. In addition, the use of these agreement risks shifting control of capital spending from the municipality to the developer(s); though this may be mitigated through municipal policy and the terms of the agreement.

As a formal front-ending agreement requires the benefiting area to be defined, it is more logical to set up a front-ending agreement in the context of an ASDC.

The following case studies demonstrate how municipalities use front-ending agreements to reduce financial risks when developing greenfield areas:

> **Halton Region** adheres to an Allocation Policy to finance the construction of hard infrastructure in greenfield areas. This Policy generally calls for the prepayment of DCs by participating developers, and also employs other mechanisms to upfront finance growth and reduce the financial risks to the municipality.
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> In the 2012 Allocation Program, developers in Halton not only prepaid their residential water and wastewater DCs, they also entered into a collective front-ending agreement in order to finance water, wastewater and roads services. Under the Policy, the developers are reimbursed through front-ending recovery payments that are charged to subsequent developers who benefit from the front-ended infrastructure. The Region uses front-ending agreements to avoid the heavy debt loads and debt financing costs that would be required to service the greenfield lands.
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> All Regional urban and rural residential development with a subdivision or site plan agreement executed after January 1, 2017 pays a Front-ending Recovery Payment (FERP) for water, wastewater and roads services. As of 2020, the FERP for a single-detached home in the Region was $8,325 for water and wastewater and $1,175 for roads services.
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> It is noted that Halton's program is made possible, in part, by the Region's historically significant input and control over local planning. A similar level of control may be difficult to introduce in Peel, given historical practices and the infill nature of development in Mississauga and Brampton.
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> The **City of Ottawa** enters into front-ending agreements with developers in accordance with the City's *Front Ending Agreement Principles and Policy*. For instance, in 2019 Council approved a front ending agreement with a developer to construct a sanitary sewer that cost $11.74 million (plus applicable indexing and taxes) for a greenfield development area of approximately 181 hectares in Kanata North. The developer applied for a front ending agreement in order to construct the works prior to the scheduled timeline that was outlined in the City's 2019 Development Charges Background Study.

Under most agreements, the City will repay the front-ended costs to the developer in a lump sum in the year the project is identified in the City's 10-year capital plan. This is generally the reimbursement practice for most front ending agreements in the City, with the exception of stormwater ponds and associated sewer works. Those works are refunded to the developer as DC revenues are collected from the designated area, as defined by the front ending agreement.

ii. Single/Group Developer Front-End Financing & DC Credit Agreements

When a developer or group of developers seeks to accelerate the construction of growth-related works ahead of a municipality's budgeted timeline, the developer(s) may upfront finance or construct the works themselves and receive development charges credits in return. Under s.38 of the DCA, a developer can recoup the costs of constructing infrastructure by receiving credits against their payable DCs. These credits should only be applied to works that are included in the municipality's most recent DC Background Study, and can only be applied to the applicable service charge of the municipality's DC by-law. For instance, a developer that constructs a water treatment plant may only receive credits against their water DCs. If the value of the works constructed or financed by the developer exceed the developer's applicable payable DCs, they may receive reimbursement.

While this is similar in principle to a front ending agreement in that it allows developers to construct infrastructure themselves, these types of arrangements are instead subject to a DC credit agreement, which is less prescriptive under the DCA. For instance, a credit agreement under s.38 does not require public notice, and there are fewer prescriptions on the content and form of the agreement.

The benefit of a DC credit agreement is that it could protect the Region from the financial risks related to the pace of development. Cost overruns can be controlled by placing controls on the value of credits; for instance, the Region could limit credits and reimbursement to the project costs as stated in the DC background study. The Region may approve and review tender prices in order to maintain control over costs and prevent wasteful spending. Municipalities may also include administrative and legal fees in their credit agreements in order to recover the costs of administering these agreements.

There are however a number of potential risks involved:

- The Region will likely have to incur additional operating costs as a result of the advance in the timing of the works. These costs may or may not be offset by the property tax revenue generated by the development that is advanced; and

- If less growth occurs in the subject development area it can leave the Region with services which are either not required or are under-used. This is potentially a significant risk and why municipalities should not allow front-ending of any or all infrastructure, and include a use viability criteria as part of the valuation and front-ending policy.

Peel currently has a Regional Front-End Financing Agreement policy which sets out parameters for these arrangements. However, the policy has not been updated since 2003, and is therefore likely not reflective of the current context and the circumstances being brought forward with the SABE lands. The Region should consider reviewing and updating this policy in the near term.

Many municipalities in Ontario have Council-approved DC credit policies, which govern the use of credit agreements and ensure a uniform treatment of how credit agreements are applied by including approval guidelines, eligibility criteria, security requirements, and reimbursement procedures. Below, two cases studies illustrate how municipalities attempt to reduce risk and fast track municipal infrastructure through the use of credit agreements.

York Region has approved a policy for DC credits that sets out a process for developers seeking credits, and outlines other key policy stances. The Region has been issuing DC credits since 1997, and at the time the DC credit policy was last revised in 2013, the Region had entered into 17 agreements with a combined value of approximately $380 million. The policy is focused on protecting the Region from the financial risks of advancing infrastructure, and uses several financial criteria to do so:

- The service-specific DCs payable by a developer must be twice the value of the works for which they are seeking credits. This ensures that DC funding is available for other Regional projects.
- The project cannot go forward if it would result in a negative impact to the Region's annual repayment limit.
- Credits are not offered unless the prior year's DC collections exceed the current-year DC-related debt servicing obligations by at least the amount of the requested DC credit.
- Non-growth-related costs are not eligible for recovery, in order to reduce the financial burden on Regional tax and ratepayers.

The **Town of Whitby** signed a *DC Works Funding and Reimbursement Agreement* with the West Whitby Landowners Group in 2017. This Landowners Group, within the West Whitby Secondary Plan Area, wished to advance the construction of roads infrastructure in the area in return for receiving DC credits. The two key projects under the agreement were a road construction work and road widening work. The agreement was a credit agreement made under s.38 of the Act.

In the agreement, the Town retained approval authority for engineering drawings, cost estimates and construction schedules while the owners actually constructed the works. The agreement included other components to help insulate the Town from risk and ensure the works were completed on time and budget. These provisions included: security requirements imposed on the owners, liability and insurance provisions, and a maintenance period of several years to be guaranteed by the owners.

The construction costs are reimbursed through Roads and Related DC credits, with any extra reimbursement (above the value of the DCs payable) to be disbursed after a sunset date ten years after the agreement came into effect.

iii. DC Prepayment Agreements

Development charges are most typically payable at the time of building permit issuance. However, the DCA allows municipalities to require, through their DC by-law, that engineered services DCs be payable upon entering into a subdivision agreement. This approach is taken by Peel Region, and allows for the timing of payment to be more closely aligned with the (typically upfront) timing of the need for those services.

Under section 27 of the DCA, a municipality may enter into an agreement with a developer to either pay their DCs earlier or later than they would normally be payable. The former is often known as a DC prepayment agreement. Some municipalities set up prepayment agreements prior to DC rates increasing due to a new DC by-law, allowing developers to pay their DCs early at the lower rate. These agreements can also be used as a front-end financing tool.

These agreements are a helpful tool for municipalities to manage their cash flow by guaranteeing payment of DCs on a date specified in the agreement, which could allow a municipality to finance infrastructure works without taking on debt or drawing on reserves. The early collection of DCs also allows a municipality to construct a work earlier than otherwise would be possible, which is useful when financing a single, large project such as a water treatment plant.

However, there are challenges associated with prepayment agreements: there can be administrative complexities associated with the agreements, and municipalities still carry a level of risk as the agreement may not address the complete project costs.

Two examples below demonstrate how municipalities use prepayment agreements to front-end finance growth-related infrastructure in greenfield areas.

Halton Region's Allocation Policy aims to ensure that growth in greenfield areas is managed well, that infrastructure delivery aligns with the timing of growth, and that servicing growth is financially sustainable. Developers in the greenfield area enter into Allocation Agreements in which they commit to financing growth by prepaying water and wastewater DCs prior to planning approvals.

Under the 2008/2009 Allocation Program, residential developers in a specified area made early DC payments in return for a flow through reimbursement of future DC receipts. The benefitting area, known are the Recovery DC Area, is subject to its own area-specific DC by-law that reimburses the early payments for water, wastewater and roads development charges under these agreements. The recovery DC payment in 2021 is $3,679 per single detached unit.

In the 2012 Allocation Program, developers not only prepaid their residential water and wastewater DCs, they also entered into a collective front ending agreement in order to finance water, wastewater and roads, as described in previous sections of this report. All Regional urban and rural residential development with a subdivision or site plan agreement executed after January 1, 2017 pays a Front-ending Recovery Payment (FERP) for water, wastewater and roads. As a result, a greenfield developer may be subject not only to municipal DCs, but also to FERP and Recovery DC payments.

The Region is currently developing a 2020 Allocation Program; it is anticipated that DC prepayments will continue but the front-end payment will no longer be required.

In 2007 the **Town of Bradford West Gwillimbury** passed a by-law authorizing what were termed "Early Payment Agreements" with select developers. Participating residential developers needed water, wastewater and roads infrastructure to be built in order to accommodate their developments, and were willing to prepay their DCs, in exchange for receiving water and wastewater servicing capacity allocations from the Town. The Town applies a "use it or lose it" policy to these allocations; if a developer does not obtain a building permit for their allocated lot by a certain date, the water and wastewater capacity returns to the Town and the developer will be refunded their DC payments.

Under the agreement, the Town was responsible for the design, engineering, construction, operation and maintenance of the public works, while the developers were responsible for paying their DCs through a combination of cash and letters of credit, and a one-time administrative fee. Early DC payments in effect act as a DC credit for water, wastewater and roads DCs that developers could apply to their DCs payable at building permit. The payments were indexed in the same manner as charges under the Town's DC by-law. The agreement set out a detailed cost sharing schedule that outlined each developer's anticipated servicing allocation, number of units to be built, and their estimated capital contribution in upfront DCs.

Using prepayment agreements was a way for the Town to construct necessary infrastructure without taking on a significant debt load. Town staff calculated that annual debt charges would increase to an unsustainable level if the prepayment plan was not implemented.

iv. Developer Cost-Sharing Agreements

When a group of developers are mutually interested in advancing the timing of development-related infrastructure, they may enter into a developer cost-sharing agreement. These types of agreements were more common prior to the 1997 changes to the DCA, but remain a valid tool today.

An example of an earlier style of developer cost sharing agreement was the comprehensive servicing of the Alcona planning area in the Town of Innisfil; this agreement dates back to the 1970s and provided for the full servicing (including parks, roads and water/sewer linear infrastructure) of the lands. The Alcona Developers Group Cost Sharing Agreement is a private agreement amongst participating developers; it is a tiered agreement whereby as additional lands are to be developed to the new lands owners, and associated areas, are added to the cost sharing agreement. The Town is not directly involved in the agreement but works with the Alcona Landowners to ensure new lands owners are added to the agreement and that infrastructures meets the Town's standards.

Often, cost-sharing agreements apply to local infrastructure that is being sized up to meet the needs of a broader area. For instance, a local developer may oversize a piece of local infrastructure that will benefit the lands beyond their immediate development. While a group of developers is involved, not all landowners in the benefitting area must participate – but there must be some mechanism to ensure that all benefitting lands contribute in some way. The simplest mechanism is an ASDC.

Developer cost-sharing agreements are uncommon at the Regional level but continue to be used in lower- or single-tier municipalities for storm water management works such as ponds (including in Mississauga and Brampton), and, in a more limited way, for parks. In these situations often one land owner provides the land for the facility and other adjacent land-owners recognize they benefit from the works and compensate the "host" landowner for the value of the "lost" land and the cost of the works. These agreement are often done without direct municipal involvement.

v. Municipal Front-End Financing of Works

A municipality can finance works itself, using one of several methods. A municipality may dip into capital reserves, borrow internally from other DC reserve accounts (i.e. cross-service), or debt finance a piece of infrastructure.

Development charges allow for the recovery of negative reserve fund balances and debt principal and interest payments. Using reserve-funded or debt-funded methods to construct infrastructure will result in higher DC rates, however, and a potentially higher level of risk for the municipality. For instance, if a municipality takes on debt to build a project and then has slower-than-anticipated growth, they will collect fewer DCs than expected. The municipality then has the burden of debt repayment and cannot share the risk as in other types of funding mechanisms. In addition, accruing debt may limit a municipality's ability to respond to other capital spending priorities, unanticipated spending needs, and economic shocks. A municipality must take care to stay below the provincially mandated Annual Repayment Limit and to maintain a good credit rating.

Peel Region currently has \$1.6 billion (\$1.2 billion net) in growth related debt, which is expected to grow in excess of \$2 billion in order to service growth to 2041. In the context of the infrastructure needs of the SABE lands, much of which will likely need to be emplaced in advance of development, it may be necessary to fund a significant share of these works through DC debt. The Region should consider these needs alongside the risks associated with debt, and carefully monitor debt levels against its repayment limits.

A case study of a municipality that had extensive experience in debt-funding key growth-related infrastructure follows.

> **York Region** has financed significant amount of growth-related water and sewer infrastructure through debt. The Region is relatively unique in GTA regions in that it does not border Lake Ontario, and as such, must purchase water and wastewater from nearby municipalities. In addition, the Region developed quickly and required large pieces of water and sewer infrastructure in a relatively short timespan. As a result, the Region took on debt that was anticipated to peak at \$5.0 billion in 2020.

While the Province limits municipal debt through the Annual Repayment Limit (where debt servicing costs cannot exceed 25% of own-source revenues), the Region qualified for a Growth Cost Supplement which expanded its municipal debt limit. The growth-related ARL is a combination of the ARL and a Growth Cost Supplement equal to 80 per cent of the three-year average of development charge collections. In order to receive the supplement, the Region must maintain at least an AA credit rating and must adopt a plan for debt management. It is important that, when evaluating strategies the Region may use to fund development-related infrastructure, the impact on the Region's credit rating be part of the decision matrix.

The Region has seen slower-than-anticipated growth in DC collections, which resulted in significant fiscal pressure because of the high debt load. In response, the Region has taken the following actions:

- Changed its 10-year capital budget, including project deferrals, to ensure that project timing aligned with expected growth;
- Introduced a Fiscal Strategy to reduce the reliance on debt and increase the use of DC reserves to fund projects while maintaining liquidity;
- Approved a Long-Term Debt Management Plan to keep the Region within its growth-related ARL;
- Maintained DC reserve balances that are at least equal to the following year's DC-related debt servicing costs.

As a result of these strategies, the Region's peak debt forecast has dropped from $5.0 billion to $2.9 billion. However, the Region is still sensitive to declines in DC revenues, and is especially focused on matching the timing of growth-related infrastructure to the timing of actual growth. Of specific concern has been the lower than anticipated non-residential DC revenues due to a number of factors including statutory exemptions, including the industrial expansion exemption and slower rates of employment and non-residential building growth than forecast in the DC Background Studies.

vi. Best Practices & Lessons Learned

The tools and examples outlined above can be used in a variety of circumstances under different contexts. Table 1 attached summarizes the strengths and weaknesses of each tool, and when they should be employed. By studying the application of these tools, several key best practices and lessons are apparent:

- **Establishing Nexus Between Who Benefits and Who Pays:** The "user pays" principle holds that those who benefit from new growth-related infrastructure should be the ones who pay for it. The most effective financing tools are those that align costs and benefits in this way. For instance, a front-ending agreement ensures that developers who need key infrastructure will pay for it upfront, and bear the financial risks associated with building the works. Area-specific development charges ensure that the infrastructure is not subsidized by development in other locations, by levying DCs against only those benefitting from the works in the ASDC area. This is in line with the key principle of development charges, which states that "growth should pay for growth".

- **Sharing Risk Between Municipalities and Developers:** Financial risk is a key consideration in decision-making around appropriate infrastructure financing tools. Slower-than-anticipated growth, low DC revenues, project cost overruns, and external shocks such as recessions or natural disasters can all significantly impact municipal finances. Tools such as front-ending agreements, credit agreements, or DC prepayments can help to ensure that benefitting developers shoulder the risk of financing and/or constructing growth-related infrastructure. However, it is also important to consider municipal priorities and potential trade-offs related to shifting control of capital spending from the municipality to the developer.

- **Facilitating Coordination Between Developers:** Municipalities can use various land use planning and policy tools to facilitate coordination and funding arrangements between developers. For example, Block Plans can be used to delineate areas with common infrastructure needs, and encourage developers within a Block Plan area to define servicing and infrastructure needs as well as design elements. This can provide a strong framework for various developer front-end funding arrangements, cost-sharing agreements, and DC prepayments.

- **Administrative Ease:** Municipalities should strive to use tools that are relatively simple to administer, without overly onerous reporting requirements. For instance, DC credit agreements are often preferred over formal front-ending agreements as they do not have the same reporting requirements under the Act. This means fewer administrative costs to the municipality, and also improves developer access and use of these tools.

- **Strong Policy Frameworks and Consistent Application:** Municipalities should strive to achieve a consistent application of the various financing mechanisms. Ad hoc application of financing tools can degrade communication and trust between municipalities and stakeholders. Many municipalities have found success in establishing and adhering to strong, Council-approved and publicly available policies that recognize potential risks and challenges, and set appropriate parameters under which the tools should be used. This sets expectations for both municipal staff and developers in the use of debt, front-ending agreement, DC prepayments, DC credit agreements and other tools.

- **Prioritizing Municipal Fiscal Sustainability:** Municipalities should attempt to maintain good fiscal health while expanding infrastructure to meet the needs of growth. While debt can be an invaluable tool in funding growth-related infrastructure, and particularly in unserviced locations with potentially long build-out horizons, care should be taken to ensure provincially-mandated Annual Repayment Limits are adhered to, and that sufficient debt capacity is available to respond to future economic shocks. Municipalities should work to only advance infrastructure that has been identified in long-term capital plans and/or development charges background studies. In addition, it is important to evaluate the impact of new growth-related infrastructure (such as operating and maintenance costs) on tax and ratepayers, regardless of the funding approach used to emplace the infrastructure.

- **Scaling Fiscal Tools to the Situation:** Municipalities should consider the scale and scope of the required infrastructure when deciding which tool to use. For example, DC credits or developer cost sharing are often appropriate for a scoped situation such as a single water servicing project, where they can become complex and onerous where broader servicing is needed and many parties are involved. For larger scale areas that require many works, a municipality may consider employing multiple mechanisms such as ASDCs, municipal front-end financing, and DC prepayments in tandem.

Table 1. Summary of Available Front-End Funding Tools

MECHANISM	ENABLING LEGISLATION	ADVANTAGES	DISADVANTAGES	WHEN IS IT APPROPRIATE?
Area-Specific Development Charges	DCA	▪ Ensures that those benefitting from specific infrastructure are the ones paying for it ▪ Maintain lower DC rates municipal-wide	▪ Debt financing may still be required ▪ Greenfield ASDCs are typically higher than municipal-wide rates due to servicing needs and debt financing costs	▪ Greenfield areas with many capital needs ▪ Infrastructure with clearly defined benefitting area
Developer Front Ending Agreements	DCA s.44	▪ Shifts risk from municipality to developers ▪ Allows for timely construction of infrastructure	▪ Prescriptive & administratively onerous ▪ Risks shifting control of capital spending from municipality to developer	▪ Greenfield areas with many developers ▪ Infrastructure with clearly defined benefitting area
Single/Group Developer Front-End Financing	DCA s.38	▪ Shares risk between municipality and developer ▪ Less administratively onerous than s.44 agreements	▪ May result in earlier-than-anticipated operating costs ▪ Non-growth costs of advanced infrastructure places burden on tax and ratepayers	▪ Areas with one developer or a small group of developers ▪ Standalone projects ▪ Projects with low or no share of non-growth costs
DC Prepayments	DCA s.27	▪ Manage cash flow and provides certainty ▪ Mitigates the risk of low growth or slow development as funding is provided upfront	▪ Complex to administer ▪ Municipality still bears some risk	▪ Useful when financing a large, single project ▪ Greenfield areas that require servicing
Developer Cost-Sharing Agreements		▪ Shifts risk from municipality to developers	▪ Few precedents; uncommon and rarely used at Regional level	▪ Specific/scoped infrastructure needs that benefit a single developer or group of developers