Front-End Funding and Financing Options

Planning & Growth Management Committee
June 17, 2021

Tara Buonpensiero
Regional Planning & Growth Management
Region of Peel

Craig Binning
Hemson Consulting Ltd

Agenda

- Background & Current Situation
- Available Fiscal Tools & Jurisdictional Scan
- Best Practices & Lessons Learned

Background

- At the March 18, 2021 Planning and Growth Management Committee, staff were directed to report back to a future meeting 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.

- Hemson Consulting was retained to assist with preparing an evaluation of the various front-end funding and financing tools for growth-related infrastructure, including lessons that can be learned from other jurisdictions' applications of the tools.

Current Situation

- Peel's Growth Management Strategy utilizes an integrated approach to planning, servicing and financing growth; front-end funding/financing tools are one piece of the broader strategy.

- Peel has existing policies to enable to the usage of front-end financing tools including Regional Official Plan policies and a Corporate Policy on front-end financing agreements and developer reimbursements.

Jurisdictional Scan of Funding Tools

- Area-specific development charges
- Front ending agreements
- Single/group developer front-end financing
- DC prepayment agreements
- Developer cost-sharing agreements
- Municipality front-end funds works / Debt financing

HEMSON

Area-Specific Development Charges

- DCs imposed on a specific benefitting area to recover for the cost of area-specific growth-related infrastructure
- Appropriate for larger greenfield areas with many area-specific capital needs
- Examples: Windsor Sandwich South Planning District; Barrie-Innisfil Boundary Adjustment

Advantages	Disadvantages
• Ensures those benefitting are the ones paying • Maintain lower municipal-wide DC rates	• Does not eliminate need for municipal debt financing • Greenfield ASDC rates typically higher than municipal-wide

HEMSON

Front Ending Agreements

- Highly prescriptive process enabled under s.44 of the *Development Charges Act* (DCA)
- Developer funds works up front and receives reimbursement through DC credits
- Appropriate for greenfield areas with multiple landowners
- Examples: Halton Region Allocation Program; Ottawa FE Agreement Policy

Advantages	Disadvantages
• Shifts risk from municipality to developer • Allows for timely construction of infrastructure	• Prescriptive & administratively onerous • Risks shifting control of capital spending from municipality to developer

HEMSON

Single/Group Developer Front-End Financing

- Developer(s) may upfront finance works to accelerate construction ahead of municipal timelines
- Costs can be recouped through a DC Credit Agreement under DCA s.38
- Appropriate for standalone projects with low or no non-growth share; single developer or small group
- Examples: York Region DC credit policy; Whitby DC Works Funding and Reimbursement Agreement with West Whitby Landowners Group

Advantages	Disadvantages
• Shares risk between municipality and developer • Less administratively onerous than s.44 FE agreements	• May result in earlier-than-anticipated operating costs • Advancing non-growth-related components can place burden on tax & rate payers

HEMSON

DC Prepayment Agreements

- DCA s.27 allows agreements for payment of DCs at a point earlier (or later) than would be required under the DC by-law
- Can be used by municipalities to allow works to be constructed earlier
- Appropriate for large, single projects / scoped works
- Example: Bradford West Gwillimbury Early Payment Agreement by-law

Advantages	Disadvantages
• Manage cash flow and provide certainty • Mitigates risk of low growth / slow development	• Can be complex to administer • Municipality bears some risk

Developer Cost-Sharing Agreements

- Can be used when a group of developers is mutually interested in advancing the timing of development-related infrastructure
- Were more common pre-1997 DCA
- Appropriate for specific/scoped infrastructure; where "local infrastructure" is sized to meet the needs of a broader area

Advantages	Disadvantages
• Shifts risk from municipality to developer	• Few precedents; uncommon and rarely used in Regional context

HEMSON

Municipal Front-End Funding / Debt Financing

- Where developer FE-funding is not appropriate, municipality may fund the works through capital reserves, internal borrowing, or debt
- All costs (principal + interest) may be recovered through DCs
- Appropriate for large scale / broad works with long benefitting horizon; municipality should have sufficient debt capacity available
- Example: York Region Growth Cost Supplement

Advantages	Disadvantages
• Municipality retains full control of the works • Growth-related debt costs are DC recoverable	• Municipality bears financial risk of slow growth • Potential pressure on Region's credit rating

Summary: Available Tools to Fund Development-Related Infrastructure

FISCAL TOOL	ENABLING LEGISLATION	ADVANTAGES	DISADVANTAGES	WHEN IS IT APPROPRIATE?
Area-Specific Development Charges	DCA	• Ensures that those benefitting are the ones paying for it • Maintain lower DC rates municipal-wide	• Debt financing may still be required • Greenfield ASDCs typically higher than municipal-wide rates	• Greenfield areas with many capital needs • Infrastructure with clearly defined benefitting area
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 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 • Less administratively onerous than s.44 agreements	• Earlier-than-anticipated operating costs and non-growth shares of capital can place burden on tax & rate payers	• One developer or small group • Standalone projects • Projects with low or no share of non-growth costs
DC Prepayments	DCA s.27	• Manage cash flow and provides certainty • Mitigates risk of low/slow growth	• Complex to administer • Municipality still bears some risk	• Useful when financing a large, single project • Greenfield areas
Developer Cost-Sharing Agreements		• Shifts risk from municipality to developers	• Few Regional precedents; uncommon and rarely used	• Specific/scoped infrastructure needs that benefit a single developer or group
Debt Financing	Municipal Act s.401	• Municipality retains full control of the works • Growth-related debt costs are DC recoverable	• Municipality bears the financial risk of slow growth • May impact credit rating	• Large projects with long benefitting horizon • Municipality has sufficient debt capacity available

HEMSON

Next Steps

- Through the Peel 2041+ Review, additional policies are being developed with a strong emphasis to ensure phasing, staging and sequencing plans are in place for new designated greenfield areas, including the SABE, to protect the financial wellbeing of the Region and its local municipalities.

- 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.