DRAFT REPORT

PREPARED BY HEMSON FOR THE CITY OF BRANTFORD

FISCAL STRATEGY FOR THE SETTLEMENT EXPANSION AREA LANDS

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EXECUTIVE SUMMARY

A. BACKGROUND AND CONTEXT

In order to help the City of Brantford meet its long-term Growth Plan projections, 2,719 hectares of land were transferred from the County of Brant in 2017. The City is currently completing a review of its Official Plan, Transportation Master Plan, and Master Servicing Plan to set out a planning and infrastructure framework for the Settlement Expansion Area Lands (SEAL), which are anticipated to accommodate 24,200 people and 14,700 jobs by 2051.

Upon Council adoption of the Official Plan in late 2020, the City anticipates a number of landowners to proceed with development applications. It is essential that the City have the appropriate plans and policies in place prior to that time in order to manage and finance the infrastructure required to support new development. In this regard, Hemson has been retained to assist the City in preparing a Fiscal Strategy for the development of the SEAL.

This Fiscal Strategy for the SEAL was developed through a jurisdictional scan of tools to fund development-related infrastructure, particularly in greenfield areas; a review of the anticipated growth and servicing needs in the expansion lands; and a series of discussions with an internal staff working group.

B. RECOMMENDED FINANCIAL PLAN

It is recommended that the City use a range of available fiscal tools to fund infrastructure in the expansion lands, including area-specific development charges (ASDCs), debt financing, developer front-end funding arrangements, DC prepayments, and developer cost-sharing agreements. These rationale for the use of each of these tools is summarized in the table on the following page. Overall, a four-stage process is recommended:

1. **Undertake a Development Charges Background Study** and calculate ASDCs for the SEAL engineered services works. With recent legislative changes that require DCs to be calculated at the time of planning application, rather than at building permit, it will be critical for the City to have a DC by-law that reflects the anticipated servicing needs in place in a timely manner. ASDCs will promote a nexus between those who benefit and those who pay for the required services in the SEAL, while helping to set the framework for the use of various fiscal tools.

2. **Increase Brantford's debt servicing limit** to ensure sufficient debt capacity is available for the City to front-end a share of the required works; particularly some of the key water and wastewater projects that are required to enable development to proceed. The City remains well within its Provincial debt servicing limit, and it is anticipated that the City will be able to take on significant additional debt without exceeding 10% to 15% of its annual own source revenues in debt servicing costs.

3. **Develop policies and agreement templates** to guide the use of developer front-ending, DC prepayments, and developer cost-sharing, while managing risk. To facilitate this process, suggested policies have been including in the Appendix to this report.

4. **Evaluate current staff roles and capacity** to administer the agreements, and the potential need for additional staff as development applications move forward.

RECOMMENDED FISCAL TOOL	RATIONALE
Area-Specific Development Charges	▪ Many engineered works will benefit SEAL only ▪ City-wide approach would drive up DCs for urban development ▪ Will set a strong framework for other funding tools & arrangements
Debt Financing	▪ Significant upfront costs to support long-term development ▪ Only certain projects will be suitable for developer FE funding ▪ City is in strong fiscal position
Developer Front-End Funding Arrangements	▪ City should share risk, where appropriate ▪ Block Plans could provide good basis as infrastructure requirements are well defined ▪ Credit agreements (DCA s. 38) can be a useful tool
DC Prepayments	▪ Developers may wish to advance infrastructure specified in ASDC Background Study ahead of municipal timelines ▪ Block Plan areas provide an opportunity as benefitting areas are well-defined
Developer Cost-Sharing Agreements	▪ DC/ASDC Background Study and by-law passage can take 6-8 months ▪ Development applications likely to proceed in advance – and DC rates now "frozen" at time of application per DCA ▪ Facilitated by Block Plans

1. INTRODUCTION

Effective January 1, 2017, 2,719 hectares of land were transferred from the County of Brant to the City of Brantford. This increase in land supply is intended to help the City meet its Growth Plan projections of 165,000 people and 80,000 jobs by 2051. Of this amount, the expansion lands are anticipated to accommodate a total of 24,200 people and 14,700 jobs.

The City is currently completing a review of its Official Plan, which will incorporate the annexed lands and include a Settlement Area boundary expansion as determined through the required Municipal Comprehensive Review process. The City is also undertaking a number of other technical studies, including a new Transportation Master Plan and Master Servicing Plan that will identify the servicing needs to support development of the expansion lands.

Upon Council adoption of the Official Plan in late 2020, the City anticipates a number of landowners to proceed with development applications. It is essential that the City have the appropriate plans and policies in place prior to that time in order to manage and finance the infrastructure required to support new development. In this regard, Hemson has been retained to assist the City in preparing a Fiscal Strategy for the development of the Settlement Expansion Area Lands (SEAL).

A. STUDY PURPOSE AND OBJECTIVES

The Fiscal Strategy for the Settlement Expansion Area Lands identifies a set of appropriate tools and strategies for the City to fund the infrastructure needed to support future development. Hemson worked with the City to:

- Develop key principles for growth and development that align with the Official Plan Infrastructure Staging Report;
- Coordinate with staff and consultants preparing the Official Plan, Master Servicing Plan, and Transportation Master Plan;
- Explore options to finance the City share of development-related costs;
- Prepare a Policy Framework that supports the key principles and recommended financing strategy;
- Develop a Financial Plan that identifies the City's contributions for the future development of the expansion lands; and

- Prepare a Fiscal Strategy outlining the recommended Financial Plan and supporting Policy Framework for presentation to City Council.

The Fiscal Strategy presents the final recommended Policy Framework and Financial Plan, developed through a series of discussions with an internal staff working group.

B. *DEVELOPMENT CHARGES ACT* AMENDMENTS AND KEY CONSIDERATIONS

The Province has recently enacted a series of amendments to the *Development Charges Act* (DCA) through Bill 108, the *More Homes, More Choices Act*, and Bill 197, the *COVID-19 Economic Recovery Act*. Among these amendments are new policies related to the timing of calculation and payment of DCs, which came into force on January 1, 2020.

The amount of development charge payable is now determined at the day an application for site plan control is made, or if not applicable, the day an application for rezoning is made. If neither apply, the DC amount continues to be determined at the date of building permit issuance. The DCs payable are "frozen" at this time and payable at building permit issuance, with the exception of rental housing, institutional development, and non-profit housing, which are eligible for a multi-year DC payment plan.

While municipalities may charge interest between the time of DC calculation and DC payment, the amendment poses new challenges for the City of Brantford. As the City's 2019 Background Study preceded the review of the Official Plan and master servicing plans, the servicing needs of the annexed lands are not reflected in the current DC by-law. It will be important for the City to incorporate these servicing needs into an amended or new by-law in a timely manner in order to ensure that as planning applications come forward, DCs payable within the expansion lands are an accurate reflection of servicing needs.

C. REPORT STRUCTURE AND CONTENT

Following this introductory session, the report is divided into the following sections:

- **Section 2** explores the various tools that are available to municipalities in Ontario to fund growth-related infrastructure, particularly in greenfield areas. It provides number of examples of how other municipalities have employed each tool, and identifies best practices and lessons learned from the jurisdictional scan.

- **Section 3** provides an overview of the anticipated servicing costs of the expansion lands, as per the draft Transportation Master Plan and Master Servicing Plan, and explores the potential implications for future development charges as well as municipal debt management.
- **Section 4** presents an overall recommended Policy Framework for the City of Brantford, drawing from the jurisdictional scan and considering the unique context of the expansion lands.
- **Section 5** presents the recommended Financial Plan, including key steps to be taken by the City in implementing the Fiscal Strategy.

2. TOOLS TO FUND DEVELOPMENT-RELATED INFRASTRUCTURE

There are many tools that municipalities can employ to fund the infrastructure needs of development in greenfield areas. This section of the report provides a description of each tool and how it is used, along with case studies from municipalities across Ontario, where available.

A. AREA-SPECIFIC DEVELOPMENT CHARGES

Development charges provide an 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. An ASDC typically recovers for the cost of growth-related infrastructure that benefits a specific area, such as a water main in a greenfield area that will only service the new neighbourhood. ASDCs are a common tool to address annexed lands and greenfield areas with localized infrastructure requirements.

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.

i. Windsor Sandwich South Planning District

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. 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. At that time, the City intends to update its ASDCs to reflect actual servicing needs and development projections to the greatest extent possible.

ii. 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.

B. FRONT ENDING AGREEMENTS

Front ending agreements are a mechanism enabled under s.44 of the DCA that allow a municipality to construct key growth-related infrastructure without taking on all the risk. Front ending agreements allow a developer to fund municipal works by paying for them up front and receiving reimbursement or development charges credits down the line. The agreement may include not only the costs of the capital but also administration and consulting costs.

Front ending agreements apply to growth-related infrastructure that will clearly benefit an area of the municipality; this benefitting area is defined and set out in the front-ending agreement. Future developers who develop land in the benefitting area will reimburse the initial developers for the costs of the work, as per the protocol outlined in the agreement. Front-ending agreements also allow for the "tiering" of reimbursement, in which developers that reimburse upfront costs may, in turn, be reimbursed by future developers that enter into the benefitting area. This allows costs and risk to be spread across multiple parties.

Under the DCA, 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 a highly prescriptive and administratively onerous mechanism. Because of the administrative burdens and the possibility of appeal to the LPAT, formal front ending agreements under the DCA are relatively rare. In addition, the use of these agreement risks shifting control of capital spending from the municipality to the developer(s).

Two case studies are provided that demonstrate how municipalities use front-ending agreements to reduce financial risks when developing greenfield areas.

i. Halton Region

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.

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.

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.

ii. City of Ottawa

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.

C. SINGLE 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, they 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 only apply if the works were 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 protects municipalities 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, a municipality can limit credits and reimbursement to the project costs as stated in the DC background study. A municipality can 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.

A potential risk related to s.38 agreements is that the municipality may incur additional operating costs earlier than anticipated because the infrastructure will come online earlier. These costs may or may not be offset by an increase in property taxes resulting from the development that is being advanced.

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.

i. York Region

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 they are seeking credits for. 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.

ii. Town of Whitby

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.

D. DC PREPAYMENT AGREEMENTS

Under s.27 of the Act, 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 case 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.

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

i. Halton Region

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 2020 was $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.

ii. Bradford West Gwillimbury

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.

E. 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 Act, but are still a valid tool today.

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 area-specific by-law.

F. MUNICIPAL FRONT-END FUNDING 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.

The City of Brantford could draw upon existing DC reserves in order to fund growth-related infrastructure. The City's Reserve Fund Policy does not specify a reserve adequacy level or target. The policy notes that "temporary inter-fund borrowing to cover a reserve fund shortfall is permitted and encouraged to avoid external debt charges" as long as the borrowing is in accordance with the DCA. However, borrowing from a reserve fund may only occur with Council approval and as long as excess funds are available and the intended purpose of the reserve fund will not be adversely affected by the borrowing.

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

i. York Region

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.

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.

G. BEST PRACTICES & LESSONS LEARNED

The tools and examples outlined above can be used in a variety of circumstances under different contexts. Table 1 below 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:

i. 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”.

ii. 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.

iii. 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.

iv. Strong Policy Frameworks and Consistent Application

Municipalities should strive to achieve a consistent application of the financing mechanisms mentioned in Section 2. 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.

v. 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.

vi. 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 Municipal Fiscal 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
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 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	▪ 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	▪ Specific/scoped infrastructure needs that benefit a single developer or group of developers
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 slower-than-anticipated development ▪ Reduces capacity to respond to other financial shocks	▪ Large projects with long benefitting horizon ▪ Municipality has sufficient debt capacity available

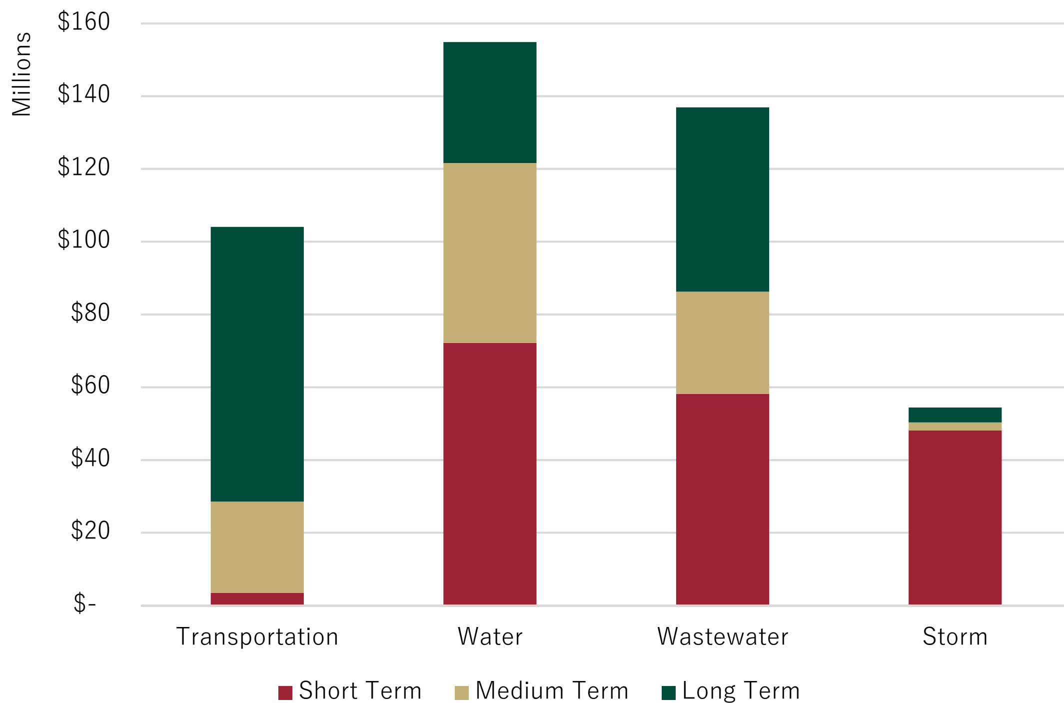
3. SEAL Servicing Costs

City staff have provided preliminary costs of providing engineered servicing to support the forecasted growth in the expansion lands. These costs are summarized in Figure 1 and total approximately $450 million over the 30-year period. It is noted that this amount includes servicing costs associated with the northern expansion lands, and excludes the Tutela Heights area, which has distinct servicing needs.

Water and Wastewater services make up the majority of the anticipated costs, at 34% and 30%, respectively. Transportation services represents 23% of the total costs, while Stormwater management costs make up the smallest share at 12%.

Much of the works will be required in the near term to enable development to occur. About 40% of the costs, or $182 million, have been identified as “short term” costs anticipated within a five-year timeframe. Much of these short term costs, which are primarily related to Water and Wastewater projects, are likely to be incurred prior to receipt of development charges revenues. As such, the City will be required to take on a certain level of risk with regards to the pace of development and the length of time needed for cost recovery.

Figure 1. Preliminary costing for SEAL engineering works, 2021-2051



A. IMPLICATIONS FOR AREA-SPECIFIC DEVELOPMENT CHARGES

Area-specific development charges (ASDCs) could help to promote a nexus between the cost of servicing and the benefitting development in the expansion lands, while ensuring the costs are not borne by future development within the urban boundary.

Water, Wastewater, and Stormwater ASDCs are common as these services are directly tied to distinct benefitting areas. Transportation ASDCs are somewhat less common as these services are more commonly planned for on a municipal-wide basis and driven by overall population and employment growth. For the purposes of this analysis, it is assumed that the City of Brantford would pursue ASDCs for the Water, Wastewater, and Stormwater SEAL works only.

Approximately 20,410 people and 14,645 jobs, or a combined total of 35,055 people and jobs, is anticipated in the northern expansion lands (excluding Tutela Heights) as they build out to 2051. The SEAL Water, Wastewater, and Stormwater servicing costs total $346 million. When divided by the forecast, this results in a cost of approximately $9,900 per capita and employment.

The total of $346 million is not entirely growth-related. Staff have indicated that this amount includes some replacement or "benefit to existing" shares; further, it is likely that a portion of the costs would be eligible for upper level government funding. These amounts would be excluded from the DC calculation. Further study, through a development charges background study, is required in order to determine the growth-related City share.

For the purposes of this high-level analysis it is assumed that the DC-eligible costs will comprise approximately 70% to 80% of the total $346 million (or $242 million to $277 million). This would translate to $6,900 to $7,900 per capita and employment, or a range of approximately $23,000 to $27,000 per single or semi-detached dwelling unit. It is noted that the DC calculation would also account for a cash flow analysis which, due to the significant upfront costs, may lead to a higher adjusted charge.

Water, Wastewater, and Stormwater ASDC in the range of $23,000 to $27,000 per single or semi-detached unit would represent a significantly higher charge than the current City-wide DC rate of $2,705 for these services combined. However, it is noted that with the new MSP, the City-wide DCs are also likely to increase; based on the preliminary costing provided, the City-wide DC for these services may be at a scale of 30% to 50% of the anticipated ASDC rate. A difference at this scale is not uncommon for greenfield ASDCs, and further supports the use of ASDCs to ensure the additional costs of servicing the expansion lands are not borne by development within the existing urban boundary.

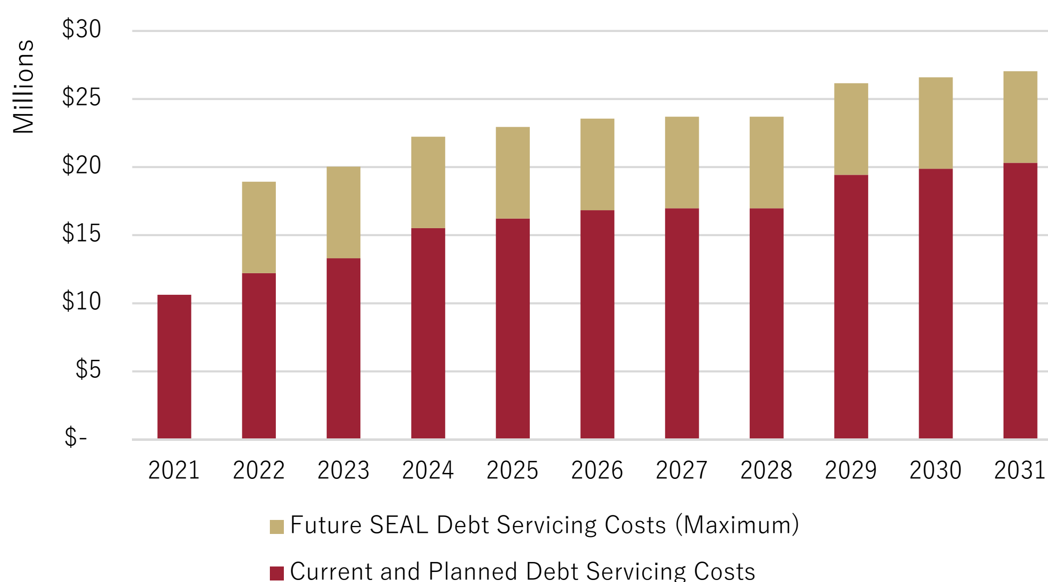
B. IMPLICATIONS FOR DEBT MANAGEMENT

The City has significant debt capacity available under the Provincial debt servicing limit of 25% of municipal own source revenues: in 2020, the City's debt servicing costs are estimated at 3.3% of own source revenues. However, the City maintains a municipal debt servicing limit significantly lower than the Provincial limit, at 7% of own source revenues. With several new debentures planned over the next decade, it is expected that Brantford's debt servicing costs will approach this City policy cap by 2031. These debt servicing costs do not include any debentures that may be associated with servicing of the expansion lands. As such, irrespective of whether additional debt is needed to fund the SEAL works, it would be prudent for the City to increase its municipal debt limit, recognizing the need for a number of strategic long-term infrastructure investments while maintaining an ability to manage any unanticipated circumstances that may arise.

Using the costing data provided by staff, Hemson undertook a high level analysis of the potential additional debt servicing costs that may be required to undertake the enabling engineering works for the expansion lands. This analysis assumes that up to $100 million, or about one third of the cost of the identified "short term" and "medium term" SEAL works, would be funded by the City through the use of debt. The analysis applies an interest rate of 3% and loan period of 20 years, with the first payment beginning in 2022.

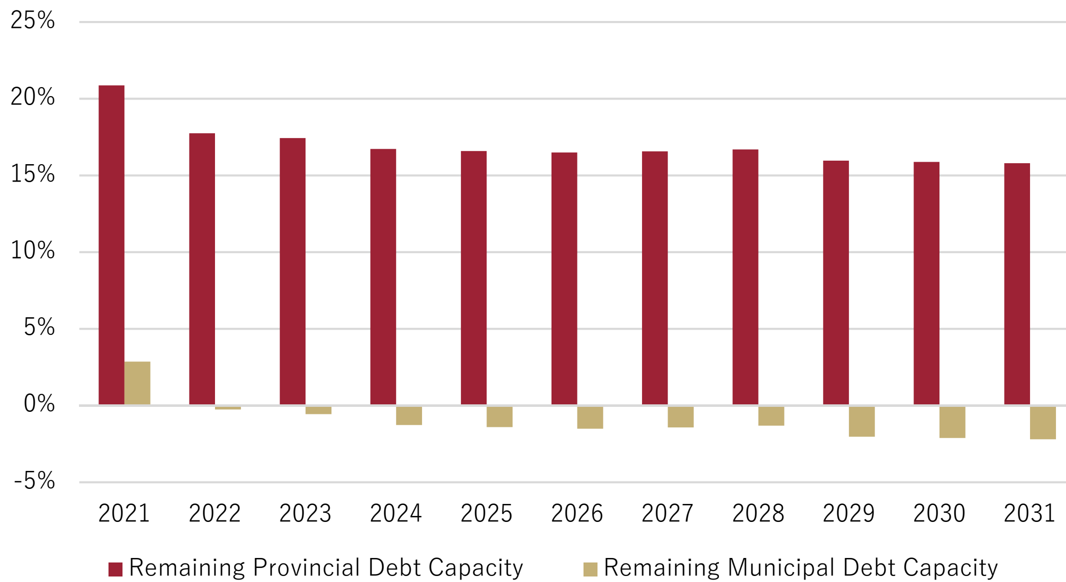
If $100 million in SEAL works were to be debt financed, the annual debt servicing costs would be approximately $6.7 million. When combined with the City's existing and planned debt servicing costs, total debt servicing would grow from $10.6 million in 2021 to $27.0 million in 2031 (Figure 2).

Figure 2. Forecast of debt servicing costs, including $100M in SEAL debt



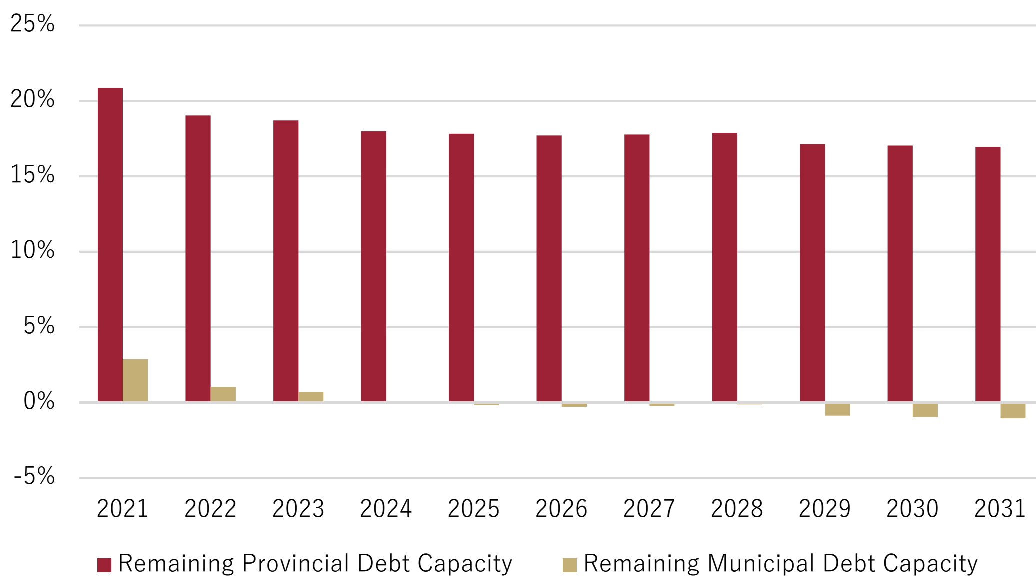
The City's current and planned debt servicing costs nearly reach the municipal limit of 7% of own source revenues by 2031, at 6.9%. When $100 million in SEAL works is added, the municipal limit is exceeded by 2022, and total debt servicing costs reach 9.2% of own source revenues in 2031. However, as shown in Figure 3, significant Provincial debt capacity remains (15.8% of own source revenues) even with the debt-financed SEAL works. This remaining capacity would allow the City to manage any unforeseen emergencies or economic shocks.

Figure 3. Forecast of remaining debt capacity, including $100M in SEAL debt



Should a reduced amount of $50 million in SEAL works be debt financing by the City, the City would remain within its municipal debt limit until 2024. Total debt servicing costs would reach 8.1% of own source revenues by 2031, with 16.9% remaining within the Provincial limit (Figure 4).

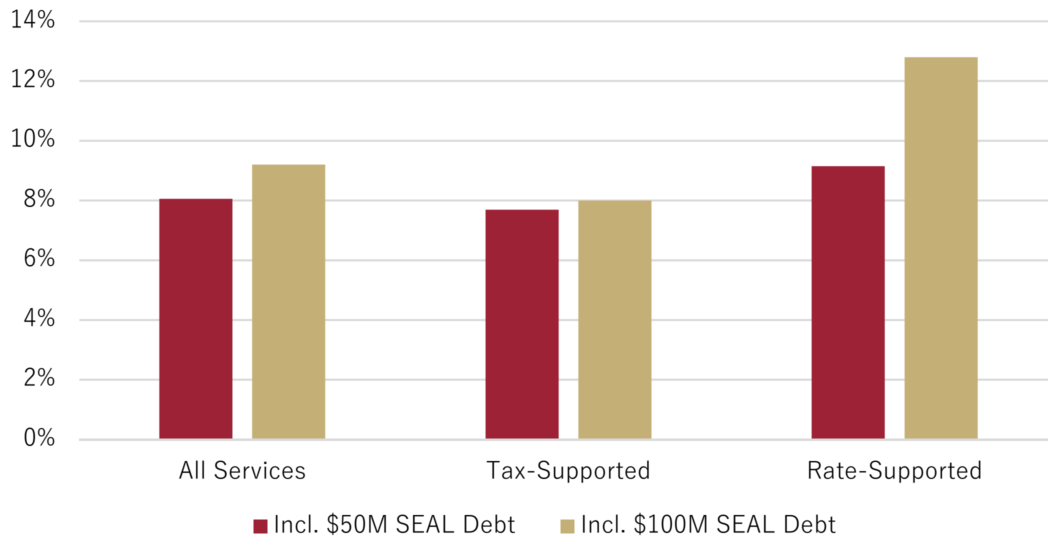
Figure 4. Forecast of remaining debt capacity, including $50M in SEAL debt



The City may also consider introducing distinct debt servicing limits for tax-supported and rate-supported services. Utility rate-supported services often warrant debt financing to a greater extent due to their front-ended nature, dedicated revenue streams, and strong "benefits-received" correlation. As shown in Figure 5, adding $100 million in SEAL-related debt financing could result in rate-supported debt servicing costs reaching 12.8% of own source revenues by 2031, while tax-supported debt servicing would be limited to 8.0% of own source revenues. This difference is less pronounced under the $50 million scenario, where rate-supported debt servicing reaches 9.1% of own source revenues while tax-supported debt servicing reached 7.7%.

It is noted that this analysis assumes that 80% of the debt-financed SEAL works would be utility rate-supported services.

Figure 5. 2031 forecast of debt servicing costs as a percentage of own source revenues; tax-supported vs. rate-supported services



4. POLICY FRAMEWORK FOR THE CITY OF BRANTFORD

Following discussions and information sharing with a Technical Working Group comprised of various City staff representatives, this section provides recommendations with regards to an overall fiscal policy framework for the expansion lands. The policy framework is intended to address a number of key considerations such as the size and scale of the expansion lands, the number of landowners involved, the complexity of the planning framework, and the City's current financial position.

A. EXPANSION LANDS: KEY CONSIDERATIONS

There are a number of factors that impact the feasibility and suitability of the various financial tools that may be used to fund growth-related infrastructure in Brantford's expansion lands.

i. Servicing needs are extensive

The expansion lands cover a significant land area that is anticipated to accommodate 24,200 people and 14,700 jobs. The City has identified extensive water, wastewater, stormwater, and transportation servicing works, as well as community facilities, needed to enable this growth to occur. The extent of the cost of the works, and likelihood that many works will be required in advance of the land development, will create fiscal pressures on the City which will require mitigation through a mix of funding and financing strategies.

Many of these projects will be fully development-related which will increase the City's DC-recoverable costs, and likely lead to higher future DC rates through the next DC background study and by-law. To promote a nexus between these costs and the benefitting development, and ensure the costs are not borne by future development within the current urban boundary, area-specific development charges (ASDCs) will likely be appropriate for the expansion lands. The use of an ASDC would help facilitate alternative financing approaches, including land-owner cost sharing agreements and front-end funding agreements, and can be used in combination with City-wide DCs and the recover of City debt funding (capital and interest costs).

ii. A long benefitting horizon is expected for most works

The build-out period of the expansion lands is expected to extend to 2051 per the City's draft Official Plan, and may take longer depending on market conditions. To service this growth, it will likely be necessary for the City to advance a number of major infrastructure projects in the near term, ahead of much of the anticipated development. The cost, timing and uncertainty around the rate of development creates fiscal uncertainty and risk for the City.

This disconnect between the timing of capital projects and the timing of development will require significant upfront capital funding of DC eligible costs. It is likely that the City will need to utilize municipal debt to fund all or a share of these costs. Further, as it is difficult to predict the pace of development over a long-term horizon, the City will need to assume some level of risk with respect to the timing of cost recovery. Developer front ending arrangements can help to alleviate this fiscal pressure. While such arrangements may be onerous for the City to administer and require significant staff resources on an ongoing basis, the City should explore opportunities to share the risk with the landowners and developers.

iii. Development will be undertaken by several large landowners

Currently, a number of key landowners own large areas of the expansion lands. Many of these landowners have significant local development experience and are deeply familiar with the City's policies and processes, having worked extensively with City staff and participated in consultation related to land use planning initiatives and past DC studies. As opposed to situations seen in other jurisdictions where land ownership and development can be highly fragmented, this improves the feasibility of arranging developer front end financing and cost sharing agreements, while also allowing stakeholder consultation processes to be relatively streamlined.

The City's draft Official Plan further divides the expansion lands into a series of proposed Block Plan areas. Prior to approval of a development application, landowners will be required to prepare a Comprehensive Block Plan. As set out by the City's draft Block Plan Terms of Reference, the Block Plan must demonstrate the development's design elements, including public amenities and infrastructure, as well as how the City's Master Servicing Plan and Transportation Master Plan policies and guidelines will be met.

Each proposed Block Plan area is currently owned primarily by a single developer or small group of developers. The City has identified infrastructure requirements by Block Plan area within its draft Infrastructure Staging Report. This may allow for relatively straightforward

front end funding arrangements within individual Block Plan areas. In addition, it will be beneficial for the City to identify which infrastructure is considered to be “local services”, and infrastructure that only provides servicing for specific blocks. The costs of these local works should be a direct developer responsibility, as a site-plan and subdivision agreement condition, and outside of DC funding.

iv. The City has significant capacity available within its Provincial debt servicing limit

Given the scale of the servicing needs of the expansion lands, it will likely be necessary for the City to front-end fund a significant share of the costs through debt financing. The City has significant debt capacity available under the Provincial debt servicing limit of 25% of municipal own source revenues, and maintains a municipal debt servicing limit significantly lower than the Provincial limit, at 7% of own source revenues. However, it is expected that Brantford’s debt servicing costs will soon approach this policy cap, and potentially exceed it with additional debt that may be required to service the expansion lands.

Notwithstanding the above, the City’s fiscal position is strong with significant remaining Provincial debt capacity. Recognizing the long-term benefitting horizon of the infrastructure needed to support development in the expansion lands, and the challenges associated with the long anticipated build-out period, it would be prudent for the City to re-examine its debt policy and consider an expanded municipal debt servicing limit.

B. RECOMMENDED POLICY FRAMEWORK

An integrated combination of municipal fiscal tools, complemented by strong policies and guidelines for their use, is recommended to fund the servicing needs of the expansion lands. The recommended fiscal tools are described below and summarized in Table 2.

i. Area-Specific Development Charges

Upon completion of the new Transportation Master Plan and Master Servicing Plan, the City intends to undertake a Development Charges Background Study to ensure the DC rates are reflective of the infrastructure needed to support future growth. As part of this process, the City is undertaking evaluating an area-specific approach to the calculation of DCs for the expansion lands. An ASDC by-law will set the framework for municipal investment as well as any developer front-end funding arrangements and credit agreements.

The City's draft Master Servicing Plan capital programs identify numerous water, wastewater, and stormwater projects that are primarily intended to extend servicing to the expansion lands. As such, an area-specific approach to these services is likely appropriate. Like many municipalities, Brantford's draft Transportation Master Plan capital program appears to include projects with broader benefits; the City may choose to continue to apply a City-wide approach to the calculation of Roads and Related DCs although a combination of City-wide DCs and ASDCs can be examined. Similarly, as non-engineered services such as fire, police, housing, parks and recreation, transit, and others are typically driven by City-wide population and employment growth, ASDCs are likely not appropriate for these services. It should be noted that City-wide DCs and ASDCs are typically layered; land subject to an ASDC are also subject to the full City-wide DCs.

As recent amendments to the DCA require DC rates to be calculated at the time of planning application, it will be prudent for the City to complete the ASDC Background Study in the near term to ensure that any planning applications coming forward within the expansion lands are subject to DC rates that are reflective of their servicing requirements.

ii. Debt Financing

As there is a significant amount of infrastructure required to enable development to occur in the expansion lands, significant upfront costs are anticipated to support development over the long-term planning horizon to 2051. While opportunities likely exist for developer front-end funding and prepayments, it is likely that much of the initial costs will be borne by the City of Brantford.

Growth-related debt financing costs are fully recoverable through DCs. However, in order to front-end fund the required infrastructure, the City will need to exceed its municipal debt servicing cost limit of 7% of own source revenues. While significant debt servicing capacity remains within the City's provincially mandated limit of 25% of own source revenues, Council approval of an expansion to the municipal debt limit will be required.

Many comparable municipalities (e.g. Guelph, Oshawa, Whitby) set debt servicing limits of 10% to 15% of own source revenues, while others defer to the provincially mandated limit. A higher debt limit for utility rate-supported services may also be considered, reflecting the upfront nature of these services as they are typically required to enable development to occur, as well as their strong benefit-received correlation and committed revenue streams.

iii. Developer Front-end Funding Arrangements

Where the benefitting area of an infrastructure project is well defined, and limited to a single developer or small group of developers, developer front-end funding arrangements may be appropriate. The Block Plan areas identified within the expansion lands could provide a good basis for these arrangements as infrastructure requirements by Block Plan area are already well defined within the City's draft Infrastructure Staging report.

It is recommended that the City arrange for developer front-end funding through credit agreements rather than through formal agreements through section 44 of the DCA. This would allow for greater flexibility while reducing administrative complexities. It will be critical to establish strong credit agreement policies prior to arranging these agreements.

iv. DC Prepayments

Once an ASDC by-law is in place, DC prepayments are another valuable tool that can be used by the City to advance infrastructure, and particularly projects that have well-defined benefits within a Block Plan area. Similar to DC credits, the City should have DC prepayment policies in place ahead of time in order to manage municipal risk.

v. Developer Cost-Sharing Agreements

It will take a period of time for the City to undertake a DC Background Study and bring an ASDC framework into place for the expansion lands. As an interim measure, developer cost-sharing agreements may be used should development applications proceed ahead of the new DC by-law.

Upon completion of a Comprehensive Block Plan, a developer or group of developers may choose to advance infrastructure needed for the development to occur. Where the infrastructure needs and benefits are scoped to a defined area, it can be treated as a "local service" by the municipality. The City has local services guidelines in place, available within the 2019 DC Background Study, although there is flexibility in determining what constitutes a local service on a case-by-case basis. Where the infrastructure is also anticipated to have some benefit outside of the area defined by the cost-sharing agreement, the City may fund a share of the costs to be recovered through future ASDCs. We would recommend a review of the City's existing local service guidelines in the context of the servicing needs and block plans for the expansion lands.

Table 2. Summary of Recommended Fiscal Tools

FISCAL TOOL	RATIONALE	RECOMMENDED USE
Area-Specific Development Charges	▪ Many engineered works will benefit SEAL only ▪ City-wide approach would drive up DCs for urban development ▪ Will set a strong framework for other funding tools & arrangements	▪ Initiate full DC Background Study ▪ Calculate ASDCs for water, sewer, & stormwater works ▪ Evaluate suitability of roads ASDCs ▪ Soft services should remain City-wide only

Debt Financing	▪ Significant upfront costs to support long-term development
	▪ Only certain projects will be suitable for developer FE funding
	▪ City is in strong fiscal position
		▪ Increase the City's debt servicing limit beyond the current 7% of revenues
		  ▪ Recommend 15%
		  ▪ Utility rate-supported services may warrant higher debt limit than tax-supported

Developer Front-End Funding Arrangements	▪ City should share risk, where appropriate
	▪ Block Plans could provide good basis as infrastructure requirements are well defined
	▪ Credit agreements (DCA s. 38) can be a useful tool
		▪ Establish strong DC credit policies & template agreements (see sample policy):
		  ▪ Limit value of credits
		  ▪ Recovery of municipal admin/legal costs
		  ▪ Quality control / engineering review
		  ▪ Maintenance of assets

DC Prepayments	▪ Developers may wish to advance infrastructure specified in ASDC Background Study ahead of municipal timelines ▪ Block Plan areas provide an opportunity as benefitting areas are well-defined	▪ Similar to DC credit policy, City should establish strong DC prepayment policies ahead of anticipated development to manage municipal risk
Developer Cost-Sharing Agreements	▪ DC/ASDC Background Study and by-law passage can take 6-8 months ▪ Development applications likely to proceed in advance – and DC rates now "frozen" at time of application per DCA ▪ Facilitated by Block Plans	▪ Define infrastructure that may be treated as "local service" ▪ Needs and benefits scoped to a defined area (e.g. Block Plan) ▪ Facilitate agreements between developers within a Block Plan ▪ Benefits outside of defined area may be City-funded with costs to be recovered through future ASDCs

5. RECOMMENDED FINANCIAL PLAN

Through discussions with staff, along with an evaluation of the servicing needs, benefitting horizon, proposed land use policy framework, and land ownership structure of the SEAL lands, a recommended Financial Plan has been developed. Steps to be taken as part of the recommended Financial Plan are described below.

i. Undertake a Development Charges Background Study and Calculate ASDCs for the SEAL Engineered Services Works

The City's new Official Plan, which will reflect recent amendments to the *Growth Plan for the Greater Golden Horseshoe*, along with a new Transportation Master Plan and Master Servicing Plan, warrant a new Development Charges Background Study. The 2019 DC Study was intended to serve as an interim study while these plans were underway, and the City recognizes the need to recalculate rates to reflect significant updates to the anticipated growth and servicing needs. Further, a DC Background Study represents an opportunity to incorporate key legislative changes recently brought into force by Bill 197, the *COVID-19 Economic Recovery Act*, in September 2020.

Based on an initial high-level review of the preliminary SEAL-related and City-wide MSP and TMP servicing needs and costs, it is likely that an area-specific approach to the calculation of DCs for the SEAL Water, Wastewater, and Stormwater works will be appropriate. ASDCs for these services would ensure that the costs of the major enabling SEAL works are not borne by development within the existing urban boundary. An ASDC by-law would also set the framework for future developer front-end funding arrangements and credit agreements.

The City should also evaluate the appropriateness of a Transportation ASDC as part of the DC Background Study. Transportation ASDCs may also help to facilitate developer agreements. Transportation ASDCs may also be "layered" with City-wide Transportation DCs to ensure SEAL development also contributes to the City-wide network.

Initiation of a DC Background Study has been recommended to staff as a first step in the SEAL Financial Plan due to its potential to guide future agreements. It will also be prudent to undertake a DC study in the near term due to recent legislative changes that require DCs to be calculated at the time of planning application, rather than at building permit. As such, the City has proceeded with initiating a DC and ASDC Background Study.

ii. Increase Brantford's Municipal Debt Servicing Limit

The City is anticipated to approach its municipal debt servicing limit of 7% of own source revenues by 2031, excluding any SEAL-related debt financing. Due to the upfront, development-enabling nature of a large proportion of the SEAL works, it will likely be necessary to finance a portion of the works through debt. While the current municipal debt limit will not allow for additional debt financing, significant debt capacity remains within the Provincial debt servicing limit of 25% of own source revenues.

It is recommended that the City increase its municipal debt servicing limit to account for these needs. Based on a preliminary analysis, an increase to 15% of own source revenues would be more than sufficient to fund a large share of the SEAL works through debt financing, while allowing some room for unanticipated events or emergencies that may arise over time.

As an alternative, the City may consider introducing differentiated debt servicing limits for tax-supported and rate-supported services, recognizing typical upfront nature of utilities services, particularly in greenfield areas such as the expansion lands. Based on the analysis, a tax-supported debt servicing limit of 10% of own source revenues, and rate-supported limit of 15%, would likely be sufficient.

iii. Develop Policies and Agreement Templates to Guide the Use of Developer Front-Ending, DC Prepayments, and Developer Cost-Sharing

It is recommended that the City use a combination of developer front-ending arrangements, DC prepayments, and developer cost-sharing, as appropriate, to share costs and reduce the risks to the municipality associated with lower or slower-than-anticipated growth in the expansion lands. However, there are some risks associated with these tools, such as earlier-than-anticipated operating and maintenance costs, the funding of non-growth cost shares, administrative complexities, and shifting control of capital spending from the municipality to the developer.

An updated DC by-law will help to provide a framework for these tools and ensure the City's long-term infrastructure needs are supported. In order to account for and address potential risks, the City should also be proactive in developing policies and template agreements to facilitate these arrangements. To facilitate this process, suggested policies are included in the Appendix.

Some key policy considerations may include:

- Ensuring the quality of developer-emplaced assets meets the City's standards and does not negatively impact on long-term repair and replacement costs. For example, the City may choose to retain approval authority for engineering drawings;
- Requirements for City approval of tender prices, and/or placing limitations on the value of DC credits issued based on project costs stated within the DC Background Study;
- Where developer agreements lead to infrastructure being emplaced well ahead of the City's schedule, the City may consider requiring the developer to maintain the asset for a defined period of time to minimize the additional operating and maintenance costs to the existing population;
- Local services guidelines, particularly as they may apply to developer cost-sharing arrangements within a Block Plan or other defined area; and
- Recovery of administrative costs and legal fees related to the agreements.

iv. Evaluate the Need for Additional Staff to Administer Agreements

Depending on the scale and complexity of the City's use of developer agreements, additional staff resources may be required. The City should be proactive in evaluating current staff roles and capacity to administer agreements, particularly if a number of development applications moved forward following adoption of the new Official Plan.

APPENDIX: SAMPLE POLICIES AND AGREEMENTS

SAMPLE DC CREDIT POLICY

A. PURPOSE

The City of Brantford requires a consistent framework for evaluating Development Charges (DC) credit requests. The Development Charges Credit Policy ("Policy") establishes cohesive guidelines for the administration, application and issuance of DC credits. This Policy allows for the construction of key infrastructure while protecting the City from the financial risk associated with infrastructure construction, particularly when the infrastructure is being constructed ahead of the City's budgeted timelines.

B. BACKGROUND

Projects eligible for credits are those that are included in the City's DC Background Study, such as water infrastructure, wastewater infrastructure, stormwater infrastructure, and roads and related infrastructure. Works defined by the City as "local services" are not funded through development charges and are not eligible for DC credits.

In order to accommodate their developments, some developers require that certain infrastructure be built ahead of the timing set out within the City's DC Background Study (as subject to annual budgeting review). The City may agree to allow the developer to construct the works themselves, or alternatively to fund the works while the City delivers the project on the developer's schedule. The City and developer may also enter into an agreement allowing the developer to construct works that will benefit a larger landowner group, such as a key water connection that will contribute to servicing subsequent developments within a defined area. In each of these scenarios, the developer may be eligible to receive DC Credits for the work that is completed.

C. SCOPE

This Policy is applicable to developers who wish to accelerate the construction of development-related City infrastructure in order to accommodate their developments, or developers who agree to construct works on behalf of the City.

D. POLICIES

1. General Provisions

1.1. The developer seeking DC credits must submit a request to the City and receive approval prior to constructing the works.

1.2. If a developer begins construction prior to receiving DC credit approval, the works will be constructed at their own expense and risk.

1.3. The City is under no obligation to provide retroactive DC credits for works previously undertaken by a developer without Council or Treasurer approval.

1.4. A DC Credit Agreement will be required for all credit issuances.

1.5. After execution of the credit agreement, and subject to the completion of the capital works to the satisfaction of the City, the eligible DC credits will be processed as follows:

1.5.1. The component of the DC credit will be applied against future development charges otherwise payable to the City; and

1.5.2. In the event the costs are not fully recovered through the above clause, then the City will reimburse as per section 5.1.

2. Eligibility Requirements

The City will consider granting DC credits for the construction of capital projects according to the following criteria:

2.1. The developer must enter into a DC Credit Agreement with the City that details the terms and conditions of the work being carried out and the value of the credits being earned. Where a single developer is undertaking the work, this agreement may be attached as a schedule to a site plan or subdivision agreement.

2.2. Where more than one developer or a developer group is undertaking the work:

2.2.1. A trustee representing the interests of the developers will be required; and

2.2.2. A separate DC Credit Agreement (not attached to a site plan or subdivision agreement) will be required.

2.3. A developer must submit a request to the City prior to the commencement of the detailed design and construction of the works.

2.4. The capital project(s) to be advanced must be included in the City's most recent DC Background Study that supports the City's current DC By-Law at the time of the DC Credit Agreement.

2.5. The DC credit is limited to the applicable service component of the City's DC by-law (i.e. credits for a road project will be limited to the amount of the roads component DC). The amount of the credit is limited to the lesser of:

2.5.1. The stated cost of the project in the City's most recent DC Background Study, indexed to present dollars (using the index the City has used to index DC rates); or

2.5.2. The actual tender cost of the project, plus a provision for soft costs not to exceed 15% of the actual tender cost, subject to the City's review and approval.

2.5.2.1. If a change order is received after the issuance of the tender, the City will consider the eligibility of the increased cost for DC credits. This consideration is subject to clauses 2.5.1 and 2.6.

2.6. At the City's discretion, if the actual project cost is greater than the cost stated in the last DC Background Study (after consideration for indexing), the City may reflect the higher cost in the next DC Background Study. This would thereby provide for a higher developer recovery against outstanding benefitting lands.

2.7. DC credits shall not be issued if credit issuance will result in a negative balance in either the applicable service-specific DC reserve fund or the consolidated DC reserve funds.

2.8. Advancement of the project will be reviewed in the context of the City's debt management policies.

3. Approval

3.1. DC credit requests must be made for the total value of the works being advanced, which includes related capital works that are being simultaneously advanced (e.g. if a sewer project must be constructed at the same time as a roads project, the credit request shall include the total cost of both projects).

3.2. DC credit requests for works less than $300,000 may be approved by the City Treasurer.

3.3. DC credit requests for works of $300,000 or more shall require Council approval.

4. Engineering and Construction

4.1. Prior to undertaking the works, the developer shall provide all engineering drawings in accordance with the City's standards. City approval must be obtained prior to undertaking the works.

4.2. The developer shall construct the works in accordance with the approved engineering drawings.

5. Reimbursement

5.1. Where the credit value exceeds the developer's DCs payable for the applicable service, reimbursement will be paid in accordance with the DC Credit Agreement. Developers will be reimbursed in one of the following methods, as determined by City staff:

5.1.1. For projects with City-wide benefits, developers will be reimbursed on an annual basis according to the proportionate share of City-wide DC receipts for the applicable service component.

5.1.2. For works with clear benefitting areas, developers will be reimbursed on an annual basis according to the proportionate share of DC receipts from within a delineated benefitting area for the applicable service component.

5.2. Reimbursement is subject to the availability of funds in the service-specific and consolidated DC reserve funds.

5.3. In order to avoid undue pressure on City taxpayers and ratepayers, developers will fund 100% of the cost of the capital works. Non-growth capital costs, which are non-DC funded cost components such as the benefit-to-existing and replacement shares of a project, are normally funded through tax and user rates. Under a DC Credit Agreement, non-growth costs will be reimbursed based on the project's timing in the City's approved Capital Plan. The amount reimbursed shall be the lesser of:

5.3.1. The stated non-growth capital cost of the project in the City's most recent DC Background Study; or

5.3.2. A percentage of the project's actual capital cost, based on the project's non-growth cost share as stated in the DC Background Study.

6. Security

6.1. Developers shall provide a letter of credit equal to 100% of the estimated total cost of the capital works, as approved by the Treasurer, prior to the commencement of the works. The letter of credit will be held until the capital works have been completed to the satisfaction of the City in the following manner:

6.1.1. Where the developer is funding the works and the City is undertaking the construction of the capital works, the letter of credit shall be drawn upon throughout the construction of the works, at the City's discretion.

6.1.2. Where the developer is undertaking the construction of the capital works, 80% of the letter of credit will be released once the City has verified and inspected the completed capital works. A 20% holdback will be retained for a 2-year maintenance/warranty period.

7. Termination or Amendment

- Non-compliance with this Policy will result in the City not entering into a DC Credit Agreement or not disbursing any DC credits. The City Treasurer will have the authority to approve the termination or amendment of a DC Credit Agreement where:

7.1. The DC by-law on which the credits are based has been repealed;

7.2. The developer agrees to forego further credits; and/or

7.3. The terms on which the credits are to be disbursed has changed.

8. Maintenance of Infrastructure

8.1. Where infrastructure is being emplaced well ahead of the City's schedule, the City may, through the DC Credit Agreement, require the developer to maintain the asset for a defined period of time to minimize the additional operating and maintenance costs to the existing population.

9. Administration and Legal Fees

9.1. All City incurred legal fees associated with the processing of a DC Credit Agreement including, but not necessarily limited to, the review and/or preparation of any related documents, agreements, etc. shall be paid in full by the developer, plus an additional 15% administrative fee.

9.2. Where the City reviews engineering plans in the course of processing or approving a DC Credit Agreement, engineering review fees shall be equal to the Engineering Submission Review fee in the City's Planning Applications and Services Fee By-law.

9.3. An agreement administration fee shall be levied in the case of a standalone DC Credit Agreement, which shall be equal to 1.0% of the value of the works.

Sample DC Prepayment Policy

A. PURPOSE

The Development Charges Prepayment Policy ("Policy") establishes guidelines for the approval of developer requests to pre-pay DCs in order to advance infrastructure that is required for their development to occur. This Policy allows for the construction of key infrastructure while protecting the City from the financial risk associated with infrastructure construction, particularly when the infrastructure is being constructed ahead of the City's budgeted timelines.

B. BACKGROUND

Under s.27 of the *Development Charges Act*, 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 case is often known as a DC prepayment agreement. These agreements can be 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, that is required in order for a development to proceed.

Projects eligible for credits are those that are included in the City's current DC Background Study. Works defined by the City as "local services", which are not funded through development charges, are not eligible for DC prepayment.

C. SCOPE

This Policy is applicable to developers who wish to accelerate the construction of a development-related capital project in order to accommodate their developments.

D. POLICIES

1. General Provisions

1.1. The City may approve developer requests for DC prepayment in order to allow construction of a capital project, or scoped group of capital projects, to be advanced ahead of the schedule set out within the DC Background Study.

1.2. The capital project(s) to be advanced must be included within the City's most recent DC Background Study.

1.3. A DC Prepayment Agreements between the City and developer(s) is required to allow for the prepayment of development charges.

2. Eligibility Requirements

The City will consider allowing DC prepayments for the purposes of advancing the construction of capital projects according to the following criteria:

2.1. The developer(s) must enter into a DC Prepayment Agreement with the City that details the terms and conditions of the amount of prepayment, capital projects being advanced, method of payment, timing of payment, and timing of the capital works.

2.2. The total amount of prepayment must be sufficient to allow the City to advance the capital project ahead of schedule.

2.3. Without the advancement of the capital project(s), the development(s) could not proceed in a timely manner.

2.4. Where more than one developer or a developer group is undertaking the work, a trustee representing the interests of the developers will be required.

2.5. The capital project(s) to be advanced must be included in the City's current DC Background Study that supports the City's current DC by-law(s) at the time of the DC Prepayment Agreement.

2.6. The DC prepayment is limited to the applicable service(s) component of the City's DC by-law(s) (i.e. prepayments to allow for a water project to be advanced will be limited to the amount of the water component DC).

2.7. At the City's discretion, if the actual project cost is greater than the cost stated in the current DC Background Study (after consideration for indexing), the City may reflect the higher cost in the next DC Background Study. This would thereby provide for a higher developer recovery against outstanding benefitting lands.

2.8. Advancement of the project will be reviewed in the context of the City's debt management policies.

3. Approval

3.1. DC prepayment requests for amounts less than $300,000 may be approved by the City Treasurer.

3.2. DC prepayments requests exceeding $300,000 shall require Council approval.

4. Amount of DC Prepayment

4.1. The amount of DC prepayment with respect to each development under the DC Prepayment Agreement shall be the total applicable service(s) component of the DC calculated as of the date of prepayment.

5. Engineering and Construction

5.1. The City shall take ownership for the project(s) and be responsible for the design, engineering, tendering, construction, installation, operation, and maintenance of the capital project(s).

5.2. The City shall own the project(s).

6. Maintenance of Infrastructure

6.1. Where infrastructure is being emplaced well ahead of the City's schedule, the City may, through the DC Prepayment Agreement, require the developer to maintain the asset for a defined period of time to minimize the additional operating and maintenance costs to the existing population.

7. Early Payments and the Provision of the Project(s)

7.1. Upon the execution of the DC Prepayment Agreement, the developer(s) shall pay the full amount agreed upon to the City by cash or certified cheque.

7.2. The City shall not be under any obligation to tender the project(s) unless the City has received the required amounts under the Agreement by the deadline specified in the Agreement.

7.3. If there is a cost increase, then the Treasurer shall give notice in writing to the developer(s) of the amount of the cost increase and its proportionate share of the cost increase. The developer shall pay its proportionate share by cash or certified cheque within the timeframe specified by the City.

8. Payment of Remaining Development Charges

8.1. The parties acknowledge that the developer's payment under the DC Prepayment Agreement is an early payment of the applicable service component(s) of the development charge.

8.2. The developer(s) must agree to pay all remaining development charges (other than the applicable service(s) DCs paid through the DC Prepayment Agreement) in the amount and at the times specified within the City's DC By-law.

9. Termination or Amendment

9.1. Non-compliance with this Policy will result in the City not entering into a DC Prepayment Agreement. The City Treasurer will have the authority to approve the termination or amendment of a DC Prepayment Agreement.

10. Administration and Legal Fees

10.1. All City incurred legal fees associated with the processing of a DC Prepayment Agreement including, but not necessarily limited to, the review and/or preparation of any related documents, agreements, etc. shall be paid in full by the developer.

Sample Developer Cost-Sharing Policy

A. PURPOSE

The Development Cost-Sharing Policy ("Policy") establishes a cost sharing structure between the development community and the City of Brantford for development costs not covered by the City's DC By-law. Typically, works considered to be "local services" are considered to be a direct developer responsibility and are not included in the City's determination of DC rates. The City has established Local Services Guidelines to help guide these decisions.

In some cases, the local services works may benefit a single development or localized group of developments, while in other cases the City and/or other developments may benefit from the works being constructed. This Policy allows is intended to guide how costs will be shared in these instances.

B. BACKGROUND

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. 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; however, there must be some mechanism, such as an area-specific DC by-law, to ensure that all benefitting lands contribute in some way.

C. SCOPE

This Policy is applicable to developers who require works not included within the City's DC Background Study to proceed in order to accommodate their developments, where the works will also benefit a broader area beyond the development project.

D. POLICIES

1. General Provisions

1.1. Development cost-sharing applications will be considered on a case by case basis and subject to City approval.

1.2. A Cost-Sharing Agreement is required and must be reviewed and approved by the City.

1.3. The capital works must not be included within the City's current DC Background Study that supports the City's current DC by-law(s) at the time of the Cost-Sharing Agreement.

2. Eligibility Requirements

2.1. All developer cost-sharing applications must obtain City approval prior to the commencement of construction.

2.2. Applications must include all required information, including detailed cost estimates prepared by a professional engineer.

2.3. Upon City approval of a cost sharing application, the City and the developer(s) shall enter into a Cost-Sharing Agreement. Agreements may include provisions for a third party to confirm quantities and costs. The costs associated with retaining a third party will be borne by the developer(s) or shared with the City based on the proportionate share of broader City benefit of the capital works.

2.4. Where the works will result in benefits to a larger area, applications may be assessed on a case by case basis to determine if they are DC-eligible.

3. Approval

3.1. Cost-sharing applications for capital works valued less than $300,000 may be approved by the City Treasurer.

3.2. Cost-sharing applications exceeding $300,000 shall require Council approval.

3.3. Approval of Cost-Sharing Agreements will be subject to the City portion of funding being available.

4. Cost-Sharing Guidelines

4.1. For works that are required to service a specified development area, with no external benefit, the developer(s) shall pay for 100% of the cost.

4.2. For works that are required to service the specified development area as well as external lands, the developer(s) shall pay for 100% of the cost for the minimum infrastructure needed to service the development(s). The City shall pay for the balance of the cost, to be recovered from future developments where applicable.

5. Recovery of City Share of Costs

5.1. Costs incurred by the City to service lands external to the specified development area may be recovered:

5.2. From individual property owners at the time of the future development; or

5.3. More broadly from future development through future development charges.

6. Administration and Legal Fees

6.1. City-incurred legal fees associated with the processing of a Cost-Sharing Agreement including, but not necessarily limited to, the review and/or preparation of any related documents, agreements, etc. shall be shared by the developer and the City in proportion with the benefit of the works to the specified development site and lands external to the development site.