



TO: GENERAL COMMITTEE

SUBJECT: DEVELOPMENT CHARGE CREDIT POLICY

WARD: ALL

PREPARED BY AND KEY CONTACT: J. COWLES, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENT (x5347)

SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER

GENERAL MANAGER APPROVAL: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the Development Charge Credit Policy attached as Appendix "A" to Staff Report FIN013-18, applying to all City departments, be adopted.
2. That in accordance with the Development Charge Credit Policy, delegated authority be provided to the Director of Finance and Director of Engineering to jointly approve Development Charge Credit requests for works less than \$5 Million.

PURPOSE & BACKGROUND

Report Overview

3. The purpose of this staff report is to seek Council's endorsement of the Development Charge (DC) Credit Policy, included as Appendix 'A' of this report. This Policy establishes the requirements and the application and approval processes for entering into this type of agreement between the City and a developer, or developer group. The City does not currently have a formal DC Credit Policy.
4. The City occasionally enters into agreements, either at the request of City staff or at the developer's request, which require the developer to build City infrastructure as part of their subdivision development. In some cases the infrastructure is being advanced and is not yet part of the City's approved Capital Plan. These types of agreements often offer benefits to both the City and the developer, as the developer can construct the necessary infrastructure at the time it is needed for their development to proceed. In addition, there can be efficiencies and cost savings achieved when the infrastructure is constructed as part of a larger project.
5. In 2014, a Memorandum of Understanding (MOU) was executed by the City and the Landowners Groups for Phase 1 of the Salem and Hewitt's Secondary Plan Areas. The MOU provided the City with some tools to assist in financing the infrastructure required to service these areas, including the ability for developers to construct certain projects in exchange for development charge (DC) credits. A list of possible developer-build projects was prepared and attached to the MOU as part of the Infrastructure Implementation Plan (IIP) for the Salem and Hewitt's areas. The IIP included projects for all phases of development within these areas. The projects identified as potential developer-build projects for phases 2-4 total approximately \$55 Million.

6. The MOU outlined broad terms and conditions with respect to developer-build projects for Phase 1 lands. However, various questions have arisen throughout the process of negotiating these types of agreements, including the stage at which credits are earned, when they can be redeemed, the amount eligible for credits, the amount of security required by the City for these works, and so forth. As a result, it was determined that going forward, a policy supporting the City's principles and aligned with the Financial Policy Framework would assist in the execution of these agreements for Phase 2-4 lands in the Salem and Hewitts Secondary Plan Areas, and within the City's built boundary.

ANALYSIS

7. The purpose of a DC Credit Policy is to provide staff with a framework for evaluating potential developer-build projects, whether at the request of City staff or at the request of the developer, while protecting the City from potential financial risks associated with advancing infrastructure and providing DC credits. This Policy also serves as a resource for ensuring that all regulatory requirements are considered prior to the City entering into an agreement under the *Development Charges Act, 1997*.
8. One of the City's guiding principles for growth is that it be undertaken in a financially responsible manner. This involves the coordination of growth and development so that it corresponds with the timing of infrastructure required, and it also involves the need to forecast, manage and balance the flow of revenues and expenditures over time.
9. Having a DC Credit Policy in place would assist the City in mitigating risk in the following areas:
 - a) Liquidity and Cash Flow

The City needs to ensure adequate cash is available to meet its obligations. Due to other commitments, the timing of the expenditure for these infrastructure projects might not be optimal for the City in terms of borrowing money, or in funding the projects by some other source, like capital reserves.
 - b) Credit Rating

The City has various targets it needs to meet in order to maintain its 'AA' credit rating. A significant factor in maintaining the credit rating is the need to manage debt in relation to own source revenues. The ability to control debt is contingent on DC revenues being available to pay for growth related capital projects, or on the City's ability to defer the expenses until the revenues are available.
 - c) Economic Factors

Market conditions can cause demand for housing to fluctuate. Swings in the economy, interest rates, the availability of property and changing consumer behaviour can determine whether demand is high or low in any given area. If at some point the housing supply in the City exceeds demand, the pace of development would slow down and consequently the City would see a reduction in development charge revenues. The uncertainty of market conditions and interest rates means that the City needs the ability to control the timing of new expenditures if revenues slow down.
10. The December 31, 2017 balance in the DC Reserves was \$2.4 Million, a reduction of \$13.5 Million from the 2016 year-end balance of \$15.9 Million. This reduction reflects the increase in capital expenditures being funded by DCs. As described in the City of Barrie's 2018 Business Plan and Budget, the forecast of DC Reserves over the next five years includes:

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- a) Five year average annual draws from DC Reserves - \$76.9 Million;
 - b) Five year average annual DC revenues - \$80.2 Million; and,
 - c) Five year average ending DC Reserve balance - \$0.8 Million
11. The low actual and projected balances in these reserves means the City will have to closely monitor the timing of DC revenues received in comparison to the timing of DCs used to fund capital infrastructure.
12. Allowing the developers to construct infrastructure can provide the City with a mechanism to defer the expense by providing DC credits at or after completion of the infrastructure, while allowing development to proceed in a timely manner. The DC Policy has outlined the parameters in which this type of agreement can be executed while minimizing financial risk to the City.
13. This Policy is developed within the Financial Policy Framework guidelines as endorsed and adopted by Council on December 18, 2017 (Motion 17-G-323). The Framework has the following targets in relation to DCs:
- a) DC reserves must maintain a positive balance on a consolidated basis;
 - b) DC supported debt outstanding not to exceed 25 percent of the DC eligible costs for the forecast period of the latest DC Background Study; and,
 - c) A DC adequacy test will be prepared and presented to Council, and if the adequacy test shows that DC rates are more than 20 percent below the rate needed to fully fund eligible expenditures, a new DC Study be prepared.

ENVIRONMENTAL MATTERS

14. There are no environmental matters related to the recommendations.

ALTERNATIVES

15. The following alternative is available for consideration by General Committee:

Alternative #1

General Committee could choose not to adopt the DC Credit Policy and negotiate future agreements on a case by case basis.

This alternative is not recommended. Providing a standard approach for evaluating and entering into these types of agreements allows the City to assess and mitigate financial risk, while making a comprehensive evaluation of the proposal. Having a standard approach will also make the process more efficient and predictable for both the City and the developer.

FINANCIAL

16. There are no direct financial implications for the Corporation resulting from the proposed recommendations.

LINKAGE TO 2014-2018 STRATEGIC PLAN

17. The recommendations included in this Staff Report support the following goal identified in the 2014-2018 Strategic Plan:
 - Responsible Spending
18. Effective financial management of the City's revenues and capital expenditures, in addition to proactive risk mitigation, is critical in maintaining financial sustainability.

APPENDIX 'A'

Development Charge Credit Policy



Section: A09-Policies & Procedures
Sub-section: FINANCE
Policy #: FIN-018-101

Effective Date: June 1, 2018
Review Date: June 1, 2019

Development Charge Credit Policy

POLICY STATEMENT

A policy to provide City staff with a consistent approach to evaluate proposals and enter into Development Charge credit agreements.

PURPOSE/APPLICATION

The purpose of this Policy is to provide a framework for developers to accelerate the construction of infrastructure needed to advance and support their development, while protecting the City from potential financial risks associated with advancing infrastructure and providing Development Charge credits.

DEFINITIONS

- Developer – a person, corporation, group of persons and/or corporations, or agent for a person, corporation or group of persons and/or corporations that have submitted a development application to the City for review.
- Development Charges – a charge imposed pursuant to the City's Development Charges By-law. These charges may be imposed on a municipal-wide basis, or may apply to a specific area within the City.
- Development Charges By-law – refers to the Municipal-Wide Development Charges By-law 2014-108 approved by Council on August 25, 2014, under the *Development Charges Act, 1997*, and as may be amended from time to time, or any successor by-law.
- Development Charge Credit – a credit approved by the City for work performed or financed by a developer that relates to a service for which a credit is provided within the Development Charges By-law.
- Growth-related costs – the capital costs to be recovered under the Development Charges By-law based on the City's capital spending plans identified in the Background Study to the Development Charges By-law.
- Non-growth costs (also referred to as Benefit to Existing portion, or BTE) - the capital costs that are not related to new development and cannot be recovered under the Development Charges By-law and are funded by tax levy, user rates, or other non-development charge sources.

SPECIFIC POLICY REQUIREMENTS

A. Eligibility Requirements

The City will consider granting development charge (DC) credits for the construction of public works where the following criteria are met:

1. The costs for the public works were included in the DC Background Study that led to the most current City of Barrie DC By-law(s), as well as the Council-approved Capital Plan and Forecast.
2. The developer or developer group is willing to enter into a DC Credit agreement with the City, either as part of a subdivision or site plan agreement or as a separate agreement, which details the terms and conditions of the works being approved and the credits to be earned.

APPENDIX 'A' (Continued)



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Development Charge Credit Policy

3. The policies outlined in this document are applicable to all projects throughout the City of Barrie being commenced from and after July 1, 2018, with the exception of the Phase 1 projects outlined in the Memorandum of Understanding (MOU) between the City and the Salem and Hewitt's Landowners Groups, dated May 14, 2014.
- B. Approval
 1. Credits are subject to City approval and there is no entitlement to credit prior to approval.
 2. The City is under no obligation to approve a request or advance capital projects through this policy as a result of a request.
 3. Development Charge Credit requests for works less than \$5 million may be approved by the Director of Finance and Director of Engineering jointly. Development Charge credit requests that have a value that is greater than or equal to \$5 million require Council approval. This limit applies to the total of the works being advanced (e.g. if sewer works with a budget of \$2 million require the advancement of road works with a budget of \$4 million, Council approval would be required).
 4. Council approval, if required, must be obtained in advance of commencement of project design, for the developer to construct and obtain Development Charge credits. If a developer proceeds with design or construction in advance of receiving development charge credit approval from Council, such works shall be undertaken at their own financial risk and expense.
- C. Requirements for all Development Charge Credit Applications
 1. A developer seeking DC credits must submit a request to the City before the commencement of design, if applicable, or construction of the works.
 2. The eligible DC credit shall be limited to the actual cost of design and construction of the works, as approved by the Director of Engineering.
 3. The developer is required to provide a build-out schedule of development which outlines the projected issuance of building permits per year. This will be reviewed by the City to assess the viability of a DC credit agreement.
 4. The City-approved DC credits for public works may be set out in the City's subdivision or site plan agreements where a *single developer* is undertaking to complete the work.
 5. A separate DC credit agreement will be executed for public works where more than one developer, or a developer group is undertaking to complete the work.
 6. A trustee representing the interests of the developers is required where there are multiple developers or a developer group requesting a DC Credit through this policy.
 7. The DC credit request amount will be reviewed by the Director of Engineering and the Director of Finance. The developer must provide the City with a terms of reference (TOR) for the design or construction work as applicable, in the City's format for review, after which a formal DC Credit Agreement will be executed.

APPENDIX 'A' (Continued)



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8. Credits will not be extended to other DC by-laws (i.e. area specific DC's) unless that portion of the project's capital cost is included in the background study attributable to that by-law.
9. DC credit redemption and/or reimbursement will be completed within 5 years of substantial completion of the project, provided it does not cause a negative impact to the following City targets:
 - a) the DC Reserve Funds must be in a positive balance on a consolidated basis;
 - b) the DC supported debt outstanding must be equal to or less than 25% of the DC eligible costs for the forecast period of the latest DC Background Study; and
 - c) the City's credit rating must be maintained.

D. Advancement of City Works & DC Credit Issuance

Subject to meeting the requirements outlined above:

1. The developer will be required to fund 100% of the cost of the capital works. Non-growth costs will be reimbursed by the City based on the project's timing in the Capital Plan.
2. Any related capital works that are required to be simultaneously advanced with the works for which a credit is being requested must be included in the DC credit request.
3. Temporary or interim infrastructure required to facilitate a proposed development will not be reimbursable. Local services required for a development will also not be reimbursable.
4. The credit will be restricted to the service component of the City DC that the developer is required to pay at the registration/subdivision agreement or at building permit stage (e.g. road credits restricted to roads DC).
5. DC credits earned will not be indexed.

E. Security/Financial Obligation

1. The City will determine the cost of the works eligible for DC Credit, which in most cases would be the actual cost of the works as approved by the Director of Engineering.
2. Developer-Constructed Projects: Where the developer is undertaking to complete the construction of the public works, security requirements will be consistent with City policies and determined on a project by project basis. Security will be in the form of a Letter of Credit or Certified Cheque (both eligible and non-eligible components) in accordance with standard City practices and in a format satisfactory to the Director of Finance. The Letter of Credit will also secure payment of the DC component under consideration for credit. The Letter of Credit will be held until such time as the public works are constructed to the satisfaction of the City.
3. City-Constructed Projects: Where the developer is financing (in whole or in part) the capital work to expedite its completion, they will secure 100% of the estimated cost of the works by a Letter of Credit or Certified Cheque (both eligible and non-eligible components) in accordance with standard City practices and in a format satisfactory to the Director of Finance. The Letter of Credit will be drawn upon, at the City's discretion, throughout the construction of the work.

APPENDIX 'A' (Continued)



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4. After satisfactory construction of the works, a 10% holdback will be retained by the City of Barrie for a two year maintenance/warranty period and the balance of the Letter of Credit will be released.
5. If it can be clearly demonstrated that the actual cost of the works will be less than the amount secured, periodic reductions of the security amount may be negotiated throughout the construction period.
6. Any applicable DC Credit administration fees will be included in the City's annual fees by-law, and are not eligible for DC credits.
7. In addition to the fees outlined in 6 above, actual costs (time and materials) incurred by Engineering to inspect the works will be charged back to the developer. These costs would be eligible for DC credits.

REFERENCES AND RELATED POLICIES/DOCUMENTS

Financial Policy Framework

Development Charges Act, 1997

2014 Development Charges Background Study and By-law 2014-108, or successor

City of Barrie Official Plan

2017 Long Range Financial Plan, as updated from time to time

Local Service Policy, as updated from time to time

DEPARTMENT CONTACT

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