City of London

Municipal Service and Financing Agreements

- Summary of Report Findings-

November 16, 2011

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Introduction

- The following provides a summary of findings provided in Municipal Service and Financing Agreements (MSFA) prepared for the City
- This report deals only with CSRF but no matters related to UWRF are considered in the report
- As part of this process, several presentations and discussions were held with members of the London Development Institute (LDI), London Homebuilders (LHBA) and Urban League (ULL) along with several draft reports being submitted to the group

Purpose of the Report

- Watson & Associates retained by the City to assist in examining the topic of accelerating CSRF (only) related works in the City's capital plan that serve growth.
- Consideration is also to be given to:
  - the circumstances where the timing of works funded from the City Services Reserve Fund (CSRF) could be moved forward by the land developer upon entering into a municipal services agreement with the City;
  - identify the most appropriate form of municipal services agreement for the City to use;
  - identify policy matters which should be considered in determining their use;
  - identify potential issues to be addressed resulting from the above

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City’s General Approach to Building Capital Infrastructure

- Generally, the Growth Management Implementation Strategy (GMIS) is the City’s growth plan for co-ordinating the phasing of development and scheduling the construction of works through the capital budgeting process
- GMIS was created to guide London’s growth in an orderly manner balancing the needs of growth with the costs of extending major new servicing
- GMIS provides for an increased level of management of liabilities related to development

Annual GMIS Process

- The GMIS is to be reviewed annually and would generally entail:
  - review of projected growth forecasts (demand by unit type);
  - review of existing applications in the development approval process and market supply of lots in registered subdivisions;
  - orderly progression of development to contiguous areas of the City;
  - availability of existing municipal servicing;
  - ability of the City to offer cost effective servicing; and
  - timely extension of new servicing necessary to support progression of development.

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Annual GMS Process

- As the GMIS considers the pace and timing of development within the City and aligns the CSRF capital construction requirements to facilitate that development, it is not anticipated that a significant number of project priority changes is warranted in the intervening months between GMIS updates.
- The <u>need to accelerate CSRF project timing using these agreements is limited</u> and is only needed on an ad hoc basis where an immediate situation arises

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Timing of Capital Spending

- Depending on the particular service, capital spending to serve the development will occur at various times
- The "Hard Services" expenditures (i.e. water, wastewater, storm, roads) are often made well in advance of or during development, while the "Soft Services" are often incurred after building occupancy
- Payment of DC's normally occurs at the time of building permit issuance

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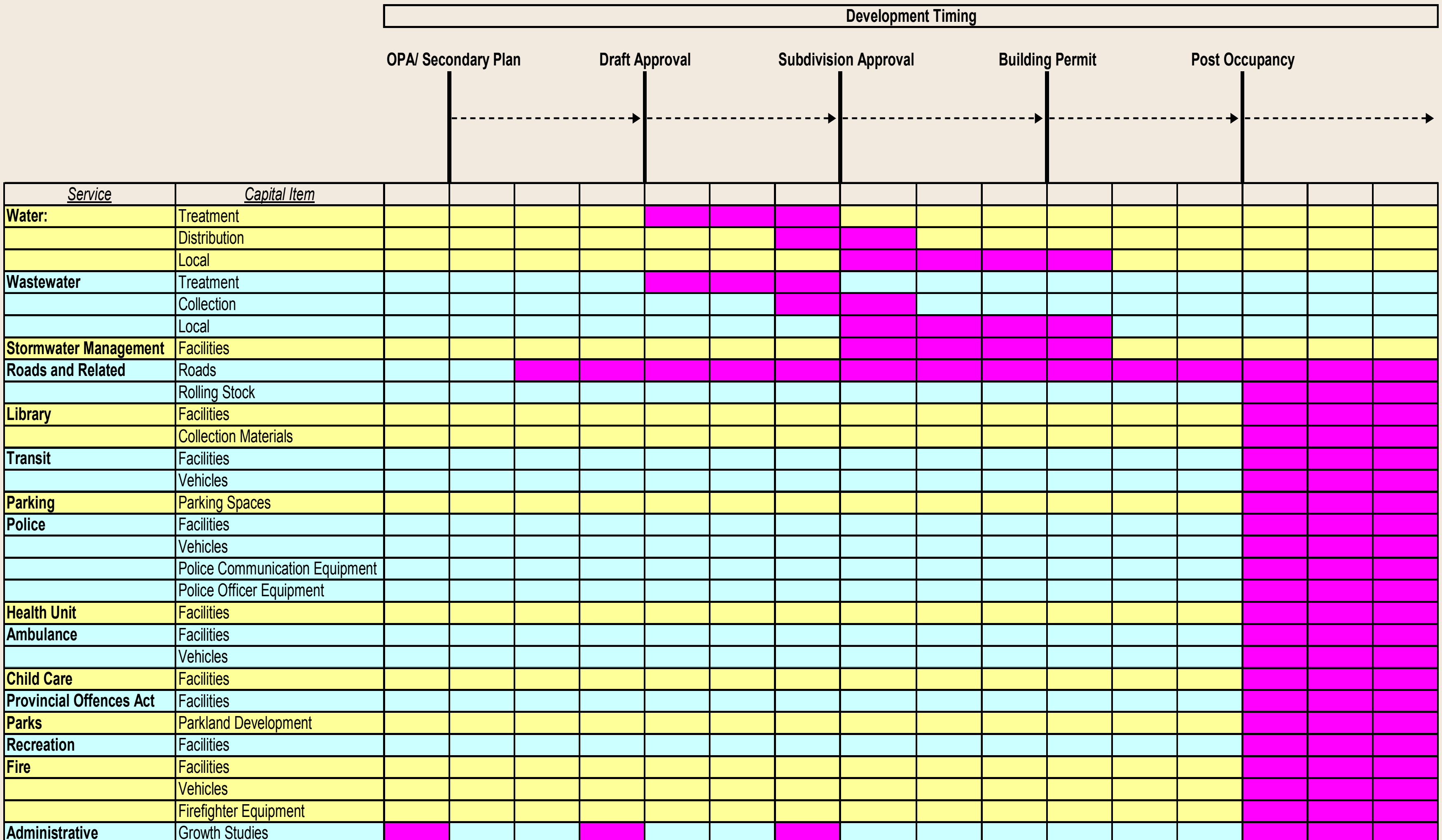
7

Timing of Capital Expenditures



CSRF Cash flow

(based on 2010 GMIS)

Roads, Sanitary Sewers, Water and Major SWM ($ 000's)	Prior Yrs	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Balance	*68,722*	*-16,846*	*-37,255*	*-31,815*	*-49,937*	*-53,082*	*-61,179*	*-76,313*	*-80,522*	*-73,605*	*-62,330*	*68,722*
Levies		*19,284*	*20,914*	*23,379*	*29,540*	*30,417*	*30,417*	*30,417*	*30,417*	*30,417*	*30,417*	*275,619*
Interest		*946*	*511*	*410*	*230*	*95*	*-41*	*-78*	*-30*	*29*	*-6*	*2,066*
DC Revenue Available	68,722	3,384	-15,830	-8,026	-20,167	-22,570	-30,803	-45,974	-50,135	-43,159	-31,919	**346,407**
DC Funded Expenditures	85,568	40,639	15,984	41,911	32,916	38,609	45,510	34,547	23,470	19,171	34,089	**412,415**
DC Shortfall	-16,846	-37,255	-31,815	-49,937	-53,082	-61,179	-76,313	-80,522	-73,605	-62,330	-66,008	**-66,008**
Growth Related Expenditures												
DC Funded	*85,568*	40,639	15,984	41,911	32,916	38,609	45,510	34,547	23,470	19,171	34,089	**412,415**
Non-DC Funded (exemptions)	*13,616*	3,358	1,682	5,572	6,289	6,634	5,888	3,745	3,486	5,298	10,055	**65,623**
Non-Growth Funded	*16,229*	9,071	5,056	5,666	6,292	4,187	6,921	5,883	14,816	1,798	2,298	**78,217**
	115,412	**53,069**	**22,723**	**53,149**	**45,497**	**49,430**	**58,320**	**44,175**	**41,772**	**26,267**	**46,442**	**556,255**

- The current GMIS provides for significant debt funding to accommodate growth related projects

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CSRF Cash Flow Issues

- A provided in the last slide, a significant amount of "growth related" debt is presently planned
- Based on discussions, the development industry would wish to accelerate projects further but would want to be repaid back when the GMIS had indicated the project would be built
- Potential problem arises as City cannot issue debt to make repayment hence must have the DC funds to repay – this requirement to repay is in addition to the growth related debt
- **This Problem then requires that a limit must be placed on the amount of agreements entered into**

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CSRF Cash Flow Issues

- The limit is recommended for the initial period and requires monitoring... potential to increase limit over time based on actual performance is to be considered subsequently
- The recommended limit is 25% of the lowest forecasted DC revenue for any year of over teh planning horizen
  - 25% x $19.4 million = $ 5 million in outstanding agreements at any one time
- The remaining 75% DC revenue is for debt repayment and funding other growth capital works

Types of Development Charge Agreements

- Front-Ending Agreements
- Accelerated Payment Agreements
- Service Emplacement Agreements

Front-Ending Agreements

- A municipality and one or more landowners may enter into a front-ending agreement which provides for the costs of a project which will benefit an area in the municipality to which the DC By-law applies
- Such an agreement can provide for the upfront costs to be borne by one or more parties to the agreement who are, in turn, reimbursed in future, by persons who develop land defined in the agreement
- Recovery by landowner can be by <u>repayment or credits</u> (or a combination of both)

Accelerated Payment Agreements

- Accelerated agreements most often assist municipalities with cash flow to build specific projects – most often applies to water, wastewater and road improvements
- Usually involves the prepayment of all or a portion of the DC – credit provided at the time the DC is payable (i.e. building permit issuance)

Service Emplacement Agreements

- Developer may agree to build a specific project – most often applies to water, wastewater, parks and road improvements
- Usually requires a process for identifying the reasonable cost of the work– <u>credit</u> provided at the time the DC is payable (i.e. building permit issuance) – if the project cost exceeds the credit amount, need to identify how excess amount will be repaid

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Credit vs. Repayment

- Depending upon the type of agreement entered into, the recovery of costs borne by the developer will <u>either be by a credit or repayment</u>
- A credit is a deduction at the time the DC is to be paid – it is restricted to the developer who has undertaken the work to prepaid their DC's
- A repayment is a collection from other landowners which is given to the person who did the work

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Credit /Repayment Impact on Cashflow

- Both credits and repayments can impact a municipality's DC revenue stream – repayments normally impact sooner as the collection is made from others – credits impact later when the development actually proceeds
- Generally, based on the discussions during the MSFA process, repayments are the preferred recovery (i.e. front end agreements) by the development industry

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Policies Relating to Agreements

- City will need to develop clear policies on use of agreements – “what type of agreements” and “for which projects” needs to be considered upfront
- Requests need to be considered in the context whether the projects being constructed are City priority projects as the DC revenues may be diverted to repaying the agreements – i.e. will impact cash flow may increase need for debt
- All developer agreements should be approved by Council – consider having potential impacts statement included for consideration

Policies Relating to Agreements

- Works to be undertaken under a front ending agreement are only those previously included in a DC rate study
- The developer must demonstrate how the proposed departure from the City's Capital Plan is in the interests of the public
- The City risk must be mitigated in all negotiations and agreements related to Municipal Servicing and Financing Agreements (MSFA's). The City will consider whether the works to be front end financed will enable a logical extension of existing and draft approved growth
- Temporary infrastructure to facilitate development is not reimbursable

Consideration By City

- Evaluation discussion provided in Chapter 4; key matters include the following
- Administrative review that precedes a MSFA should address similar considerations as used in the annual GMIS update :
  - Review of projected growth forecasts,
  - Consider existing applications and market supply of lots in registered subdivisions,
  - Consider logical progression of development to contiguous areas of the City - development proposal does not constitute blatant “leap frog” development,
  - availability of existing municipal servicing, and extent of accelerated servicing required;
  - the development advanced has a compelling advantage to the City;
  - EA/EIS are completed;

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Consideration By City (con't)

- For acceleration of services for non-residential development, consider business case analysis for acceleration and process required to facilitate acceleration;
- In addition, Council should consider
  - whether the acceleration will unreasonably hamper or remove the discretion of future Councils to apply evolving standards to development
  - where there is an emergent economic development opportunity involving significant job creation that makes accelerating longer term capital works desirable, or
  - where the acceleration may facilitate the development of a major community facility that is needed by an adjacent community (eg. new school or community centre).

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Review of debt position in DC reserve funds

- Implications of accelerating works on debt, DC revenues and risk must be analyzed, in consultation with City Treasurer, before recommendation to advance works;
  - Analysis will include assessment of overall DC funded debt for the service in question, effects on future DC cash flow projections, effects of acceleration on non-growth share of works, if any
  - MSFA should provide for a system of how credits are provided to reimburse for obligation
  - City will need to establish “benchmarks” for DC funded debt levels

Recommendations

1. That the GMIS be the primary basis for determining City priorities for construction of CSRF projects
2. Consideration be given to the benefit of accelerating CSRF projects on an exception basis - the evaluation process provided in section 4.2 of this report be used and a staff report be prepared for Council consideration
3. The following forms of MSFA agreements be provided to facilitate Recommendation #2:
    1. Front-Ending Agreements
    2. Accelerated Payment Agreements
    3. Service Emplacement Agreements

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Recommendations

4. That the non-growth share of the projects undertaken with the MSFA be cash flowed and repaid no earlier than provided in the GMIS
5. That the total amount of all agreements entered into not exceed $5 million and that the adequacy of this ceiling be reviewed within five years

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