

The Regional Municipality of York

Committee of the Whole
Finance and Administration
June 11, 2020

Report of the Commissioner of Finance

Prepaid Development Charge Credit Agreement with the Block 27 Developer Group in the City of Vaughan

1. Recommendations

1. Council approve:
 - a. An increase of \$77.316 million in 2020 Capital Spending Authority (CSA) for the Northeast Vaughan Wastewater Servicing capital project, increasing the total project CSA to \$102.5 million, to be financed by the Developer.
 - b. The Northeast Vaughan Wastewater Servicing capital project be delivered in two phases.
 - c. An increase of \$26.6 million in 2020 CSA for the Northeast Vaughan Water Servicing capital project, increasing the total project CSA to \$51.6 million, to be financed by the Developer.
 - d. The Northeast Vaughan Water Servicing capital project be delivered in two phases.
2. Staff be authorized to negotiate a prepaid development charge credit agreement with the Block 27 Developer Group to accelerate the construction of Phase 1 of each of the Northeast Vaughan Water and Wastewater Servicing capital projects, and certain transportation pre-construction works within the City of Vaughan, based on the principles identified in this report.
3. The Regional Chair and Clerk be authorized to execute the Prepaid Development Charge Credit Agreement with the Block 27 Developer Group.

2. Summary

The purpose of this report is to seek authority to enter into a prepaid development charge credit agreement with the Block 27 Developers Group based on the principles outlined in this report.

Key Points:

- The Block 27 Developer Group will be responsible for financing the actual cost of phase 1 of the works
- York Region will ensure the works financed by Block 27 will be constructed in advance of its current timing in the Ten Year Capital plan, from 2028 to Q4 2025 for both projects

3. Background

The Development Charge Credit Policy was revised in 2013

The Region undertakes Master Plan studies and other long-term needs forecasts to help inform the delivery timing for its major capital infrastructure projects. There are instances where, in order to build out a development, a developer or group of developers, need certain infrastructure earlier than the Region has planned to provide in a given year. The proposed year the project is scheduled to be constructed may not align with the timing of the landowner's development timing. In these circumstances, Council has approved a policy where developers who paid to advance the timing of Regional infrastructure, are provided development charge credits.

On November 21, 2013, Council approved the changes to the Development Charge Credit Policy. The revised Development Charge Credit Policy contains provisions to protect the Region from potential financial risks associated with advancing infrastructure and providing development charge credits. The key changes to the policy were to shift the financial risk to the developer and to collect development charges to fund Region wide costs, without increasing development charge related debt.

To qualify for an agreement and receive development charge credits, key principles of the policy must be satisfied. These include:

1. The application for prepaid development charge credits will only be considered if the works are included in the Development Charge Bylaw.
2. The advancement of the project does not result in a negative impact to the Region's Annual Repayment Limit.
3. The service-specific development charges generated by the development associated with the capital works are at least twice the value of the works for which the credit/reimbursement is being requested.

Once the project is qualified, the developer would be entitled to recover 100% of the eligible costs. The rate of recovery is 50% of the service-specific development charge payable per unit, until the eligible amount is recovered. The current Development Charge Credit Policy now no longer provides indexing on the balance development charge credits or unit value credits, used only once in Sutton.

The Block 27 Secondary Plan was approved in 2019

The Block 27 Secondary Plan was adopted by the City of Vaughan Council in September of 2018 and approved by York Region Council on April 18, 2019. The subject lands are made up primarily of rural lands in North Maple and include an area of approximately 400 hectares, generally bounded by Kirby Road to the north, Keele Street to the east, Teston Road to the south and Jane Street to the west.

A study identified water and wastewater servicing improvements required to complete full build-out of the secondary plan

A study was prepared to support the Northeast Vaughan Environmental Servicing Plan. The study identified the need to build the Northeast Vaughan Water and Wastewater Servicing in order to achieve full build-out.

The Northeast Vaughan servicing project is required to provide additional water and wastewater capacity to accommodate anticipated growth in the respective area up to 2051, including approximately 155,000 persons of residential and employment within the wastewater service area and 115,000 persons of residential and employment within the water service area. Both water and wastewater capital programs are currently scheduled for completion in 2028 per the 2020 capital plan. The 2009 Master Plan originally had the projects scheduled for completion in 2021, however, as a result of the Region's Fiscal Strategy and the objective to align infrastructure with growth, the completion dates were moved to 2028 in the 2015 capital plan. Completion dates have remained in 2028 since that time.

The 2020 growth capital plan includes an expected completion date for Northeast Vaughan Water and Wastewater Servicing projects in Q4 2028. A technical feasibility review of advancing the construction phases of these projects has concluded a portion of wastewater servicing can be commissioned as early as Q4 2024 and the majority of water servicing can be commissioned in Q4 2025, to meet present development needs.

Partially advanced construction will address present development needs while balancing fiscal pressures

As of December 2019, an alternate scenario has emerged where partially advancing construction can address immediate development needs. For wastewater servicing, this would involve separate contracts for the Keele Street and Jane Street sewers, with the Keele Street portion having its design completed in 2021 and construction complete by the end of 2024. The Jane Street sewer would be completed according to the original timeline in the 2020 capital plan (design completed by 2023, substantial performance in 2028).

For water servicing, two pumping stations, one elevated tank, and 2.5 km of watermain would need to be advanced so that design is completed in 2022 and construction complete in 2025. An additional elevated tank and 1.8 km of watermain would be completed according to the original timeline in the 2020 capital plan (substantial performance in 2028). See Attachments 1 and 2 for contract details. Based on this estimate of timing and cost, it is

possible that pre-sales for any ground units could start in late 2024, assuming all delivery components go according to plan.

4. Analysis

The Northeast Vaughan Water and Wastewater Servicing projects total \$277.2 million and are scheduled to be completed in 2028

Typically, the capital plan is evaluated annually to ensure that projects align with Regional priorities and the forecasted pace of growth while responding to fiscal challenges. As part of the 2020 Capital Budget, the Northeast Vaughan Water and Wastewater servicing projects total \$277.2 million. The Northeast Vaughan Water servicing is budgeted at a cost of \$111.7 million and the Northeast Vaughan Wastewater Servicing is at a cost of \$165.5 million. These projects are currently scheduled to be completed in 2028, however the timing of projects within the capital plan is subject to change until the project is funded and underway.

The Northeast Vaughan Water and Wastewater Servicing project will be delivered by the Region

The Region determines the most appropriate method of delivery for more complex projects, being considered for advancement. In this case, as it is both a large scale project and of Regional interest, Environmental Services will be delivering this project after receipt of all the necessary funding.

Transportation pre-construction work is required to support the Block 27 development

The Region has reviewed the transportation network that would be impacted by the Block 27 development. Based on this review it has been determined that transportation pre-construction work along Jane Street, from Teston Road to King-Vaughan Road, is required to support advancement of Block 27 development. The transportation pre-construction work to be advanced includes an environmental assessment, as well as, detailed design work for Jane Street. Advancing this work supports transportation access to the Regional road network in advance of a full widening of Jane Street, north of Teston Road. The environmental assessment includes the section of Jane Street from Teston Road to King-Vaughan Road, and the detailed design work includes the section of Jane Street from Teston Road to King-Vaughan Road. This pre-construction work will ensure that new intersections along Jane Street required to support the development, will be constructed in their ultimate location. The estimated cost to advance the environmental assessment is \$1.0M and the estimated cost to advance the detailed design work is \$1.4M.

The Block 27 Developer Group has proposed to advance the timing of a portion the Northeast Vaughan Water and Wastewater Servicing and transportation works

The landowners within the Block 27 Secondary Plan area are now seeking block plan approval and then draft plan approval. To secure the delivery timing of the required water

and wastewater servicing projects, the development charge credit process could be used by a developer.

The Block 27 Developer Group represents the majority land ownership of the proposed development in the subject lands. These owners are proposing to provide the funding needed to advance the timing of the required infrastructure through the use of a prepaid development charge credit agreement. By financing the project on behalf of the Region, they would protect against any potential deferrals of these projects by the Region.

The Block 27 Developer Group qualify for a Prepaid Development Charge Credit agreement

The Region may advance infrastructure timing earlier than what was planned through a Prepaid Development Charge Credit Agreement. The Block 27 Developer Group has requested the water and wastewater infrastructure and transportation improvements, required to facilitate build-out of their lands. Staff reviewed their request for Prepaid Development Charge agreement, and can confirm, based on the criteria of the policy, Block 27 Developer Group qualifies for an Prepaid Development Charge Credit agreement. Based on the Council approved policy, the Block 27 Developer Group is eligible to enter into an agreement.

The Block 27 Developer Group has proposed exceptions to the Development Charge Credit Policy to make the agreement viable

Based on the principles of the development charge credit policy, the Block 27 Developer Group would be required to finance \$279.6 million to advance the timing of the water, wastewater and transportation environmental assessment and design works. Of this amount, they would only be eligible to recover approximately \$103.4 million, with \$176.2 million ineligible for recovery, and therefore, would need to be fully funded by the developer group. The criteria for qualifying for the agreement, and the magnitude of the costs, needed to be borne by the developer group, have deterred them from accessing the Development Charge Credit Policy previously. In 2019, the Block 27 Developer Group approached Regional staff to request consideration of exceptions to the Development Charge Credit Policy, to facilitate advancement of the project.

Although the proposed agreement generally aligns with the Council approved policy, exceptions to the policy, allowing phasing of construction, elimination of discounting, and providing increased certainty that credits could be fully realized by 2033, are being sought at this time. Council has previously approved similar exceptions to the policy for site specific developments, such as the North Leslie lands and the Nobleton Environmental Assessment. These agreements facilitated the delivery of the required infrastructure and the buildout of the associated lands.

Staff support an exception to the Development Charge Credit Policy, consistent with the exceptions previously authorized by Council as part of the 19th Avenue Prepaid Development Charge Credit Agreement in April 2018.

Staff propose a phased construction of Water and Wastewater servicing projects for Block 27

In reviewing the delivery methods of the proposed water and wastewater servicing infrastructure, staff determined these projects can be delivered in phases.

For the water portion of the works, the first phase of the project would be approximately \$50 million. For the wastewater servicing, the first phase is estimated to cost approximately \$100 million. (see Attachments 1 and 2) The balance of the works, approximately \$126.2M, will be delivered by the Region, as otherwise scheduled within the Capital Plan. Environmental Services has confirmed that building these phases could facilitate an earlier build-out of the Block 27 lands.

If this approach is used, the criteria of the Prepaid Development Charge Credit agreement would require the Block 27 Developer Group to provide the Region approximately \$154 million prior to construction. The cost of the water and wastewater works is estimated to be \$150 million. The incremental cost of \$4 million represents an estimate of the cost for the Region to phase the projects, which will be reviewed and finalized based on actual costs and would be unrecoverable for the Developer group. Depending on how quickly an agreement could be executed, the timing of the project could be advanced to as early as Q4 2025. However, it is important to note that any delays in the execution of an agreement, or the receipt of funding would impact the Region's ability to deliver the project in the suggested time period.

Cash security option to advance the works could result in a reimbursement

In reviewing delivery methods of the proposed water and wastewater servicing infrastructure, staff propose if the developer provides cash security, a reimbursement date could be established. The reimbursement date, or backstop date, is based on the planned date of completion of the project in the current 10 year capital plan. If this option is agreed upon, and if the benefiting lands associated with this agreement (see Attachment 3) reaches 90% registration by 2028, the Region would commence a reimbursement of the outstanding DC credits. The payment would be made in five annual installments with a planned realization of all outstanding development charge credits by 2033, provided all other conditions in the DC Credit policy are met. In particular, the conditions of the DC Credit Agreement policy require that, to be eligible for a DC credit reimbursement, the Region's development charge collections in the year previous to the credit, must exceed the sum of the Region's debt servicing costs plus the value of the credits. This condition is critical to ensuring the advancement of infrastructure works through a DC Credit Agreement, do not jeopardize the Region's ability to service its debt and its credit rating.

For staff to propose this reimbursement/backstop option to the Block 27 Developer Group, Council approval is required. This approach was also used in the 19th Avenue Development Charge Credit Agreement in 2018.

The table below compares the different options available:

Table 1
Prepaid Development Charge Credit Policy compared to developer options

Development Charge Credit Policy	Works in the 10 Year Capital Plan	Works included in Development Charge Bylaw	Development Charges greater than 2x	PDCCA Criteria met *	Funding Amount (M)	Amount Eligible for Credit (M)	Non-Recoverable (M)	Form of Security	DC Credits at reg. and site plan	Back Stop date
Existing Policy	Yes	Yes	Yes	Yes	\$279.6	\$103.4	\$176.2	Letter of Credit	Yes	No
Phase Policy	Yes	Yes	Yes	Yes	\$156.4	\$152.4	\$4	Letter of Credit	Yes	No
Cash Option	Yes	Yes	Yes	Yes	\$156.4	\$152.4	\$4	Cash	Yes	Yes

*: Prepaid Development Charge Credit Agreement (PDCCA)

Advancing infrastructure is indicative of a responsive government, and could attract growth, which are priority areas in the 2019 to 2023 Strategic Plan

The Region undertakes long range Master Plan studies that inform the ten-year capital plan. The capital plan identifies the timing and cost of growth-related capital infrastructure, and how it is expected to be funded. The development charge credit policy addresses instances where a developer requires Regional infrastructure earlier than the Region had planned.

In 2013, Council endorsed a revised Development Charge Credit Policy, which is designed to ensure the development charges needed to support system-wide costs are protected, and to protect the Region from potential financial risks associated with advancing infrastructure. The issuance of development charge credits is in accordance with the [Region's 2017 Development Charge Bylaw \(No. 2017-35\)](#) and the [Region's Development Charge Credit Policy \(2013\)](#).

Finally, working with stakeholders in the development community to advance infrastructure contributes to a strengthened economy and is indicative of a responsive and efficient public service, which are both strategic priority areas in York Region's 2019 to 2023 Strategic Plan.

5. Financial

Application of the Prepaid Development Charge Credit Policy without any exceptions would require the Block 27 Developer Group to absorb \$176.2M to advance the construction timing

The Prepaid Development Charge Credit criteria require the Block 27 Developer Group to provide \$279.6 million to advance the construction timing of the Northeast Vaughan Water, Wastewater servicing and transportation pre-construction works. Based on the policy, the developer would be eligible to only recover the amount included in the Region's development charge Bylaw. This would result in recovery totaling \$148.6 million, with the remainder unrecoverable. In addition, the policy provides the developer's recoverable portion be discounted to represent the financing cost for advancing the project, estimated to be \$45 million. The total amount to be absorbed by the developer group under the policy would be \$176.2 million. Based on a total project cost \$279.6 million, the developer group would only be eligible to recover \$103.41 million, or 37% of the funds advanced to the Region. Furthermore, the Developer Group would not have any certainty as to the timing of the realization of applicable credits.

If the exceptions to the policy, based on the principles set out below, are approved by Council, the Block 27 Developer Group would advance only the cost of Phase 1 of the project, plus the cost of certain transportation preconstruction works. Phase 2 of the project would proceed as a Regional project, as contemplated in the Region's capital plan, and may be adjusted during the annual budget process. The total amount the Developer Group would be required to advance is currently estimated at \$156.4 million with \$152.4 million or 97% recoverable, subject to the Regional debt service coverage provisions in the Prepaid Development Charge Credit policy.

Proposed Principles to be incorporated into a Potential Prepaid Development Charge Agreement with the Block 27 Developer Group

1. All parties acknowledge the estimated cost of the wastewater servicing is \$102.5 million, \$51.6 million for the water and \$2.4 million for transportation pre-construction works.
2. The Block 27 Developer Group will be responsible for funding 100% of the actual cost of the works.
3. The Block 27 Developer Group will post security of \$156.4 million in the following manner:
 - a. Provide a certified cheque or a form of security, satisfactory to the Commissioner of Finance, in the amount of \$156.4 million prior to execution of the agreement;
 - b. The balance, if any, based on tendered amounts, will be provided prior to award of the tender for the works; and
 - c. The Region will draw on the security in the following manner:
 - 10% upon execution of the agreement
 - 40% prior to tender
 - 50% prior to award of construction contract

4. The Block 27 Developer Group undertakes to provide any additional funding required for this project within 15 days of a written request by the Region, and conversely, will be refunded any project savings once the project has been completed to the satisfaction of the Region.
5. Should the tendered cost exceed the estimated cost specified in Clause 1 by more than 10%, the Region may terminate the agreement and the Region may reassess the delivery method for the North-East Vaughan Water, Wastewater Servicing and transportation improvement projects.
6. The Region will use reasonable best efforts to construct the water and wastewater works on or before Q 4 2025.
7. If the Region determines an alternative solution could assist and/or reduce the project cost, it may alter the proposed delivery method and/or provision of the infrastructure.
8. The Block 27 Developer Group will be entitled to recover the growth component of the water, wastewater and transportation improvement works cost, estimated to be \$152.4 million, by way of a development charge credits and reimbursement by 2033.
9. If 90% of the benefiting lands associated with this agreement have been registered, the Region may, at its sole discretion, advance the timing of the reimbursement of the roads component of the development charges over a five year period commencing in 2028.
10. The Block 27 Developer Group will be responsible for the cost to phase the water and wastewater works, estimated to be \$4 million.
11. All parties acknowledge that the total water, wastewater and road development charge credits will not be indexed.

General Principles

12. The Block 27 Developer Group agrees to pay for the Region's legal costs (external and internal) associated with the preparation of the agreement.
13. A fee equal to 0.5% of the capital cost of the works will be payable by the Block 27 Developer Group for the administration of the agreement.
14. The parties agree that the proposed Prepaid Development Charge Credit Agreement is contingent on it being executed prior to December 31, 2020.

6. Local Impact

The advancement of the water and wastewater servicing and transportation pre-construction works along Jane Street in Northeast Vaughan will facilitate the build-out of plans of subdivisions and the creation of jobs within the Northeast Vaughan Secondary Plan area.

7. Conclusion

To advance the construction of the Northeast Vaughan Water and Wastewater Servicing and transportation pre-construction works, to permit the full build-out of the Northeast Vaughan Secondary Plan area, the Block 27 Developer Group has expressed an interest in entering into a prepaid development charge credit agreement based on the principles outlined in this report.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by: **Laura Mirabella, FCPA, FCA**
Commissioner of Finance and Regional Treasurer

Approved for Submission: **Bruce Macgregor**
Chief Administrative Officer

May 29, 2020
Attachments (3)
eDocs # 10600759