



TOWNSHIP OF NORTH HURON

REPORT

Item No. 2022-06

REPORT TO: Reeve Bailey and Members of Council
PREPARED BY: Darcy Chapman, Director of Finance
DATE: 17/01/2022
SUBJECT: FIN-2022-06 Financing of Hutton Heights Development Land Servicing
ATTACHMENTS: FIR2020 Schedule 81 – Annual Debt Repayment Limit

RECOMMENDATION:

THAT the Council of the Township of North Huron hereby receives the report from the Director of Finance, dated January 17, 2022 regarding Financing of Hutton Heights Development Land Servicing for information purposes,

AND FURTHER, THAT Council direct staff to initiate the application process with Infrastructure Ontario to secure both short term construction financing and long-term debt for a maximum 25-year term to be funded from the collection of development charges and local improvement charges upon the completion of the project,

AND FURTHER, THAT Council direct staff to develop necessary local improvement by-laws outlining the total cost per property, listing all affected properties and including flexible payment options for consideration at a future public meeting,

AND FURTHER, THAT Council direct staff to engage BM Ross and Associates Limited, upon the successful award of the construction tender, to complete an addendum to the Development Charges Background Study to include updated tender prices and finalized growth projections for the provision of road, stormwater, water and wastewater services encompassing the proposed development and existing residential lands within the Hutton Heights Service Area.

EXECUTIVE SUMMARY

The Township currently owns approximately 28 acres of development land that requires servicing to receive full value for the property. Servicing the lands will also affect four other development parcels and several existing residential dwellings. The current estimated cost to complete the works is \$6.3M which is included within the current 2022 draft budget. The project will be funded using Development Charges, Local Improvement Charges and taxation. Long term debt will be incurred to finance the majority of the project which may impact the ability to finance other projects in the future.

DISCUSSION

Development Potential

The Township owns a 28 acre +/- parcel of land in the Hutton Heights service area which includes approximately 18 acres available for development. Council has directed staff to prepare a tender to extend external servicing from Wingham to the project area. Council is aware of significant interest in the Township owned property from the development community. Moreover, owners controlling the private development lands have also shown interest in developing their parcels at the same time.

Given there is strong demand for the property once serviced, it is anticipated that the Township will sell the municipally-owned portion to a developer during or after installation of the inground works.

Service Area Impacts

BM Ross has been assigned the engineering and design work and expects the project to be tender ready in February 2022. BM Ross was also involved in developing the Township's Development Charges Background Study (DCBS) which includes an estimate of 182 total growth units and 30 existing equivalent units being serviced with the total projected cost of \$3,335,520 broken down as follows;

Sewer works	\$1,383,120
Water works	\$ 907,200
Roads	\$ 481,200
Stormwater	\$ 564,000

The DCBS anticipates that \$2,683,080 would be funded from future development charges (DC's); \$325,632 would be funded from local improvement charges to existing developed lands that would be serviced by water and sewer (14.2% of specific costs); and \$326,808 funded from taxation for road and stormwater works that are considered the benefit of existing users (31.3% of specific costs). Overall, the DCBS expects DC's to fund approximately 80% of the project, with an additional 10% each from existing landowners and taxation sources.

Based on revised 90% design cost estimates, the project is anticipated to cost \$6,322,100 as follows;

Sewage Pumping Station	\$1,068,600
Watermain from Wingham	\$ 690,000
Lloyd Street from C.R. to Site	\$1,379,000
Crawford Street North	\$ 897,000
Crawford Street South	\$1,223,500
Engineering Design	\$ 170,000
Engineering Construction (7%)	\$ 368,000
Contingency (10%)	\$ 526,000

The costs noted above for each road section includes road, stormwater, sewer and watermain costs. At this time, BM Ross is developing the costing breakdown between new development/existing residential for water and sewer costs, and new development/taxation for road and stormwater costs. Moreover, total development potential is also being reviewed in conjunction with Huron County planning staff to determine appropriate unit yields per hectare recognizing development guidelines for intensification within greenfield development.

If the current DCBS allocation estimates (%) hold true, the project would require approximately \$5,057,700 from DC's, \$630,000 from existing landowners and \$634,400 from taxation sources. There is a greater possibility however that as the engineer breaks down the costing further and obtains growth projections from Huron County, the distribution of costs will increase to DC's and/or taxation and the existing property owner share will decrease.

FINANCIAL IMPACT

Overall Project Financing

North Huron has access to very favorable rates for large infrastructure projects through the Infrastructure Ontario (IO) loan program. IO provides both short term financing on construction projects with the current rate as of January 11, 2022 set at 0.69% for construction financing, 2.51% on a 10-year term and 3.07% on a 25-year term.

Development Charges (DC) Service Area

Given the expected cost escalation and as BM Ross completes an assessment of development potential on the service area, the current DCBS calculations will not reflect actual recoverable costs. The DC Act allows municipalities to undergo an update at any time up to the five-year required review in the event recalculations are necessary for instances exactly like this. As such, staff would recommend opening up the DCBS after final tender prices are known from a contract award in the Spring of 2022. By this time, a more definitive growth projection could be obtained for all of the subject lands being serviced. Although the project would still require long term financing prior to any development occurring, the development community (including the Township's development lands) would be charged the applicable DC at time of buildout providing the needed cashflow to service the debt as the area develops over time. The updated DCBS and subsequent calculations will also include cashflow analysis and build in debt financing as part of the overall cost.

Should the DC's cover \$5,057,700 as calculated previously, the total annual debt payment would be \$290,000 over 25 years @ 3.07%. The expectation is that it will take 25 years to fully build out the area and therefore the debt would need to be carried for that period of time to allow for annual DC collections to fund the payments. In essence, if the area were to yield 250 total units, then 10 per year would need to be constructed to finance the ongoing annual debt burden.

Local Improvement Charge on Existing Units

Existing residential units would require a local improvement by-law to be passed in order to allocate the \$630,000 in costs to those properties affected. This charge would be calculated in the same manner as the development charges and therefore each residential unit should be prepared to pay \$7,682.24 for sewers and \$5,746.87 for water as this is the current calculated DC for the service area. Given the charge is \$13,429 staff would recommend passing a local improvement by-law with flexibility allowing existing property owners the ability to pay the charge upfront or through their annual tax bill over a 10-year period thereby providing greater affordability. Annual repayment would be \$1,520 @ 2.51% interest.

Tax Funded Road & Stormwater Costs

It is expected that all costs attributed to existing benefit or "non-growth" would be offset from the proceeds of the sale of municipally-owned lands.

FUTURE CONSIDERATIONS

As per the attached Annual Debt Repayment Limit calculation that was completed with the Financial Information Return to the Ministry of Municipal Affairs and Housing for the year ending 2020, the Township currently has a total available capacity of more than \$2.32M. This is not the total debt that

can be taken on but the annual repayment of that debt. Based on various interest rates and terms, North Huron could borrow up to the following;

\$30M @ 2% over 15 years

\$45M @ 2% over 25 years

\$27M @ 4% over 15 years

\$38M @ 4% over 25 years

\$23M @ 6% over 15 years

\$31M @ 6% over 25 years

Given that current interest rates are extremely favourable through Infrastructure Ontario (+/- 3% @ 25 years) now is a great time to borrow for long term infrastructure financing. If all DC and Local Improvement charges are financed, approximately \$5.7M would be needed. This would allocate about 13% of total available capacity if funded at 3.07% over 25 years allowing development to occur naturally to build out over that same period. The annual repayment of this debt would be approximately \$290,000. It is more than reasonable to finance in-ground infrastructure over a 25-year period since it has a life expectancy of 60-100 years.

RELATIONSHIP TO STRATEGIC PLAN

Economy

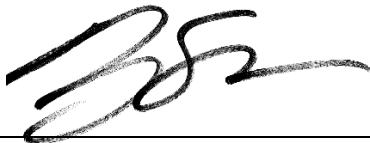
1.2 Complete and maintain an inventory of properties in the municipality (and promote them as appropriate) with a focus on municipally owned lands that could be developed.

Infrastructure

4.5 Determine next steps related to surplus municipal infrastructure/assets

Services

5.5 Support local housing initiatives



Darcy Chapman, Director of Finance



Dwayne Evans, CAO