



# The Corporation of the Town of Milton

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Report To: Council

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From: Glen Cowan, Chief Financial Officer / Treasurer

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Date: December 14, 2020

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Report No: CORS-064-20

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Subject: Road Cash Flow Assistance Update

**Recommendation:** THAT, subject to the execution of amending agreements, staff be directed to reduce the value of the letters of credit that the Town is currently holding in relation to road cash flow assistance by 50%.

THAT, subject to the execution of amending agreements, staff be directed to discontinue the collection of road cash flow assistance in future development that occurs within the Bristol and Sherwood secondary planning areas.

THAT, subject to the execution of amending agreements, staff be directed to discontinue the collection of parks cash flow assistance in future development that occurs within phase 2C of the Sherwood secondary plan area.

THAT the Mayor and Town Clerk be authorized to execute amending agreements in relation to the road cash flow assistance with the landowners groups for Phases 1B, 2A, 2B and 2C as well as in relation to the parks cash flow assistance with the landowner group for Phase 2C, as outlined in this report, in a format that is to the satisfaction of the Chief Financial Officer / Treasurer and the Town's legal Counsel.

## EXECUTIVE SUMMARY

- The financial agreements with landowners in the Bristol (Phase 1B) and Sherwood secondary planning areas included a requirement for road cash flow assistance to be collected for each residential unit developed.



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## EXECUTIVE SUMMARY

- The Town currently holds letters of credit (LCs) amounting to \$67 million for road cash flow assistance, with the ability to draw down on those LCs to support specific road work should the available road development charges be insufficient.
- The cash flow forecast from the 2021 Budget projects utilization of \$29 million of these LCs between 2021 and 2023, with repayment projected by 2027.
- The Town is currently updating its development charge by-law, and staff intend on further assessing the need and timing of the LCs once the outcome of the by-law update is known and an updated cash flow forecast has been prepared.
- The financial agreement with the landowners in the Sherwood (Phase 2C) secondary planning area included a requirement for parks cash flow assistance to be collected for each residential unit developed.
- The cash flow forecast from the 2021 Budget projects sufficient funds are available for both parks and recreation development charges to support the Town's growth infrastructure needs that have currently been identified.

## REPORT

### Background

The Town of Milton has managed the financial implications associated with the pace at which the Town has grown through a combination of measures designed to protect the financial health of the organization. With each secondary plan area, the Town has undertaken fiscal impact analyses and entered into financial agreements with the associated landowners. These agreements have included requirements that have helped the Town provide for the capital costs associated with the delivery of municipal services, while protecting the existing taxpayers from excess risk or burden. Examples of provisions within the various agreements include, but are not limited to:

- Early payment of certain development charges
- Payment of a capital provision that provides for growth related costs that were no longer eligible within the development charges by-law
- Dedication of parkland or financial contributions in lieu of
- Road and park cash flow assistance

### Road Cash Flow Assistance

Specifically in relation to the roads capital program, a significant net shortfall was forecasted in order for the Bristol and Sherwood secondary plan areas to proceed as envisioned. This estimate was based on a capital program forecast to 2021, with specific roadworks identified as an appendix to the financial agreements.

In order to protect the Town during the construction period for the related roadworks, it was agreed that cash flow assistance would be provided by the landowners to the Town.



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The original amount was identified as \$2,500 per unit, with annual inflation to be applied at the Town's discretion. As of 2020 the amount per unit equals \$3,933, with no further indexing occurring as of 2018.

This amount was to be provided for as an irrevocable, indexed Letter of Credit (LC) drawn on a Canadian chartered bank and providing for automatic renewals and partial draws. The Town was to retain all the LCs with the purpose of drawing upon them to fund the identified roadworks at such time as a cumulative shortfall was realized as determined by the Town's Treasurer. At the time of each drawdown, notice to the landowners is required as well as an indication that the Town has incurred cost in relation to the identified projects that exceeds the development charge funding available. LCs are to be drawn in the order in which they were posted with the Town.

Following drawdown of the LCs, the Town is to reimburse each landowner the full extent of the draw, without interest, as funds become available through the road component of development charges collected. Payment from the Town would occur in the same order by which the LCs were drawn down.

The requirement for road cash flow assistance was incorporated into the agreements with landowners in Bristol (phase 1B) and Sherwood (phases 2A, 2B and 2C). As of November 2020, the Town is holding LCs for this assistance as follows:

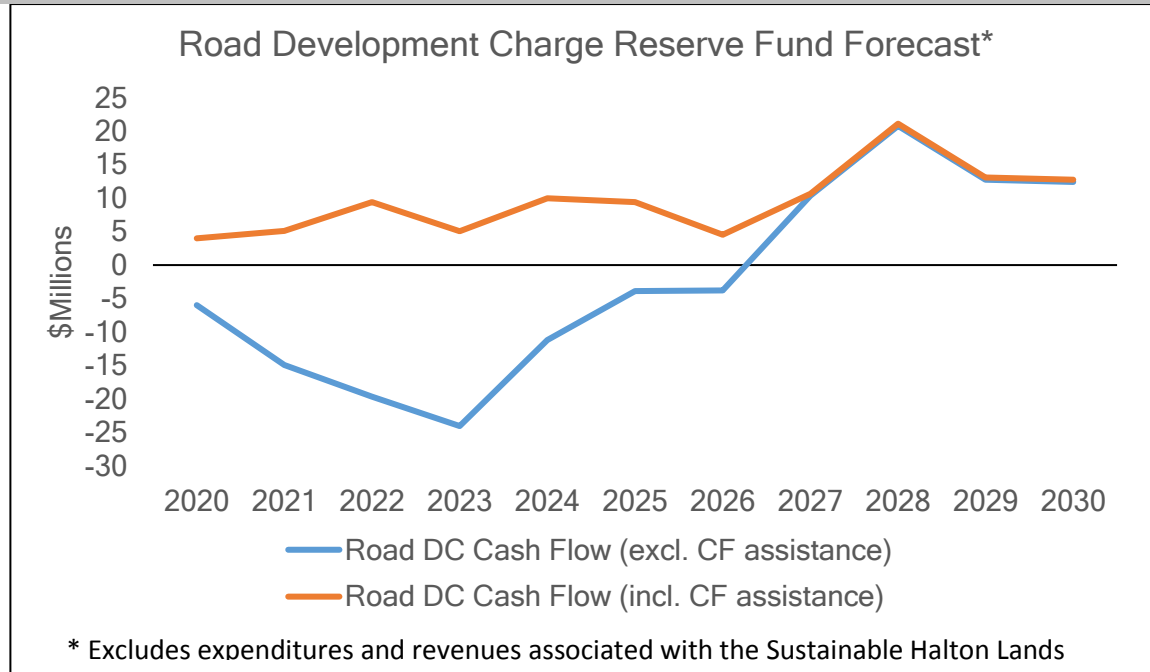
Secondary Plan Area	Value of LC Held as of November 2020
Bristol (Phase 1B)	\$28,112,362
Sherwood (Phase 2A)	\$21,871,141
Sherwood (Phase 2B)	\$17,348,780
Sherwood (Phase 2C)	\$-
<b>Total</b>	<b>\$67,332,283</b>

To date, no draws have occurred from the LCs collected for road cash flow assistance. Each year as part of the Town's annual budget process an evaluation occurs of the forecasted road development charges cash flow. The most recent review has occurred as part of the development of the 2021 budget, and is shown in the following graph.



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The 2021 cash flow presented (including the utilization of cash flow assistance) incorporates a projected draw of \$29 million in the years 2021 to 2023, with repayment occurring in the years 2024 to 2027. These timings are dependent on the pace at which the related road projects proceed (as funds are transferred from reserve at the time the actual costs are incurred) and the pace at which development charge revenues are received.

### Park Cash Flow Assistance

Similar to the road cash flow assistance, a significant shortfall in the parks and recreation capital program was projected to support the development of Phase 2C (Milton Heights) of the Sherwood secondary plan area. In order to protect the Town during the construction period for related park infrastructure, it was agreed that cash flow assistance for parks would be provided by the landowners to the Town. The original amount was identified as \$570 per unit; with annual inflation to be applied at the Town’s discretion. As of 2020, the amount per unit equals \$918. The terms and conditions of these letters of credit with respect to acceptable form, drawdowns, and repayments, are similar to the roads cash flow requirements.

As no development within the Phase 2C lands has occurred, the Town has not yet collected any LCs for park cash flow assistance. Through the 2021 Budget, cash flow projections within the parks and recreation development charge reserve funds are



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sufficient to address all related infrastructure needs to support the buildout of the HUSP lands.

## Discussion

### Roads Cash Flow Assistance

A review of the Town's active and forecasted capital program for roads indicates that the following roads development charge funding is expected to be required in relation to projects identified as part of the financial agreements for which the road cash flow assistance was collected:

Road Segment	Development Charge Funding		
	Existing Approved but yet to be spent	Forecasted in 2021 Budget and Forecast	Total
Bronte Street (Main St to Steeles Ave)	\$ 7,401,983	\$ 10,104,779	\$ 17,506,762
Main Street Grade Separation	352,260		352,260
Bronte Street (Britannia to Louis St Laurent)	41,011	178,970	219,971
Main Street (Scott Blvd (incl CNR Crossing) to Bronte Street)	6,611,794		6,611,794
Main Street (Bronte to James)		2,091,392	2,091,392
Thompson Road (Britannia to Louis St Laurent)	8,266,239	357,136	8,623,375
Louis St Laurent (Tremaine to James Snow Parkway)	5,241,765	361,177	5,602,942
Fifth Line (Hwy 401 to Derry Road)	17,848,175	20,505,238	38,353,413
Appleby Line	45,018	375,463	420,481
<b>TOTAL</b>	<b>\$ 45,808,245</b>	<b>\$ 33,974,155</b>	<b>\$ 79,782,400</b>

Note: The above table does not reflect the total cost of the projects but rather the necessary roads development charge funding to complete construction.

Although the remaining development charge funding required amounts to \$80 million, as shown above, it is currently expected that only \$29 million of cash flow assistance from the letters of credit will be required. As such, it is recommended that the existing value of the LCs held by the Town be reduced by 50%, which would leave approximately \$33.7 million in LCs with the Town as a financial resource to support the construction of the remaining road segments. This amount is higher than the current projected draw of \$29 million, but provides some contingency should costs increase through the land acquisition or tender phases. It is further recommended that staff discontinue the collection of further LCs for the purpose of road cash flow assistance in the Bristol and Sherwood areas, as the existing holdings are expected to be sufficient.



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## Discussion

### Review of the Remaining Letters of Credit

With respect to the remaining LC that the Town intends to hold of \$33.7 million, staff intend to undertake a further analysis of cash flow and alternatives following finalization of the development charge by-law update and likely in conjunction with the capital financing forecast developed as part of the 2022 Budget process. Should opportunities arise from that review that may potentially allow a further reduction of the LCs held, a subsequent report will be presented to Council for consideration.

### Alternatives Considered

Aside from the recommended 50% reduction at this time, other options were contemplated.

The Town could elect to hold the entirety of the LCs until such time as all of the roadworks described in the existing financial agreements are complete, thereby ensuring that sufficient funds exist and that the road development charge reserve funds will not incur deficit balances. Although this may be the most conservative approach from the Town's perspective, by maintaining the LCs there is a cost to the landowners that the Town has partnered with, as well capital that the landowners could otherwise invest or utilize.

Consideration was also given to further reducing the LCs, and potentially utilizing debentures as an alternate funding source. Given the current low interest rate environment, and the fact that interest on this debt would be recovered from future development charges, this option does offer some appeal. In order to manage the financial risk to the Town, it is recommended that this alternative be further reviewed following the on-going development charge by-law update and once an updated long-term cash flow projection can be prepared (likely through the 2022 Budget process). This approach will ensure that the Town has more clarity on what the future development charge revenues will be (with a revised DC rate in place through the by-law), as well the extent of any potential debt capacity that may be needed to support the additional secondary plan areas that will be added to the ten-year forecast. As shown in the 2021 Budget, the Town currently expects the debt principal to own source revenue ratio to approach 60% in 2026 due to other growth related debt needs (and excluding new expenditures related to the Sustainable Halton lands). This threshold is notable, as it is considered by debt rating agencies as an indicator of financial health and is above where both the Town and municipal average currently stand (approximately 40%). For context, \$29 million in principal translates to approximately 26% of existing own source revenue.





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Attachments
None

CAO Approval  
Andrew M. Siltala  
Chief Administrative Officer