HALDIMAND COUNTY

Report EDT-03-2024 North Caledonia Employment Lands Feasibility and Servicing Study – Phase 2 Update

For Consideration by Council in Committee on October 29, 2024

OBJECTIVE:

To receive Council endorsement of the results of the North Caledonia Employment Lands Feasibility and Servicing Study - Phase 2 and to request approval of the recommended option to move forward into Phase 3.

RECOMMENDATIONS:

1. THAT Report EDT-03-2024 North Caledonia Employment Lands Feasibility and Servicing Study – Phase 2 update, be received;
2. AND THAT the North Caledonia Employment Lands Feasibility and Servicing Study – Phase 2 be approved and used to solicit public and stakeholder feedback that will be used to inform Phase 3 of the Project;
3. AND THAT the inclusion of the eligible growth related capital costs identified in the North Caledonia Employment Lands Feasibility and Servicing Study in the upcoming Development Charges study review be approved.

Prepared by: Lidy Romanuk, Manager, Economic Development and Tourism, B.A., Ec.D.

Respectfully submitted: Mike Evers, MCIP, RPP, BES, General Manager of Community & Development Services

Approved: Cathy Case, Chief Administrative Officer

EXECUTIVE SUMMARY:

During the 2018-2022 term of Council and again for the 2022-2026 term, Haldimand Council identified the development of employment lands in Caledonia and the subsequent North Caledonia Employment Lands Feasibility and Servicing Study (NCELFS) as a Council priority.

The purpose of the NCELFS is to complete the necessary investigations and due diligence to determine the road map for future development of employment lands in Caledonia. Previous studies, including the Haldimand County Revised Growth Analysis to 2051 (2020), the Official Plan Update: Phase One (2021), and recently the Population, Household and Employment Forecast Update (2024) identified the importance for designated and serviced employment land to remain competitive in growing and changing markets to accommodate the estimated 13,000 new jobs that will be required by 2051.

Phase 1 of the project was completed in September 2023 and examined the target sectors, land use capabilities and functional servicing schemes. That information has been used to complete Phase 2 of the project which is the Financial Analysis and Business Plan (Attachment 1 – Appendix B). Watson & Associates Economists Ltd. (Watson) are the lead consultants of this phase of the study and have analyzed both operating and capital impacts of four potential business case scenarios including:

1. The study area is privately developed and traditionally designed and operated;

2. The County invests in conceptual planning, then sells the plans to a developer:
3. The County acts as the land developer in partnership with the private sector; and,
4. The County acquires, develops, services and sells the land parcels.

Through the detailed analysis it was identified that none of the four (4) scenarios provide a net positive annual impact over the 30-year time horizon, both with and without the consideration of development charge (DC) cashflows, generally due to the significant capital costs required to service the development, along with the annual lifecycle replacement costs for the infrastructure. As the County is required to debt finance these works this imposes a negative burden on the County's finances over the long term and would represent a burden to the taxpayers.

Given these results, staff requested that Watson further explore variations of Scenario 1—the scenario that was the most favourable of the 4 assessed—which might provide a positive cashflow by the end of the forecast period and improve the financial feasibility of developing the area for employment purposes. A subsequent memorandum (Attachment 1 - Memo) provides a summary of the additional scenarios that were analyzed, based on utilizing the initial assumptions from Scenario 1 (privately developed and traditionally designed and operated). These alternative developer-driven scenarios include mitigation options that provide a number of paths forward, including the following:

1a) Partial municipal servicing (water only with private wastewater solution)

1b) One large development within each of the two phases (east and west sides of the future Highway 6 corridor extension). There would only be two lots under this scenario and there are no local/internal works (water, wastewater, stormwater and roads) assumed by the County as part of this scenario. This scenario does provide for full municipal water and wastewater to the development area (i.e., property line). The internal works would be privately owned and operated.

1c) Industrial condominium model – Under the industrial condominium model, lifecycle and operating costs related to internal works for water, wastewater, roads and stormwater would be removed from the analysis given that this infrastructure would be owned and maintained by the landowner.

The scenarios above, subject to the endorsement of Council, would form the key inputs for the public and stakeholder consultation that will inform Phase 3 of the project. Phase 3 involves developing a Property Administration, Management Marketing and Implementation Plan and will focus on the following:

Property Administration and Management Marketing

- Identify opportunities to raise the profile of the subject employment area both domestically and internationally building on the target sector analysis; and,
- Provide an outline and general direction for a marketing strategy as it relates to targeting, promoting and attracting development to the future employment area.

Implementation Plan

- Identify an overall plan to implement the findings of the study; and,
- Provide guidance on required additional studies to develop the employment lands – proposing timelines, target sector requirements, sales process and required regulatory updates (i.e., development of an Official Plan framework and recommendations for zoning bylaw amendments)

Finally, staff requested that Watson explore best practices of other municipalities and locations that are being utilized to successfully develop employment lands. The North Caledonia Employment Lands

Feasibility and Servicing Study – Best Practices Review Summary (Attachment 2) has been included as additional information for Council's consideration.

BACKGROUND:

The Consultant Team of Watson & Associates Economists Ltd. (Watson), WSP Canada Group Limited (WSP) and GM BluePlan Engineering (GM BluePlan) were retained in the summer of 2022 to prepare the North Caledonia Employment Lands Feasibility and Servicing Study (the Study) which ensures that Haldimand County is well-positioned to accommodate a diverse range of employment growth over the coming decades.

Studies, including the County's 30-year Growth Strategy and Official Plan Update (Phase 1), have identified a need for designated and serviced employment land to remain competitive in growing and changing markets to accommodate forecasted employment growth within Haldimand County. Through the Official Plan Phase 1 process, Council and subsequently the Province have approved approximately 184 hectares of lands in North Caledonia as the location for future employment land uses. Additionally, Council identified the development of the employment lands as a Council priority during the 2018-2022 term and again for the 2022-2026 term.

The lands identified for the NCELFS are located in north Caledonia (Attachment 3), bounded by Greens Road to the south, Mines Road to the west, and Highway 6 to the east. The subject lands are strategically located in proximity to major transportation corridors including Highway 6, Highway 403, and the John C. Munro Hamilton International Airport. This strategic location gives access to regional markets of Hamilton, Brantford, Toronto and Niagara and international markets via the John C. Munro Airport and the land border with the United States via Niagara.

The overall goal of this project is to develop a long-term strategy to overcome land supply and servicing issues, and undertake robust due diligence to develop a business park and accompanying business plan to market and sell these lands. The key objectives of the North Caledonia Employment Lands Feasibility and Servicing Study (the Study) are to continue to promote economic development within Haldimand County by ensuring there is an adequate supply of serviced and developable employment lands to attract target employment sectors and businesses. The study is being prepared in three (3) phases:

1. Phase 1: location analysis, market research and analysis, and functional servicing design;
2. Phase 2: financial analysis and business plan; and,
3. Phase 3: property administration and management.

Phase 1 was presented to Council and received approval in September 2023. Phase 1 included a location analysis, market research and analysis and functional servicing review. Additionally, a high-level costing analysis was completed to inform Phase 2 and Phase 3 of the strategy. The subject report focuses on Phase 2, which will be used to inform the third phase of the project should it be endorsed by Council.

ANALYSIS:

This report provides a summary of the Phase 2 North Caledonia Employment Lands Feasibility and Servicing Study draft report (Appendix B - Attachment 1), a memorandum re: Additional Scenario Analysis (Attachment 1), the Best Practices Review Summary (Attachment 2), map of the subject lands (Attachment 3) and the Council Presentation by Watson and Associates Economists Ltd. (Attachment 4).

Following Council's approval of the Phase 1 report for the North Caledonia Employment Lands Feasibility and Servicing Study in September 2023 Watson initiated the work for Phase 2 of this project. The focus of Phase 2 was to develop a detailed financial analysis and business plan to quantify the financial impact on the County for the proposed development based on the findings of Phase 1. The infrastructure and costing identified in Phase 1, in addition to the potential type of development in the Study Area, were utilized to determine the financial impacts of proceeding forward with the four scenarios:

1. The study area is privately developed and traditionally designed and operated;
2. The County invests in conceptual planning, then sells the plans to a developer;
3. The County acts as the land developer in partnership with the private sector; and,
4. The County acquires, develops, services and sells the land parcels.

While a high-level summary of the Phase 2 findings can be found below and via the attached draft report, it is important to highlight that the results of the Phase 2 report did not provide a positive financial direction to move forward on the development of the proposed employment lands in a traditional, fully serviced subdivision model. In fact, moving forward as originally intended with full services for these employment lands would utilize the majority of the County's debt capacity and put the County at a significant financial risk due to the significant capital costs and the annual lifecycle costs to operate and maintain the internal infrastructure required. Recognizing the importance of the development of employment lands for Haldimand County as identified in previous studies including the Growth Study and the numerous benefits of doing so—including generating employment opportunities for local residents, supporting increased non-residential property taxes and lower overall operating costs relative to residential development types—Watson and staff held several meetings to determine a go forward solution and potential mitigation measures. In response, an updated memorandum re: Additional Scenario Analysis (Attachment 1) was produced by Watson that investigated potential mitigation options that would allow for a way forward for the development of these lands. The alternative scenarios (described later in this report) would still put the County in a negative cashflow for a period of time but the overall impact of the development is lessened with positive cashflows being realized in more favourable and supportive timeframes.

The following provides an overview of the Initial Phase 2 Financial Analysis and Business Plan Report.

Summary of Phase 2 Financial Analysis and Business Plan (Appendix B, Attachment 1)

As part of the Phase 2 Financial Analysis and Business Plan, Watson completed both an operating analysis and capital analysis which are summarized below. Of note, these analyses served as foundational pieces for all 4 development scenarios identified above.

Operating Analysis

Operating Expenditures Implications - As a simple model of the County's financial position, Watson utilized the County's 2021 Financial Information Return that summarizes the County's revenue or operating fund transactions for 2021. The expenditures were then divided between the residential and non-residential development based on varying proportions for each service. When applied to the anticipated employment and infrastructure required, the incremental annual expenditures anticipated at build out of the study area is $1.40 million (2024 dollars).

Operating Revenue Implications - The non-tax revenues for the County are also allocated between the residential population and employees to provide a per capita/per employee revenue. When applied to the anticipated employment, the incremental annual revenues anticipated at build out of the study areas is $1.16 million (2024 dollars).

Taxation Revenue - A forecast of the taxation revenue to be generated at buildout was undertaken using the 2023 tax rates. It was recognized that the study area currently pays property taxes to the County estimated at $96,000. Based on a review of similar industrial parks, it is assumed that 17% of the assessment generated in the study area would be assessed at a commercial tax rate. Therefore, the annual property tax revenue at build out is estimated at $3,700,000.

Capital Expenditures and Funding Sources

Watson then examined the full cost of the infrastructure and identified what works would be funded from development charges and non-development charges sources as described below.

Summary of Infrastructure Costs - Infrastructure needs have been identified for roads, water, wastewater and stormwater services. There are significant costs to service the entire northern end of Caledonia—$207,660,500 which includes the new wastewater treatment plant—however, only a portion of these costs are attributed to the employment lands. These costs are funded primarily through a combination of development charges (DCs) and local service obligations (developer pay).

Summary of Capital Funding - Certain works related to upgrading or expanding existing infrastructure would also require funding from non-DC sources (i.e., water/wastewater rates or reserves), given that a component of this work may not be directly related to growth. These costs (identified as benefit to existing) would need to be funded by the County through non-DC sources and would be a direct impact to existing taxpayers/ratepayers.

The table below summarizes the total infrastructure costs for the north end of Caledonia (dark blue) with the employment land costs identified in green columns.

Service	Total Capital Cost (2024 $)	Total D.C. Related Cost	Total D.C. Share for Study Area	Local Service Costs
External Water Infrastructure Projects	$10,981,500	$10,981,500	$6,932,569	$0
Internal Water Infrastructure Projects	20,763,000	-	-	20,763,000
External Wastewater Infrastructure Projects	91,792,000	91,792,000	31,490,113	-
Internal Wastewater Infrastructure Projects	21,455,000	-	-	21,455,000
Internal Stormwater Infrastructure Projects	32,220,000	-	-	32,220,000
External Roads Infrastructure Projects	16,114,000	-	-	16,114,000
Internal Roads Infrastructure Projects	14,335,000	-	-	14,335,000
Sub-Total External Infrastructure Project Costs	**$118,887,500**	**$102,773,500**	**$38,422,682**	**$16,114,000**
Sub-Total Internal Infrastructure Project Costs	**$88,773,000**	**$0**	**$0**	**$88,773,000**
Total Infrastructure Project Costs	**$207,660,500**	**$102,773,500**	**$38,422,682**	**$104,887,000**

Finally, as part of the financial analysis the consultant completed a review of the lifecycle replacement costs including as follows:

Lifecycle Replacement Costs - As per County policy, when new infrastructure is constructed/installed, the County begins to allocate funds, on an annual basis, to replace the infrastructure at the end of its useful life. These annual contributions may be referred to as lifecycle costs. Given the level of investment in infrastructure required to service this study area, the County will need to ensure that lifecycle costs for new assets are addressed and incorporated into the budget process.

This analysis identifies a need to increase transfers in the capital replacement reserves for new assets once they are constructed and assumed by the County. Lifecycle needs for growth-related assets have been calculated based on average useful lives of similar existing assets. Transfers to reserves are then anticipated to be a tax levy/rate requirement in the years after the new assets are in service.

There are two types of lifecycle costs that have been considered as part of this analysis:

- Direct Lifecycle Costs – this relates to capital infrastructure both DC related and local service related, that is in place to directly service this development. Given that these costs are a direct result of the development of the study area, the full annual lifecycle replacement cost for this infrastructure has been factored into the analysis; and,
- Indirect Lifecycle Costs – this relates to works that have been identified in the County's DC study. This also includes broader works that have been identified in this analysis required for this

development, however, this infrastructure also benefits areas outside of the Study Area, and are not included in the County's current DC study. The indirect lifecycle costs included in this analysis are based on the proportionate share of growth within the study area, relative to the growth identified in the County's DC Background Study.

These costs have been factored into the analysis in considering the financial feasibility of developing the study area and are shown in the table below:

Lifecycle Cost	Annualized Cost (2024$)
Direct Lifecycle Costs	$1.6 million
Indirect Lifecycle Costs	$0.4 million
Total	**$2.0 million**

Business Case Analysis

Following the completion of the above analysis, Watson then undertook a review of four potential development scenarios of the Study Area as follows:

1. The Study Area is privately developed and traditionally designed and operated;
2. The County invests in conceptual planning, then sells the plans to a developer;
3. The County acts as the land developer in partnership with the private sector; and,
4. The County develops, acquires, services and sells the land parcels.

Utilizing the operating and capital analysis identified earlier, these four scenarios were analyzed on an annual basis. A cashflow analysis was undertaken to estimate the cumulative and net annual impacts (detailed assumptions for this business were developed by the consultant and reviewed by staff prior to finalizing the various scenarios). The scenarios assume buildout of the study area will occur equally over a 20-year period. An additional sensitivity analysis was also undertaken to analyze the cashflow with the assumption that the lands will build out over 10 years.

As part of this analysis, a separate cashflow analysis was undertaken to understand the financial impacts with the exclusion of the DC related cashflows. Given that the costs to be funded by DCs (i.e., growth related capital costs) are not borne by existing taxpayers, this separate analysis was undertaken to exclude these costs to understand whether the net financial impacts on the County are positive or negative. Although DC related works are not directly funded by the County, deficits in DC funding would need to be cash-flowed by the County either through other internal sources or debt financing, which may have impacts on debt capacity.

<u>Scenario 1 – Employment Lands are Privately Developed and Traditionally Designed and Operated -</u> This scenario assumes developers will pay DCs applicable to their development and install local infrastructure, based on the requirements of the local service policy. Given the significant DC related capital investment in this area, the County would not realize a net positive impact over the 30-year horizon analyzed. This is due to the significant costs related to the growth-related infrastructure as the DC revenues generated from this area are not sufficient to recover the full costs. This would require the County to debt finance these costs resulting in a significant portion of the County's overall debt capacity utilized by this project. When considering only the cashflow excluding DCs, the development of the study area will provide a negative impact to the County, however the cashflow position is approaching the breakeven point at the end of the 30-year time horizon. Although there is no initial investment by the County in Scenario 1, given that the infrastructure is either paid for through DCs or installed by a

private developer, the annual lifecycle costs of the internal infrastructure are higher than the anticipated annual tax revenue until year 16 resulting in a negative cashflow position over the forecast period.

Scenario 2 – County Invests in Conceptual Planning and Sells to Developer - Under this scenario it is assumed that the County would invest in the conceptual planning of the study area and subsequently sell these plans to a developer. The planning study costs estimated at $500,000 have been factored into the cashflow analysis. Similar to Scenario 1, the development of the study area does not provide for a positive financial impact over the 30-year forecast period and would require significant debt to fund the underlying infrastructure. It is noted that with the exclusion of DC cashflows, the cashflow position is close to the breakeven point at the end of the forecast period given that tax revenues exceed the lifecycle expenditures by year 16. Cashflow impacts are similar to Scenario 1 as the only difference is the assumption of additional costs related to the planning studies.

Scenario 3 – County Acts as the Land Developer in Partnership with the Private Sector - Under Scenario 3 it is assumed that the County will act as the land developer in partnership with the private sector. It is assumed that a private entity will purchase the lands and through agreement with the County, the County would service these lands. No land purchase is assumed in this scenario, however, the County would be responsible for the costs and installation of local service infrastructure. It is assumed that the County will recover these costs when the private developer sells the lands (through a partnership agreement the land purchaser would pay back the County for development of the lands when the lands are sold).

Through an analysis of the capital works required, all water and wastewater works are considered to be DC funded, however, there are significant local service-related works for stormwater and roads. Under this scenario, these works are assumed to be debt financed by the County. When the private developer sells the land, the cost of the works, in addition to interest costs would be recouped by the County. Similar to Scenarios 1 & 2, Scenario 3 does not provide for a positive cashflow position at the end of the 30 years.

This scenario provides for a larger initial negative cashflow position given that the County is responsible for investing in the local service works. The costs get recouped from the private developer over the forecast period as development occurs so that by the end of the 30 years, the cashflow position is closer to the breakeven point, but considerably more negative than Scenario 1 and 2. Similarly, the lifecycle expenditures exceed the tax revenues received from the development until year 12 of the development timeframe.

Scenario 4 – County Develops, Acquires, Services, Markets and Sells the Employment Lands - Under this scenario, the County would act as the land developer and would purchase the land, develop, service, market and subsequently sell the land parcels. This scenario requires the County to assume all development-related costs, including the DC component of the works.

For this scenario it is assumed that the County would purchase the un-serviced land at an approximate value of $325,000 per acre. Once the County develops and services these lands, it is assumed that the land would sell for $650,000/acre based on the market analysis. These land values are based on canvassing the local market for industrial/employment lands activity and market data. These land values are reflective of the local area and what could be expected for the North Caledonia employment lands.

Similar to the prior scenarios, the cashflow remains in a negative position through the full forecast period, however this scenario provides for the largest negative position, given the significant investment required in purchasing the land and installing the required infrastructure (both local services and DC).

This scenario does not provide the County with a positive cashflow position over the 30 years. There are significant debenture payments related to local services and land for the first 20 years of the forecast. In addition, similar to other scenarios, lifecycle costs are greater than tax revenues until year

12 of the forecast period. As debt is retired, the cashflow position moves in a positive direction, however the position is still well below breakeven by year 30.

In order to evaluate the profitability of the investment into these employment lands from a business case lens, the analysis includes an estimated return on investment (ROI) for the County. **By year 30, none of the four scenarios provide for a positive ROI given the negative cashflow** - as shown in the table below.

Summary of Return on Investment Excluding D.C. Cashflows	Scenario 1 - Privately Planned and Developed	Scenario 2 - County Planned with Private Development	Scenario 3 - County Develops with Private Partnership	Scenario 4 - County Plans, Develops, and Sells Land
Initial Investment	-	500,000	104,887,000	202,559,075
Breakeven Year	N/A	N/A	N/A	N/A
Year	**Net Cumulative Position**	**Net Cumulative Position**	**Net Cumulative Position**	**Net Cumulative Position**
Year 10	(9,041,185)	(9,505,424)	(60,162,186)	(99,466,038)
Year 20	(7,792,237)	(8,215,391)	(24,387,425)	(77,607,080)
Year 30	(51,133)	(398,266)	(7,532,511)	(48,714,034)

Debt Capacity Considerations – The significant investment in capital infrastructure in this area requires debt financing under all four scenarios.

It is important to note, that the Ministry of Municipal Affairs regulates the level of debt incurred by Ontario municipalities, through its powers established under the *Municipal Act*. Through the rules established under these regulations, a municipality's debt capacity is capped at a level where no more than 25% of the municipality's own purpose revenue may be allotted for servicing the debt (i.e., debt charges). However, the County has a more conservative debt capacity policy limit set at 10% of own purpose revenue.

It is also important to consider the debt requirements/commitments for other projects required across the County. Through the County's annual budget process, it is anticipated that the County will exceed the 10% debt capacity limit in 2025, based on debt commitments for capital projects required outside of this study area. If the County were to proceed with investing in the development of these lands, the debt payments may exceed the provincially imposed 25% cap.

Analysis of a 10 Year Development Timeframe – Additionally, the four scenarios presented above were also analyzed with the assumption that development would proceed in equal annual increments over a 10-year time horizon. Although the 10-year development scenario provides for an earlier breakeven year for Scenarios 1-3 (i.e., within the 30-year forecast period), the overall financial impacts are similar compared to the 20-year timeframe and the County will be limited by debt capacity constraints.

Key Conclusions of the Initial Phase 2 Financial Analysis and Business Plan (Appendix B, Attachment 1)

- Investing in industrial lands provides numerous benefits to municipalities including generating employment opportunities, supporting lower property taxes and lower overall operating costs, relative to residential development types.
- There are significant capital costs associated with the study area. This will impose a financial burden on the County, given the requirement to cashflow any debt payments and the annual lifecycle costs of the internal infrastructure.

- Based on the 20-year development forecast, all four scenarios provide negative cashflows by the end of the 30-year time horizon. This is largely due to the lifecycle replacement costs exceeding tax revenues until year 15 of the forecast period. These negative cashflow positions will impose a financial burden on existing taxpayers/ratepayers as funding will be required to support growth in the study area.
- Based on the sensitivity analysis which assumes growth occurs over a 10-year timeframe, the development provides for a positive cashflow (excluding DC cashflows) under Scenarios 1 and 2 by year 18 and under Scenario 3 by year 27. Due to the accelerated growth, the tax revenues exceed the lifecycle costs earlier in the forecast period. However, there would still be a financial burden imposed on existing taxpayers/ratepayers for extended periods of time to support growth in the study area.
- The debt requirements would impose a financial risk on the County and limit future financial flexibility, given that a large portion of the County's debt capacity would be allocated to the development of this study area. These debt needs would also require the County to revise its existing debt policies. Given other debt requirements, funding the development of this study area with debt may put the County over the Provincially mandated debt capacity limit.
- The analysis has assumed even annual development over 10- and 20-year time horizons. There is a further risk to the County if the study area is not built out over the assumed timeframe. The County would be responsible for cash-flowing the works over a longer than anticipated timeframe which would impose a negative burden on the County's financial position.
- It is noted that many of the costs identified in the Servicing Plan for the study area are not included in the current DC background study. Further, the costs that are identified in the DC study are significantly lower than current costs estimate. It is important for the County to update the current by-law to incorporate these projects/cost updates to ensure a higher proportion of cost recovery from the development of this area.

In summary, none of the four scenarios provide a net positive annual impact over the 30-year time horizon, both with and without consideration of DC cashflows. This is due to the significant capital costs required to service the development along with the annual life cycle replacement costs for the infrastructure. Given the required investments in growth-related infrastructure, the cashflow remains in a significant negative position when DC cashflows are considered. The County is required to debt finance these works which imposes a negative burden on the County's finances. Based on these conclusions, there are significant challenges in moving forward with a traditional, full serviced industrial plan of subdivision. A key objective of this study was to determine such feasibility. Given it has limits, alternatives to the 'traditional form' of development are necessary for consideration. That was the impetus for the additional scenario analysis that Watson was tasked with completing.

Summary of Memorandum re: Additional Scenario Analysis (Attachment 1)

Given the results of the Initial Phase 2 Financial Analysis and Business Plan report, staff requested that Watson explore variations on Scenario 1 which may help to mitigate some of the significant debt requirements and potentially provide a positive cashflow by the end of the 30-year forecast period. As a recap, Scenario 1 consisted of the more traditional form of development – fully serviced, developer driven, lotted out plan of subdivision. This was also the least cost prohibitive of the 4 scenarios that Watson initially assessed and so it served as the most suitable to work out mitigation measures. The Memorandum – Additional Scenario Analysis was produced and the following additional scenarios analyzed for the study area.

Scenario 1A – Partial Municipal Servicing (Water Only) - For this scenario, it is assumed that the development lands would be serviced by municipal water with private wastewater servicing in the interim. The long-term plan would include servicing this area with wastewater in the future, in particular at/near the point in time when cashflow moves to positive. As a result, this scenario assumes that capital costs related to internal and external wastewater works would be removed from the cashflow. Associated operating costs, lifecycle (replacement) costs and revenues have also been removed from the analysis. Similar to the initial analysis, this scenario assumes development occurs in even increments over 20 years.

Given that the DC related capital investment for water services is not as large as the wastewater investment, the cashflow including DC cashflows provides for a net positive cumulative impact by year 26 or year 23 when DC cashflows are excluded. This is a result of lower overall lifecycle and operating expenditures related to the wastewater infrastructure.

Of note, it is assumed that private wastewater servicing would be an interim solution. The County would facilitate the installation of wastewater servicing at a later stage when cashflows from the development are positive. The costs for wastewater infrastructure can be recovered from the landowners at a future date through a capital charge under Part XII of the *Municipal Act*.

Scenario 1B – One Large Development - The next scenario reviewed assumed that one large development would take place for each of the two phases of development in the Study Area, as opposed to smaller subdivided lots to be owned by multiple property owners. The two phases are represented by the assemblage of lands to the east (Phase 2) and west (Phase 1) of the future Highway 6 extension (attachment 3) This scenario assumes that the entire development will be in place by year 3 of the analysis and would be assessed at the industrial tax rate. In addition, given there would be only be one lot per phase under this scenario, there are no local/internal works (water, wastewater, stormwater and roads) assumed by the County as part of this scenario. As a result, all associated operation and life cycle costs for internal infrastructure have been deleted from the cashflow analysis.

Under this scenario full tax revenues would be received upfront beginning in year 5. Since the operating and lifecycle costs related to internal infrastructure have been removed from the analysis, a positive cumulative cash flow position would be provided by year 5 (excluding DC cashflows). In addition, given the lower operating and lifecycle costs, the cumulative cashflow position when considering DC cashflows also reaches a positive position by year 14.

Scenario 1C – Industrial Condominium Model - Under the industrial condominium model, lifecycle and operating costs related to internal works for water, wastewater, roads and stormwater would be removed from the analysis given that this infrastructure would be owned and maintained by the landowner. All other assumptions remain the same relative to Scenario 1 (i.e., assume study area build out over 20 years).

With the exclusion of DC related cashflows, the industrial condominium model provides for cumulative positive cashflow by year 6 of the forecast. This is due to the reduction of operating and lifecycle costs that are associated with internal infrastructure. In addition, when DC cashflows are factored into the analysis, the cumulative cashflow position reaches the breakeven point by year 28.

Based on the above, all three scenarios provide for a positive cashflow position when DC related cashflows are not considered. Scenario 1B (one large development per phase) provides for the earliest breakeven year with the most positive cashflow by year 30. When DCs are factored into the analysis both Scenario 1B and 1C provide for a positive cashflow impact by year 14 and year 28 respectively. Scenario 1A does provide for a cumulative positive position by year 26 of the forecast period.

Summary of Return on Investment Excluding D.C. Cashflows	Scenario 1 - Privately Planned and Developed		Scenario 1a - Partial Servicing		Scenario 1b - One Large Development		Scenario 1c - Industrial Condominium Model	
Initial Investment	-		-		-		-	
Breakeven Year	N/A		Year 23		Year 5		Year 6	
Year	Net Cumulative Position	R.O.I.	Net Cumulative Position	R.O.I.	Net Cumulative Position	R.O.I.	Net Cumulative Position	R.O.I.
Year 10	(9,041,185)	n/a	(5,468,859)	n/a	15,304,472	n/a	2,220,520	n/a
Year 20	(7,792,237)	n/a	(1,704,078)	n/a	34,521,236	n/a	13,217,166	n/a
Year 30	(51,133)	n/a	6,837,664	n/a	46,051,507	n/a	26,951,101	n/a

Factor	Scenario 1: Privately Planned and Developed	Scenario 1a: Partially Serviced with Water	Scenario 1b: One Large Development (in each phase)	Scenario 1c: Industrial Condominium Model
Anticipated GFA (sq. ft.)	2.65 million	2.65 million	2.65 million	2.65 million
Anticipated Employment	1,772	1,772	1,772	1,772
Total Capital Costs (County investment)	$38.4 million	$6.9 million	$38.4 million	$38.4 million
Annualized Lifecycle Costs	$2.0 million	$1.2 million	$0.4 million	$0.4 million
Net Operating Expenditures	$0.2 million	$0.5 million	$0.2 million	$0.2 million
Incremental Property Assessment	$3.65 million	$3.65 million	$3.65 million	$3.65 million

While these scenarios do provide for a potential way forward for the development of employment lands, it is important to stress that all three options may equate to limited development opportunity in the future.

1. Option 1a (partial servicing) – This option may provide the most attractive way forward. Staff's view is that this is a realistic scenario that represents a servicing model that could be attractive to a variety of development interests and suitable for a variety of employment sectors that are being considered as part of this study. These include: Manufacturing/Advanced Manufacturing;

Distribution and Logistics; Professional, Scientific and Technical/Business services; Research and Development; Agri-business and other Employment Supportive services. It is expected that development of these lands could be achieved over time with this approach. It is important to note that staff has received interest from one landowner indicating this as a preferred option for development. While fully serviced employment lands are typically preferred and represent the most competitive option in business attraction, this represents a workable path forward.

2. Option 1b (one large development in each phase) – Staff's view is that this is a realistic scenario but one that would be more challenging than 1A above. Scenario 1B would require a major industry to have interest in developing all of the Phase 1 or Phase 2 lands for a single project. Staff believe it may be feasible to attract one large development for Phase 1 (the westerly portion of the development) given its shape, the ease for assembling the lands (i.e., properties spread over 2 owners) and the absence of any significant constraints. However, it would be more challenging for one large development on Phase 2 (easterly portion) due to the natural constraints and the number of individually owned parcels. Developments of the scale envisioned for either land assembly, while present in the province, are limited and attracting such a project is a highly competitive process. There remains a distinct potential for this to happen at this location given access to markets, the cost of land, property tax rates, etc., and those would be the elements staff would need to focus on in marketing efforts.
3. Option 1c (condominium model) – Staff's view is that this is the least likely of the 3 alternative scenarios, but one that may still appeal to a developer. Condominium models are more common in residential developments and smaller scale commercial projects. There are examples of industrial plans of condominium in the province but both staff and Watson are not aware of any recent such developments. Despite its lack of popularity, having a plan of condominium model as an option that is supported by the County is nonetheless beneficial.

Summary of Items for Consideration

- All scenarios assume the development in the Study Area is classified as industrial for DC and property tax purposes. If the proposed development is considered commercial then the assumptions on what infrastructure is DC funded versus developer funded would change. In addition, the buildings that are constructed would be assessed at lower commercial property tax rate, relative to the industrial rate.
- Given that growth-related capital investment to develop these lands is significant, the County would need a strong commitment from the developing landowners that the study area will be built out in a timeframe agreed upon prior to investing in the required infrastructure.
- Given the alternative scenarios presented above, the County is still in a negative cashflow position when DC cashflows are considered. If the County proceeds with the development of these lands, it is recommended that the DC by-law is updated to include the growth-related infrastructure that has been identified as part of this study.
- Note that with all of the scenarios there will still be significant debt requirement to finance the growth-related capital expenditures. Potential grant funding would result in a more positive financial position for this development. In the absence of available grant funding, their may be a need to utilize front-end financing of these capital costs, recovered from future DC receipts.
- Given these debt requirements and for the purposes of this analysis, it is assumed that the County would be required to raise the debt policy limit to 20%.
- A combination of options 1A, 1B and 1C could take effect on these lands – for example, 1B could be the model pursued/best fit for the westerly lands (referred to as Phase 1 as shown in Attachment 3) while 1A is pursued/best fit for the easterly lands (Phase 2 as shown in Attachment 3).

Best Practice Review of Other Ontario Municipalities (Attachment 2)

As part of the exploration to find an alternative solution to the development of these employment lands, staff asked Watson to conduct a best practice review of other Ontario Municipalities to:

a. Identify any solutions that would address the high cost of employment land development; and,
b. Identify challenges municipalities are facing regarding development of employment lands.

In response, Watson connected with two former clients 'City of Kingston' and 'Municipality of Middlesex Centre' to understand the above. A summary of findings can be found as follows:

City of Kingston

- High infrastructure costs and a poor return on investment have significantly limited Kingston's ability to move forward with a northern business park. Over the past decade, while Kingston has managed to break even on some business park development, rising costs, particularly due to topography and parcel-specific factors, have made it difficult to continue at a sustainable pace.
- Recently, Kingston serviced a new business park but encountered difficulties in setting prices that would allow them to break even. The City implemented a strategy to establish a financial buffer instead of relying on standard capitalization rates, which has been necessary to handle the fluctuation costs of servicing.
- As a result of the macroeconomic factors, business have shown little interest which has led Kingston to consider redesignating a portion of the Employment Area lands to instead accommodate traditional commercial development.
- Historically, Ontario municipalities have benefitted from significant provincial and federal funding to support the development of employment lands, including grants and infrastructure programs aimed at stimulating economic growth and job creation. These funds helped municipalities offset the high costs of land acquisition, servicing and infrastructure development. However, these funding programs have largely disappeared or have been significantly reduced leaving municipalities to bear the financial burden of employment land development.
- Today, local governments must rely more heavily on their reserves, debt financing and development charges to fund these projects, often struggling to make the necessary investments to support economic growth in the absence of direct provincial or federal support. For Kingston, these grant funding sources historically covered 50-60% of the costs for business park development. Without this funding support, the financial viability of employment land development is diminished.
- The City's efforts to develop a northern business park have been stalled for five years due to financing challenges with discussion around finding mechanisms to allocate costs from other sources.
- Kingston has discussed the possibility of an interim private wastewater solution to develop the lands in the short term, however the current preference is to continue to wait on developing until a later date when the return on investment will potentially improve.

The Municipality of Middlesex Centre

- Watson completed an Employment Area Expansion Analysis Report in February 2022 for the Municipality of Middlesex Centre. The report identified the most suitable location for the development of employment lands. During the recent outreach to discuss progress of this project, Watson learned that the project has not progressed further due to the financial constraints associated with the servicing costs.

- Similar to Haldimand, the Municipality of Middlesex Centre does not own the lands and is unable to afford the costs to bring services to the site. The municipality is currently exploring the costs and options to develop the site with municipally-serviced water and a communal wastewater servicing solution but also still looking at other potential long-term options.
- Funding was also identified; however, Middlesex Centre has been unsuccessful in its efforts to acquire any sort of grant funding to support this development. The municipality intends to engage with the Association of Municipalities of Ontario (AMO) regarding access to potential grant funding.
- The municipality has also been exploring ways to engage with the Province to ensure they are aware of the lands as a potential long-term development site for a larger-sized operation of Provincial significance.

It appears both of these locations are experiencing similar challenges to what has been identified for the North Caledonia Employment Lands project and without substantial backing of a guaranteed return on investment, Ontario municipalities may have to reconsider the viability of employment land development and explore more flexible land use options and servicing configurations. The latter is what is envisioned as part of the Phase 2 study being presented to Council and what is proposed as a go forward road map.

Summary

In summary, none of the four original scenarios provide a net positive annual impact over the 30-year time horizon, both with and without consideration of DC cashflows. This is due to the significant capital costs required to service the development along with the annual life cycle replacement costs for the infrastructure. Given the required investments in growth-related infrastructure, the cashflow remains in a significant negative position when DC cashflows are considered. The County is required to debt finance these works which imposes a negative burden on the County’s finances.

When further exploring options and considering the additional scenarios including private wastewater servicing, one large development in each phase, and a condominium model these three scenarios provide for a positive cashflow position when DC related cashflows are not considered. Scenario 1B (one large development) provides for the earliest breakeven year with the most positive cashflow by year 30. When DCs are factored into the analysis both Scenario 1B and 1C provide for a positive cashflow impact by year 14 and year 28 respectively. Scenario 1A does not provide for a positive position by the end of the 30-year forecast period but is only ($51,133 short) of doing so. However, with all of the scenarios there will still be significant debt requirement to finance the growth-related capital expenditures. Given these debt requirements and for the purposes of this analysis, it is assumed that the County would be required to raise the debt policy limit to 20%.

Following the Best Practice review of City of Kingston and Municipality of Middlesex Centre it is evident that there are considerable financial challenges for municipalities to invest in the infrastructure and development of employment lands. As the goal of the County is to be well-positioned to accommodate a diverse range of employment growth over the coming decades, development of employment lands is integral to achieving this goal. Based on the financial analysis undertaken, success in developing these employment lands may be achieved based on the following:

- Grant Funding – the County should seek available grant funding for the required infrastructure to reduce the significant growth-related costs required to service these lands. This will also assist in reducing the debt funding required for the capital infrastructure. However, it is important to note that availability may be limited as a result that the County is not the owner of the employment lands.
- Flexibility – in determining the potential development yields of these lands, the County should remain flexible to alternative development approaches that minimize the financial burden on County tax and rate payers. This includes consideration of partial servicing in the interim,

development as an industrial condominium, and seeking one large development rather than a number of smaller businesses.
- Timing of Development – this is integral to the success of the County's investment. The County should seek to obtain commitments from landowners and businesses who are looking to develop to ensure tax revenues are collected as soon as possible and the County tax and ratepayers are not cash-flowing the development of these lands for an extended period of time.
- Utilizing Haldimand County's membership with the Association of Municipalities of Ontario to advocate to other levels of government on the importance of providing financial support to municipalities to ensure continued employment growth; and,
- Continuing to work closely with the Province on large business inquiries so that Haldimand County and these employment lands remain top of mind.

By conducting this study, Haldimand County is proactively assessing these constraints, to determine a realistic road map moving forward for the development of these lands.

Next Steps

Upon Council's approval of the recommendations contained within this report Watson and staff then will share the results of the Phase 2 Financial Analysis and Business Plan and seek feedback from key stakeholders and the public on preferred options to proceed forward as it relates to Phase 3. The current engagement plan includes:

1. A public open house; and,
2. Landowner/Indigenous and Stakeholder engagement.

Following the planned engagement, the final phase of the study (Phase 3 – property administration and management) will begin with anticipated completion by Spring/Summer 2025. Phase 3 includes the following:

1. Property Administration and Management – the consultant will identify opportunities to raise the profile of the subject Employment Area both domestically and internationally, building on the target sector analysis completed in Phase 1 and flexible servicing and development approaches presented in this Phase 2 study. The Consultant will provide an outline and general direction regarding a marketing strategy for the North Caledonia employment lands as it relates to targeting, promoting and attracting development to the future Employment Area.
2. Implementation Plan – following Council's direction, the consultant will establish the Council approved business model for the North Caledonia Employment Lands in the final report. The report will also provide a recommended direction on an overall plan to implement the findings of the study. This plan will provide guidance on required additional studies to develop the employment lands, proposed timelines, target sector requirements, sales process and required resourcing.

Once Phase 3 has been completed, a final report and presentation will be prepared. At that time, staff will identify the recommended next steps and seek Council direction on whether or not to move forward with the development of the employment lands.

If the County proceeds with the development of these lands, it is recommended that the DC by-law is updated to include the growth-related infrastructure that has been identified as part of this study.

FINANCIAL/LEGAL IMPLICATIONS:

The Initial Phase 2 Report – Financial Analysis and Business Plan and the accompanying Memo do not include any immediate budgetary implications. However, the reports do outline the financial impact to the County including the required capital infrastructure, annual operating and annual capital replacement costs for the development of these employment lands.

Overall, the costs associated with this project are substantial and impact the County substantially due to the significant capital costs required to service the development, along with the annual lifecycle replacement costs for infrastructure.

The eligible growth-related capital costs identified in this study will need to be included in the County's update to the Development Charges Background Study and by-law, currently underway and anticipated to be completed in fall of 2025. It is also critical that any future development on these lands be defined as Industrial Development to ensure the eligibility of DC funding as well.

The potential impacts on the County's debt capacity of the capital costs identified under the recommended options will need to be incorporated into the County's planned long term financial growth plan, schedule to commence in late 2025. The need and use of front-end financing will also be evaluated at this time.

STAKEHOLDER IMPACTS:

The North Caledonia Lands Feasibility and Servicing Study – led by consultants Watson & Associates Economists Ltd. in collaboration with a staff project team that includes the Chief Financial Officer; General Manager of Community and Development Services; Manager, Planning and Development; Manager, Engineering Services; Manager, Water & Wastewater Engineering & Compliance and Manager, Economic Development and Tourism.

Following the Council's approval of this report, the consultant and staff team will be coordinating a series of public engagement meetings that will include current landowners, key stakeholders, staff from neighbouring Indigenous communities and the public. These meetings which will consist of a public open house as well as meetings with the specific groups identified above and will present the findings within this report and seek input.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

REFERENCES:

1. *EDT-06-2023 North Caledonia Employment Lands Feasibility and Servicing Study Phase 1*

ATTACHMENTS:

1. Memorandum – Additional Scenario Analysis re: North Caledonia Employment Land Feasibility and Servicing Study – Financial Analysis and Business Plan.
2. North Caledonia Employment Lands Feasibility and Servicing Study – Best Practices Review Summary.
3. Location Map.
4. Council Presentation by Watson and Associates Economists Ltd.