To	Lidy Romanuk, Manager of Economic Development & Tourism
From	Adam Fischer, Manager
Date	October 30, 2024
Re:	North Caledonia Employment Lands Feasibility and Servicing Study – Best Practices Review Summary

Fax ☐ **Courier** ☐ **Mail** ☐ **Email** ☒

1. Introduction

Watson & Associates Economists Ltd. (Watson) in partnership with WSP and GMBluePlan was retained by Haldimand County to undertake Employment Lands Feasibility and Servicing Study for the North Caledonia lands. As part of this study, the Consultant Team has produced an analysis of servicing costs for the North Caledonia Employment Area and based on this, a financial analysis and business plan have been conducted.

2. Summary of Phase 2 Financial Analysis and Business Plan Findings

As part of this financial analysis, four development scenarios for the employment lands were analyzed and none showed a net positive annual impact over 30 years, with or without Development Charge (D.C.) cashflows, due to high capital and infrastructure lifecycle costs as well as debt financing costs. The four development scenarios analyzed were:

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

Due to the net negative impact associated with these scenarios, three additional scenarios were explored within the context of Scenario 1, where the Study Area would be privately developed and traditionally designed and operated:

- **Scenario 1a:** Partial municipal servicing (water only) as an interim solution.
- **Scenario 1b:** Development as one large project.
- **Scenario 1c:** Development as an industrial condominium.

Without D.C. cashflows, all three scenarios show positive cashflows, with Scenario 1b achieving the earliest breakeven and strongest cashflow by Year 30. With D.C. cashflows, Scenarios 1b and 1c show positive impacts by Year 14 and Year 28, respectively. All three alternative scenarios show a net positive cashflow by Year 30, with Scenario 1b reaching breakeven at the earliest. However, substantial debt will still be needed to finance the growth-related capital costs in all scenarios. Figure 1 provides a summary of these findings below.

Figure 1
Haldimand County
Summary of Return on Investment – Excluding D.C. Cashflows

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

Note: although there is no initial investment in non-growth-related capital required by the County, once infrastructure is installed, costs would be incurred related to ongoing lifecycle cost allocations as well as additional operating costs.

The financial impact of developing the study area is largely due to the significant capital investment needed for infrastructure – grant funding could improve the financial outlook. Currently, the County's debt capacity policy limits debt to 10% of its revenue, though it may need to increase this to 20% by 2025 due to existing commitments.

Key considerations include:

- The development is assumed to be industrial; a commercial classification would change infrastructure funding and tax rates.

- Strong commitments from developers are needed before investing in infrastructure.
- Development scenarios still show negative cashflow with D.C. cashflows, so updating the D.C. by-law is recommended to include the growth-related infrastructure that has been identified as part of this study.

Success factors include:

- **Grant funding** to reduce infrastructure costs and debt.
- **Flexibility** in development approaches, such as partial servicing or one large development.
- **Timing** of development, ensuring commitments from landowners to generate tax revenue quickly and avoid long-term cashflow burdens.

Based on the findings of the Phase 2 analysis, it was recommended that Watson conduct a best-practices review of similar examples in Ontario regarding municipalities facing cost challenges regarding employment land development.

3. Best Practices Review of Other Ontario Municipalities

Watson interviewed two Ontario municipalities (with whom Watson has worked on an Employment Strategy) to discuss the challenges and solutions these municipalities have faced regarding employment land development. Accordingly, Watson interviewed representatives at the City of Kingston and the Municipality of Middlesex Centre to discuss the challenges they are facing regarding employment land development. The following summarizes these findings.

3.1 City of Kingston

In a meeting with one of the City of Kingston's economic development officers, the discussion focused on the challenges the City faces in developing an Employment Area in the northern portion of the City. 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 developments, rising costs, particularly due to topography and parcel-specific factors, have made it difficult to continue at a sustainable pace.

The City has five business parks, with two completely sold out and some remaining land in the others. Recently, Kingston serviced a new business park but encountered difficulties in setting prices that would allow them to break even. The City's strategy of establishing a financial buffer, instead of relying on standard cap rates, has been necessary to handle the fluctuating costs of servicing. However, certain parcels require additional infrastructure, such as extra sanitary servicing, further complicating development efforts. Selling these parcels has proven somewhat challenging, as the anticipated spin-off from the electric vehicle (EV) sector has been slow to materialize, partly due to unfinished contracts between suppliers and mega sites.

As a result of these macroeconomic factors, businesses have shown little interest in land priced at $200,000 per acre when factoring in development charges. These cost challenges have led the City to consider redesignating a portion of the Employment Area lands to instead accommodate traditional commercial development. The pro forma of development improved through this change in designation, however, in doing so, the lands don’t have the same level of protection as traditional Employment Area lands through the Provincial Planning Statement (P.P.S.), 2024.

Another topic of focus with the City of Kingston was grant funding. Historically, Ontario municipalities benefited 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, making it easier to attract businesses to industrial and commercial areas. However, over the years, these funding programs have largely disappeared or 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 the City of 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, with the City having to rely on reserve funds and debt to support development.

Accordingly, Kingston has had to tap into its reserve fund for employment land development and take on debt, but there are limits to how these reserve funds can be used, particularly when servicing other types of developments. The City's efforts to develop a northern business park have been stalled for five years due to financing challenges, with discussions around finding mechanisms to allocate costs from other uses. Looking for funding synergies with other uses, however, can limit the reserve funds that can be used to support development. Municipalities must carefully balance the use of reserve funds and debt to address high infrastructure costs and ensure a viable return on investment. Reserve funds, which are often restricted for specific uses such as infrastructure or capital projects, can help reduce reliance on debt. However, these funds are often limited in scope and may not fully cover the large-scale costs of employment land development, particularly in areas like Kingston where infrastructure challenges are significant. Using reserve funds for unrelated development types (e.g., housing) is restricted by provincial legislation to ensure funds are used for their intended purposes.

While the City has discussed the possibility of an interim private wastewater solution to develop the lands in the short term, the current preference is to continue to wait on development until a later date when the return on investment is improved. Services will eventually extend to this portion of the City to support other users, so Kingston is currently waiting for that progression before engaging in the formal development of its northern business park.

3.2 Municipality of Middlesex Centre

The Municipality of Middlesex Centre is planning to develop a new Employment Area that will support a wide range of industrial, commercial, and employment-supportive businesses, driving regional economic development and growing the local tax base. Accordingly, in February 2022, Watson & Associates completed an Employment Area Expansion Analysis Report for the Municipality of Middlesex Centre. This report identified the most suitable location for a future Employment Area in the municipality. Ultimately, it was recommended that the currently unserviced Delaware settlement area be expanded by creating a 162-hectare serviced Employment Area along Highway 402 Corridor. The project is estimated to cost $46.5 million, with further analysis required to address infrastructure needs and explore synergies in extending municipal services to both the Employment Area and the Delaware community.

In discussing the progress of this project with the Municipality in September 2024, Watson learned that the project has not progressed further due to the financial constraints associated with the servicing costs. The Municipality does not own the lands and cannot afford the costs to bring services to the site, despite having a healthy debt situation corporately. The Municipality is currently exploring the costs and options to develop the site with municipally-serviced water and a communal wastewater servicing solution. It is unclear if that direction would currently be supported by Council, so the Municipality is still looking at other potential long-term options.

Similar to the conversation with the City of Kingston, grant funding was a topical consideration. With Provincial and Federal focus on supporting housing affordability initiatives, Middlesex Centre has been unsuccessful in its efforts to acquire any sort of grant funding to support this development. Over the next several months, the Municipality intends to engage in discussion with the Association of Municipalities of Ontario (AMO) regarding potential grant funding. AMO does not directly provide specific funding for employment land development. However, AMO advocates for municipalities and helps secure funding that can be applied to infrastructure projects supporting broader economic development goals, which might include employment lands. For instance, the Canada Community-Building Fund (formerly the Gas Tax Fund) offers municipalities stable, long-term funding for infrastructure projects that promote economic growth, job creation, and environmental sustainability. This could indirectly support the development of employment lands by improving essential services like water, wastewater, and transportation infrastructure.[1]

One other avenue the Municipality has been exploring is trying 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. Attracting a large business would improve the feasibility of servicing costs as well as garner greater support from local decision-makers due to the increased certainty of the R.O.I. Furthermore, with Electric Vehicle (E.V.) mega-sites being planned for across the Province, particularly with Volkswagen in St. Thomas, the Municipality of Middlesex Centre is well-positioned to support potential supply chain business opportunities. The Municipality is exploring the water and wastewater needs of these businesses to determine if full municipal servicing is required to attract such uses or if a water-only Employment Area would potentially fulfill the needs of prospective businesses.

3.3 Conclusions

The case studies of Kingston and Middlesex Centre reveal the significant financial hurdles municipalities face in advancing employment land development. Both municipalities struggle with high infrastructure costs and limited financial support,

[1] https://www.buildingcommunities.ca/

hindering their ability to move forward with large-scale Employment Areas. In Kingston, the high costs of servicing employment lands, coupled with a poor return on investment, have led to stalled projects, with some areas being reconsidered for commercial use instead. The lack of spin-off benefits from emerging sectors like E.V.s has further compounded the City's difficulties in justifying the expense of new business parks. Similarly, Middlesex Centre faces a $46.5 million price tag to service a proposed Employment Area, but the Municipality lacks the resources to fund this project, especially without ownership of the land.

Both municipalities are also grappling with reduced availability of provincial and federal grants, which once played a vital role in offsetting infrastructure costs. As these funding sources have diminished, local governments are forced to rely more heavily on reserves, debt, and development charges, often leaving employment land development financially unfeasible. Kingston's experience shows that even with a buffer strategy to handle rising costs, fluctuating servicing needs and limited economic returns challenge their capacity to develop new business parks sustainably. Similarly, Middlesex Centre is exploring alternative solutions, such as communal wastewater servicing and potential partnerships with the private sector, but it has yet to secure a clear path forward.

Overall, the financial constraints facing places such as Kingston, Middlesex Centre, and Haldimand County illustrate the growing difficulty of developing employment lands without significant external funding or clear economic incentives. Without substantial backing or a guaranteed return on investment, Ontario municipalities may have to consider the viability of employment land development and explore more flexible land-use options and servicing configurations that can adapt to financial realities.

Should you wish to discuss this letter further, we would be happy to have a conversation regarding the proposed scope of work and budget. We look forward to completing this study.

Yours very truly,

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