

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: April 6, 2011	
SUBJECT/REPORT NO: Interest Payment Policy on Cash Securities regarding Development Agreements (FCS11029) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance and Corporate Services	PREPARED BY: Joseph Spiler (905) 546-2424 Ext. 4519
SIGNATURES:	

RECOMMENDATION:

That the attached Policy (Appendix “A” to Report FCS11029) “Interest Payment Policy – Cash Securities for Development” be approved.

EXECUTIVE SUMMARY

The City of Hamilton, similar to all municipalities, requires security deposits from developers to ensure that infrastructure work within their subdivision or site plan is completed according to City standards. The required securities are deposited with the City, by way of a Letter of Credit, through the developer’s bank or actual tender (cash). The responsibilities associated with the required infrastructure would be noted in development agreements between the developer and the City. As the work is completed, City staff verify and the developer is refunded his security in phases or in whole. Prior to amalgamation, each former municipality, within the former Regional Municipality of Hamilton-Wentworth did not pay interest on cash securities for the length of time held. The former City of Hamilton and the Regional Municipality of Hamilton-Wentworth did pay interest. Post-amalgamation, staff continued these practices with

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regards to inherited securities. Cash security deposits, under the new City of Hamilton, were allocated interest. Internal Audit Report CM09014 recommended a uniform level of service with regards to interest payment policies. As shown in Table 1 below, surrounding municipalities, contacted by City staff, do not pay interest on cash securities:

Table 1

Interest Payment Practises on Cash Securities		
Municipality	Policy	Practise - Interest on Cash Securities
London	N/A	No
Niagara	N/A	No
Halton	N/A	No
Milton	N/A	No
Mississauga	N/A	No
Waterloo	N/A	Yes - Interest only until Construction

Note: these Regional Governments and Municipalities have no written policies regarding interest and generally do not pay interest in practice. It is recommended that the City of Hamilton no longer pay interest on cash securities for development related deposits.

The amount of interest paid on development related cash security deposits in 2010 was \$48,741.59.

If approved, staff will update the Hamilton-Halton Home Builders Association (HHHBA) of the City's proposed revised cash securities interest payment policy at the City's HHHBA Liaison meeting on April 15, 2011. Staff will also post a notice on the City's website and in the Building Service locations, wherever securities are received.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial:

Table 2, on the following page, illustrates the cash securities held by the City over the past three years and the interest paid out on those securities. The amount of interest paid has decreased, over the last few years, due to the decline in the Bank of Canada's prime rate.

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Table 2

Cash Securities and Interest Paid			
Year	Balance	Interest	
2010	\$ 11,637,152	\$ 48,742	
2009	\$ 9,724,527	\$ 76,502	
2008	\$ 10,586,709	\$ 185,085	

The interest rate used to calculate interest, on a monthly basis, is the Bank of Canada's prime rate less 2%. The current net effective rate as at February 1, 2011, was 1%. This calculation is done monthly and is compounded. The interest which the City paid out to cash securities was funded from the gross interest revenue earned.

Banking institutions offer a Letter of Credit, as an option, to cash deposits as a security. The Bank's fee for this service varies depending on the financial solvency, amount and type of equity offered by the developer. Table 3 below identifies the total \$ amounts of Letters of Credit that the City has held for the last 3 years. The balances generally reflect development activity.

Table 3

LC's Held by City		
Year	Balance	
2010	\$ 152,111,073	
2009	\$ 123,620,905	
2008	\$ 127,423,008	

Staffing: Not Applicable.

Legal: Not Applicable.

HISTORICAL BACKGROUND (Chronology of events)

Prior to amalgamation, the former City of Hamilton and the former Regional Municipality of Hamilton-Wentworth paid interest to developer's cash securities and the former area municipalities did not.

POLICY IMPLICATIONS

Not Applicable.

RELEVANT CONSULTATION

Not Applicable.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Continuing to pay interest for some cash securities, while not paying for others, provides two levels of service. Audit and Administration Committee report 2009-01, Financial Requirements of Development (CM09014) recommended that a policy be created and adhered to on the payment of interest on securities placed with the City and any deviations from this policy be thoroughly documented and tracked. To remain consistent with our neighbouring municipalities, it is recommended to not pay interest

ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Either continues existing practice, which would be contrary to the City's Internal Audit Report 2009-01 recommendations, or pay out interest on all cash securities the City of Hamilton holds. Neither of these are consistent with current industry practices and are not recommended.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ A culture of excellence

Financial Sustainability

- ◆ Financially Sustainable City by 2020
- ◆ Effective and sustainable Growth Management
- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

Growing Our Economy

- ◆ Competitive business environment

APPENDICES / SCHEDULES

Appendix A to Report FCS11029 – Interest Payment Policy on Cash Securities Regarding Development Agreements

POLICY TITLE: Interest Payment Policy on Cash Securities Regarding Development Agreements

POSITION RESPONSIBLE FOR TASK: Manager of Capital Budgets and Development

POLICY NO: PP-XXXX

LAST REVISION DATE: March 18, 2011

EFFECTIVE DATE: July 1, 2011

MANAGER REVIEWED: Joe Spiler

TO BE REVIEWED: 7/1/2016

MAINTENANCE RESPONSIBILITY: Senior Financial Development Analyst, Capital Budgets and Development

I GENERAL

The Interest Payment Policy on Cash Securities Regarding Development Agreements, identifies a uniform level of service for the allocation of interest payments in relation to specific security deposits.

II BACKGROUND

The City of Hamilton, similar to all municipalities, requires security deposits from developers to ensure that infrastructure work within their sub-division or site plan is completed according to City standards. The required securities are deposited with the City, by way of a Letter of Credit, through the developer's bank or actual tender (cash). The responsibilities associated with the required infrastructure would be noted in development agreements between the developer and the City. As the work is completed, City staff verify that the developer is refunded his security in phases or in whole. Prior to amalgamation, each former municipality within the former Regional Municipality of Hamilton-Wentworth did not pay interest on cash securities for the length of time held. The former City of Hamilton and the Regional Municipality of Hamilton-Wentworth did pay interest. Post-amalgamation, staff continued these practices with regards to inherited securities. Cash security deposits, under the new City of Hamilton, were allocated interest. The Audit and Administration Committee Report CM09014, 09-009 recommended a uniform level of service with regards to interest payment policies.

III POLICY

That interest payments with respect to cash securities relating to Development Agreements (Sub-division, Site Plan, Lot Grading) be applied accordingly:

1. 0% interest to be applied on existing Cash Security balances after July 1, 2011, (refer to Table 2 of Report FCS11029).
2. Effective July 1, 2011, 0% interest rate to be applied on all new cash securities provided to the City, by outside parties, regarding lot grading agreements, sub-division agreements, site plan agreements, etc.
3. Cash Security reduction procedure:
 - Photocopy cheque
 - Check taxes are up-to-date
 - Obtain security reduction request from project manager or co-ordinator
 - Check file for any freezes on reductions or clauses that state reduction not available.
4. Currency to be in Canadian dollars.