



The Corporation of the Town of LaSalle

To: Mayor and Members of Council

Prepared by: Dale Langlois

Department: Finance

Date of Report: October 29, 2023

Report Number: FIN-30-2023

Subject: Use of Surety Bonds as Security

Recommendation

That the report of the Director of Finance dated October 29, 2023 (FIN-30-2023) regarding the use of Surety Bonds as security be received;

And that Council approve the use of Surety Bonds to financially secure up to 80% of servicing requirements associated with plan of subdivision in the Town of LaSalle on a case-by-case basis as determined by administration;

And that a minimum of 20% of servicing agreements continue to be secured by letters of credit.

Report

Historically, the Town of LaSalle has only accepted Letters of Credit as financial securities for the servicing of subdivisions. This has posed a challenge to developers from a cash flow perspective as the developers must pay a security to the Town which equals the amount of the cost to service the subdivision. Therefore, double the amount of cash is used for one subdivision, when it could be used to start servicing another project.

A solution to this challenge is a newer type of instrument called a “surety bond”, which Developers can use as security for the servicing of subdivisions. Surety bonds are becoming more commonly used as security in Municipalities closer to Toronto and have been successfully accepted as security in the City of Calgary since 2019.

Benefits of Surety bonds to the Municipality

- Surety bonds are a “pay on demand” type of instrument, which does not need to be proven in court and payment will be received within 10 days of demand.
- There is no onus on the Municipality to prove default.

- The developer has no right to defend
- The surety bond provides financial assurance to a Municipality that a Developer will successfully complete all obligations under the Development agreement. Once the subdivision is serviced and accepted by the Municipality, the bond is released.
- The bond is irrevocable and evergreen, which means that it renews annually until the municipality advises that it is no longer required.
- There is a 90-day notice of cancellation provision and if a replacement security is not provided, the municipality can draw on the bond.
- Surety bonds provide security through insurers rather than banks (LOCs). Both banks and insurers are regulated by the Office of the Superintendent of Financial Institutions (OSFI)
- Sureties are selective. Not all developers will qualify for these types of bonds. To qualify, developers must have the following:
 - o Quality credit
 - o A strong and positive history
 - o The project specific details must be appropriate with respect to project economies, schedule and construction trades.

Benefits of Surety Bonds to the Developer

- Improves liquidity for developers, which free up funds to be used for further investments, which is inline with the Ontario Government's bill 23 "More Homes Built Faster Act"
- Surety bond rates are significantly lower than Letter of Credit rates

Conclusion

Both letters of credit and surety bonds are demand based and do not require the Town to prove any default by the developer in Court, which can take a significant amount of time, effort and cost the Town a significant amount of money. The main difference between letters of credit and surety bonds is that surety bonds are backed by insurance companies and letters of credit are backed by financial institutions. If Council approves the use of surety bonds as a form of security, administration recommends that it be on a case-by-case basis so that administration can investigate which insurance company is providing the surety and ensure that it has a strong history and credit rating. It is also recommended that a minimum of 20% of development projects continue to be secured by letters of credit as historically, the Town has not had to draw on more that 20% of a security. The remaining 80% can be secured through a surety bond.

Consultations

Windsor Family Credit Union

Lakeshore Director of Finance

Financial Implications

None

Prepared By:

Director of Finance/Treasurer

Dale Langlois, CPA, CA

Link to Strategic Goals

1. Enhancing organizational excellence - No
2. Strengthen the community's engagement with the Town - No
3. Grow and diversify the local economy - Yes
4. Build on our high-quality of life - No
5. Sustaining strong public services and infrastructure - No

Communications

None

Notifications

None

Report Approval Details

Document Title:	FIN-30-2023 Use of Development Bonds as Security.docx
Attachments:	
Final Approval Date:	Oct 30, 2023

This report and all of its attachments were approved and signed as outlined below:



Chief Administrative Officer