

REPORT

Finance Department

To: Mayor Johnstone and Members of Council
Date: June 9, 2025

From: Shehzad Somji, Chief Financial Officer
File:

Item #: 2025-172

Subject: Surety Development Bond Pilot Program

RECOMMENDATION

THAT staff bring forward amending bylaws necessary to implement a Surety Bond pilot program for Works and Service Agreements and payment of Development and Amenity Cost Charges for Council's consideration.

PURPOSE

The purpose of this report is to seek Council approval for the inclusion of Surety Development Bonds (Surety Bonds) as an alternative form of security deposit alongside the existing forms, Cash and Letter of Credit, specified under the City of New Westminster [Subdivision and Development Control Bylaw 7142, 2007, Amendment Bylaw 8515, 2025](#).

SUMMARY

A pilot program to accept Surety Bonds is being proposed to alleviate some of the financial challenges being faced by developers. This pilot would be limited securities needed for Works and Service Agreements and payment of Development and Amenity Cost Charges (DCCs and ACCs). The current forms of Security, Cash, Letters of Credit and Letters of Assurance, will remain available with Surety Bonds being an alternate form of security for qualified developers.

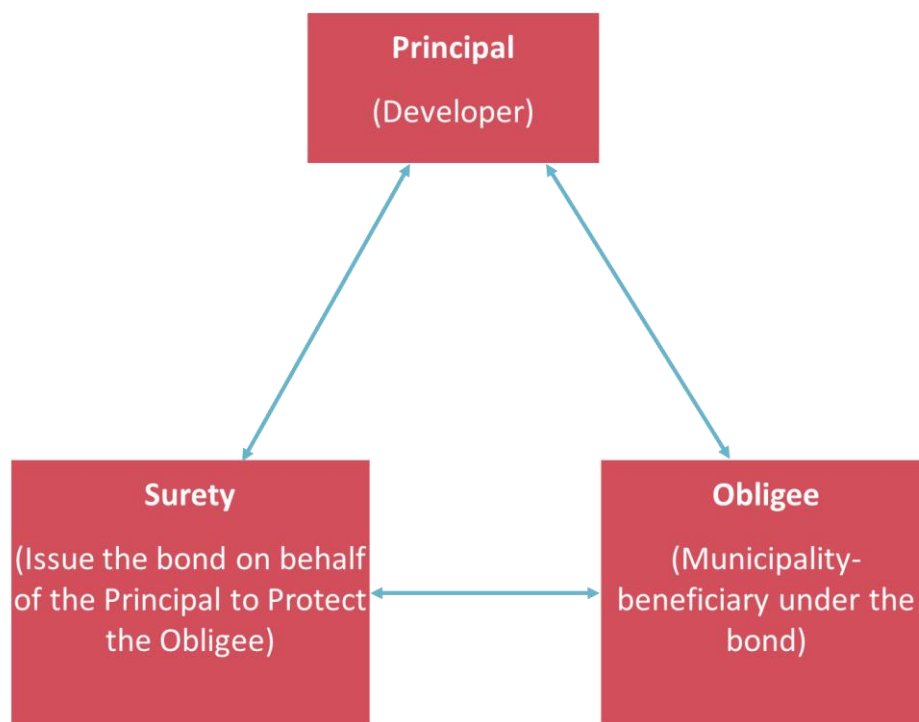
BACKGROUND

The City has only been accepting Cash and Letters of Credit as security, similar to many, if not all, other jurisdictions. Over the years, developers have asked the City to consider Surety Bonds as an alternative form of security, however the City has been

hesitant as these bonds were not as secure or liquid as cash or letters of credit and were administratively burdensome. In recent years, Surety Bonds have become more prevalent forms of security due to their flexibility and potentially lower cost. They have redeveloped into new “modern, pay-on-demand bond” products, and a number of Lower Mainland municipalities have been piloting their use. There is no additional risk for the City in accepting Surety Bonds as security under the requirements that staff are proposing.

DISCUSSION

A Surety Bond is a tri-party arrangement whereby the Surety issues a Bond to provide assurance to the Obligee (City) that they will guarantee the Principal's (Developer) obligations.



Surety Bonds are an alternate, but equally viable, security option to a Letter of Credit and has been designed to mirror the functions of a Letter of Credit. The bond provides assurance to the City that a developer will successfully complete all obligations under the agreement. Administratively, the bond may be reduced, and eventually released, as construction milestones and final completion is achieved, similar to a Letter of Credit.

The following is a summary of the advantages to the Developer and the City by using Surety Bonds:

Benefits	
Municipality	<ul style="list-style-type: none">• Same level of financial assurance as Letters of Credit• Surety underwriting provides additional layer of assurance• Increased business efficiency• Seen as business-friendly community to invest in• Freeing up cash flow for developers allows them to further invest in the community
Developer	<ol style="list-style-type: none">1. Improved liquidity and cash flow2. Free up cash to fund projects, or deploy in further investment in the community3. More cost-effective than Letters of Credit – lower rates, no extra costs4. Improved issuance time for bonds compared to Letters of Credit

Some of the challenges of Surety Bonds for the City and developers are as follows:

Challenges	
Municipality	<ul style="list-style-type: none">• City's Legal Services staff required to prepare the form of the Surety Bond to ensure all terms and conditions are acceptable to the City.• If the Developer defaults in resolving a construction issue in a timely manner, the City traditionally holds the Cash or Letter of Credit security to ensure the defaulted work is completed by the Developer. With a Surety Bond, the City "calls" the Surety Bond on default, receives the funds, and will then have to take on the role of project manager and contract administrator to remedy the defaulted work.
Developer	<ul style="list-style-type: none">• Developer will have to qualify for a surety bond based on the underwriting guidelines of the surety.

Surety Bonds Pilot

The City's current policy requires developers to provide 120% of the total construction cost estimate for Offsite Works and Services as security with a Letter of Credit. Staff are proposing the Surety Bond Pilot Program with the following requirements:

1. Under Works and Services Agreement
 - a. 100% of the estimate as Surety Bonds
 - b. Minimum 20% as a Letter of Credit
 - c. Set the minimum bond amount to use Surety Bonds to be \$3.0M
2. DCC's and ACC's
 - a. Pay over 3 years (current practice)
 - b. Pay year 1 in cash, years 2 and 3 in Surety Bonds
3. Surety Bonds are only accepted from an Office of the Superintendent of Financial Institutions (OSFI) regulated insurer that is registered with the British Columbia Financial Services Authority (BCFSA), is licensed with the Insurance Council of British Columbia (ICoBC), and has a minimum credit rating as detailed below:

Rating Agency	Minimum Credit Rating
A.M. Best	A-
Fitch	A+
Moody's	A1
Morningstar DBRS	A (high)
Standard & Poor's	A+

The City uses Letters of Credit to secure other items including on-site landscaping and provision of on-site amenities (e.g. plazas, open space, car-share, transportation demand management measures, tree maintenance obligations, etc.). These would not be included in the pilot program and would not be secured by surety bonds at this time.

NEXT STEPS

Following Council direction, staff would bring forward to Council the amendment to the Subdivision and Development Control Bylaw 7142, 2007, Amendment Bylaw 8515, 2025. Should the necessary bylaw amendments be approved, staff will prepare a handout that describes all the requirements of using a surety bond, including a template for the works and services surety security agreement and the DCC/ACC surety security agreement.

FINANCIAL IMPLICATIONS

The acceptance of Surety Bonds has no financial implications for the City.

INTERDEPARTMENTAL LIAISON

There are a number of City departments reviewing Surety Bonds, including Engineering, Planning and Development, Legal, Risk, and Finance.

OPTIONS

There are two options for Council consideration:

1. THAT staff bring forward amending bylaws necessary to implement a Surety Bond pilot program for Works and Service Agreements and payment of Development and Amenity Cost Charges for Council consideration.
2. THAT Council provide staff with other direction.

Staff recommend option 1.

APPROVALS

This report was prepared by:
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This report was reviewed by:
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