Calgary Approvals Coordination Bulletin
Amended: May 6, 2019

Developer Surety Bonds – Transitioning Letters of Credit

Background

In March 2019, The City of Calgary announced the acceptance of bonds issued by a surety company as a form of security for Development Agreement obligations only. Previously, The City only accepted irrevocable letters of credit issued by a bank. Now, the City will work with developers who have existing letters of credit from 2016, 2017 and 2018 to transition their letters into surety bonds, if they so desire.

This move allows greater flexibility for developers in terms of their working capital, as they are free to reinvest the money that had been tied up in a letter of credit back into additional projects that will benefit citizens.

The change makes Calgary one of the first large municipalities in Canada to provide this option for development obligation security.

Key Information

- Surety companies were previously unable to provide this type of bond service (liquidity, investigation requirements) as it did not meet the surety's mandate. Through the successful negotiation with the City, industry and surety company, surety bonds have been structured to work with the same flexibility as a letter of credit.
- Letters of credit are auto-renewed as needed, and returned to banks upon issuance of final acceptance certificate (FAC). Bonds will also auto-renew, and they will automatically expire one year after issuance of the final FAC. This will benefit the industry, as they will no longer require us to close the agreements and return the securities.
- A developer's working capital is freed-up for greater liquidity, which can be used for reinvestment into other projects. Unlike letters of credit, bonds are generally unsecured credit, meaning the surety companies typically secure them with an indemnity agreement and do not restrict or utilize bank operating lines. They are not included in lender's debt covenant calculations and do not tie up capacity in lending agreements. When a developer seeks a letter of credit, it comes directly out of their operating line or cash, so the impact on their financial statements and cash position is immediate and affects working capital.
- Surety bond rates can be substantially lower than the letter of credit rates, depending on the structure of each specific deal.
- A bond binds a developer to the obligations of a development agreement just as easily as a letter of credit does.
- Bonds can be easily transferred, similar to letters of credit.
- If a developer is called into default, bonds can be liquidated just as easily as letters of credit.
- Security reductions for bonds are handled the same way as reductions for letters of credit.
- Acceptance of Bonds for 2016, 2017 and 2018 Development Agreements is effective as of May 6, 2019.