



Regular Council Meeting

To:	Mayor and Council
Date:	March 3, 2025
From:	Kimberley Pope, Finance Department
Report Number:	Finance 2025-03
Subject:	Capital Project Financing Options

Recommendations:

1. That Council approve internal borrowing of \$5,052,854 from the Asset Replacement Reserve (ARR) for the Parks & Public Works Depot, Public Works Operations Center, and Fire Station, for the growth related Development Charge loan at Bank of Canada (BoC) lending rate of 3.25%, over a 15 year term; and,
2. That Council approve internal borrowing of \$5,775,021 from the Asset Replacement Reserve (ARR) for the Parks & Public Works Depot, Public Works Operations Center, and Fire Station, for the non-growth related Township Capital loan at Consumer Price Index (CPI) of 1.9%, over a 15 year term.

Overview:

At the Regular Council Meeting on October 7, 2024, Council directed staff to explore alternative financial options for capital projects.

R-2024-264

Moved by: Edgerton

Seconded by: Nachoff

That Council does not approve By-law No. 2024-52 and 2024-53, being the by-laws to authorize borrowing upon amortizing debentures for two Capital Projects; Parks & Public Works Depot and the Public Works Operation Center; and That Council direct Staff to report back with alternative financial options.

Since that time, staff have evaluated various financing options for Council to consider in relation to funding the three capital projects. These options include loans from Infrastructure Ontario, utilizing reserve funds without repayment, exploring external loan options, and financing these projects with internal loans.

All three of these capital projects have two separate amounts for Council to consider, the Development Charge portion and the Township Capital portion. The first loan is for the growth related capital costs of all three projects consolidated into one Development Charge loan of \$5,052,854.

The second loan is for the non-growth related capital costs of all three projects consolidated into one Township Capital loan of \$5,775,021.

The municipality currently has no internal or external debt funded by the municipal tax levy.

Background

Annual Repayment Limit (ARL)

The 2024 Township of Cavan Monaghan Annual Repayment Limit (ARL) is \$3,388,507. The Ministry of Municipal Affairs and Housing (MMAH) establishes an Annual Repayment Limit (ARL), which represents the maximum amount a municipality can allocate for payments related to its external debt and financial obligations (O.Reg. 403/02 Municipal Act, 2001).

Cavan Monaghan 2024 Annual Repayment Limit (ARL) Debt Capacity, Debentures and Future Capital Projects

Debt Capacity based on Schedule 81 Net Revenues (FIR)

Total Own Revenue	\$15,578,438
Annual Repayment Limit (25%)	\$3,894,610 ARL
Annual Repayment Limit (25%) less Net Debt charges	\$3,388,508 ARL

Cavan Monaghan Debentures (\$8,242,769 combined)	Township		Development	exp.
			Charges	
By-law No. 2017-81 (\$2,407,995) 30 yrs, 3.33%	WWW	\$ 126,682		12/2047
By-law No. 2017-82 (\$987,515) 30 yrs, 3.33%	WWW	\$ 53,000		12/2047
By-law No. 2017-83 (\$4,847,259) 20 yrs, 3.15%	WWW (DC's)		\$ 326,421	12/2037
Annual WWW Debenture payments		\$ 179,682	\$ 326,421	\$ 506,102

* 13% of CM ARL committed debentures (by-law)*

External Loans

Currently, the only external debt held by the Township of Cavan Monaghan are the \$8.2 million Infrastructure Ontario (IO) loans, which were obtained in December 2017 to finance the construction of the new Water and Wastewater Treatment Plant in the village of Millbrook.

The remaining balance on this IO loan at 2024 year end is \$6.3 million with 23 years remaining. The annual repayment of \$506,102 will continue for the next 13 years (until 2037) and represents 13% of the current available ARL. The annual repayment will then be reduced to \$179,124 for the final remaining 10 years (until 2047).

These current IO loan repayments are funded by the Water and Wastewater User Fees and Development Charges and are not funded through the municipal tax levy.

Internal Loans

The Township is currently managing one internal loan for the cost overage for the construction of the CMCC. The original loan amount was \$2.4m, and the current remaining balance remaining is \$991,220. This remaining principle continues to be paid down by the quarterly revenues the municipality receives from the OLG gaming operations at Kawartha Downs.

The initial expectation was that this entire balance would be fully paid off by 2023. However the closure and reduced revenues during the pandemic have extended the payment schedule. If the annual OLG revenues remain at their current level this loan is on track to be fully paid off by the end of 2027.

As the loan is being managed internally, the total annual payments derived from OLG revenues are not included in the calculation of the Township's Annual Repayment Limit (ARL).

Interest Rate and Term

Council has complete discretion regarding the interest rate and term for internal financing. For clarity, the financing options presented in the report are based on a 15-year term.

The Township does not have any other sources of internal or external debt.

Financing Options

As directed, staff have consulted with the Aird & Berlis LLP and Watson & Associates to explore what options are available to municipalities for funding capital projects. These options include; Infrastructure Ontario loans, drawing funds from reserves without repayment, external loan financing, and internal loan financing. See Schedule B – Background Information.

Staff do not recommend entering into loans from Infrastructure Ontario (IO) because these loans have a fixed interest rate that remains unchanged throughout the entire term. While this can be beneficial if interest rates rise, it can lead to much higher interest costs if rates decrease. Additionally, these loans are meant to last for their full term, which means there are substantial financial penalties for early repayment. The IO loan calculations and schedules were included on Finance Report 2024-11.

Staff do not recommend funding all capital projects through reserves without repayments. This option would significantly restrict the Township's ability to finance future capital projects, and reduce our commitment to asset management and fiscal responsibility.

Staff do not recommend pursuing other external loan financing options. While a municipality can enter into bank loan agreements directly with Canadian financial institutions for long-term borrowing, the current interest rates are unfavorable and exceed the fixed rates offered through Infrastructure Ontario (IO). See Schedule A – Financial Analysis of Loan Options. See Schedule C - 15 Year Repayment Forecast.

Staff Recommendations of Internal Loan Financing Options

The three (3) Capital Projects have a total consolidated capital cost of \$13,161,972 of which \$5,052,854 is to be funded through Development Charges and \$5,775,021 is to be funded through municipal property taxes with the remaining \$2,334,098 previously prepaid from dedicated reserves and prior year Capital budget approvals.

Funds for growth-related capital and interest payments should be recovered through Development Charges, ensuring a fair distribution of capital costs between existing and future residents

Capital Project Funding				
Proposed				
	Parks & PW Millbrook Depot	PW Operations Centre	Fire Station No.1	Subtotal
Capital Project Funding:				
Growth/Development Charges (DC)	\$ 488,378	\$ 1,360,000	\$ 3,204,476	\$ 5,052,854
Township Contribution	\$ 383,726	\$ 1,124,624	\$ 4,266,671	\$ 5,775,021
Reserve: Asset Replacement		\$ 22,682	\$ 7,357	\$ 30,039
Reserve: OLG Revenues		\$ 511,608		\$ 511,608
Reserve: Fire Capital Infrastructure			\$ 1,604,575	\$ 1,604,575
Other	\$ 7,158	\$ 70,717	\$ 110,000	\$ 187,875
Total Capital Project	\$ 879,262	\$ 3,089,631	\$ 9,193,079	\$13,161,972

Recommendation No. 1 – Development Charge Loan (\$5,052,854)

Staff are recommending to internally finance the growth related Development Charge loan through the Asset Replacement Reserve at the Bank of Canada (BoC) lending rate of 3.25%, over a 15 year term.

+ \$ 488,378	Parks & PW Millbrook Depot
+ \$1,360,000	Public Works Operations Center
+ <u>\$3,204,476</u>	Fire Station No. 1
= <u>\$5,052,854</u>	

This is estimated to generate \$1,338,014 of DC eligible interest over the term as recoverable. This recommendation also provides flexibility to review the internal financing at each Development Charges Study (once every 5 years) for financial sustainability and cash flow purposes.

The Bank of Canada (BoC) lending rate is 3.25% and is utilized in the calculations of this report. The prime lending rate +2.2% above the BoC rate, is the interest rate a financial institution uses as a base to determine interest rates for loan products.

The 2025 budget included a year of Development Charge loan repayments estimated at \$375,704. The calculated repayments will equal \$426,100 per year over the 15 year term and does not affect the municipal tax rate.

Recommendation No. 2 – Township Capital Loan (\$5,775,021)

Staff are recommending to internally finance the non-growth related Township Capital loan through the Asset Replacement Reserve at Consumer Price Index (CPI) of 1.9%, over a 15 year term.

+ \$ 383,726	Parks & PW Millbrook Depot
+ \$1,124,624	Public Works Operations Center
<u>+ \$4,266,671</u>	Fire Station No. 1
<u>= \$5,775,021</u>	

This is estimated to generate an interest cost of \$866,517 over the 15 year term.

The Consumer Price Index (CPI) rose 1.9% year over year for the 12 months to January; on the February 2025 notice from Statistics Canada and is utilized in the calculations of this report.

The 2025 budget included a year of Township Capital loan repayments for all three (3) Capital Projects estimated at \$348,073. The calculated repayments will equal \$442,769 per year over the 15 year term. The revenues from the base ambulance lease were previously approved to lower the Fire Station Capital project and decrease the annual loan payments. Therefore, the total consolidated Township Capital loan payments for all three capital projects amount to \$385,826, which represents 3.29% of the annual municipal tax levy.

Community Capital Budget Fund (CCBF)

During the 2025 budget discussions it was noted that there is a remaining balance of \$369,550 in the Community Capital Budget Fund (CCBF) reserve. Among the three capital projects under consideration, only Fire Station No. 1 qualifies as an eligible category for funding from the CCBF.

Staff are recommending that Council consider these funds to be applied and reduce the Township Capital loan amount to be financed. If the CCBF funds were to be applied to the Fire Station No. 1, the Township Capital loan could be reduced from \$5,775,021 to \$5,405,471. This would reduce the total Township Capital loan payments for all three capital projects from \$385,857 to \$357,493 and represent 3.05% of the annual municipal tax levy.

If Council were to choose to not utilize the CCBF funds towards the fire station, this would require an increase of \$28,333 from the tax levy. A summary is provided below for clarification.

	2025 Budget		Loan Calculations (1.9%, 15 yrs)			
	Estimates	Tax Impact	w/o CCBF	Tax Impact	with CCBF	Tax Impact
	All three (3) Capital Projects (\$5,775,021)	\$378,073	3.23%	\$442,769	3.78%	\$414,436
Less: Ambulance lease	-\$47,700	-0.41%	-\$56,943	-0.49%	-\$56,943	-0.49%
	\$330,373	2.82%	\$385,826	3.29%	\$357,493	3.05%

Financial Impact:

Staff are recommending the option to internal financing for the Parks & Public Works Depot, the Public Works Operations Center, and the Fire Station through the Asset Replacement Reserve (ARR). This internal borrowing of \$5,052,854 (Development Charge loan, 3.25% BoC) and \$5,775,021 (Township Capital loan, 1.9%CPI) is recommended to

be repaid with interest over a 15 year term. See Schedule C - 15 Year Internal Repayment Forecast and Schedule D - Debt Schedule, ARL and Potential Capital Loans.

The internal borrowing schedules are based on anticipated Development Charge revenues, as well as forecasted growth and assessment data. If any cash flow concerns arise in the future, the Director of Finance will report back to the Council with recommendations for their consideration and approval.

Attachments:

1. Schedule A - Financial Summary of Loan Options
2. Schedule B - Background Information
3. Schedule C - 15 Year Repayment Forecast
4. Schedule D - Debt Schedule, ARL and Potential Capital Loans

Respectfully Submitted by,

Reviewed by,

Kimberley Pope
Director of Finance/Treasurer

Yvette Hurley
Chief Administrative Officer

Financial Summary of Loan Options

<u>Internal Development Charge Loan (recommended)</u>	<u>Principal Loan</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payments</u>	<u>ARL</u>	<u>Total Interest</u>	<u>Tax Impact</u>
Public Works Op Center, Millbrook Depot & Fire Station No. 1	\$5,052,854	3.25% BoC	15 yrs	\$426,058	n/a	\$1,338,015	n/a
<u>Internal Township Capital Loan (recommended)</u>							
Public Works Op Center, Millbrook Depot & Fire Station No. 1	\$5,775,021	1.90% CPI	15 yrs	\$442,769	n/a	\$866,517	3.78%
Less: Ambulance lease	-	- -	15 yrs	-\$56,943	n/a	-	-0.49%
				\$385,826			3.29%
Reduced by CCBF Funds	\$5,405,471	1.90% CPI	15 yrs	-\$28,333	n/a	\$811,068	-0.24%
				\$357,493			3.05%
<u>Existing External Loans</u>							
Water Wastewater & DC's	\$8,242,769	3.15-3.33% IO 2017	20-30 yrs	\$506,102	13%	\$3,670,512	n/a
<u>Other External Loans (not recommended)</u>							
Infrastructure Ontario (all three Capital Projects)	\$10,827,875	4.17% IO 2024	15 yrs	\$972,217	29%	\$3,755,373	4.43%
Canadian Financial Institution (all three Capital Projects)	\$10,827,875	4.38% BoC+Prime	15 yrs	\$986,040	29%	\$3,962,725	4.49%



Background Summary & Options

There are several options for funding a project: raising taxes in the current year, reducing spending on other capital projects to free up budget space, using money from reserves, or borrowing funds and repaying the debt through tax revenue over time. The Council may consider debt financing for new or one-time projects, as well as for significant reconstruction needs of large, expensive assets. Borrowing allows municipalities to spread the cost of a project over its useful life and ensures that the expenses are borne not only by today's taxpayers but also by future users.

Staff consulted with the legal and consulting firms Watson & Associates and Aird & Berlis LLP to review options and resources for borrowing available to municipalities.

Municipalities can enter into bank loan agreements directly with Canadian Financial Institutions for long-term borrowing which may contain fixed or variable interest rates.

Ministry of Municipal Affairs (MMAH) & Annual Repayment Limit (ARL)

The Municipal Act, 2001 allows municipalities to incur long-term debt for financing capital expenditures, as outlined in sections 401 and 408. The Ministry of Municipal Affairs and Housing (MMAH) establishes an Annual Repayment Limit (ARL), which represents the maximum amount a municipality can allocate for payments related to its debt and financial obligations. The calculation of the ARL is specified in Ontario Regulation 403/02 (Debt and Financial Obligation Limits) under the Municipal Act, 2001. It's important to note that municipal debt is not a tool for generating revenue; rather, it serves as a crucial method for financing capital projects. Municipalities do not use borrowing to cover day-to-day operational costs.

Development Charges Act (DCA, S.O. 1997, c. 27)

The Development Charges Act permits municipalities to include interest on borrowed funds used for capital costs related to acquiring, leasing, constructing, or improving buildings and structures. As a result, a municipality can internally debenture from the Asset Replacement Reserve, allowing it to fund interest costs through development charges.

The DCA also allows for municipalities to enter into the following agreements:

- Section 27 – Early Payment Agreements – An option to provide cashflow for infrastructure projects if there is interest from the development community
- Section 38 – Credit Agreements – An option to allow developers to construct the projects and the Township would reimburse at a later date or provide DC credits

- Section.44 – Front-ending Agreements – An option to allows the developers to cashflow works that the Township undertakes. Developers are then paid back with DCs recovered from others.

Infrastructure Ontario (IO)

The Infrastructure Ontario (IO) is a government agency established specifically to aid with the development, renewal, enhancement and replacement of Ontario public assets. Infrastructure Ontario's Loan Program through IO allows easy access to financing for municipalities with affordable interest rates, flexible terms and no commissions. Infrastructure Ontario's cost of capital is very low and, as such, it is able to offer advantageous interest rates versus other sources of financing

Benefits of Debentures through Infrastructure Ontario (IO)

- Amortizing debentures: Borrowers pay equal amounts of principal and interest every six months
- Serial debentures: Borrowers pay equal amounts of principal every six months, and interest is calculated on the declining principal balance
- Fixed interest rate: The interest rate is fixed for the entire term of the debenture
- Flexible repayment terms: Municipalities can choose longer repayment terms of up to 30 years however the repayment period must not exceed the expected life of the capital asset or the license term
- Deferred interest payments: Municipalities can defer interest payments during the construction phase of a project.

The OILC rate offer included an interest rate of 4.28% amortizing over a 20 year term for debentures of the Corporation of the Township of Cavan Monaghan in October 2024, as presented on Finance Report 2024-11.

15 Year Repayment Forecast

Development Charge Loan		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$5,052,854		\$5,052,854	\$4,787,078	\$4,512,535	\$4,228,934	\$3,935,979	\$3,633,359	\$3,320,756	\$2,997,840	\$2,664,273	\$2,319,701	\$1,963,762	\$1,596,082	\$1,216,272	\$823,933	\$418,651
\$426,058 Annual Payments	P	-\$265,776	-\$274,543	-\$283,600	-\$292,956	-\$302,620	-\$312,603	-\$322,915	-\$333,568	-\$344,572	-\$355,939	-\$367,680	-\$379,810	-\$392,339	-\$405,282	-\$418,651
15 Year Term	Bal @ YE	\$4,787,078	\$4,512,535	\$4,228,934	\$3,935,979	\$3,633,359	\$3,320,756	\$2,997,840	\$2,664,273	\$2,319,701	\$1,963,762	\$1,596,082	\$1,216,272	\$823,933	\$418,651	\$0
3.25% Total Interest	I	-\$160,282	-\$151,514	-\$142,458	-\$133,102	-\$123,438	-\$113,455	-\$103,143	-\$92,490	-\$81,486	-\$70,119	-\$58,377	-\$46,248	-\$33,719	-\$20,776	-\$7,407

Township Capital Loan		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$5,775,021		\$5,775,021	\$5,439,062	\$5,096,663	\$4,747,702	\$4,392,053	\$4,029,587	\$3,660,174	\$3,283,680	\$2,899,971	\$2,508,907	\$2,110,349	\$1,704,151	\$1,290,168	\$868,250	\$438,246
\$442,769 Annual Payments	P	-\$335,959	-\$342,399	-\$348,961	-\$355,649	-\$362,466	-\$369,413	-\$376,493	-\$383,709	-\$391,064	-\$398,559	-\$406,198	-\$413,983	-\$421,918	-\$430,004	-\$438,246
15 Year Term	Bal @ YE	\$5,439,062	\$5,096,663	\$4,747,702	\$4,392,053	\$4,029,587	\$3,660,174	\$3,283,680	\$2,899,971	\$2,508,907	\$2,110,349	\$1,704,151	\$1,290,168	\$868,250	\$438,246	\$0
1.90% Total Interest	I	-\$106,810	-\$100,371	-\$93,808	-\$87,120	-\$80,303	-\$73,356	-\$66,276	-\$59,060	-\$51,706	-\$44,210	-\$36,571	-\$28,786	-\$20,852	-\$12,765	-\$4,523

Township Capital Loan (with CCBF RSV tsf, option)		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$5,405,471		\$5,405,471	\$5,091,010	\$4,770,522	\$4,443,891	\$4,111,000	\$3,771,729	\$3,425,955	\$3,073,554	\$2,714,399	\$2,348,360	\$1,975,305	\$1,595,100	\$1,207,608	\$812,690	\$410,202
\$414,436 Annual Payments	P	-\$314,461	-\$320,488	-\$326,631	-\$332,891	-\$339,271	-\$345,774	-\$352,401	-\$359,155	-\$366,039	-\$373,055	-\$380,205	-\$387,492	-\$394,919	-\$402,488	-\$410,202
15 Year Term	Bal @ YE	\$5,091,010	\$4,770,522	\$4,443,891	\$4,111,000	\$3,771,729	\$3,425,955	\$3,073,554	\$2,714,399	\$2,348,360	\$1,975,305	\$1,595,100	\$1,207,608	\$812,690	\$410,202	\$0
1.90% Total Interest	I	-\$99,975	-\$93,948	-\$87,805	-\$81,545	-\$75,165	-\$68,662	-\$62,035	-\$55,281	-\$48,397	-\$41,381	-\$34,231	-\$26,944	-\$19,517	-\$11,948	-\$4,234

Infrastructure Ontario Loans (WWW & DC's)		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$8,242,769		\$6,359,871	\$6,054,833	\$5,739,889	\$5,414,718	\$5,078,987	\$4,732,353	\$4,374,462	\$4,004,947	\$3,623,432	\$3,229,526	\$2,822,826	\$2,402,917	\$1,969,369	\$1,521,740	\$1,391,311
\$506,102 Annual Payments	P	-\$299,959	-\$309,693	-\$319,743	-\$330,119	-\$340,832	-\$351,893	-\$363,314	-\$375,105	-\$387,279	-\$399,848	-\$412,826	-\$426,225	-\$447,630	-\$462,428	-\$478,639
20-30 Year Term	Bal @ YE	\$6,059,912	\$5,745,140	\$5,420,147	\$5,084,599	\$4,738,155	\$4,380,460	\$4,011,148	\$3,629,842	\$3,236,153	\$2,829,677	\$2,410,000	\$1,976,692	\$1,521,740	\$1,391,311	\$1,256,473
3.15-3.33% Total Interest	I	-\$206,143	-\$196,409	-\$186,359	-\$175,983	-\$165,270	-\$154,209	-\$142,789	-\$130,997	-\$118,823	-\$106,254	-\$93,276	-\$79,877	-\$68,473	-\$58,674	-\$49,264

Infrastructure Ontario (not recommended)		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$10,827,875		\$10,827,875	\$10,297,113	\$9,743,790	\$9,166,947	\$8,565,585	\$7,938,662	\$7,285,090	\$6,603,737	\$5,893,423	\$5,152,915	\$4,380,931	\$3,576,134	\$2,737,127	\$1,862,457	\$950,608
\$972,217 Annual Payments	P	-\$530,762	-\$553,323	-\$576,843	-\$601,362	-\$626,924	-\$653,572	-\$681,353	-\$710,315	-\$740,507	-\$771,984	-\$804,798	-\$839,007	-\$874,670	-\$911,849	-\$950,608
15 Year Term	Bal @ YE	\$10,297,113	\$9,743,790	\$9,166,947	\$8,565,585	\$7,938,662	\$7,285,090	\$6,603,737	\$5,893,423	\$5,152,915	\$4,380,931	\$3,576,134	\$2,737,127	\$1,862,457	\$950,608	\$0
4.17% Total Interest	I	-\$441,454	-\$418,894	-\$395,374	-\$370,855	-\$345,293	-\$318,645	-\$290,864	-\$261,902	-\$231,709	-\$200,233	-\$167,419	-\$133,210	-\$97,547	-\$60,368	-\$21,608

Canadian Financial Institution (not recommended)		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
\$10,827,875		\$10,827,875	\$10,305,696	\$9,760,181	\$9,190,286	\$8,594,923	\$7,972,953	\$7,323,188	\$6,644,384	\$5,935,244	\$5,194,413	\$4,420,474	\$3,611,948	\$2,767,289	\$1,884,881	\$963,039
\$986,040 Annual Payments	P	-\$522,179	-\$545,515	-\$569,894	-\$595,363	-\$621,970	-\$649,766	-\$678,804	-\$709,140	-\$740,831	-\$773,939	-\$808,526	-\$844,659	-\$882,407	-\$921,842	-\$963,039
15 Year Term	Bal @ YE	\$10,305,696	\$9,760,181	\$9,190,286	\$8,594,923	\$7,972,953	\$7,323,188	\$6,644,384	\$5,935,244	\$5,194,413	\$4,420,474	\$3,611,948	\$2,767,289	\$1,884,881	\$963,039	\$0
4.38% Total Interest	I	-\$463,861	-\$440,525	-\$416,146	-\$390,677	-\$364,070	-\$336,274	-\$307,236	-\$276,900	-\$245,209	-\$212,101	-\$177,514	-\$141,381	-\$103,633	-\$64,198	-\$23,001

