

Subject: 2020 Debenture Update**Recommendation:**

**BE IT RESOLVED THAT Council receive Report # 2020-0129-
Corporate Services for information.**

Background:

In 2016, The Regional Municipality of Niagara (Region) authorized borrowing by-law #37-2016 to a maximum aggregate principal amount of \$36,204,777, for debentures to be issued to the Ontario Infrastructure and Lands Corporation (OILC) to finance the Meridian Community Centre (MCC).

A Financing Agreement was signed on September 7, 2016 between the Region, the Town of Pelham (Town) and OILC. The Financing Agreement included the issuance of two debentures totaling \$21,204,758 and a Construction Bridge Loan up to \$15,000,019 which was to be paid with proceeds of land being sold in East Fonthill in the amount of \$12 million and donations of \$3 million. This Financing Agreement had a clause that any unpaid Construction Bridge Loan would be converted into a debenture if it was not repaid three months after the completion of the MCC. The MCC was completed in July 2018. The Construction Bridge loan outstanding at the end of October 2018 was \$13,527,443. The land sales were zero at the end of October 2018, but some donations had been collected, and the project had come in slightly below budget. The Town explained to OILC the situation with the land sales and the obstacles the Town was facing. They were very understanding and provided the Town with a one-year extension until the \$13.5M Construction Bridge Loan would convert into a 30-year debenture. In 2019, another year extension was requested and granted by OILC since the land sales were proceeding slowly but there were interested buyers. The final extension date ends October 1, 2020. Whatever balance is outstanding from the Construction Bridge Loan will be converted into a debenture. This report is to provide Council with an update that the final amount to be debentured on October 1, 2020 is \$3,450,000.

Analysis:

The total projected cost of the MCC was \$36,204,778. The MCC funding model

included the following: (1) two debentures to be issued in the amount of \$21,204,758; (2) \$12,000,000 in land sales in East Fonthill; and (3) \$3,000,000 of donations to be collected over a five-year period by 2023. These three amounts equaled the projected budget of \$36,204,778.

The actual costs were \$35,597,487. The actual MCC funding results are as follows: (1) two debentures were issued in the amount of \$21,204,758; (2) \$9,477,439 was received from the East Fonthill land sales; and (3) some donations are pledged over a 25-year period, resulting in \$914,724 donations received to date.

One of the parcels of land that was earmarked to be sold in East Fonthill was taken off the market by Council since it might be required for additional parking at the MCC. A Parking Study is being conducted to review all parking needs for the Town.

Two other amounts were applied to reduce the construction bridge loan amount outstanding. They are as follows: (1) interest revenue in the amount of \$90,455; and (2) a portion of the existing demand instalment loan in the amount of \$460,111.

As a result, the total outstanding balance of the construction bridge loan at October 1, 2020 is \$3,450,000.

Summary of Financial Transactions:

On January 16, 2017, the Town debentured \$9,066,166 to be funded by a special increase to the tax levy.

On August 5, 2017, the Town debentured \$12,138,592 to be funded by Development Charges revenue.

The Construction Bridge Loan at October 31, 2018 was \$13,527,443.

In 2019, the first proceed of land sales in East Fonthill was received in the amount of \$4,533,399.

In 2020, there were three land sales in East Fonthill totaling \$4,944,040.

The total donations received to date are \$914,724.

Interest revenue received on short-term funds invested was \$90,455.

Interest expense incurred on the construction bridge loan is \$522,726 to date, and was funded by the MCC reserve, which was set aside to cover short-term borrowing

costs.

CIBC loan applied to reduce the construction bridge loan in the amount of \$460,111.

Total amount of the Construction Bridge Loan to be debentured is \$3,450,000.

Capital Financing and Debt Management Policy No. S400-07

As per section 4.4 (a) of the policy, the Internal Debt Limit from 2020 to 2024 states that: Annual Debt Financing Charges shall not exceed 20% of Own-Source Revenues. With this new debenture of \$3,450,000 being issued as well as the full-year payments on the 2019 debenture, the estimated Annual Repayment Limit (ARL) will be 15.6%; therefore, the ARL is within the approved limits. The current ARL for 2020 is 12.8% as per the Ministry's report.

Financial Considerations:

The interest rate being proposed by OILC is approximately 1.99% for a 20-year debenture with OILC. The approximate annual repayment amount is \$240,000. A portion of this will be covered by the donations which have previously been pledged, and the other portion by an increase to the tax levy. For 2021, based on the pledges we anticipate, the principal and interest amount will be covered by funds in the MCC Reserve and in-year donations, therefore not having an impact to the 2021 tax levy.

Alternatives Reviewed:

N/A

Strategic Plan Relationship: Financial Sustainability

While the Town essentially has no choice but to proceed with this debenture, long term debt is an appropriate mechanism to finance a community asset which should last for many decades, and in turn should be paid for by both current and future taxpayers. Consequently, issuing this debt supports Pelham's goals of financial sustainability.

Consultation:

Regional Municipality of Niagara

Ontario Infrastructure and Lands Corporation

Other Pertinent Reports/Attachments:

Certificate of Treasurer Requesting Debenture Financing

Prepared and Recommended by:

Teresa Quinlin, MBA, CPA, CA
Director of Corporate Services/Treasurer

Prepared and Submitted by:

David Cribbs, BA, MA, JD, MPA
Chief Administrative Officer