

Staff Report 2019-7

Meeting Date: Tuesday, June 18, 2019

Subject: 2018 Enhanced Roads Program Debenture

Submitted By: Heather Haire, Treasurer, Finance and Infrastructure Services

RECOMMENDATION

That the 2018 Enhanced Road Program be funded by a debenture, to be issued by the Region of Peel on behalf of the Town of Caledon;

That the Treasurer's update of the Town's projected debt servicing charges as it impacts the Town's Annual Repayment limit, outlined in Staff Report 2019-007 be received;

That the Region of Peel be requested to issue debt on behalf of the Town of Caledon as part of their debt issuance for the lower-tier municipalities in 2019; and

That a by-law be enacted authorizing the Clerk and Treasurer to execute all required documents to secure the Town's portion of funding for this project from a debenture to be issued by the Region of Peel for the upset limit amount of \$3,610,000 and for a term not to exceed 11 years.

REPORT HIGHLIGHTS

- The *Municipal Act*, allows lower-tier municipalities, within a regional municipality, to issue debentures only through the upper tier municipality;
- The Region of Peel issues debt on behalf of itself, and the lower-tier/area municipalities within the region.
- The Region is planning one debt issuance in 2019.
- The purpose of this report is to provide Council update debt and debt servicing cost information (inclusive of the proposed debenture) in order for Council to make an informed decision on the required by-laws and agreements required to issue the debenture, through the Region of Peel
- For the Town to participate in the Region's planned 2019 debenture issuance, the appropriate by-laws need to be in place which permit the issuance of debt and authorize the financial commitments (e.g. debt servicing costs) extending beyond the term of this Council.

DISCUSSION

In 2014, council approved an annual enhanced road program to be funded by debt. This program was estimated at \$4.1 million per year for 5 years to be funded by debt. The original purpose of this program was to extend the life of existing roads through a shave and pave program and delay the need for full reconstruction. As part of the Council Work Plan Infrastructure Update on 20-September-2016, staff clarified that a shave and pave program assumes that the underlying pavement structure is good. This is not the case for all roads. Accordingly, the original enhanced road program has been modified to be a shave and pave project, where possible, complemented by a program to improve the underlying pavement structure. The budget amount of \$4.1 million per year has remained unchanged and debenture funding for the Town's Enhanced Road Program has continued through to the 2019 Capital budget due infrastructure condition and needs.

Since the 2017 Enhanced Roads Program is not yet substantially complete, staff recommend debenturing the 2018 Enhanced Road program which is substantially complete. The 2017 Enhanced Roads program will be debentured in 2020 once two outstanding road segments have been constructed and the project is substantially complete. Accordingly, the Town is preparing to issue a debenture, via the Region of Peel, to fund the 2018 capital project.

In 2018, a debenture was issued for the 2016 Enhanced Roads program of \$3,629,000. This project is expecting to come in under budget at \$3,431,206, leaving remaining debenture funds of \$197,794 which is recommended to be transferred to the 2018 Enhanced Roads Program. Since the 2018 project is expected to be completed in 2019 at an estimated cost to complete of \$3,807,794, staff recommend issuing a debenture to an upset limit of \$3,610,000 ($=\$3,807,794 - \$197,794$). Council has previously approved debt financing for this project as part of the 2018 budget. The issuing of debt results in a financial commitments (e.g. debt servicing costs – principal and interest payments) extending beyond the term of Council, which must be approved by a by-law in accordance with the *Municipal Act*.

The Town of Caledon, like other lower-tier municipalities in a regional municipality, must secure long-term debt through the upper-tier municipality, the Region of Peel in Caledon's case. Town and Regional staff have started discussions on both the Region and the Town's debenture requirements and the Region is preparing for a debenture issue in September 2019, depending on market conditions. The debt service costs related to this debenture is estimated at approximately \$450,000 per year (based on May 1, 2019 estimate from the Region of Peel). This debt servicing cost is accounted for in the Town's proposed 2019 Operating Budget.

Town staff will report back via a memo to council on the debenture issuance and financial impact to the Town of Caledon after the debt issuance (through the Region of Peel) has been finalized.

FINANCIAL IMPLICATIONS

In accordance with Debt and Financial Obligations Limits regulation, *Ontario Regulation 403/02* of the *Municipal Act, 2001*, the Treasurer must update the Annual Debt Repayment Limit calculation and the anticipated annual debt charges (principal and interest) related to this project is within the Town's limit.

Provincial policy allows municipalities to incur debt charges equivalent to 25 percent of their net revenues without prior approval of the Local Planning Appeal Tribunal. On an annual basis, the Province provides each municipality with an Annual Repayment Limit (ARL) statement that outlines the maximum debt charges allowed (25% of net revenues), the debt charges reported, and the remaining debt repayment limit. Further, as part of the 2012 Budget, Council adopted a debt policy where the Town may issue debt to a maximum projected debt servicing charges (principal and interest payments) of 10% of net revenues.

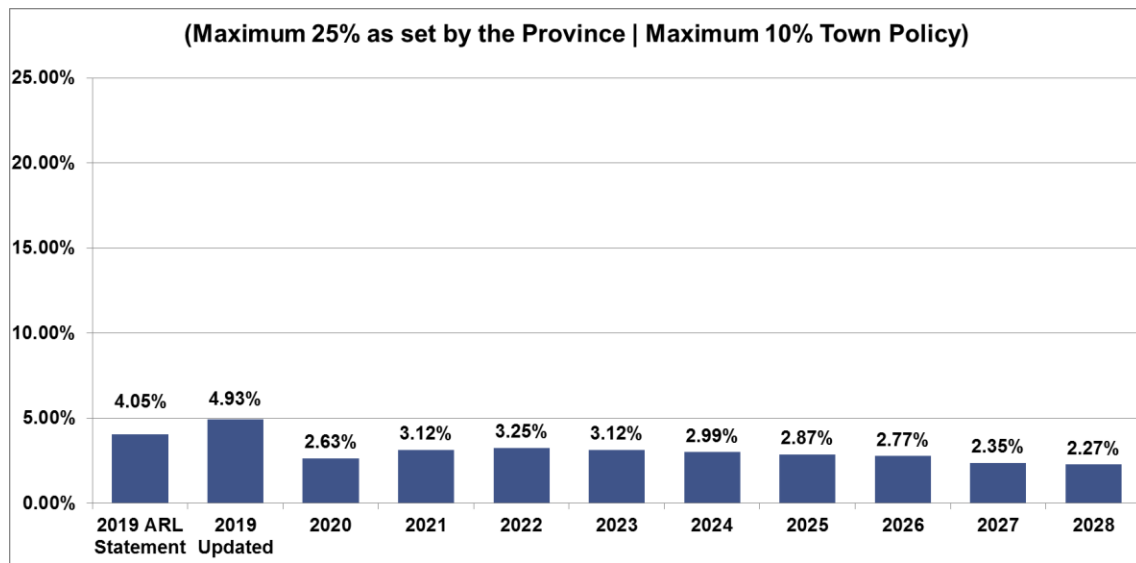
The Province provides each municipality with an Annual Repayment Limit (ARL) statement, in accordance with Regulation 403/02 of Section 401 of the *Municipal Act 2001*, outlining the percentage of net revenues the municipality is currently using to service debt. The calculation of the ARL for a municipality in 2019 is based on its analysis of data contained in the 2017 Financial Information Return (FIR). The Town of Caledon's 2019 ARL statement report indicates that the Town has net debt charges of \$3.4 million or approximately 4.05% of the Town's net revenues. This leaves a balance of 20.95% (25% - 4.05%) or approximately \$17.4 million of the ARL available.

The Treasurer is required to calculate an updated ARL and disclose it to Council in order to assist Council in decisions regarding capital programs and debt. An update of the ARL/debt servicing costs as a percentage of net revenues based on the recommended debentures included in this report and projections on future debentures (not approved to-date) is as follows:

The chart below shows an adjusted 2019 ARL and includes updates/assumptions such as:

- Photocopier and OPP Property lease costs;
- Future debentures assumed: 2017 and 2019 Enhanced Road Project \$4.1 million each year beginning in 2020, 2018 Enhanced Road project - \$3.6 million beginning in 2019
- Maturity of Caledon Hydro Debenture in 2019
- Assessment growth revenue projections for 2019 to 2028 based on the same assumptions used in the 2019 budget

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Prior to authorizing these commitments, the Treasurer is required by the *Municipal Act* to update the Town's annual financial debt and obligation repayment limit (debt capacity), incorporating the new commitments and certifying that the Town remains within this limit. The annual debt repayments / debt servicing costs may not exceed 25% of revenues as set by the Province of Ontario. The Town's policy for debt is 10% of Net Revenues. After updating the annual financial debt and obligation repayment limit calculations, the Treasurer for the Town of Caledon certifies that the Town is projected to remain below both the Provincial and the Town's internal debt repayment limits.

Debt servicing costs for debentures issued in the past and the planned debenture for the 2018 Enhanced Road Program have been included in the 2019 budget. All future approved debt capital projects will require debt payments to be incorporated in future operating budgets as an unavoidable budget increase. The 2017 and 2019 enhanced road programs debt payments will require funding in future operating budgets.

Section 403 of the *Municipal Act*, as amended, sets out the obligations of the lower-tier municipality in a regional municipality in relation to the debentures issued on its behalf by the upper-tier municipality:

The by-law of the upper-tier municipality authorizing the issue of debentures may require the lower-tier municipality to make payments in each year to the upper-tier municipality in the amounts and on the dates specified in the by-law. All amounts required to be paid to an upper-tier municipality by a lower-tier municipality are a debt of the lower-tier municipality to the upper-tier municipality. If the lower-tier municipality fails to make any payment as provided in the by-law of the upper-tier municipality, then the lower-tier municipality shall pay interest at the rate of 15% per year from the date the payment is due until it is made.

The upper-tier by-law shall provide for raising in each year as part of the general upper-tier levy the amounts required to be paid to the upper-tier municipality in any previous

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year by a lower-tier municipality to the extent that the amounts have not been paid to the upper-tier municipality.

COUNCIL WORK PLAN

The matter contained in this report is not relative to the Council Work Plan.

ATTACHMENTS

Schedule A – 2019 Annual Repayment Limit