



TOWN OF MINTO

DATE: March 27th, 2018
REPORT TO: Mayor and Council
FROM: Gordon Duff, Treasurer
SUBJECT: Debenture Financing

STRATEGIC PLAN:

5.1 Actively seek out Federal and Provincial grants and revenue-sharing programs, and promote sustainable and equitable funding programs that require a minimal amount of reporting and promote local autonomy.

5.3 Ensure financial plans to include a blend of capital financing methods including long-term debt, user fees, grants, internal reserves and taxation, and maintain reserves to the point where Minto reduces reliance on borrowing or tax increases to finance major capital expenditures.

BACKGROUND:

Debt financing is needed to cover the Town's share of the total cost of the 2018 Clifford Connecting Link construction project, and the George Street South reconstruction approved in 2017. The Clifford Connecting Link is a \$4.5 million project with \$2.7 million in Provincial Grant, while George Street has a Community Water and Wastewater grant of \$750,000 with total project cost just over \$1 million.

It was anticipated that construction financing of \$250,000 would be needed to fund George Street South reconstruction in 2017. Last year it was uncertain whether the County of Wellington would lead a borrowing consortium which the Town could join, and by year end the County confirmed it would not require borrowing in 2017. Town Staff instead investigated obtaining construction advances through Infrastructure Ontario, but George Street Work ended up being carried out quite late in the year with some payments not due until 2018. The Town was able to cover these costs without resorting to bridge financing. Now the original \$250,000 borrowing amount can be included in the 2018 debenture.

COMMENTS:

The County of Wellington indicated that it will be bringing forth a large debenture in the spring of 2018. They are receptive to having the lower tiers partner with them to meet their borrowing needs. Minto has participated in these joint projects in the past and there is a savings in both legal and financing agent costs working with the County if there are significant amounts included in a joint debenture. When the County chooses not to borrow, it is generally more economical to use Infrastructure Ontario.

The total amount of Minto's borrowing requirements for 2018 is \$2,100,000. This amount includes the \$250,000 carried forward from the 2017 George Street project as well as \$1,850,000 to finance the Town's share of the Clifford Connecting Link project. The

Clifford project includes road construction, stormwater installation, water and wastewater services, street lighting and streetscape enhancements from the southerly limits of the former Village of Clifford north to the intersection of Highway 9 and West Heritage Road. Connecting Link funding only covers those expenses directly related to the roads and drainage portion, with the remainder of the funds to come from other sources.

When Council awarded the project to Moorefield it was directed that staff report back on ways to reduce project costs and/or fund the overage identified. Potential funding sources include the Provincial Main Street Programs, developer contributions and contingency to ensure the Town does not have to borrow more than \$1.85 million. Staff has held several meetings with Triton Engineering, Moorefield and Westario to refine the cost of the project and these meetings will continue with a report to Council closer to project start in May.

The Town must choose a term for the debentures as both ten year and twenty year options are available. The accompanying chart shows annual and total costs for each option. The general rule is the term of long term debt should not exceed the estimated useful life of the assets being financed. Road surfaces have a forecast useful life of about ten years. The portion of the road surface for the Clifford project is estimated to be approximately \$300,000. Therefore the maximum amount to be financed over a twenty year term would be \$1,550,000 with the remaining \$550,000 to be financed over ten years.

FINANCIAL CONSIDERATIONS:

Long term interest rates are currently at 2.9% for ten years and 3.4% for twenty years. Annual carrying costs for this debenture range from \$198,000 to \$266,000 depending upon the term selected. As with a mortgage, the overall interest costs rise with the length of the financing term.

RECOMMENDATION:

That Council accepts the Treasurer's report dated March 27th, 2018 regarding Debenture Financing and requests the County of Wellington to borrow \$2,100,000 on behalf of the Town of Minto over ten and twenty years as directed.

Gordon Duff
Treasurer