

The Corporation of the City of Kawartha Lakes

Council Report

Report Number CORP2019-027

Date: October 29, 2019

Time: 1:00 p.m.

Place: Council Chambers

Ward Community Identifier: All

Title: Development Charge Reserve Debenture

Author/Title: Leanne Mitchell, Cost Accounting Supervisor

Recommendation(s):

That Report CORP2019-027, Development Charge Reserve Debenture, be received;

That Council approves funding the Development Charge Reserve deficit by debenture funding in the amount of \$7,881,574;

That Council approves the following projects to be funded by this debenture:

Project Number	Description	Amount
WW1401	Mary Street Watermain Reconstruction	591,784
WW1516	Fenelon Falls Ellice St. SPS Upgrade	1,960,745
WW1517	Colborne Street SPS Upgrades	3,805,699
PR0913	Lindsay Rec Complex Renovation	500,000
PR1210	Annual Playground Equipment Replacement	113,006
PR1518	Logie Park Improvements	910,340
	TOTAL	7,881,574

That future development charge collections from the following categories be used to finance the debt principle and interest payment; Parks and Recreation and Sewage Treatment:

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

Council has supported the growth strategy which includes approving growth related capital projects prior to receiving Development Charges for the projects. This means that Development Charges (DC's) have not been collected from prospective developers in the areas where these capital projects are happening but there is growth projected or waiting to be approved. This has resulted in a negative balance in the Development Charge Reserve that must be addressed prior to the City's December 31st, 2019 year end. A reserve cannot be in a deficit balance, as per General Accepted Accounting Principles, and therefore the City must bring this balance to a surplus balance or zero. The only way this can be done is to debenture for the deficit balance and use future Development charges collected to pay for the principle and interest on this debt. The table below shows the estimated balances of the development charge reserve by category at December 31, 2019.

Development Charge Category	Estimated Dec 31, 2019 Balance
Administration	(\$ 717,305)
Airport	\$ 81,557
Fire	(\$ 503,755)
Human Services	\$ 653,924
Library	\$ 326,354
Paramedic	(\$ 142,938)
Parks and Recreation	(\$3,174,706)
Police	\$ 710,612
Roads	(\$ 244,340)
Sewage Collection	(\$ 267,499)
Sewage Treatment	(\$6,928,956)
Transit	\$ 52,701
Water Distribution	\$ 1,493,653
Water Treatment	\$ 487,325
DC Collections (Sept to Dec)	\$ 400,000
Total	(\$7,773,275)

Rationale:

Staff have been discussing the use of debenture financing to cover the Development Charge reserve deficit with Council for a number of years. In prior years staff has been able to cover the deficit in the Development Charge Reserve with DC funding from projects that were not complete. In 2016, the City funded \$10,132,940 in development charges by debenture to bring the development charge reserve into a surplus balance. In 2019, we are now in the position where the development charge reserve is in a deficit balance and we need to fund the reserve using debenture proceeds. The current Development

Charge Reserve deficit is approximately \$8,200,000. However, Staff has factored in approximately \$400,000 in DC collections over the September to December 2019 period. Given these projections the amount of debenture funding required is approximately \$7,800,000. After this debenture, the Development Charge Reserve has used approximately \$18 Million in debenture financing to fund future growth.

An application is underway with Infrastructure Ontario to approve this debenture funding. Infrastructure Ontario only deals with funding projects and therefore Staff has been required to list projects that this funding will be used to finance. This does not mean Staff is changing these projects from Development Charge Reserve Funding to Debenture funding. This step is necessary due to Infrastructure Ontario's requirements and Staff's commitment to achieve the lowest interest rate possible. Infrastructure Ontario is offering a rate of 2.52% for a 20-year term. This is below the bank lending rate and locks the City into a 20-year term at a rate not possible to obtain utilizing the bank.

Staff has looked at the projects that have been funded over the last three to four years from DC's and have compiled a list of projects for Infrastructure Ontario purposes. The list is as follows:

Project Number	Description	Amount
WW1401	Mary Street Watermain Reconstruction	591,784
WW1516	Fenelon Falls Ellice St. SPS Upgrade	1,960,745
WW1517	Colborne Street SPS Upgrades	3,805,699
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Staff requires approval from Council, for Infrastructure Ontario purposes, to fund these projects and amounts from debenture. In reality Council is approving the funding of the Development Charges Reserve deficit by applying it to specific projects. The funding for the debenture principle and interest payments will still come from the Development Charge Reserve. In addition, as discussed previously with Council, this debt will not be part of the City's overall annual repayment limit as it has a specific funding source.

Other Alternatives Considered:

Council may choose to fund the debenture with a Canadian bank and would not be required to assign projects to the funding. However, this would result in higher payments over the long term as the interest rate is higher and the term is shorter.

Council could choose not to fund the Development Charge Reserve deficit. This would result in a qualified opinion on the audited financial statements as a reserve can not be in a deficit position at the end of the year. This would lead to problems with Federal and Provincial funding in the future so it is not recommended.

Financial/Operation Impacts:

There are no financial impacts to this motion. This further strengthens Council's commitment to have growth pay for growth as the payments will be funded from future Development Charges and not fall to the taxpayer on the tax levy or the user on the user rate for water and sewer projects. In keeping the deficit balance in the Development Charge Reserve this has restricted cash flow and Staff's ability to invest funds to earn investment income. By approving this motion, the cash flow will be restored and will enable future investment income to be earned.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

This recommendation assists in achieving the Strategic Enabler goal of responsible fiscal resource management as Council is ensuring that growth pays for growth. As well it ensures that Council has adequate cash flow to carry out day to day business and earn investment income.

Consultations:

Deloitte and Touche, LLP
Ministry of Municipal Affairs and Housing
Treasurer

Department Head E-Mail: jstover@kawarthalakes.ca

Department Head: Jennifer Stover, Director of Corporate Services