



Council Report

Report Number CORP2020-013

Meeting Date: October 20, 2020

Title: Development Charge Reserve Debenture

Description: Treasury has predicted that the Development Charge Reserve will be in a negative balance at the end of year of 2020. This reserve cannot be in a deficit balance as per Generally Accepted Accounting Principles. This report requests Council to approve the use of debentures to balance the Development Charge Reserve to a surplus balance or zero.

Author and Title: Leanne Mitchell, Supervisor, Cost Accounting

Recommendation(s):

That Report CORP2020-013, **Development Charge Reserve Debenture**, be received;

That Council approves funding the Development Charge Reserve deficit by debenture funding in the amount of \$8,570,689;

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

Project Number	Description	Amount
WW1705	Wastewater Treatment	1,160,917
WW1803	Combined Water Dist and WW Collection	248,057
RD1801	Bridges	252,474
RD1703	Urban/Rural Reconstruction Projects	567,962

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Project Number	Description	Amount
RD1701	Bridges	954,388
WW1701	Watermain Replacement	259,261
PR1518	Logie Park Improvements	3,036,490
PR1901	Bobcaygeon Beach Park	173,203
RD1803	Urban/Rural Reconstruction Projects	679,427
WW1903	Durham St. W. Mains	247,075
WW1903	Lindsay SPS	138,605
RD2003	Urban/Rural Reconstruction Projects	512,254
RD1606	Urban/Rural Reconstruction Projects	340,576
	TOTAL	8,570,689

That future development charge collections from the following categories be used to finance the debt principle and interest payment; Roads, Parks and Recreation, Wastewater Treatment and Administrative Studies.

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 31, 2020 yearend. A reserve cannot be in a deficit balance, as per Generally 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, 2020.

Development Charge Category	Estimated Dec 31, 2020 Balance
Administration	(\$ 2,828,569)
Airport	\$ 190,362
Fire	(\$ 1,295,208)
Human Services	\$ 848,735
Library	(\$ 238,874)
Paramedic	(\$ 219,654)
Parks and Recreation	\$ 206,318
Police	\$ 718,791
Roads	(\$ 2,980,135)
Sewage Collection	\$ 4,641,199
Sewage Treatment	(\$ 7,667,108)
Transit	(\$ 325,430)
Water Distribution	(\$ 492,663)
Water Treatment	\$ 1,167,071
By-Law Enforcement	\$ 15
Parking	\$ 110
Waste Diversion	\$ 33
DC Collections (Sept to Dec)	\$ 300,000
Total	(\$7,975,007)

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 have 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 and in 2019, the City funded \$7,881,574, to bring the development charge reserve into a surplus

balance. In 2020, we are 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 \$8.3 Million. However, Staff has factored in approximately \$300,000 in DC collections over the September to December 2020 period. Given these projections the amount of debenture funding required is approximately \$8 Million. When considering this is an estimate, we are requesting \$8.5 Million to ensure the Development Charge Reserve is not in deficit at the end of the year. After this debenture, the Development Charge Reserve has used approximately \$26.5 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 1.91% 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 have 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
WW1705	Wastewater Treatment	1,160,917
WW1803	Combined Water Dist and WW Collection	248,057
RD1801	Bridges	252,474
RD1703	Urban/Rural Reconstruction Projects	567,962
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WW1903	Durham St. W. Mains	247,075
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RD2003	Urban/Rural Reconstruction Projects	512,253
RD1606	Urban/Rural Reconstruction Projects	340,575.56
	TOTAL	8,570,689

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 cannot 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.

Consultations:

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

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Department Head: Jennifer Stover, Director of Corporate Services