



# THE CORPORATION OF THE MUNICIPALITY OF KINCARDINE REPORT

**Subject:** Queen Street Reconstruction Borrowing

**Director:** Corporate Services

**Manager:** Manager.

**Report Number:** Financial Services-2023-17

**Meeting Date:** Monday, June 5, 2023

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## Recommendation:

That Staff Report #2023-17 entitled Queen Street Reconstruction Borrowing be received; and That authorization be given to obtain a \$4,556,500 debenture from Ontario Infrastructure and Lands Corporation ("OILC") for long-term financing with repayment terms of 20 years to finance the Queen Street Sewermain project; and That authorization be given to the Treasurer to sign any necessary and related documents; and Further that Council approve the attached Borrowing By-law.

**Date to be considered by Council:** Monday, June 5, 2023

## Report Summary:

The purpose of this report is to provide information on the terms of the long-term borrowing to finance the Queen Street Reconstruction project as approved in the 2023 budget. A debenture will be required in the amount of \$4,556,500 with a repayment term of 20 years. Infrastructure Ontario requires that a Borrowing By-law be enacted to authorize undertaking long-term debt. A draft copy of this by-law is attached.

**Origin:** By-law 2023-036 (2023 Budget By-law)

**Existing Policy:** Policy GG.2.23 Debt Management Policy

## Background/Analysis:

The 2023 Budget includes the Queen Street Reconstruction project at a total cost of \$7,430,000, with 1/3 of this project funded from the Water Reserve Fund 68 and 2/3 funded by external debt. The tender for the construction of this work was

awarded to Lavis Contracting in the amount of \$6,834,625 (including non-refundable HST). Additional costs include Streetscaping (\$150,000), Engineering (\$385,000) and Business Program Support (\$50,000) for a total cost of \$7,419,625.

The 2023 Budget includes debt financing of \$4,903,800, however staff is recommending that the external borrowing be reduced to \$4,556,417. The proposed funding sources are summarized as follows:

	Estimated Cost	Funding Source			
		I.O. Debt	Water RF	Sewer RF	Lifecycle RF
Lavis Contract	\$ 6,834,625	\$ 4,556,417	\$ 2,278,208		
Engineering	\$ 385,000		\$ 128,333	\$ 128,333	\$ 128,333
Streetscape	\$ 150,000				\$ 150,000
Business Program Support	\$ 50,000				\$ 50,000
<b>Total</b>	<b>\$ 7,419,625</b>	<b>\$ 4,556,417</b>	<b>\$ 2,406,542</b>	<b>\$ 128,333</b>	<b>\$ 328,333</b>

Phase 1 of the construction work has commenced and thus far \$129,500 in project costs have been incurred to date, with substantial completion expected in the Fall 2023.

In accordance with the requirement of Ontario Infrastructure and Lands Corporation (OILC) a two-part process is required:

- **Part 1:** Passing a Borrowing By-law approving the submission of the application to OILC for long-term financing and providing delegated authority to enter into a financing agreement with OILC.
- **Part 2:** Passing a Debenture By-law providing authorization for the Municipality to issue debentures in respect of the project requested, in accordance with the applicable legislation and with the terms and conditions of the Rate Offer Letter Agreement.

Staff would like to initiate Part 1 of the process by passing the attached Borrowing By-law to approve the submission of an application to OILC. The debenture would be issued upon substantial completion of the project. Until such time that the debenture is executed, the Municipality will be relying on internal financing of the project costs using excess cash flows. This eliminates the need for Construction Financing and reduces interest costs.

The current lending rate from Infrastructure Ontario over a 20-year term is 4.32%. A draft repayment schedule is attached and illustrates a proposed annual repayment of \$342,550 (Note: interest rate is subject to change until the Borrowing By-law has been executed). Over the 20-year term, the cost of borrowing would amount to ~ \$2,295,000. The 2023 budget had estimated the interest rate at 4.44% with \$372,000 in debt repayment costs included in the operating budget.

A long-term borrowing by-law must be enacted by Council in order to proceed with securing financing. A draft borrowing by-law has been prepared and is provided as an attachment to this report. The debenture by-law will be brought back to Council for execution upon substantial completion of the project.

Annual Repayment Limit:

As one of the requirements to borrow these funds, the Treasurer must certify that the Municipality will not exceed its Annual Repayment Limit (ARL). The limit is that annual debt servicing (principal and interest) cannot exceed 25% of the Municipality's own source revenues.

For 2023, the Ministry of Municipal Affairs calculated that the Municipality is at 1.8%. It is projected that this new debt would add an additional 1.1% in annual debt servicing as a % of own source revenues for 2024 and therefore we will remain well within the ARL limit.

Debt Management Policy:

The Municipality's Debt Management Policy sets additional limits as follows:

<b>Self-Imposed Debt Limits</b>	<b>Maximum Limit</b>	<b>2024Est.</b>	<b>2023 Est.</b>	<b>2022</b>	<b>2021</b>
Debt Outstanding to Own Source Revenues	55%	44.4%	48.7%	40.6%	39.1%
Debt Service Costs to Own Source Revenues	10%	4.5%	3.8%	2.3%	2.0%

The maximum target limits are not exceeded with the addition of this new debenture.

**Integrated Strategy 2020 – 2025: Responsible and Effective Government**

**Financial Implications:**

The total long-term indebtedness is not to exceed \$4,556,500 and is required to be issued to fund the authorized capital project identified above.

A budget amendment will be brought forward at a future meeting.

**Attachments:** Draft Borrowing By-law; Draft Repayment Schedule

**Prepared by:** Roxana Baumann

**Submitted by:** Roxana Baumann