



STAFF REPORT

THE CORPORATION OF THE TOWN OF COBOURG

Regular Council

Report to: Mayor, Deputy Mayor, and Councillors
From: Adam Giddings, Treasurer/Director of Corporate Services
Report Number: COR-2024-012
Council Meeting Date: June 26, 2024
Subject: **Waterworks Growth Debenture Request**

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1. Recommendation:

THAT Council receive the letters from Lakefront Utility Services Inc. requesting the approval for growth related debenture of \$8,214,169; and

FURTHER THAT Council authorize the Treasurer to borrow and enter into a bank loan agreement up to \$8,214,169 over a ten-year period to be repaid using development charges, subject to the terms of the facility agreement with the lender.

2. Executive Summary:

In March 2024, Town of Cobourg Council approved non-growth borrowing of \$7,365,524 for Waterworks capital requirements.

Lakefront Utilities Services Inc. is requesting to proceed with obtaining additional financing of \$8,214,169 related to growth related infrastructure.

3. Background

Ontario Regulation 276/02 provides that a municipality may enter into bank loan agreements and interest exchange agreements to finance works for which a municipality has authorized borrowing.

Further, section 401(1) provides that a municipality may incur a debt for municipal purposes, whether by borrowing money or in any other way, and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt.

Section 408(2.1) of the Municipal Act limits the use of long-term debt to the financing of capital works, forbidding its use of operating expenses.

4. Discussion:

Current/Future Debt

In March 2024, Council approved non-growth borrowing of \$7,365,524 for Waterworks capital requirements as outlined in the December 11, 2020 water rate study.

The additional debenture request is related to the following:

Capital Project	Non-Growth Portion	Growth Portion	Total
New Elevated Water Tower	\$7,233,542	\$2,284,277	\$9,517,819
Booster Pumping Station	\$0	\$5,532,181	\$5,532,181
Federal ICIP	(\$1,995,004)	\$0	(\$1,995,004)
Provincial ICIP	(\$1,662,337)	\$0	(\$1,662,337)
Environmental Assessment, Design, etc	\$384,796	\$415,819	\$800,615
Project Admin and Inspection	\$501,368	\$516,406	\$1,017,774
Development Charges Received	\$0	(\$534,514)	(\$534,514)
Total	\$4,462,365	\$8,214,169	\$12,676,534

The current outstanding debt (including the March 2024 approval) is as follows:

Debtor	Interest Rate	Balance Outstanding at December 31, 2023	Maturity	Details
Town of Cobourg				
Infrastructure Ontario	3.35%	\$2,230,199	May 2032	Cobourg Community Centre
Waterworks of the Town of Cobourg				
TD Bank	2.73%	\$624,200	May 2028	Radio frequency meter replacement
TD Bank	2.92%	\$195,891	May 2028	Radio frequency meter replacement
TD Bank	2.70%	\$100,218	June 2028	Radio frequency meter replacement
TD Bank	5.04%	\$7,365,524	March 2054	Watermain replacements

Further to the above, Lakefront Utilities Services Inc. has indicated that they will require additional debt as follows:

- \$31,574,927 – growth and non-growth debt – 2026 to 2030
- \$30,000,000 – clarifier replacement - 2036

Annual Repayment Limit

The Ministry of Municipal Affairs regulates the level of debt incurred by Ontario municipalities, through its powers established under the Municipal Act. Ontario Regulation 403/02 provides the current rules respecting municipal debt and financial obligations. Through the rules established under these regulations, a municipality's debt capacity is capped at a level where no more than 25% of the municipality's own source revenue may be allotted for servicing the debt, expressed as an annual repayment limit.

The Town of Cobourg's 2024 repayment limit is \$12,198,551. This limit represents the maximum amount which the municipality had available as of December 31, 2023, to commit to payments relating to debt and financial obligation. If the municipality could borrow at 5% or 7% annually, the annual repayment limit of \$12,198,551 would allow the Town of Cobourg to undertake additional long-term borrowing as follows:

Term	Borrowing
5%	
20 years	\$152,020,912
15 years	\$126,616,791
10 years	\$94,193,979
5 years	\$52,813,343
7%	
20 years	\$129,231,626
15 years	\$111,103,356
10 years	\$85,677,519
5 years	\$50,016,469

Growth

Growth supporting projects aim to accommodate the business and residential growth of a municipality. They are often related to the establishment of core infrastructure required by new residents, such as water, wastewater, and roads. Whenever possible, expansion costs are funded through up-front agreements with developers. In the absence of an up-front agreement, expansion costs can be funded through debentures, to be repaid using development charges.

Development charges are fees collected from developers to pay the cost of growth-related municipal services. Development charge proceeds must be put aside to be used exclusively to pay for infrastructure that accommodates growth, such as roads, transit, water, and sewer infrastructure, and community centres. It is common for municipalities to issue debt to finance capital projects that accommodate growth and use development charges to fund the associated debt service charges.

Debt Management

There is no mandatory process that Ontario municipalities are required to follow when making long-term borrowing decisions. While the Province requires municipalities to report their long-term liabilities on their Financial Information Return, it does not mandate a planning process.

Some municipalities adopt a comprehensive long-term financial plan that covers both operating and capital dimensions. The preference would be to have a report to Council outlining the debt needs and a process that combines financial forecasting with financial strategizing to identify financial challenges and opportunities as well as threats and feasible strategies to secure sustainability. A long-term range perspective is preferred in order to make debt management decisions rather than approving debt requests on an as-needed basis. Borrowing decisions are therefore associated with other elements of long-term planning, such as long-term financial plans, asset management plans, and capital budgets, as well as development charges and reserves, and reserve fund policies and strategies.

Long-term debt is considered a financing alternative for meeting long-term infrastructure needs. It is also considered a potential source of financial risk. For this reason, debt can be a key focus of the long-term financial planning process. The multi-year financial forecasts form the basis of the debt capacity analysis, i.e. the determination of the amount of debt that a municipality can afford without jeopardizing its financial sustainability and flexibility. Furthermore, the established economic environmental outlook assists in evaluating the impact of future debt service charges on businesses and households, and whether they will be willing and capable of paying.

Long-term borrowing can provide many benefits but, like all tools, it is not without risk as excessive indebtedness can compromise financial sustainability and flexibility of the municipality.

As noted, the preferred method would be to have a staff report detailing the debt needs of the municipality, prior to approving any future debentures. The report would highlight the following:

- The role debt plays in the capital financing strategy i.e. the way it plans to fund the capital expenditures required to ensure municipal services.
- The characteristics of projects that are partially or fully financed by debt.
- Whether the municipality should establish self-imposed financial limits or ceilings on debt issuance or debt services costs.

- The risk of debt service charges becoming unaffordable and/or limiting the financial flexibility of the municipality; this requires considering the potential impact of unexpected fluctuations of revenues, expenditures, and borrowing costs on debt affordability.
- Whether the forecasted total tax burden on households and businesses would be deemed affordable and acceptable; this requires an understanding of the factors that might impact the economic situation and preferences of businesses and households.

Overall, the fact that a municipality can afford new debt does not mean it should take on debt if borrowing does not accomplish the established principles for capital financing. Overall, municipalities evaluate how different financing options might impact the overall cost of capital projects, the timely and adequate financing of projects, and the equitable distribution of costs and benefits within the community.

5. Financial Impact and Budget

There is no financial or budget impact. LUSI has indicated that the debt financing is funded through development charges and will not impact taxpayers.

6. Relationship to Council's Strategic Plan Priorities 2023 to 2027 and beyond:

- ☐ Thriving Community
- ☐ Service Excellence
- ☒ Sustainability

Utilizing debt ensures reasonable water rates while still providing appropriate levels of services and provides for long-term sustainability.

7. Public Engagement:

Public engagement is not required.

8. Attachments:

The following are attached:

1. Urgent Approval Request for Growth-Related Water System Debenture
2. Requirements Request to the Corporation of the Town of Cobourg

**9. Report Not Considered by
Standing Committee Because:**

☒ Time Sensitive Issue (information received too late for Standing Committee consideration)

A meeting was held on May 29, 2024 with the CAO, Director of Legislative Services, Director of Corporate Services, and Lakefront staff to discuss future financing requirements. Town of Cobourg staff indicated at that time the preference to delay any future debenture requests to Council until a report is sent to Council that details a long-term financing strategy.

On June 12, 2024, Town staff received notification from Dereck Paul that a separate letter was sent to the Mayor of the Town of Cobourg requesting the debenture approval at the June 26, 2024, Council meeting.

☐ Urgent Matter (issue arose after this month's Standing Committee Meeting)

☐ Other: