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## **Debt Retirement Staff Report**

Report Number: 2018-40

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: December 10, 2018

### **Recommendations**

1. That the report entitled Debt Retirement dated December 10, 2018 be received; and,
2. That the outstanding balance on the long-term debt for the Operations Centre be repaid to the Regional Municipality of York on or before April 29, 2019; and .
3. That the repayment be funded as outlined in this report; and
4. That the Treasurer be authorized to take whatever actions are required to comply with these directives.

### **Executive Summary**

See below.

### **Purpose**

The purpose of this report is to obtain Council's approval to retire the debt on the Operations Centre.

### **Background**

The Newmarket Operations Centre at 1275 Maple Hill Court was constructed in 2009 at a cost of \$21.9 million. A \$12.4 million loan provided part of the financing. In compliance with provincial legislation, the loan was arranged through our upper tier municipality, the Regional Municipality of York (the "Region"). The Region was not able to secure the 20-year debenture that we had requested. Instead, they arranged a 10-year sinking fund

loan, which is being amortized over 20 years. As the term of the loan is shorter than the amortization period; at the end of the term, a lump sum payment will be required or the debt will need to be re-financed.

A sinking fund is a complicated debt/investment hybrid. The interest rate for the debt is 5%. In cooperation with the Region's investment department, the funds are being set aside with a target return of 3%. Thus, the net interest cost is 2%, as long as the Region continues to have good returns. To date they are \$59,414 ahead of target. The annual debt servicing for this loan is \$1,021,615.

The cost of the Operations Centre was split between tax-supported and rate-supported services. There were reserves available for the tax portion and the rest was to be financed by a loan funded by water and wastewater rates.

The 2014 Development Charges (DC) By-law update determined that there was a growth component to the new Operations Centre and provided for funding from DC's for Fleet and Outdoor Recreation (parks). In 2014, \$532,961 of DC funding was applied to debt servicing. This represented 52% of the cost and has been growing with annual indexing.

The Region has asked for formal direction from the Town, by way of the Treasurer, as to whether we will refinance or pay out the loan. The outstanding principal at the end of the current loan term, April 29, 2019, is \$7,796,000. A response is required by January 31, 2019. There is a projected balance of \$59,414 in additional investment returns, which could be applied towards the principal.

## **Discussion**

The economic climate has changed since 2009. The current rate for long-term debt is about 3.5%. This is expected to increase again early in 2019. Similar increases will probably also happen with the rate of return on investments.

The Town's Water and Wastewater reserves are substantial. The 2018 budget projects a balance of \$50 million in asset replacement funds and \$4 million in rate stabilization reserves. There is sufficient cash available; a loan is not required.

While it is possible that extending the sinking fund loan could result in a small financial gain, there is an element of risk. Because the water and wastewater rate groups have sufficient resources to retire the debt, speculation is not recommended.

The retirement of the debt would be funded from the same sources that were applied to debt servicing – water rates and DC's. The 2019 DC Bylaw update will take this into consideration and calculate the appropriate contribution. The remainder will be funded by the water and wastewater funds. Please note that the update will not have Council approval until after the debt retirement.

It is recommended that the Treasurer be authorized to take out an internal loan from the Water and Wastewater Asset Replacement Funds to pay out the debt. This would be in the range of \$3.5 million to \$7.7 million, contingent upon the amount of DC funds that can be applied and the investment returns. Council will be advised at to the final amounts when they are known.

The reserve fund loan would not impair the capital programs for the utilities. It would be repaid by redirecting the budget for the sinking fund debt repayment to repayment of the internal loan.

## **Conclusion**

Retirement of the loan will have a small impact on our debt metrics. It would reduce our projected debt servicing costs as a percentage of own source revenues for 2018 from 5.8% to 4.8%.

Staff will review the application of DC's for tax-supported services to reduction of the water and wastewater contributions. When the funding allocation for the debt retirement is finalized, a recommendation will be made to rebalance the inter-fund reserves.

## **Business Plan and Strategic Plan Linkages**

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

## **Consultation**

The Regional Municipality of York administers long-term debt financing on behalf of the Town of Newmarket. The Region also manages the related investments for sinking fund debt. This is overseen by the Region's Sinking Fund Committee; the Town has voting membership.

## **Human Resource Considerations**

Not applicable.

## **Budget Impact**

Any possible operating budget impact will be offset by adjustments to the water and wastewater ARF contributions.

Consideration in 2019 of the inter-fund balancing may result in transfers from the water and wastewater ARF to tax-supported capital reserve funds, such as their ARF. They may assist with the inter-fund debt.

## **Attachments**

Appendix A - October 3, 2018 correspondence from the Region

## **Approval**

Mike Mayes, CPA, CGA, DPA  
Director, Financial Services/Treasurer

Esther Armchuk, LL.B  
Commissioner, Corporate Services

## **Contact**

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