

Staff Report T2014-24

Strategic Financial Plan  
Policy Paper No. 1

Debt

December 15, 2014

**Submitted to:** Mayor and Council  
**Submitted by:** John Brown, CAO  
Marjory Leonard, Treasurer  
**Subject:** Debt

## **PURPOSE**

- The purpose of this report is to provide Council with information regarding:
  - Current and historical external debt;
  - Current internal (interfund) loans and notes;
  - Committed debt;
  - Potential debt;
  - Risks that may impact our debt position;
  - Debt servicing costs; and
  - Debt as a % of own source revenues;
  - Recommend policies to reduce external debt, avoid, where possible, future external debt and formalize internal loans and notes policies.

## **RECOMMENDATION:**

**That** Council receive Staff Report T2014-24 and refer the report to the Strategic Initiatives Committee for further review.

## **1. BACKGROUND**

### **External Debt**

The *Municipal Act, 2001* and the Ministry of Municipal Affairs and Housing (MMAH) define debt within the context of long term liabilities:

“Long term liabilities are defined to include all types of debentures, mortgages and capital lease agreements.

In addition, bank loans are considered long term liabilities if the following conditions are met:

- The loan is made for capital purposes; **and**
- The bank cannot, under normal circumstances, demand payment before maturity of the promissory note; **and**

- The municipality does not intend to issue debentures, but has instead set up a plan to repay the loan out of general revenues over a period exceeding one year, with the approval of Council or the Ontario Municipal Board (OMB), as the case may be.”<sup>1</sup>

This is the definition used by MMAH when calculating the Annual Repayment Limit (ARL) which will be discussed prior to the introduction of the 2015 – 2018 budget documents.

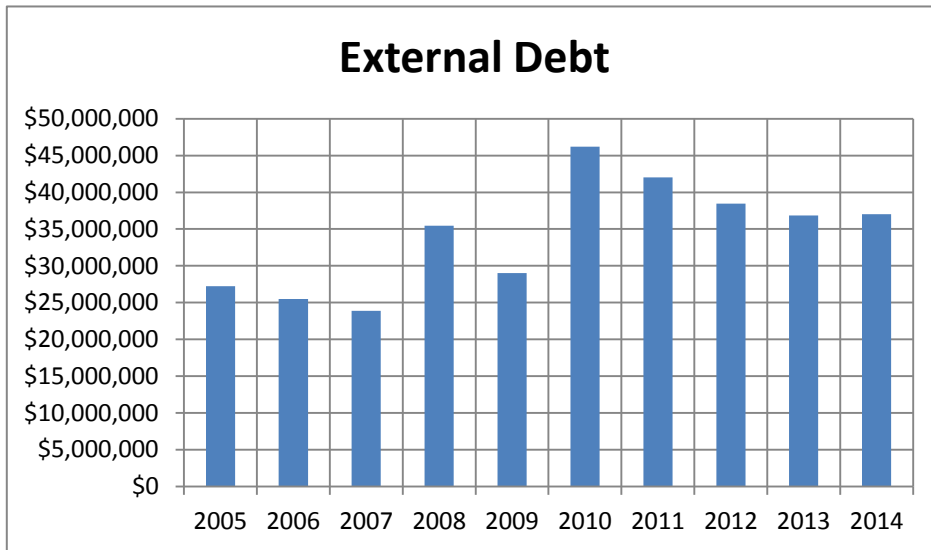
In response to several requests for information on the Towns debt levels during the election campaign, our auditors provided the following definition of what they consider to be debt:

“Our professional opinion is that debt is external, contractual debt, typically in the form of bank loans, debentures and mortgages. This definition is in keeping with the presentation of debt on the Financial Information Return prepared annually for the Ministry, as well as the Ministry’s calculation of the Annual Repayment Limit...

...like many municipalities, the Town has some internally financed debt. We have not included this in our definition of debt as Council has the flexibility and authority to change the nature of these amounts by Council motion, unlike the external debt that must be repaid based on a legal contract.”

For all external reporting functions, this is the definition that is **required** to be used. It must be used for calculating the updated ARL before Council approves any capital project that requires long-term financing; it is used in the audited financial statements; it is used in the Financial Information Return (FIR); it is used in the Assessment of the Town of Collingwood’s Financial Health<sup>2</sup>; it is used by Infrastructure Ontario (OILC) when reviewing our credit applications; and, it is used by the external legal counsel we retain for debenture transactions.

Using the above definition of external debt, the following chart shows our historic levels:



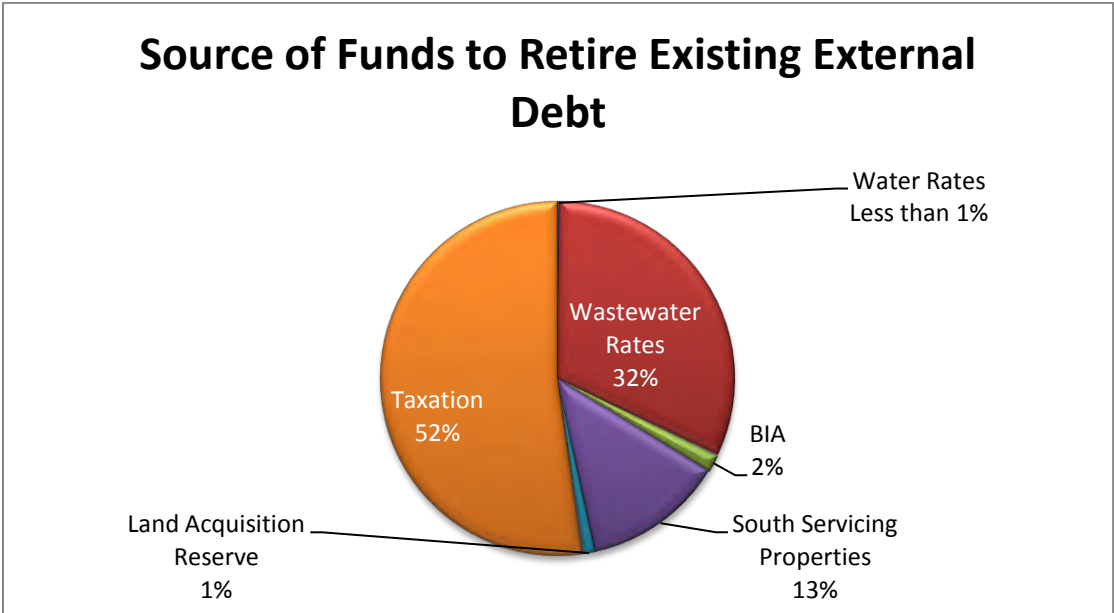
The above graph shows the consolidated balances which include the demand bank loan carried by the CPUSB from 2006 to 2011, the BIA portion of the Downtown Revitalization project, and the mortgage payable to F. W. Fisher Foundation.

<sup>1</sup> Schedule 74: Long Term Liabilities and Commitments, FIR 2013, Ministry of Municipal Affairs and Housing. “The term “long term liabilities” reflects the debt position of a municipality and its local boards.”

<sup>2</sup> “Assessment of the Town of Collingwood’s Financial Health”, BMA Management Consulting Inc., January 2014 and updated December 2014

Details of each of the outstanding debentures are provided in Appendix A.

Repayment of the 2014 outstanding balance will come from:



**Internal Loans and Notes**

Municipal accounting and reporting, historically, was a modified cash basis of accounting whereby payables and receivables were accrued at year end but items such as capital assets or post-employment benefits were simply expensed in the period they were incurred. The resulting model used for budgets and internal reporting was fund-based<sup>3</sup>. In general, the “Operating Fund” was used for calculating the tax levy because it contained provisions for debenture and other debt principal and any amounts necessary to fund capital expenses and transfers to reserves. The “Capital Fund” included acquisition or rehabilitation of capital assets and the associated financing necessary to complete the project.

Collingwood, along with many other municipalities has maintained the fund accounting concept.

With the exception of the amounts loaned to the CPUSB (see Appendix B), all other interfund loans are notional in nature. They represent a loan to the capital fund from reserves. Reserves are created through the budget process or by motion of Council and simply require a motion of Council to redirect those funds to whatever is deemed appropriate provided that it is done for a bona fide public purpose. However, it is assumed that these notional reserves were established and contributed to on the basis of a pre-determined future need for the funds.

<sup>3</sup> The clearest definition of Fund Accounting can be found in the Public Sector Glossary from Statistics Canada (<http://www.ststcan.gc.ca/nea-cen/gloss/pss-ssp-eng.htm>).

“Fund accounting: an accounting system in which a self-balancing group of accounts is provided for each accounting unit established by legal, contractual or voluntary action, especially in government units and non-profit organizations. Examples of the types of funds that are accounted for separately by government units are the capital fund, the reserve fund, the current, operating, general or revenue fund, the sinking fund, and the trust fund.”

Accepting this, the amount(s) borrowed from reserves, through interfund notes, need(s) to be repaid requiring funds to be included in the operating budget.

The Town has been using internal borrowing since 2010.

Currently, the Town has the following outstanding internally financed loans and notes:

	Annual Repayment	Balance
Heritage Park Wellness Centre Concept	\$ 50,000	\$ 592,429
Waterfront Trail	\$ 50,000	\$ 901,925
OPP Renovations* maximum estimate	\$ 50,000	\$ 500,000
507 Tenth Line	**\$ 83,456	\$ 1,100,960
Sunset Point Canteen* maximum estimate	\$ 10,000	***\$ 100,000
CPUSB Promissory Note	\$ 347,095	\$ 5,739,959
<b>Total Internal Loans and Notes</b>	<b>\$ 590,551</b>	<b>\$ 8,935,273</b>

\*Project is not complete at December 31, 2014. The costs incurred to date are \$100,711.

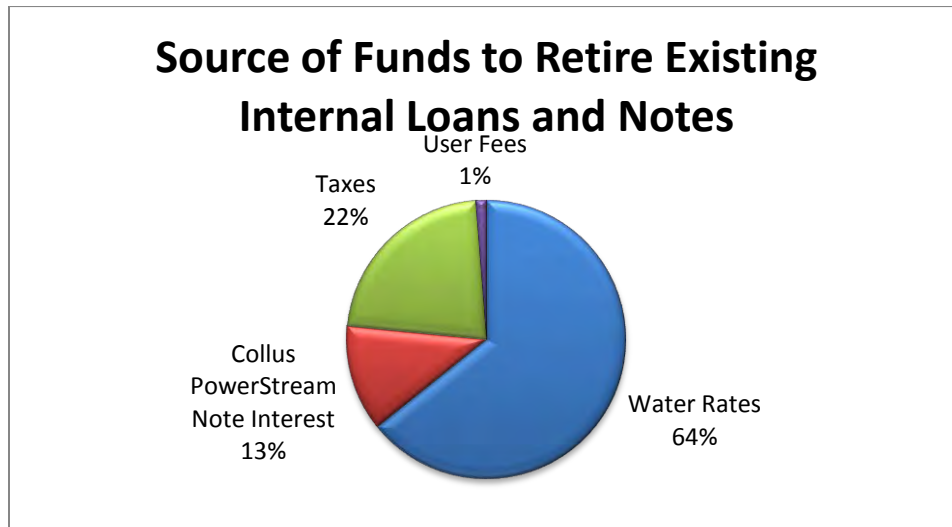
\*\* Amount is regulated by the OEB and subject to change annually. This is the 2014 interest on the CollusPowerstream note.

\*\*\*Contract was awarded October 20, 2014.

Details of the internal loans and notes are provided in Appendix B.

<b>Total Internal Loans and Notes at December 31, 2014</b>	<b>\$ 8,935,273</b>	<b>1.21</b>
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<b>Cumulative Balance</b>	<b>\$ 45,957,893</b>	<b>11.91</b>
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### **Committed External Debt**

Committed external debt refers to capital projects that are completed or underway and were approved based on debenture financing which has not yet been placed.

The following projects have been committed to be funded by debenture:

Proceeds Will Be Used to Fund	Potential Terms	Estimated Repayment	Maximum Balance Committed
Raglan Street (Hume to Ron Emo)	Potential Annual Interest Rate – 3.33% Serial debenture – 20 year term	\$ 124,324	\$ 1,500,000
Eddie Bush Arena – Phase 1	Potential Annual Interest Rate – 2.67% Serial debenture – 10 year term	\$ 63,015	\$ 500,000
Curling Club Partnership	Potential Annual Interest Rate – 2.67% Serial debenture – 10 year term	\$ 63,015	\$ 500,000
<b>Total Committed Debt</b>		<b>\$250,354</b>	<b>\$ 2,500,000</b>

The funding for this new debt will be raised through tax revenues.

<b>Total Committed External Debt at December 31, 2014</b>	<b>\$ 2,500,000</b>	<b>0.51</b>
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<b>Cumulative Balance</b>	<b>\$48,457,893</b>	<b>12.42</b>
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### **Potential Debt**

Potential debt amounts are based on the 2014 capital budget requests and reflect projects that:

- have been committed but timing is unknown – Waterfront Trail phase 2 – committed in the Master Development Agreement;
- have one or two phases of the project completed – mainly roads such as High Street;
- are awaiting provincial or federal funding; and,
- allow PRC to fully develop or redevelop parks to meet the changing needs of the community.

The majority of these projects could be within the term of this Council and require to be considered within the context of this report.

Council may or may not proceed with any of the following items:

#### Roads

- Hwy 26 West Repaving - \$3,890,000. This project was initiated based on the Connecting Link program. We have been informed that this program is no longer in existence and would require the Town to fully fund the project increasing the potential debenture amount to \$3,890,000 rather than the \$389,000 if Connecting Link funding still existed. We have submitted an Expression of Interest under the Ontario Community Infrastructure Fund and have been asked to proceed to the next step. We do not have a guarantee of funding at this point and, without provincial funding, staff will not bring this project forward until it becomes a critical priority.
- High Street Widening – Tenth to Poplar - \$3,129,623. This project includes a substantial portion of DC funding (\$4.3 million) which may or may not be available when the anticipated start date of 2016 is reached.

- 10<sup>th</sup> Line Urbanization - \$500,000. This project is anticipated to begin in 2015 with completion in 2016. The developers of Mair Mills and Consar will be responsible for 50% of the costs.

PRC

- Sunset Point Park Redevelopment - \$500,000 – estimated completion 2016.
- Waterfront Master Plan and Development - \$3,677,500 – estimated completion 2018.
- Eddie Bush Refurbishment Phase 2 - \$1,000,000 – estimated completion 2015.
- Eddie Bush Refurbishment Phase 3 - \$1,000,000 – estimated completion 2016.
- Eddie Bush Refurbishment Phase 4 - \$1,000,000 – estimated completion 2017.
- Shipyards Walkway Phase 2 - \$1,400,000 – estimated completion is dependent on the Shipyard development build out.

The total potential new debt that could be contemplated over this term of Council is \$ 16,097,123. **All of these funds would be Tax Supported debt.** Annual payments on this additional debt, based on the October 31, 2014 Infrastructure Ontario rate of 3.33% for a 20 year term, would be \$1,336,997.

<b>Total Potential Tax Supported New Debt at December 31, 2014</b>	<b>\$16,097,123</b>	<b>2.74</b>
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<b>Cumulative Balance</b>	<b>\$64,555,016</b>	<b>15.16</b>
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Water

There are several projects in the Rate Study and Development Charge Study that indicated external financing would be required. The COO and CFO of the Collingwood Public Utilities Service Board have reviewed their capital plan and are certain that this financing will not be required within the next five years.

***Risks That May Impact our Debt, Loan and Note Position***

The risks identified cannot be quantified but they should be acknowledged and taken account of before they can become a reality.

***Affordability***

The BMA reports and the Municipal Study - 2014 (prepared by BMA) indicates that our tax rates are high, specifically for residential properties. Affordability is not a measure of the total debt, loans and notes outstanding rather it is the ability of the Town and its' citizens to pay for debt. Two measures – debt per capita which measures the affordability across municipalities and debt per capita as a percent of household income which provides some indication of the citizens' ability to pay, are integral measures in determining affordability. In both instances, the Town is, again, high. With 10.70 % of every dollar raised going to external debt servicing and an additional 1.21% going to service internal loans and notes, at existing 2014 levels, our ability to maintain current services levels and rehabilitate capital assets is impaired.

***Increase in borrowing rates***

We have been in an historic and prolonged period of low interest rate borrowing which has created a more favourable environment to issue debt. How long this environment will continue depends on the fiscal policy of the Bank of Canada. The latest forecast is that an upward rate adjustment will occur in the third quarter of 2015. To put an interest rate increase in perspective, a 1% rise in rates for a 20 year term debenture would increase the annual repayment requirement by \$9,875 per each \$1 million borrowed or an additional \$102,565 in interest payments over the 20 year term.

***Inadequate reserve and reserve fund levels and funding mechanisms***

Since 2010 reserve and reserve fund contributions have come from the operating surplus at year end and have not been included in the budget. This type of funding places reliance on uncertain and unstable cash flows to fund future capital rehabilitation and improvements. In order to meet future capital needs as addressed in the Capital Asset Management Plan the funding of reserves needs to increase and become stable and predictable. In the 2014

budget, Council established a Capital Levy transfer to reserve in the amount of \$140,000. While this amount will be included in the base budget for future years, it is not sufficient to meet our needs.

#### **CPUSB use of MEARIE insurance**

MEARIE is an insurance reciprocal created in 1987 with a focus on the energy sector. Subscribers include electrical utilities, municipalities, small hydro and gas generation, telecommunications, fiber optics and water distribution. However their main focus and target market is the electrical sector. The philosophy behind a reciprocal insurance exchange is an unincorporated group or pool of organizations with similar risks agree to share those risks with each other. A contract is signed by each member of the group, which essentially "reciprocates" the agreement to share in each others' losses. The "down side" facing reciprocal members is the possibility of being retro-assessed to make up for any shortfall in claims funding which can occur if a large claim occurs, an unusual number of moderate to large claims occur in a given operating period, or there is an adverse development on any outstanding claims. If any of these situations occurs, the reciprocal can call on each member for additional funding to compensate for any deficiency in the underwriting pool. Regardless of the stability or financial foundation of the reciprocal pool, there is a possibility that the Town, through the CPUSB, could become liable for an unexpected or unknown claim. Retroactive claims can be made from historical involvement under these schemes.

The balance of the Town's insurance (the exception is the CPUSB) is placed with an insurer which does not have historical risk or shared liability.

#### **Capital call from Collus PowerStream**

A "capital call" is a request for additional equity investment by shareholders or partners in order to fund cash shortfalls in operations, fund acquisitions or to compensate for the falling value of non-cash assets and the need to increase cash so that liabilities do not exceed assets. With the sale of 50% of our shares in Collus, the Town no longer controls the direction the company may take. The share sale agreement does indicate that an acquisition action cannot be taken without the approval of all shareholders. It is unknown if this is a potential direction for the corporation to take however, it is a risk in terms of potential cash requirements on the part of the Town.

## **2. INPUT FROM OTHER SOURCES**

*Municipal Act, 2001 as amended;*

*"Assessment of the Town of Collingwood's Financial Health", BMA Management Consulting Inc., January 2014 (referred to as The BMA Report);*

*"Assessment of the Town of Collingwood's Financial Health", BMA Management Consulting Inc., December 2014; Municipal Study – 2014, BMA Management Consulting Inc., November 2014;*

This report was reviewed by Department Heads December 9, 2014, and recommended to proceed to Council.

## **3. APPLICABLE POLICY OR LEGISLATION**

*Municipal Act, 2001 as amended*

## **4. ANALYSIS**

There are several common measures of a municipality's debt burden which are referred to in the BMA reports. These key analytical measures of flexibility, affordability and sustainability are:

- Debt interest as a percentage of own source revenues;
- Debt per capita;
- Debt outstanding per \$100,000 of assessment; and
- Debt principal and interest as a percentage of own source revenues.

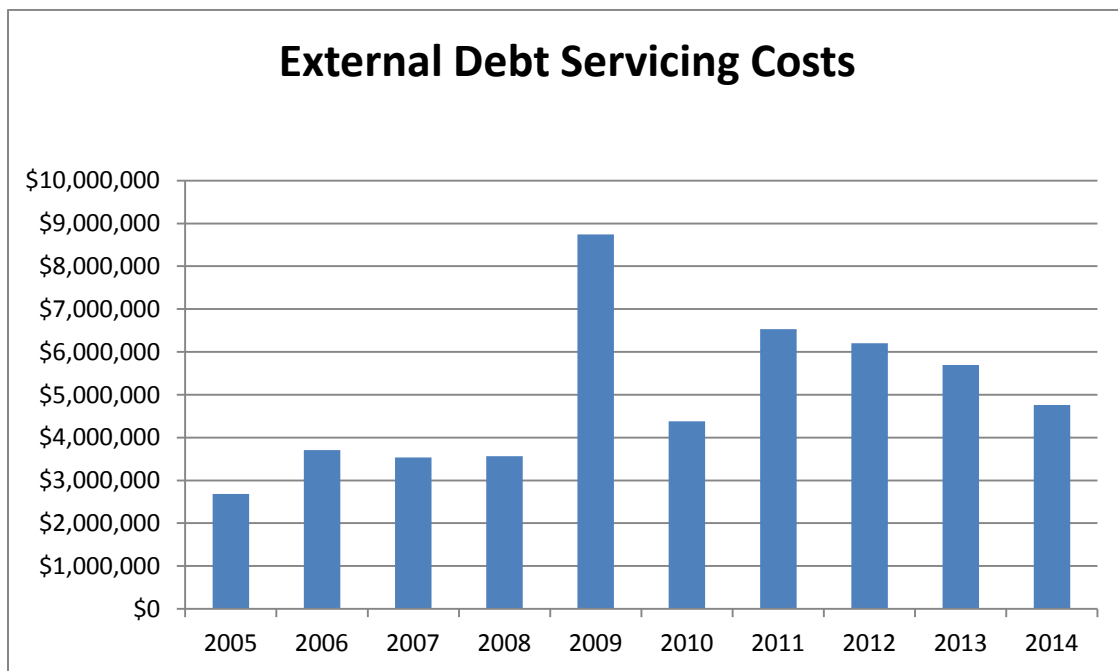
In all cases, the higher the percentage or the dollar figure generated from the calculation the **more impairment in flexibility, affordability and sustainability are experienced.**

Throughout this analysis, the term “debt servicing costs” will refer to debt principal and interest.

### **External Debt Servicing Costs**

Historical debt servicing costs are illustrated in the following graph. It should be noted that not all of these costs are paid directly from taxes. Water, wastewater, BIA, development charges and recoveries from South Servicing properties account for about 48% of the annual repayments. The sources of funding were shown above in the pie charts. It is evident from those charts that tax revenues do form the largest portion of the funds for repayment.

The large increase in 2009 payments reflects the debentures issued in 2008 as well as a lump sum payout of \$3,775,000 (made from sewer reserve funds) to pay out the balance of the 1999 debenture for upgrades to the wastewater treatment plant. The increase in 2011 is due to the 2010 debenture issues coming on line.





## Debt Servicing Costs as a % of Own Source Revenues

The municipality must raise enough cash to pay both the principal and interest portion of any outstanding debt, loan, mortgage or internal loan/note. It, therefore, makes this indicator the most relevant in terms of determining limits for external debt and internal loans and notes. The amount of money necessary to be raised to pay down principal and interest costs is not available for the provision of other services to the public.

The BMA Report uses “Debt Principal and Interest as a % of Own Source Revenues” as a component of the financial health of a community. It is a measure of financial flexibility and the ability of the community to respond to changing economic, social or environmental conditions. The higher the percentage of revenues required to service debt through principal and interest payments, the less financial flexibility is available to respond to unexpected and uncontrollable events.<sup>4</sup>

The basis of some of the calculations is “Net Own Source Revenues” as per Schedule 81 of the Financial Information Return (FIR). This figure is also the basis for the calculation of the Annual Repayment Limit which means that only **external** debt, both issued and committed, is included. In order to provide some historical context, the figures for own source revenues have been recalculated in accordance with the methodology applied in the BMA Report. At this time, the 2014 own source revenues have been estimated from a review of current actual results.

### Historical Debt Servicing Costs as a % of Own Source Revenues

Year	External Debt Servicing Costs	Own Source Revenues	External Debt as a % of Own Source Revenues	Internal Loans and Note Servicing Costs	Combined Debt, Loans and Notes
2005	\$ 3,623,397	\$ 30,353,759	11.94%		
2006	\$ 3,500,287	\$ 32,524,597	10.76%		
2007	\$ 3,219,791	\$ 33,946,267	9.48%		
2008	\$ 3,308,594	\$ 37,393,393	8.84%		
2009*	\$ 4,604,726	\$ 41,270,314	11.16%		
2010	\$ 4,164,008	\$ 45,238,665	9.20%		
2011	\$ 6,297,722	\$ 45,229,947	13.93%		
2012	\$ 6,009,806	\$ 44,817,746	13.41%	\$ 50,000	13.52%
2013	\$ 5,617,042	\$ 46,847,437	12.00%	\$ 50,000	12.10%
2014	\$ 5,218,547	\$ 48,786,746	10.70%	\$ 590,551	11.91%

\*The 2009 debt servicing costs have been adjusted to remove the large balloon payment of \$3,775,000 to provide a more appropriate year to year comparison. If this lump sum payment is included in the figures, the 2009 percentage is 20.34%.

The January 2014 BMA report indicated that the estimated 2014 debt servicing costs as a percentage of own source revenues will be approximately 12%. The actual results will vary from this estimate since the calculation is a function of own source revenues. At this point in the year, estimated own source revenues are \$48,786,746.

- Including external debt servicing costs only the percentage is 10.70%
- Including internal loans and note servicing costs the percentage is 11.91%

<sup>4</sup> “Assessment of the Town of Collingwood’s Financial Health”, BMA Management Consulting Inc., January 2014, pgs. 19-20; and

“Assessment of the Town of Collingwood’s Financial Health”, BMA Management Consulting Inc., December 2014, pgs. 19-20

- Including committed debt servicing costs the percentage is 12.42%
- Including potential debt servicing costs the percentage is 15.16%

These would be the overall percentages for water, wastewater and tax supported debt. However, BMA does further analysis on the constituent parts of own source revenues and debt. Applying this concept to the estimated 2014 own source revenues will allow a disaggregation of the debt servicing percentages and determine if limits on the debt levels of the constituent parts would be prudent.

It should be noted that the following chart is based on information previously presented in this policy paper. The most nebulous element is the potential external debt amounts since the completion of any of these projects is dependent on future decisions of Council. However, to restate the assumptions, these figures are based on:

- Potential external new debt for the Town has been based on the 2014 capital budget and could reach \$16,097,123.

	Water	Wastewater	Tax Supported	
Estimated own source revenues	\$ 6,240,827	\$ 7,953,111	\$ 34,592,808	\$48,786,746
Debt servicing costs:				
Existing external debt	\$ 147,193	\$ 1,761,995	\$ 3,309,359	\$ 5,218,547
Internal loans and notes	\$ 347,095		\$ 243,456	\$ 590,551
Committed external debt			\$ 250,354	\$ 250,354
Potential external debt			\$ 1,336,997	\$ 1,336,997
<b>Total Potential Debt servicing costs</b>	<b>\$ 494,288</b>	<b>\$ 1,761,995</b>	<b>\$ 5,139,966</b>	<b>\$ 7,396,449</b>
% of own source revenues:				
Existing external debt	2.34%	22.15%	9.57%	10.70%
Internal loans and notes	5.56%		0.70%	1.21%
Committed external debt			0.72%	0.51%
Potential external debt			3.87%	2.74%
<b>Cumulative % of own source revenues</b>	<b>7.90%</b>	<b>22.15%</b>	<b>14.86%</b>	<b>15.16%</b>

The Municipal Study – 2014<sup>5</sup> provides comparative information in relation to the level of our tax, water and wastewater rate burden. The Town is in the high range of the comparators. One of the factors that contributes to the high levels is the amount of debt we carry.

From the analysis above, it is evident that no more external debt or internal loans and notes should be incurred for wastewater projects. Both the Water and Wastewater Rate Study and the Development Charge Background Study do not rely on debt issuance to complete the wastewater projects that have been contemplated. It should also be evident that as our tax levy, water rates and wastewater rates increase, the debt as a percentage of own source revenues will decrease given that no additional debt is issued

Administration is sensitive to borrowing for unsustainable purposes and feels that a well-planned strategic approach is warranted at this stage in the evolution of the Town’s financial planning. In the past, external debt has been the funding mechanism “of choice” for capital projects as opposed to the budgeting of reserve and reserve fund contributions in the operating budget. This focus needs to change to incorporate the consideration of external debt as only one component in a strategically planned capital asset management plan. The debt limits proposed are, essentially:

<sup>5</sup> Municipal Study – 2014, BMA Management Consulting Inc., pages 256 to 421.

- re-positioning debt as a financing tool for the Town;
- supporting the Town’s ability to meet current and future infrastructure challenges;
- preserving borrowing capacity for future capital assets;
- increasing flexibility of current operating funds; and
- limiting the impact that debt charges will have on future tax rates.

**It should be noted that, notwithstanding any limits that Council may approve to limit increasing debt, the ultimate decision on any recommended debt or borrowing rests solely with Council. Debt decisions will be considered through the municipal budget process and will require bylaw approval to apply for any debentures.**

**Recommendations:**

- Set a “water debt servicing limit” not to exceed 7%<sup>6</sup> of the water utility own source revenue. Given that the Water and Wastewater rate study recommended that water rates increase 2.5% annually from 2014 to 2022, the water utility would not be in a position to contemplate additional debt until around 2019.
- Set a “wastewater debt servicing limit” not to exceed 7% of the wastewater utility own source revenue. Given that the rate study recommended wastewater rates to increase 3.5% from 2014 to 2018 and then decrease to 2.5% until 2022, the wastewater utility would not be in a position to increase their debt level until around 2026.
- Set a “tax supported debt servicing limit” not to exceed 7% of tax supported own source revenue. Based on the Capital Asset Management Plan assumptions, tax supported revenues would need to increase 3.6% annually. If this were the case, tax supported revenues would not be in a position to contemplate issuing new debt until 2018 based on the current repayment schedules.

## 5. EFFECT ON TOWN FINANCES

The purpose of this report was to provide Council with information regarding our current and potential external debt and internal loans and note position. As part of the strategic financial planning process staff are requesting that Council approve the debt limits as outlined above and direct staff to proceed developing policy and procedures for internal loans and notes as an external debt avoidance strategy and to investigate mitigation options for potential risks.

## 6. APPENDICES & OTHER RESOURCES

Appendix A	<i>Current Outstanding External Debt Instruments</i>
Appendix B	<i>Details of Internal Loans and Notes</i>

<sup>6</sup> “Assessment of the Town of Collingwood’s Financial Health”, BMA Management Consulting Inc., December 2014, has provided a range of 5-10% for water and wastewater supported debt and 7% for tax-supported debt.

Resource 1	<i>BMA Report, January 2014</i>
Resource 2	<i>Municipal Study – 2014</i>
Resource 3	<i>BMA Report, December 2014</i>

## SIGNATURES

Prepared by:		Department head:
<i>Marjory Leonard, MBA, CPA, CMA, CFP</i>		<i>John Brown</i>
<i>Treasurer</i>		<i>Chief Administrative Officer</i>
Town of Collingwood		Town of Collingwood

## Appendix A – Current Outstanding External Debt Instruments

By-law No.	Proceeds Were Used to Fund:	Terms	2015 Repayment Required	Outstanding Balance December 31, 2014
04-103	<ul style="list-style-type: none"> <li>✓ Purchase of Annex building – \$ 995,000</li> <li>✓ Black Ash Creek Channelization - \$6,250,000</li> <li>✓ East End Force main - \$6,100,000</li> </ul>	Annual Interest Rate – 5.58% <b>Issued through Capital Markets</b> <b>Amortizing debenture</b> Due – December 9, 2024	\$1,115,804	\$ 8,463,647
2008-139	<ul style="list-style-type: none"> <li>✓ Airport Terminal - \$ 384,744</li> <li>✓ South Servicing - \$8,670,000</li> <li>✓ Mountain Road Realignment - \$388,539</li> <li>✓ Cambridge/First Extension - \$246,103</li> <li>✓ Sanitary Sewer Renewal Phase 1 - \$3,762,821</li> </ul>	Annual Interest Rate – 5.57% <b>Serial debenture</b> Due – November 1, 2028	\$1,186,004	\$ 9,415,145
2010-117	Sewer Renewal Program Phase 2	Annual Interest Rate – 3.07% <b>Serial debenture</b> Due – November 2, 2020	\$639,919	\$ 3,263,612
2010-135	First/Huron Streets Reconstruction	Annual Interest Rate – 3.55% <b>Serial debenture</b> Due – November 2, 2020	\$419,712	\$ 2,091,412
2010-136	Downtown Revitalization	Annual Interest Rate – 3.55% <b>Serial debenture</b> Due – November 2, 2020	\$326,125	\$ 1,625,070
2010-137	Downtown Revitalization – BIA portion	Annual Interest Rate – 4.30% <b>Serial debenture</b> Due – November 2, 2030	\$62,896	\$ 600,000
2010-138	Library/Municipal Office Building	Annual Interest Rate – 4.30% <b>Serial debenture</b> Due – November 2, 2030	\$611,026	\$ 5,828,934
2013-102	Sewer Renewal Program Phase 3	Annual Interest Rate – 3.09% <b>Serial debenture</b> Due – November 2, 2023	\$286,084	\$ 2,026,800
2014-082	New Fire Station	Annual Interest Rate – 3.22% <b>Serial debenture</b> Due – November 2, 2034	\$269,921	\$ 3,300,000
2012-112	Purchase of Fisher Field	Non-interest bearing mortgage Due Date – March 1, 2022	\$51,000	\$ 408,000
<b>Total</b>			<b>\$ 4,968,491</b>	<b>\$ 37,022,620</b>

## Appendix B – Details of Internal Loans and Notes

1. Heritage Park Wellness Centre Concept<sup>7</sup>

This project was initiated in 2009 as part of the “Heritage Park Master Plan”. Phase 1 of the 4 phase park redesign was included in the 2009 capital budget. The project was shelved in 2010 which changed the nature of the expenditures to date (\$841,141) from capital expenses to operating expenses however, we had to wait for the Fitness Centre sale proceeds to determine the net amount that had to be recovered from taxes. The outstanding amount **must** be recovered from the tax levy since it has now become operational in nature.
2. Waterfront Trail<sup>7</sup>

This project is defined in the Master Development Agreement for the Shipyards property. Under the terms of the agreement, the developer is responsible for the construction of the walkway to the Town’s specifications and then the Town reimburses the developer. The total estimated project cost was \$2.4m. The terms available to the Town from the developer were to repay the cost over 5 years (their projected build out time) at 7.0% or debenture the costs for a similar interest rate over a longer period of time. The developer ran into financial difficulties in 2010 and, since the time to restart the project was unknown, we have started to pay down the balance. We can, however, debenture any remaining balance plus the additional costs that will be incurred to complete the project when it is completed.
3. OPP Detachment Renovations  
The Town is responsible for providing premises for the OPP detachment. The existing building requires an upgrade to the cell area, replacement of the roof top unit and, the removal of the in ground gas tanks that are no longer needed. This project is eligible for 64.45% development charge funding. It is anticipated that the amount of the internal loan after development charges will be under \$500,000.
4. 507 Tenth Line  
The purchase of the land and building at 507 Tenth Line was presented to Council September 12, 2011 showing the majority of the funds coming from the promissory note with COLLUS Power Corp. At the Council meeting of April 12, 2012, Council passed the following motion:  
*“THAT Council authorize not calling the promissory note held by Collus, and monies be allocated from the sewer reserve to offset the cost of the 507 Tenth Line property acquisition.”*  
There is no indication from this motion that the monies are to be repaid to the sewer reserve however, given that the reserve was created to ensure that funds were available for future expansion and upgrades to the wastewater collection and treatment systems, staff are recovering these funds from the interest received on the promissory note. The amount of interest that we receive varies each year and is consistent with OEB regulated cost of long-term borrowing rate (4.88% in 2014).
5. Sunset Point Canteen Renovations  
During the 2014 budget deliberations, Council approved renovations to the existing canteen to improve efficiencies for vendor operation and upgrade accessibility features and washroom facilities. These funds will be recovered through increased rental income.

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<sup>7</sup> It should be noted that repayment of the funds advanced to the capital fund for these two projects has not increased the amount to be raised from the tax levy. Debenture By-law No. 98-48 was paid in full in 2013 and required \$193,000 to be raised from the tax levy each year. The repayment amounts being applied to these projects do not carry a component of interest and total \$100,000 per year.

6. Promissory Note from the Collingwood Public Utilities Service Board

It has been customary for the Town and CPUSB to work cooperatively in times of short term funding needs. It has worked well for both parties and reduced the borrowing costs for the taxpayers and ratepayers. The sewer reserve has advanced the CPUSB \$6,000,000 to fund accumulated operating deficits from 2009 to 2013, past capital projects and cash flow requirements and has taken back a formal note on these funds. The interest rate, established by mutual agreement, is 1.5% and is equivalent to the approximate interest the Town could earn on those funds and approximately half of the rate that the CPUSB would pay if the funds were debentured. The repayment of principal and interest began in 2014 and has been included in the water rate study completed in 2014.