



Town of Newmarket
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Update on Long-term Debt Information Report

Report Number: 2018-09

Department(s): Financial Services

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

Date: February 28, 2018

In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Executive Summary

N/A

Purpose

The Town is about to issue a debenture for the purchase of the Mulock Farm. This report will clarify some issues on our long term debt:

1. Limits on debt
2. Status of our existing long-term debt
3. Projected payments for the proposed new debt

Background

Financial Services Report 2018-08, Borrowing By-law, seeks authorization to obtain a \$26 million debenture to finance the capital expenditures recommended to Council in CAO/Commissioners/Financial Services Report 2018-04, Supplementary Budget.

Discussion

There are limits on the amount of long-term debt the Town can have

The Province of Ontario has placed the following restrictions on municipal long-term debt through the *Municipal Act 2001* and *Ontario Regulation 403/02*:

1. In a Regional Municipality, such as York, lower tier municipalities must coordinate their borrowing through the upper tier
2. Long-term debt cannot be used to finance operational deficits
3. Annual debt servicing (combined principal and interest) payments cannot exceed the Annual Repayment Limit (ARL)

The ARL is 25% of own-source revenues from the previous year. This excludes non-sustainable revenues such as grants, development charges (DC's), gains on sales of assets, and increases in Business Enterprise equity (e.g. Newmarket-Tay Hydro); it is essentially property taxation and user fees.

For 2017, the Town's payments for long-term debt were \$4,846,078 and our own source revenue was \$108,329,954. Our debt servicing was at 4.5%. (Please note that report 2018-06 Borrowing By-law referenced the 2017 ARL of 4.8%. Since the time that report was written, Finance staff has received the 2018 ARL update).

The Town's Debt Policy is even more restrictive and sets the limit at 10%.

The proposed new debenture for the purchase of the Mulock Farm, \$1,460,000, would increase the debt servicing to 5.8%. This is well within the limits of the ARL and the Town's Policy.

The Town will see significant debt retired in 2024

At the end of 2017, the Town owed \$33.7 million in long-term debt. Of this amount, \$8.5 million is scheduled to be fully repaid in 2019, \$15.5 million in 2024, \$8.2 million in 2026, and \$1.5 million in 2031. Annual payments totaled \$5 million.

\$5 million was paid in 2017 to service this debt, of which only 11.7% or \$590,000 is funded from taxes. The rest is funded from water and wastewater rates, user fees; development charges (DC's) and reserve funds. Because the taxes fund debt that will be retired in 2024, this will create \$590,000 of tax room in 2025.

The majority of the tax room, \$340,000, relates to the Magna Centre. When the budget and funding was being developed for that project, a lower contribution was included to the Asset Replacement Fund with the intention that the ARF contributions would be increased after the debenture was repaid.

The projected debenture payments will total \$44 million - \$26 million in principle repayment and \$18 million in interest

Prior to Council's approval and submission of a formal application to Infrastructure Ontario, we can only estimate what the interest rates and exact payment amounts will be. At the time this process began, the interest rate for a 30-year debenture was 3.50%. Since then, it has risen to 3.65%. The budget included a provision for 3.75%.

Appendix A provides the details for the 30 years of payments.

Payments are semi-annual, in January and July of each year. They include both principal and interest, with the interest portion declining as the principal is repaid. The annual amount of \$1,460,000 (2 x \$730,000) is equal to a 2017 tax increase of 2.6%. For illustrative purposes, this has been shown as \$47 for the average residence – some will pay more and some will pay less. Businesses, commercial and industrial will also share in this tax increase.

Conclusion

N/A

Business Plan and Strategic Plan Linkages

This report supports and aligns with Council's Strategic Priority theme of:

- Efficiency/Financial Management

Consultation

Information provided is in response to questions from the public and Members of Council.

Human Resource Considerations

N/A

Budget Impact

N/A

Attachments

Appendix A - Projected payment schedule for a 30-year debenture at 3.75%


Contact

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

Approval



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



Esther L. Armchuk, B.A. (Hons.) LL.B.
Commissioner of Corporate Services

Appendix A

**Possible payment schedule for a 30-year debenture
at 3.75%**

Date	Payment	Principle	Interest	Balance
				\$ 26,000,000
Jan-19	\$ 730,000	\$ 235,953	\$ 494,047	25,764,047
Jul-19	730,000	240,437	489,563	25,523,610
Jan-20	730,000	245,005	484,995	25,278,605
Jul-20	730,000	249,661	480,339	25,028,944
Jan-21	730,000	254,405	475,595	24,774,539
Jul-21	730,000	259,239	470,761	24,515,300
Jan-22	730,000	264,165	465,835	24,251,135
Jul-22	730,000	269,185	460,815	23,981,950
Jan-23	730,000	274,300	455,700	23,707,650
Jul-23	730,000	279,512	450,488	23,428,139
Jan-24	730,000	284,823	445,177	23,143,315
Jul-24	730,000	290,235	439,765	22,853,080
Jan-25	730,000	295,750	434,250	22,557,330
Jul-25	730,000	301,370	428,630	22,255,960
Jan-26	730,000	307,097	422,903	21,948,863
Jul-26	730,000	312,932	417,068	21,635,931
Jan-27	730,000	318,878	411,122	21,317,053
Jul-27	730,000	324,938	405,062	20,992,115
Jan-28	730,000	331,112	398,888	20,661,003
Jul-28	730,000	337,404	392,596	20,323,600
Jan-29	730,000	343,815	386,185	19,979,785
Jul-29	730,000	350,348	379,652	19,629,437
Jan-30	730,000	357,005	372,995	19,272,432
Jul-30	730,000	363,789	366,211	18,908,642
Jan-31	730,000	370,702	359,298	18,537,941

Jul-31	730,000	377,746	352,254	18,160,195
Jan-32	730,000	384,924	345,076	17,775,272
Jul-32	730,000	392,238	337,762	17,383,034
Jan-33	730,000	399,691	330,309	16,983,343
Jul-33	730,000	407,286	322,714	16,576,057
Jan-34	730,000	415,025	314,975	16,161,032
Jul-34	730,000	422,911	307,089	15,738,121
Jan-35	730,000	430,947	299,053	15,307,173
Jul-35	730,000	439,136	290,864	14,868,037
Jan-36	730,000	447,480	282,520	14,420,557
Jul-36	730,000	455,983	274,017	13,964,573
Jan-37	730,000	464,648	265,352	13,499,925
Jul-37	730,000	473,477	256,523	13,026,448
Jan-38	730,000	482,474	247,526	12,543,974
Jul-38	730,000	491,642	238,358	12,052,332
Jan-39	730,000	500,984	229,016	11,551,348
Jul-39	730,000	510,504	219,496	11,040,845
Jan-40	730,000	520,204	209,796	10,520,641
Jul-40	730,000	530,089	199,911	9,990,552
Jan-41	730,000	540,161	189,839	9,450,391
Jul-41	730,000	550,426	179,574	8,899,965
Jan-42	730,000	560,885	169,115	8,339,080
Jul-42	730,000	571,542	158,458	7,767,538
Jan-43	730,000	582,403	147,597	7,185,135
Jul-43	730,000	593,469	136,531	6,591,666
Jan-44	730,000	604,746	125,254	5,986,919
Jul-44	730,000	616,238	113,762	5,370,682
Jan-45	730,000	627,947	102,053	4,742,734
Jul-45	730,000	639,879	90,121	4,102,855
Jan-46	730,000	652,038	77,962	3,450,816
Jul-46	730,000	664,428	65,572	2,786,388
Jan-47	730,000	677,054	52,946	2,109,334
Jul-47	730,000	689,919	40,081	1,419,416
Jan-48	730,000	703,029	26,971	716,387

Jul-48	730,000	716,387	13,613	-	0
Total	\$ 43,800,000	\$ 26,000,000	\$ 17,800,000		