



The Corporation of the Town of LaSalle

To: Mayor and Members of Council
Prepared by: Dale Langlois, CPA, CA, Director of Finance / Treasurer
Department: Finance
Date of Report: October 15, 2019
Report Number: FIN-29-2019
Subject: Riverfront Financing Options

Recommendation

That the report of the Director of Finance dated October 15, 2019 (FIN-29-2019) regarding the application for a loan with Infrastructure Ontario for Phase 1 of the riverfront project for an amount of \$10,000,000 with a 25 year term and a locked in interest rate determined at a point in time at which the debenture is to be issued BE AUTHORIZED.

Report

Background

As Council will recall at the closed Council Meeting on April 19, 2019, Council approved the following resolution:

Meloche/Renaud

That the confidential report of the Chief Administrative Officer, Legal Counsel and Director of Special Projects dated March 27, 2019 (AD-03-19) regarding acquisition of land by the municipality BE RECEIVED and that Administration BE AUTHORIZED to proceed in accordance with the verbal instructions of Council.

Carried

Phase 1 of the riverfront plan consists of the 2018 marina purchase, additional property purchases, level, grading, seeding, demolitions and creation of the riverfront master plan. The maximum total estimated cost of phase 1 of the riverfront project is \$10,000,000.

As mentioned above, the marina was purchased in 2018. Payments required for the purchase of the additional riverfront properties are expected to occur from December 2019 through March 2020. As identified in the riverfront financial plan that was presented to Council in April, funding will be required in the near future to fund these property purchases along with the other items identified in phase one of the riverfront project.

Phase 2 of the project will consist of various items that will be identified in the riverfront master plan and will be funded at a future date.

Grants

Administration is currently in the process of preparing a grant application for the riverfront project under the Investing in Canada Infrastructure Program – Community Culture and Recreation stream. Under this grant, there are two categories that Municipalities can apply for: 1) Rehabilitation and Renovation Category (capped at \$5 million of total cost) and 2) the Multi-Purpose Category (capped at \$50 million of total cost). The riverfront project best fits under the Multi-Purpose Category. If the Town is successful with this grant application, the Federal share of the project will be 40% of eligible costs, the Province's share will be 33.33% of eligible costs and the Town's share will be 26.67% of eligible costs plus the costs of ineligible costs. The Town is applying for total eligible costs in the range from \$25 to \$50 million (for both phase 1 and phase 2 of the riverfront project).

Eligible costs include project management, capital costs, construction and materials, design / engineering and planning, contingency costs (25% maximum), and costs related to meeting specific Program requirements, including completing climate lens assessments and creating community employment benefit plans. Ineligible costs include acquisition or leasing of land, buildings and other facilities.

Approximately \$8 million of phase 1 of the riverfront project is for land purchase and approximately \$2 million is for demolition, levelling, grading and seeding. Therefore, if the Town is successful with the grant application, approximately \$8,533,000 of phase 1 will still need to be funded by the Town as land purchase is an ineligible cost. The additional \$1,467,000 of funding through debt will be used to help fund phase 2 of the project as it will be fast tracked as a result of the grant funding.

Authority to Borrow

Section 401 of the Municipal Act permits municipal governments in Ontario to issue debentures to finance capital projects. Ontario regulation 403/02 limits municipal governments as to the amount of own purpose revenues that can be dedicated towards principal and interest payments – the annual debt repayment limit. According to the regulation, municipal governments are permitted to dedicate a maximum of 20% of their own purpose revenues to the repayment of debt. The Town has confirmed that there remains existing capacity within the prescribed limit to allow for the issuance of the debt associated with Phase 1 of the waterfront project. Currently, the Town of LaSalle's annual debt repayment limit is \$9,469,000. The total annual debt payments for all three of the Town's current debts (Town Civic Facilities, Vollmer Complex and Sewage Capacity) amounts to \$2,376,000. Based on this information, after issuing the proposed \$10,000,000 of debt with \$489,000 to \$645,000 of annual debt repayments (depending on the term of the debenture selected), the Town will still have significant debt capacity left for future projects if debt is required to fund a future project.

Infrastructure Ontario

As Council may be aware, municipalities and public sector organizations have the ability to borrow funds through Infrastructure Ontario. Infrastructure Ontario is a crown corporation, which among other services provides financing solutions and support services to the broader sector. Further information can be found on the Infrastructure Ontario web site at www.infrastructureontario.ca.

As was the case for the debt issuance related to the new Civic facilities construction, it should be noted that no other financial institution was consulted in this process as historically, no other financial institution has been able to compete with Infrastructure Ontario's rates. As part of the debt issuance for the Vollmer Centre and Lou Romano Sanitary Capacity expansion a request for proposal was issued to all the financial institution locations within the municipality with the limitation that the Infrastructure Ontario rates would be matched. All institutions declined to submit a proposal. The Procurement and Purchasing Policy, under section 4 and 5, provides the ability to award contracts/engagement of service providers without a full tender/request for proposal process. In addition, under Chapter 19-5 of the Comprehensive Economic and Trade Agreement (CETA), and under Article 504, Section 11(h) of the Canadian Free Trade Agreement (CFTA), financial services are exempt from the tendering process requirements of these agreements.

Recently, Gaetano Ferraro, Manager of Finance & Deputy Treasurer and Dale Langlois, Director of Finance & Treasurer met with Anthony Pizans, Senior Relationship Manager with Infrastructure Ontario to discuss various debt issuance options available to the municipality. During the discussion with infrastructure Ontario we suggested that the maximum amount of debt to be issued for Phase 1 of the waterfront project will be \$10,000,000.

Several options for the timing of the debenture issuance were discussed with Mr. Pizans. It should be noted that rates identified are the current rates that are subject to change. Rates are eventually established during the offer letter process which occurs just prior to the actual issuance of the debentures.

- 1) Capital Line – This option will allow the Town to combine multiple loan applications into one, thereby streamlining the application process. The Capital Line limit is established based on the Town's estimated capital works which will be financed in whole, or in part, by the issuance of debentures and will be available for up to 5 years. A "Facility Sub-Limit" will be applied, allowing the Town to access up to 50% of the Capital Line limit as an interest only loan (short-term loan). This amount would be outstanding against the set "Capital Line" limit. Once these short-term loans have been repaid or converted to long-term debenture loans with a set interest rate and term, the remaining balance of the Capital line can be accessed. The interest only payments will be paid monthly and the Town must repay and/or debenture the used amount within 120 days of acquiring a project or reaching substantial completion for projects that have received advances. Once the 5 year term has completed, or earlier if required, the Town may request an extension and the Capital Line will be reviewed and re-set based on the new terms and requirements of the borrower.
- 2) Floating Rate Capital Loan – This option is a non-revolving facility that will allow the Town to draw short-term loans for up to 5 years. Once authorized, the Town will be able to make interest only payments monthly for up to a 5 year period from the date the funds are first advanced. Partial draws will be permitted throughout the requested term. At maturity after 5 years, the Town must either convert to a fixed rate term loan or reimburse the interest only loan balance. The term will be established at the initial draw date. Any reimbursed or converted amounts cannot be re-borrowed.
- 3) Up front issuance of debenture – Under this option, the Town will be cash flowed the entire \$10,000,000 up front. Principal and interest payments will begin immediately (payments are made every 6 months). Under this option, the interest rate is locked in and the amount of the debenture is locked in.
- 4) Issuance of debenture at the end of Phase 1 – Under this option, the Town will fund through internal financing the total cost of land acquisitions and other costs of phase 1 of the riverfront project during the entire first phase of the project.

Once phase 1 is complete, the Town will issue a debenture at an interest rate to be determined at that point in time.

It should be noted that due to the nature of this phase of the riverfront project and the short period of time that it will take to complete phase 1 of the Riverfront project, option number one and option number two will be discounted and no further analysis will be performed. These options are generally used for projects with construction that will occur in various phases over many years.

Riverfront Phase 1 Debt Options – Assessment Matrix		
Criteria	Option #3 Upfront Issuance of Debenture	Option #4 Issuance of Debenture at the end of Phase 1
Short-term (6 month period) total cost	Over the 6 month period of phase 1, the cost to the Town will be the debenture interest paid of \$133,500 less interest earned in bank account during phase 1 of unutilized funds received from debenture advance (\$75,000) = \$58,500.	Over the 6 month period of phase 1, the cost to the Town will be the loss of interest earned in the bank account during phase 1 (\$75,000) as a result of reducing the bank account balances to temporarily internally finance the entire cost of the project.
Long-term total cost	Total interest paid over 25 year term of the debenture is \$3,770,000 less interest earned in bank accounts during the short term period from debenture advance (\$75,000) = \$3,695,000.	Total loss of interest earned in the bank account before debenture is issued (\$75,000) plus interest paid over the term of the debenture (to be determined at the time of debenture issuance).
Interest volatility	Locked in debenture rate = No risk as rate is locked in	Interest rate will not be locked in until the completion of the project = Medium Risk as phase 1 will be completed by the end of the summer 2020 (rates not expected to change significantly).
Other advantage / disadvantages	Disadvantage: The Town is locked into the total debenture amount regardless of whether that entire amount is required or not. Currently the projected requirement is \$10,000,000	Disadvantage: During phase one of the project, the Town will deplete a large portion of the current bank account balances

		Advantage: The Town will not be locked into a total debenture amount of \$10,000,000. The actual amount issued at the time of completion will be for the exact cost of the project.
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Interest rates quoted by Infrastructure Ontario are all-in blended rates which are guaranteed for the term of the borrowing. The fixed interest rate results in a fixed semiannual payment – which allows municipalities to budget and plan for debt repayment in the most conservative manner.

The following Chart outlines the various terms of debt currently available through Infrastructure Ontario:

	Alternative A	Alternative B	Alternative C
Principal	\$10,000,000	\$10,000,000	\$10,000,000
Term	20 Years	25 Years	30 Years
Payments	Equal Semi Annual	Equal Semi Annual	Equal Semi Annual
Type	Amortizer Debentures	Amortizer Debentures	Amortizer Debentures
Infrastructure Ontario Benchmark Rate (at October 1, 2019)	2.60%	2.67%	2.71%
Benchmark Semi Annual Payment	\$322,194	\$275,406	\$244,564
Total Annual Cost	\$644,389	\$550,811	\$489,129
Current Master Plan Funding Build-up	\$500,000	\$500,000	\$500,000
Minimum additional funding amount required in 2020 Budget	\$144,389	\$50,811	\$nil

It is important to note that both RBC and TD analysts project the overnight interest rate, set by the Bank of Canada to remain flat to the end of 2020. Beyond this, it is difficult to predict what interest rates will do.

Summary and Recommendation

The Town of LaSalle is a risk averse organization – not uncommon in the municipal sector, which deals with public funds and as a result, the primary objective is to reduce

or eliminate risk. As a result, administration will recommend that option 3 (Up front issuance of debenture) is used as the interest rate will be locked in and the risk of interest rate fluctuation throughout phase one of the project will be eliminated. Administration will also recommend that alternative B (25 year term) is selected for the length of the debenture as there is funding available in the current budget to cover the annual payment. It is important to note that interest rates currently offered by Infrastructure Ontario are at a historical low.

Consultations

None

Financial Implications

Refer to the body of the report.

Prepared By:



Director of Finance/Treasurer

Dale Langlois, CPA, CA

Link to Strategic Priorities

	Expanding and diversifying our assessment base
	Effectively communicating the activities and interests of the Town
Yes	Managing our human and financial resources in a responsible manner
	Promoting and marketing LaSalle
	Promote a healthy and environmentally conscious community

Communications

Yes	Not applicable
	Website
	Social Media
	News Release
	Local Newspaper
	Bids & Tenders
	Notification pursuant to the Planning Act

Notifications

Name	Address	Email

Report Approval Details

Document Title:	FIN-29-2019 Riverfront Financing Options.docx
Attachments:	
Final Approval Date:	Oct 15, 2019

This report and all of its attachments were approved and signed as outlined below:



Director of Finance/Treasurer

Dale Langlois



Chief Administrative Officer

Joe Milicia