1
MUNICIPAL INFRASTRUCTURE LENDING PROGRAM

(Regional Council at its meeting on February 18, 2010 amended this clause by adding Recommendation No. 2 as follows:

> ***2. The Regional Chair and the Commissioner of Finance be authorized to execute any documents including financial instruments necessary to secure the debt financing from CMHC referred to in this report, subject to the review of Legal Services.)***

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated January 20, 2010, from the Commissioner of Finance.

1. RECOMMENDATION

It is recommended that:

1. An application be made to Canada Mortgage and Housing Corporation (CMHC) for low interest loans under the Municipal Infrastructure Lending Program for the water and wastewater projects identified in Table 1 of this report, in an amount not to exceed $44.5 million for a term not exceeding 20 years.

2. PURPOSE

This report asks for authority to apply for loans in an amount up to $44.5 million under the Municipal Infrastructure Lending Program.

3. BACKGROUND

As part of the Canada's Economic Action Plan, the federal government is offering low interest rate loans through the Canada Mortgage and Housing Corporation ("CMHC") to municipalities to facilitate the development of capital projects related to residential development. These can include water, waste water, solid waste and roads projects with a focus on contributing to healthier, safer and more modern residential communities.

The terms of the loan would include:

- Projects may be for new construction, expansion, or renewal;
- Construction must start after January 27, 2009;

- Construction must start within three months of CMHC’s commitment letter;
- Construction must be completed by March 31, 2012;
- Loans will be advanced after construction starts in one advance; and
- Loans would be for a 15 years term, although CMHC advises a longer term can be negotiated.

The loan agreement also calls for penalties if the funds are not disbursed when planned, or if construction is not completed by March 31, 2012.

4. ANALYSIS AND OPTIONS

The Region has forwarded two preliminary applications to CMHC regarding two projects that meet the strict limitations of this program.

CMHC has advised that the funds available under this program will be issued on a “first come first served” basis.

As outlined in Table 1, the Region has forwarded preliminary applications to CMHC regarding two projects which would fit timing and program intent criteria. These two projects are referenced in Table 1.

Table 1
Projects Recommended for CMHC Funding
$-Millions

Project #/ name	Loan Request to CMHC	Expected end date of construction
73170/ King City Additional Water Supply Watermain	14.5	December 2011
73720/YDSS Duffin Creek WPCP Expansion	30.0	December 2010
Total	**44.5**	

Borrowing funds from CMHC can save the Region considerable financing costs

CMHC advises that the rate for 15 year term loans it advanced on January 1, 2010 was 4.13% which is approximately 62 basis points less than the Region’s estimated cost of borrowing of approximately 4.75% for a similar term. On the proposed loan amount of $44.5 million the difference in borrowing cost over 15 years would exceed $2.5 million. These funds would otherwise be payable through Regional Development Charges and User Rates.

The Region is currently borrowing funds for water and wastewater projects for 20 years. CMHC has indicated it would be agreeable to negotiating terms for longer than the 15 years. CMHC does not publish 20 year rates, but is expected the same approximate difference in rates would apply.

There are potential costs to the Region if the funds are not advanced on a timely basis or if the work is not completed when required.

CMHC requires borrowers to pay a penalty if they do not complete the work by March 31, 2012. In the event that less than 25% of the cost of the construction portion of the project has not been expended and if the project is not completed by March 31, 2012, CMHC may call the entire loan due and payable. If any part of the project is unfinished by that date, CMHC can call the pro-rata share of the loan that relates to the uncompleted portion of the project. The penalty, which covers CMHC's borrowing costs for the term of the loan, is estimated to be about $ 350,000 for every $10 million of loan advance which would be required to be paid back on the basis of the 15 year rate information.

The legal agreement pertaining to these applications will be reviewed by the Region's legal counsel when received in final form. Staff will report back prior to any legal agreements being recommended for execution as well as the actual interest rate spread which could be expected if CMHC agrees to 20 year term financing.

5. FINANCIAL IMPLICATIONS

Low interest CMHC loans for the water and wastewater projects identified in this report could result in savings of about $2.5 million to the Region in interest rate costs. These savings will accrue to Development Charges and User Rates.

The Treasurer has updated the Annual Repayment Limit (ARL) as mandated by the Province for the payments which would be payable under this loan and confirms that the ARL as updated is not exceeded.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact arising from the recommendations in this report.

7. CONCLUSION

As part of the Canada's Economic Action Plan, the federal government is offering low interest rate loans through the Canada Mortgage and Housing Corporation ("CMHC") to municipalities to facilitate the development of capital projects related to residential development. These can include water, waste water, solid waste and roads projects with a focus on contributing to healthier, safer and more modern residential communities.

This low interest lending program will generate considerable interest savings for the Region.

For more information on this report, please contact David Williams, Manager, Treasury and Reserves at Ext. 1620.

The Senior Management Group has reviewed this report.