THE REGIONAL MUNICIPALITY OF YORK

REPORT NO. 2
OF THE REGIONAL COMMISSIONER OF FINANCE

For Consideration by
The Council of The Regional Municipality of York
on April 21, 2005

1
LAKE SIMCOE REGION CONSERVATION AUTHORITY REQUEST FOR INCREASE TO FINANCING ASSISTANCE

1. RECOMMENDATIONS

It is recommended that:

1. The interim financing to be provided by the Regional Municipality of York to the Lake Simcoe Region Conservation Authority (LSRCA) for the renovation and construction of its headquarters be increased from $2.5 million to $3.2 million.

2. Upon completion of the project, the Regional Treasurer be authorized to
   a) Issue debentures on behalf of the LSRCA for an amount up to $2.155 million (previously $2.0 million) for a period not to exceed 10 years; and
   b) Provide a loan to LSRCA not to exceed $545,000 at an interest rate of 4.0% and a term not to exceed 5 years.

3. Staff be authorized to take all actions necessary to implement these recommendations.

2. PURPOSE

In response to a request from the LSRCA, this report outlines the need to increase the amount and type of short and long-term financing for the renovation and construction of their headquarters located at 120 Bayview Parkway in the Town of Newmarket.

3. BACKGROUND

On May 20, 2004, Council approved interim financing of up to $2.5 million and long-term debenture financing of up to $2.0 million for the Lake Simcoe Region Conservation Authority (LSRCA) for the renovation and construction of its headquarters in the Town of Newmarket. Construction of the facility was anticipated to commence in August 2004 with completion in the spring of 2005. Total costs for the project were estimated at approximately $2.78 million. Table 1 summarizes the sources of funding for the project based on the original project costs.

Table 1
Sources of Funding Based on Original Costs

Source	Amount
LSRCA Funds	$300,000
Up-front Contributions	480,000
Debenture Proceeds	2,000,000
Total Project Funding	$2,780,000

The design and funding specifications costed out in the previously approved project were based on a 2001 study which addressed the provision of standard conventional office space. Subsequently, numerous environmental initiatives as well as additional architectural, mechanical and electrical requirements were identified.

Project costs based on these new specifications are now anticipated to total approximately $3,607,000. This total includes costs relating to construction, renovation, demolition, legal, debt issuance and interim financing. Construction of the project is now anticipated to start in May 2005 with completion by December of this year.

There are a number of municipalities that benefit from the service provided by the LSRCA and contribute to its operating costs; however, the Region of York represents the largest participant of member municipalities, contributing approximately sixty per cent of member fees. Operating costs are pro-rated among participating municipalities based on Current Value Assessment Ratios modified to account for percentage of benefiting properties.

4. ANALYSIS AND OPTIONS

The revised total costs of this project are estimated at $3,607,000 which represents an increase of approximately $827,000 over the original estimate of $2,780,000.

Certain municipalities, as identified in the last report to Council in 2004, have decided to pay for their share of the original project costs upfront. These municipalities include Durham, Kawartha Lakes, New Tecumseh, Innisfil and Oro Medonte. The City of Barrie has advanced a portion ($120,000) of their original share of $490,000 of the capital costs in cash. The capital costs covered by these municipalities total approximately $480,000.

In addition, the LSRCA has set aside approximately $427,000 (including $25,000 in energy grants) to be used to defray a portion of the costs of the project.

Debenture financing for the project will increase from $2,000,000 to $2,155,000 and now includes an amount of $236,000 for Conservation Ontario who will be occupying a portion of the new facility. The balance of the debenture financing ($1,919,000) will be repaid by those member municipalities who did not make full upfront payments towards the original costs of the project.

The LSRCA has also requested that the Region of York provide funding for the balance of the increased costs of the project ($545,000) in the form of a repayable loan.

Table 2 summarizes the revised sources of funding for the project and provides a comparison to those sources previously reported.

Table 2
Revised Sources of Funding and
Comparison with Original Estimates

Source	Revised Amount	Original Amount
LSRCA Funds (including energy costs)	$427,000	$300,000
Upfront Contributions	480,000	480,000
Loan from Region*	545,000	0
Debenture Proceeds	2,155,000	2,000,000
Total	$3,607,000	$2,780,000

* Amount of loan may be reduced with the receipt of potential grants and other contributions. Any remaining loan will be repaid by levies received from all participating municipalities based on modified CVA.

4.1 Interim Financing

As before, the LSRCA will require short-term financing during the construction phase until all funds are in place and as the proceeds from any debenture issue will not be made available until after the project is completed. This short-term loan can be provided by the Region as authorized by Section 107 of the Municipal Act. This Section permits Council to make a loan to a not-for-profit institution or group when it is in the interests of the municipality.

Funds for this interim loan can be provided from the Region’s Working Capital Reserve. The interim loan with interest will be repaid as soon as the proceeds from the long-term debenture are available.

4.2 Debenture Financing

Upon completion of the construction phase of the project, the Region will borrow approximately $2,155,000 on behalf of the LSRCA by way of a public debenture issue with a term of up to ten years. The Region would then advance the proceeds of the debenture issue to the LSRCA by means of a long-term agreement. The Region is authorized to borrow on behalf of the LSRCA based on Section 404 of the Municipal Act and further defined under Section 24 and 26 of the Conservation Authorities Act.

Included in the $2,155,000 million debenture financing is approximately $236,000 that will be indirectly repaid by Conservation Ontario. Repayment of this amount will come from levies imposed on all member municipalities of Conservation Ontario. The obligation for and repayment of the remaining $1,919,000 will be allocated among those participating municipalities who did not make full up-front contributions based on modified CVA ratios. The initial apportionment of debt based on 2004 CVA estimates for those municipalities are summarized in Table 3.

Table 3
Apportionment of Debt

Municipality	Modified CVA*	Share of Debenture	
	(Millions)	%	$
York	20,253	74.4	1,431,000
Barrie (net of advance)	5,298**	19.5	371,000
Bradford	1,237	4.5	87,000
Ramara	422	1.6	30,000
Sub-Total Municipalities	27,210	100.0	1,919,000
Conservation Ontario			236,000
Total Debenture			$2,155,000

* Modified CVA has been further adjusted to reflect any upfront contributions
**Barrie's modified CVA has been adjusted to reflect cash advance of approximately $120,000.

The apportionment of debt servicing costs for the first year's payment would be based on the ratios summarized in Table 3. For each subsequent year, it is recommended that the repayment of debt servicing costs float on the basis of the change experienced in relative modified CVA between the participating municipalities. This would serve to better match debt servicing costs with benefiting rate payers.

The long-term financing would be evidenced by a long-term loan agreement between the Region and the LSRCA. As the Region will be responsible for approximately 75% of this debt, a security lien on the property will not be considered necessary provided resolutions are obtained from the councils of the other municipalities participating in the debenture issue indicating their agreement to repay their portion of the loan. The LSRCA have indicated they would receive verification from the other participating municipalities to support the costs associated with long-term debt.

4.3 Region Loan to LSRCA

In order to finance the remaining $545,000 required to fund the additional costs of the project, the LSRCA has requested the Region to provide a repayable loan. It is proposed that the term of the loan be for only five years but that the amortization period be set at ten years in order to reduce the associated annual debt charges.

This loan facility would be put in place after substantial completion of the project. The loan with the LSRCA would be an obligation of all the member municipalities of the LSRCA and would be repaid from levies based on the modified CVA of each participating municipality.

The LSRCA is investigating alternative sources of funding such as federal and provincial grants (e.g. The Green Municipal Fund), corporate donations and foundation contributions, etc. To the extent that it is successful in raising these alternative funds prior to accessing the loan facility from the Region the amount of the final loan will be reduced. As the fundraising efforts could be ongoing over the life of the loan, the LSRCA is further requesting that the loan be open to prepayment.

Funds for the loan facility could be provided from the Region's General Capital Reserve and the loan as with the debenture financing be evidenced by a loan agreement between the Region and the LSRCA.

5. FINANCIAL IMPLICATIONS

For 2005, there are no financial or budget implications to this report as any debt servicing costs will not be incurred until 2006. Any debt servicing costs which are the responsibility of the Region of York will be provided for in the 2006 operating budget. Interim advances made to the LSRCA in 2005 will be charged interest at prevailing short-term interest rates, and will be repaid by those municipalities (including Conservation Ontario) participating in the long-term debentures or those that have not made full upfront contributions.

Based upon current costs of borrowing, the Region's portion of the $2,155,000 debenture would result in annual servicing costs of approximately $181,000 for the next ten years which would be funded from the Region's tax levy. This is approximately $14,000 less than the amount estimated in the May 2004 report to Council.

If no other additional grants or sources of funding are found by the LSRCA the annual costs associated with the Region's share of the $545,000 loan would be approximately $40,000 for the next five years. The Region's portion of the unfunded debt at the end of five years would be approximately $180,000.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact resulting from this report.

7. CONCLUSION

The LSRCA has identified the need to upgrade the specifications for its previously approved construction plans for its headquarters in Newmarket. These upgrades have been deemed necessary in order that the LSRCA will be able to continue to provide leadership in the restoration and protection of the environmental health and quality of Lake Simcoe and its watershed.

The interim and long-term financing assistance detailed in this report will help to minimize interest costs, thereby providing a direct financial benefit to the LSRCA and ultimately reduce the financial burden carried by the Region's own rate payers.

(The attachment referred to in this clause is attached to this report.)

Respectfully submitted,

April 12, 2005
Newmarket, Ontario

S. Cartwright
Commissioner of Finance

(Report No. 2 of the Commissioner of Finance was adopted, without amendment, by Regional Council at its meeting held on April 21, 2005.)