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REVISIONS TO LAKE SIMCOE REGION CONSERVATION AUTHORITY BUILDING ADDITION FINANCING

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, February 3, 2006, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The Regional Treasurer be authorized to provide a general obligation loan to the Lake Simcoe Region Conservation Authority (LSRCA) to be funded from the General Capital Reserve for an amount up to $2.1 million and a term not to exceed 10 years with an interest rate of 4.5% per year comprised of the following two components:

    a) A forgivable loan of up to $1,860,000 for which the principal and interest will be repaid by means of a charge to the Region’s annual operating budget; and
    b) A repayable loan of up to $240,000 for which the principal and interest will be repaid annually by the LSRCA on behalf of Conservation Ontario.

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

2. PURPOSE

This report outlines the need to change the terms of the long-term financing agreement required for the completion of the renovation and construction of the LSRCA’s headquarters located in the Town of Newmarket.

3. BACKGROUND

On June 10, 2004, Council approved interim financing of up to $2.5 million which would be subsequently replaced by long-term debenture financing of up to $2.0 million for the renovation and construction of the LSRCA’s headquarters in the Town of Newmarket. The debenture financing was requested by the LSRCA because certain member municipalities (including York Region) preferred to finance their portion of the capital costs over a 10 year period rather than by a one time upfront contribution.

Subsequently, the estimated cost of the project increased from $2,780,000 to $3,607,000 due to higher than anticipated construction tender costs and a number of environmental initiatives as well as additional expenditures needed for architectural, mechanical and electrical work. As a result, the LSRC requested and received approval from Council on April 21, 2005 to amend its financing to the following:

1. Interim (construction) financing would be increased from $2.5 million to $3.2 million;
2. Upon completion of the project:
    1. Long-term debenture financing be increased from $2.0 million to $2.155 million; and
    2. York Region provide a loan to LSRCA for $545,000 for a term not to exceed 5 years.

Again, the debenture financing was for those municipalities who did not wish to make their contributions upfront. The additional $545,000 loan would be repaid by all member municipalities within the LSRCA as part of their levy based on their share of current value assessment.

Recent events have now simplified the LSRCA's financing requirements as outlined below.

4. ANALYSIS AND OPTIONS

Since the last report the LSRCA's financing requirements have again changed due to cost increases and funding changes:

4.1 Cost Increases

At the time of the April 2005 report, total costs were anticipated to be approximately $3,607,000. These costs are related to the construction, renovation, demolition, legal and financing expenditures of the project, but exclude Regional development charges totalling $51,499. The LSRCA has requested that the development charges be exempted by the Region. This is the subject of a report on the March 2, 2006 Finance & Administration Agenda. Inclusion of development charges plus additional legal and construction costs result in revised project costs of approximately $3,847,000.

4.2 Funding Sources

Table 1 summarizes the funding sources approved by Council in April 2005. Originally the upfront contributions from the LSRCA ($427,000) and certain member municipalities ($480,000) totalled $907,000. A 5-year loan was required from the Region of $545,000 and was to be repaid as an annual levy on all member municipalities. In addition, a 10-year debenture was to be issued and repaid by the Region and those municipalities who did not make full upfront contributions.

Table 1
Comparison of Funding Sources
April 2005 Versus Proposed

Source	April /05 Funding		Revised Funding	
Upfront contributions LSRCA Member Municipalities Total contributions	 $427,000 $480,000	 $907,000	 $527,000 $1,220,000	 $1,747,000
Loan from Region – 5 years		$545,000		0
Debenture – 10 years		$2,155,000		0
Long Term Loan				$2,100,000
Total Financing		$3,607,000		$3,847,000

At this time, all member municipalities (with the exception of York Region) have opted to pay their share of the $545,000 loan by way of upfront contributions. In addition, those municipalities (other than York Region) who were to participate in the debenture financing have also decided to pay their share by way of upfront contributions.

Table 1 also summarizes the proposed funding structure for $3,847,000 incorporating the following changes:

1) Increased contributions by the LSRCA of $100,000 and decision by certain member municipalities to make up-front contributions of $740,000;
2) Elimination of requirement of 5 year loan of $545,000;
3) Replacement of debenture financing of $2,155,000 by way of a proposed long-term loan of $2,100,000.

4.3 Revised Funding Methods

Currently, York Region's portion of revised costs total approximately $1,860,000. As before, the Region intends to pay its share of the capital costs over 10 years rather then by way of a one time payment.

Additionally, Conservation Ontario will also contribute towards the cost of the project and have requested that their portion of these costs, approximately $240,000 also be financed over 10 years.

Originally, LSRCA had requested York Region debenture on its behalf for costs not paid upfront by various member municipalities. As these municipalities have subsequently paid or have committed to pay this share of the costs upfront, debenture financing is not necessary or economical. In order to avoid unnecessary legal and debenture issuance costs, it is recommended that the long-term financing be in the form of a general obligation loan between York Region and the LSRCA with the following components:

a) A forgivable loan of up to $1,860,000 for the Region's portion.

b) A repayable loan to LSRCA on behalf of Conservation Ontario for up to $240,000.

Both segments of the loan would be for a term of up to 10 years at a rate of 4.5% per annum.

The forgivable loan would be reduced each year by an amount equal to annual interest and principal amortized over 10 year period. The $240,000 repayable portion of the general obligation loan would be repaid by LSRCA who would in turn recover the annual debt costs from Conservation Ontario. As a form of assurance, it is proposed that Conservation Ontario be required to provide a letter indicating their obligation to repay their portion of the loan.

Funds for the long-term loan can be provided from the General Capital Reserve. It is proposed that the loan would be evidenced by a loan agreement between York Region and the LSRCA.

5. FINANCIAL IMPLICATIONS

Debt servicing costs applicable to the Region's share of the long term loan will be approximately $235,000 annually. These costs will be funded from the Region's tax levy and included in its annual operating budget.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact resulting from this report.

7. CONCLUSION

The revisions to the term of the LSRCA's long-term financing requirements are necessary due to the significant changes by which member municipalities opted to pay for their share of the overall capital costs. Additionally, these revisions avoid unnecessary debt issuance costs (underwriting commissions, legal fees, etc.) and simplify the administration of the loan.

The Senior Management Group has reviewed this report.