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LAKE SIMCOE REGION CONSERVATION AUTHORITY REQUEST FOR FINANCING ASSISTANCE

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 5, 2004, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The Region of York advance up to $2.5 million to the Lake Simcoe Region Conservation Authority (LSRCA) to be used for interim financing for the renovation and construction of its headquarters in the Town of Newmarket.

2. Upon completion of the project, the Regional Treasurer be authorized to issue debentures on behalf of the LSRCA for an amount up to $2.0 million for a period not to exceed 10 years.

3. Staff be authorized to take all action necessary to implement this recommendation.

4. The LSRCA provide the Region with written commitments from the other municipalities participating in the interim loan indicating their agreement to repay their portion of the loan.

2. PURPOSE

In response to a request from the LSRCA, this report sets out the option for Council to provide both interim and long term financing assistance to the LSRCA for the renovation and construction of their headquarters located at 120 Bayview Parkway in the Town of Newmarket.

3. BACKGROUND

As part of its 2004 Budget submission, the LSRCA indicated that the “current head office facilities in Newmarket have deteriorated to the point of being a serious problem for the health and safety of LSRCA staff”. The need for updated head office facilities was also referenced in the Authority’s 2003 Budget as a cost pressure. The LSRCA was requested at that time to report back in 2004 when additional details of their requirements were available.

In order to resolve this situation the LSRCA considered a number of alternatives for upgrading the existing facility. Their Board has approved an alternative that provides adequate space for staff and storage and incorporating energy efficient features that will allow for future growth.

Construction is scheduled to commence in August 2004 with completion in the spring of 2005. The total cost of the project is estimated at approximately $2.78 million. This total includes costs relating to construction, renovation, demolition, legal, debt issuance and interim financing.

There are a number of municipalities who benefit from the services provided by the LSRCA and who therefore contribute to their operating costs. These costs are pro-rated among these municipalities on the basis of modified Current Value Assessment (CVA) Ratios i.e., modified to account for percentage of properties benefiting from LSRCA services. The following table summarizes the participation ratios of each of the member municipalities.

Table 1
Participation Ratios of Member Municipalities Supporting LSRCA

Municipality	Participation Ratio
	%
Region of York	59.63
Region of Durham	7.28
City of Barrie	20.44
Town of Bradford – West Gwillimbury	3.64
Town of Kawartha Lakes	.50
Township of New Tecumseh	.50
Township of Ramara	1.24
Township of Innisfil	5.52
Township of Oro Medonte	1.25
	100.00

Several municipalities including the Region have expressed a preference to fund a major capital project such as this over an extended period of time. Since the benefits of the new headquarters will accrue to the residents served by the LSRCA for many years to come it is therefore reasonable to spread the capital costs of this project over a longer period of time rather than budgeting for these costs in one particular year. Long term debt financing for the capital costs of this project is therefore warranted in order to better match those costs to the benefiting ratepayers.

The LSRCA does not have a credit rating and therefore cannot access the public debt markets as effectively as the Region with its “AAA” credit rating. Since the Region is the largest participant member of the LSRCA (with almost 60% representation) and its cost of borrowing the lowest, it would be both practical and beneficial for the Region to borrow on behalf of the LSRCA.

4. ANALYSIS AND OPTIONS

As cited above the total costs of this project are estimated at $2.78 million with funding to be derived from a number of sources.

Certain municipalities whose participation ratios are relatively low have decided to pay for their share of the projects costs on an upfront basis. These municipalities include Durham, Kawartha Lakes, New Tecumseh, Innisfil and Oro Medonte. The City of Barrie has advanced a portion ($120,000) of their overall share ($510,000) of the capital costs in cash. The capital costs of the project covered by these municipalities total approximately $480,000.

The LSRCA has also set aside approximately $300,000 to be used to defray a portion of the costs of the project. Table 2 summarizes the sources of funds for the project.

Table 2
Sources of Funds

Source	Amount
LSRCA Funds	$300,000
Upfront Contributions	480,000
Debenture Proceeds	2,000,000
Total	**$2,780,000**

Therefore after applying upfront contributions from certain participating municipalities and funds previously set aside by the LSRCA, debenture requirements will total approximately $2.0 million.

4.1 Interim Financing

During the construction phase the LSRCA will require short term bridge financing of up to $2.5 million 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 or interim financing 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.

Any interim loan would be evidenced by a duly signed and authorized loan agreement bearing an interest rate based on short-term money market rates. Funds would be advanced as work is completed with existing LSRCA funds and any upfront municipal contributions being applied first.

Funds for this interim loan can be provided from the Region's Working Capital Reserve. The interim loan with interest would be repaid in full when the proceeds from long term debenture issue are available.

4.2 Debenture Financing

Upon completion of the construction phase of the project, the Region would borrow approximately $2.0 million on behalf of the LSRCA by way of a public debenture issue for a period of up to ten years. The Region would then advance the proceeds of the debenture issue to the LSRCA by way of a long-term loan agreement. The Region is authorized to borrow on behalf of the LSRCA based on Section 404 of the Municipal Act and further defined under Sections 24 to 26 of the Conservation Authorities Act.

The obligation for and repayment of these debentures would 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	1,488,000
Barrie (net of advance)	5,298*	19.5	390,000
Brantford	1,237	4.5	90,000
Ramara	422	1.6	32,000
Total	**27,210**	**100.0**	**2,000,000**

*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.

Both the interim financing and long-term would be evidenced by a long-term loan agreement between the Region and the LSRCA. As the Region will be responsible for approximately 74% 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.

5. FINANCIAL IMPLICATIONS

There are no material financial or budget implications for 2004 to this report as any debt servicing costs will not be incurred until 2005. Any debt servicing costs which are the responsibility of the Region of York will be provided for in the 2005 operating budget.

Based on current costs of borrowing, the Region's portion of the debt would result in annual servicing costs of approximately $195,000 which would be funded from the Region's tax levy.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact resulting from this report.

7. CONCLUSION

The LSRCA has identified the need to upgrade its headquarters in Newmarket in order to meet its mission of providing leadership in the restoration and protection of the environmental health and quality of Lake Simcoe and its watershed with our community, municipal and other government partners. By doing so, the LSRCA has assisted the Region in achieving its goal "to conserve and improve the natural environment for this and future generations so that it will sustain life, maintain health and provide an improved quality of life".

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 Senior Management Group has reviewed this report.