1
OMEIFA FINANCING OF CERTAIN YORK REGION TRANSIT AND WATERWORKS PROJECTS

1. RECOMMENDATIONS

It is recommended that:

1. The Regional Treasurer be authorized to issue debt through the Ontario Municipal Economic Infrastructure Finance Authority (OMEIFA) bond program for an amount not to exceed $50 million and a term not to exceed twenty years to partially finance the transit and waterworks projects described in Appendix 1, attached.
2. The Chair and Regional Treasurer be authorized to sign any documents necessary to carry out the OMEIFA financing;
3. The Regional Solicitor be authorized to prepare all necessary by-laws; and
4. Staff be authorized to take any other action necessary to implement the recommendations.

2. PURPOSE

The purpose of this report is to seek approval to partially finance certain transit and waterworks projects (as described in Appendix I) by means of financing made available through OMEIFA.

3. BACKGROUND

On June 26, 2003, Council approved the application to OMEIFA for up to $50 million in low cost financing for the Region's one-third share of the Quick Start Rapid Transit project.

In addition to the Quick Start project, staff had identified and submitted preliminary applications for over $700 million of capital projects included in the 2003 five-year capital budget that potentially could qualify under this program. Preliminary applications were also sent to the Ministry for $5.8 million for projects on behalf of the City of Vaughan and $9.9 million for projects on behalf of the Town of Newmarket in order to meet a June 30, 2003 deadline set by the Province.

On August 19, 2003, the Minister of Finance announced those communities that would be eligible for the first $1 billion (over the next three years) of low interest loans to be provided by OMEIFA. Among those municipalities, it was announced that the Region of York was entitled to receive up to $100 million. Of this amount the Province approved $50 million to help finance the Quick Start project with the balance to be used to finance other eligible Regional projects.

4. ANALYSIS AND OPTIONS

4.1 OMEIFA Versus Traditional Financing Cost Comparison

Using long-term capital financing from OMEIFA, the Region would adhere to one of the primary objectives of its recently adopted Capital Financing and Debt Policy, that being minimizing long-term cost of financing.

If the Region were to issue debt by traditional debentures to cover its portion of the capital costs of this project, the interest rate for a term of 10 or 20 years would currently be approximately 5.0% and 5.5% respectively plus issuing costs. The interest rate charged on a loan obtained through OMEIFA is typically 50% of market rates and therefore interest savings of approximately 2.5% to 2.75% per year could be realized. Table 1 offers a comparison of the costs of traditional debenture financing of $50 million with those incurred if an OMEIFA loan were obtained for each of these terms.

Table 1
Comparison of Borrowing $50 million
By Way of Traditional Debentures Versus OMEIFA Loan
($millions)

	Traditional Debentures			OMEIFA Loan			
Term	Total Interest Costs[1] (a)	Issue Costs (b)	Cum. Costs[2] (c)	Total Interest Costs (d)	Issue Costs (e)	Cum. Costs (f)	Savings (g = c-f)
10 year	$14.8	$0.4	$15.2	$7.1	N/A	$7.1	$8.1
20 year	$33.7	$0.5	$34.2	$15.7	0	$15.7	$18.5

1 Total interest costs based on average interest rate of 5% for a serial debenture for a term of 10 years and 5.5% for a term of 20 years

2 Cumulative costs = total interest costs + one-time issuance costs

Table 1 indicates that the savings realized by utilizing OMEIFA loans are significant. Not only would the Region benefit from substantially lower interest rates but many of the typical issuance costs could also be avoided. These costs include underwriting commissions, legal fees and other fees that typically amount to a one-time charge of approximately three-quarters of one per cent of the amount financed.

Prior to Council approving the issuance of debt, Ontario Regulation 267/02 requires the Treasurer to update the Region's most recent annual debt and financial obligation limit received from the Ministry of Municipal Affairs and Housing. As a result the Treasurer has calculated the impact of the debt associated with this project and has determined that the estimated annual financial charges payable including this project would be within the approved limit. Therefore, approval of this project by the Ontario Municipal Board is not required prior to Council's authorization.

4.2 Transit and Waterworks Projects to be Financed

Staff has identified numerous transit projects (detailed on Appendix 1), in addition to the Quick Start project, as eligible for OMEIFA financing. Total expenditures for these projects over the next three years are forecasted at approximately $37.6 million.

OMEIFA financing totalling $21,048,000 is to be applied to these projects. The annual financing costs will be funded entirely by tax rates. These projects have been selected, as the savings provided through OMEIFA financing will flow directly to the Region's ratepayers.

Staff has also identified Transportation and Works Capital Project #77300 the Peel to Maple Reservoir Feedermain as meeting the criteria for OMEIFA financing. The purpose of this project is to design, construct and put into service a major east-west supply system to convey treated water from Peel's Beckett-Sproule Reservoir in Brampton to York Region's Maple Reservoir. Transportation and Works has identified this project as a major component of the Region's preferred strategy for long-term water supply.

Total capital cost for this project is forecasted to be approximately $84.4 million over the next two to three years. The 10-year Capital Budget indicates that the funding for it will come entirely from long-term debt and that the annual financing costs will be recovered from a combination of development charges and water user rates. Of the total $50 million of available OMEIFA financing, $28.9 million is to be applied to this project. However, in order to maximize the savings to all residents of the Region, it is recommended that $16.88 million (representing 20% of total capital costs but 58.3% of the OMEIFA allocation) of OMEIFA bonds be used to fund the water user rate supported portion of the project.

The anticipated timing of capital expenditures for these projects will allow the Region to expeditiously access OMEIFA funds that are expected to be made available in equal instalments over the next three years.

5. FINANCIAL IMPLICATIONS

Borrowing by means of loans issued through OMEIFA would result in substantial savings to the Region in terms of both interest and debenture issuance costs. As detailed above, savings on a ten-year and twenty-year debt issue could amount to approximately $8.1 million and $18.5 million respectively over the term of the financing.

The annual financing costs will be funded from a combination of tax levies, development charges and water user rates.

6. LOCAL MUNICIPAL IMPACT

There are no direct local municipal impacts associated with this report. However, reduced annual debt charges will help mitigate increases in tax levies, development charges and water user rates.

7. CONCLUSION

The costs associated with Regional capital infrastructure are significant and potentially onerous to the residents of York Region. Financing up to $50 million of the capital costs of these transit and waterworks projects by accessing financing available through OMEIFA can provide the Region with substantial savings over the term of the borrowing thereby reducing the impact on development charges and water user rates.