



Jan 25, 2011

City Council

To: Mayor Canfield & Council

Fr: Paul Derouard Budget/Auditor General

Re: Long Term Debt Issuance

Recommendation:

That the city of Kenora borrows a sum not exceeding \$5,000,000 from the City's investments for the purpose of financing the construction of the new Emergency Services Facility located at 100 14th Street North;

That the amount borrowed will be paid back paid with interest over a term not to exceed 20 years at an annual interest rate at a minimum of 3%;

Background:

Council at its regular meeting on 21 September 2009 authorized the construction of a new Emergency Services Facility in the amount of \$5,975,000, plus applicable contract administration fees. The cost less any applicable funding, reserve appropriations and proceeds on the disposition of Station 1 was to be finance through long term debt issuance.

Emergency Services Cost Breakdown (approx):

Total project cost to date:	\$6,707,051
Less Reserve Appropriations:	872,986
Less subsidies	1,000,000
Less Proceeds on sale	<u>100,000</u>
Approx. Amount to Finance:	\$4,734,065

This report was discussed briefly at the most recent committee meeting and was deferred for further discussion. The following pages discuss Debt issuance options in further detail.

Long Term Debt Options:

There are basically 2 options for the city regarding financing through long term debt. The City can either finance through and outside lender such as CMHC or internally financing by cashing in some investments in the Citizen's Trust Fund.

The chart below illustrates the costs to finance based on the current rates from CMHC and Infrastructure Ontario:

Term	CMHC			Infrastructure Ontario		
	Rate	CTF	Annual Pymts	Rate	CTF	Annual Pymts
5	N/A	N/A	N/A	2.89	\$ 375,955	\$ 1,075,191
10	3.34	\$ 888,286	\$ 588,828	3.78	\$ 1,012,171	\$ 601,217
15	3.72	\$ 1,531,615	\$ 435,441	4.15	\$ 1,725,044	\$ 451,367
20	3.93	\$ 2,227,574	\$ 361,378	4.42	\$ 2,540,070	\$ 377,003
25	N/A	N/A	N/A	4.59	\$ 3,414,289	\$ 336,571
30	N/A	N/A	N/A	4.69	\$ 4,324,666	\$ 310,822
35	N/A	N/A	N/A	4.75	\$ 5,236,268	\$ 293,314
40	N/A	N/A	N/A	4.97	\$ 5,947,877	\$ 288,126

* CTF - Cost to Finance
\$5,000,000

CMHC and Infrastructure Ontario offer the most competitive rates for projects such as this.

The original plan with the fire hall was to finance the cost net of reserve appropriations, subsidies and proceeds on the sale of the existing fire station through long term debt issuance. As a result of this, there was \$144,893 of anticipated long term debt payment build into the 2010 budget and net tax levy. The tax impact of the debt issuance will be adjusted for the amount already built into the tax levy. For example if it is decided that the city will finance for 20 year @ 3.93% the next tax impact would be 1.2% based on 2010 tax information.

External Vs Internal Financing

Below is some insight on some of the advantages and disadvantages of external and internal financing:

External Financing (through CHMC)

Advantages

- Lenders offering rates at historic lows with opportunity to lock in for long periods of time.
- Citizen's Trust remains intact and Liquid

Disadvantages

- Penalty applies if Debenture paid early
- Tied to long term cash flow on a monthly basis
- Terms and conditions not flexible
- March 1st deadline for loan approval

Internal Financing (through Citizen's Trust)

Advantages

- Guaranteed and stable return for Citizen's Trust
- Interest rate and term of debt flexible and controllable
- No penalties on early payout
- quick to set-up

Disadvantages

- Portion of Citizen's Trust no longer liquid therefore flexibility affected
- Reduction in Citizen's Trust by the amount of the debenture in financial statements as the debenture is eliminated from the assets and liabilities on consolidation
- Public perception of Citizen's Trust being eroded

Given the flexibility associated with internal financing and the advantages listed above, it would be in the best interest of the City to finance the amount internally.

Budget: N/A

Communication Plan/Notice By-law Requirements:

Communication plan to follow City and CMHC guidelines.