Staff Report

Finance and IT Services

Report To: Committee of The Whole
Meeting Date: February 22, 2017
Report Number: FAF.17.16
Subject: Harbour Long-Term Debt
Prepared by: Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

A. Recommendations

THAT Council receive Staff Report FAF.17.16 entitled "Harbour Long-Term Debt";

AND THAT Council approve staff to complete and submit the application for a 15 year, bi-annual serial loan for the Harbour Long-Term Debt from Infrastructure Ontario.

B. Overview

Over the past number of years the Harbour has dredged the main basin and replaced all of the docks with the intent that once completed, long-term debt would be taken out to fully fund these expenses. The dock replacement program and dredging is now complete and staff are looking to start the process of taking out long term debt.

C. Background

At the end of 2016 the Harbour had accumulated $215,040 for dredging expenses and $396,950 for dock replacements for a total of $611,990 of unfunded expenses. Currently these expenses are sitting in the Town's unfinanced and are waiting to be funded through long term debt.

The dock replacement program ran from 2008 to 2015 and cost a total of $1,116,735. Funding for these replacements consisted of $295,070 from Federal Grants (Department of Oceans and Fisheries), $424,715 from current year mooring fees, and the remaining $396,950 in long-term debt. Staff worked hard at keeping the over costs down to ensure that a minimal amount of debt would be required. The dredging will be 100% funded through the long-term debt.

Before the Harbour takes out any long-term debt a few decisions need to be made that will affect the annual payment being made by the Harbour and the Town's borrowing capacity. These include the length of the term, its payment frequency, deciding on an amortized versus serial loan, and whether a prepayment should be made to lower the amount of debt that will be incurred.

D. Analysis

Term

The Harbour has the ability to take out long-term debt from 5 years to 30 years. Good financial management has the debt repayment term tied to the expected life of the assets being funded. In this situation the life of these assets vary considerably; the dredging is an operating cost that's useful life is dependent on the water levels of the Great Lakes. The physical docks are made up of four distinct assets including the frames, floatation, anchoring system, and wood decking. The frames will have a useful life of 50 plus years, the floatation and anchoring systems have a useful life of 25 years, and the decking life ranges from 10 to 15 years. Because the useful life of the assets vary so much, it is not possible for staff to recommend a term based on the assets being funded.

The second piece to consider is the Town's ability to pay the debt. The 2017 Budget provided a long-term fiscal projection for the Harbour to better determine what the Harbour could fund each year in debt payments while still continuing to operate at the expected levels, continue to fund capital purchases, and continue to transfer money to reserves. Using this projection, $68,850 was included in the Harbour's 2017 Budget to be used to fund this long-term debt. In general terms this level of available funding can sustain a 15 year loan; which is what staff are recommending.

15 years also makes good financial sense considering the assets that are being funded, as they all have longer lives than the term of the loan. Therefore, when the Harbour is faced with replacing or rehabilitating these assets once again, the Harbour will not be paying for both the capital project as well as the loan.

Payment Frequency

The Harbour has two available payment frequencies, annual or bi-annual payments. Staff are recommending a bi-annual payment frequency for two reasons; less effect on cash-flow as well as reduced interest.

A bi-annual payment method would have a lower effect on the Harbour's cash-flow, and also saves on interest. For example a $600,000 10 year loan with an interest rate of 2.5% will save over $3,700 in interest over the 10 years if making bi-annual instead of annual payments.

Amortize versus Serial

In addition to multiple payment frequency options, the Harbour also has to choose between an amortized or serial loan. An amortized loan is like a residential mortgage, the Harbour would make the same bi-annual payment for the life of the loan and the amount applied to the principal would change with each pay. A serial loan would see the Harbour pay the same principal amount each payment but the interest would vary, resulting in a deceasing payment over the life of the loan.

Each loan type has its pros and cons, serial has the Harbour paying more at the beginning and less at the end, whereas an amortized loan does not change and can easily be budgeted. The main difference is the interest paid. A serial loan would save an estimated $3,000 per year over an amortized loan. It is for this reason that staff are recommending a serial type loan.

Prepayment Option

The last option to consider is whether the Harbour should pay down some of the $611,990 principal balance before taking out long-term debt. By reducing the initial principal amount the Harbour would see lower annual payments and reduced interest. The only funding source for a prepayment by the Harbour would come from the Harbour reserve. Staff are projecting a 2016 year-end balance of $120,000 for the Harbour reserve and are not recommending that any of this be used to pay down some of the principal amount.

In 2013 Council approved the Thornbury Harbour Financial Plan. This plan established a reserve target of $225,000 to $275,000. This reserve is meant to be available for emergency purchases, an in-year deficit, or capital purchases. With the current reserve balance being below the target amount, staff are not recommending a transfer from this reserve to lower the initial principal borrowing amount.

E. The Blue Mountains' Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To Be a Financially Responsible Organization

F. Environmental Impacts

None.

G. Financial Impact

A debt repayment schedule has been calculated for a 15 year serial loan at 3.01% with bi-annual payments (Attachment 1). The loan schedule will see the Harbour pay roughly $30,000 in principal and interest in 2017 and $60,000 going forward each year until 2027.

Using the long-term financial plan for the Harbour staff have determined that a $60,000 per year repayment cost is feasible for the Harbour. This amount will allow the Harbour to continue making annual transfers to reserve, although they will be lower than the 15% of mooring fees that was recommended in the Financial Plan. The Harbour will be able to transfer into the reserve roughly $20,000 per year which can be used for annual deficits, emergency purchases, or upcoming capital purchases.

Also included in the 2013 Financial Plan was an annual $2 per foot increase until 2021; staff are now recommending that starting in 2018 the increase be lowered to $1 per foot. This increase will be reviewed on an annual bases during the budgeting process. The reason behind this recommendation is due to the Harbour's ability to afford the new debt and to fund on-going operations, including an annual $20,000 transfer to reserve, with the $1 per foot increase.

With the Harbour being a 100% user-fee funded department, no taxation will be used to fund the long-term debt payments and therefore there is no financial impact on the Town. The only impact on the Town is on the Annual Repayment Limit (ARL). Before taking out this long-term debt the Town was utilizing 7% of the available debt capacity, which will increase to 8%. It should be noted that Harbour revenues are included in the ARL calculation done annually by the Province.

H. In consultation with

Shawn Everitt, Director of Community Services
Ruth Prince, Director of Finance & IT Services
Ryan Gibbons, Harbour Manager

I. Attached

1. Harbour Debt Schedule

Respectfully Submitted,

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Ontario

INFRASTRUCTURE ONTARIO

Serial Debenture Schedule

FAF.17.16
Attachment 1

Organization Name	**Thornbury Harbour**
Principal Amount	**$611,990.00**
Annual Interest Rate	**3.0100%**
Loan Term (Year)	**15**
Debenture Date (m/d/yyyy)	**1/2/2018**
Maturity Date (m/d/yyyy)	**1/4/2033**
Payment Frequency	**Semi Annual**
Loan Type	**Serial**

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
7/3/2018	$29,584.89	$20,399.67	$9,185.22	$591,590.33
1/2/2019	$29,327.50	$20,399.67	$8,927.83	$571,190.66
7/2/2019	$28,925.43	$20,399.67	$8,525.76	$550,790.99
1/2/2020	$28,757.21	$20,399.67	$8,357.54	$530,391.32
7/2/2020	$28,360.19	$20,399.67	$7,960.52	$509,991.65
1/4/2021	$28,222.24	$20,399.67	$7,822.57	$489,591.98
7/2/2021	$27,626.72	$20,399.67	$7,227.05	$469,192.31
1/4/2022	$27,596.44	$20,399.67	$7,196.77	$448,792.64
7/4/2022	$27,098.48	$20,399.67	$6,698.81	$428,392.97
1/3/2023	$26,864.65	$20,399.67	$6,464.98	$407,993.30
7/4/2023	$26,523.15	$20,399.67	$6,123.48	$387,593.63
1/2/2024	$26,216.97	$20,399.67	$5,817.30	$367,193.96
7/2/2024	$25,910.80	$20,399.67	$5,511.13	$346,794.29
1/2/2025	$25,661.82	$20,399.67	$5,262.15	$326,394.62
7/2/2025	$25,271.53	$20,399.67	$4,871.86	$305,994.95
1/2/2026	$25,042.75	$20,399.67	$4,643.08	$285,595.28
7/2/2026	$24,662.55	$20,399.67	$4,262.88	$265,195.61
1/4/2027	$24,467.41	$20,399.67	$4,067.74	$244,795.94
7/2/2027	$24,013.19	$20,399.67	$3,613.52	$224,396.27
1/4/2028	$23,841.60	$20,399.67	$3,441.93	$203,996.60
7/4/2028	$23,461.41	$20,399.67	$3,061.74	$183,596.93

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
1/2/2029	$23,155.23	$20,399.67	$2,755.56	$163,197.26
7/3/2029	$22,849.06	$20,399.67	$2,449.39	$142,797.59
1/2/2030	$22,554.66	$20,399.67	$2,154.99	$122,397.92
7/2/2030	$22,226.62	$20,399.67	$1,826.95	$101,998.25
1/2/2031	$21,947.36	$20,399.67	$1,547.69	$81,598.58
7/2/2031	$21,617.63	$20,399.67	$1,217.96	$61,198.91
1/2/2032	$21,328.28	$20,399.67	$928.61	$40,799.24
7/2/2032	$21,012.02	$20,399.67	$612.35	$20,399.57
1/4/2033	$20,712.47	$20,399.57	$312.90	$0.00
Total	**$754,840.26**	**$611,990.00**	**$142,850.26**	