

**STAFF REPORT: Finance & IT Services**



**REPORT TO:** Council  
**MEETING DATE:** February 11, 2013  
**REPORT NO.:** FIT.13.07  
**SUBJECT:** Grey Condominium Corporation No. 28 – Private Sewer Works - Financing Options  
**PREPARED BY:** Robert Cummings, CMA  
Director of Finance & IT Services

**A. Recommendations**

THAT Council receive Staff Report FIT.13.07 “Grey Condominium Corporation No.28 – Private Sewer Works - Financing Options”;and,

THAT Council approve the Town financing of private sewer works for Grey Condominium Corporation No.28 in the upset amount of \$850,000 and direct staff to coordinate financing through Infrastructure Ontario; and,

THAT Council approve one of the following repayment options:

**OPTION A**

THAT payment options to be offered to the benefitting property owners of Grey Condominium Corporation No.28 include:

- (a) payment in full without interest to be paid within 120 days of a date specified in the By-law;
- or
- (b) payment over time based on a 15 year term at the lesser of 5% interest per annum or the prevailing Town borrowing rate in effect 1 week prior to the By-law passing plus 1%. Payments will be added to the tax bill with terms offering repayment of the balance owing on the loan at any time, including interest to that date, with no penalty applied. The balance of the loan becomes due and payable at the time a property is sold, conveyed or transferred.
- or
- (c) payment over time based on a 20 year term at the lesser of 5.5% interest per annum or the prevailing Town borrowing rate in effect 1 week prior to the By-law passing plus 1%. Payments will be added to the tax bill with terms offering repayment of the balance owing on the loan at any time, including interest to that date, with no penalty applied. The balance of the loan becomes due and payable at the time a property is sold, conveyed or transferred.

## OPTION B

THAT payment options to be offered to the benefitting property owners of Grey Condominium Corporation No. 28 include:

- (a) payment in full to be paid on a date specified in the By-law;
- or
- (b) payment, inclusive of Loan Administration fee of \$10,000, over time based on a 15 year term at the prevailing Town borrowing rate in effect 1 week prior to the By-Law passing. Payments will be added to the tax bill with terms offering repayment of the balance owing on the loan at any time, including interest to that date, with no penalty applied. The balance of the loan becomes due and payable at the time a property is sold, conveyed or transferred.
- or
- (c) payment, inclusive of Loan Administration fee of \$10,000, over time based on a 20 year term at the prevailing Town borrowing rate in effect 1 week prior to the By-Law passing. Payments will be added to the tax bill with terms offering repayment of the balance owing on the loan at any time, including interest to that date, with no penalty applied. The balance of the loan becomes due and payable at the time a property is sold, conveyed or transferred; and

THAT Council direct staff to prepare an Agreement with GCC28 and all the Unit Owners, in accordance with Part III of Ontario Regulation 586/06, to permit the Town to raise the cost of undertaking the sewer works as a local improvements on private property by imposing special charges upon all of the Units based on the approved financing option.

## **B. Background**

At the February 13, 2012 Council meeting, staff presented various servicing and cost allocation methods for the Wensley Drive Wastewater Servicing Project. Various cost and service allocations were considered based on several considerations including the fact that Grey Condominium Corporation No. 28 (GCC28):

- Could be serviced independently to the Wensley drive and Peaks Road system.
- Condo owners would have to pay a premium cost over the other benefitting property owners due to the need for internal main line sewers along their private roads, which historically would not be financed by the Town.

Upon presentation of the staff report and deputation from GCC28, Council approved GCC28 as a separate service from the Wensley Drive area. Council also directed staff to review financing options based upon the approved cost allocation methodology. The approved alternative resulted in:

- The split of one service area into two separate service areas: the GCC28 lands and a reduced servicing project along Wensley Drive.
- A standard for the split of service areas in future servicing projects, while contradicting past practice to maintain a service area

- GCC28 is responsible for arranging their servicing needs throughout the condominium and connection to the sewer on Highway 26; including private financing of internal works.
- Potential of Town involvement in the financing of internal matters of privately held lands of a condominium corporation.

As Town financing of sewer servicing of privately held land is new, Staff requested that GCC28 make a deputation to Council for direction to proceed with Town financing of the works. Since that deputation, regulations have been put in place to treat this form of financing similar to special charges on a local improvement. On August 27, 2012, Gert Walter made a deputation to Council, including the following highlights:

- Intention to complete the private works, connecting to Highway 26 trunk sewer by means of easement from Georgian Peaks West Lodge and Georgian Trail
- Obtain building permits for the plumbing work on private lands.
- Ability to send out tender documents for construction within a two week period of financing approval.
- Cost estimate of construction and requested financing from the Town as outlined in the following table:

<b>Cost Description</b>	<b>Private Lands Project Costs</b>	<b>Wastewater Infrastructure Related</b>	<b>Private Owner Costs</b>
Construction Costs - private lands	\$ 21,320		
Highway 26 Trunk Sewer Main*		\$ 6,546	
Thornbury Wastewater Treatment Plant*		\$ 5,310	
Septic decommissioning			\$ 6,000
<b>Total Unit Costs</b>	<b>\$ 21,320</b>	<b>\$ 11,856</b>	<b>\$ 6,000</b>
Number of Units	38	38	38
<b>Total Costs</b>	<b>\$ 810,160</b>	<b>\$ 450,528</b>	<b>\$ 228,000</b>
<b>Financing Request - Private Lands</b>	<b>\$ 810,160</b>		

***\* Costs are traditionally financed by the Town Capital Charge By-Law subject to annual indexing based on the Construction Cost Index***

Based on the deputation, Council directed staff to bring a report that includes financing options available to GCC28 and addresses the questions asked by Council that have been provided in Appendix "A". Descriptive Answers to the questions can also be found in Appendix "A". The answers to the questions have been used as the basis to develop the staff recommendation.

## **Interest Rates, Risk and Municipal Borrowing Capacity**

The previous three Water/Wastewater extension projects the Town completed provided funding options that included an interest rate that was equivalent to the Town's preferred borrowing rate. The use of this interest rate provided the affordability criteria for the property owner and did not take into account the cost of risk to the Town or the opportunity cost of reduced borrowing capacity. Reduced borrowing capacity may not seem like a risk today but it will be important in the Town's future sustainability. The Ministry of Municipal Affairs and Housing regulates and sets the Town's borrowing capacity (based on own source revenues) and at present, the Town has borrowed up to 12% of its borrowing capacity. The Town's expected total debt outstanding as at the end of 2013 will be approximately \$6.36 million. The Landfill project will add about \$7 million more in 2014 (27%). The risk is that the Town's future available debt capacity is decreasing in the face of known future borrowings (albeit not yet fully quantifiable) that will be required for asset renewal in the 10 – 20 year range and beyond.

In the event that the majority of the loan is repaid prior to 15 -20 years, the borrowing risk is reduced. However, there is little incentive to re-pay a low interest loan. The previous three Water/Wastewater extension project loans have an early repayment rate of less than 30% which is indicative of the low lending rate that is lower than most Lines of Credit and slow property turnover. Typically, a property that is subject to a capital charges by-law is required to repay the loan in full upon the property being sold. This criterion will be in place on this agreement as well. It is possible to see early repayment greater than 30% because on average there have been 3 units turn over per year lately.

In the past two budget years, staff has expressed that there is not enough borrowing capacity to replace the Town's assets and will require pre-funding through reserve contributions prior to actual asset replacement. Staff will continue to offer financial plans that balance the use of reserves and debt for this purpose. The risk of relying on future debt does become more costly as debt capacity is eroded and current reserve contributions are not sufficient as required by asset management planning.

The benefit to the Town in offering an interest rate without a premium is additional wastewater users and the equitable treatment of benefitting property owners. This financing proposal brings 38 new users that will connect to Town services. Unlike previous water and wastewater extensions that were mandatory for property owners to connect, this one is somewhat optional since the decision to split up the service area at the February 12, 2012 Council meeting. The Wensley Drive service area can be serviced without including GCC28. It is possible that the GCC28 property owners may not proceed with the work if there is a premium on the financing interest rate.

The primary tool for municipalities in mitigating the risk of bad debt is the legislative authority to assign the special charge to the property and have a priority lien status. Recent amendments to Ontario Regulation 586/06 (Local Improvement Charges – Priority Lien Status) to the Municipal Act (the "Regulation") permit the Town, by agreement with GCC28 and all the Unit Owners, to raise the cost of undertaking the sewer works as a local improvements on private property by imposing special charges upon all of the Units. These special charges would have priority lien status the same as municipal taxation and would provide for the payment options as discussed in this report and approved by Council.

### C. The Blue Mountains' Strategic Plan

Providing a strong, well managed municipal government.

### D. Environmental Impacts

NA

### E. Financial Impact

In order to provide financing to GCC28, the Town will have to apply for financing from Infrastructure Ontario in order to raise the funds. The Town would draw up an agreement and a Special Charges By-law, as required by the Regulation that would apply an equal special charge to each Unit in GCC28 subject to the financing option Council approves.

The Town provides municipal services and is not set up optimally to operate as a lending institution. The administrative and legal work required for a loan application to Infrastructure Ontario is excessive. It requires administrative time, legal opinions, Treasurer and Clerk declarations that are not as straight forward as we would like, Council resolutions and annual audit. The By-law to set up the financing also requires administrative and legal work. This work and the borrowing opportunity cost (risk) provide the case for a 1% premium on the interest rate. If Council feels there is no need for the consideration of risk and wants to go with Option B, then Council could consider applying a \$10,000 Administrative Charge for the work related to this initiative and the administering of the loan.

Total financing being requested is an amount up to \$850,000 for the estimate of construction of internal works on GCC28 lands. This will increase the Town's 2013 debt to about \$7.2 million. There is adequate debt capacity today for this financing.

Annual repayments per benefitting property based on prevailing Town borrowing rates as provided by Infrastructure Ontario (see website <http://www.infrastructureontario.ca>) of 3.35% over 15 years or 3.65% over 20 years (these rates are used for illustration only) are:

OPTION A	OPTION B
15 years @ 3.35% + 1% = \$2,038	15 years @ 3.35% = \$1,903
20 years @ 3.65% + 1% = \$1,724	20 years @ 3.65% = \$1,581

The Town currently has about \$7.5 M in outstanding debt.

**F. In Consultation With**

Renee Ouellette, Financial Accountant  
John Metras, Legal

**G. Attached**

A. Appendix "A"

Respectfully submitted,

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Director of Finance & IT Services

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## Appendix A

Q. The Town should not fund this work to any greater degree than a plan of subdivision would be funded.

A. The options being provided do not include any funding only some financing options.

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Q. The Town requires a legal opinion as to whether the Town can loan the money and complete the work.

A. According to the Town's solicitor, the Town is legally permitted to raise the money for these works.

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Q. Can the Town and GC 28 be named as a joint application for an infrastructure loan?

A. No. The Town is the only applicant recognized on an Infrastructure Ontario loan. Reimbursement of loan amounts must be arranged by agreement and By-Law.

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R. How will the Town be protected to ensure the Town receives a payment when a unit is sold? How will a new owner be aware of the obligation?

S. The Town is protected with a priority lien under the regulations in the *Municipal Act, 2001*. The agreement will be registered on title and will show up on title searches and tax certificate requests.

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Q. How will the financing impact the Town's borrowing ceiling?

A. This question has been addressed in the body of the report.

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Q. How many units will require financing?

A. There could be up to a maximum of 38 units. All units will have to sign off on the agreement, but will have the option of financing based on Council direction on financing options.