Report to: MSC Meeting
Meeting Date: September 25, 2023
Report Title: Long Term Financial Sustainability Plan (2024 – 2032)

Department: Treasury
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Position: Treasurer
File/Report #TREAS 2023-09-25c

RECOMMENDATION:

That Council accept the recommendations provided in this report to be included in the 2024 Budget;

AND THAT Council pre approve the 2024 Capital Budget related to the Portland Hall/Library and Fire Station #2, including the recommended financing to authorize staff to apply to infrastructure Ontario for the Floating Rate Facility loan anticipated as required for the Fire Station #2 and a Construction Financing loan for the Portland Hall/Library projects, expected to commence in 2024.

BACKGROUND:

Council requested that an updated Long Term Financial Sustainability Plan be prepared and include the new Portland Hall/Library and the new Fire Station #2 now that more accurate costings have been completed (Station #2) and a budget envelope provided for Portland Hall/Library.

The last plan was provided to Council in advance of the 2023 budget and the Municipal Hub debate. Similar to the previous plan, this plan includes annual financing required for capital from 2024 to 2032 for capital works in accordance with our Asset Management Plan, plus the outstanding Portland landfill CAZ purchase, as well as operating costs.

It is important to note what is not included in the plan but has been discussed as a potential future need. This includes:

- the costs related to a future administrative building retrofit/build;
- the costs related to new/expanded public works facilities (see road service delivery review; two plows located in Cosby MTO garage – a leased space);
- any new services or increase in service levels; and
- any increase in costs beyond assumed inflation rates.

These elements have not been included as either Council has not provided direction on the matters and/or the costs have not been assessed to allow a reasonable assumption to be made.

The goal of this plan is to identify all the forecast revenue and expenses from 2024 to 2032, including all the related financing requirements, and then determine how much additional annual debt the township can afford to allow it to make desired major capital investments, while trying to stay below a high-risk debt ratio as determined by the province.

DISCUSSION:

Overview:

In order to develop this long term financial sustainability plan all the managers reviewed their outer year budgets, from 2024 to 2032 and made revisions as required. Additional updated information, such as the Fleet Replacement Program as provided to Council on July 10, 2023, is also included in this plan.

The net financing requirements for the Hall/Library, Fire Station, and the CAZ purchase have been identified and annual debt payments were calculated for 10-, 20- and 30-year amortization periods using the Infrastructure Ontario Interest Rates as of September 9, 2023, which are noted below in Table 1. All the annual debt payments calculated for each building and assumptions related to financing are included in Tables 6 to 8.

Table 1: Interest Rates effective September 9, 2023

Amortization Term	Infrastructure Ontario	RBC	
Construction Financing	5.54%	0.00%	
5 Year	4.93%	5.93%	
10 Year	4.82%	5.85%	
20 Year	4.99%	5.90%	RBC rates renew at 10 yr
25 Year	5.00%	5.95%	RBC rates renew at 10 yr
30 Year	4.98%		

Beyond major new facility investment, additional annual financing remains a requirement to cover annual infrastructure deficits due to the infrastructure funding gap that currently exists. As was illustrated in the updated Asset Management Plan (AMP), like many municipalities in Ontario, Rideau Lakes does not currently generate enough revenue to cover necessary capital expenditures to maintain and lifecycle our capital assets. With this gap the Township continues to have to borrow to fully cover our annual capital requirements. You will recall the 2022 AMP included a 5-yar plan to close this gap, however it required tax rate increase of 1.6% over 5 years dedicated to the infrastructure reserve, in addition, all existing debt payments that were ending were also to be applied to the infrastructure reserve. If these debt payments were not dedicated to the infrastructure reserve a tax rate increase of 2.9% would be required to cover this gap in 5 years. If you recall, Council only approved a 1% tax increase dedicated to the infrastructure reserve and all old debt payments that are ending are not dedicated to the infrastructure reserve. The reductions in these debt payments are being used to help reduce new debt costs. The AMP did not consider any major new capital projects.

Understanding our Annual Debt Repayment Limit (ADRL):

Once all these amounts were determined we then need to compare possible annual debt payments to our provincially prescribed Annual Debt Repayment Limit (ADRL). This amount is set by the province and is based on 25% of the Township's [1]Own Source Revenues less any existing annual debt repayments. The Township cannot exceed this amount without permission of the province. The limit both impacts the total debt a municipality can have as well as impacts the term length of debts – as longer terms will generally result in lower annual servicing costs. That said, a term of a loan should never exceed the useful life of the asset it finances.

It is also important to note that a Debt Service Ratio greater than 10% is considered high risk by the province. As the Treasurer it is my responsibility to determine if there is capacity within the municipalities ADRL to undertake the planned borrowing. This is part of the purpose of this plan – to assist Council in seeing the long-term/big picture of the corporations' finances and debt.

Table 2 below identifies our Annual Debt Repayment Limits (ADRL) from 2013 to 2022. The Township has made very good progress on reducing debt serving since 2015. In 2015 our Debt Service Ratio was at 14.7%. By 2022 it had been reduced to 9.9%.

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[1] Own Source Revenue = Gross Revenue less Grants, Deferred Revenue (DCs, Parkland), insurance proceeds

Table 2: Prior Years Annual Debt Repayment Limits (ADRL) and Debt Service Ratios

ANNUAL DEBT REPAYMENT LIMIT										
	Actuals	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Actuals**
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Gross Revenue (excludes reserve funding,financing)	11,712,508	12,021,911	12,932,817	14,598,022	15,155,251	15,999,216	16,927,240	17,358,498	18,758,488	20,788,916
Excluded from Revenue (grants, def.revenue)	2,250,720	2,360,310	2,386,783	2,156,946	2,361,729	2,575,416	2,892,641	2,777,381	3,571,500	4,959,231
Own Source Revenue	9,461,788	9,661,601	10,546,034	12,441,076	12,793,522	13,423,800	14,034,599	14,581,117	15,186,988	15,829,685
25% Own Source Revenue (annual repayment limit)	**2,365,447**	**2,415,400**	**2,636,509**	**3,110,269**	**3,198,381**	**3,355,950**	**3,508,650**	**3,645,279**	**3,796,747**	**3,957,421**
Annual Debt Payment	1,449,405	1,670,563	1,907,039	2,009,557	2,025,443	2,062,255	2,067,292	1,736,998	1,935,415	2,058,637
Estimated Annual Repayment Limit	916,042	744,837	729,470	1,100,712	1,172,938	1,293,695	1,441,358	1,908,281	1,861,332	1,898,784
Debt Servicing Ratio	12.4%	13.9%	14.7%	13.8%	13.4%	12.9%	12.2%	10.0%	10.3%	9.9%
Low: < 5%Mod: 5% to 10%High: >10%	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Moderate

As we look forward, our ADRL can be used as one good indicator of our overall financial health. Table 3 below projects the Township ADRL based on a financial plan that includes all future planned construction projects, including the Fire Station, the Portland Hall/Library, CAZ and annual general capital requirements. This plan also assumes a 3% per year annual tax rate increase which is a factor of the ADRL.

Tables 2 and 3 illustrate a continued reduction in Debt Service Ratios until 2025 as the debt payments from the Portland Hall/Library and Station #2 commence. It then continues to increase due to new debt required for general capital until 2028 where we are once again in the High Risk category. After that the Debt Service Ratio once again starts to decline. All these changes in debt payments can be seen in detail in the attached Schedule 2b: Continuity Schedule – Annual Debt Repayments

Table 3: Current and Future Planned ADRL and Debt Service Ratios

ANNUAL DEBT REPAYMENT LIMIT										
	Estimated	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Gross Revenue (excludes reserve funding,financing)	19,897,612	19,875,396	18,677,175	19,205,305	19,698,968	20,445,387	20,929,357	21,427,808	22,038,328	22,666,812
Excluded from Revenue (grants, def.revenue)	4,070,436	4,503,248	2,835,111	2,909,361	2,935,652	3,014,041	3,094,589	3,177,355	3,262,403	3,349,797
Own Source Revenue	15,827,176	15,372,148	15,842,064	16,295,944	16,763,316	17,431,346	17,834,768	18,250,453	18,775,925	19,317,015
25% Own Source Revenue (annual repayment limit)	**3,956,794**	**3,843,037**	**3,960,516**	**4,073,986**	**4,190,829**	**4,357,837**	**4,458,692**	**4,562,613**	**4,693,981**	**4,829,254**
Annual Debt Payment	1,739,308	1,546,172	1,526,673	1,876,272	1,938,701	2,080,408	1,925,051	1,925,051	2,047,268	2,047,268
Estimated Annual Repayment Limit	2,217,486	2,296,865	2,433,843	2,197,714	2,252,128	2,277,429	2,533,641	2,637,562	2,646,713	2,781,986
Debt Servicing Ratio	8.7%	7.8%	8.2%	9.8%	9.8%	10.2%	9.2%	9.0%	9.3%	9.0%
Low: < 5%Mod: 5% to 10%High: >10%	Moderate	Moderate	Moderate	Moderate	Moderate	High Risk	Moderate	Moderate	Moderate	Moderate

This Table/plan is based on an amortization period for the buildings at 30 years, general capital financing at 10 years, the CAZ property at 20 years and an increase in the tax rate of 3% per year. As noted above, the amortization term for any asset cannot exceed its estimated useful life (EUL). General capital financing is typically used to cover the cost of road surfacing with has an EUL of 10 years and therefore we cannot exceed 10 years.

Understanding Impact to Annual Tax Rate Increases

It is critical to note that the ADRL table is also based on an annual 3% tax rate increase. If the tax rate increase were only 2% vs. 3%, we would need to borrow an additional $6.4 million from 2024 to 2032 which would increase our debt servicing by $1.2 million to $3.3 million per year by the year 2032. Note our 2023 annual debt servicing is $1.5 million. An additional $1.2 million is equal to a 10% tax rate increase.

Table 4: Difference Between a 2% and 3% Annual Tax rate Increase

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Tax Levy increase - 3%	(12,763,262)	(13,146,160)	(13,540,545)	(13,946,761)	(14,365,166)	(14,796,121)	(15,240,006)	(15,697,206)	(16,168,122)
Tax Levy increase - 2%	(12,639,346)	(12,892,133)	(13,149,976)	(13,412,975)	(13,681,235)	(13,954,860)	(14,233,957)	(14,518,636)	(14,809,009)
Difference	(123,916)	(254,027)	(390,569)	(533,786)	(683,931)	(841,261)	(1,006,049)	(1,178,570)	(1,359,113)
Additional borrowing requirements 2% tax rate increase	**123,916**	**254,027**	**390,569**	**533,786**	**683,931**	**841,261**	**1,006,049**	**1,178,570**	**1,359,113**
Increase in Debt Servicing	16,048	32,898	50,580	69,128	88,572	108,947	130,288	152,630	176,011
Increase in Debt Servicing		16,048	16,048	16,048	16,048	16,048	16,048	16,048	16,048
Increase in Debt Servicing			32,898	32,898	32,898	32,898	32,898	32,898	32,898
Increase in Debt Servicing				50,580	50,580	50,580	50,580	50,580	50,580
Increase in Debt Servicing					69,128	69,128	69,128	69,128	69,128
Increase in Debt Servicing						88,572	88,572	88,572	88,572
Increase in Debt Servicing							108,947	108,947	108,947
Increase in Debt Servicing								130,288	130,288
Increase in Debt Servicing									152,630
Total Increase in Debt Servicing	**16,048**	**48,945**	**99,525**	**168,653**	**257,225**	**366,172**	**496,460**	**649,090**	**825,101**
Increase in Debt Servicing due to Debt Servicing	2,078	6,337	12,889	21,841	33,312	47,421	64,294	84,060	106,854
Increase in Debt Servicing due to Debt Servicing		2,078	2,078	2,078	2,078	2,078	2,078	2,078	2,078
Increase in Debt Servicing due to Debt Servicing			6,337	6,337	6,337	6,337	6,337	6,337	6,337
Increase in Debt Servicing due to Debt Servicing				12,889	12,889	12,889	12,889	12,889	12,889
Increase in Debt Servicing due to Debt Servicing					21,841	21,841	21,841	21,841	21,841
Increase in Debt Servicing due to Debt Servicing						33,312	33,312	33,312	33,312
Increase in Debt Servicing due to Debt Servicing							47,421	47,421	47,421
Increase in Debt Servicing due to Debt Servicing								64,294	64,294
Increase in Debt Servicing due to Debt Servicing									84,060
Estimated Total increse Debt Servicing	**18,126**	**57,360**	**120,829**	**211,798**	**333,682**	**490,050**	**684,632**	**921,322**	**1,204,187**
Existing Debt Servicing	1,546,172	1,526,673	1,876,272	1,938,701	2,080,408	1,925,051	1,925,051	2,047,268	2,047,268
Total Debt Servicing - 2% tax rate increase	**1,564,298**	**1,584,034**	**1,997,101**	**2,150,499**	**2,414,091**	**2,415,101**	**2,609,683**	**2,968,590**	**3,251,455**

Each year that we fall behind the planned tax rate increase we will increase our debt requirements. Every time we increase our financing, we increase our debt payments but then we again need to increase our financing to cover the additional debt payment. It's a circular flow. One keeps increasing the other until you are down to a minimal amount that doesn't require adjustments. This is illustrated in Table 4. If we only increased the tax rate by 2% vs. 3% we will need to borrow an additional $123,916 in 2024 that costs $16,048 (10 yr. amortization @5%), but it will actually cost more than that because we also need to borrow the $16,048 (10 yr. amortization @5%) to cover the increased debt payment, which costs $2,078 per year. If we had to borrow $2,078 it would cost $269 annually to cover….and so on.

Table 4 above identifies that anything below an annual 3% tax rate increase will significantly increase our debt servicing and financing requirements.

Funding Major Projects 2023 Plan vs 2024 Plan

Financial Sustainability Plans are living documents. They need to be updated regularly as new information, assumptions and Council priorities come to light. The 2023 Plan and the 2024 Plan differ primarily in their capital priority focus. Table 5 below identifies these changes and how they impacted the plan.

Table 5: What has changed?

	New Financing	Original Financing Plan	Difference	New Debt Servicing	Original Debt Servicing	Increase/ (Decrease) in Debt Servicing Charges
Fire Station	1,604,000	585,000	1,019,000	104,105	77,983	26,122
Hall/Library	2,715,600		2,715,600	176,251		176,251
Hub		6,300,000	(6,300,000)		438,273	(438,273)
Totals	**4,319,600**	**6,885,000**	**(2,565,400)**	**280,356**	**516,256**	**(235,900)**

General Capital	Revised General Capital	2023 Capital Budget	Increase In Capital Expenditures	New Financing	2023 Financing	Difference	New Debt Servicing	2023 Debt Servicing	Increase in Debt Servicing Charges
2024 General Capital	5,655,813	4,125,149	1,530,664	2,487,057	1,861,392	625,665	322,085	248,133	73,953
2025 General Capital	6,470,640	5,456,487	1,014,153	4,240,542	2,433,627	1,806,915	549,170	324,414	224,755
2026 General Capital	4,048,490	3,685,069	363,421	1,540,388	810,279	730,109	199,487	108,014	91,473
2027 General Capital	4,729,159	4,243,755	485,404	2,131,257	1,173,796	957,461	276,008	156,473	119,535
2028 General Capital	3,208,796	3,013,792	195,004	332,382		332,382	43,045		43,045
2029 General Capital	3,299,496	3,015,827	283,669	-		-			-
2030 General Capital	4,301,534	2,971,008	1,330,526	943,723		943,723	122,216		122,216
2031 General Capital	3,464,467	3,050,675	413,792	-		-			-
2032 General Capital	2,988,631	2,454,646	533,985	-		-			-
General Capital	**38,167,026**	**32,016,408**	**6,150,618**	**11,675,349**	**6,279,094**	**5,396,255**	**1,512,011**	**837,034**	**674,977**

The Portland Facility:

A key difference in the plans is the move from the municipal hub project to the planned Hall Library. Table 6 below outlines the costs and revenue assumptions for both projects. It is important to note the following new information since the 2022 plan:

- staff have identified an error in the Development Chagres report/calculation which will mean DCs will be a much more limited source of funding than previously anticipated. This was due to the DC consultant improperly assuming the former hall would remain in service and so the entirety of the new hall would be DC eligible as a service expansion. The DC study will need to be updated in 2024 to verify any available amounts. The $218,400 is a preliminary estimate for the library. As the community hall is decreasing in overall size, it is not a DC eligible service.
- staff error in applying the Blue Box transition savings as a funding source in the 2023 plan, subsequently realizing these will be offset in the loss of current Blue Box program grants.
- The $200,000 from the development reserve cannot be used the Hall/Library project as it is not related to providing Building Code services, with the office being the basis for its use in the 2023 plan.

Table 6: Comparison Portland Hub vs. Portland Hall/Library

Portland Hall/Library	**Portland Hall/Library**	**Portland Hub**
Estimated Cost	3,000,000	7,500,000
Other Funding Available:		
*DCs available (estimated)	(218,400)	(1,000,000)
Development Reserve	-	(200,000)
Parkland Funding	(66,000)	
Financing Required	**2,715,600**	**6,300,000**
**Debenture: 30 years; 5.6%; Annual Financing Cost for Hub/4.98% for Hall/Library	176,251	438,273
Financing Costs for Hall/Library	**Annual Debt Payments**	**Interest Over Term of Debenture**
2024: Construction Financing: 5.54% Draws - starting in April for Hall/Library	59,049	
**Debenture: 10 years; 4.82%; Annual Financing Cost	348,615	770,551
**Debenture: 20 years; 4.99%; Annual Financing Cost	217,722	1,638,841
Debenture 30 years: 4.98%; Annual Financing Cost	176,251	2,571,934
Recycling costs freed up due to provincially legislated producer responsibility-orig.estimate was not reduced for grant		(160,000)
Reduction in Library rental costs $17K - offset by increased costs to maintain building	(17,000)	

Note: In Table 6 annual payments have been provided based on a 10-, 20- and 30-year amortization period using Infrastructure Ontario rates as of September 9, 2023. Rates will be subject to change. A 30-year amortization period is recommended and has been used in the updated plan because anything less may exceed the Township's ADRL. Per Council direction, this project is planned to commence in 2024 with construction costs being incurred from March to December 2024. Staff plan to apply for construction financing from Infrastructure Ontario. The current interest rate is 5.54% for Construction Financing. During the time of the construction draws only interest is incurred. Based on the projected facility build timeline it is estimated that approximately $59K of interest would be incurred during 2024. Parkland funds and DCs would be utilized before construction draws, however depending on the use of DC funds for the Fire Station we may not have sufficient DC funds until 2024 year end for this project.

If Council remains committed to starting this facility in early 2024, staff need to be provided with prior 2024 capital budget approval for this project and an approved approach to financing in order to apply for the necessary financing so that funds can be ready when construction draws are required early in 2024. Accordingly, a recommendation to provide prior capital approval has been included in this report.

Fire Station #2:

Table 7 below provides an updated picture of the assumptions on costs and revenue related to Station #2. The 2023 budget was based on early estimates of potential facility cost as well as a more apples to apples replacement facility. Council approved changes to the facility scope and scale have increased costs as well as the net cost to the Township, as the insurance will only cover the parameters of the facility lost. Some other updated assumptions/new information between the 2023 budget and the 2024 plan include:

- Staff are being more conservative in their assumption of the insurance proceeds, reducing anticipated proceeds by $250,000
- Unlike the Hall/Library, and given Councils expansion of the facility, more of the costs will likely become DC eligible. An increase of $231,000 in DCs is noted.

Table 7: Fire Station

Fire Station	**Current Financing Plan**	**Original Financing Plan**
Estimated cost of new Fire Station	3,000,000	2,000,000
less Estimated amount covered by insurance	(1,000,000)	(1,250,000)
Estimated Costs Not Insured	2,000,000	750,000
Other Funding Available:		
DCs available	(396,000)	(165,000)
Financing Requirements - assuming $1 million of Insurance Proceeds Received	1,604,000	585,000
Debt Payments: $1.64M 4.82% 30 years; $585K @ 5.6% 10 years;	104,105	77,983
Financing Requirements before receiving insurance payment	2,604,000	
	Annual Debt Payments	**Interest Over Term of Debenture**
Amounts below are based on borrowing $2,604,000 interest only before insurance funds received		
2024: Interest on variable rate construction loan - estimated based on draws starting April…@5.54%	**59,260**	
Annual Interest Only - before converting to debenture - before receiving insurance proceeds on $2.604M 5.54%	**144,262**	
Amounts below are based on borrowing $1,604,000 - assuming $1 million is received in insurance		
Debenture: $1,604,000 10 years; 4.82%; Annual Financing Cost; Estimated start date Jan 1, 202	$ 205,319	$ 455,134
Debenture: $1,604,000 20 years; 4.99%; Annual Financing Cost; Estimated start date Jan 1, 202	128,600	968,000
Debenture: $1,604,000 30 years; 4.98%; Annual Financing Cost; Estimated start date Jan 1, 202	104,105	1,519,142
Amount below was based on original plan - cost was $2 million		
Original debenture: 10 years; 5.6%; Annual Financing Cost; Estimated start date Jan 1, 2025(end of 24) on $585K	77,983	$194,833
Smiths Falls Fire Agreement - potential reduction in annual costs	(70,000)	(70,000)

The Station #2 projections are more complicated to determine given that we do not know the amount of money we will receive from the insurance company. We hope to receive $1million, however this is currently an unknown. The financing has been based on receiving $1 million. If that doesn't happen the financing will need to be adjusted. We will use DC funds up front and finance the remainder. An additional $500K in debt at 4.98% for 30 years would cost an additional $34K+ per year.

This project is anticipated to commence in 2023 and continue in 2024. Like the Hall/Library, prior 2024 Capital Budget approval is required for this project, as well as an approved approach to financing in order to secure the funds in time for the construction draws. A Floating Rate Facility Loan from Infrastructure Ontario is recommended. This type of loan is a little different than a Construction Loan. A construction loan can remain open for 120 days after the project is complete. A Floating Rate Facility Loan can remain open until such time as we receive all funds that can be applied against the amount borrowed to a maximum of 5 years. This means that we can leave the loan open until the insurance funds are secured and/or all the DCs are available. A variable rate will be charged during this time. Based on the current estimate of construction draws, we estimate that we will incur approximately $59K of interest charges in 2024. If the loan remained open, and no insurance proceeds were received, and the rate stayed the same, the interest only charge for one full year is $144K. We will transfer the funds to a debenture as soon as the insurance funds are secured, all DC funds are applied, and the project is complete.

It is expected that construction on the new Fire Station would commence in November 2023. The estimated draws for November and December are expected to be approximately $250K in 2023 with the remainder in 2024.

Annual payments in Table 7 have been provided based on a 10-, 20- and 30-year amortization period using Infrastructure Ontario rates as of September 9, 2023. A 30-year amortization period is recommended because anything less may cause issues with the township's ability to secure future financing.

The final major new capital cost in the 2024 plan is the loan required to acquire the lands adjacent to the Portland Landfill as a part of the ministry mandated contamination attenuation zone (CAZ). The assumption between the 2023 plan and the 2024 plan remain the same.

Table 8: CAZ Purchase

CAZ Property	Current Financing Plan	Original Financing Plan
Financing Required	950,000	950,000
	Annual Debt Payments	Interest Over Term of Debenture
Debenture: 10 years; 5%; Annual Financing Cost	$123,029.35	280,293
Debenture: 20 years; 5%; Annual Financing Cost	$73,483.00	519,666

The amount is estimated as is the year that we would require financing. It is currently included in the 2024 financing requirements. Annual payments have been provided based on a 10- and 20-year amortization period using Infrastructure Ontario rates as of September 9, 2023. A 20-year amortization period is recommended.

Ongoing Capital Needs

Beyond new major capital projects, the Township needs to maintain and lifecycle its current capital assets, including roads, fleet, facilities. The financial sustainability plan needs to reflect this. This plan builds on the 2022 Asset Management Plan (AMP) as well as the recent Fleet Replacement Plan.

The fleet plan is a great example of how information is continually refined and improved to better inform long-term financial planning. Staff are currently working on a similar refinement of the data for equipment. The fleet plan also illustrates the impact inflation is having on cost projections. For example, a fire pumper used to cost $359,656 in

2020, had a projected replacement cost of $467,995 based on a 2022 purchase and is now projected to be $650,000 based on recent pricing for a 2025 delivery. As noted above, if inflation drives costs for assets and operations above the estimates used in the plan, this will have a material impact as the Township needs to lifecycle these assets.

Table 9 below details assumed general capital requirements to maintain and lifecycle currently owned (not new) capital assets. This information was also included in Table 5 identifying what has changed since the 2023 budget.

Table 9: General Capital Requirements – 2024 to 2032

General Capital Requirement	Current Capital	2023 Capital Budget	Increase In Capital Expenditures	New Financing	2023 Financing	Difference	New Debt Servicing	2023 Debt Servicing	Increase in Debt Servicing Charges
2024 General Capital	5,655,813	4,125,149	1,530,664	2,487,057	1,861,392	625,665	322,085	248,133	73,953
2025 General Capital	6,470,640	5,456,487	1,014,153	4,240,542	2,433,627	1,806,915	549,170	324,414	224,755
2026 General Capital	4,048,490	3,685,069	363,421	1,540,388	810,279	730,109	199,487	108,014	91,473
2027 General Capital	4,729,159	4,243,755	485,404	2,131,257	1,173,796	957,461	276,008	156,473	119,535
2028 General Capital	3,208,796	3,013,792	195,004	332,382		332,382	43,045		43,045
2029 General Capital	3,299,496	3,015,827	283,669	-		-			-
2030 General Capital	4,301,534	2,971,008	1,330,526	943,723		943,723	122,216		122,216
2031 General Capital	3,464,467	3,050,675	413,792	-		-			-
2032 General Capital	2,988,631	2,454,646	533,985	-		-			-
General Capital	**38,167,026**	**32,016,408**	**6,150,618**	**11,675,349**	**6,279,094**	**5,396,255**	**1,512,011**	**837,034**	**674,977**

It is important to note that we have approximately $105 million in assets. The estimated annual replacement of these assets, based on their useful lives, is approximately $4.7 million per year as noted in Table 10 below.

Table 10 below identifies the replacement value of our assets and the annual amortization. We should be replacing on average $4.8 million of assets each year. Unfortunately, we don’t have sufficient revenue (taxation, transfers, grants) to replace these assets at the end of their useful lives. This is known as an infrastructure funding gap which was explained earlier in this report. Accordingly, as has been the case in years past, the Township is required to borrow. This need to take on new long-term debt of assets already owned (not new assets) will continue until such time as our revenue (primarily from taxation) is sufficient to cover the costs to replace our assets. This is why a credible and sustainable annual tax rate increase is so vitally important. In the alternative Council would eliminate or reduce services or service levels and reapply these operating funds to capital needs. This would equate however to the need to reduce operating costs by $800K on average if the tax rate increase was reduced to 2% per year but would still include the need to borrow for general capital as described above. Reducing the tax rate will also reduce the amount we are allowed to borrow and thereby increase the Debt Service Ratio as stated in Table 2.

Table 10: Current Asset Inventory, Replacement Costs and Annual Amortization

Using Full Asset Inventory - Dec 31, 2022			
Category	**Historical Cost**	**Replacement (**	**Annual amort**
Bridge Total	1,396,864	5,594,933	173,498
Building Total	5,552,831	20,593,008	567,174
Culvert Total	2,184,414	5,385,350	179,512
Equipment Total	5,228,103	7,857,945	690,748
Land Total	2,321,591	-	-
Land Improvements Total	1,431,666	2,901,719	128,234
HT Replacement cost		10,000,000	1,000,000
Replacement Cost gravel		1,000,000	400,000
Road Base		35,162,000	703,240
Roads Total	**41,558,603**	**46,162,000**	**2,103,240**
Sidewalks Total	644,623	2,926,825	114,872
Storm Water System Total	-	3,988,758	61,366
Streetlights Total	291,025	322,540	16,127
Vehicles Total	5,898,932	8,739,236	724,701
Work In Progress Total	984,877	104,364	11,467
Grand Total	**67,493,530**	**104,576,678**	**4,770,938**

To Summarize

It is very important for the Township to ensure it has additional debt room in the future to cover expenditures that have not been included in this plan, as noted below:

- the costs related to a future administrative building retrofit/build;
- the costs related to new/expanded public works facilities (see road service delivery review; two plows located in Cosby MTO garage – a leased space);
- any new services or increase in service levels; and
- any increase in costs beyond assumed inflation rates.

It is also important to have future debt room to deal with unforeseen emergency items, e.g., bridge failure. It is for this reason that it is recommended that the township try to stay below the Debt Service Ratio of 10% which is considered high risk.

It is for this reason that the amortization term for the buildings be at 30 years as this will only exceed the 10% ratio in one year, 10.2% in 2028, then it drops back to a moderate risk level in 2029. See Table 3.

If we amortized the new facilities over 20 years, we would save $1.5 million in interest but that would result in a high risk ratio in 2026, 2027 and 2028 at 10.1%, 10.2% and 10.5% respectively. See Schedule 3. However, it is important to note that this is all based on a 3% per year annual tax rate increase. If we increased the tax rate by 4% for 2024 to 2028, we could amortize both facilities over 20 years and save $1.5 million in interest and only be at a high risk debt ratio in one year, 10.1% in 2028. In 2029 we could drop to a 3% tax rate increase and be at 9.2% debt service ratio, or moderate risk level.

FINANCIAL IMPLICATIONS:
As per the report.

ATTACHMENTS:
Schedule 1: Long Term Financial Sustainability Plan
Schedule 2a: Loan Continuity Schedule – Loan Balances
Schedule 2b: Loan Continuity Schedule - Annual Debt Repayments
Schedule 2c: Loan Continuity Schedule – Annual Interest Payments
Schedule 3: ADRL – Based on Amortization Term and Tax Rate Increase

e-signature	September 20, 2023
Cynthia Laprade, CPA, CMA Treasurer	Date
e-approved	September 20, 2023
Michael Dwyer CAO	Date