

A PRIMER ON MUNICIPAL DEBT

This document discusses some common questions asked about Middlesex Centre's use of debt to finance various projects.

1. Why does Middlesex Centre need to borrow?

Borrowing is a way to finance capital projects and maintain major infrastructure over the longer term. Like most businesses, municipalities may borrow a portion of their capital requirements and pay it back over the life of the project being financed.

Municipalities do not borrow for day-to-day operations.

2. Are there any alternatives to borrowing?

When faced with the decision to build a major capital structure, Council has to decide on how to finance the project. Options include raising taxes that year to pay for it, reduce spending on other capital projects to make room in the current capital budget, use money that has been saved up in reserves, or borrow the funds and repay the debt using tax revenue over a period of time. Council considers debt financing when a new or one-time type of project comes along, and occasionally when major reconstruction is needed on large expensive assets.

3. Who does Middlesex Centre borrow from and can residents purchase municipal debentures as investments?

The majority of borrowing is through Infrastructure Ontario (a crown corporation of the Province of Ontario) as rates are more competitive than local lending institutions or private debenture issues, thus lowering costs to taxpayers of Middlesex Centre.

There is no direct way for local residents to invest.

4. How much debt does Middlesex Centre currently have?

Long-term debt outstanding at the end of 2024 was \$13,420,484 (2023 – \$15,855,222).

Details on Middlesex Centre’s debt are presented in the annual Municipal Budget, which can be found on the municipal website at middlesexcentre.ca/budget. Relevant tables from the 2025 Budget are presented below.

Table: Middlesex Centre – Debt Details

| Description of Debt | Total Loan (\$) | Interest Rate | % DC Eligible | Maturity |
|---|-------------------|---------------|---------------|----------|
| Kilworth Komoka Water Line – This debt borrowing was for the construction of a water line in Kilworth and Komoka. | 3,142,193 | 3.72% | 50% | 2031 |
| Denfield Operations Centre – This debt borrowing was for the construction of the road operations centre building in Denfield. | 5,067,705 | 3.61% | 18% | 2032 |
| Ilderton Timberwalk Pumping Station – This debt borrowing was for the construction of the pumping station in Ilderton. | 1,097,583 | 4.00% | 67% | 2034 |
| Roads & Street Light Upgrades – This debt borrowing was for the construction of some roads and the implementation of the LED streetlights program. | 1,261,629 | 3.36% | 0% | 2037 |
| Komoka Wastewater Treatment Facility Expansion – This debt borrowing was for construction to expand the Komoka Wastewater Treatment Facility | 7,072,293 | 3.63% | 70% | 2038 |
| Coldstream Fire Hall – This debt borrowing was for the construction of the Coldstream Fire Hall. | 2,237,008 | 4.00% | 0% | 2038 |
| Komoka Wellness Centre – This debt borrowing was for the construction of the building for the Wellness Centre. | 5,546,814 | 3.69% | 44% | 2042 |
| Total | 25,425,225 | | | |

Note: Debt details do not include municipal drain and tile drain loans.

Table: Debt Principal and Interest Details for 2025: Budget Impact

| Name | 2025 Principal Payment (\$) | 2025 Interest Payment (\$) | Total 2025 Payments (\$) | Remaining Principal (\$) |
|--|--|---|-------------------------------------|-------------------------------------|
| Kilworth Komoka Water Line | 224,442 | 56,340 | 280,783 | 1,346,654 |
| Denfield Operations Centre | 253,385 | 66,311 | 319,696 | 1,647,004 |
| Ilderton Timberwalk Pumping Station | 54,560 | 26,202 | 80,762 | 600,493 |
| Roads & Street Light Upgrades | 63,081 | 25,963 | 89,044 | 725,437 |
| Komoka Wastewater Treatment Facility Expansion | 344,990 | 165,957 | 510,947 | 4,312,374 |
| Coldstream Fire Hall | 94,958 | 68,571 | 163,529 | 1,645,328 |
| Komoka Wellness Centre | 184,894 | 121,096 | 305,990 | 3,143,195 |
| Total | 1,220,311 | 530,441 | 1,750,751 | 13,420,484 |

Note: Debt details do not include municipal drain and tile drain loans.

5. How much principal does Middlesex Centre pay down annually?

In 2025, Middlesex Centre is budgeted to pay \$1,750,751 in debt, not including municipal drain and tile drain loans, of which \$1,220,311 is principal and \$530,441 is interest payments.

6. Will Middlesex Centre be borrowing in the near future?

There is no approved debt borrowing as part of the 2025 Middlesex Centre Budget.

A discussion on considerations for debt borrowing can be found in the 2025 Budget in the section on Debt.

7. Does Middlesex Centre have a significant amount of debt?

The Province monitors municipal debt levels and annually calculates Middlesex Centre's debt capacity and ability to repay the debt. Council is restricted by the Ministry of Finance to approve any debt that will result in total annual debt payments that will be more than 25% of Middlesex Centre's own source annual revenues. Middlesex Centre has an internal policy where the total annual debt payment does not exceed 17%. In 2025, Middlesex Centre total annual debt payments sit at 7.03%.

8. Could Middlesex Centre use reserve funds to pay off the current debt early?

There are two considerations. First, some debt agreements do not allow for early repayment. Second, the majority of reserve funds are allocated to specific future projects and cannot be used for other purposes.

Middlesex Centre does look for ways to reduce debt costs, such as taking advantage of Provincial and Federal programs that provide subsidized interest rates.

9. How do other municipalities view and use debt?

Middlesex Centre is not unique in its use of debt. Infrastructure deficits exist in most, if not all, municipalities, and the Provincial and Federal governments as well. Most municipalities are also choosing to borrow a portion of their capital construction needs to finance long-term assets and pay for them over the lifespan of the asset.

In conclusion, there is a need for the Municipality of Middlesex Centre to strategically use debt to invest in new assets that improve the community. It is only used on significant assets where annual lifecycle funding is not fully in place and significant tax increases would otherwise be required. As funding to shrink the infrastructure deficit increases, there will be less need for future debt issuances.

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