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 make a decision 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. It 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 2021 was $18,324,884 (2020 - $19,578,964).

Short-Term Capital Financing for Development Charges at the end of 2021 was $3,000,000 (2020 - $9,780,000).

Details on Middlesex Centre's debt are presented in the annual Municipal Budget, which can be found on the municipal website. Relevant tables from the 2022 Budget are presented below.

Table: Debt Details: Outstanding Debt as of December 2021

Description	Original Loan ($)	Interest Rate	% DC Eligible	Maturity
Ilderton Medical Clinic	311,419	0.00%	0%	2023
Kilworth Komoka Water Line	3,142,193	3.72%	50%	2031
Denfield Operations Centre	5,067,705	3.61%	18%	2032
Ilderton Timberwalk Pumping Station	1,097,583	4.00%	67%	2034
LED & Street Lights Upgrades	1,261,629	3.36%	0%	2037
Komoka Wastewater Treatment Facility Expansion	7,072,293	3.63%	70%	2038
Coldstream Fire Hall	2,237,008	4.00%	0%	2038
Komoka Wellness Centre	5,546,814	3.69%	44%	2042
Total	**27,836,645**			

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

Table: Debt Principal and Interest Details for 2022

Description	2022 Principal Payment ($)	2022 Interest Payment ($)	Total 2022 Payments ($)	Remaining Principal ($)
Ilderton Medical Clinic	31,142	-	31,142	62,283
Kilworth Komoka Water Line	224,442	81,388	305,830	2,244,423
Denfield Operations Centre	253,385	93,753	347,138	2,660,545
Ilderton Timberwalk Pumping Station	48,504	32,258	80,762	804,596
LED & Street Lights Upgrades	63,081	32,321	95,403	977,763
Komoka Wastewater Treatment Facility Expansion	344,990	203,527	548,517	5,692,333
Coldstream Fire Hall	84,234	79,295	163,529	2,000,170
Komoka Wellness Centre	184,894	141,564	326,458	3,882,770
Total	**1,234,672**	**664,106**	**1,898,778**	**18,324,884**

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

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

In 2022, Middlesex Centre is budgeted to pay out $1,234,672 of principal and $664,106 of interest payments.

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

As part of the budget, Council approved two new projects for debt financing for 2022:

1. Old River Road Project (multi-year Transportation project)

- Glendon Drive to Pulham Road and Glendon Drive Intersection Realignment
- Total Debt borrowing for project from 2022-2024 - $3,999,500
- Debt payments will be 100% funded by the tax levy over 20 years and will be approximately $294,290 based on a 4% interest rate
- Payments would occur in 2024/2025 once project is complete
- Interim financing will be borrowed from internal reserve funds or capital financing loan

2. Komoka Drain No. 1 SWM Pond (multi-year Stormwater project)

- Total Debt borrowing for project from 2022-2023 - $4,550,000
- Debt payments will be 100% funded by the Stormwater Reserve Fund over 20 years and will be approximately $334,797 based on a 4% interest rate
- Payments would occur in 2023/2024 once project is complete
- Interim financing will be borrowed from internal reserve funds or capital financing loan

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 payments does not exceed 17%. With the new debt approved as part of the 2022 budget, Middlesex Centre total annual debt payments will sit at 12.13%.

8. Could Middlesex Centre raise taxes or use reserves to pay off the current debt early?

Middlesex Centre has taken advantage of several Provincial and Federal programs that provided subsidized interest rates. To obtain such historically low rates there are no options for early repayment offered by the issuing agencies.

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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