



CORPORATE SERVICES *Staff Report*

REPORT NO: COR-2024-13

TO: Council

SUBMITTED BY: Dan Elliott, Interim Treasurer and Chief Financial Officer

PREPARED BY: Dan Elliott

REVIEWED BY: Sharon Chambers, CAO

DATE: March 4, 2024

SUBJECT: 2024 Operating Budget: Implications of Levy Debt Financing

RECOMMENDATION:

THAT Report COR-2024-13 be received for information.

SUMMARY:

The 2024 Draft Operating and Capital Budget has completed reviews by the Finance and Budget Committee. Committee requested additional information with respect to the implications to the budget of including the carrying costs of the new debt proposed in the budget. Additionally, the Committee requested additional information be provided directly to Council with respect to the funding of a late consideration to add to the budget a capital project for developing a speed mitigation and traffic safety framework and toolbox for the municipality.

BACKGROUND:

The 2024 Draft Operating and Capital Budget, as reviewed by Finance & Budget Committee appears on this same agenda for final approval by Council. Committee requested additional information directly to Council with respect to the impact of adding the carrying costs of the newly proposed Levy Funded debt into the operating budget for 2024. In addition, Committee also requested clarity on the impact of adding an additional capital project to the budget, which would indirectly require additional levy funded debt issuance. This report is to focus on the

financial aspects of this information request, and not speak to the merits or details of the additional capital project itself.

REPORT:

Proposed Debt Carrying Costs:

The draft 2024 Operating and Capital Budget, as reviewed by Finance and Budget Committee, contains proposal to issue \$1,405,000 of additional levy funded debenture financing to provide funding for certain of the Township's proposed capital projects. This new debt will result in estimated annual debt servicing costs of interest and principal of \$111,950. Actual costs will not be known until the debentures are taken to market and a final interest rate and terms are finalized. Adding this to the budget will add just over 1% additional tax levy increase.

It is a best practice when debt financing to add to the operating budget the annual carrying costs of any new debt being approved in that same budget.

Should Council wish to add this carrying cost to the draft operating budget, the following resolution should be proposed by amendment:

AND THAT the 2024 Draft Operating Budget be amended by the addition of debt carrying costs of \$112,000, off-set by a corresponding increase in tax levy revenues.

Proposed inclusion of Speed Mitigation and Traffic Safety Framework project to the 2024 Capital Projects list:

The Speed Mitigation Framework project was reported by staff as a \$150,000 budget option. As this project does not result in long lived tangible capital assets, it is best funded directly by reserves. Given that reserve funds have been depleted, another capital project would be refinanced to use debt to free up reserve availability for this project. A \$150,000 resulting increase in debt issuance, would result in an annual carry cost increase of an estimated \$12,000 per year.

Should Council wish to add the Speed Mitigation Study and Traffic Safety Framework project to the 2024 Capital projects list and include the \$12,000 increase in debt carry costs the following two resolutions should be proposed by amendment:

AND THAT the 2024 Capital program be amended by addition of the Speed Mitigation and Traffic Safety Framework project, as a cost of \$150,000, to be funded from infrastructure reserves, and the Treasurer is authorized to debt finance \$150,000 of another appropriate capital project to avail the necessary reserve funding;

AND THAT the 2024 Operating Budget be amended by including the additional debt carrying costs related to the addition of the Speed Mitigation and Traffic Safety Framework project, off-set by a corresponding increase in tax levy revenues.

ALIGNMENT WITH THE TOWNSHIP OF WILMOT STRATEGIC PLAN:

This report supports the Strategic Plan goal of enhancing fiscal responsibility through improved transparency of financial affairs of the Township.

FINANCIAL CONSIDERATIONS:

When proposing to issue new debt to finance capital works, it is best practice to include the expected carrying costs into the same budget approving those works and debt. Not doing so creates a deferred operating budget pressure which must be funded in the subsequent year's budget, possibly impairing other priorities of the Council at that time.

Council may amend the draft 2024 Operating and Capital budget by adding the speed mitigation project, and separately, may amend the budget by adding the debt service costs or a portion thereof as set out above.

ATTACHMENTS:

Speed Mitigation study report from January 25, 2024.