



**Town of Aurora  
Special Council Report**

**No. FIN20-001**

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**Subject:** Library Square – Final Capital Investment Financing Strategy  
**Prepared by:** Jason Gaertner, Manager, Financial Management  
**Department:** Finance  
**Date:** August 25, 2020

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**Recommendation**

1. That Report No. FIN20-001 be received; and
2. That the use of a construction line of credit up to a maximum value of \$38 million to fund the library square project during its construction be approved; and
3. That the Town finance any balance remaining in its construction line of credit as of substantial project completion through a floating rate capital loan for a period of up to a maximum of five years; and
4. That up to a maximum of \$12.9 million in long term debt authority for the refinancing of the floating rate capital loan in the form of a debenture with up to a maximum repayment period of twenty years be issued within five years of the project's substantial completion; and
5. That the Treasurer be authorized to determine the appropriate value and repayment period for both the floating rate capital loan and long-term debt to be issued when it is required within the constraints as defined by Council; and
6. That Council approve the library square project's interim/long term debt financing bylaw; and
7. That upon finalization of the long term financing plan, an informational report be provided to Council which outlines the details of such, including interest rates and net cost of borrowing.

## **Executive Summary**

The current draft budget for the Library Square project which Council will be asked to consider this evening is \$51,939,500. To date, Council has approved a total budget for this project of \$51,611,700. Due to the significance of this investment, both a short term and longer term financing plan is essential. This report presents a recommended financing plan for the library square project to Council for its consideration and approval.

- A construction line of credit offers the greatest cash flow flexibility at a minimal cost to the Town
- Rolling the construction line of credit balance into a floating rate capital loan upon substantial completion for up to five years offers maximum repayment flexibility
- The Town will require a long term debenture for up to a maximum of \$12.9 million with a maximum repayment period of up to twenty years
- The Town will continue to seek alternative funding in an effort to minimize the level of long term financing required

## **Background**

On December 17, 2019 Council approved a total budget of \$51,611,700 for the library square project. It also authorized staff to further increase this budget and proceed with the tendering of this project provided its final Class A estimate remains within a maximum five percent increase.

In addition, Council approved staff's recommended funding strategy for this project subject to the results of its final Class A cost estimate. The approved funding strategy included two alternative scenarios; one scenario where the Town was successful in its Canada Infrastructure Program (ICIP) grant application and another where it was not. Table 1 outlines the two alternative funding strategies that were approved.

**Table 1  
Library Square Funding Strategies approved on Dec. 17, 2019**

<b>\$millions</b>	<b>Grant</b>	<b>No Grant</b>
Facility Repair & Replacement Reserve	1.7	1.7
Proceeds from the sale of municipal lands reserve	2.2	3.0
Community benefits reserve	2.6	2.6
Grants	31.6	-
Federal gas tax grant	3.4	3.4
Outdoor Recreation Development Charges	2.9	3.4
Library Development Charges	4.9	4.9
Tax levy funded twenty year debenture	-	7.5
Council Discretionary reserve	0.8	0.8
Hydro investment reserve	1.5	24.3
<b>Total</b>	<b>51.6</b>	<b>51.6</b>

The Town was notified by the Province on August 7, 2020 that its major Library Square infrastructure grant application was not going to be nominated to the federal government for review and approval. Staff will present a final library square project funding strategy to Council this evening for its review and approval which will reflect this decision.

Long term financing will continue to be a key component of this approved funding strategy.

A similar interim/longer term financing report is scheduled for York Region Council approval on September 24, 2020 should Aurora Council approval be obtained on August 18, 2020

## **Analysis**

### **A construction line of credit offers the greatest cash flow flexibility at a minimal cost to the Town**

A construction line of credit offers the Town maximum flexibility in its management of what will be significant cash outflows over the duration of the library square's construction within the context of COVID-19 impacts as well as the new construction lien act requirements that this project will be subject to.

Also, in consideration that some of this project's funding sources will be collected over the duration of the library square's construction, it is most advantageous to the Town for it to delay its commitment to longer term financing until after construction is substantially complete. For example, as the majority of the Town's unused reserve funds have been invested, a construction line of credit will provide the Town with sufficient time to strategically recall these investments at a minimal cost while maximizing investment income. A construction line of credit is the ideal financial tool for the Town in this scenario as it offers short term financing over the duration of a construction project at a minimal cost. As of August 10<sup>th</sup>, a municipal construction line of credit could be obtained through Ontario Infrastructure & Lands Corporation with a financing rate of 0.65% which was the lowest rate available at that time.

A construction line of credit is secured with a variable interest rate updated monthly. The Town is required to pay only the accrued interest owing each month as a minimum payment. However, the Town is able to pay higher amounts of its balance owing at any time. The agreement with Ontario Infrastructure requires that this debt be further secured by the Town's upper tier municipality, York Region, and upon project substantial completion any remaining balances must be either rolled into a floating rate capital loan or fully paid off through a cash payment or conversion to long term financing.

**Rolling the construction line of credit balance into a floating rate capital loan upon substantial completion for up to five years offers maximum repayment flexibility**

Ontario Infrastructure and Lands Corporation offers an ability for municipalities to convert any remaining construction line of credit balance upon substantial project completion into a floating rate capital loan for a period up to a maximum of five years. It is estimated that the Town's construction line of credit balance at substantial project completion will be approximately \$12.2 million. The Town is required to continue to pay only the accrued interest owing on its capital loan owing each month as a minimum payment. Similar to a construction line of credit, a floating rate capital loan offers an opportunity to make multiple one-time payments of any amount over the lifetime of the loan thus allowing the Town to reduce its required long term debenture principal and resultant interest costs. In addition, it is anticipated that the short term borrowing rate will continue to be low over the next several years. Reducing the overall cost of interest is advantageous to the Town.

**The Town will require a long term debenture for up to a maximum of \$12.9 million with a maximum repayment period of up to twenty years**

The Town will not collect all of its planned funding to be allocated toward the library square project within five years of its substantial completion. This uncollected funding will consist of development charges and tax levy funding. A long term debenture for this portion of the outstanding floating rate capital loan balance will be required. Should the Town take the full five years after substantial project completion before proceeding with its long term financing, the outstanding balance at this time is estimated to be approximately \$9.5 million. However, the Town may proceed with long term financing earlier should it be deemed advantageous to the Town, consequently the principal requiring financing at this time will be higher. The noted maximum principal of \$12.9 million takes this possibility into consideration.

The outdoor recreation and library development charge revenues committed to this project are planned to be collected by the Town from development taking place over the next 10 years. In addition, by 2021 the Town's ongoing operating budget will include an allocation of \$510,000 per year of tax levy for the repayment of the required library square project debenture's principal and interest.

The Town is able to access the following financial tools for the long term re-financing of any remaining floating rate capital loan balance within five years of the project's substantial completion:

1. York Region: fixed rate, closed, twenty year debenture financing.
2. Ontario Infrastructure & Lands Corporation: fixed rate, closed, debenture with financing guaranteed by York Region up to a maximum 20-year term.

Should the Town proceed with an Ontario Infrastructure debenture, as per legislation this debenture must be secured by the Town's upper Tier municipality, York Region.

Debentures operate very much the same as a closed, fixed rate home mortgage, where payments are fixed, and no additional or balloon payments are permitted. Bank loan financing is not permitted under the Municipal Act and regulations.

Staff recommend that 20 years is a reasonable refinancing period as it will allow sufficient time for the Town to collect all of its planned development charge revenues from future development, as well as provide sufficient time for the tax levy to pay off its share of the library square's costs in a financially sustainable manner.

**The Town will continue to seek alternative funding in an effort to minimize the level of long term financing required**

Upon conclusion of the Library Square's construction, its construction line of credit balance will be rolled into a floating rate capital loan for a period up to five years. Consequently, the Town will have an additional five years over which it can continue to explore alternative funding solutions for this project. This alternative funding will allow the Town to reduce the total balance requiring long term financing as well as its required repayment period.

As noted previously, the outstanding funding sources for financing upon the project's substantial completion will be development charges and the tax levy. The Town will need to await the collection of its earmarked DCs for this project from future development taking place over the next ten years. However, should the Town be successful in acquiring alternative funding such as additional grant funding or revenues from sponsorship, it is able to replace the previously earmarked tax levy funding with these new monies.

**Advisory Committee Review**

None

**Legal Considerations**

Subsection 401(3) and section 403 of the Municipal Act requires that all long-term financing for lower-tier municipalities be acquired through their upper-tier municipality. Likewise, a lower-tier municipality may only access a construction line of credit through its upper-tier municipality. In this case, the Town must access staff's recommended Ontario Infrastructure construction line of credit (interim financing) and debenture (long-term financing) through The Regional Municipality of York. The Town and the Region must pass a by-law authorizing both the library square project's interim and long term financing prior to proceeding with a formal application for financing to Ontario Infrastructure. If successful in its financing application, the Town and the Region will have to enter into a financing agreement(s) with Ontario Infrastructure.

## **Financial Implications**

As noted previously, a construction line of credit could be a very useful tool to the Town in its management of the significant cash outflows that are expected over the duration of the Library Square's construction. And, the subsequent rolling of any remaining construction line of credit balance into a floating rate capital loan for a period up to a maximum of five years upon substantial project completion which will allow the Town to further reduce its long term refinancing costs. The interest cost of both these tools is presently quite minimal; Ontario Infrastructure's present posted interest rate for both these interim financing tools is 0.65 percent per annum.

The total balance requiring long term refinancing is estimated to be \$9.5 million should the Town wait the full maximum five years after the project's substantial completion before commencing the long term refinancing. The amount of the principal requiring long term refinancing will be higher should the Town deem it advantageous to enter into this financing earlier. It is recommended that this long term financing take the form of an Ontario Infrastructure debenture. Ontario Infrastructure has consistently offered the lowest available debenture interest rate. This debenture will require an amortization period up to a maximum of 20 years, depending upon the total balance remaining at that time.

The Town has sufficient room within its calculated annual repayment limit of \$20,761,000. Assuming a maximum estimated debenture of \$12.9 million amortized over 20 years, the Town's total incremental annual debt carrying costs would be \$774,600, with this amount included the Town's total annual debt carrying costs would become \$2,098,500 representing 10 percent of its allowed maximum.

This debenture will be repaid through a contribution from the tax levy of up to \$510,000 per year with the remaining portion of its annual payment being funded 63 percent from Outdoor Recreation and 37 percent from Library development charges.

Once this project has reached substantial completion, the amount and the term length of the debenture will be finalized. An informational report will be provided to Council outlining the details of this debenture, including interest rates and net cost of borrowing.

## **Communications Considerations**

The Town of Aurora will use 'Inform' as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing

the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform, this report will be posted to the Town's website, the Library Square dedicated web page and will be included in the special council highlights.

### **Link to Strategic Plan**

Reporting to Council and the public on the Town's proposed Library Square project's financing strategy supports the Strategic Plan principles of transparency and accountability.

### **Alternative(s) to the Recommendation**

1. Council provide direction

### **Conclusions**

The Library Square represents the largest single project that the Town has ever undertaken. The Town's required cash outflows over the duration of this project will be significant and could benefit from short-term financing. In addition, the Town is able to minimize its long term financing interest costs through the rolling of any outstanding construction line of credit balance as of substantial project completion into a floating rate capital loan for a period up to a maximum of five years. Also, the earmarked development charges and tax levy funding for this project will continue to be collected beyond five years of this project's completion, consequently the Town will require long term debt financing to manage these outstanding amounts.

Staff recommend that the Town address the short term financing need through the combination of an Ontario Infrastructure construction line of credit to be in place in time for the commencement of construction and a floating rate capital loan for up to a maximum of five years after the project's substantial completion. Staff further recommend that the Town address its long term refinancing requirements through up to a 20 year Ontario Infrastructure and Lands debenture.

## **Attachments**

Attachment #1: Library square project's interim/long term debt financing bylaw

## **Previous Reports**

PBS17-032 Library Square – Conceptual Plans  
PBS17-066 Award of Contract for Library Square Site Plan  
PDS18-076 Library Square  
CMS19-008 Library Square – Outdoor Square  
CMS19-007 Library Square – Addition to Church Street School  
CMS19-009 Library Square – Proposed Operating Plan  
PDS19-018 Library Square – Parking  
CMS19-005 Library Square Project - Update  
FS19-004 Major Capital Investment Funding Strategy  
FS19-024 Library Square Total Budget Funding Sources  
FS19-025 Library Square – Financial Update  
CMS19-031 Library Square - Project Update and Tender issuance  
FS19-042 – Library Square – Updated Library Square Funding Strategy

## **Pre-submission Review**

Agenda Management Team review via email on August 12, 2020

### **Departmental Approval**



Digitally signed by Rachel  
Wainwright-van Kessel, CPA, CMA  
Date: 2020.08.14 10:21:10 -04'00'

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**Rachel Wainwright-van Kessel, CPA, CMA**  
**Director, Finance/Treasurer**

### **Approved for Agenda**



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**Doug Nadorozny**  
**Chief Administrative Officer**

**The Corporation of the Town of Aurora**

**By-law Number XXXX-20**

**Being a By-law to authorize the submission of an application to Ontario Infrastructure and Lands Corporation (“OILC”) for temporary and long-term financing of one or more capital works of The Corporation of the Town of Aurora (the “Lower-tier Municipality”) pursuant to a floating rate capital loan facility made available by OILC to the Regional Municipality of York (the “Upper-tier Municipality”).**

**Whereas** the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended (the “Act”) provides that a municipal power shall be exercised by by-law unless the municipality is specifically authorized to do otherwise;

**And whereas** subsection 405(1) of the Act provides, amongst other things, that a municipality may authorize temporary borrowing to meet expenditures made in connection with a work to be financed in whole or in part by the issue of debentures if, the municipality is a lower-tier municipality in a regional municipality and it has approved the work and the upper-tier municipality has approved the issue of debentures for the work;

**And whereas** subsection 401(1) of the Act provides that a municipality may incur a debt for municipal purposes, whether by borrowing money or in any other way, and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt;

**And whereas** subsection 401(3) of the Act provides that a lower-tier municipality in a regional municipality does not have the power to issue debentures and accordingly the Lower-tier Municipality intends that the Upper-tier Municipality will issue debentures in respect of the capital work(s) of the Lower-tier Municipality and will request that the Upper-tier Municipality do so;

**And whereas** subsection 403(1) of the Act provides that a by-law of an upper-tier municipality authorizing the issuing of debentures for the purposes or joint purposes of one or more of its lower-tier municipalities may require those lower-tier municipalities to make payments in each year to the upper-tier municipality in the amounts and on the dates specified in the by-law;

**And whereas** the Act also provides that a municipality shall authorize long-term borrowing by the issue of debentures or through another municipality under section 403 or 404 of the Act and subsection 403(7) of the Act provides that all debentures issued under a by-law passed by an upper-tier municipality under section 403 are direct, joint and several obligations of the upper-tier municipality and its lower-tier municipalities;

**And whereas** OILC has invited Ontario municipalities desirous of obtaining temporary and long-term debt financing in order to meet capital expenditures incurred on or after the year that is five years prior to the year of an application in connection with eligible capital works, pursuant to a floating rate capital loan facility, to make application to OILC for such financing by completing and submitting an application in the form provided by OILC;

**And whereas** the Council of the Lower-tier Municipality has passed the by-law(s) enumerated in column (1) of Schedule "A" attached hereto and forming part of this By-law ("Schedule "A") authorizing the capital work(s) or the class/classes of the capital works, as the case may be, described in column (2) of Schedule "A" (individually a "Capital Work", collectively the "Capital Works", as the case may be) in the amount of the respective estimated expenditure set out in column (3) of Schedule "A", subject in each case to approval by OILC of the financing for such Capital Work(s) that will be requested by the Lower-tier Municipality in the Application as hereinafter defined;

**And whereas** before the Council of the Lower-tier Municipality approved the Capital Work(s) in accordance with section 4 of Ontario Regulation 403/02 (the "Regulation"), the Council of the Lower-tier Municipality had its Treasurer calculate an updated limit in respect of its then most recent annual debt and financial obligation limit received from the Ministry of Municipal Affairs and Housing (as so updated, the "Updated Limit"), and, on the basis of the authorized estimated expenditure for the Capital Work or each Capital Work, as the case may be, as set out in column (3) of Schedule "A" (the "Authorized Expenditure" for any such Capital Work), the Treasurer calculated the estimated annual amount payable in respect of the Capital Work or each Capital Work, as the case may be, and determined that the estimated annual amount payable in respect of the Capital Work or each Capital Work, as the case may be, did not cause the Lower-tier Municipality to exceed the Updated Limit, and accordingly the approval of the Local Planning Appeal Tribunal pursuant to the Regulation, was not required before any such Capital Work was authorized by the Council of the Lower-tier Municipality;

**And whereas** the Lower-tier Municipality requested the Upper-tier Municipality to issue debentures for the Capital Work(s) and in this connection the Upper-tier Municipality and the Lower-tier Municipality completed and submitted an application to OILC (the "Application") to request financing for the Capital Work(s) by way of long-term borrowing pursuant to section 403 of the Act through the issue of debentures to OILC by the Upper-tier Municipality and by way of temporary borrowing by the Lower-tier Municipality from OILC pending the issue of such debentures, all pursuant to the Floating Rate Facility as hereinafter defined;

**And whereas** OILC has accepted and has approved or will accept and approve the Application, as the case may be;

**And whereas** OILC has agreed or will agree, as the case may be, to make long-term financing pursuant to a floating rate capital loan facility available to the Upper-tier Municipality (the "Floating Rate Facility") up to the maximum principal amount of \$38,000,000 (the "Floating Rate Facility Limit") and has agreed or will agree, as the case may be, to make temporary financing available pursuant to the Floating Rate Facility to the Lower-tier Municipality from time to time during the currency of the financing agreement to be entered into by OILC, the Upper-tier Municipality and the Lower-tier Municipality (the "Financing Agreement") up to the Floating Rate Facility Limit to meet expenditures made in connection with the Capital Work(s) on the basis that the Capital Work(s) will be long-term financed in whole or in part by the issue of debentures of the Upper-tier Municipality (the "Debentures"), subject to the terms and conditions set out in the Financing Agreement.

**Now therefore the Council of The Corporation of the Town of Aurora hereby enacts as follows:**

1. The Council of the Lower-tier Municipality hereby confirms, ratifies and approves the execution by the Treasurer of the Application and the submission by such

authorized official of the Application, duly executed by such authorized official, to OILC, in cooperation with the Upper-tier Municipality, for the financing of the Capital Work(s) by way of temporary borrowing from OILC, pending the issue of Debentures, in a maximum aggregate principal amount up to the Floating Rate Facility Limit, substantially in the form of Schedule "B" hereto and forming part of this By-law, with such changes thereon as such authorized official may hereafter approve, such execution and delivery to be conclusive evidence of such approval.

2. The Mayor and the Treasurer are hereby authorized to negotiate and enter into, execute and deliver for and on behalf of the Lower-tier Municipality the Financing Agreement that provides for long-term financing of the Capital Work(s) in a maximum aggregate principal amount up to the Floating Rate Facility Limit and temporary financing of the Capital Work(s) in a maximum aggregate principal amount up to the Floating Rate Facility Limit on such terms and conditions as such authorized officials may approve, such execution and delivery to be conclusive evidence of such approval.
3. The Mayor and/or Treasurer are hereby authorized, pending the substantial completion of each Capital Work or as otherwise agreed with OILC, to temporarily borrow pursuant to section 405 of the Act in respect of each Capital Work, on the terms and conditions provided in the Financing Agreement which Financing Agreement provides that the information contained in the Record, as defined in the Financing Agreement, in respect of such temporary borrowings shall be deemed final, conclusive and binding on the Lower-tier Municipality, and on such terms and conditions as such authorized official(s) may agree; and the Treasurer is authorized to sign such certifications as OILC may require in connection with such borrowings in respect of the Capital Work(s); provided that the amount of borrowing allocated to each Capital Work does not exceed the Authorized Expenditure for such Capital Work and does not exceed the related loan amount set out in column (4) of Schedule "A" in respect of such Capital Work and provided that the aggregate of the principal amount of all of the outstanding temporary borrowings and the Debentures outstanding pursuant to the Financing Agreement does not exceed the Floating Rate Facility Limit.
4. In accordance with the provisions of section 25 of the *Ontario Infrastructure and Lands Corporation Act, 2011*, S.O. 2011, c. 9, Sched. 32, as amended, the Lower-tier Municipality is hereby authorized to agree in writing with OILC that the Minister of Finance is entitled, without notice to the Lower-tier Municipality, to deduct from money appropriated by the Legislative Assembly of Ontario for payment to the Lower-tier Municipality, amounts not exceeding the amounts that the Lower-tier Municipality fails to pay to OILC on account of any unpaid indebtedness of the Lower-tier Municipality to OILC under any outstanding temporary borrowing and/or in respect of any indebtedness of the Lower-tier Municipality to the Upper-tier Municipality under the Debentures issued for any Capital Work (the "**Obligations**") and to pay such amounts to OILC from the Consolidated Revenue Fund.
5. For the purposes of meeting the Obligations, the Lower-tier Municipality shall provide for raising in each year as part of the general lower-tier levy the amounts of principal and interest payable in each year in respect of any outstanding temporary borrowing and/or any Debenture outstanding pursuant to the Financing Agreement, to the extent that the amounts have not been provided for

by any other available source including other taxes or fees or charges imposed on persons or property by a by-law of any municipality.

6. (a) The Treasurer is hereby authorized to execute and deliver the Application, the Mayor and the Treasurer are hereby authorized to enter into, execute and deliver the Financing Agreement, one or more of the Clerk and the Treasurer are hereby authorized to generally do all things and to execute all other documents and papers in the name of the Lower-tier Municipality in order to perform the Obligations of the Lower-tier Municipality under the Financing Agreement and to request and receive any temporary borrowing, and the Treasurer is authorized to affix the Lower-tier Municipality's municipal seal to any such documents and papers.
- (b) The money realized in respect of any temporary borrowing for the Capital Work(s) and the Debentures issued for any Capital Work, including any premium, and any earnings derived from the investment of that money after providing for the expenses related to any such temporary borrowing and to the issue of such Debentures by the Upper-tier Municipality, if any, shall be apportioned and applied to the respective Capital Work and to no other purpose except as permitted by the Act.

**Enacted by Town of Aurora Council this 25<sup>th</sup> day of August, 2020.**

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**Tom Mrakas, Mayor**

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**Michael de Rond, Town Clerk**

**Schedule "A"**

**(New Capital Work(s))**

(1) <u>Capital Work Number</u>	(2) <u>Description of Capital Work</u>	(3) <u>Estimated Expenditure</u>	(4) <u>Loan Amount</u>
81019	Library Square	\$51,939,500	\$38,000,000

**Schedule "B"**

**(New Capital Work(s))**

**Insert the OILC Application into Schedule "B"**