

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 2020 was \$19,578,964 (2019 - \$20,840,114).

Short-Term Capital Financing for Development Charges at the end of 2020 was \$9,780,000 (2019 - \$13,344,000).

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

In 2020, Middlesex Centre paid out \$1,242,728 (2019 - \$1,393,000) of principal and \$756,477 (2019 - \$801,210) of interest payments.

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

There are no new projects approved for borrowing by Council at this time. In 2021, with the projects funded by the short-term financing for development charges being completed, this debt will either be paid off or transferred into long-term borrowings.

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%. Middlesex Centre is currently below that at approximately 10%.

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.

For further information, please contact:

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Municipality of Middlesex Centre

Debt Summary

2021 Budget

Description	Debt Details				2021 Budget Impact			2021 Debt Responsibility				Remaining Principal
	Total Loan	Interest Rate	% DC Eligible	Maturity	2021 Principal Payment	2021 Interest Payment	Total 2021 Payments	% DC Eligible	Development Charges	User Fees	Tax Levy	
Arva Wastewater Pumping Station	220,000	7.00%	0%	2021	19,408	1,359	20,766	0.00%	-	20,766	-	-
Ilderton Medical Clinic	311,419	0.00%	0%	2023	31,142	-	31,142	0.00%	-	-	31,142	62,283
Kilworth Komoka Water Line	3,142,193	3.72%	50%	2031	224,442	89,737	314,180	50.00%	157,090	157,090	-	2,244,423
Denfield Operations Centre	5,067,705	3.61%	18%	2032	253,385	102,900	356,285	17.70%	63,062	-	293,223	2,660,545
Ilderton Timberwalk Pumping Station	1,097,583	4.00%	67%	2034	46,638	34,124	80,762	67.20%	54,272	26,490	-	806,462
LED & Street Lights Upgrades	1,261,629	3.36%	0%	2037	63,081	34,441	97,522	0.00%	-	-	97,522	977,763
Komoka Wastewater Treatment Facility Expansion	7,072,293	3.63%	70%	2038	344,990	216,050	561,040	70.00%	392,728	168,312	-	5,692,333
Coldstream Fire Hall	2,237,008	4.00%	0%	2038	81,074	82,454	163,529	0.00%	-	-	163,529	2,003,330
Komoka Wellness Centre	5,546,814	3.69%	44%	2042	184,894	148,386	333,280	43.60%	145,310	-	187,970	3,882,770
Total	28,056,645				1,249,055	709,451	1,958,507		812,462	372,658	773,386	18,329,909

Note: Does not Include Tile Drain loans or Municipal Drain Loans