

# 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 2022 was \$15,855,222 (2021 – \$18,324,884).

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 2023 Budget are presented below.

**Table: Debt Details: Outstanding Debt**

Description of Debt	Total Loan (\$)	Interest Rate	% DC Eligible	Maturity
Ilderton Medical Clinic – This debt borrowing was for the construction of the Ilderton Medical Clinic building.	311,419	0.00%	0%	2023
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
<b>Total</b>	<b>25,736,644</b>			

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

**Table: Debt Principal and Interest Details for 2023: Budget Impact**

Name	2023 Principal Payment (\$)	2023 Interest Payment (\$)	Total 2023 Payments (\$)	Remaining Principal (\$)
Ilderton Medical Clinic	31,142	-	31,142	-
Kilworth Komoka Water Line	224,442	73,039	297,481	1,795,539
Denfield Operations Centre	253,385	84,605	337,991	2,153,775
Ilderton Timberwalk Pumping Station	50,444	30,318	80,762	707,514
Roads & Street Light Upgrades	63,081	30,202	93,283	851,600
Komoka Wastewater Treatment Facility Expansion	344,990	191,004	535,993	5,002,354
Coldstream Fire Hall	87,637	75,892	163,529	1,831,458
Komoka Wellness Centre	184,894	134,741	319,635	3,512,983
<b>Total</b>	<b>1,240,015</b>	<b>619,801</b>	<b>1,859,816</b>	<b>15,855,222</b>

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

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

In 2023, Middlesex Centre is budgeted to pay \$1,859,816 in debt, not including municipal; drain and tile drain loans, of which \$1,240,015 is principal and \$619,801 is interest payments.

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

As part of the 2022 budget, Council approved two new projects for debt financing. Due to timing the projects have been carried forward to 2023 and the borrowing will not occur until 2024 at the earliest:

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

- Old River Road including the section from Glendon Drive to Pulham Road and Glendon Drive Intersection Realignment
- Total debt borrowing for project from 2022-2025 is \$6,064,500 (2022 project costs were identified as \$3,999,500)
- Payments would occur in 2025/2026 once project is complete.
- Debt payments will be 100% funded by the tax levy over 20 years and will be approximately \$486,631 per year based on a 5% interest rate, requiring a tax rate increase of 2.27% to cover the debt payments.
- Total interest costs would be \$3,668,120.
- 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 2022-2024 is \$4,260,000 (2022 project costs were identified as \$4,550,000)
- Payments would occur in 2024/2025 once project is complete.
- Debt payments will be 100% funded by the Stormwater Reserve Fund over 20 years and will be approximately \$341,833 per year based on a 5% interest rate, requiring an increase in the stormwater user fee to cover the debt payments
- Total interest costs would be \$2,576,660.
- Interim financing will be borrowed from internal reserve funds or capital financing loan.

The 2023 budget identified two additional projects for debt financing for 2023-2027 period; based on the timing the borrowing may not occur until 2025/2026. These are the Ilderton Recreation Facility (Ilderton Arena) and Glendon Dr. Widening. As Middlesex Centre Council only approves the capital budget on an annual basis, both of these projects will be presented to Council for approval at a later date.

## 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 2023 budget, Middlesex Centre total annual debt payments will sit at 9.85%.

## 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 provided 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.

**For further information**, please contact:

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*Revised January 2023.*