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Snap Shot of Debt Reduction Report

(Based upon Report No. CES-6-2008-6)

Background

- $106 million in Debt
  - $90 million for water & sewer services
  - $16 million for other services (primarily for New Pines Facility)
  - 2007 and forward all debt forecasted is for water & sewer services

- Capital Expenditures over the last 4 years
  - Water & sewer services accounted for 60% of the total capital expenditures and 90% of the debt increase.
  - Transportation is the second largest area of capital expenditures at 27% and has no debt associated with the capital program.

- Bridge Financing: The current practice is to allocate interest charges to capital projects during their construction phase. This phase encompasses the time before the asset is brought into service and before the project is financed through long-term debt. This practice of applying interest costs to only those projects scheduled to be financed through long term debt has compounded the financial burden on water & sewer services.

- Water & Sewer rates are one of the highest in the Province at $155/month
  - Since 2004 the average residential customer with combined service has experienced:
    - 58.9% or $36.39 per month increase in their utility bill
    - 44.6% or $17.76 per month increase in their urban service area charge
    - Combined increase of $650 annually
  - With below average Provincial family incomes, issues of affordability and sustainability of services begin to manifest themselves.

- Corporate Financial Position
  - Corporation Credit Rating Aa2 indicates a relatively strong position, however:
  - Low Level of Reserves compared to:
    - Operating & Capital Budgets
    - Debt Levels
    - Peer Municipalities
  - Comparatively high debt levels but still well within Provincial Credit Limits.

The recommendations on the following pages can be summarized into two categories: 1) Increase user fees & charges and 2) Financing.

User Fees & Charges

<table>
<tr><th>Recommendation</th><th>Impact on residential general tax levy</th></tr>
<tr><td colspan="2">Development Charges</td></tr>
<tr><td>1. That Council, when considering the development charge study, adhere to the principle that growth pays for the cost associated with the necessary infrastructure to accommodate new development.

2. Increase from $10,404 to $19,900.</td><td>No impact on general tax levy.

Increase will be absorbed by new growth.</td></tr>
<tr><td colspan="2">Local Improvement Connection Charges</td></tr>
<tr><td>3. That the proposed charge be used in all subsequent local improvement projects starting in 2008 and that the rate be increased annually by the Southam Construction Price Index; and

4. That a detailed review of the connection charges be conducted every two years to ensure the charge continues to reflect the cost of providing service.

<table>
<tr><th>Connection</th><th>Existing Charge</th><th>Proposed Charge</th></tr>
<tr><td>Water</td><td>$3,760</td><td>$ 4,900</td></tr>
<tr><td>Sewer (gravity connection)</td><td>$7,520</td><td>$10,400</td></tr>
<tr><td>Sewer (low pressure connection)</td><td>$3,760</td><td>$ 6,900</td></tr>
</table>
</td><td>No impact on general tax levy.

Increase will be absorbed by property owners connecting to the systems.</td></tr>
<tr><td colspan="2">Water & Sewer Mandatory Connections</td></tr>
<tr><td>5. That the mandatory connection program continue as scheduled.</td><td>No impact on general tax levy.

Increase will be absorbed by property owners connecting to the systems.</td></tr>
<tr><td colspan="2">Fees Charge to Haulers for Disposal of Septage at the Lagoons</td></tr>
<tr><td>6. That lagoon haulage charges be set at $40 for 2009 and increased by $10 each year until the 50% target is achieved.</td><td>No impact on general tax levy.

Increase will be absorbed by users of the system.</td></tr>
</table>

Financial

Recommendation	Impact on residential general tax levy
Debt Reduction Reserve	
7. That $2 million be transferred from the General Capital Reserve Fund to the Debt Reduction Reserve Fund.	No impact on general tax levy. Reallocation of existing fund balances between two reserve funds.
8. That ODSP* savings above the initial savings of $685,000 as identified in 2008, be used to top up the annual contribution to the Debt Reduction Reserve Fund of $795,000. **Over the next 4-year period the Province is assuming the costs of social assistance for the Ontario Disabilities Support Program currently financed through the District's general tax levy*.	No increase in general tax levy. The ODSP savings to an average residential property owner in 2008 was $8. In 2011 the savings would equate to $44 on an average residential property.
9. That the principal due upon maturity of the balloon payments outlined in this report be financed from the Debt Reduction Reserve Fund.	No immediate savings in 2009. Savings in the general tax levy in 2011 with pay off of Pines debt is $7 on an average residential property owner.
10. That the Debt Reduction Reserve Fund be used to issue internal loans to finance capital projects at zero or minimal interest rates.	No impact on general tax levy. Benefit will be the elimination of or the reduction in interest charges, which will be lower than the alternative of external debt financing.
Federal Gas Tax	
11. That The District Municipality of Muskoka continue to use the Federal Gas Tax Funding to finance sewer related capital projects until such time as the debt levels are stabilized and reserve fund balances are at viable levels.	No impact on general levy.

Recommendation	Impact on residential general tax levy
Environmental Services	
12. That the 2008 base for Environmental Services of $3,050,439 as approved in the 2008 General Tax Supported Budget be maintained and that this base be increased annually to maintain its purchasing power by the Southam Construction Price Index.	No impact on general tax levy above the annual base budget for annual indexing. $1 on an average residential property owner. The Southam Construction index has been running on average 3.75% or $114,000 on the 2008 base of $3,050,439.
Roadworks	
13. Water & Sewer Systems should only finance road related replacements and/or upgrades associated with water & sewer projects to the extent that it replaces the road in the same condition it was in immediately prior to the project initiation. 14. To the extent that there is an increase in the useful life of the asset and/or an increase in the service standard, those costs associated with the “betterment” should be funded independently from the Water & Sewer Systems and financed from those functional areas charged with providing that service (i.e. roads, traffic control, sidewalks, storm water management, etc.).	The impact on the general levy will be dependent on the amount of roadwork approved in the capital budget. Roadwork associated with Water & Sewer projects are usually associated with rehabilitation projects or local improvements. If this approach is taken and the average annual amount on roadwork is $1 million, this would equate to $12 on an average residential property owner.
Bridge Financing	
15. That the practice of allocating interest charges to unfunded capital projects during construction before they are brought in service be discontinued.	Assuming $350,000 in bridge financing has to be picked up, in any given year by the general levy through reduced investment revenue or direct expenses this would equate to $4 on an average residential property owner.

Recommendation	Impact on residential general tax levy
Evaluate Capital Program	
16. The objective is that all projects prior to proceeding must undergo an analysis to determine if the project is financially viable and/or essential for program delivery.	In the long run, cost avoidance should result in lower taxes. However, proposed water & sewer projects that do not have a positive business case from a utility perspective may require additional funding from other sources to proceed. **Impact on general levy undetermined**. **Could be minor or substantial.**

The following is an annualized impact and is based on the assumption of additional roadwork of $1 million dollars and $350,000 in bridge financing costs for 2008 and $600,000 in 2011. (*The increase in 2011in financing cost is due to timing of significant capital project in that year).*

Recommendation	**Impact on Average Residential Property Owner (Assessed at $200,000)**	
	2009	**2011**
Contribution to Debt Reduction Reserve Fund	$11	$44
Savings in Pines annual debt payments		($7)
Annual indexing of Environmental Funding	$1	$1
Elimination of Bridge Financing Charge	$4	$7
Roadwork to be funded from General Levy	$12	$12
Total	**$28**	**$57**
Financed from property taxes	($17)	($13)
Financed from the Province (ODSP savings)	($11)	($44)
Total	**($28)**	**($57)**

NOTE: This analysis also does not factor in reduced financing costs on general tax supported capital projects and on working capital demands that would result from the corporation's increased financial strength and flexibility through implementation of these recommendations.

Questions may be addressed to:

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