BUDGET MEETING 02~05

SPECIAL PUBLIC COUNCIL # 04-2005

Wednesday, January 19, 2005
Meeting began at 6:30 p.m.

PRESENT: A regular Council meeting was held this evening with the following members present: Mayor Phil Poirier, Councillors Huguette Burroughs, Joël Côté, Glen Grant, Perry Lalonde, Mark A. MacDonald, Leslie O'Shaughnessy, Jacques Lemire and Chris Savard

ABSENT: Councillors Naresh Bhargava and Korey Kennedy

ADMINISTRATION: Cecil Vincent, Chief Administrative Officer, Denise Labelle-Gélinas, City Clerk; and the following Management Personnel: David Dick, Tracey Bailey, Fernand Hamelin, Stephen Alexander, Susan Cain, Victor Leroux, Morris McCormick, Norm Barrette, Paul Fitzpatrick, Norm Levac, Conrad Miller, Robert Menagh, Paul Scrimshaw and Manon Poirier

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ADOPTION OF SPECIAL BUDGET AGENDA

Moved by Councillors Huguette Burroughs and Glen Grant that the Special Budget Agenda for Wednesday January 19, 2005 be approved.

Motion Carried

Mayor Phil Poirier called the meeting to order at 6:30 p.m.

1. 2005 DEBT FINANCING OVERVIEW AND PRESENTATION

Mr. David Dick, Manager of Financial Services provided a Power Point presentation to Council on the City's present financial pressures and a focus on debt financing. Mr. Dick indicated that the City's expenditures were increasing at a significantly faster rate than revenues were being collected. The costs of previous provincially delivered services were rising faster than costs of traditional municipal programs; Land Ambulance costs were increased 3 fold since 2001; arbitration awards to fire, land ambulance, police and nursing; construction utilities and fuel costs were rising dramatically. In addition, the municipality's provincial transfers, such as the CRF and LSR costs were capped; assessment related growth was at an annual 2% minimal; limited ability to raise taxes; no debt policy and a lack of development fees for local improvements were all major factors responsible for the present financial pressures faced by this municipality.

Mr. Dick continued to clarify why the focus on debt financing was important. Provincial policy appears to suggest and encourages municipal borrowing; borrowing has an important role in financing municipal expenditures, which can and should lead to matching of revenues and expenditures. In other words, beneficiaries of infrastructures investments pay for those benefits at the same time as the debt is being repaid "inter-generational equity".

Presently, the *Municipal Act* imposes constraints on our ability to borrow; the downloading of provincial programs (income support) gives rise to operating expenditures that cannot be debt financed which in turn leaves few options other than deferral of capital projects. Several incentives were presented to the provincial government such as providing municipalities with a portion of the sales tax, motor vehicle registration fees, hotel and motel occupancy tax and PST refunds. At present, municipalities are limited to one tax in Ontario. The GST and gas tax will inevitably provide additional funding options with specific spending criteria.

Presently, approximately 72% of all municipal capital spending in Ontario is being funded on a "pay as you go" basis. Access to long-term borrowing may create an artificial bias toward borrowing as opposed to pay as you go. This could increase the rate of default if interest rates begin to increase or the economy growth rate slows and or decreases.

Mr. Dick continued to detail Infrastructure Deficits in so far as the SuperBuild where it has been estimated that the infrastructure deficit in Ontario will exceed $12B for water/waster water/roads/bridges; transit, housing and other services are not included within these figures; the Provincial Auditor in discussing Local Service Realignment (LSR reforms indicates an unequal exchange or service and funding responsibilities going so far as to suggest an uploading of certain programs may be required. In 2000 Long-term borrowing funding was slightly more than 14% of all capital spending, which is down from 18% in 1996. The Pay-as-you-go financing (current tax, reserves, development charges) had risen to 72% from 51% in 1996.

In 1997, conditional upon the sale of Cornwall Electric, the Municipality endorsed a Pay as You Go policy, which essentially indicated that the city's goal was to be debt free and that all capital projects would be delayed until it had the money to perform the construction. This policy freed up a debt payment of $4.5 to 5.5M of debt payments allowed for "capital spending". There was an additional $1M through the use of Progress funding and it would also indicate that the municipality would live within its means. The Pay as You Go policy eliminated the cost of borrowing money and conserved its Credit Rating for times of emergency when credit was needed.

The Progress Fund was then established under Bylaw 125 and 128 of 2001 which legislated that the $25M earned from the sale of Cornwall Electric not be spent. The Bylaw also indicates that a 100% vote from the Council would be needed to revoke the said Bylaw. The money earned from the interest would be used for quality of life items including; financing of new city owned and operated facilities; financing of new not-for-profit owned facilities; financing capital improvements of existing recreational facilities that are city owned and financing capital improvements of existing recreational that are also not-for-profit. Capital expenditures would be defined as an asset with an economic life extending beyond 1 year; including new purchases as well as repairs and maintenance with a minimum value of $50K attached. The Council also endorsed a Capital Budget Policy (02-02) and a Capital Expenditure Policy (02-03).

Financing Alternatives were reviewed such as sources of capital funding which could be categorized into three main sources: Internal, External and Debt and/or lease. Long Term borrowing where the use extends beyond the short-term and where recreation/public health/safety are involved. Development Costs, Local Improvements levies, low interest bonds (OMEIFA) and Lease-Purchase options. Other alternatives would be Reserves and Reserve funds (invest in the present for future benefits and long-term capital forecasting, Short-term borrowing for various alternatives used to smooth out cash flows, Mid-term borrowing from one to 5 years where special requirements cannot be met in the pay-as-you-go philosophy.

The City's borrowing limits, effective in the year 2004 could provide the municipality with an annual repayment limit of $9M and where corresponding debt levels vary from a low of $36M to a high of 99M dependent upon the term and the interest rate of the day. The City's capacity to borrow must be linked to a safe and dependable ability to repay.

The City has an opportunity to issue bonds at subsidized rates pegged at 50% of prevailing market rate to generate a $1.12B in seed capital. By investing $450K into reserves/reserve funds each year at a 3% interest rate could generate $5,158,800 within the next 10 years.

In conclusion, Mr. Dick asked the question: To Borrow or not to Borrow. Should the Council wish to borrow, a policy could identify borrowing for non-recurring projects where the life expectancy is beyond 10 years; with a price tag exceeding $2M; where the benefit of the project benefits all future generations and where borrowing is not for operational expenditures.

An extensive discussion followed Mr. Dick's presentation.

2. Borrowing Policy Report

Moved by Councillors Chris Savard and Jacques Lemire that Council indicate its desire in receiving borrowing options and further that Administration be directed to develop a report that will provide a borrowing policy that will detail:

(a) What the City could borrow for; and
(b) Options on how to borrow (ie: Progress Fund, Debentures etc..)

And that the report provide a series of recommendations that will help Council to make a decision based on professional information.

Motion Carried Unanimously

3. Construction Costs - Future Projects

Moved by Councillors Leslie O'Shaughnessy and Huguette Burroughs that Administration be directed to prepare a report that will provide costs of construction increases, in general, over the next following years based on inflation rates of previous years..

Motion Carried Unanimously

ADJOURNMENT

Moved by Councillors Joël Côté and Jacques Lemire that the Special Budget meeting #02-2005 be hereby adjourned at 8:40 p.m.

Motion Carried

DENISE LABELLE-GÉLINAS
CITY CLERK

MAYOR PHIL POIRIER