

MANAGEMENT REPORT

Date: March 19, 2024
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: FIN24-013
Attachments: L.3.1 Local Improvements,
L.3.2 Municipal Standard for Local Improvement Roads for
Reconstruction

Title: Local Improvement Financing Charges for Works Constructed Under the Local Improvement Act R.S.O. 1990, and O.Reg. 586/06 Local Improvement Charges – Priority Lien Status

Objective: To consider a standardized approach to financing Local Improvement Charges.

Background: Part XII of the Municipal Act allows for full cost recovery of a specified project amongst those users who benefit or may benefit in the future from the service provided. The City has two current policies established for eligible local improvement works that are initiated by the City for works that the City plans to undertake. For some projects, if costs are not recoverable at the time of project completion, the City could possibly never recoup those costs.

The intent of this report and policy is to provide a standardized framework for the financial terms when a local improvement project proceeds, to ensure a fair and consistent approach for beneficiaries while ensuring that the incremental financial costs to the City are adequately captured. It is meant to complement the City's current Local Improvement policies L.3.1 and L.3.2 attached for reference.

The City has 7 outstanding local improvement projects where benefitting property owners have utilized payment options. Each of these projects' affected properties were provided with 10-year repayment terms at 5%. Repayment becomes due at the time construction costs are finalized, typically one year after the construction project is considered substantially completed.

Summarized, they are:

Project	Outstanding Principal	Repaid by	Number of Properties	Interest Rate
Matilda St Roadwork	\$31,253.04	2026	15	5%
Mornington St Sidewalk	\$811.77	2026	1	5%
Dawson St Sidewalk	\$1,703.26	2028	2	5%
Pleasant Drive	\$73,769.37	2031	13	5%
Linton Ave	\$30,091.12	2029	3	5%
Burritt St	\$1,101.66	2024	3	5%
Burritt/Frederick	\$90,324.86	2031	11	5%
Total	\$225,055.08		48	

Analysis: Historically, interest rates for Stratford's local improvement charges have been determined at the Treasurer's discretion. Also historically, the Bank's prime rate and interest rates in general have been lower than in recent years.

Earning a rate of return is not a primary consideration when financing capital works, but in cases where the City's money is used for what is essentially a repayable loan, the cost of financing should be considered. Funds for these types of programs have generally come from general cash and as repaid, replenish general cash. Simply stated, when the City lends funds to projects or entities, it is using cash that it had otherwise levied for general operations or for allocation to the capital program. Using these funds in an unstructured manner could cause temporary cash flow pressures.

The RBC prime rate at the date of preparing this report is 7.2%. In looking at other municipal local improvement by-laws and policies, the recommended approach is to link the rate charged to residents for local improvements to the City's cost of money. The general intent is that the cost of money includes interest on borrowed funds, or interest lost on funds on hand, plus administrative costs. Using a rate of Prime +1.5% would generally cover those costs, without earning a premium at the expense of the property owner.

Fixed rates (as have been used previously) were considered, however could prevent the Municipality from recovering the fully burdened construction costs from a local improvement project and do not account for inflation and heavy construction market cost increases experienced in recent years.

Staff are recommending for current and future projects, that a variable rate of Prime plus 1.5% apply to residents who elect for financing terms. This is representative of the cost of the City's funds, while still being a reasonable rate that might not be widely available to general residents through other financial means. This would essentially be a fixed rate for the term of each local improvement, so for example, when a project is ready to be financed, if Prime rate was 7%, the property owner could lock in at 8.5% for the term, which would be open for repayment at any time.

The existing 7 projects would be designated as 'legacy', thus maintaining their fixed rate of 5% for the duration of their repayment.

Highlights of the draft policy include repayment terms, interest rates and clarification around maximum financing periods and are outlined below.

Staff consulted other municipalities as well as the Infrastructure Services department who concurs that the policy is fair and considers the unique types of projects the City undertakes as local improvements.

It is noted that some municipalities offer no financing options through the municipality and require full payment at the completion of the project. Generally, financing option timeframes range from 5 to a maximum of 15 years and interest rate structures vary from using debenture rates at the time of completion, interest rates at the time of completion, plus administrative fee, to charging a higher interest rate to capture administrative costs. The latter option is easiest to understand and administer.

Staff recommend the following inclusions in the policy:

1. Incorporate administration costs within the overall interest rate charged for simplicity for local improvement projects;
2. Use an interest rate equal to the bank's Prime Rate (bank being used by the City) plus 1.5%. The Prime Rate would be based on the rate in effect at the time of the agreement;
3. Lock in the financing rate for the period of the financing;
4. Financing rates to be used for current year projects would not impact prior year agreements. Old financing rates would remain at the rate in effect at the time of the agreement as indicated in #3 above;
5. Limit the financing period to 5, 10 or 15 year timeframes, determined based on total financing required as follows:
 - Less than \$1,000, no financing terms available, invoiced
 - \$1,001 - \$5,000, maximum of 5 year repayment, added to tax roll
 - \$5,001 - \$20,000, 5 or 10 year repayment, added to tax roll annually
 - \$20,001 and above, 5, 10 or 15 year repayment, added to tax roll annually

6. No options to renegotiate the repayment terms during the term but balances are always fully open for repayment at any time; and
7. Give legacy designation to existing commitments made for current local improvement projects so they are unaffected by this new policy.

A gap in funding for asset management has been identified in the Asset Management Plan. It is assumed that Council's intent is for local improvements to be recovered from the petitioners as outlined in Policy L.3.1 (attached for reference). When a local improvement project moves forward which will add to the asset management burden, lifecycle costs should be included for the full costing to extend the lifecycle of the asset that was improved.

Financial Implications:

Financial impact to current year operating budget:

There are limited financial implications with the proposed change to local improvement financing, as the number of projects that are financed are not significant at this time. However, adoption of the policy ensures that the City can reasonably recover their own costs of using taxpayer funds.

If the policy is not adopted, the City will continue to lose the option of full cost recovery on local improvement projects. It may also be exposed to cash flow pressures depending on the project.

Financial impact on future year operating budget:

Similar to current year impacts noted.

Link to asset management plan and strategy:

When a local improvement project moves forward which will add to the asset management burden, lifecycle costs should be included for the full costing to extend the lifecycle of the asset that was improved.

Alignment with Strategic Priorities:

Strengthening our Plans, Strategies and Partnerships

Partnering with the community to make plans for our collective priorities in arts, culture, heritage and more. Communicating clearly with the public around our plans and activities.

Developing our Resources

Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Alignment with One Planet Principles:

Health and Happiness

Encouraging active, social, meaningful lives to promote good health and wellbeing.

Equity and Local Economy

Creating safe, equitable places to live and work which support local prosperity and international fair trade.

Staff Recommendation: THAT staff be directed to use the terms outlined in Report FIN24-013 for any current or upcoming Local Improvement projects pending the development of a Policy to be adopted by Council at a future meeting.

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