



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 24, 2025

Report Number: SRCFS.25.028

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.25.028 – Stormwater Management
Capital Financing Plan**

Purpose:

To provide a follow up to staff report SRCFS.25.40, and to outline the internal financing guidelines of the \$22.1 million capital requirements associated with Scenario 2 of the Stormwater Management Financial Plan, in accordance with Council's prior approval.

Recommendation(s):

- a) That staff report SRCFS.25.028 be received for information purposes;
- b) That Council approve internal financing from the Community Enhancement and Economic Vitality Reserve Fund to finance the \$22 million capital requirements of the Stormwater Management Financial Plan.

Contact Person(s):

- Bernard Yu, Financial Management Advisor, Ext. 5430
- Muhammad Raza, Manager Fiscal Strategy and Long-Term Planning, Ext. 6307
- Gigi Li, Director, Financial Services and Treasurer, Ext. 6435
- Sherry Adams, Commissioner, Corporate and Financial Services, Ext. 2521

Report Approval:

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

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Key Messages:

- Council approved debt financing for Stormwater Capital works as part of the 2024 Stormwater Management Financial Plan.
- \$22.1 million of funding through internal financing will be provided from the Community Enhancement and Economic Vitality Reserve Fund, assumed at an interest rate of 3.5% over a 20 year term.
- Internal financing would begin in 2026, then annually up to and including 2030 from the Community Enhancement and Economic Vitality Reserve Fund, which will be fully repaid at the end of 2050.
- The total repayment would equate to approximately \$31.2 million, comprised of principal and interest, funded through rate increases in the Rate-Supported Stormwater Management Operating Budget.

Background:

Stormwater management is the utilization of streams, rivers and creeks or City-wide infrastructure to control the quantity and quality of water from rain and snowmelt runoffs. This is to ensure long term safeguards against flooding and erosion, in order to protect the environment and community. The infrastructure required, which includes storm water mains, outfalls and ditching along-side roads are all maintained and funded by the City's Water Quality Protection Reserve Fund.

The Water Quality Protection Reserve Fund is used to finance stormwater capital expenditures for its annual capital program. This reserve fund had a balance of \$1.7 million at the end of 2024, which will be depleted by the 2025 budget.

A combination of historical underfunding and deferred backlog of works have created a significant gap to maintain existing and future stormwater management assets. This will require major capital investments over the next five years within the City's 10-year forecast period. Past rate increases and funding have lagged behind the growing needs of building and maintaining stormwater infrastructure. As outlined in the Asset Management Plan, this is crucial for ensuring that both existing infrastructure and new assets are kept in a state of good repair.

The City retained and worked alongside Watson & Associates Economists Ltd. in developing its Stormwater Management Financial Plan. Council approved the recommendation brought forward at the Committee of the Whole Meeting back on November 6, 2024. This involved the 'Scenario 2' option for funding the City's ten-year Stormwater Management Capital Program, which proposed a combination of funding sources, including the Canada Community Building Fund, rate increases and \$22 million of debt financing. This amount is necessary to ensure we have the funds needed to protect and save the community from storm events, while mitigating the risk of system failures.

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Discussion:

The City can engage in various financing methods to provide flexibility and ensure resources are readily available when needed. There are several channels that the City can engage for its borrowing needs, which can be internal from its own reserve funds and/or through external financing arrangements. The latter, which can arise from its existing banking relationships, engaging Provincial support through Infrastructure Ontario or debenture issuance through an underwriting syndicate to the financial market. As a lower-tier municipality, the City will still require the Regional Municipality of York to facilitate the process in regards to external borrowing from either Infrastructure Ontario or through debenture issuance in capital markets.

Internal Financing

Internal financing is the recommended approach for the debt approved in the Stormwater Management Financial Plan and is considered a temporary loan based on borrowing internally from the City's own reserves and/or reserve funds to finance stormwater capital expenditures. Per Appendix B, 20 years was the recommended term for the Stormwater Management Financial Plan.

The benefits of internal borrowing include the following:

- Higher liquidity as having access to own funds immediately;
- Simpler process as not requiring approval from an upper-tier Council;
- Greater flexibility on setting the terms of the loan;
- Lower interest cost, assuming the investment portfolio income rate of return is lower than external financing rates;
- No legal or underwriting fees; and
- No impact on City's annual repayment limit (ARL).

The Community Enhancement and Economic Vitality Reserve Fund has more than sufficient funds and is a prime candidate that will provide the \$22.1 million capital requirement and will assist in reducing the rate increases. Principal will be fully repaid at the end of the term including interest of \$9 million. This represents foregone interest that would be allocated from investment income if the reserve fund was not providing internal financing. The reserve fund held a balance of \$53.1 million at the end of 2024.

Financial Implications:

Annual principal repayment including interest to the reserve fund would be required at the end of each fiscal year. The interest amount would typically be derived from the equivalent interest rate the reserve fund would have earned, based on the City's investment portfolio income rate of return realized for the year. However, as outlined in Appendix A, the projected amortization schedule is calculated using an interest rate of 3.5%, which was based on the 5-year historical average income rate of return earned on the City's investment portfolio. Given uncertainty surrounding the economic outlook and financial market conditions, the average of past multi-year investment income

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performance was used as the basis of the underlying interest rate assumption. This is considering that it captures an economic cycle of varying interest rate levels.

The first tranche of borrowing would commence in 2026 with annual principal and interest first due at end of 2027. Additional borrowing would be incurred in each subsequent year up to and including 2030, totaling \$22.1 million. Although the total would remain unchanged, the timing and amount projected for each year may change due to a shift in operational priorities and requirements. The recommended rate increases in the Stormwater Management Financial Plan will be used for repayment until the Community Enhancement and Economic Vitality Reserve Fund is fully repaid.

In reference to the table in Appendix A, year 2050 will serve as the final period of repayment coinciding with borrowing in year 2030. The total repayment would be \$31.1 million, which is broken down between principal and interest of \$22.1 million and \$9 million, respectively.

Relationship to Strategic Plan 2024-2027:

The Stormwater Management Financial Plan is driven by sound financial analysis with the support of third party professional expertise in creating the most optimal decision in growing and maintaining the City's stormwater infrastructure. This relates to Pillar 3, 'Strengthening our Foundations, especially around Priority 1 in supporting the City's capital investments, based on evidence-based and data-driven decisions within the context of long term financial sustainability and strategic planning in asset management.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. All attachments have been reviewed and made accessible. If you require an alternative format please call the contact person listed in this document.

- Appendix A – Schedule of Internal Financing and Repayment
- Appendix B – Stormwater Management Financial Plan

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Report Approval Details

Document Title:	SRCFS.25.028 - Stormwater Management Capital Financing Plan.docx
Attachments:	- SRCFS.25.028 - Appendix A - Schedule of Internal Financing and Repayment.pdf - SRCFS.25.028 - Appendix B - Stormwater Management Financial Plan.pdf
Final Approval Date:	Jun 5, 2025

This report and all of its attachments were approved and signed as outlined below:

Gigi Li - Jun 4, 2025 - 12:42 PM

Sherry Adams - Jun 4, 2025 - 1:16 PM

Darlene Joslin - Jun 5, 2025 - 12:10 PM