

## **Staff Report To Council**

**From:** Christine Walker, Director of Corporate Services/Treasurer  
**Date:** June 2, 2025  
**Report:** DCS-08-25  
**Subject** **External Borrowing**

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### **Recommendation**

That Report DCS-08-25 External Borrowing be received by council; and

That council agrees to Option #2 as detailed in Report DCS-08-25 and / or provide direction on other external borrowing options.

### **Background**

During the February 24, 2025 Finance Committee meeting, Report FIN-02-25 (DCS) was presented regarding the current status of all internal and external borrowing. It was noted that the trail bridges internal borrowing was covered through the wastewater reserve funds at \$1,024,000 (to borrow over 9 years) and the existing Landfill cell no. 2 borrowing of \$934,000 back in 2013 has a balance of approximately \$508,472.28 for a further 12 years.

The current yearly amount spent for these two loan repayments is approximately \$208,000. (\$163,315.19 – combo of P & H Centre balance in 2025 \$113,387.92 plus trail bridge loan to start of \$49,927.27 and \$44,729.62 Landfill Expansion Loan Repayment).

The following is summary was presented at that meeting of the existing internal and external borrowing.

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## INTERNAL & EXTERNAL BORROWING SUMMARY

INTERNAL Borrowing Outstanding as of December 31, 2024						
Year of Borrowing	Description	Borrowing Amount	2024 Principal o/s Balance	2025 Principal o/s Balance	Completion Year	Annual Principal & Interest Payment Amount for 2025
2013	Landfill Expansion	926,562.96	508,472.28	471,361.07	2037	44,729.62
2019	Fire Pumper Truck	407,000.00	271,333.33	244,200.00	2034	33,916.67
2022	Theatre Renovations	360,000.00	284,000.00	248,000.00	2032	47,076.00
2022	Launchpad Deficit	95,107.46	63,404.97	31,702.49	2026	34,175.28
2024	Trail Bridges	1,024,000.00	1,024,000.00	987,544.29	2033	49,927.27
		<b>2,812,670.42</b>	<b>2,151,210.58</b>	<b>1,982,807.85</b>		209,824.84
			<i>Principal Paid</i>	<b>168,402.73</b>		
Temporary Internal Borrowing						
2024	Fire Rescue Pumper	254,400.00	254,400.00	452,400.00	2027	18,096.00
		<b>254,400.00</b>	<b>254,400.00</b>	<b>452,400.00</b>		18,096.00
			<i>Principal Paid</i>	<b>- 198,000.00</b>		
<b>TOTAL INTERNAL BORROWING</b>						
		<b>3,067,070.42</b>	<b>2,405,610.58</b>	<b>2,435,207.85</b>		<b>227,920.84</b>
			<i>Principal Paid</i>	<b>- 29,597.27</b>		
EXTERNAL Borrowing Outstanding as of December 31, 2024						
Year of Borrowing	Description	Borrowing Amount	2024 Principal o/s Balance	2025 Principal o/s Balance	Completion Year	Annual Principal & Interest Payment Amount for 2025
2015	P & H Centre	1,500,000.00	112,325.66	-	2025	113,387.92
2024	FireHall - FCM Green Funding	5,585,800.00	5,585,800.00	5,402,842.93	2044	419,795.00
		<b>7,085,800.00</b>	<b>5,698,125.66</b>	<b>5,402,842.93</b>		533,182.92
<b>TOTAL EXTERNAL BORROWING</b>						
		<b>7,085,800.00</b>	<b>5,698,125.66</b>	<b>5,402,842.93</b>		<b>533,182.92</b>
			<i>Principal Paid</i>	<b>295,282.73</b>		
<b>Grand Total</b>						
		<b>10,152,870.42</b>	<b>8,103,736.24</b>	<b>7,838,050.78</b>	<b>-</b>	<b>761,103.76</b>
			<i>Principal Paid</i>	<b>265,685.46</b>		

During that meeting, staff was directed to investigate external borrowing opportunities to cover the amounts owing for the trail bridges and the landfill cell no. 2 projects that have currently been borrowed internally from the town's water and wastewater reserve funds. It was noted during this meeting that these reserve funds will be required in the immediate future for the water and wastewater projects that are underway (7<sup>th</sup> Street Water Tower and the Wastewater Treatment Plant Upgrades).

### Discussion

A Request for Quotation (RfQ) was provided to all the local financial institutions with a closing date of May 22, 2025 at 2:00 p.m. At that time, the town received 3 quotations. We inquired for both a 5-year term with a 10-year amortization as well as a 10-year term with a 10-year amortization for amounts between \$500,000 and up to \$1,500,000. All

respondents have indicated that there is no difference in their respective indicative rates provided if the loan were \$500,000 or up to \$1,500,000.

Bank	Amount	Interest Rate	5 Yr Term. 10 Yr Amort	Annually	Total Payments over 5 years	Balance o/s after 5 year term
TD Bank	\$1,500,000	4.14%	\$15,286.68	\$183,441.36	\$917,206.80	\$825,801.48
Meridian Credit Union	\$1,500,000	4.46%	\$15,516.85	\$186,202.20	\$931,011.00	\$833,232.67
CIBC	\$1,500,000	4.493%	\$15,540.70	\$186,488.40	\$932,442.00	\$833,735.88

*With this 5-year term, renewal would be required after 5 years for a further 5-year term.*

Bank	Amount	Interest Rate	10 Yr Term. 10 Yr Amort	Annually	Total Payments over 10 years
TD Bank	\$1,500,000	4.44%	\$15,502.41	\$186,028.92	\$1,860,289.20
Meridian Credit Union	\$1,500,000	5.02%	\$15,924.50	\$191,094.00	\$1,910,940.00
CIBC	\$1,500,000	5.096%	\$15,980.31	\$191,763.72	\$1,917,637.20

*Paid in full at end of the 10-year term.*

The current prime interest rate is 4.75% and the town receives interest of prime less 1.55%, approximately 3.2% on all our banking accounts.

As can be seen with these options, all of these annual repayments for any of the financial institutions that provided information, will be slightly lower than what we are currently budgeting on an annual basis for these two internal loans.

### Option #1

Borrow externally for \$1,500,000 over a 5-year term, 10 year-amortization period with TD Bank at 4.14%

Annually \$183,441.36 (\$24,558 lower than current internal borrowing)  
End of Term \$825,801.48 to be borrowed further in 5 years to clear these loans.

### Pros

- Lower interest rate for a 5-year term vs a 10-year term with a 10-year amortization period
- Water and Wastewater Reserve Funds available for immediate future use
- Possible lower interest rate in 5 years resulting in lower interest costs

### Cons

- Renewal required in 5 years
- Possibility of higher interest rates in 5 years resulting in higher interest costs

## Option #2

Borrow externally for \$1,500,000 over a 10-year term, 10- year amortization period with TD Bank at 4.44%.

Annually \$186,028.92 (\$21,971 lower than current internal borrowing) | Paid in full 2035.

### Pros

- Guaranteed 10-year rate and both loans completed by 2035
- Water and Wastewater Reserve Funds available for immediate future use

### Cons

- Possible lower interest rate in 5 years, if shorter term chosen.

## Option #3

Borrow externally for \$1,000,000 over an 8-year term and amortization period with TD Bank at 4.41% for Trails Portion Only and remain with internal borrowing for landfill cell no 2 at \$44,729.62 yearly.

Trails Annually \$148,571.04 | Paid in Full 2033

Landfill \$ 44,729.62 | Paid in full July 1, 2037

TOTAL \$193,300.66 (\$14,699.34 lower than current)

### Pros

- Guaranteed 8-year rate and Trails loan completed in 2033.
- Wastewater Reserve Funds available for immediate future use

### Cons:

- Continuation of internal water reserve fund use to finance landfill resulting in less monies available for Water Reserve Funds
- 12 years additional payments required for landfill loan – paid in full 2037

## Option #4

Borrow externally for \$1,024,000 over a 10-year period with Infrastructure Ontario at 4% for trails portion only and remain with internal borrowing for landfill cell no 2 at \$44,729.62.

Trails Annually \$124,410.00 | Paid in Full 2035

Landfill Annually \$ 44,729.62 | Paid in Full 2037

TOTAL \$169,139.62 (\$38,860.38 lower than current)

### Pros

- Guaranteed 10-year rate and Trails loan completed in 2035.
- Lower interest rate than external financial institutions
- Wastewater Reserve Funds available for immediate future use

### Cons:

- Continuation of internal water reserve fund use to finance landfill resulting in less monies available for Water Reserve Funds
- 12 years additional payments still required – paid in full 2037
- No availability to pre-pay the Infrastructure Ontario Loan, locked in for entire term.

### Option #5

Borrow externally for \$1,024,000 over a 10-year period with Infrastructure Ontario at 4% for Trails Portion Only and borrow \$500,000 over a 10-year period from TD at 4.44%

Trails Annually \$124,410.00 | Paid in Full 2035

Landfill Annually \$ 62,009.64 | Paid in Full 2035

TOTAL \$186,419.64 (\$21,580.36 lower than current)

### Pros

- Guaranteed 10-year rate and both the trails loan and landfill loan portions completed in 2035
- Lower interest rate on \$1,024,000 than external financial institutions
- Water and Wastewater Reserve Funds available for immediate future use

### Cons:

- Two separate external loans required
- No availability to pre-pay the Infrastructure Ontario Loan portion, locked in for entire term.

Borrowing from Infrastructure Ontario is not an option for the landfill internal loan as it exceeds the maximum threshold of borrowing within 2 years of the completed project.

The options #1, #2 and #3 clear the external loan earlier than the end of the term agreed upon. It also allows for up to 10% of the original amount of the fixed term loan amount without incurring a prepayment penalty. Anything higher than that would result in a prepayment penalty. For any borrowing with Infrastructure Ontario, there is no prepayment options available. The loan is locked in for the full period. With the ever-increasing strain on town budgets, staff does not foresee that additional prepayments for these loans would be a major concern as most surpluses would be allocated as per the town's financial policy (FIN-024 Operating Surplus Deficit Management Policy) which does not allocate to prepay external loans.

### Financial Implications

Staff recommendation is Option #2 as it provides the lowest current interest rates available and both loans would be cleared within 10 years (by 2035). This option allows for both internal loans to be combined as one loan and there is no need for renewal in five years. Loans would be paid off two years earlier overall than remaining at status quo. This external loan would provide the reserve fund capacity for the water and wastewater projects in the immediate future.

The 2025 budget includes \$94,656.89 for the trails (\$49,927.27) to commence in September 2025 and landfill (\$44,729.62) annually, which would be sufficient to cover the loan commencing as early as July 1, 2025 ( $\$186,028.92 / 2 = \$93,014.46$ ). Future budgets would be \$186,028.92 per year which is approximately \$21,971 lower than the 2025 overall budget of \$208,000 that included a portion for the P & H Centre borrowing. As previously noted, the trails borrowing will be offset by reallocating the amount used towards the P & H Centre borrowing annually.

As the opening balances for both of these loans total approximately \$1,532,472.28, staff is also recommending that approximately \$32,500 be cleared in 2025 through general reserves so the maximum of \$1,500,000 can be borrowed externally, if the Option #1 to Option #2 scenarios are the direction. Should Option #3 be the direction, an amount of

approximately \$24,000 required. Should Option #5 be the direction, an amount of \$8,472.28 would be required.

### **Link to Strategic Plan**

This report supports the indicated Strategic Goals and Action Plans of the Town of Hanover.

☒ **Goal 1: Safe and Reliable Infrastructure**

Build, maintain and continuously improve our municipally owned properties, buildings, and equipment.

☐ **Goal 2: Healthy and Welcoming Community**

Care for our natural environment and provide an enviable quality of life for everyone who calls Hanover “home”.

☐ **Goal 3: Strong and Vibrant Economy**

Refresh downtown Hanover and retain and attract local economic investment and jobs.

☐ **Goal 4: Balanced Growth**

Work together to create a community we can all be proud of.

☒ **Goal 5: Open and Responsible Government**

Deliver services in a friendly, efficient and effective manner while providing an exceptional working environment for our employees.

Respectfully submitted,

Concurrence,

Christine Walker, CMO  
Director of Corporate Services/Treasurer

Sherri Walden  
CAO