

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON  
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT  
RAPPORT

Our File/N/Réf.  
Your File/V/Réf.

DATE 31 March 1998

TO/DEST. Co-ordinator, Corporate Services and  
Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **DISCONTINUANCE OF SINKING FUND LEVIES**

### **DEPARTMENTAL RECOMMENDATION**

**That in accordance with Section 116 (42) of the Regional Municipalities Act R.8, Corporate Services and Economic Development Committee recommend Council authorize:**

- 1. The reduction in the amount of the annual sinking fund levy to be made on May 26, 1998 in respect of the debentures authorized under by-law 134 of 1988, from \$4,524,369 to \$2,600,000;**
- 2. The discontinuance commencing July 26, 1998, of the amount of the annual sinking fund levy in the amount of \$1,172,295 to be made in respect of the debentures authorized under by-law 167 of 1989.**

### **BACKGROUND**

When the Region issues sinking fund debentures, annual contributions are made to the Sinking Fund, which together with interest earnings derived from the investment of these funds are expected to accumulate to an amount which will be sufficient to pay the debentures on maturity.

When the sinking fund balance for a debenture issue is considered to be sufficient to pay the principal amount of the debenture issue at maturity, Regional Council may reduce the annual levy contribution in accordance with Section 116 (42) of the Regional Municipalities Act R.8.

The earnings for the Sinking Funds for 1997 have been determined and distributed to the various Sinking Fund accounts. In two instances, By-law 134 of 1988 and By-law 167 of 1989, these accounts together with estimated earnings are expected to be more than sufficient to pay the principal of the debt when it matures. The Sinking Fund earns a rate of return of 7.6% as at December 31, 1997. The details of these by-laws are as follows:

By-Law 134 of 1988

On May 26, 1988, the Region issued a combination of instalment and term debentures in the amount of \$40,000,000 on behalf of the City of Ottawa, the City of Nepean, the City of Gloucester and the City of Kanata as well as for Regional purposes. With Police Services becoming a Regional service commencing January 1, 1995, the Region assumed responsibility for debt in the amount of \$96,047 which had been issued by the City of Ottawa in respect of Police requirements. In accordance with by-law 134 of 1988, \$4,524,369.95 was deposited annually with the sinking fund starting on May 26, 1994 for the purpose of accumulating sufficient funds to pay the \$25,000,000 principal amount of the term debentures on May 26, 1998.

As of December 31, 1997 this sinking fund account for the term debentures has accumulated to \$22,037,140. As shown in Annex A the funds accumulated in this account together with estimated interest earnings at 5% and a levy payment of \$4,524,369 are more than sufficient to meet the principal amount of the debt on May 26, 1998. A reduction in the amount of the levy from \$4,524,369 to \$2,600,000 is proposed which is estimated will be sufficient to meet the full commitment on its maturity date. The effect of this reduction is as follows:

	Current Sinking Fund <u>Levy</u> \$	Proposed Sinking Fund <u>Levy</u> \$	<u>Reduction</u> \$
Roads	1,595,836	917,073	678,763
Homes for the Aged	452,437	260,000	192,437
Police	17,382	9,989	7,393
Ottawa	2,024,195	1,163,235	860,960
Nepean	138,988	79,872	59,116
Gloucester	208,664	119,912	88,752
Kanata	<u>86,867</u>	<u>49,919</u>	<u>36,948</u>
	<u>4,524,369</u>	<u>2,600,000</u>	<u>1,924,369</u>

By-Law 167 of 1989

On July 26, 1989 the Region issued sinking fund debentures in the amount of \$14,745,000 on behalf of the City of Ottawa. Commencing on July 26, 1990 an amount of \$1,172,295 was deposited annually with the Sinking Fund. As of December 31, 1997 the sinking fund account had accumulated a balance of \$13,804,195. This amount together with estimated interest earnings at 5% is expected to accumulate to an amount which is more than sufficient to pay the principal of the debt when it matures on May 26, 1999 as shown in Annex A. Accordingly, it is recommended that the annual levy in respect of this by-law be discontinued.

FINANCIAL COMMENT

Sinking fund deposits are budgeted as debt charges until such time as the contribution is reduced or discontinued in accordance with Section 116 (42) of the Regional Municipalities Act. The recommended reduction in the sinking fund levy in respect of by-law 134 of 1988 will reduce the 1998 Regional Budget Estimates for debt charges as follows:

Region Wide	\$871,200
Police Services	<u>7,393</u>
	<u>\$878,593</u>

CONSULTATION

The public consultation process is not applicable.

CONCLUSION

The discontinuance of the annual levy in the amount of \$1,172,295 in respect of by-law 167 of 1989 and the reduction of the annual levy from \$4,524,369 to \$2,600,000 in respect of by-law 134 of 1988 does not jeopardize the ability of the sinking fund to meet the debenture commitments on the maturity dates and therefore it is recommended that Corporate Services and Council authorize the reduction in these levy amounts.

*Approved by J. C. LeBelle*

GFM/bm

Attach. (1)

ANNEX A

**Estimated Value of Sinking Fund at Maturity**  
**\$25,000,000.00 Sinking Fund Debentures**  
**Authorized Under By-Law 134 of 1988 Maturing May 26, 1998**

	<u>Opening Balance</u>	<u>Sinking Fund Levy</u>	<u>Estimated Earnings</u>	<u>Closing Balance</u>
At December 31, 1997 Projected to Maturity Assumed Interest Rate: 5.00%				\$22,037,140
With present levies: At May 26, 1998 (Estimated)	\$22,037,140	\$4,524,370	\$440,743	\$27,002,253
Proposed reduction: With reduced levy at May 26, 1998	\$22,037,140	\$2,600,000	\$440,743	\$25,077,883

**Estimated Value of Sinking Fund at Maturity**  
**\$14,475,000.00 Sinking Fund Debentures**  
**Authorized Under By-Law 167 of 1989 Maturing July 26, 1999**

	<u>Opening Balance</u>	<u>Sinking Fund Levy</u>	<u>Estimated Earnings</u>	<u>Closing Balance</u>
At Dec. 31, 1997 Projected to Maturity Assumed Interest Rate: 5.00%				\$13,804,195
With present levies: At Dec. 31, 1998 (Estimated)	\$13,804,195	\$1,172,295	\$715,583	\$15,692,073
At July 26, 1999 (Estimated)	\$15,692,073	\$1,172,295	\$444,967	\$17,309,335
Proposed discontinuance: With discontinued levy at Dec 31, 1998	\$13,804,195	-	\$690,210	\$14,494,405
With discontinued levy at July 26, 1999	\$14,494,405	-	\$411,006	\$14,905,411