

Our File/N/Ref.
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DATE 6 March 2000

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

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **DISPOSITION OF SINKING FUND SURPLUS AND
DISCONTINUANCE OF LEVY**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council approve:

- 1. The distribution of a sinking fund surplus in the amount of \$620,691.10, in respect of by-law 167 of 1989, be distributed to the City of Ottawa and that the surplus amount be used in accordance with Section 116 (44.1) of the *Regional Municipalities Act*;**
- 2. The discontinuance of the final sinking fund levy, in the amount of \$2,500,000.00 to be made on June 25, 2001 in respect of the debentures authorized under by-law 126 of 1991 in accordance with Section 116 (42) of the *Regional Municipalities Act* R.8.**

BACKGROUND

When the Region issues sinking fund debentures, an annual contribution is made to a sinking fund, which together with interest earnings derived from the investment of these funds, will accumulate to an amount which will be sufficient to pay the debentures on maturity. The Sinking Fund Committee, which oversees the operation of the sinking fund, met on March 1, 2000. The accounts have been closed and the financial operations audited for 1999. The Sinking Fund Committee has concluded that it would be appropriate to recommend that Council approve the

distribution of a surplus earned in respect of the sinking fund accounts for by-law 167 of 1989 and to discontinue the last levy to be made in connection with the debentures authorized under by-law 126 of 1991.

When the sinking fund balance for a debenture issue is more than sufficient to pay the principal amount of the debenture issue at the maturity date, this surplus may be distributed in accordance with the provisions of *Section (44.1) of the Regional Municipalities Act R.8*. The accounts of the sinking fund have been closed for the year 1999 and it has been determined that for by-law 167 of 1989 which matured on July 26, 1999 there is an amount in excess of the amount required to pay the principal amount on its maturity dates.

In accordance with *Section (44) of the Regional Municipalities Act* the distribution of surpluses requires the approval of Regional Council. On March 1, 2000 the Sinking Fund Committee adopted a resolution which, with the approval of Regional Council, provided for the distribution of the sum of \$620,691.10 representing the surplus in excess of the debenture commitment under by-law 167 of 1989 to the City of Ottawa, with the recommendation that these amount be used in accordance with *Section (44.1) of the Regional Municipalities Act R.8*.

Similarly 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 Sinking Fund account for by-law 126 of 1991 together with estimated earnings is expected to be sufficient to pay the principal of the debt when it matures. Accordingly the payment of the last sinking fund levy on June 25, 2001 is no longer required.

DISCUSSION

By-law 167 of 1989

Debentures authorized under the authority of by-law 167 of 1989 matured on July 26, 1999. The amount of \$14,745,000 was transferred from the sinking fund to the Region to meet the debenture commitment on maturity. The surplus of \$620,691.10 represents sinking fund earnings attributable to this by-law for the period January 1, 1999 to its maturity date. The City of Ottawa is the only participant in the debentures issued under the authority of by law 167 of 1989.

Section (44) (b) of the Regional Municipalities Act provides that any surplus withdrawn from the sinking fund accounts be used for one or more of the following purposes:

1. *Retirement of unmatured debentures of the Regional Corporation or of an area municipality.*
2. *Reduction of the next annual levy of principal and interest payable with respect to debentures of the Regional Corporation or of an area municipality.*
3. *Reduction of the amount of debentures to be issued for capital expenditures for which the issue of debentures has been approved.*
4. *Transfer to the general funds of the Regional Corporation or of an area municipality.*

By-Law 126 of 1991

On June 25, 1991, the Region issued Euro-Canadian debentures in the amount of \$100,000,000 on behalf of a number of Area Municipalities as well as for Regional purposes. In accordance with this by-law, \$7,950,457 was deposited annually with the sinking fund commencing June 25, 1992 for the purpose of accumulating sufficient funds to pay the \$100,000,000 principal amount on June 25, 2001.

On June 23, 1999 Council authorized the reduction in the amount of the annual sinking fund levy commencing June 25, 2000 in respect of the debentures authorized under by-law 126 of 1991 from \$7,950,457 to \$2,500,000. As at December 31, 1999 the sinking fund account for by-law 126 of 1991 has accumulated to \$90,716,849. As shown in Annex A, the funds accumulated in this account at December 31, 1999 together with estimated interest earnings at 5% are more than sufficient to meet the principal amount of the debt on June 25, 2001. The effect of discontinuing the levy requirement reduces debt charges in 2001 as follows:

	Reduction \$	Total \$
Ottawa		906,925
Kanata		83,450
Vanier		37,500
Region		
Transportation	926,500	
Sewer System	523,125	
Police Services	<u>22,500</u>	
Total Region		<u>1,472,125</u>
		<u>2,500,000</u>

FINANCIAL COMMENT

Sinking fund levies 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 discontinuance in the sinking fund levy in respect of By-law 126 of 1991 will reduce annual debt charge payments.

CONSULTATION

The public consultation process is not applicable.

CONCLUSION

The distribution of sinking fund surpluses earned during 1999 represents the distribution of surplus earnings for the by-law which matured during 1999. Since the debenture commitment has already been met the surplus funds remaining are attributable to the City of Ottawa. Therefore it is recommended that Corporate Services and Council approve the Sinking Funds Committee's resolution which it adopted to distribute the surplus for the year 1999.

The discontinuance of the annual levy as outlined in this report does not jeopardize the ability of the sinking fund to meet the debenture commitment on its maturity date and therefore it is recommended that Corporate Services and Council authorize the reduction in this levy amount.

Approved by
J.C. LeBelle
Finance Commissioner

GFM/gm

ANNEX A

**Estimated Value of Sinking Fund at Maturity
\$100,000,000.00 Sinking Fund Debentures
Authorized Under By-Law 126 of 1991 Maturing June 25, 2001**

	<u>Opening Balance</u>	<u>Sinking Fund Levy</u>	<u>Estimated Earnings</u>	<u>Closing Balance</u>
At December 31, 1999				\$90,716,849
With present levy:				
At Dec. 31, 2000 (Estimated)	\$90,716,849	\$2,500,000	\$4,600,568	\$97,817,417
With present levy continued in 2001:				
At June 25, 2001 (Estimated)	\$97,817,417	\$2,500,000	\$2,358,338	\$102,675,755
Proposed reduction:				
With levy discontinued on June 25, 2001	\$97,817,417		\$2,358,338	\$100,175,755