

Toronto Atmospheric Fund - Street Lighting and Lane Conversion Program Loan

(City Council on November 23, 24 and 25, 1999, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the following report (October 21, 1999) from the Chief Financial Officer and Treasurer:

Purpose:

The purpose of this report is to respond to a request from Budget Committee that the Chief Financial Officer and Treasurer report back, in consultation with the Toronto Atmospheric Fund, with a resolution on the Street Lighting and Lane Conversion Program loan prior to the consideration of the 2000 Operating Budget. This report also responds to a request from the Toronto Atmospheric Fund Board that the Treasurer not waive the interest in the amount of \$590.9 thousand for 1999 on the City loan.

Funding Sources, Financial Implications and Impact Statement:

Approval of the recommendations will result in an increase of \$590.9 thousand in total debt charges (\$441.6 thousand in interest payments and \$149.3 thousand in principal payments) in the Transportation program's 2000 Operating Budget submission and corresponding increases in the Toronto Atmospheric Fund's 2000 Operating Budget submission. There will be no impact on the 1999 approved operating budgets of the Toronto Atmospheric Fund and Transportation program.

Recommendations:

It is recommended that:

- (1) the Toronto Atmospheric Fund be requested to waive interest payments for 1999 on the Street Lighting and Lane Conversion Program loan to the City in the amount of \$590.9 thousand; and
- (2) the Transportation program re-instate budget for \$590.9 thousand in total debt charges (\$441.6 thousand in interest payments and \$149.3 thousand in principal payments) related to the Street Lighting and Lane Conversion Program loan in its 2000 Operating Budget submission.

Background:

The original Toronto Atmospheric Fund (TAF) loan to the former City of Toronto for the Street Lighting and Lane Conversion Program was \$15,300.0 thousand, issued on December 1, 1994 and maturing on December 1, 2002 at an interest rate of 8.76 percent. Repayment of the loan was to be financed by energy and maintenance savings achieved from this program. At the end of 1998, the principal outstanding was \$7,619.5 thousand. TAF waived the 1996, 1997 and 1998 interest payments totalling \$2,550.5 thousand at the request of the City and the Transportation program's operating budgets were reduced accordingly. However, principal payments on the loan were made to TAF in each of these years from the Transportation program's approved operating budgets.

By cancelling interest payments on the loan, the City has been able to access TAF's accumulated operating surplus from 1995. The remaining surplus carried forward from 1998 in the amount of \$121.6 thousand will be fully utilized to fund TAF's 1999 operating budget. Waiving interest payments in the future will result in reduced operating budgets for TAF.

For 1999, the Transportation program's approved operating budget includes funding of \$1,667.3 thousand for the principal payment only. The 1999 interest payment of \$590.9 thousand was not included in the Transportation program's approved operating budget. It should also be noted that the 1999 operating budget submission from TAF did not account for this interest payment and City Council approved their 1999 operating budget, as submitted. City Council also approved the Budget Committee recommendation that the Chief Financial Officer and Treasurer be requested to report back, in consultation with TAF, with a resolution on the Street Lighting and Lane Conversion Program loan prior to the consideration of the 2000 operating budget.

For 2000, the principal payment will be \$1,816.6 thousand, an increase of \$149.3 thousand from the 1999 payment of \$1,667.3 thousand. The interest payment in 2000 is scheduled to be \$441.6 thousand, a reduction of \$149.3 thousand from the 1999 scheduled payment of \$590.9 thousand. As a result, total debt charges would be unchanged. The remaining repayment schedule on the loan is outlined in Appendix A1.

At its meeting on June 15, 1999 the Board of Directors of TAF passed a resolution requesting that the Treasurer not waive the interest in the amount of \$590.9 thousand for 1999 on the loan to the City as the non-payment of interest on their loan for a number of years had resulted in a shortfall in revenues available for grants. The five year history of grants awarded by TAF is summarized in Appendix A2, for information purposes.

Discussion:

The level of funding available for grants by TAF has declined from an actual expenditure of \$958.4 thousand in 1997 to a budget of \$446.5 thousand in 1999, a reduction of \$511.9 thousand or 53.4 percent. The outlook for 2000, based on the current practice of waiving interest payments on the Street Lighting and Lane Conversion Program loan, is a grant budget of \$385.5 thousand, resulting in a further reduction of \$61.0 thousand or 13.7 percent from the

1999 approved budget. A Table outlining the 2000 budget outlook is provided in Appendix B, with scenario 1 outlining the 2000 budget outlook based on the current practice of waiving interest payments. The full impact of continuing to waive future year interest payments is \$822.4 thousand (\$441.6 – 2000, \$279.0 – 2001, \$101.8 – 2002).

The Executive Director of TAF has proposed three options to resolve the outstanding TAF loan to the City on the Street Lighting and Lane Conversion Program loan:

- (1) resume interest payments in 2000 on the remaining principal, including the amount owed in 1999 (perhaps ballooning the 1999 amount in 2003);
- (2) pay off all the remaining outstanding principal balance in 2000, with 1999 interest forgiven; and
- (3) pay off 50 percent of the remaining principal balance in 2000, and the rest in 2001 – two years ahead of schedule – with interest charged on the remaining balance in 2001, but with 1999 interest forgiven.

Option 1: Resume interest payments in 2000 on the remaining principal, including the amount owed in 1999 (perhaps ballooning the 1999 amount in 2003).

Resuming interest payments in 2000 will require an increase in the Transportation program's 2000 operating budget submission of \$590.9 thousand in total debt charges (\$441.6 thousand in interest payments and \$149.3 thousand in additional principal payments). Based on the current practice of repaying the principal only, Transportation will have experienced a \$149.3 thousand budget pressure nevertheless had the current practice continued. The additional budget pressure is the interest payment only totalling \$441.6 thousand.

Payment of the 1999 interest payment totalling \$590.9 thousand in 2000 or in any subsequent year will provide financial relief to the City on a cash flow basis only. The 1999 interest payment would remain a liability in 1999 and the expenditure would accrue to the current year. Payment of 1999 interest has not been included in the Transportation program's approved operating budget and Transportation does not have the flexibility to absorb this amount given the significant over expenditures that were incurred by this program following the snowstorms in January. It should also be noted that the 1999 interest revenue has not been included in TAF's approved operating budget.

As a result, Option 1 is not being recommended.

Option 2: Pay off all the remaining outstanding principal balance in 2000, with 1999 interest forgiven.

The original TAF loan matures on December 1, 2002 so pay off of the outstanding principal in 2000 would accelerate the repayment schedule and the City would save \$380.8 thousand (\$279.0 thousand in 2001 and \$101.8 thousand in 2002) in future interest payments. The remaining principal balance in 2000 will be \$5,952.2 thousand. Paying off the remaining principal balance in 2000 would require a budget increase of \$4,284.9 thousand over the 1999

budget of \$1,667.3 thousand. A budget increase of \$4,284.9 represents a 2.3 percent increase to the Transportation program's approved 1999 operating budget of \$184,734.6 thousand (gross) and a 2.8 percent increase on the net budget of \$153,153.2 thousand.

Given the difficult financial constraints anticipated for the City in 2000, an additional budget pressure of this magnitude should not be considered. The only potential funding source for a budget increase of \$4,284.9 thousand would be reserve funds but that alternative is not being recommended. As a result, Option 2 is not being recommended.

Option 3: Pay off 50 percent of the remaining principal balance in 2000, and the rest in 2001 – two years ahead of schedule – with interest charged on the remaining balance in 2001, but with 1999 interest forgiven.

As previously indicated, the remaining principal balance in 2000 will be \$5,952.2 thousand. The payment of 50 percent of this balance in 2000 would amount to \$2,976.1 thousand, an increase of \$1,308.8 thousand over the 1999 budget of \$1,667.3 thousand. A similar payment would be required in 2001 with an additional charge for interest. As with Option 2, the accelerated repayment of principal on the loan should not be considered given the difficult financial constraints anticipated for the City in 2000.

As a result, Option 3 is not being recommended.

Recommended Option:

The recommended option is a hybrid of Option 1 proposed by the Executive Director of TAF. Interest payments totalling \$441.6 thousand on the outstanding loan will resume in 2000, in order to address TAF's concern with declining revenues that are available for grants. However, TAF will be requested to waive the interest payment in 1999 totalling \$590.9 thousand and operate within the 1999 operating budget envelope as submitted by TAF and as approved by City Council. As a result, there will be no impact on the approved 1999 operating budgets of TAF and the Transportation program.

The impact of resuming interest payments in 2000 has been reflected in the 2000 budget outlook for TAF as outlined in Appendix B. Funding available for grants in 2000 will increase to \$827.1 thousand as outlined in scenario 2, an increase of \$441.6 thousand from the 2000 budget outlook based on the current practice of waiving interest payments on the loan. The additional funding represents an increase of \$380.6 thousand or 85.2 percent from the 1999 approved budget of \$446.5 thousand.

The 2000 budget outlook for grants of \$827.1 thousand is \$156.6 thousand or 23.4 percent above the five-year average for grants of \$670.5 thousand. However, it should also be noted that the 2000 grant outlook is \$131.3 thousand or 13.7 percent below the 1997 high of \$958.4 thousand. The recommended option does not restore grants to the highest historical level but it does address TAF's concern with declining revenues available for grants.

Approval of this recommendation will result in an increase of \$590.9 thousand in total debt charges (\$441.6 thousand in interest payments and \$149.3 thousand in principal payments) in the Transportation program's 2000 operating budget submission. Based on the current practice of repaying the principal only, Transportation would have experienced a \$149.3 thousand budget pressure nevertheless had the current practice continued. The additional budget pressure is the interest payment only totalling \$441.6 thousand.

The Executive Director of TAF has been consulted on this report and would recommend the approval of Option No. 1 identified above. However, the Executive Director of TAF also understands the difficult financial constraints faced by the City and is willing to support the recommended option in order to resolve the outstanding City loan issue.

Conclusion:

The Toronto Atmospheric Fund will be requested to operate within the 1999 operating budget envelope as submitted by TAF and as approved by City Council. Resuming interest payments in 2000 on the Street Lighting & Lane Conversion Program loan will increase funding available for grants to \$827.1 thousand, an increase of \$380.6 thousand or 85.2 percent from the 1999 approved budget of \$446.5 thousand. Waiving the interest payment in 1999 totaling \$590.9 thousand will have no impact on the approved 1999 operating budgets of the Toronto Atmospheric Fund and the Transportation program.

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Attachments.

Appendix A1 – Remaining Repayment Schedule for Interest and Principal
Appendix A2 – Toronto Atmospheric Fund, Five Year History of Grants
Appendix B – Toronto Atmospheric Fund, 2000 Budget Outlook

Insert Table/Map No. 1
appendix a1&a2

Insert Table/Map No. 2
appendix b