

Debts, Debt Charges, Average Interest Rates, and the New Rec Center

SUMMARY: **Bank debt: \$15,140,400,**
 (End of 2023) **Council view of debt: \$11,513,148,**
 Government view of debt: \$11,350,285.

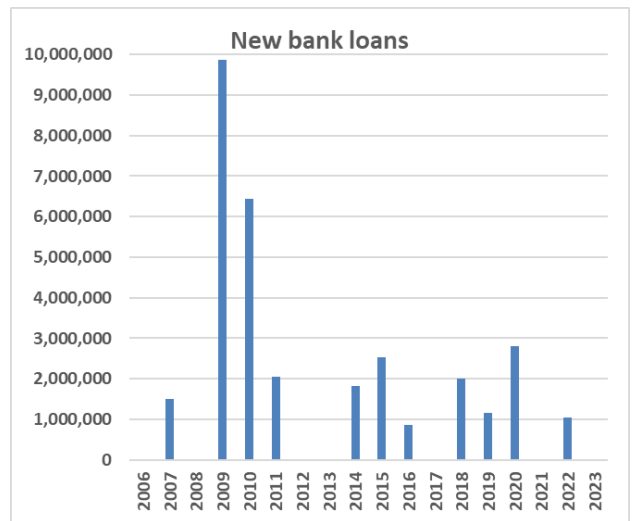
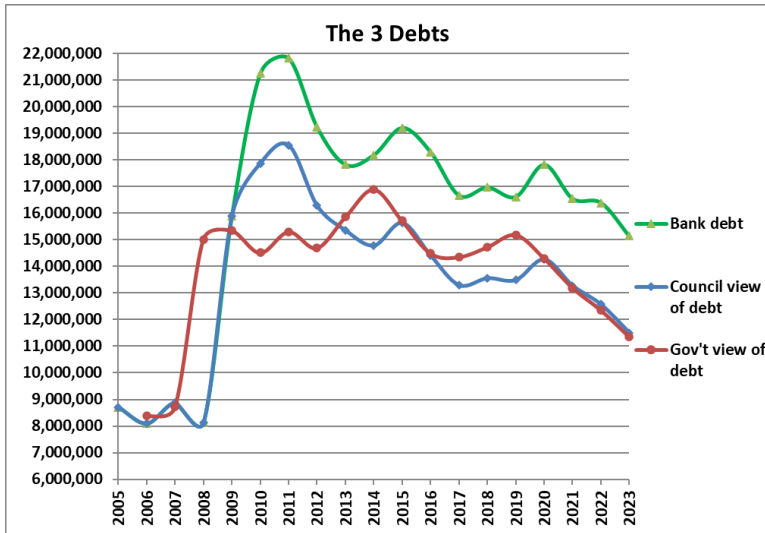
Debt charges (2023)
Interest paid: \$453,122
Principal repaid: \$1,060,886
Total debt charges: \$1,514,008
Average interest rate: 2.87%

There was no new borrowing in 2023.

1. The different measures of debt

Three Debts are recognized: **1.** The **Bank debt**, **2.** The **Council view of debt** which subtracts government grants receivable (**\$3,627,252** at the end of 2023) from the bank debt, and **3.** The **Government view of debt** as given in the official **Rapport Financier**, which includes all other receivables and payables. Since 2020 the government view of debt has aligned with the council view as there have been few other receivables and payables.

Although it's tempting to work with the much lower council/government view of debt, it's important to recognize that it's the bank debt which generates our interest payments which directly impact taxes.



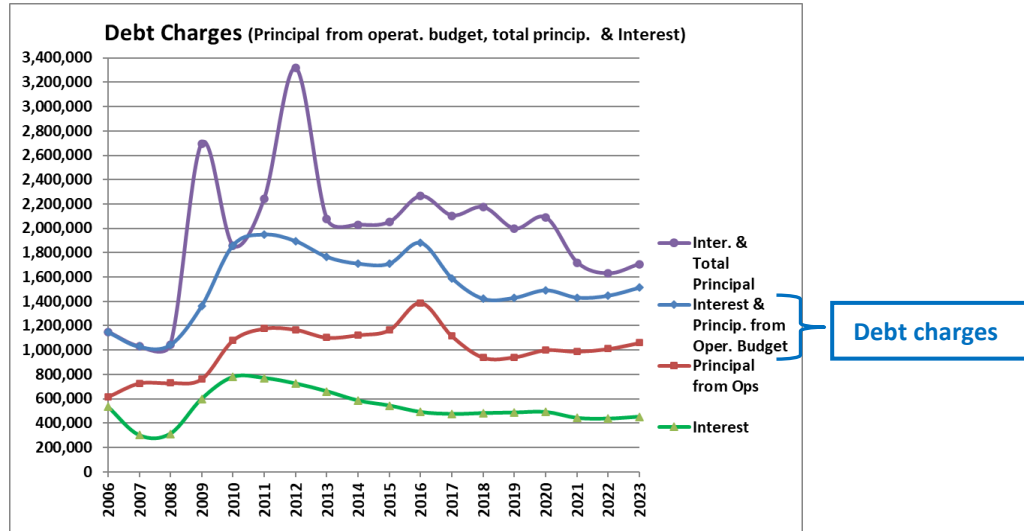
(Data on page 3.)

Town bank debt will almost double after 2025 due to the long-term debt of the new rec center. The impact of this project is described on page 3.

2. Debt charges: Principal and interest

Debt charges in 2023 as given in the **Rapport Financier** were **\$1,514,008** based on **\$453,122** of **Interest** paid on the **Bank debt** and **\$1,060,886** of **Principal** paid back from the Operating budget. (A value of **\$1,531,897** for 2023 **Debt charges** appearing in the 2023 Town budget differed by only **\$17,889**. See 2023 Budget at: <https://montreal-west.ca/wp-content/uploads/2022/12/Final-Budget-2023-presentation.pdf>)

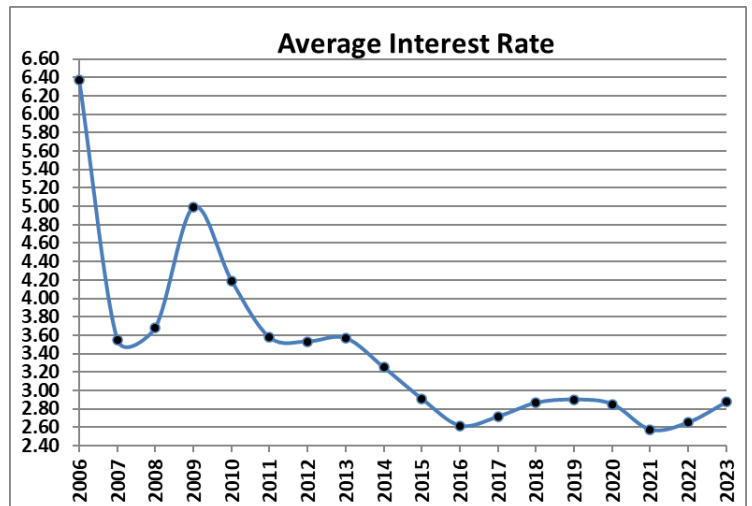
Principal repaid from government grants – which is not included in the debt charges – was **\$193,314** so that the total principal repaid was **\$1,254,200**. Overall debt charges of **Interest and total principal** were thus **\$1,707,322**, but this measure is not of significance in the **Rapports Financier** or elsewhere.



3. Average interest rates

Average interest rates can be calculated by dividing the interest paid in a year by the average of the bank debt at the end and beginning of the year. For 2023, **interest** paid was **\$453,122** on an average bank debt of **\$15,767,500** producing an average rate of **2.78%**.

Although interest rates were lower prior to and in the early stages of the pandemic than appear in the graph, the average rates were higher due to old loans at high rates.



4. The impact of the new rec center:

The Bank of Canada lowered the “overnight interest rate” to 4.75% from 5% on June 5, 2024 with the promise of a series of further 0.25% drops until the “rate should reach 3% by the end of 2025”. The Town appears to finance debt at slightly above this rate; for example, in January 2023 a loan was obtained at 4.54% when the overnight rate was at 4.25%. (Check the graph for 1935 to 2024 at: <https://wowa.ca/bank-of-canada-interest-rate>)

There are significant short-term debt increases up to the end of 2025, and a long-term debt value thereafter to consider:

In the short-term: The Town will be carrying steadily increasing amounts of construction cost debt until government grants arrive at project completion in late 2025. This increasing bridge debt should top out at around \$32M to \$34M, assuming total costs of \$40M with a slight hold-back and using most of our accumulated surplus and the 2024 surplus.

Since the Town’s average interest rate was 2.78% in 2023, we could be looking at some significant short-term interest charges in late 2024 and all of 2025 due to rates averaging in the neighbourhood of 4%.

Perhaps the Town might defer some of this short-term interest by adding it to the debt?

In the long-term: Final additional bank debt due to the new rec center was originally projected at **\$17.4M**, but later reduced to **\$14M** due to an extra government grant recognizing the increase in construction costs during the pandemic. The represents an almost doubling (**92.5% increase**) in bank debt over the value at the end of 2023 at interest rates that will probably be at least 0.25% higher than the 2023 rate.

DATA

Data has been taken from the official **Rapports Financier** on the Town’s website:

<https://montreal-west.ca/wp-content/uploads/2022/12/Final-Budget-2023-presentation.pdf>

	2023	2022	2021	2020	2019	2018	2017	2016	2015
New borrowing S37 L22	0	1,036,800	0	2,800,000	1,159,000	1,997,717	0	860,000	2,528,000
Bank debt S37 L22	15,140,400	16,394,600	16,549,400	17,825,900	16,622,400	16,972,900	16,667,000	18,297,000	19,210,300
Council view of debt	3,790,115	4,041,646	3,354,567	3,522,445	1,432,167	2,242,661	2,310,047	3,805,623	3,497,074
Government view of debt	11,350,285	20,436,246	19,903,967	21,348,345	18,054,567	19,215,561	18,977,047	22,102,623	22,707,374

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
New borrowing S37 L22	1,809,400	0	0	2,046,000	6,440,000	9,859,100	0	1,500,000	0	
Bank debt S37 L22	18,189,800	17,825,300	19,240,200	21,830,500	21,259,000	15,899,100	8,137,123	8,868,123	8,096,123	8,711,449
Council view of debt	1,292,750	1,966,752	4,544,897	6,524,615	6,744,308	549,906	-6,884,759	8,868,123	8,096,123	8,711,449
Government view of debt	19,482,550	19,792,052	23,785,097	28,355,115	28,003,308	16,449,006	1,252,364	17,736,246	16,192,246	

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Interest	453,122	436,981	442,377	491,149	487,167	482,065	474,704	490,943	543,860
Principal (from oper. budget)	1,060,886	1,010,844	989,191	1,000,845	942,880	939,555	1,114,606	1,389,094	1,166,094
Debt charges	1,514,008	1,447,825	1,431,568	1,491,994	1,430,047	1,421,620	1,589,310	1,880,037	1,709,954
Total Principal	1,254,200	1,191,600	1,276,500	1,596,500	1,509,500	1,691,827	1,629,998	1,773,300	1,507,500
Interest & total Principal	1,707,322	1,628,581	1,718,877	2,087,649	1,996,667	2,173,892	2,104,702	2,264,243	2,051,360
Average interest rate	2.87	2.65	2.57	2.85	2.90	2.87	2.72	2.62	2.91

	2014	2013	2012	2011	2010	2009	2008	2007	2006
Interest	585,134	661,303	725,495	770,356	778,970	599,807	313,190	301,370	535,564
Principal (from oper. budget)	1,124,399	1,103,367	1,169,007	1,177,361	1,080,100	763,000	731,000	728,000	615,326
Debt charges	1,709,533	1,764,670	1,894,502	1,947,717	1,859,070	1,362,807	1,044,190	1,029,370	1,150,890
Total Principal	1,444,900	1,414,900	2,590,300	1,474,500	1,080,100	2,097,123	731,000	728,000	615,326
Interest & total Principal	2,030,034	2,076,203	3,315,795	2,244,856	1,859,070	2,696,930	1,044,190	1,029,370	1,150,890
Average interest rate	3.25	3.57	3.53	3.58	4.19	4.99	3.68	3.55	6.37