



Cash or Credit ? Cash please...

June 21, 2011 – Councillor Jack Edery

As the Councillor in charge of the Finance Portfolio for the Town of Hampstead, I am in the enviable position of sitting on a larger accumulated surplus than my target. 2010 saw a modest operating surplus of \$ 281,000 added to our accumulated surplus of approximately \$ 1.5 million, putting me \$ 500,000 above my \$ 1 million target accumulated surplus. This year's surplus is due primarily to higher than expected transfer taxes.

Given the current interest rate environment, there is very little incentive to invest our surplus in order to generate income. As a result we have opted for drawing down on our surplus funds in order to self-finance regular capital projects that we would have otherwise financed through taking on more long-term debt. We are using three methods of self-financing, an example of each was used by Council at our Monday, June 13 meeting.

The first method is using 'closed loans'. That night, Council approved \$ 76,000 for park improvements and a further \$ 29,000 for work to be done at Public Works. Both were financed via closed loans. 'Closed loans' are loans that we took in the past for previous capital projects where the final amount spent was less than estimated, resulting in funds being 'left over'. These funds are already being financed, so the extra cost to the Town is zero. To leave a 'closed loan' open is an inefficiency.

The second method of self-financing is a straight appropriation from surplus. During that same meeting, we appropriated \$ 250,000 from our surplus to fix broken sidewalks throughout the town. Under normal circumstances we would have taken out a 20-year loan for such a project.

The third method of self-financing we undertook last night was spending via our working fund. The working fund is money that Council has set aside from its accumulated surplus to finance capital projects. The interesting part of the working fund is that we force ourselves to repay ourselves over 5 years. On June 13, we spent \$ 94,000 for Hampstead beautification through this method.

All in all we are doing pretty well. Last night we deposited our 2010 audited financial statements. Aside from our surplus, they show that we have repaid \$ 1,146,500 of debt, decreasing our overall debt by 9% from year end 2009 to year end 2010. The corollary to that is that our financing costs decreased by 9% as well. Looking forward to 2012, we will be retiring further debt freeing up approximately \$ 500,000 per year in principal and interest payments annually going forward. This represents 5% of our local tax income. All this was done while maintaining our overall 2010 to 2011 tax rate increase to only 0.8%.



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Going forward, there remains a great deal of vital infrastructure work to be done. We will need to continue to rehabilitate our water mains, fix more sidewalks, replace street lights, repair crumbling aquaducts, upgrade our aging Public Works facility and rebuild parts of Fleet Road all while maintaining existing infrastructure and providing the services to which residents are accustomed.

We are in good financial shape and relatively poor physical shape. Conservative management of the former will allow us to effectively deal with the latter.

Jack Edery is the councillor responsible for the Finance portfolio