

Pelham Audit Committee Meeting Agenda

PAC-05/2019

November 20, 2019

4:00 pm

Town of Pelham Municipal Office - Council Chambers

20 Pelham Town Square, Fonthill

Pages

- 1. Call to Order and Declaration of Quorum**
- 2. Approval of Agenda**
- 3. Declaration of Pecuniary Interest and General Nature**
- 4. Approval of Minutes**
- 5. Business Arising From Minutes**
- 6. Audit**
- 7. Operating Financial Report**
- 8. MCC Operating Financial Report**
- 9. Transit Operating Financial Report**
- 10. Capital Report**
- 11. Reserves**
- 12. New Business**

13. Unfinished Business

14. Next Meeting

15. Adjournment



Policy Name: Reserve and Reserve Fund Policy	Policy No: S400-XX
Committee approval date:	-
Council approval date:	-
Revision date(s):	-
Department/Division:	Corporate Services

1. Purpose

The purpose of this policy is to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for Reserves and Reserve Funds managed by the Town.

2. Policy Statement

A policy governing the management and administration of Reserves and Reserve Funds.

3. Definitions

Budget: An estimated financial plan of revenue and expenditure for a set period of time.

Capital Asset Renewal and Replacement: A category of Reserves and Reserve Funds established to provide funding for the repair and maintenance of existing Town assets to ensure Town-owned assets do not deteriorate over time.

Capital Asset Growth: A category of Reserves and Reserve Funds established to provide funding to new capital initiatives while allowing the Town to stabilize the cost of purchasing major capital assets by spreading the cost over multiple years.

Contingencies/Stabilization & Risk Management: A category of Reserves and Reserve Funds designed to fund future obligations which are based on calculated



estimates and risk assessments to mitigate unforeseen events or one-time unanticipated revenue losses and expenses.

Council: The Council of the Town of Pelham.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions.

Development Charges (DC) Background Study: The background study undertaken by the Town for its current Development Charges By-law.

Development Charges (DC): Fees collected from developers at time of building permit issuance to help pay for the cost of infrastructure required to provide municipal services to new development, such as roads, fire protection, water and sewer infrastructure, and recreation facilities.

Discretionary Reserves and Reserve Funds: A Reserve or Reserve Fund created by Council to set aside revenue to finance a future expenditure for which Council has the authority to spend money.

GFOA: The Government Finance Officers Association of the United States and Canada, a professional association of state, provincial and local finance officers dedicated to the sound management of financial resources.

Liquidity: A measure of an asset's convertibility to cash.

MFOA: Municipal Finance Officers Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.



Obligatory Reserve Fund: A Reserve Fund created when senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory Reserve Funds are to be used solely for the purpose prescribed for them by statute or agreement.

PSAB: The Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

Reserve: An appropriation from net revenue and/or cost savings at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a Reserve Fund. Municipal Councils may set up Reserves for any purpose for which they have the authority to spend money, as outlined in section 290(4) of The Act. Reserves are either “discretionary” or “non-discretionary”. Discretionary Reserves are funded by the tax levy or other funding sources, and drawdowns or transfers from the Reserve can be approved for any purpose at Council’s discretion. Non-discretionary Reserves are “non-tax supported”, and receive revenues and incur expenses on their own without support from the general tax levy; drawdowns from non-discretionary Reserves must be for expenditures related to their revenue source as approved by Council. Non-discretionary Reserves include the Water and Wastewater Reserves.

Reserve Fund: Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. As a result, Reserve Funds are either “discretionary” being those set up by Council, or “obligatory” being those set up by virtue of a requirement of senior government statute or agreement. Municipal councils may set up Reserve Funds for any purpose for which they have the authority to spend money, as outlined in section 290(4) of The Act. Discretionary Reserve Funds can be funded from the general tax levy or they can be “non-tax supported”, and receive revenues and incur expenses on their own without support from the general tax levy; drawdowns from non-tax supported Reserve Funds must be for



expenditures related to their revenue source as approved by Council. Non-tax supported Reserve Funds include the Building Department Reserve Fund.

Revolving Reserves and Reserve Funds: Reserves and Reserve Funds used wholly or partially to fund normal course operating requirements or cash flow deficiencies that do not require Council approval provided they conform to intent of originating resolution or by-law and this policy.

Specific Projects & New Initiatives: A category of Reserves and Reserve Funds established for planned savings within the Budget to fund projects or expenses either identified at the time the Reserve or Reserve Fund is set-up or after, which allows the Town to save for planned or unanticipated projects or expenses that may arise and do not have another funding source.

The Act: The *Municipal Act, 2001*, as amended.

Town: The Corporation of the Town of Pelham.

Treasurer: The individual appointed by the municipality as Treasurer, in accordance with section 286 of The Act.

4. General Provisions

4.1 Principles and Objectives

Reserves and Reserve Funds are important long-term financial planning tools for municipalities, and are used to set aside funds for a future purpose.

The guiding principles for the Reserves and Reserve Funds shall be:

- a) **Adherence to statutory requirements**
 - i) The Town will establish and maintain segregated Reserve Funds that meet all statutory obligations.



- ii) Reserves and Reserve Funds shall be managed in accordance with The Act, which includes:
- Section 290(2) the budget shall set out the estimated revenues and expenditures of Reserves and Reserve Funds contained within a municipality's budget;
 - Section 418(3) as allowed by the Corporation, shall combine money held in any fund (including Reserves and Reserve Funds) for investment purposes; and
 - Section 418(4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it.
- iii) Reserves shall be established by Council resolution, which governs the purpose, funding sources, and drawdowns of the Reserve.
- iv) Reserve Funds shall be established by Council by-law, which governs the purpose, funding sources, drawdowns, and investment of the fund.
- v) Obligatory Reserve Funds shall be established and managed in accordance with the legislation and/or agreement pertaining to those funds, for example:
- *The Development Charges Act, 1997*
 - *The Planning Act, Section 42*
 - *Municipal Funding Agreement for the Transfer of Federal Gas Tax Funds*
 - *The More Homes, More Choice Act, 2019*

b) Promotion of financial stability and flexibility

- i) Reserves and Reserve Funds shall form an integral component of



the Town's Budget and strategic financial plan. The Town recognizes that unstable and unpredictable tax levies can adversely affect residents and businesses in Pelham. The Town will strive to maintain sufficient Reserves and Reserve Funds to buffer the impact of unusual or unplanned cost increases or revenue reductions over multiple Budget cycles. Furthermore, the Town shall prioritize capital Reserves in order to minimize the Council levels of the Town and allow for greater financial flexibility.

- ii) It shall be the Town's practice to maintain adequate Reserves and Reserve Funds within the following categories to achieve long-term financial stability and flexibility (see definitions for detailed description of categories):
 - Obligatory;
 - Capital Asset Renewal and Replacement;
 - Capital Asset Growth;
 - Specific Projects and New Initiatives; and
 - Contingencies/Stabilization and Risk Management.
- iii) The Town shall strive to maintain Reserve and Reserve Fund levels in line with best practices of public service associations such as MFOA, GFOA, etc., and other municipalities otherwise comparable to the Town in population, geographic location, or other relevant characteristics.

c) Provision for major capital expenditures

It shall be the Town's goal to maintain adequate Reserves and Reserve Funds to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term capital plan. To achieve this goal, the following Budget practices will be applied where applicable:

- i) Target transfers to Reserve in the operating Budget will be sufficient to fund the full cost of replacement or rehabilitation of major assets at a rate that reflects the consumption of that asset by current



ratepayers. Contributions to these Reserves will commence in the fiscal year subsequent to the year the asset is acquired or put into service and will be based on an estimate of the useful life of that asset. For practical purposes, the Town will strive to transfer to the capital Reserves at minimum the amount of amortization for that class of assets as recorded in the financial statements, or a greater amount as indicated in the Town's Capital Asset Management Plan. This shall be reduced by the amortization of assets that the Town does not intend to replace or by any other sources of funding that are known at the time of Budget preparation.

- ii) Transfers to Reserve in the operating Budget will be further increased to provide funding for Capital Asset Growth as identified in the Town's long-term capital plan.
- iii) Obligatory Reserve Funds will be maintained for growth, parkland, gas tax and other grant-related capital projects. The growth-related obligatory Reserve Funds will be fully funded from developer contributions. Components of the growth related projects which benefit the existing ratepayers or for which a discount has been given, shall be funded from tax/rate funding sources in the year the project is built. Notwithstanding, Council may be issued for growth projects when required in accordance with the *Development Charges Act, 1997*, as amended, and other pertinent Town policies.

d) Liquidity

Reserves and Reserve Funds shall be kept at an adequate level to ensure the Town has sufficient cash flow to meet its financial obligations; including but not limited to:

- i) Replacing and rehabilitating capital infrastructure assets as required;
- ii) Supplying funds for new capital assets identified in the Town's long-term plans, or that arise from time-to-time;
- iii) Funding long-term contingencies and potential liabilities; and
- iv) Providing a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the Town.



4.2 Reserve and Reserve Fund Management

a) Establishment and Modification of Reserves and Reserve Funds

- i) Reserves and Discretionary Reserve Funds shall only be established or modified if they are supported by a financial plan identifying the funding needs, targets, contribution sources, projected drawdowns and investment of funds. Obligatory Reserve Funds are automatically established when Council passes a by-law for the collection of Obligatory Reserve Funds or approves an agreement specifying that funds be held in an Obligatory Reserve Fund.
- ii) Target funding levels shall be established for every Reserve and Reserve Fund. Methods for calculating Reserve and Reserve Fund targets shall be determined on a case-by-case basis considering the following:
 - Purpose of fund;
 - Certainty of end needs;
 - Best practices/standards regarding the identification of need and target balance levels (MFOA, GFOA, etc.); and
 - Economic factors.
- iii) The recommended minimum and maximum balances in Appendix B are guidelines toward which the Town will strive.
 - Where a Reserve is below the recommended minimum balance, the long-term capital plan will seek to restore the minimum balance as quickly as possible and the allocation of Reserve transfers to other Discretionary Reserves will be re-evaluated to determine if a reallocation is required.
 - Where the Reserve is below the target balance, the long-term capital plan will be examined to determine whether increased Reserve transfers are required, projects can be deferred, or Council funding must be considered as an alternative to Reserve Funding.



- Where the Reserve is above the maximum balance, it may be an indication that sufficient funds have been invested and the minimum annual contribution will be reviewed to determine whether operating Reserve transfers can be allocated to an alternate Discretionary Reserve.
 - iv) Reserve and Reserve Fund balances and associated targets shall be reviewed periodically to ensure adequate Reserve and Reserve Fund levels are maintained for a ten-year period.
- b) Contributions To/Drawdowns From Reserves and Reserve Funds**
- i) Contributions to/drawdowns from Reserves and Reserve Funds shall be made in accordance with the Council-approved resolution or by-law, and this policy.
 - ii) Contributions to/drawdowns from Reserves and Reserve Funds shall be approved by Council as part of the annual Budget process, or specifically by resolution with the following exceptions:
 - Direct contribution to Obligatory Reserve Funds such as development charges and federal gas tax funding;
 - Transfers that are the direct result of Council approved policies, by-laws or resolutions;
 - Interest allocation to Reserves and Reserve Funds in accordance with this policy;
 - Recurring contributions to/drawdowns from Reserves specified in this policy, including the appendices, or approved by Council at the time of establishment of the Reserve or Reserve Fund;
 - Where long-term grant agreements are in place such as Federal Gas Tax funding, alternative eligible capital projects may be selected for the application of grant funding, at the discretion of the Treasurer; and



- Use of “revolving” Reserves and Reserve Funds for the purpose approved by Council.
- iii) Council approved contributions to/drawdowns from Reserves and Reserve Funds not realized shall be reported to Council as part of the annual Reserve and Reserve Fund report of the Treasurer.
- iv) Interest shall be allocated to Reserves and Reserve Funds as follows:
- Interest will be allocated to Obligatory Reserve Funds in accordance with applicable legislation, the agreement, or in the absence of such guidance, at the Town’s average rate of interest for the year as determined by the Treasurer;
 - Interest will be allocated to Discretionary Reserve Funds and non-discretionary Reserves at the Town’s average rate of interest for the year as determined by the Treasurer;
 - Interest will generally not be allocated to Discretionary Reserves unless specified by Council in the originating resolution establishing the Reserve; and
 - Interest will be allocated annually based on the interest rate multiplied by the previous year-end balance of the Reserve or Reserve Fund.
- v) Funding of projects from Reserves will be recorded at year-end based on the expenditures incurred during that fiscal year, at the proportionate percentage of Reserve funding in the approved Budget for that project.
- vi) If there is an operating deficit at year-end, it will be withdrawn from the Working Funds Reserve. If there is an operating surplus at year-end, it will be allocated as follows:
- The first \$147,000 will be transferred to the Land Acquisition Reserve until such time that the balance is returned to \$nil;



- Any remaining surplus will be transferred to the Working Funds Reserve.

c) Cash Management of Reserves and Reserve Funds

- i) Reserve funds require the physical segregation of money or other liquid assets, as approved in the Town's Investment Policy.
- ii) Reserves do not require the physical segregation of money or specific assets, however to follow this policy's guiding principle of Liquidity, the Town will strive to maintain cash and liquid assets equal to the Reserves and Reserve Funds.
- iii) Multiple Reserve Funds may be consolidated together in an investment portfolio, but they must be segregated from other Town assets.
- iv) Given the funding of projects from Reserves and Reserve Funds at year-end, the investment and/or bank balance for Reserve Funds will be adjusted to agree to the prior year-end balance in the audited financial statements by June 30 each year.
- v) The Treasurer will report on the cash position of the Reserves and Reserve Funds annually (see Reporting Requirements below).

d) Investment of Reserves and Reserve Funds

- i) Reserves and Reserve Funds shall be invested for a term that will not exceed its expected date of need;
- ii) Reserves and Reserve Funds shall be invested in accordance with the Council-approved Investment Policy;
- iii) Interest earned on Reserves shall be recognized as revenue in the operating Budget; and
- iv) Interest earned on Reserve Funds shall be allocated to each specific



Reserve Fund according to its proportionate share of the investment portfolio.

e) Lending/Temporary Borrowing of Reserves and Reserve Funds

- i) Intra-fund lending within a specific Reserve Fund shall be permitted if allowed by the related legislation or agreement to temporarily finance capital and/or operating cash flow deficiencies and avoid external borrowing costs, provided that all loans/transfers bear interest at the rate applicable to the Reserve Fund. For example, under the *Development Charges Act, 1997*, as amended, intra-fund borrowing between DC Reserve Funds is permitted, and the amounts borrowed must be repaid at the minimum prescribed interest rate.
- ii) Inter-fund lending between Reserves and Discretionary Reserve Funds (one Reserve is in a deficit and another Reserve is in a surplus) shall be permitted to temporarily finance capital and/or operating cash flow deficiencies and avoid external borrowing costs, provided that there is a strategic financial plan in place to replenish the deficit and that interest continues to be allocated to the Reserves and Reserve Funds in accordance with this policy.
- iii) All inter-fund lending/temporary borrowing shall be provided from Reserves and Discretionary Reserve Fund balances and the loaning of obligatory Reserve Funds is prohibited.

f) Termination of Reserves and Reserve Funds

- i) A discretionary Reserve or Reserve Fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:
 - It is no longer in the scope of the Town's strategic plans;
 - Program commitments have been completed and no future commitments are expected; and



- The Treasurer is confident that balances in other areas can mitigate the need to hold any remaining Reserve or Reserve Fund balance.
- ii) Reserves or Reserve Funds identified for termination shall be reported to Council for review and approval. Reports to Council shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

4.3 Standard of Care

a) Responsibilities

- i) Council shall:
 - Establish Reserves and Reserve Funds in accordance with this policy;
 - In accordance with The Act, develop and evaluate policies to ensure that administrative policies, practices, and procedures are in place to maintain the financial integrity of the Town's Reserves and Reserve Funds;
 - Approve transactions to and from Reserves and Reserve Funds through the Budget process, specific resolution, and this policy; and
 - Ensure that any expenditure approval outside of the Budget process includes the source of funding from Reserves, Reserve Funds, or other sources as appropriate.
- ii) The Chief Administrative Officer shall:
 - Support the Treasurer in ensuring the principles and requirements contained in this policy are applied consistently across all Town departments.



iii) The Treasurer shall:

- Ensure that Reserves and Reserve Funds are established, maintained, and dissolved in compliance with this policy;
- Update this policy as necessary and recommend changes to Council for approval;
- Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- Perform transfers to and from Reserves and Reserve Funds as authorized by Council;
- Recommend strategies for the adequacy of Reserve and Reserve Fund levels; and
- Report the Reserve and Reserve Fund balances and forecasts to Council (see Reporting Requirements below).

iv) Department Directors shall:

- Provide the Treasurer with the most current capital asset information to be used in evaluating the adequacy of Capital Asset Renewal and Replacement Reserves and Reserve Funds;
- Consult with the Treasurer when Reserves or Reserve Funds should be established;
- Consult with the Treasurer when the use of Reserves or Reserve Funds is required; and
- Inform the Treasurer when Reserve transfers are required as per resolution of Council and provide supporting documentation.



b) Delegation of Authority

- i) Once Council approves Reserves by resolution and Reserve Funds by by-law, the Treasurer shall have overall authority for the Reserves and Reserve Funds managed by the Town.
- ii) The Treasurer has the responsibility for setting Reserve and Reserve Fund targets. Targets will be periodically reported to Council through Reserve and Reserve Fund reports (see Reporting Requirements below).
- iii) The Treasurer shall have overall responsibility for this policy, and the authority to implement a program for Reserves and Reserve Funds and establish procedures consistent with the content of this policy. Administrative responsibilities shall include, but are not limited to, the following:
 - Determine need for Reserves and Reserve Funds for operating and capital Budgets;
 - Set targets for Reserves and Reserve Funds in line with directives contained in this policy and other pertinent policies;
 - As part of the reporting to Council, review and report on the adequacy and continuing need for Reserves and Reserve Funds managed by the Town;
 - Prepare and present reports and/or by-laws associated with the establishment, monitoring, or termination of Reserves and Reserve Funds;
 - Develop appropriate practices, procedures and processes for the investment of Reserves and Reserve Funds in line with legislative



requirements, the Town's Investment Policy and other pertinent policies;

- Monitor and reconcile all receipts to and disbursements from Reserve and Reserve Fund accounts to ensure compliance with provincial regulations, PSAB and this policy;
- Approve updates to the appendices in accordance with this policy, by-laws or statutes as amended;
- Prepare the Town's long-term strategic financial plan with consideration of appropriate Reserves and Reserve Funds to effectively meet the Town's operating and capital Budget financing needs; and
- Ensure Reserves and Reserve Funds managed by the Town are in line with senior government statutes, agreements and other pertinent policies.

c) Reporting Requirements:

The Treasurer shall prepare the following reports regarding Reserves and Reserve Funds managed by the Town:

- i) Annual Audited Financial Statements
- ii) Reserve and Reserve Fund Report – An annual summary of the Reserves and Reserve Funds including opening balance, additions and reductions, and closing balance for the previous fiscal year, tying in the report to the audited financial statements. Included in this report will be an analysis of the Town cash position in the audited financial statements in comparison to the total balance of Reserves and Reserve Funds, as well as discussion regarding the investment of Reserves and Reserve Funds during that fiscal year.



- iii) DC Reserve Funds Report – An annual report detailing pertinent information regarding DC Reserve Funds shall be presented to Council as required by the *Development Charges Act, 1997*, as amended.
 - iv) Parkland Dedication Reserve Fund Report – An annual report detailing pertinent information regarding Parkland Dedication Reserve Funds shall be presented to Council as required by the *Planning Act, Section 42*.
 - v) Capital Asset Management Plan Update – A financial plan forecasting Reserve and Reserve Fund balances and a comparison to target objectives shall be prepared periodically based on the most current information available; this report may include recommendations for the establishment of new, modification of existing and termination of existing Reserves and Reserve Funds.
 - vi) Budget Reports – Reserve and Reserve Fund balances, projected contributions and planned drawdowns for a ten-year period shall be presented in each capital Budget.
 - vii) Other reports in line with this policy shall be brought forward to Council as needed.
- d) Policy Review:**

This policy shall be presented to Council for review (and update if required) every four years, in the first year of each newly elected Council, or more frequently as deemed necessary by Council, the Chief Administrative Officer, or the Treasurer.



5. Attachments

Appendix A Summary of Types of Reserves and Reserve Funds

Appendix B Summary of Reserves and Reserve Funds at December 31, 2018

Policy S400-XX Appendix A
Town of Pelham: Corporate Services
Summary of Types of Reserves and Reserve Funds

Type	Physical Segregation of Money or Liquid Assets Required?	Method of Establishment	Lending/Temporary Borrowing	Council Discretion to Transfer from the Reserve or Reserve Fund to another Reserve or Reserve Fund	Interest	Examples
Obligatory Reserve Fund	Yes	Council passes a by-law for the collection of obligatory reserve funds or approves an agreement specifying that funds be held in an obligatory reserve fund	<ul style="list-style-type: none"> • Intra-fund lending permitted if allowed by the related legislation or agreement • Inter-fund lending prohibited 	No	Allocated in accordance with applicable legislation or the agreement	<ul style="list-style-type: none"> • Development Charge Reserve Fund • Parkland Dedication Reserve Fund • Federal Gas Tax Reserve Fund
Discretionary Reserve Fund	Yes	Council by-law which governs the purpose, funding sources, drawdowns, and investment of the fund	<ul style="list-style-type: none"> • Inter-fund lending permitted provided that there is a strategic financial plan in place to replenish the deficit and interest continues to be allocated to the reserve fund 	General Tax Levy Supported - Yes Non-Tax Supported - No	Allocated at the Town's average rate of interest for the year as determined by the Treasurer	<ul style="list-style-type: none"> • Building Department Reserve Fund • Facilities Reserve Fund • Fire Reserve Fund • Fleet Reserve Fund
Non-discretionary Reserve	No	Council resolution which governs the purpose, funding sources, drawdowns, and investment of the fund	<ul style="list-style-type: none"> • Inter-fund lending permitted provided that there is a strategic financial plan in place to replenish the deficit and interest continues to be allocated to the reserve 	No	Allocated at the Town's average rate of interest for the year as determined by the Treasurer	<ul style="list-style-type: none"> • Water Reserve • Wastewater Reserve
Discretionary Reserve	No	Council resolution which governs the purpose, funding sources, drawdowns, and investment of the fund	<ul style="list-style-type: none"> • Inter-fund lending permitted provided that there is a strategic financial plan in place to replenish the deficit and interest continues to be allocated to the reserve if applicable under this policy 	Yes	Not allocated unless specified in originating Council resolution	<ul style="list-style-type: none"> • Working Funds Reserve • Municipal Drainage Reserve • Roads Reserve

**Policy S400-XX Appendix B
Town of Pelham: Corporate Services
Summary of Reserves and Reserve Funds at December 31, 2018**

Obligatory Reserve Funds

Name	Category	By-law, Legislation or Agreement	Purpose	Source of Funding	Target Annual Contribution	Basis for Target Reserve Balance	Recommended Minimum Balance	Target Balance	Recommended Maximum Balance
Development Charges Reserve Fund	• Obligatory • Capital Asset Growth	<i>Development Charges Act, 1997, as amended</i>	To pay for the cost of infrastructure required for new development as outlined in the DC Background Study	Developer Contributions	N/A - Contributions are dependent on development activity	The amount that is planned to be spent from the reserve fund in the next fiscal year	\$1,600,000	\$2,281,000	N/A
Federal Gas Tax Reserve Fund	• Obligatory • Capital Asset Growth	Municipal Funding Agreement for the Transfer of Federal Gas Tax Funds	To hold Federal Gas Tax grant funds until spent on an eligible project	Government of Canada grant	N/A - Contributions are dependent on grant funding awarded	N/A	N/A	N/A	Balance cannot exceed five prior years' funding received
Ontario Community Infrastructure Fund (OCIF) Reserve Fund	• Obligatory • Capital Asset Renewal and Replacement • Capital Asset Growth	Ontario Community Infrastructure Fund Formula-Based Component Agreement	To hold OCIF grant funds until spent on an eligible project	Government of Ontario grant	N/A - Contributions are dependent on grant funding awarded	N/A	N/A	N/A	Balance cannot exceed five prior years' funding received
Other Grants and Obligatory Funds Held	• Obligatory • Capital Asset Renewal and Replacement • Capital Asset Growth • Specific Projects and New Initiatives	Various grant agreements and trust documents	A general combination of grants (other than Federal Gas Tax and OCIF), Cemetery Perpetual Care Trust funds to be transferred, and other obligatory funds received which may change from year to year but must be kept in a separate reserve fund	Grants and other obligatory funds	N/A - Contributions are dependent on grant funding awarded	N/A	N/A	N/A	N/A
Parkland Dedication Reserve Fund	• Obligatory • Capital Asset Renewal and Replacement • Capital Asset Growth	<i>Planning Act</i> , Section 42	Parkland, capital machinery and equipment used in parks, and recreation	Developer Contributions in lieu of land for parkland purposes	N/A - Contributions are dependent on development activity	The amount that is planned to be spent from the reserve fund in the next three fiscal years	\$500,000	\$1,255,700	N/A

Discretionary Reserve Funds

Name	Category	By-law, Legislation or Agreement	Purpose	Source of Funding	Target Annual Contribution (Note 1)	Basis for Target Reserve Balance	Recommended Minimum Balance	Target Balance	Recommended Maximum Balance	Revolving Transactions not Requiring Separate Approval
Building Department Reserve Fund	• Contingencies/Stabilization and Risk Management • Revolving Reserve	<i>Building Code Act</i>	To offset the cost of administration and enforcement of the Building code when fee revenues are less than costs of delivering building services	Year-end building department surplus transferred to the reserve	N/A	Two years of projected Building Department operating expenditures, given the risk and unpredictable timing of development	\$600,000	\$1,200,000	\$1,800,000	• Year-end Building Department surplus or deficit transferred to/from reserve • Annual transfer to Town operating for administration • Transfer to other reserves for Building Department expenditures incurred (e.g. Fleet, IT)
Facilities Reserve Fund	• Capital Asset Renewal and Replacement • Capital Asset Growth	By-law 647 (1980)	To provide a source of funding for the purchase, replacement and expansion of capital items related to Municipal Facilities	Operating transfer to Facilities Reserve	\$1,490,400	Note 2	\$692,000	\$1,384,000	\$3,000,000	N/A
Fire Reserve Fund	• Capital Asset Renewal and Replacement • Capital Asset Growth	By-law 647 (1980)	To provide a source of funding for the purchase, replacement and expansion of capital items related to Fire operations including equipment and vehicles	Operating transfer to Fire Reserve	\$432,600	Note 2	\$540,750	\$1,081,500	\$2,000,000	N/A
Fleet Reserve Fund	• Capital Asset Renewal and Replacement • Capital Asset Growth	By-law 1195 (1988)	To provide a source of funding for the purchase, replacement and expansion of capital items related to the vehicle fleet, not funded by other reserves and reserve funds (such as Fire, Building Department, or Water and Wastewater vehicles)	Operating transfer to Fleet Reserve and transfers from other rate-supported reserves such as building department, water and wastewater	\$534,900	Note 2	\$668,600	\$1,337,200	\$2,500,000	N/A
Library Reserve Fund	• Capital Asset Renewal and Replacement • Capital Asset Growth • Contingencies/Stabilization and Risk Management • Revolving Reserve	By-law 1066 (1986)	To provide a source of funding for the purchase, replacement and expansion of capital items related to the Pelham Public Library, and to provide a buffer for significant unanticipated expenditures or loss of revenues related to the Library	Transfer to Library Reserve in Pelham Public Library budget	\$8,500 Equal to average annual spending in 5-year capital forecast	Note 2	\$10,650	\$21,300	\$50,000	• Year-end Library surplus or deficit transferred to/from reserve
Parks and Recreation Reserve Fund	• Capital Asset Renewal and Replacement • Capital Asset Growth	By-law 647 (1980)	To provide a source of funding for the purchase, replacement and expansion of capital items related to Parks	Operating transfer to Parks Reserve	\$296,500	Note 2	\$293,600	\$587,200	\$1,500,000	N/A

Non-Discretionary Reserves

Name	Category	By-law, Legislation or Agreement	Purpose	Source of Funding	Target Annual Contribution (Note 1)	Basis for Target Reserve Balance	Recommended Minimum Balance	Target Balance	Recommended Maximum Balance	Revolving Transactions not Requiring Separate Approval
Wastewater Reserve	<ul style="list-style-type: none"> Capital Asset Renewal and Replacement Capital Asset Growth Contingencies/Stabilization and Risk Management Revolving Reserve 	Financial Plans Regulations O. Reg. 453/07	To fund major maintenance and replacement of sewer infrastructure, to fund wastewater capital asset growth, and to provide wastewater rate stabilization from year to year	Year-end wastewater surplus is transferred to the reserve	Target changes annually based on most recent Water and Wastewater Financial Plan	Most recent Water and Wastewater Financial Plan approved by Council in compliance with O. Reg. 453/07	N/A	Target changes annually based on most recent Water and Wastewater Financial Plan	N/A	<ul style="list-style-type: none"> Year-end Wastewater surplus or deficit transferred to/from reserve Transfer to other reserves for Wastewater expenditures incurred (e.g. Fleet, IT)
Water Reserve	<ul style="list-style-type: none"> Capital Asset Renewal and Replacement Capital Asset Growth Contingencies/Stabilization and Risk Management Revolving Reserve 	Financial Plans Regulations O. Reg. 453/07	To fund major maintenance and replacement of water infrastructure, to fund water capital asset growth, and to provide water rate stabilization from year to year	Year-end water surplus is transferred to the reserve	Target changes annually based on most recent Water and Wastewater Financial Plan	Most recent Water and Wastewater Financial Plan approved by Council in compliance with O. Reg. 453/07	N/A	Target changes annually based on most recent Water and Wastewater Financial Plan	N/A	<ul style="list-style-type: none"> Year-end Water surplus or deficit transferred to/from reserve Transfer to other reserves for Water expenditures incurred (e.g. Fleet, IT)

Discretionary Reserves

Name	Category	Authorization	Purpose	Source of Funding	Target Annual Contribution (Note 1)	Basis for Target Reserve Balance	Recommended Minimum Balance	Target Balance	Recommended Maximum Balance	Revolving Transactions not Requiring Separate Approval
Cemetery Reserve	<ul style="list-style-type: none"> Capital Asset Renewal and Replacement Capital Asset Growth 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the purchase, replacement and expansion of capital items related to Cemetery operations	Operating transfer to Cemetery Reserve	\$60,900	Note 2	\$54,150	\$108,300	\$250,000	N/A
Community Improvement Plan (CIP) Reserve	<ul style="list-style-type: none"> Specific Projects and New Initiatives Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for Community Improvement Plan funding agreements	Operating transfer to Cemetery Reserve	Reserve drawdowns are dependent on number of agreements and timing of development completion therefore contributions fluctuate annually based on target balance	Equal to average of reserve expenditures over subsequent 5 years	\$60,400	\$120,800	N/A	<ul style="list-style-type: none"> Funding of CIP agreements previously approved by Council
Elections Reserve	<ul style="list-style-type: none"> Specific Projects and New Initiatives Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the cost of running municipal elections	Operating transfer to Elections Reserve	\$15,000 Equal to 25% of the anticipated cost of running a municipal election	N/A	\$0	N/A	\$60,000	<ul style="list-style-type: none"> Funding of election expenditures
Future Subdivision Projects Reserve	<ul style="list-style-type: none"> Specific Projects and New Initiatives 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the cost of infrastructure related to new subdivisions	Specific transfers as approved by Council	N/A	N/A	N/A	N/A	N/A	N/A
Information Technology Reserve	<ul style="list-style-type: none"> Capital Asset Renewal and Replacement Capital Asset Growth 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the purchase, replacement and expansion of capital items related to Information Technology	Operating transfer to Information Technology Reserve	\$131,800	Note 2	\$134,650	\$269,300	\$550,000	N/A
Land Acquisition Reserve	<ul style="list-style-type: none"> Specific Projects and New Initiatives Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the acquisition of land other than parkland	Specific transfers as approved by Council and allocation of year-end surplus in accordance with this policy	N/A	Sufficient funds to replenish the deficit position of the reserve	\$0	N/A	N/A	<ul style="list-style-type: none"> See allocation of year-end surplus/deficit in this policy section 4.2 b) vi)
Meridian Community Centre (MCC) Reserve	<ul style="list-style-type: none"> Specific Projects and New Initiatives Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To pay for short-term borrowing costs related to capital construction of the Meridian Community Centre	Specific transfers as approved by Council	N/A	N/A	N/A	N/A	N/A	<ul style="list-style-type: none"> For the duration of the debenture related to pledges, pledged donations received will be deposited to the MCC Reserve, and the debenture payments will be funded from the MCC reserve to facilitate timing differences between donations and debenture payment due dates

Discretionary Reserves, Continued

Name	Category	Authorization	Purpose	Source of Funding	Target Annual Contribution (Note 1)	Basis for Target Reserve Balance	Recommended Minimum Balance	Target Balance	Recommended Maximum Balance	Revolving Transactions not Requiring Separate Approval
Municipal Drainage Reserve	<ul style="list-style-type: none"> • Capital Asset Renewal and Replacement • Capital Asset Growth • Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the maintenance, replacement and addition of municipal drains, beyond the amount recoverable from benefitting property owners	Operating transfer to Municipal Drainage Reserve	\$48,000	Note 2	\$28,150	\$56,300	\$100,000	<ul style="list-style-type: none"> • Due to the Town's obligation to maintain the drains, any unanticipated expenditures related to municipal drains will be funded from the reserve
Physician Recruitment Reserve	<ul style="list-style-type: none"> • Specific Projects and New Initiatives • Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the cost of physician recruitment	Operating transfer to Physician Recruitment Reserve	N/A	One year of reserve contributions based on historical transfers	\$2,000	\$2,000	\$10,000	<ul style="list-style-type: none"> • Funding of physician recruitment expenditures approved by the Chief Administrative Officer. Expenditures will not draw the reserve below the minimum balance
Planning Reserve	<ul style="list-style-type: none"> • Capital Asset Renewal and Replacement • Capital Asset Growth 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for studies, plans, and capital items related to Planning	Operating transfer to Planning Reserve	\$86,800	Note 2	\$80,400	\$160,800	\$300,000	N/A
Roads Reserve	<ul style="list-style-type: none"> • Capital Asset Renewal and Replacement • Capital Asset Growth • Contingencies/Stabilization and Risk Management • Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a source of funding for the purchase, replacement and expansion of capital items related to Roads, and to provide a buffer for significant unanticipated expenditures related to Winter Control	Operating transfer to Roads Reserve	\$3,466,100	Note 2	\$2,891,000	\$5,782,000	\$12,000,000	<ul style="list-style-type: none"> • To mitigate the risk of unpredictable weather events, any year-end surplus in Winter Control will be transferred to the reserve and any year-end deficit in Winter Control will be transferred from the reserve
Working Funds Reserve	<ul style="list-style-type: none"> • Contingencies/Stabilization and Risk Management • Revolving Reserve 	Authorized through Council resolution at time of prior budget approval	To provide a buffer for significant unanticipated expenditures or loss of revenues of the Town, to provide a source of funding for future obligations based on calculated estimates and risk assessments, and to ensure the Town meets cash flow requirements	Niagara Peninsula Energy Inc (NPEI) dividends, allocation of operating surplus, specific transfers as approved by Council	N/A	The short-term target will be based on risk assessments and history of unanticipated expenditures in recent years such as legal claim settlements, gypsy moth infestation, etc. When the short-term target is reached, the long-term target will be 2 months' taxation revenues to provide cash flows prior to first tax instalment due date without borrowing against line of credit	\$0	\$500,000	\$2,329,000	<ul style="list-style-type: none"> • NPEI dividends transferred to working funds reserve annually • See allocation of year-end surplus/deficit in this policy section 4.2 b) vi)



Policy Name: Capital Financing and Debt Management Policy	Policy No: S400-XX
Committee approval date:	-
Council approval date:	-
Revision date(s):	-
Department/Division:	Corporate Services

1. Purpose

The purpose of this policy is to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for the prudent financing of the Town's operating and capital needs.

2. Policy Statement

A policy governing the management and administration of capital financing and debt.

3. Definitions

Amortizing Debenture: A Debenture for which the total annual payment (principal and interest) is approximately even throughout the life of the Debenture issue.

Annual Debt Financing Charges: The total mandatory payments of principal and interest in respect of outstanding Long-Term Debt.

Annual Repayment Limit (ARL): For the purpose of this Policy, it has the same meaning as the Debt and Financial Obligation Limit, in accordance with The Act, O. Reg. 403/02. Generally, municipalities in Ontario may incur Long-Term Debt for infrastructure as long as annual Debt payments do not exceed 25% of "own source" revenues without prior approval of the Local Planning Appeal Tribunal (LPAT). The ARL is the maximum amount that a municipality can pay in principal



and interest payments in the year for new Long-Term Debt without first obtaining approval from LPAT. The ARL is provided annually to the municipality by the Ministry of Municipal Affairs and Housing, and must be updated by the Treasurer prior to Council authorizing an increase in Debt financing for capital expenditures.

Bank Loan: A loan between the Town and a bank listed in Schedule I, II, or III of the *Bank Act (Canada)*, a loan corporation registered under the *Loan and Trust Corporations Act*, or a credit union to which the *Credit Unions and Caisses Populaires Act, 1994* applies.

Budget: An estimated financial plan of revenue and expenditure for a set period of time.

Capital Financing: A generic term for the financing of capital assets. This can be achieved through a variety of sources such as the tax levy, grants, Reserve Funds, Debt, or financing leases.

Construction Financing: A form of Debt financing in which the issuer does not pay any principal or interest for a period of up to 5 years during the construction or rehabilitation of the facility from which a revenue stream is expected to be generated. Construction Financing must be obtained in accordance with section 408(4)(d) of The Act, and O. Reg. 278/02, amended to O. Reg. 76/16.

Council: The Council of the Town of Pelham.

Debenture: A formal written obligation to repay specific sums on certain dates. In the case of a municipality debentures are typically unsecured, that is, backed by general credit rather than by specified assets. The Town assumes responsibility for debentures issued on its behalf by the Regional Municipality of Niagara, the upper-tier municipality, under section 401 of The Act. Under subsection 401(3.1), those debentures constitute joint and several obligations of the Regional Municipality of Niagara and the Town.



Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of Debentures as well as either notes or cash from financial institutions. Financial Guarantees and/or Letters of Credit provided by the Town will be considered as Debt and will be governed by this Policy.

Financial Guarantee: An agreement whereby the Town will take responsibility for the payment of Debt in the event that the primary liable fails to perform.

Development Charges (DC): Fees collected from developers at time of building permit issuance to help pay for the cost of infrastructure required to provide municipal services to new development, such as roads, fire protection, water and sewer infrastructure, and recreation facilities. Development Charges are imposed under the Town's Development Charges By-law.

Infrastructure Ontario, or Successor Organization: Any entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals with access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.

Installment (Serial) Debenture: A Debenture of which a portion of the principal matures each year throughout the life of the Debenture issue.

Internal Debt Limit: The internal limit, approved by Council, regarding Debt payments as a percentage of "own source" revenues. This limit is not referring to limits imposed by The Act or regulations thereunder, but may not exceed the ARL.

Lease Financing Agreement: A lease allowing for the provision of Municipal Capital Facilities, where the lease may or will require payment by the Town beyond the current term of Council. For example, a vehicle lease.

Letter of Credit: A binding document from a bank guaranteeing that an "applicant's" payment to a "beneficiary" will be received on time and for the correct amount. In the event that the applicant is unable to make payment, the bank will be required to cover the full or remaining amount of the purchase (Debt).



Lifecycle Renewal Projects: Projects that maintain the infrastructure that is in place today, for example resurfacing roads or replacing roofs.

Long-term Bank Loan: Long-term Debt provided by a bank, or syndicate of banks.

Long-term Debt: Any Debt for which the repayment of any portion of the principal is due beyond one year.

Municipal Capital Facilities: Tangible capital assets that include land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.

Own-Source Revenue: Determined by the Ministry of Municipal Affairs and Housing, it is revenue for the fiscal year excluding certain items such as grants, proceeds from the sale of real property, contributions or net transfers from a Reserve or Reserve Fund, donated tangible capital assets, equity earnings in government business enterprises, and revenue from other municipalities.

Present Value of Minimum Lease Payments: Minimum lease payments include all amounts that the lessee is expected to pay over the term of the lease, any mandatory renewal term, and any required purchase at termination of the lease. The present value measures the future payments in today's dollars because the value of money decreases over time due to inflation.

Reserve: An appropriation from net revenue and/or cost savings at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a Reserve Fund. Municipal Councils may set up Reserves for any purpose for which they have the authority to spend money, as outlined in section 290(4) of The Act. Reserves are either "discretionary" or "non-discretionary". Discretionary Reserves are funded by the tax levy or other funding sources, and drawdowns or transfers from the Reserve can be approved for any



purpose at Council's discretion. Non-discretionary Reserves are "non-tax supported", and receive revenues and incur expenses on their own without support from the general tax levy; drawdowns from non-discretionary Reserves must be for expenditures related to their revenue source as approved by Council. Non-discretionary Reserves include the Water and Wastewater Reserves.

Reserve Fund: Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. As a result, Reserve Funds are either "discretionary" being those set up by Council, or "obligatory" being those set up by virtue of a requirement of senior government statute or agreement. Municipal councils may set up Reserve Funds for any purpose for which they have the authority to spend money, as outlined in section 290(4) of The Act. Discretionary Reserve Funds can be funded from the general tax levy or they can be "non-tax supported", and receive revenues and incur expenses on their own without support from the general tax levy; drawdowns from non-tax supported Reserve Funds must be for expenditures related to their revenue source as approved by Council. Non-tax supported Reserve Funds include the Building Department Reserve Fund.

Rolling-Stock: Equipment that moves on wheels used for transportation and/or transit purposes. Examples include trucks and buses.

Short-Term Debt: Any Debt for which repayment of the entire principal is due within one year.

The Act: The *Municipal Act, 2001*, as amended.

Town: The Corporation of the Town of Pelham.

Treasurer: The individual appointed by the municipality as Treasurer, in accordance with section 286 of The Act.



4. General Provisions

4.1 Principles and Objectives

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of Debt for its own purposes. Capital financing and Debenture practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and nature of the expenditure.

The guiding principles for the Town's Capital Financing and Debt program shall be:

a) Adherence to statutory requirements

Capital financing may be undertaken if and when it is in compliance with the relevant sections of The Act, the *Development Charges Act*, and their related regulations. These requirements include, but are not limited, to:

- i) The term of temporary or Short-Term Debt for operating purposes will not exceed the current fiscal year, and will be borrowed in accordance with section 407 of The Act, and with the Town by-law in that regard.
- ii) The term of Capital Financing will not exceed the lesser of 40 years or the useful life of the underlying asset, in accordance with section 408(3) of The Act. The maximum term over which an asset may be financed is set out in Appendix A.
- iii) Long-term Debt will only be issued for capital projects in accordance with section 408(2.1) of The Act.
- iv) The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the Local



Planning Appeal Tribunal (LPAT), in accordance with O. Reg. 403/02 amended to O. Reg 45/18.

- v) Prior to entering into a Lease Financing Agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing, in accordance with section 401(8) of The Act.
- vi) Prior to passing a Debenture by-law which provides for installments of principal, interest, or both, and said installments are not payable during the period of construction of an undertaking, Council will consider all financial and other risks related to the proposed Construction Financing.

b) Long-term financial sustainability and flexibility

The Town of Pelham's Debt management strategy will seek to ensure that it is able to meet any future financing needs (sustainability), and that it can adapt and respond to unanticipated capital or operating requirements should they arise (flexibility).

- i) The Capital Financing program will be managed in a manner consistent with other long-term planning, financial and management objectives.
- ii) Prior to the issuance of any new Capital Financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between Capital Financing and other forms of funding.
- iii) To the extent practicable, replacement assets as well as regular or ongoing capital expenditures (for example annual replacement of firefighter protective gear) will be recovered on a "pay as you go" basis through rates, taxy levy, user fees or Reserves and Reserve Funds.



- iv) It is recognized that Reserves must be developed and maintained, as outlined in the Town's Reserve and Reserve Fund Policy, for all capital assets owned by the Town to ensure long-term financial flexibility.

c) Limitation of financial risk exposure

- i) The Capital Financing program will be managed in a manner to limit, where practicable, financial risk exposure. The Town will generally only issue Debt with interest rates that will be fixed over its term. Notwithstanding, if a borrowing structure is presented for which there is a material financial advantage and/or it is deemed prudent for the Town to issue Debt that is subject to interest rate fluctuations, the Town may, at the discretion of the Treasurer, consider entering into this type of arrangement. Variable interest rate structures must be in accordance with O. Reg. 247/01.
- ii) The Town shall not issue long-term financing on projects/capital works until they are substantially complete or a discernable phase is complete, in order to minimize borrowing costs and ensure that principal amounts required are known with certainty.
- iii) Financing leases have different financial and non-financial risks than traditional Debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material financing lease.

d) Minimizing long-term cost of financing

The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Town's overall long-term cost of financing. Factors to be considered include:

- i) Current versus future interest rates;



- ii) Shape of the interest rate curve and recent economic forecasts;
- iii) Availability of related Reserve or Reserve Fund monies;
- iv) Pattern of anticipated revenues or cost savings attributable to the project; and
- v) Providing a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the Town.

4.2 Suitable and Authorized Financing Instruments

a) Short-term (Under One Year)

Financing of operational needs for a period of less than one year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term Capital Financing, may be from the following sources:

- i) Reserves and Reserve Funds (this may be used as the primary source of short-term financing provided that interest is paid in accordance with the Town's Reserve and Reserve Fund Policy);
- ii) Bank line of credit;
- iii) Short-term promissory notes issued to approved financial institutions; and
- iv) Infrastructure Ontario (or successor organization) short-term advances pending issuance of long-term Debentures.

Short-term borrowing for operational needs borrowed under section 407 of The Act, shall not exceed the amount specified in the Town by-law 4122(2019), or a successor by-law.



b) Long-Term (Greater than One Year)

Financing of capital assets for a period greater than one year may be from any of the following sources:

- i) Debentures issued by the Regional Municipality of Niagara, which, dependent on their policy and financial practice, may be in the form or a combination of installment, term, amortizing, or variable interest rate.
- ii) Reserves and discretionary Reserve Funds may be used for both interim and medium-term, for a period of no greater than five years if deemed cost effective or otherwise necessary. Any borrowing must be in accordance with the Town's established Reserve and Reserve Fund Policy.
- iii) Long-term Bank Loans may be either a fixed or variable interest rate as determined by the Treasurer. Fixed rates will be preferred, in order to reduce interest rate risk.
- iv) Construction Financing may be used for a period up to five years during construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated upon its completion.
- v) Lease Financing Agreements (capital financing leases) may be used when it provides material and measurable benefits compared to other forms of financing.

4.3 Financing Risk Identification and Mitigation Strategies

The following financing risks have been identified and linked with mitigation strategies. It is recognized that there may be additional risks associated with certain types of financing. Any additional risk must be identified and considered prior to their use, and only if it meets the criteria in this Policy.



a) Debt Capacity for Future Priority Projects

The Town could face the risk in any fiscal year of having insufficient Debt capacity to fully execute its priority capital projects based on the ARL.

Risk mitigation:

- The capital plan will show the amount of Debt financing that will be required for each project over a minimum of ten years;
- Each project will be prioritized by staff on the basis of criteria such as health and safety impact, impact on the Town's growth plan, and/or any strategic plan adopted by Council, to ensure priority projects can be completed;
- Debt financing shall be avoided as a source of funding for Lifecycle Renewal Projects; and
- The Town will develop an Internal Debt Limit that is lower than the provincial limit, to allow for future additional Debt funding if necessary.

b) Liquidity Risk

The Town could face the risk that it would be unable to respond to an unanticipated emergency or infrastructure need if a significant portion of operating revenue is committed to paying for existing Long-Term Debt.

Risk mitigation:

- Debt financing shall be avoided as a source of funding for lifecycle renewal projects;



- The Town will develop an Internal Debt Limit that is lower than the provincial limit, to allow for future additional Debt funding if necessary; and
- The Town will strive to meet the minimum recommended and target balances as outlined in the Town's Reserve and Reserve Fund Policy.

c) Construction Financing Risk

Construction Financing may be used to fund Debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (e.g. recreation centre).

Risks:

- Interest rates may increase from the time the rate for the construction loan is established and the completion of the construction;
- The final cost of construction could be materially more or less than initially forecasted and financed; and
- The construction project may not be able to proceed or may not be completed for technical and/or other reasons.

Risk mitigation:

- Prior to Council approval of a project requiring a Construction Financing loan, the Treasurer will prepare a report outlining recent economic forecasts regarding interest rates, along with a sensitivity analysis outlining the impact that changing interest rates could have on loan payments, as well as the potential impact on the Debt Limit.



- Long-Term Debt will not be issued until all critical construction contracts have been awarded and the project is substantially completed, or a discernable phase is complete.

d) Financing Lease Agreement Risk

Leases may be used to finance equipment, vehicles, buildings, land or other assets that the Town does not own, cannot acquire, or for which the benefits of leasing outweigh the benefits of purchasing.

Risks:

- Uncertainty of leasing costs if the contract needs to be extended or renewed;
- The potential for seizure or removal of leased equipment if the leasing company goes into default on its obligations to its creditors;
- The lease may include contingent payment obligations; and
- The Town may not have the ability to terminate the lease immediately if the asset is no longer required.

Risk mitigation:

- The Town will enter into Lease Financing Agreements with payments that are fixed over the lease term and any additional lease payments are known with certainty;
- Lease Financing Agreements will only be entered into with vendors in accordance with the Town's Procurement Policy; and
- Prior to entering into a Lease Financing Agreement, the Treasurer will prepare a report for Council outlining the costs and financial and other risks inherent in the agreement.



e) **Interest Rate Risk**

Where the Town enters into short-term or long-term borrowing at variable interest rates, there is a risk that volatility in the financial market would result in increasing Debt payment costs.

Risk mitigation:

- Fixed rate borrowing will be preferred; and
- Where variable-rate borrowing is used, a maximum of 10% of total outstanding Town Debt may be variable, and must comply with O. Reg. 247/01. This will exclude Construction Financing, which is temporary until a Debenture is issued.

4.4 Internal Debt Limit

The Town recognizes the importance of protecting and preserving capital while maintaining solvency and liquidity to meet ongoing financial requirements. In order to ensure long-term financial sustainability and flexibility, the Town will strive to implement an Internal Debt Limit which is lower than the ARL. This internal limit will be phased in as follows:

- a) From 2020 to 2024: Annual Debt Financing Charges shall not exceed 20% of Own-Source Revenues.
- b) From 2025 to 2029: Annual Debt Financing Charges shall not exceed 15% of Own-Source Revenues.
- c) From 2030 onward: Annual Debt Financing Charges shall not exceed 10% of Own-Source Revenues.
- d) The Town will strive toward the target that a maximum of 50% of the anticipated obligatory Reserve Fund collections will be spent on Debt in order to maintain a minimum cash balance in the Reserve Fund.



- e) Annual Debt Financing Charges for non-tax supported Debentures, such as water and wastewater rate supported Debt, shall not exceed 15% of own-source rate-supported revenues.

4.5 Thresholds for Debt Issuance

In recognition of the cost of issuing Debt as well as the annual interest cost, the Town will not issue Debt for a capital project or group of projects where the Town's share of the project (including water and wastewater) is less than \$100,000.

4.6 Rolling-Stock

The Town will not issue Long-Term Debt for Rolling-Stock. Purchases of Rolling-Stock are to be funded through the use of Reserves, or lease funding where the overall cost to the taxpayer will be lower than if the vehicle was purchased.

4.7 Non-Tax Supported Projects

The Town has areas which have been identified as being "Non-Tax Supported", that is to say that the activity receives revenues and incurs expenses on its own without support from the general tax levy. These Non-Tax Supported activities include, but are not limited to, the water system and the wastewater system.

- a) Where a project includes tax-supported and non-tax supported activities (for example road reconstruction where water and sanitary sewers are also replaced), the financing will be shared between the general tax levy and the non-tax supported activity.
- b) The cost of the project will be split proportionately between the tax-supported and non-tax supported activities based on the estimated cost provided by the engineer.
- c) Funds received from senior levels of government will be attributed, where allowed under the terms of the agreement, to the tax-supported portion first.



Any remaining funding after the allocation to the tax-supported costs, is then attributed to the non-tax supported portion in the same ratio as the costs are attributed.

- d) Debt, and related interest, taken on by the Town for the use of a non-tax supported activity will be repaid by the revenues of that activity.

4.8 Lease Financing Agreements

The discussion of financial and other risks to the Town of using Lease Financing Agreements is included in section 4.3 d) of this Policy.

The Lease Financing Agreement must include a schedule of all fixed payments, if any, required by the agreement and that may be required by any extension or renewal of the agreement, in accordance with O. Reg. 604/06, s. 2.

a) Immaterial Lease Financing Agreements

- i) Lease Financing Agreements which will be considered immaterial for the Town will be defined as those which, individually for one asset result in payments less than or equal to \$15,000 per year, and for which the Present Value of Minimum Lease Payments is less than or equal to \$75,000. In aggregate, immaterial leases shall not exceed payments of \$50,000 per year, and the total Present Value of Minimum Lease Payments shall not exceed \$150,000.
- ii) Prior to entering into an immaterial Lease Financing Agreement, it must be the opinion of the Treasurer and Council that the proposed agreement is within this category and that its costs and risks, in combination with all the others of this category entered into or proposed to be entered into in that year by the Town, would not result in a material impact for the community.
- iii) The Treasurer will report to Council annually regarding Lease Financing Agreements (see Reporting Requirements below).



b) Material Lease Financing Agreements

- i) Any Lease Financing Agreements not classified under 4.8 a) i) will be considered material.
- ii) Prior to entering into any material lease financing agreement, Council shall meet all of the requirements of section 401(10) of The Act, including but not limited to requiring a report of the Treasurer, obtaining legal and financial advice, notifying the Regional Municipality of Niagara, and performing an assessment of the report prepared by the Treasurer.
- iii) At any time after the Treasurer prepares a report under section 401(10)(1) of The Act, if the Treasurer becomes of the opinion that a changed circumstance may result in a material impact for the Town, the Treasurer will update the report and present it to Council as soon as reasonably possible.
- iv) The Treasurer will report to Council annually regarding Lease Financing Agreements (see Reporting Requirements below).

4.9 Standard of Care

a) Ethics and Conflicts of Interest

Officers and employees involved in the Capital Financing process are expected to abide by the Town's Code of Ethics. In particular, they shall:

- i) Refrain from personal business activity that could conflict with the proper execution and management of the Capital Financing program, or that could impair their ability to make impartial decision;
- ii) Disclose any material interests in financial institutions with which they conduct business;



- iii) Disclose any personal financial/investment institutions with which they conduct business;
- iv) Disclose any personal financial/investment positions that could be related to the performance of their Capital Financing duties; and
- v) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Town.

b) Responsibilities

- i) Council:
 - Shall approve Capital Financing in accordance with this policy;
 - Shall develop and evaluate policies to ensure that administrative practices and procedures are in place to maintain the long-term financial flexibility of the Town and limit financial risk exposure; and
 - The Mayor may execute and sign documents on behalf of the Town with respect to the issuance of Debt approved by Council.
- ii) The Town Clerk:
 - May certify and sign documents on behalf of the Town with respect to the issuance of Debt approved by Council.
- iii) The Treasurer shall:
 - Review and recommend the type and term of financing for capital projects and operating requirements;
 - Calculate the Financial Obligation Limit for the Town as prescribed by The Act;



- Approve the timing and structure of Debt issues;
- Co-ordinate the preparation of Debt issue by-laws for Council;
- Execute and sign documents on behalf of the Town and perform all other related acts with respect to the issuance of Debt as approved by Council;
- Review and recommend to Council the financial and business aspects of any material lease agreements and transactions; and
- Ensure all reporting requirements identified in this Policy are met.

c) Delegation of Authority

- i) The Treasurer will have the overall responsibility for the Capital Financing program of the Town.
- ii) No person shall be permitted to engage in a Capital Financing activity except as provided within this Policy.
- iii) The Treasurer shall establish a system of controls to regulate the activities of the Corporate Services department and exercise control over all Capital Financing activity.

d) Requirement for External Advice

Town staff is expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge not exist for unusual or non-standard transactions, or as otherwise directed by Council, outside financial and/or legal advice will be obtained.

e) Reporting Requirements

The Treasurer shall prepare the following reports for submission to Council:



- i) Annual Audited Financial Statements.
- ii) A request for authority for temporary borrowing up to a stipulated amount to meet the day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year.
- iii) As part of the annual Budget:
 - A Debenture schedule for the year, including opening balance, principal and interest payments anticipated, new proposed Debt to be issued, and expected closing balance;
 - The Treasurer's Adjustment of the ARL, beginning with the most recently submitted Financial Information Return, and adding in additional approved Debt, as well as showing the impact of proposed Debt in the capital plan;
 - A report on financial indicators, including, but not limited to, those listed in Appendix B. The report will include an analysis of those indicators, a comparison to other similar municipalities, where available, and a discussion of the impact that is anticipated from the long-term capital plan. If new Debt is recommended in the capital Budget, the report will include the expected impact of the new Debt on the financial indicators. If new Debt is recommended outside of the Budget process, this report must be prepared prior to Council approval;
 - A list of any outstanding leases which are immaterial and require payment beyond the current year;
 - If there are any outstanding Lease Financing Agreements, an estimate of the proportion of financing leases to the Town's total Long-Term Debt, a description of any changes since the previous year's report, if any, and a statement that in his or her opinion all financing leases were made in accordance with this Policy; and
 - A statement indicating that the capital plan is compliant with this Policy.



- iv) Prior to entering into a finance lease, which is other than immaterial, a report meeting all of the requirements of section 401(10) of the Act, including, but not limited, to:
- A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
 - A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
 - A statement summarizing any contingent payment obligations under the lease that could result in a material impact for the Town;
 - A summary of assumptions applicable to any possible variations in the agreement payment and contingent payment obligations; and
 - Any other matters the Treasurer or Council considers advisable.
- v) Prior to the Town passing a by-law providing for Construction Financing, a report meeting the requirements of O. Reg. 278/02, amended to O. Reg. 76/16, including, but not limited to:
- The fixed and estimated costs to the Town;
 - Whether the costs of the proposed financing for construction of the undertaking are lower than other methods of financing available;
 - A detailed estimate with respect to the terms of the Town's expectation of revenue generation from the undertaking, once constructed;



- The risks to the Town if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
 - The financial and other risks for the Town.
- vi) Other reports in line with this policy shall be brought forward to Council as needed.

c) Policy Review:

This policy shall be presented to Council for review (and update if required) every four years, in the first year of each newly elected Council, or more frequently as deemed necessary by Council, the Chief Administrative Officer, or the Treasurer.

5. Attachments

- Appendix A Maximum Financing Term of an Asset
- Appendix B Debt-Related Financial Indicators

**Policy S400-XX Appendix A
Town of Pelham: Corporate Services
Maximum Financing Term of an Asset**

Maximum Financing Term	Type of Asset
3 Years	Computer Software Desktop/Laptop Computer, Monitor
5 years	Audio, Video, and Security Equipment Computer Server and Network Equipment Office Equipment Office Furniture
10 years	General Purpose Vehicle Park Facility, Trail Parking Lot Public Works Facility Sidewalk Specialized Equipment Specialized Vehicle (e.g. Snow Plow, Fire Truck) Street Lighting, Traffic Signal Underground Wiring Unlicensed Mobile (e.g. Tractor, Ice Resurfacer) Water Meter
20 years	Bridge, Culvert Fire Station Library Office Building Road Sanitary sewer, Storm Sewer Watermain, Hydrant
30 years	Recreational Facility with Useful Life > 30 years

**Policy S400-XX Appendix B
Town of Pelham: Corporate Services
Debt-Related Financial Indicators**

Indicator	Category	Definition	Importance	Benchmarks	Agency/Source	Calculation
Debt Servicing Cost as a % of Own-Source Revenues	Flexibility	Percentage of revenues that are used to pay for principal and interest on debt (Revenue excludes items which are not guaranteed or non-recurring, such as grants, development charges, and gains on disposal of tangible capital assets. See Definitions in this Policy. Debt excludes non-recurring items such as lump-sum or balloon payments.).	A measure of the Town's ability to service debt payments. A higher number indicates that debt servicing is consuming a higher portion of the operating budget and may constrain the funding that is available for other service delivery.	<ul style="list-style-type: none"> Provincial limit is 25%. The MMAH monitors a similar indicator, Debt Servicing as a % of Total Revenues (Less Donated TCA). Less than 5% is low risk, 5-10% is moderate risk, and above 10% is high risk. 	MMAH, modified	<u>Debt Servicing Cost for the Year (SLC 81 9920 01)</u> Own-Source Revenues (SLC 81 2610 01)
Debt Service Coverage Ratio	Flexibility	Cash flow that is available to pay for principal and interest on debt.	A measure of the Town's ability to service debt with recurrent operating cash flows. If this ratio is 1, the Town has just enough cash flow to pay for debt servicing. If it is less than one, the Town operating income is constrained in covering debt servicing costs.	<ul style="list-style-type: none"> Less than 1 is constrained, 1 is just sufficient to cover debt servicing, 1.5 or higher would indicate more flexibility to meet operating demands. 	Infrastructure Ontario and Niagara Region Draft Debt Risk Management Framework, modified	<u>Adjusted Operating Surplus*</u> Debt Servicing Cost for the Year (SLC 81 9920 01) *Adjusted Operating Surplus = Own-Source Revenues (SLC 81 2610 01) - Operating Expenses (SLC 40 9910 07) + Amortization (SLC 40 9910 16) + Interest on Long-term Debt (SLC 40 9910 02)
Debt to Reserve Ratio	Flexibility	Total debt outstanding as a ratio of total reserves (excluding obligatory reserve funds).	A measure of the amount of debt taken out that will need to be funded in the future, versus the amount that has been put away into reserves to provide for future expenditures. A ratio of greater than 1 means that debt outstanding exceeds reserves available. A ratio of less than 1 means that debt outstanding is lower than reserves available.	<ul style="list-style-type: none"> We do not have a specific benchmark, but the Town ratio can be compared to other similar municipalities to provide a point of reference. 	BMA Study	<u>Total Long-term Liabilities (SLC 70 2610 01)</u> Total Reserves and Discretionary Reserve Funds (SLC 60 2099 03 + SLC 60 2099 02)
Debt per Capita	Flexibility	The amount of debt that is outstanding per Town citizen.	A measure of how much debt is outstanding per citizen of the Town. This can give an indication of the amount of future tax revenues that need to be recovered to pay for existing infrastructure, and a high level of debt relative to other similar municipalities may mean that the Town would have less flexibility to respond to an unanticipated event or expenditure.	<ul style="list-style-type: none"> We do not have a specific benchmark, but the Town ratio can be compared to other similar municipalities to provide a point of reference. 	BMA Study	<u>Total Long-term Liabilities (SLC 70 2610 01)</u> Population (SLC 01 0041 01)
Net Financial Assets (Net Debt) as a % of Own-Source Revenues	Sustainability	Net financial assets (or net debt) as a percentage of Own-Source Revenues. (Revenue excludes items which are not guaranteed or non-recurring, such as grants, development charges, and gains on disposal of tangible capital assets. See Definitions in this Policy.).	A measure of the amount that Own-Source Revenue is servicing debt. A ratio less than zero indicates that the Town is in a Net Debt position (liabilities exceed financial assets). An increasing negative number may indicate challenges for long-term sustainability because an increasing amount of future revenues will be required to pay for the existing debt.	<ul style="list-style-type: none"> The MMAH indicates greater than -50% is low risk, -50% to -100% is moderate risk, and less than -100% is high risk. The Niagara Region Draft Debt Risk Management Framework recommended looking at the trend over a minimum 3-year period. 	MMAH, modified	<u>Net Financial Assets (Net Debt) (SLC 70 9945 01)</u> (SLC 81 2610 01)
Total Reserves and Reserve Funds as a % of Operating Expenditures	Sustainability	Total reserves and discretionary reserve funds as a percentage of operating expenditures.	A measure of the amount of funds that have been set aside for future needs and contingencies. A higher percentage means that the Town may be relying less on debt or putting funds away for future expenditures. A lower percentage may mean that the Town is relying more heavily on in-year tax levy and rates to pay for expenditures.	<ul style="list-style-type: none"> The MMAH indicates greater than 20% is low risk, 10% to 20% is moderate risk, and less than 10% is high risk. 	MMAH	Total Reserves and Discretionary Reserve Funds (SLC 60 2099 03 + SLC 60 2099 02) Total Expenses - Revenue Received from Other Municipalities for Operations - Revenue Received from Other Municipalities for Tangible Capital Assets (SLC 40 9910 11 - SLC 12 9910 03 - SLC 12 9910 07)
Asset Consumption Ratio	Sustainability	Accumulated amortization of tangible capital assets as a percentage of historical cost of tangible capital assets	A measure of the amount of the Town capital assets' life expectancy which has been consumed. A higher ratio may indicate that there are significant replacement needs, and a lower ratio may indicate that there is not significant aging of the Town's capital assets.	<ul style="list-style-type: none"> The MMAH indicates less than 50% is low risk, 50% to 75% is moderate risk, and greater than 75% is high risk. 	MMAH	Closing Accumulated Amortization Balance of Tangible Capital Assets (SLC 51 9910 10) Closing Cost Balance of Tangible Capital Assets (SLC 51 9910 06)

Note: "SLC" refers to the Financial Information Return (FIR) schedule, line, column.