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| <b>Policy Name: Capital Financing and Debt Management Policy</b> | <b>Policy No: S400-XX</b> |
| 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<br>Desktop/Laptop Computer, Monitor  |
| 5 years                | Audio, Video, and Security Equipment<br>Computer Server and Network Equipment<br>Office Equipment<br>Office Furniture  |
| 10 years               | General Purpose Vehicle<br>Park Facility, Trail<br>Parking Lot<br>Public Works Facility<br>Sidewalk<br>Specialized Equipment<br>Specialized Vehicle (e.g. Snow Plow, Fire Truck)<br>Street Lighting, Traffic Signal<br>Underground Wiring<br>Unlicensed Mobile (e.g. Tractor, Ice Resurfacer)<br>Water Meter |
| 20 years               | Bridge, Culvert<br>Fire Station<br>Library<br>Office Building<br>Road<br>Sanitary sewer, Storm Sewer<br>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"> <li>Provincial limit is 25%.</li> <li>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.</li> </ul>                                  | MMAH, modified   | <u>Debt Servicing Cost for the Year (SLC 81 9920 01)</u><br>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"> <li>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.</li> </ul>  | Infrastructure Ontario and Niagara Region Draft Debt Risk Management Framework, modified | <u>Adjusted Operating Surplus*</u><br>Debt Servicing Cost for the Year (SLC 81 9920 01)<br><br>*Adjusted Operating Surplus =<br>Own-Source Revenues (SLC 81 2610 01)<br>- Operating Expenses (SLC 40 9910 07)<br>+ Amortization (SLC 40 9910 16)<br>+ 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"> <li>We do not have a specific benchmark, but the Town ratio can be compared to other similar municipalities to provide a point of reference.</li> </ul>  | BMA Study  | <u>Total Long-term Liabilities (SLC 70 2610 01)</u><br>Total Reserves and Discretionary Reserve Funds<br>(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"> <li>We do not have a specific benchmark, but the Town ratio can be compared to other similar municipalities to provide a point of reference.</li> </ul>  | BMA Study  | <u>Total Long-term Liabilities (SLC 70 2610 01)</u><br>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"> <li>The MMAH indicates greater than -50% is low risk, -50% to -100% is moderate risk, and less than -100% is high risk.</li> <li>The Niagara Region Draft Debt Risk Management Framework recommended looking at the trend over a minimum 3-year period.</li> </ul> | MMAH, modified   | <u>Net Financial Assets (Net Debt) (SLC 70 9945 01)</u><br>(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"> <li>The MMAH indicates greater than 20% is low risk, 10% to 20% is moderate risk, and less than 10% is high risk.</li> </ul>   | MMAH   | Total Reserves and Discretionary Reserve Funds<br>(SLC 60 2099 03 + SLC 60 2099 02)<br>Total Expenses - Revenue Received from Other Municipalities for Operations - Revenue Received from Other Municipalities for Tangible Capital Assets<br>(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"> <li>The MMAH indicates less than 50% is low risk, 50% to 75% is moderate risk, and greater than 75% is high risk.</li> </ul>   | MMAH   | Closing Accumulated Amortization Balance of Tangible Capital Assets<br>(SLC 51 9910 10)<br>Closing Cost Balance of Tangible Capital Assets<br>(SLC 51 9910 06)  |

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