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Date: December 2, 2016

To: Mayor and Council

Author: Sandra Zwiers, Director of Financial Services

RE: Capital Financing and Debt Management Policy

AIM

To recommend to council a debt policy which will guide administrative and council decision making as it relates to financing capital projects.

BACKGROUND

In order to meet strategic goals or to take advantage of unforeseen capital opportunities, council may choose to finance capital works through the issuance of debt. Borrowing funds in a current budget year to finance capital works has the effect of spreading the impact of the expenditure over multiple taxation years into the future. The benefit of deferring expenditures is countered by the cost of financing (interest rate charges) over the term.

Municipalities are limited in their ability to take on debt by virtue of the Municipal Act, 2001 which regulates many borrowing factors: eligible lenders/institutions, limited term lengths, reasonable interest rates. Municipalities are required to reference key performance indicators such as their annual repayment limit every time debt is considered as a funding source. Attached to this report is an example of the Town of Kingsville's Annual Repayment Limit calculation.

From the time of amalgamation in 1999 until approximately 2012, municipal debt was of little concern considering tax funded debt totaled only approximately $1.4M. Since that time debt has increased to approximately $9.5M. While the town remains well within its annual repayment limit, other key performance indicators are starting to show the strain of this significant change in debt over the last four year period. Attached to this report is the provincially issued key performance indicator report which highlighted debt as a concern at the start of 2015. (These factors were based on data submitted to the province up to and including the 2014 year end.) Essentially, debt servicing costs are growing at a pace faster than our tax/user fee revenue. To resolve this concern we need to limit taking on more debt, increase our tax/user fee revenues or perform a combination of both measures.

The process for deciding when to debt finance has been ad hoc and heavily dependent on the relationship between capital projects and proposed annual tax rate increases.

Historically, debt was proposed/approved to be able to move forward with capital projects with minimal impact to the current year tax rate.

To formalize the decision making and reporting process a capital financing and debt management policy is being recommended.

DISCUSSION
Attached to this report is a proposed capital financing and debt management policy. The intent of the policy is to formalize decision making and communications between administration and council to ensure all factors influencing and affecting financing decisions are investigated properly and with regard to the long term fiscal health of the municipality.

LINK TO STRATEGIC PLAN
To encourage leadership and management that will provide the direction to achieve our goals and maximize the effectiveness of our strategies.

FINANCIAL CONSIDERATIONS
The implementation of the proposed policy will impact budget and capital spending proposals. Depending on decisions surrounding revenue sources, this may result in deferring capital projects until revenue sources other than debt are identified/secured.

CONSULTATIONS
Trevor Pinn, Director of Finance and POA Court Services / Treasurer, Parry Sound
Ryan McLeod, Manager of Financial Services

RECOMMENDATION
That council approves the Capital Financing and Debt Management Policy FIN-03.

Sandra Zwiers
Sandra Zwiers MAcc, CPA, CA
Director of Financial Services

Peggy Van Mierlo-West
Peggy Van Mierlo-West, C.E.T.
Chief Administrative Officer