Type: **Open Session**

Report To: **Finance Standing Committee**

Meeting Date: **October 24, 2024**

Subject: **FIN-24-34 Capital Financing Policy**

Recommendation(s)

1. That report FIN-24-34, Capital Financing Policy, dated October 24, 2024 be received; and

2. That the Draft Capital Financing Policy included as Appendix A to this report be received for 1st review and comment.

Executive Summary

The Capital Financing Policy acts as a framework to guide financial decision-making for capital budgeting purposes to enhance fiscal sustainability and reduce risk. The policy establishes recommended funding sources depending on the type of project and includes a hierarchy of use of funds to minimize impact on taxpayers and ratepayers while also minimizing risk.

Since this is a new policy, it is before the Committee for 1st review and comment and will be brought back to Committee next month for approval.

Purpose

This Capital Financing Policy is intended to provide a framework for appropriate use of reserves, debt, and other sources of funding for the Town's capital budgeting purposes. The policy will guide decision making to ensure financial sustainability, flexibility, transparency, and legislative compliance of the Town's capital program. The policy is intended to be a guideline, recognizing that there may be circumstances where capital financing decisions may need to be made based on other factors.

Background

The objectives of this policy are as follows:

- Adherence to statutory requirements

- Ensure long-term financial sustainability
- Limit financial risk exposure
- Minimize long-term cost of financing

On an annual basis, the Town's long-term capital plan is updated for funding requirements. This policy provides a guideline outlining which funding is appropriate for which types of projects. Principles of the policy are as follows:

TYPE OF PROJECT	PRIMARY FUNDING SOURCE
ASSET MANAGEMENT REHABILITATION & RENEWAL	Reserves
GROWTH-RELATED PROJECTS	Development Charges (DC) & Community Benefits Charges (CBC).
STRATEGIC INVESTMENTS	Debt

With respect to growth-related projects, debt may be utilized where there is reasonable assurance that future debt payments will be covered by DC & CBC Collections.

Where available, external sources of funding should be utilized first. Grants such as the Canada Community Benefits Funds (CCBF) should be used and allocated to projects to reduce the use of Town reserves or need for debt funding. Development Charge funding and Community Benefits Charge funding will also be used and allocated in accordance with methodologies identified in their respective background studies.

Town reserves will be used to fund asset management projects related to asset rehabilitation and renewal. In order for these reserves to perform their function, a plan needs to be developed to ensure that those reserves are being adequately funded and will have the necessary monies to be drawn on when needed.

The use of debt should be limited to growth projects and strategic investments. Selective use of debt in this manner will provide the Town with debt room and flexibility to support strategic investments that may arise, preserve debt room to deal with potential unplanned expenses or emergencies, and to avoid incurring costly interest charges.

Recognizing that a long-term asset management funding plan needs to be put in place, use of debt may be needed in the interim to fund high-priority asset rehabilitation projects where reserve funding is not available.

When debt is used, a funding plan should be included in the operating budget to estimate the annual debt servicing costs to ensure adequate funds are secured to make the annual principal and interest payments. This should be built into the budget with the aim that the total estimated debt servicing costs are approved in full by the year the debenture is issued. By doing so, this will ensure that annual funds received through taxes and rate payments will be sufficient to fund the future debt payments.

Appendix B provides a visual of the capital financing approach.

Statutory Requirements

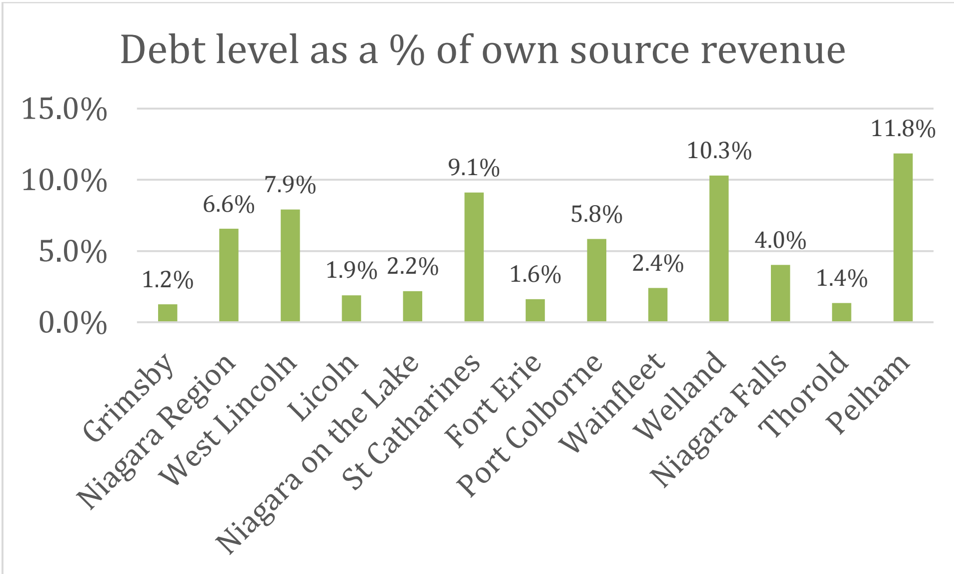
The Province of Ontario, through the Ministry of Municipal Affairs & Housing, mandates that municipalities must remain below a certain threshold when it comes to debt payments. Debt charges as a percentage of total operating revenues cannot exceed 25%. This is referred to as the Annual Repayment Limit (ARL).

The Ministry of Municipal Affairs & Housing also offers the following benchmark financial indicators as it relates to debt.

Risk Level	Debt Servicing Costs as a % of Operating Revenue
Low	< 5%
Moderate	5% - 10%
High	>10%

To ensure that the Town stays within the low-to-moderate risk category, it is proposed in our policy that we set our own *internal* repayment limit to 10% or less.

The following chart provides a visual of what our percentage was in 2022 along with a comparison of other Niagara municipalities.



Grimsby's debt charges as a percentage of own source revenue currently stands at 1.2% and is related to Fire Station #2 debt. Looking ahead and factoring in debt for the West Lincoln Memorial Hospital and Peach King Centre expansion, that is expected to increase to 3.7%, a level that would still be in the low-risk range. Fire Station #2 debt will be fully paid by 2027.

Strategic Priorities

Priority: Collective Prosperity

Direction: Focus on affordability and financial sustainability for the municipality

Action: Build the long-term financial health of the community

Financial Impact

There are no specific financial implications related to this report.

Conclusion

Staff recommend that the attached Capital Financing Policy be received for 1st review and comment.

Respectfully prepared and submitted by,

Tony Del Monaco
Director of Finance/ Treasurer

Respectfully approved by,

Sarah Kim
Chief Administrative Officer

Attachments

- **Appendix A –** Capital Financing Policy
- **Appendix B –** Capital Financing Strategy Visual