



<b>Title:</b>	<i>Capital Financing Policy</i>		
<b>Document #:</b>	<i>FI-REP-004</i>	<b>Created by:</b>	<i>Director of Finance/Treasurer</i>
<b>Status of Document:</b>	<i>DRAFT</i>	<b>Approved by:</b>	<i>Council</i>
<b>Effective Date:</b>	<i>December 2, 2024</i>	<b>Revision Date:</b>	
<b>Coverage:</b>	<i>All Town Departments</i>	<b>No. of Pages:</b>	<i>4</i>

## 1.0 PURPOSE

The Town of Grimsby prepares a capital budget annually as required by the Municipal Act. This policy provides a framework for appropriate use of reserves, debt, and other sources of funding for the Town's capital budgeting purposes. Establishing parameters regarding the purposes for which types of funding may be used will help guide capital budgeting, reserve forecasts, and debt issuance decisions.

Reserves are financial management tools that are an essential part of a sound fiscal policy to address long-term municipal objectives and to balance current and future monetary requirements.

Debt can serve as a useful tool in an integrated, long-term planning and financial management framework.

This policy helps to guide decision making to ensure financial sustainability, flexibility, transparency and legislative compliance of its capital funding program. This policy is intended to be used as a guideline, recognizing that there may be circumstances where capital financing decisions may need to be made based on other factors.

## 2.0 SCOPE

This policy applies to the following:

- a. Capital budget financing for projects.
- b. Operating budget impacts required to support the approved Capital projects including but not limited to debt servicing costs.
- c. The administration and management of the issuance of debt for approved capital projects.

## 3.0 OBJECTIVES

The primary objectives of this policy are:

- Adherence to statutory requirements.



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

## 4.0 POLICY STATEMENTS

### Capital Budgeting

- a. On an annual basis, the long-term capital plan shall be analyzed for funding requirements based on the following principles:
  - i. Projects that are aligned to asset management should utilize reserves before utilizing debt.
  - ii. Projects that are supporting growth should be funded with development charges (DCs) or community benefits charges (CBCs). Utilizing debt for growth-related projects is appropriate when infrastructure is needed to precede anticipated growth and there is reasonable assurance that adequate DCs & CBCs will be realized to cover the principal and interest on the debt.
  - iii. Projects that are new strategic investments should be funded with debt.
- b. To the extent practical, the hierarchy and priority of allocating capital funding will be in the following order.
  - i. External sources of funding that are available to the project should be utilized first.
  - ii. Canada Community Benefit Funds (CCBF) will be used and allocated to projects to reduce the use of reserves or debt funding.
  - iii. Development Charges Reserves and the Community Benefits Reserve will be used and allocated in accordance with the methodology included in their respective studies.
  - iv. Town Reserves will be used to fund asset renewal investments and state of good repair projects.
  - v. Debt will be utilized for growth and strategic investment projects.

### Internal Borrowing from Town Reserves and Reserve Funds

Lending between reserves and reserve funds shall be permitted in order to finance capital and/or operating cash flow deficiencies to avoid external borrowing costs. Internal loans/transfers must be temporary in nature and authorized by Council.



Intra-fund lending can be accomplished by allowing the reserve or reserve fund to go into a deficit position with a documented plan on how the reserve will be replenished back to its established target in a reasonable timeframe provided the following conditions are met:

- i. Borrowing will not adversely affect the intended purpose of the reserve or reserve fund;
- ii. If applicable, interest equivalent to the Town's market rate of return earned will be applied to outstanding amounts borrowed from reserve funds.

If funds are borrowed from Development Charge reserve funds, The Development Charges Act Section 36 requires interest to be paid on loaned amounts at the prescribed minimum rate, identified as the Bank Rate as per the Bank of Canada.

### **Funding Debenture Payments**

For debt funded capital projects, a funding plan shall be established to fund the estimated annual debt servicing costs (both principal and interest). This shall be built into the operating budget with the aim of the total estimated debt servicing costs approved in full by the year the debenture is to be issued.

This has the effect of reducing the amount to be borrowed and demonstrates the impact to the operating budget as part of the decision-making process. This means that the Council which makes the decision to proceed with the capital project will raise, through taxes, an amount which will be equivalent to the future annual debt charges for the project.

### **Debt Structure**

Debt shall be structured for the shortest period consistent with a fair allocation of costs to current and future users and not exceed the asset's useful life. Debt shall be structured to achieve the lowest possible net cost to the Town given market conditions, the type of debt being issued, and the nature and type of the repayment source.

## **5.0 STATUTORY REQUIREMENTS**

Adherence to legislative requirements will be maintained including but not limited to compliance with the provincially mandated 25% annual repayment limit.

Each year the Ministry of Municipal Affairs & Housing produces a financial indicator review for each Ontario Municipality. One of the measures is *Debt Charges as a % of Total Operating Revenue*. They note that the more a municipality uses revenues to meet the interest costs on past borrowing, the less will be available for other program spending.



The Ministry of Municipal Affairs' benchmark financial indicators are:

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 the Town's annual *internal* repayment limit shall be targeted to be 10% or less.

## 6.0 RESPONSIBILITIES

### a. The Responsibility of Town Council

- i. To approve the annual budget.
- ii. To pass debenture by-laws prior to the issuance of debentures.

### b. The Responsibilities of the Corporate Leadership Team

- i. To recommend and support the budget submissions to Council.

### c. The Responsibilities of the Finance Department

- i. To transparently consolidate and present budget considerations to Council in accordance with this policy.
- ii. To direct staff on strategy to meet Council's expectations of the annual budget.
- iii. To recalculate the Annual Repayment Limit (O. Reg. 403/02, s. 4(1)) each year.
- iv. To manage the administration of the debenture issuances.

### d. The Responsibilities of Project Managers

- i. To provide sufficient information to determine the type of project for the financing strategy.
- ii. To provide the required capital project information including options for external funding sources.

## 7.0 REVISION HISTORY

Revision No.: \_\_\_\_\_

Date of Last Revision: \_\_\_\_\_

Last Approval Date: \_\_\_\_\_

Reason for Change(s): \_\_\_\_\_

Summary of Change(s): \_\_\_\_\_