



## THE CORPORATION OF THE TOWN OF AMHERSTBURG

### OFFICE OF CORPORATE SERVICES

**MISSION STATEMENT:** *Committed to delivering cost-effective and efficient services for the residents of the Town of Amherstburg with a view to improve and enhance their quality of life.*

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<b>Author's Phone:</b> 519 736-0012 ext. 2254	<b>Date to Council:</b> February 21, 2023
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**To:** Mayor and Members of Town Council

**Subject:** Capital Budget Financing Policy - Debt

#### 1. **RECOMMENDATION:**

It is recommended that:

1. That Council **APPROVE** a revision to the Debt Strategy outlined in the Capital Budget Financing Policy by increasing the allowable debt servicing cost limits to be 25% of water and wastewater prior year net revenues; and,
2. That Council **DIRECT** Administration to make further housekeeping amendments to the Capital Budget Financing Policy and Loans and Borrowing Policy as necessitated by organizational structure and internal process changes.

#### 2. **EXECUTIVE SUMMARY:**

The purpose of this report is to seek Council's approval to update the debt strategy currently contained in the Capital Budget Financing Policy by revising the strategy so that it contains an acceptable debt ceiling for the category of activities funded by the tax rate and the category of activities funded by water & wastewater user rates.

#### 3. **BACKGROUND:**

Council approved a Capital Budget & Finance policy in 2008 attached, a copy of which is attached to this report as Appendix "A". This policy is in need of revision due to changes in organizational structure and updates to process and internal workflows.

Further, section 5.3 of the Policy currently states as follows:

*"The debt position of the Town is of interest to the provincial government and potential purchasers of the Town's debentures. The Ministry of Municipal Affairs*

*and Housing regulates that a municipality should not commit to more than 25% of total own purpose revenue to service debt and other long-term obligations without obtaining prior OMB approval. Information on the Town's long-term liabilities and debt charges is submitted to the province on an annual basis through the Financial Information Return.*

*The Town's annual debt servicing limit including short, medium, and long-term debt is not to exceed 15% of the Town's previous year's net own source revenues, each application to issue debt subject to Council approval"*

On February 1, 2016, Council Further, approved By-Law No. 2016-19 Loans and Borrowing, a copy is attached to this report as Appendix "B". **Under 6.4 Debt Levels** Council approved:

6.4.2 – The Town will attempt to keep the Annual Repayment below 20% at all times.

Given the age of these policies, the evolution of the types of projects that the Town could potentially fund via debt, the costs of these types of projects, and the funding sources of these projects a review of the structure of the debt policy is recommended.

#### **4. DISCUSSION:**

Pursuant to the policy as currently written, the current debt servicing limit for the Town is 20% of the total amount of the Town's previous year's net own source revenues. This amount has always been calculated as one amount based on all sources of net revenue, being the total of the revenues collected from the tax rate, the water rate, and the wastewater rate. Currently, for 2023, the calculation is as follows:

Total Own Net Revenue 2021 FIR	Current Allowable Debt Limit	Current Annual Debt Servicing Cost Limit 2023	Total Current Amount of Debt Servicing Costs	Total Remaining Debt Servicing Room Available 2023
43,612,735	20%	8,722,547	3,582,048	5,140,499

However, when further analysis is completed by category of "own net revenue sources", it is clear that although the Town stays within the 20% in aggregate, wastewater rate-based debt limit amounts exceed 20%. This is a result of the higher costs of infrastructure in the water and wastewater areas. This analysis is as follows:

Own Net Revenue Sources	Total Prior Year 2021 FIR	Current Allowable Limit %	Current Annual Debt Servicing Cost Limit 2023	Total Current Amount of Debt Servicing Costs	Total Remaining Debt Servicing Room Available
Tax Rate	31,283,151	20%	6,256,630	914,774	5,341,857
Water Rate	5,784,473	20%	1,156,895	354,379	802,516

Waste Water Rate	6,545,111	20%	1,309,022	2,312,896	(1,003,874)
TOTAL	43,612,735		8,722,547		5,140,499

If the debt policy remains as a 20% aggregate of the total of all own net revenue sources, as it is now written, this imbalance will continue and it is projected that it will be 2032 before water and wastewater based debt servicing limit cost no longer erode the taxation based debt servicing limit costs, at the current debt limits. This does not consider future needs for the next 5 years.

Further, as additional debt has been approved for 2023 construction of the reservoir at the Amherstburg Water Treatment Plant, it is projected that, under the current policy limits, taxation based debt servicing limit will be further eroded.

Therefore, Administration is recommending that the Debt Strategy be amended to separate the taxation base and the water and wastewater rate base debt limits so as to ensure that the taxation base limit is not eroded and to ensure that future taxation based debt financing remains within the prescribed constraint. Further, as a result of the larger costs of infrastructure projects in the water and wastewater areas, it is also recommended that the water and waste debt servicing limit costs be raised to the maximum allowable under the *Municipal Act* being 25% of the prior year's total amount water rate and wastewater rate revenue and 20% of the taxation base funded infrastructure. Such a recommendation would result in an overall increase in the aggregate debt servicing cost limit of 1% (20% to 21%) with the following revised debt servicing cost limit calculation:

Own Net Revenue Sources	Total Prior Year 2021 FIR	Current Allowable Limit %	Proposed Annual Debt Servicing Cost Limit 2023	Total Current Amount of Debt Servicing Costs	Total Remaining Debt Servicing Room Available
Tax Rate	31,283,151	20%	6,256,630	914,774	5,341,857
Water Rate	5,784,473	25%	1,446,118	354,379	1,091,740
Waste Water Rate	6,545,111	25%	1,636,278	2,312,679	(676,618)
TOTAL	43,612,735		9,339,026	3,651,775	5,756,978

## 5. **RISK ANALYSIS:**

The risk of not amending the current debt strategy policy is that such action will result in the Town having a reduced capacity to meet the needs of taxation based infrastructure debt financing when required. By increasing the allowable debt servicing cost ratio to 25% of the previous year's own net rate based revenue for Water and Waste Water, this risk is mitigated.

**6. FINANCIAL MATTERS:**

The recommendation before Council will result in an increased total allowable debt servicing cost limit, however, the aggregate total, being 21% of previous year own net revenue sources, is still well within the provincially mandated limit of 25%.

**7. CONSULTATIONS:**

Senior Management  
Capital-Budget - Financing Policy (2008)  
Loans and Borrowing (2016-19)

**8. CONCLUSION:**

It is recommended that council approve the updated wording to the Capital Budget and Financial Policy, Loans and Borrowing Policy and further approve the change in debt strategy and debt levels. Administration will update current policy formats with the approved changes.



Tracy Prince  
**Director of Corporate Services/CFO**

**Report Approval Details**

Document Title:	Capital Financing Policy - Debt Strategy.docx
Attachments:	- Capital-Budget-Financing-Policy redline.docx - Loans-and-Borrowing-Policy.pdf
Final Approval Date:	

This report and all of its attachments were approved and signed as outlined below:

## Report Approval Details

Document Title:	Capital Financing Policy 2023-Debt Strategy.docx
Attachments:	- Capital-Budget-Financing-Policy redline.docx - Loans-and-Borrowing-Policy.pdf
Final Approval Date:	Feb 15, 2023

This report and all of its attachments were approved and signed as outlined below:



Valerie Critchley



Kevin Fox