

FINANCIAL POLICIES LONG TERM FINANCIAL PLAN DEBT MANAGEMENT POLICY	APPROVED BY COUNCIL: AUGUST 2017 REVIEWED / AMENDED BY COUNCIL: MAY 2019 CAO / TREASURER APPROVAL
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PURPOSE

The purpose of the Township of Bonfield Debt Management Policy is to establish guidelines for issuance and management of long-term debt.

SCOPE OF POLICY

This policy applies to all Departments; Local Agencies, Boards and Commissions controlled by the municipality; and Committees. The policy does not apply to other Local Agencies, Boards and Commissions including:

District of Nipissing Social Services Administration Board (Social housing and ambulance assets)
Ontario Provincial Police
North Bay Mattawa Conservation Authority
Cassellholme East Nipissing District Home for the Aged
North Bay Parry Sound District Health Unit

LEGISLATIVE AUTHORITY

This policy is not a legislative requirement. This Policy is in compliance with the Municipal Act, 2001, s.401-s.417 and related Ontario Regulations.

GUIDING PRINCIPLES

1. Long-term debt management is an integral part of long-term financial planning.
2. Long-term debt is required to facilitate an effective Comprehensive Asset Management Plan.
3. The impact of long-term debt service costs (principal and interest payments) on taxpayers must be managed and maintained at acceptable levels.

GOALS AND OBJECTIVES

The goals and objectives of the Debt Management Policy include;

1. To ensure that debt management is consistent with the goals of the Long-Term Financial Plan.
2. To reduce the risks to the taxpayer of significant fluctuations in debt service costs.
3. To provide a source of funding for capital projects, or major capital equipment requirements, which cannot be reasonably funded by any other revenue source.
4. To stabilize peaks and valleys in sustainable capital funding requirements in accordance with the Asset Management Plan and the Long-Term Capital Funding and Financing Policy.
5. Debt will be managed to ensure the best possible credit rating, and if possible, maintained at levels comparable to other Northern Ontario Municipalities.
6. The timing, type, and term of Debt will be determined with a view to minimizing long-term cost.
7. The term of Debt will be limited to the term of the useful life of the particular asset, but no greater than 30 years. Ideally the term should be kept shorter to satisfy point 6 above.
8. To ensure that debt service costs don't impair the ability of the municipality to levy "pay-as-you-go" to fund a significant component of sustainable capital funding.

ROLES AND RESPONSIBILITIES

Treasurer is responsible to:

1. Ensure that all authorizations required for the issuance of long-term debt are received.
2. Identify sources for utilizing long-term debt in accordance with the goals and objectives of this policy.
3. Provide an annual report to Council each year as part of the Capital Budget review.

Chief Administrative Officer is responsible to:

1. Ensure that all reports to Council that include recommendations to incur long term debt, including capital leases, have been reviewed and signed by the Treasurer for consideration under this policy.

Council is responsible to:

1. Review the Debt Management Policy at least once during each term of office.
2. *Authority to issue long term debt.* Council must approve any new long-term debt commitment by resolution, and if required, by By-Law.

TARGET LEVELS

The implementation of the Debt Management Policy will be accomplished in part by establishing target levels as follows:

1. *Net debt per household not to exceed the average for all Northern Ontario municipalities. Bonfield debt per household was \$1,531 as at December 31, 2018. (The Northern Ontario average was \$2,219 per household as at December 31, 2017)*
2. *Debt Service costs as a percentage of own purpose tax revenues not to exceed the average for all Northern Ontario municipalities. Bonfield was 4.2% as at December 31, 2018. The Northern Ontario average was 9.1% as at December 31, 2017.*
3. *Debt service costs not to exceed 50% of the Capital Levy in the Operating Budget. This target is considered to be long term and may not be attainable in the near future.*

POLICY IMPLEMENTATION

The implementation of this policy shall be considered as a long-term goal over a period of up to twenty years.

The implementation of this policy shall be considered as a key component of the Township of Bonfield Long Term Financial Plan.

TOWNSHIP OF BONFIELD
DEBT MANAGEMENT POLICY ANNUAL REPORT

Council adopted a Debt Management Policy in 2017. The policy included a requirement to review and update the policy at least once during each term of Council. The policy was last reviewed and updated in May 2019. It should be reviewed in detail again in January 2023 during the Capital Budget review.

The policy requires the Treasurer to prepare an annual report to Council. This report includes an update of the current status of the target levels identified in the policy. The implementation of the Debt Management Policy will be accomplished in part by establishing target levels as follows:

Net debt per household not to exceed the average for all Northern Ontario municipalities

Appendix A attached to this report lists the debt per household for all Northern Ontario municipalities as at December 31, 2020. The data is extracted from the AMO MIDAS tool which uses the Financial Information Returns database.

Bonfield's debt per household as at December 31 2020 was \$1,786 which is just below the Northern Ontario average of \$1,933. If you look on page 1 you will see that although it is below the average, it is still the 22nd highest in Northern Ontario. The Northern Ontario median debt per household (ie # 58 of 116) was \$389.

Assuming no further debt was issued over the next 5 years the debt levels would decline by about \$588,000 as principal repayments are made on existing debt. There are two major projects which could dramatically increase debt levels in the near future. Both of these projects will be reviewed further in this report.

1. Bonfield's share of the Cassellholme Redevelopment Project was estimated to be about \$2,059,000 in April 2021. This would more than double Bonfield's debt levels if it had to be added at this time. Debt per household would increase to \$3,619 putting it into the top 10 highest in Northern Ontario as shown on Appendix A.
2. The Development Road Project is currently estimated to cost \$3,500,000. Assuming Gas Tax Grants could be used to reduce this by \$500,000 this project could require additional debt of \$3,000,000. Bonfield's debt per household would increase to \$6,291 bringing it nearer to the highest in Northern Ontario as shown on Appendix A.

Debt Service costs as a percentage of own purpose tax revenues not to exceed the average for all Northern Ontario municipalities.

Appendix B attached to this report lists the debt service costs (ie principal and interest) as a percentage of own purpose taxation for all Northern Ontario municipalities as at December 31, 2020. The data is extracted from the AMO MIDAS tool which uses the Financial Information Returns database.

Bonfield's debt service costs as a percentage of own purpose taxation as at December 31 2020 was 7.7% which is just over the Northern Ontario average of 6.5%. If you look on page 2 you will see that although it is near the average it is still the 31st highest in Northern Ontario. The Northern Ontario median (ie # 58 of 116) was 2.9%. Assuming no further debt was issued over the next 5 years the debt service costs would decline by about \$67,000 as existing debt matures. The two major projects discussed above could dramatically increase debt service levels in the near future.

1. Bonfield's share of the Cassellholme Redevelopment Project was estimated to be about \$2,059,000 in April 2021. Debt service costs of about \$120,000 would have to be added to the tax levy. Debt service costs as a percentage of own purpose taxation could rise to 12.1% as shown on page 1 of Appendix B. This could be partially reduced by maturing debt and future increases in own purpose taxation. The tax levy would need to increase by 4.1%.
2. The Development Road Project, assuming debt requirements of \$3,000,000 issued with a 3% interest rate over a 20 year term, would add about \$202,000 to debt service costs and would drive the debt

service costs as a percentage of own purpose taxation to 19.4% as shown on page 1 of Appendix B. The tax levy would need to increase by 6.8% to absorb the \$202,000 in additional debt service costs.

Cassellholme Project

At the time of preparation of this report it has not yet been determined how or when the Cassellholme project will impact Bonfield. The best estimate of Bonfield's share based on the April 26 report is \$2,059,000. The options include one in which Cassellholme issues the debt and each municipality guarantees its share. The other option would have Cassellholme levy each municipality who could then determine their own financing arrangements. I have assumed that the debt or levy would come at the end of the project completion estimated to take five years. The debt service costs assumes an amortization of 25 years at 3% annual interest rate. The resultant impact on debt service cost would be about \$120,000. This would require a 4.1% increase in the tax levy based on the 2021 budget tax levy of \$2,959,0890. Council could spread the impact over several years by including a transfer to a special reserve fund in 2022 and increasing it each year as follows:

2022 budget	\$25,000
2023 budget	\$50,000
2024 budget	\$75,000
2025 budget	\$100,000
2026 budget	\$125,000
2027 budget	\$0 Reduction will offset increase in debt service charges
TOTAL RESERVE	<u>\$375,000</u>

Development Road Project

The Development Road Project is currently estimated to cost \$3,500,000. Assuming Gas Tax Grants could be used to reduce this by \$500,000 this project could require additional debt of \$3,000,000. I would recommend that staff pursue funding opportunities to help reduce the impact on Bonfield's debt levels and tax levies. Council could also consider potential use of reserve funds to partially fund this project. The Asset Management Plan Strategic Priorities Reserve Fund has a balance of \$454,787. This amount was funding received from the province after a project had been financed by debt. Based on the current level of reserve funds this may not be the best option.

Capital Pay As You Go and Other Capital Funding Sources

The following funding sources are available for capital projects:

Federal Gas Tax	\$126,226	The amount was doubled for 2021. Not sure of future allocations.
OCIF from Province	\$100,000	Recently announcement raises minimum level to \$100,000. Amount approved for 2022 is \$118,023. The Operating Budget included \$25,000 of this in 2021.
NORDS from Province	\$90,000	Recently announcement confirms \$90,000 for 2022. Not known for sure how much might be available in future years.
Pay As You Go	\$130,000	This amount was included in the 2021 Operating Budget
Grants	\$0	Not reliable but should be pursued each year
Reserve Funds	\$0	Reserve funds should be used for emergency purposes as identified in the Reserve Fund Policy
	<u>\$446,226</u>	

The \$446,226 will often not be enough to fund all of the capital projects required in a given year. Large projects may require further debt financing. I would recommend that the Pay As You Go allocation in the Operating Budget be increased by about 1% of the previous years tax levy each year for several years until the capital

funding sources reach a sustainable level. This level will be better understood when a long range capital forecast is completed.

Staff are currently working on a ten-year capital forecast. Some departmental forecasts are still being developed and should be available soon. I have included a preliminary summary below of the Public Works capital forecast. Only single projects over \$500,000 have been included for the purpose of determining the potential debt financing requirements.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Resurface Development Rd-Asphalt	\$3,500,000									
Resurface Railway/Mark Street-Asphalt		\$556,000								
Resurface Church Street and Replace Storm Drain System Install Curb and gutter-Sidewalk								\$1,000,000		
Trunk Road - grind surface and resurface with geotextile chip seal							\$1,872,000			
Boxwell Road Culvert (multi-ate)			\$548,000							
Greenwood Drive Mill and Pave									\$500,000	
Sunnyside Road (mill and resurface) Culverts changed										\$1,852,000
ANNUAL TOTAL	\$3,506,000	\$1,055,000	\$1,010,000	\$698,000	\$780,000	\$2,082,000	\$1,000,000	\$500,000	\$2,062,000	\$53,000
TOTAL PROJECTS OVER \$500,000	\$3,500,000	\$556,000	\$548,000			\$1,872,000	\$1,000,000	\$500,000	\$1,852,000	
TOTAL PROJECTS UNDER \$500,000	\$6,000	\$499,000	\$462,000	\$698,000	\$780,000	\$210,000	\$0	\$0	\$210,000	\$53,000

The annual capital project costs include projects under \$500,000 which are not listed. The projects under \$500,000 could likely be funded from funding sources identified earlier in this report. Projects costing more than \$500,000 would likely have to be funded by debt financing unless Bonfield was successful in securing grants. In the long term it will become critical for Bonfield to build up the Pay As You go funding available in the Operating Budget.

In addition to the above Public Works capital projects there is a multi year Waterfront Project with anticipated expenditures of about \$1,101,000 planned for 2022. Grants from FedNor and NOHFC will reduce the municipalities share to about \$110,000.

The Asset Management Plan and Long Capital Expenditure Forecast are nearing completion. I am recommending that Bonfield adopt a Long Term Capital Funding and Financing Policy in 2022. I have prepared a draft which will be completed when data from these documents is available.

At this time I am not recommending any amendments to the Debt Management Policy. Changes may be required in the next annual report in January 2023 after the impact of the Cassellholme and Development Road projects are known.

Recommendations

I recommend that an increase of \$30,000 in the Pay As You Go budget allocation be included in the preliminary operating budget.

I recommend that a budget allocation of a \$25,000 for a transfer to a Casselholme Reserve be included in the preliminary operating budget.

I recommend that a Long-Term Capital Funding and Financing Policy be prepared, presented and adopted in 2022.

Brian Rogers
December 9, 2021