Appendix F
Low Risk Long-term Debt Level

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In the Building Together guide, the Province suggested that as part of a long-term capital asset financing strategy "***there may be a need for some municipalities to revisit their "zero debt" policies.** Debt financing, such as debentures, loans, and construction financing agreements, helps to spread the cost of expensive capital projects over time so that both current and future users of services share the burden.*"

When viewed in conjunction with another of the Province's guiding principles—"*those who benefit directly from municipal infrastructure should pay for the service*"—it seems clear that, rather than having to borrow money itself to pay for grants to individual municipalities, the Province is expecting individual municipalities, the beneficiaries of the related municipal infrastructure, to take on long-term debt themselves. In light of the Province's philosophy, the Township is prepared to use long-term debt to finance capital projects to a "reasonable level".

The Ministry of Municipal Affairs (MMA) prepares a "Financial Indicator Review" (Review) annually for each municipality, based on the Financial Information Return (FIR) submitted. The Review classifies the Township as "Low", "Moderate" or "High" Risk for each of the reported measures. There are three debt-related measures on the "Financial Indicator Review":

1. Debt servicing cost as a % of total operating revenue: low risk = < 5%
2. Net financial assets or net debt as a % of total operating revenue: low risk > -20%
3. Net financial assets as a % of own purpose taxation plus user fees : low risk > -50%

Based on its 2015 FIR, the Township calculated what its Low Risk level of debt threshold would be using these three measures, and determined that the most restrictive measure was the debt servicing as a % of operating revenue. Using this measure, a low risk level of borrowing is in the neighbourhood of $870,000 based on a 10-year repayment term and 3% interest rate. In other words, at any point in time, the total initial amount of borrowing that the Township could be repaying is $870,000 over a 10-year term @3% ($467,000 over a 5-year term @ 3%) to be classified as "Low Risk" based on the measures in the Review.

Note that the **maximum** allowable outstanding debt of the Township (estimated from the commonly-cited "Annual Debt Repayment Limit" of the Township, using a 10-year repayment and 3% interest) is approximately five times this amount (2016 limit of approximately $4.2 M).

The following outlines an approach that could be used to gradually move to this threshold by the Township, once all of its existing debt is repaid:

a) in each year, an equivalent amount of new debt could be incurred to finance capital expenditures. The annual amount of $87,000 new debt was calculated assuming that the borrowing rate will be 3%, and all debt will be repaid over 10 years.

b) By the 10th year, by incurring approximately $87,000 new debt each year, the Township will have reached its threshold level of repayments of $101,000, and will have outstanding debt of approximately $435,000.
c) This pattern of borrowing and repaying is sustainable indefinitely. However, **by the 10th year this strategy will not produce any additional capital asset financing**, since the debt repayments (principal and interest) will exceed the new debt incurred by the interest portion of the repayments.

Rather than phasing in debt over time, it is more likely that new long-term debt will be linked to the purchase of specific capital expenditures, and will only be agreed to after careful consideration of other available alternatives (such as deferring/reducing planned capital expenditures). The actual decision to incur debt for specific items will occur as a result of the annual budgeting procedures.