

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

1. Application for Approval and Affidavit

The following documents and information must be submitted by a Municipality upon applying for Municipal Board approval of a financial By-law:

- a. An Application for Approval of Financial By-law [Form 1], completed in full.
- b. Affidavit attesting to the form of notice, copies of newspaper tear sheets or mailed notices, and Council's hearing minutes, the original plus three certified copies of the complete By-law, including all schedules and attachments to the By-law.

These materials must be submitted by the Municipality to the Board Secretary through the Municipal Finance and Advisory Services Branch (the "Branch") of Department of Local Government, as follows:

TO: The Secretary of The Municipal Board
c/o Municipal Finance Officer
Municipal Finance and Advisory Services Branch
Department of Local Government
2022 Currie Boulevard
Brandon, Manitoba, R7A 6Y9

I. Review

The Branch will review the materials submitted by the Municipality. Once the application is determined to be complete, the Branch will forward those materials to the Board, together with:

- a. A Debt Rating Profile and Current Debt Analysis [Form 2 and Form 3].
- b. A summary of all the documentation and information.

II. Analysis of Proposed Project – Section 64(a) and (b) of *The Municipal Board Act*

Sections 64(a) and (b) of *The Municipal Board Act* require the Board to consider the nature of the work, undertaking, or object proposed, as well as its necessity or expediency.

Information provided in Form 1 is generally pertinent to these matters. A Municipality may provide whatever information it feels will assist the Board in understanding the nature of the work, undertaking, or object proposed, as well as its necessity or expediency.

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

III. Analysis of Municipality's Financial Position - Section 64(c)

Section 64(c) of *The Municipal Board Act* requires the Board to consider the Municipality's financial position. Information in Form 2 is generally pertinent to this matter.

The Board will consider that information in light of the following affected interests:

- a. For the Municipality itself, consideration will include the effect of the By-law on its long term financial viability and stability.
- b. For the Municipality's ratepayers, consideration will include the reasonableness of the additional financial burdens imposed upon them under the By-law.
- c. For the investors who purchase securities or debentures issued under the By-law, consideration will include the soundness of the investment.

The Board will review the Municipality's financial position from several different aspects, and it may contact the Municipality directly to inquire about matters regarding its financial position. The following are the aspects that will be considered by the Board:

A. The Proposed Debt

The proposed debt is explained in Form 2. It describes the project's anticipated overall cost, its various funding sources, and the repayment structure for the debt. It also identifies the maximum interest rate allowed to be paid under the By-law, and the proposed length of term for full repayment of the debt.

An appropriate interest rate is one that reflects prevailing market conditions. The rate that appears in the By-law should allow room for market fluctuation, given the passage of time that will occur before the borrowing is acted upon.

An appropriate length of term for full repayment of the debt depends on the nature of the project. The benefit of a shorter repayment period is that less overall interest is paid, but the annual payment is higher. A longer repayment period has lower annual payments, but more overall interest. Generally speaking, the repayment period should not be longer than the anticipated lifespan of the project being financed. Generally speaking, 20-year repayment periods are appropriate only in relation to fundamental capital projects.

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

B. Financial Ratios

Authorized debt: Includes both issued and reissued debt approved by the Board.

Current revenue: The current fiscal year's municipal revenue.

Debt charges: Annual payments of issued and potential payments of unissued debt approved by the Board.

Municipal assessment: The total portioned assessment (at large).

While there is a normal range for each ratio, the ratios are not applied arbitrarily and must be understood in context – for example, whether the Municipality's economy is growing, static or declining. Every application therefore is considered individually, based on the Municipality's economic context. The following are the ratios that are considered:

Authorized Debt to Municipal Assessment Ratio. This measures the amount of a Municipality's debt in light of its overall assessment base.

The acceptable range for this ratio is between 0 and 7%. However, depending on the Municipality's economic context, a ratio within that range may still pose a concern in one Municipality, while a ratio above that range may not be a concern in another Municipality. Any time a Municipality proposes to exceed the acceptable range for this ratio, or if the Board has concerns, the Board will contact the Municipality directly to inquire (by conference call or at a meeting) about its financial position.

Debt Charges to Current Revenue Ratio This measures the amount of a Municipality's annual budget that must be dedicated to repayment of its debt charges. Debt charges include both principal and interest.

The acceptable range for this ratio is between 0 and 20%. This ratio tends to fluctuate from year to year, and sometimes is considered to be less reliable than the Authorized Debt to Municipal Assessment Ratio. However, steady growth in this can be cause for concern. Any time a borrowing causes a Municipality to exceed the acceptable range for this ratio, or if the Board has concerns, the Board will contact the Municipality directly to inquire (by conference call or at a meeting) about its financial position and its ability to manage its proposed debt.

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

In reviewing current revenues, special consideration should be given to revenue sources that are not sustained over a period of years, such as special grants and payments received under short-lived programs.

In reviewing debt charges, special consideration should also be given to debt charges recovered from utility rates. (i.e. sewer and water)

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

C. Economic Context

Information relevant to this issue is generally found in Form 3.

Several trends help establish whether a Municipality is showing signs of economic growth or decline. Each of these factors can have an effect on a Municipality's financial position.

Assessment Base. Growth in the assessment base usually is a strong indication of overall economic growth. However, persistent growth in total debt can offset the benefits of economic growth. The Authorized Debt to Municipal Assessment Ratio provides a useful measure of the extent of new debt and economic growth.

"Other Property" as part of the Assessment Base. For assessment purposes, property classified as "Other" tends to be used for commercial or industrial purposes. The percentage of a Municipality's assessment base that is classified as "Other" indicates the extent of commercial and industrial development, and is a measure of the Municipality's economic activity.

Population. Population growth can be a sign of economic growth, especially in relation to trends among specific age groups. A decline in the 20 to 54 age group, coupled with an increase in the 55 and over age group, can sometimes cause concern for the Municipality's long-term economic health.

Reserves. Municipal reserves can reflect on the health of the Municipality's financial position. However, they should also be considered in light of the financial ratios.

Ratio of Taxes Collected. A Municipality that, from year to year, persistently collects less than 97% of taxes levied might be showing signs of economic decline, and could be facing long-term financial problems.

D. Future Plans, Miscellaneous

Consideration will be given to the Municipality's future plans for proposed new capital projects and borrowing. In some cases, it might be necessary for a Municipality to consider prioritizing the proposed By-law in light of those future plans.

Consideration also is given to any economic features that are unique to a Municipality's position. For example, it should be noted if a particular Municipality's revenues are heavily dependent on the continued viability of a single industry or employer.

The Municipal Board

Policy No. 1 Approval of Municipal Financial By-laws

IV. Analysis of Other Relevant Information – Section 64(d)

Section 64(d) requires the Board to consider any other matters that are relevant to a Municipality's Application for approval.

The Board will consider a wide range of matters to be relevant, including questions of whether a Municipality, has complied with applicable statutory procedural requirements. An example, with respect to Special Services intended to be in place for greater than one year, the Board may consider the specific years for which the Special Services will be in place and the expiry of the By-law. The Board will also consider the method and rate to be used in calculating the Special Services tax in each year that it is in place.

V. Public Hearing Before The Municipal Board

In some cases, a public hearing will be held by The Municipal Board before it makes the decision whether to approve a Municipality's Financial By-law.

With respect to Local Improvements and Special Services, Section 321(1) of *The Municipal Act* requires a public hearing to be held if at least 25, or 10%, of potential taxpayers file objections with the Board. However, in all other cases, the Board has the discretion to decide whether a public hearing will be held. The circumstances in which the decision is made to hold a public hearing are not limited. However, the general principle guiding the Board in exercising its discretion is whether there is a matter of importance that warrants being resolved with public participation. One example is where the Board receives objections, not in numbers sufficient to require a public hearing, but which raise one or more questions that could cause the Board some concern regarding the By-law, or require that it be amended in ways contemplated in Section 321(2) of *The Municipal Act*, such as changing the scope of affected properties, or changing the rate and method of calculating the tax.

VI. Information Required from a Municipality at a Public Hearing

Where the Board holds a hearing in relation to a Municipal Financial By-law, the Municipality is expected to address the issues outlined in Section 64 of *The Municipal Board Act*, and to answer questions from the Board and the public. In support of its presentation, a Municipality is also expected to provide four copies of its written summary, outline, or complete text of its presentation, and of all relevant supporting written material not already received by the Board. This supporting written material be made available for public inspection in its offices.