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# Financial Changes in the Community Charter

Area	Classification
1. Revenue based borrowing power formula	Technical
2. Edit check on member's borrowings <ul style="list-style-type: none"><li>● (1.5 or 2.0 x revenues) plus surplus/general reserves</li><li>● Annual debt service costs can't exceed 25% of revenues</li></ul>	Technical
3. Assent free room (no public input)	Political
4. Raising the counter petition rate to above 5%	Political
5. Streamline borrowing bylaw process (to be discussed at a later meeting)	Technical
6. Collection of pertinent information	Technical

# 1. Revenue Based Formula

Recommend the current asset based formula be replaced by a revenue based formula.

- ◆ currently used in Alberta and Ontario
- ◆ accepted by rating agencies
- ◆ unanimous LGMA support
- ◆ formula by regulation



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## 2. Edit Checks

We recommend that an MFA member's annual debt service costs (principal and interest on debt, leases and short term debt) not exceed the formula below, and be written into regulation:

**Annual debt service costs < .25 x (revenues + surpluses + general reserves)**

**Revenues = revenues collected for own use, plus revenues of municipally owned businesses, user fees, and revenues to pay debt collected from others (Kelowna/BC Gas).**

**Ontario uses this 25% rule and it is used as a check by the rating agencies.**

**The second check – 1.5 or 2 x revenues – is not as important a check for the rating agencies and so it is not yet determined if this second check is necessary. We are leaning toward using the 2.0 x factor if this check was used.**



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## 3. Assent Free Room

- ◆ Ontario does not include public in debt borrowing
- ◆ Rating agencies are ok with this approach
- ◆ MCAWS thoughts: 20% Assent Free Room  
20% = 5% of Revenues to Debt Service

## 4. Raising Counter Petition

- ◆ Since Ontario does not involve public, not a rating agency concern



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## 5. Streamlining Bylaw Process

- ◆ The recommendation will be – only after the MFA’s bond counsels review the impact of streamlining – to reduce the number of steps a municipality or regional district must go through to access capital financing. This streamlining is still being studied. Ministry approval will be maintained under the new borrowing steps.



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## 6. Collecting Pertinent Information

- ◆ PPP's should go through same hurdles as debt borrowings (i.e. no preferential treatment)
- ◆ Edit checks to prevent off balance sheet
- ◆ Rating agencies want to review all PPP's (guarantees of debt, cash flow commitments, etc.)
- ◆ MFA must be aware of PPP details to answer rating agency questions



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