

# Policy



COUNTY

|   |  |                                     |   |
|---|--|-------------------------------------|---|
| Department/Section Coverage<br><b>All</b> |  | Policy Number<br><b>FIN-004</b>     |   |
| Subject<br><b>Debt Management Policy</b>  |  | Category<br><b>Finance</b>          |   |
|   |  | Motion #<br><b>RC/10/16-11-2024</b> |   |
|   |  | Review Period<br><b>5 Years</b>     |   |
| Date Amended<br><b>NEW</b>                | Amending Motion #<br><b>Not Applicable</b> |                                     | Section(s) Amended<br><b>Not Applicable</b> |

## Purpose:

The purpose of the Debt Management Policy is to:

- Establish parameters regarding the purpose for which Debt may be issued
- Establish the timing, types and terms of permissible Debt
- Promote management of Debt in a consistent manner
- Assist with ensuring the municipality manages Debt in a manner to limit financial risk exposure and protect municipal credit quality
- Promote integration with other Long Term planning, financial and management objectives of the Municipality

## Policy Statement(s):

Prior to incurring Debt, the following requirements must be adhered to:

- Debt will be used on an ongoing basis as required as a component of the Municipality's financing structure for capital expenditures.
- Consideration will be given to the impact of Debt on current and future ratepayers, beneficiaries and/or users as a means to achieve an appropriate balance between Debt and other forms of funding.
- Repayment of Debt will be structured in a manner that is fair and equitable to those who benefit or have access to the benefit from the assets.



- Debt servicing must be affordable, sustainable and flexible to allow financing for any appropriate corporate project or priority approved by Council.
- A comprehensive review of each project must be completed prior to approval of new Debt. The review must include the total cost of the project, cash flow of the project including Debt issuance, operating costs after completion of the project and benefit to the community.
- The Municipality will not use Long Term Debt to fund current operations.
- The Municipality may use Long Term Debt to fund major rehabilitation of existing infrastructure. Use of Reserves will be considered as an alternative method of financing for this purpose when practicable.
- Upon the repayment of Long-term Debt (excluding any development charge funded debt, if applicable), the amounts previously committed to annual debt servicing shall not be removed from the Municipal budget but rather will be reallocated towards:
  - a. Debt servicing costs for new Long-term Debt issued by the Municipality; and/or
  - b. Contributions to reserves for capital purposes.

## **Financial Details**

- The Municipality may borrow by debenture, mortgage loan or other equivalent Debt instrument
- Council may authorize the Mayor and Treasurer to borrow funds on a temporary basis, in accordance with the definition for Temporary Borrowing in this Policy
- The Municipality may incur Debt for assets that have a useful life of not less than ten (10) years
- The term of Debt will be limited to the term of the useful life of the particular asset but not exceeding 40 years
- All debt shall be issued in Canadian dollars (\$)
- Percentage of committed legislated debt capacity should not exceed a target of
- 65%, including any committed internal financing

## **Responsibilities**

- The Municipal Treasurer:
  - will have the overall responsibility for the capital financing program of the Corporation
  - is authorized to approve short term inter-fund borrowings for cash flow or other purposes.
  - reviews and recommends the type and term of financing for



- capital projects
- Calculates Financial Obligation Limit for the Corporation as prescribed by the Municipal Act
- Coordinates the preparation of debt issue by-laws for Council
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities, including the payment of principal, interest and other fees
- The Municipal Clerk:
  - may certify and sign documents on behalf of the Corporation with respect to the issues of debt securities

## Definitions

**Annual Debt Repayment Limit (ARL)** - The maximum amount of annual Debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board.

The annual amount is provided by the Ministry of Municipal Affairs and Housing and must be adjusted by the Treasurer in the prescribed manner prior to the authorization by Council of a Long Term Debt or financial obligation. Refer to Ontario Regulation 403/02.

The Regulation provides a formula which limits annual debt service costs to an amount equal to 25% of net revenues as outlined in the Regulation.

**Capital Expenditures** - Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board Section 3150.

**Debt** - Any obligation for the payment of money consisting of debentures, cash loans from financial institutions, capital leases, debenture financing approved through By-Law but for which no Debt has yet been issued, debenture financing approved through the Capital Budget but for which no By-Law has yet been established, outstanding financial commitments, loan guarantees and any Debt issued by or on behalf of the Municipality including mortgages, debentures or demand loans.

**Development Charges** - means those charges imposed under the Municipality's Development Charge By-Law 2020-67 or as amended

**Internal Financing** - a method of financing Capital Expenditures using existing cash reserves and Inter-fund Borrowing, and adding the cost of such capital projects to the operating budget to be 'paid back' over a period of time, commonly referred to in the municipal budget as unfinanced capital



**Inter-fund Borrowing** - under which financial resources are transferred internally from one fund to another with the express purpose to repay the loan

**Long Term Debt** - Any Debt for which the repayment of any portion of the principal is due beyond one year.

**Major Rehabilitation** - Renovation of an existing asset or any of its components in order to restore and/or extend the life of the asset.

**Percentage of Legislated Debt Capacity (before or after commitments)** - Total net debt charges or total adjusted net debt charges as a percentage of Annual Debt Repayment Limit.

**Temporary Borrowing** - Debt for which the repayment of the entire principal is due within one year or in the case of funding for a capital project, borrowing until Long Term Debt is obtained or issued.

**Unfinanced Capital** - a Capital Expenditure that has no funding source identified in the Capital Budget but will be paid back over a period of time after the expenditure has been made, see Internal Financing.

#### **Revision Control**

| Year-Month-Day | Sections Amended | Comments  |
|----------------|------------------|---|
| 2024-10-16     | Not applicable   | Council Approved initial Policy on October 16, 2024 |