

**Title: Debt Management Policy**

**Number: FNCL-18-01**

**Approved By: City Council**

**Administered By: Finance Services**

**Effective Date: June 21, 2018**

**Revision Date(s):**

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## **1.0 Purpose/Background**

The Debt Management Policy (“Debt Policy”) is intended to be a comprehensive policy on debt issuance and forms a cornerstone of the City’s Financial Strategy.

The City’s ability to respond to unanticipated and emerging financing needs is affected by its access to funding, its debt capacity and debt service charges. Financial sustainability depends on the debt levels and debt service charges in conjunction with the City’s level of affordability, both current and future. Debt issuance decisions must align with ensuring long-term financial flexibility and sustainability for the City.

The main objective of effective debt management is to ensure the City’s financing needs and its payment obligations are met at the lowest possible cost over the medium to long term without impairing the financial position of the City.

The purpose of this debt management policy is to:

- Establish objectives, guidelines and appropriate controls for the use and issuance of debt for the City;
- Integrate debt management with other long-term planning, financial and management objectives of the City; and
- Assist with ensuring that the City maintains a sound financial position.

## **2.0 Policy Statement**

The City recognizes that the prudent issuance of debt within the framework of a long term financial plan can be an efficient use of available resources and assist with achieving the corporation’s strategic goals. Decisions to issue external debt must be made in the context of the optimum utilization of all available financial resources, while recognizing the need to preserve capital and maintain the ability to meet ongoing operational requirements.

### **3.0 Scope/Application**

The Primary Objectives of the Debt Management Program are:

- a) Adherence to Statutory Requirements
- b) Ensure long-term financial flexibility and sustainability
- c) Limit Financial Risk Exposure
- d) Minimize Long-Term Costs of Financing

### **4.0 Definitions**

Not Applicable.

### **5.0 Responsibilities**

Not Applicable

### **6.0 Practice/Procedures**

#### **Authority**

The provisions and requirements of the Municipal Act, 2001 (the "Act") and its regulations govern the issuance of external debt. The Act restricts use of debenture financing to capital facilities and sets limits for the total amount of debt that can be incurred and outstanding for each municipality.

In accordance with the Act where there is a two-tier government structure, debt must be issued by the upper tier. Therefore all external debt is issued by the Region of Durham on the City's behalf. The City is responsible for budgeting the annual debt repayment obligations, transferring the debt payments to the Region, and managing the proceeds of the debenture.

The Treasurer, in accordance with the annual capital budget process, shall determine and recommend whether debt financing is required for eligible capital projects. A by-law is required to authorize debt financing for Capital projects.

#### **Debt Limits**

The Act provides the authority and imposes the restrictions concerning a municipality's ability to issue debt, such that the annual principal and interest payments cannot exceed 25% of own source revenues. Own source revenues exclude government grants, development charges, gains or losses on disposal of assets, and revenues from other municipalities.

Most municipalities in Ontario have internally imposed debt limits based on a percentage of taxation revenues. The City's internally imposed debt limit of 15% of taxation revenues is generally consistent with benchmarking of policies in other Ontario municipalities which have debt repayment limits ranging from 5% to more than 15%.

## **Debt Instruments and Structure**

The timing for debt issuance along with the type, term and structure of financing instrument used to issue the debt is determined with a view to minimize the City's overall long-term cost of financing.

### ***Short Term Debt – Less Than One Year***

Most short-term debt would be required for financing operational needs for a period of less than one year pending the receipt of taxes and other revenues, or interim financing for eligible capital projects pending long-term financing.

Short-term financing may be from one or more of the following sources:

- Reserves and reserve funds - An internal loan from reserve funds to finance capital projects must be in accordance with the City Policies and must be approved and authorized by Council
- Bank line of credit or loan agreement in accordance with the City's Borrowing By-law
- Short-term promissory notes

### ***Long Term Debt – Greater Than One Year***

Financing of eligible capital projects for a period of greater than one year may be from either of the following sources:

- Debentures - which are formal written obligations to repay specific sums on certain dates. Municipalities are authorized to issue Debentures for long-term financing of eligible capital projects. Authorized types of debentures include: sinking funds, installment (serial); term; amortizing; retirement funds; construction financing and variable interest rate.
- Interfund Notes (I.F.N.) – An internal loan from reserve funds to finance capital projects must be in accordance with the City's Interfund Note Policy and must be approved and authorized by Council. The use of an IFN provides a less expensive funding method as the interest rate is lower (than could be obtained through a debenture issue), issuing costs are avoided and provides for flexibility as an IFN is open and may be retired in whole or part at any time. It is the City's standard practice to limit the term of an IFN to ten years.

### ***Debt Structure***

The structure of the debt issued is intended to be the lowest possible all-in net cost of funds, based on the constraints of debt maturity, the capital asset being financed, prevailing market conditions and the objectives of the debt policy. The term of debt will be limited to the term of the useful life of the particular asset, but not to exceed 40 years.

## Issuance of Debt

New debt issuances shall be limited to:

- new infrastructure requirements;
- programs/facilities which are self-supporting, or financed by a dedicated revenue stream or expenditure savings;
- projects where the cost of deferring expenditures exceeds debt servicing costs;
- projects which are intergenerational in nature (i.e. large project with long-term benefits to future generations and who will be paying for the debt through their property taxes).

The City shall not issue debt on behalf of any external agency or organization or guarantee debt issued directly by an external agency or organization.

## Investment of Debt Issuance Proceeds

Funds raised through debt issuance activities will be invested in accordance with the City's Investment Policy until such time as the funds are required.

## Use of Tax Room from Retired Debt

Tax room created from elimination of the annual principal and interest payments on retired debt shall be allocated as follows:

- 50% to be removed from budget base to maintain the tax room created from the retired debt.
- 50% to be redirected to the Infrastructure Reserve as an additional funding source for the renewal, rehabilitation and/or replacement of aging infrastructure.

## 7.0 Monitoring/Review

### Reporting Requirements

The amount, composition, budget requirements and ten-year debt repayment forecast will be presented to Council on an annual basis through the budget process.

### Debt Policy Review

The Debt Management Policy will be reviewed periodically by the City Treasurer. Any required changes shall then be submitted to Council for consideration and approval. Any changes or revisions to the Municipal Act, 2001, or to the regulations thereunder subsequent to the formal adoption of the Debt Policy which affect the policy will apply when they come into force. The Debt Policy will be updated to reflect such change(s) at the time of formal review. Otherwise, the Debt Policy must be formally reviewed and approved by Council at a minimum every four years (from the date of the last review).

## 8.0 References

Investment Policy

## 9.0 Approval

<b>Authority</b>	<b>Date</b>	<b>Signature</b>
Council	June 25, 2018	