



POLICY

SECTION: FINANCE

NO: FI-DE-01

REFERENCE: DEBT POLICY

**Date:
February 2022**

**Review Date:
January 2024**

TITLE: DEBT POLICY

1.0 POLICY STATEMENT

- 1.1 This policy governs the use and administration of capital financing and debt.
- 1.2 The City of Dryden ("the City") will utilize debt in a prudent and sustainable manner, balancing the need for capital infrastructure and the City's ability to pay for it.
- 1.3 Debt financing will be responsive and fair to the needs of both current and future ratepayers, ensuring equitable treatment to those who pay and benefit from the underlying assets over time.
- 1.4 The issuance of new debt must be approved by Council and authorized by adopting a borrowing bylaw.

2.0 PURPOSE

- 2.1 The purpose of the Debt Policy is to outline the objectives, standards, and appropriate controls for the use and issuance of debt.

3.0 DEFINITIONS

- 3.1 **Annual Repayment Limit (ARL):** The ARL represents the maximum amount which the municipality has available to commit to payments relating to debt and financial obligations without seeking the approval of the Ontario Municipal Board. This limit is provided annually to a municipality by the Ministry of Municipal Affairs and Housing, additionally this limit must be updated by the City Treasurer prior to Council authorizing any increase in debt financing for capital expenditures.
- 3.2 **Capital Expenditure:** An expenditure incurred to acquire, develop, renovate, or replace a capital asset as defined by the Public Sector Accounting Board (PSAB).
- 3.3 **Capital Financing:** A generic term for the financing of capital assets using debt or financing leases.
- 3.4 **Construction Financing:** A form of debt financing in which the issuer does not pay any principal or interest for a period of up to 5 years during the construction or rehabilitation of the facility from which a revenue stream is expected to be generated.
- 3.5 **Debenture:** A formal written obligation to pay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured i.e., backed by general credit rather than by specified assets.
- 3.6 **Debt:** Any obligation for the payment of money. For Ontario municipalities, debt would typically consist of debentures as well as either notes or cash loans from financial institutions. Could also include loans from reserves or reserve funds.
- 3.7 **Debt Service:** Cash that is required over a 12-month period to cover the repayment of interest and principal on a debt and other costs associated with issuing debt.
- 3.8 **Lease Financing Agreement:** A financial lease agreement for the purposes of obtaining long term financing of a capital undertaking of the municipality.
- 3.9 **Non-Tax Supported Debt:** Debt for City Utility services (Water/Wastewater) which is not funded by tax revenues but by revenues

generated by the Utility, including rates charged directly to users and other cash flows generated from operations.

- 3.10 **Revenue:** Total revenue reported in the City's last available audited annual financial statement, net of any transfers from other levels of government reported as revenue. Sources of revenue include but are not limited to the following: property taxes, sales of goods and services, investment income, fines and penalties, licenses, permits, fees, or other miscellaneous revenue.
- 3.11 **Rolling-Stock:** Equipment/Vehicles that move on wheels/tracks used for City Operations. Examples include trucks, graders, and tractors.
- 3.12 **Self Imposed Limitation:** The City's internal limit on debt as a source of capital financing for capital projects. This limit is not referring to limits imposed by the Act or regulations thereunder.
- 3.13 **Tax Revenue:** Property Tax Revenue.
- 3.14 **Tax-Supported Debt Service:** Property Tax revenue that is required to cover the repayment of interest and principal on a debt and other costs associated with issuing debt.

4.0 OBJECTIVES

- 4.1 Adhere to Statutory Requirements
 - 4.1.1 Capital financing may only be undertaken when it follows the relevant sections of the Municipal Act, the Local Improvement Act, or the Tile Drainage Act, and their related regulations. These requirements include, but are not limited to:
 - 1) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year.
 - 2) The term of capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset.
 - 3) Long-term debt will only be issued for capital projects.

- 4) The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the Ontario Municipal Board.
- 5) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing.
- 6) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will have considered all financial and other risks related to the proposed construction financing.
- 7) The awarding of any contract under this Policy will, unless otherwise authorized by Council, follow the procedures and authorities set out in the City's Procurement Policy.

4.2 Ensure Long-Term Financial Flexibility

- 4.2.1 Capital financing will be managed in a manner consistent with other long-term planning, financial and management objectives.
- 4.2.2 Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers to achieve an appropriate balance between capital financing and other forms of funding.
- 4.2.3 To the extent practicable, replacement assets as well as regular or ongoing capital expenditures (for example annual replacement of firefighter protective gear) will be recovered on a "pay as you go" basis through the taxy levy, user fees or reserves and reserve funds.
- 4.2.4 It is recognized that reserves must be developed and maintained, as outlined in the City's Reserve and Reserve Fund Policy, for all capital assets owned by the City to ensure long-term financial flexibility.

4.3 Limit Financial Risk Exposure

- 4.3.1 Capital financing will be managed in a manner to limit, where practicable, financial risk exposure. The City will only issue debt that is denominated in Canadian dollars with preference to an interest rate that will be fixed over its term.

4.3.2 Financing leases have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be recognized prior to entering any material financing lease.

4.4 Minimize Long-Term Cost of Financing

4.4.1 The timing, type, and term of financing for each capital asset will be determined with a view to minimize both its and the City's overall long-term cost of financing. Factors to be considered will include:

- 1) Current versus future interest rates
- 2) Availability of related reserve or reserve fund monies
- 3) Pattern of anticipated revenues or cost savings attributable to the project or purpose
- 4) Costs related to the financing of the project through debt.

4.5 Match the Term of the Capital Financing

4.5.1 The City's normal practice will be to issue long-term debt for contractual terms that will be well received by the marketplace. However, the amortization period over which the debt will be retired may be longer.

4.5.2 In no case shall the term of financing exceed the anticipated useful life of the asset.

5.0 STANDARDS

5.1 All officers and employees responsible for capital financing and debt activities will follow the standards of care identified in this Policy.

5.2 Considerations

5.2.1 Considerations will include, but not limited to the following:

- 1) Sources of funds for debt repayment when debt is issued
- 2) The City's budgeting process and longer-term financial plans

- 3) Long-term/Total cost of financing
- 4) The City's credit rating - ensuring a credit rating of at least AA- (or equivalent) to enable efficient access to debt and favourable terms of repayment
- 5) Financial risk exposure
- 6) Use of debt in the context of other forms of financing – generally debt as last applied form of financing
- 7) Provincial/Federal legislative requirements
- 8) Debt capacity
- 9) Financial flexibility

5.3 Ethics and Conflicts of Interest

5.3.1 Officers and employees involved in the capital financing process are expected to abide by the City's Code of Conduct. They shall:

- 1) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions.
- 2) Disclose any material interests in financial institutions with which they conduct business.
- 3) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties.
- 4) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the City.

5.4 Delegation of Authority

5.4.1 The Treasurer will have the overall responsibility for the capital financing activities of the City.

5.4.2 No person shall be permitted to engage in a capital financing activity except as provided within this Policy.

5.4.3 The Treasurer shall establish a system of controls to regulate the activities of subordinate officials and exercise control over that staff.

5.5 Requirement for External Advice

5.5.1 The City's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion, the appropriate level of internal department knowledge not exist for unusual or non-standard transactions, or otherwise directed by Council, outside financial and/or legal advice will be obtained.

6.0 AUTHORIZED FINANCING INSTRUMENTS

6.1 The form of financing will be dependent on its term and the type of asset to be financed.

6.2 Short-Term (Less than One Year)

6.2.1 Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing, may be from the following sources:

- a) Reserves and Reserve Funds
- b) Bank line of credit
- c) Short-term advances pending issuance of long-term debentures

6.3 Long-Term (Greater than One Year)

6.3.1 Financing of assets for a period greater than one year may be from any of the following sources:

- a) Reserves and Reserve Funds - Must be in accordance with the City's established Reserve and Reserve Fund Policy
- b) Lease Financing Agreements (Capital Financing Leases) - May be used when it provides material and measurable benefits compared with other forms of financing.
- c) Debentures

- d) Long-Term Bank Loans - Can be either fixed or variable interest rate loans as determined by the Treasurer
- e) Construction Financing - May be used for construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated upon its completion which would then be used to make principal and interest payments (e.g., Water Treatment Plant, Recreation Centre)

7.0 LIMITATIONS ON INDEBTEDNESS

7.1 Statutory Limitations – ARL

- 7.1.1 The ARL is based on the City's prior year FIR. The City is not allowed under Provincial regulation to issue debt which would result in the annual repayment limit being exceeded without Ontario Municipal Board approval.
- 7.1.2 For most municipalities, the ARL is set at 25% of their annual "own-source" revenues (a ministry-determined amount which includes property taxes, user fees and investment income) less their annual long-term debt servicing costs and annual payments for other long-term financial obligations.

7.2 Self Imposed Limitations

- 7.2.1 Notwithstanding the limits prescribed in the regulations, prudent financial management calls for more stringent criteria to limit debt. These criteria will assist in preserving borrowing capacity for future capital assets while maintaining flexibility for current operating funds.
- 7.2.2 The limit for the City's Tax-Supported Debt Service is a maximum of 10% of Tax Revenue – debt servicing more than this criterion could only be associated with non-tax supported debt
- 7.2.3 Total Debt shall not exceed 1.0 times Revenue.
- 7.2.4 Total Debt Service shall not exceed 0.10 times Revenue
- 7.2.5 If any Debt limits are exceeded, the Treasurer will prepare a recommended plan for returning to the limit of below within the next budget cycle.

8.0 REPORTING REQUIREMENTS

- 8.1 In addition to any information requested by Council, or any information that the City Treasurer considers appropriate, the following shall be reported to Council:
- 1) The status of issued and authorized debt, as well as debt servicing costs through the capital and operating quarterly reports.
 - 2) Projections for debt levels and debt servicing costs through the budget process.
 - 3) Debenture issuances.

9.0 NON-TAX SUPPORTED PROJECTS

- 9.1 The City has operations which have been identified as being "Non-Tax Supported", that the operation receives revenues and incurs expenses on its own without support from the general tax levy.
- 9.2 These Non-Tax Supported Activities include, but are not limited to:
- a) Water System
 - b) Wastewater System
- 9.3 Where a project includes tax-supported and non-tax supported activities (for example road reconstruction where water and sanitary sewers are also replaced), the financing will be shared between the general tax levy and the non-tax supported activity. The cost of the project will be split proportionately between the tax-supported and non-tax supported activities based on the estimated costs.
- 9.4 Funds received from senior levels of government will be attributed, where allowed under the terms of the agreement, to the tax-supported portion first. Any remaining funding after the allocation to the tax-supported costs, is then attributed to the non-tax supported portion in the same ratio as the costs are attributed.

- 9.5 Debt, and related interest, taken on by the City for the use of a Non-tax Supported Activity will be repaid by the revenues of that activity.

10.0 ROLLING-STOCK

- 10.1 The City will not issue long-term debt for rolling-stock when the purchase price for the individual asset is less than \$100,000.
- 10.2 Rolling stock purchases when the purchase price for the individual asset is less than \$100,000 are to be funded through operating revenues or the use of reserves.

11.0 POLICY REVIEW

- 11.1 At minimum, this Policy shall be reviewed and evaluated for effectiveness every two years.
- 11.2 Any changes or revisions to legislation which affect the policy will apply when they come into force. The Debt Policy will be updated to reflect such changes at the time of formal review.

History			
Approval Date:	Feb. 28, 2022	Approved by:	By-law 2022-12
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**This policy is subject to any specific provisions of the Municipal Act,
or other relevant legislation or Union agreement.**