

Debt Policy



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Administration & Finance	August 13, 2013	80-2013	1	7
Subsection	Repeals By-Law Number		Policy Number	
Financial Instruments	88-2010		AF-4-1	

Purpose

The goal of the City debt policy shall be to set out guiding principles for the approval, issuance and administration of any City held debt, including leases. The goal of the City debt policy shall also be to meet all the related statutory requirements.

Guiding Principles

The City shall adhere to the following guiding principles in the consideration, approval, issuance and administration of any City held debt:

- a) Adhere to statutory requirements
- b) Ensure long term financial flexibility
- c) Limit financial risk exposure
- d) Minimize long-term cost of financing
- e) Limit the term of financing to the useful life of the related asset
- f) Maintain a superior credit rating

Adhere to Statutory Requirements

Capital financing may only be undertaken when in compliance with the relevant sections of any applicable legislation and related regulations. Requirements include, but are not limited to, the following:

- i. The term of temporary or short-term debt for operating purposes shall not exceed the current fiscal year;
- ii. The term of the capital financing shall not exceed the lesser of 40 years or the useful life of the related asset;
- iii. Long-term debt shall only be issued for capital projects;
- iv. The total financing charges after issuance of the proposed debt shall not exceed the Debt and Financial Obligation Limit for the City, unless otherwise approved by the Ontario Municipal Board;

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- v. Prior to authorizing a financing lease, a report shall be prepared assessing the related costs as well as any relevant risks associated with the proposed lease;
- vi. 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 consider all relevant risks related to the proposed construction financing.

Ensure Long-Term Financial Flexibility

Prior to the implementation of any new capital financing, consideration will be given to its impact on future ratepayers as a means to achieve an appropriate balance between capital financing and other forms of funding.

Wherever possible, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a "pay as you go" basis through rates, tax levy, user fees and/or reserve fund monies.

Limit Financial Risk Exposure

All debt shall be issued in Canadian dollars.

It shall be the general practice to issue debt where the interest rates will be fixed over its term. The City may issue long term debentures and / or bank loans in which the interest rate will vary where, in the opinion of the Treasurer, it is in the City's best interests to allow the rate to float provided such debt, in addition to any other outstanding variable rate loans or debentures, does not exceed fifteen percent (15%) of the total outstanding debt of the City in accordance with O.Reg 276/02 s(2).

Minimize Long-Term Cost of Financing

For each project or purpose for which long-term financing is requested, the timing, type and term of financing will be determined with a view to minimizing long-term cost.

Limit the Term of Financing to the Useful Life of the Related Asset

Under no situation may the term of financing exceed the anticipated useful life of the related asset. Where it is deemed by the Treasurer

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to be in the best interest of the City, the term of the debt shall be set for less than the related useful life of the asset.

Maintain a Superior Credit Rating

The City shall issue and manage its debt in a manner to ensure that it maintains a superior credit rating.

Authorized Types of Debt

Short-Term – Under 1 Year

When financing operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or to provide interim financing for capital assets pending long-term capital financing, any one or more of the following sources may be used:

- i. Reserves and reserve funds
- ii. Bank line of credit
- iii. Short-term promissory notes
- iv. Bankers' Acceptances

The City shall hold a bank line of credit in an amount to be determined from time to time by the Treasurer and approved by Council for use in emergency situations.

Long-Term – Greater Than 1 Year

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

- i. Debentures
- ii. Reserves and Reserve Funds
- iii. Long-Term Bank Loans
- iv. Construction Financing

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Risks and Considerations Associated With Debt

Before the approval of the issuance of any form of debt, the following risks and considerations must be given due course by Council, and where possible the risks shall be mitigated prior to issuance.

Debentures

Fixed rate debenture issue will be the standard practice for long-term financing used by the City.

Reserves and Reserve Funds

It is recognized that reserves and reserve funds are for a defined purpose and must be available when that purpose occurs. If this cannot be guaranteed, this source of financing shall not be used.

Construction Financing

Construction Financing may be used for a period up to 5 years during the construction or rehabilitation of certain facilities for which a revenue stream will be generated (e.g., water plant). The following risks must be carefully considered:

- a) Interest rates fall between the time the rate on the construction loan is established and the completion of construction.
- b) The final cost of construction could be materially less than initially forecasted and financed.
- c) The construction project may not be able to proceed or is not completed for technical or other reasons.

Financing Lease

A Financing Lease may be used when it provides material and measurable benefits compared with other forms of financing, including internal financing. A Financing Lease may also be used if it is determined that the City cannot internally provide sufficient funds to allow the required purchase, and that there will be a significant impact on City operations and / or the standard of service without implementing the lease. Financing leases could include rolling stock leases. The following risks must be carefully considered:

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- a) The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument (generally expressed as a particular Government of Canada Bond).
- b) The ability for lease payment to vary based on changes in the assumed residual values of the asset being leased.
- c) Uncertainty over leasing costs if contract needs to be extended or renewed.
- d) The potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company.
- e) Contingent payment obligations for items such as;
 - i. lease termination provisions
 - ii. equipment loss
 - iii. equipment replacement options
 - iv. guarantees and indemnities

Reports to Council

Prior to the issuance of any debt, the appropriate Manager must prepare a report to Council, clearly outlining all required information on that debt in accordance with this policy, demonstrating adherence to this policy. The report shall specifically include any and all considerations and risks that must be addressed prior to the issuance of that debt.

Issuance of Debt

Short-term debt may be approved at the discretion of the Treasurer without Council approval only where the full costs relating to that debt is included within the City's approved operating budget, and any obligation within that debt does not extend outside of the current fiscal year.

No other debt shall be issued without express approval by Council.

It shall be the general practice of the City to issue debt internally between the City and the Citizens Prosperity Trust Fund, City reserves and reserve funds, or other City held investments. Where debt is issued in this manner, the following principles shall be used for establishing interest rates:

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- a) Citizens Prosperity Trust Fund - interest rates shall be set based on a split between what the City would earn on its bank accounts and what the City could borrow from the bank at as of the date of issue.
- b) Reserves and Reserve Funds – interest rates shall be set based on what the reserves and / or reserve funds would earn on either their bank accounts or their investments as of the date of issue.
- c) Other City Held Investments – interest rates shall be negotiated with the entity holding the investment, intended to most closely mirror the return on the investment at the time the debenture is issued.

It shall be at the discretion of the Treasurer to review internal debt on an ongoing basis, and where the Treasurer deems that there has been a significant fluctuation in prevailing interest rates and that it would provide the City with a significant benefit to refinance the related debentures, the City shall refinance those debentures to more closely reflect those prevailing rates.

Where it is not possible to issue the debt internally, or in situations where it can be shown that the issuing of debt externally will result in a greater overall benefit to the City than would issuing the same debt internally, the City shall consider the available opportunities for the issuance, with the intent to adhere to the guiding principles and requirements as laid out in this policy. Agencies that may be considered include, but are not limited to:

- a) Fiscal Agency / Underwriting Group (Debenture Sales)
- b) Tender
- c) Banks / Financial Institutions

Adherence to Debt and Financial Obligation Limit

The City shall not issue long-term debt that will exceed the Debt and Financial Obligation Limit for the City, unless it can be shown that the issuance of that debt will result in increased net revenues for the City that will be sufficient to offset the increased costs relating to the debt issuance, provided that the issuance is approved by the Ontario Municipal Board.

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Adherence to City Policies

The awarding of any contract under this Policy, unless otherwise authorized by Council, shall follow the requirements as set out in the City's Purchasing Policy.

Annual Review/Reporting

Council, in conjunction with the CAO and the Treasurer, shall review the City's outstanding debt instruments in conjunction with the annual budget process. A schedule incorporating the City's long-term debt must be incorporated into the City's annual operating budget.