



Staff Report

Finance and IT Services

Report To: Special Meeting of Council
Meeting Date: February 21, 2017
Report Number: FAF.17.15
Subject: Debt Policy
Prepared by: Ruth Prince, Director of Finance and IT Services

A. Recommendations

THAT Council receive Staff Report FAF.17.15, entitled “Debt Policy”, and;

THAT Council adopt the attached Policy entitled “Debt Policy”.

B. Overview

The attached Debt Policy sets out a strategy, methods, goals and controls for management of debt requirements and commitments while ensuring compliance with the Municipal Act, 2001 as amended and related regulations.

C. Background

Municipalities in Ontario may only issue debt for capital purposes. The Province regulates the amount of municipal debt and other financial obligations through an Annual Repayment Limit (ARL) regulation under the Municipal Act.

Debt will continue to be an ongoing component of the Town’s funding structure. Repayment should be structured in a manner that is fair and equitable to those who pay and benefit from the underlying assets over time. The servicing of long term debt needs to be sustainable and affordable while allowing for flexibility to respond to emerging needs.

D. Analysis

The Municipal Act, 2001 as amended provides the authority and imposes restrictions concerning a municipality’s ability to issue debt such that the annual principal and interest payments do not exceed 25% of “own source” revenues. The “own source” revenues exclude upper tier government grants, development charges, gains or losses on the disposal of assets, and revenues from other municipalities.

A municipality does not gain back significant borrowing capacity through annual repayments until the debt is fully retired. Unlike individuals and private corporations that may be able to access the equity in their home or property holdings gained through reduction of outstanding

debt, municipalities do not have that option. Debt issued with repayment periods that span a significant number of years restrict the municipality's ability to utilize "room" that should otherwise be available from the annual debt retirement for the duration of the term of the debt.

Highlights of the Debt Policy (Attachment 1)

- The term of the Debt will be limited to the term of the useful life of the particular asset, but no greater than 25 years.
- The Town's maximum Annual Debt Repayment will not exceed 15% of the Town's own source revenues in order to maintain up to 10% flexibility to address emergency issues. This will include debt incurred for the extension of municipal water and wastewater extensions.
- Temporary Borrowing is permitted to be used for cash flow requirements, however it will not be greater than 3 years and long-term debt will be secured as soon as possible.
- Internal "borrowing or unfinanced" will be used as a means of advancing critical works where the need to proceed with expenditures is deemed necessary although specific funding is not currently available.
- As part of the budget document, debt service obligations and debt per capita will be included.

E. The Blue Mountains' Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To Be a Financially Responsible Organization

F. Environmental Impacts

None.

G. Financial Impact

The 2016 Annual Repayment Limit indicates that the Town's repayment limit is \$5,262,288 (Attachment 2). The Town is currently \$1,008,237 or 19% of the legislated capacity of net revenues. The 2016 ARL uses the information from the 2014 Financial Information Return. Since 2014 the Town has finished paying off a large debt and will see the \$1,008,237 reduced by roughly half when the Town receives the 2017 ARL information.

Using the Draft Debt Policy, the Town's maximum Annual Debt Repayment will not exceed 15% of the Town's own source revenues, therefore the maximum repayment limit would be \$3,762,315. Assuming a 20 year repayment plan with 5% interest this would represent \$47,000,000 in debt.

H. In consultation with

Senior Management Team
Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

I. Attached

1. Draft Debt Policy
2. Annual Repayment Limit

Respectfully submitted,

Ruth Prince
Director of Finance and IT Services

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Policy and Procedures

POL.COR.17.XX DRAFT Debt Policy

Policy Type: Corporate Policy (Approved by Council)
Date Approved: Month 00, 2017
Department: Finance and IT Services
Staff Report: FAF.17.15
By-Law No.: N/A

Policy Statement

The Town recognizes that debt will continue to be an ongoing component of the Municipality's funding structure. As such, repayment should be structured in a manner that is fair and equitable to those who pay and benefit from the underlying assets over time. The servicing of long term debt must be both affordable and sustainable, while allowing the flexibility to respond to emerging needs in order to support corporate priorities and approved strategic plans. The Debt Management Policy will provide framework and guidelines for minimizing debt servicing costs and significant budget impacts.

Purpose

The purpose of this policy is to set out the strategy, methods, goals and controls for management of debt requirements and commitments while ensuring compliance with the Municipal Act, 2001 as amended and related Regulations.

Application

The policy applies to the issuance of all debt and resulting repayment terms, including capital lease financing arrangements entered into by the Town.

Definitions

"Act" means the Municipal Act, 2001, S.O. 2001, c25 as amended

"Annual Debt Repayment Limit" – means the maximum amount of annual debt servicing costs that a municipality can undertake or guarantee without seeking approval of the Ontario Municipal Board.

“Debt” – means any obligation for the payment of money. The Town considers debt to consist of Debentures, cash loans from financial institutions, capital leases, debenture financing approved through by-law but for which debt has yet to be issued, debenture financing approved through the capital budget but for which no by-law has yet to be established, outstanding financial commitments, loan guarantees, and any debt issued by, or on behalf of the Town, including mortgages, Debentures or demand loans.

“Long Term Debt” – means any Debt for which the repayment of any portion of the principal is due beyond one year.

“Net Revenues” – means total Town consolidated revenues less grants from other levels of government less sales of land and development charges earned. These revenues do not include donations of tangible capital assets.

“Tax Supported Debt” – means Debt that is to be recovered from general tax revenues.

“Temporary Borrowing” – means 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 to cover the costs is obtained or issued.

“Treasurer” - means the Director of Finance & IT Services (Treasurer) for the Town of The Blue Mountains or designate.

“User-Supported Debt” – means Debt that is to be recovered from user fee revenues (water, wastewater, building, harbour etc.).

Background

The Municipal Act, 2001 as amended 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. The own source revenues exclude upper tier government grants, development charges (even if they are being used to service debt), gains or losses on disposal of assets, and revenues from other municipalities.

A municipality does not gain back significant borrowing capacity through annual repayments until the debt is fully retired. Unlike individuals and private corporations that may be able to access the equity in their home or property holdings gained through reduction of any outstanding debt, a municipality’s own ability to increase capacity once debt has been issued is to:

- Pay the debt off in full (this is difficult given the nature of the debt instrument).
- Seek approval from the Province to increase their debt capacity beyond the 25% restriction.
- Increase their own source revenues significantly, primarily through increased taxation and user rate revenues.

As a result, debt issued with repayment periods that span a significant number of years restrict the municipality's ability to utilize "room" that should otherwise be available from the annual debt retirement for the duration of the term of the debt.

Policy Framework

1. Before entering into any Debt, including Lease Financing Arrangements, the following must be adhered to:
 - a) The Debt will be managed in a manner consistent with other long-term planning, financial and management objectives.
 - b) Consideration will be given to its impact on future ratepayers as a means to achieve an appropriate balance between debt and other forms of funding.
 - c) Debt will be managed in a manner to limit financial risk exposure.
 - d) The timing, type, and term of Debt will be determined with a view to minimizing long-term cost.
 - e) The term of Debt will be limited to the term of the useful life of the particular asset, but no greater than 25 years.
2. The Town's maximum Annual Debt Repayment will not exceed 15% of the Town's own source revenues in order to maintain up to 10% flexibility to address emergency issues. This will include debt incurred for the extension of municipal sewer and water services.
3. Temporary Borrowing as per section 405 of the Municipal Act, 2001 as amended is permitted to be used to meet cash flow requirements during the construction of infrastructure. Temporary borrowing will be no greater than 3 years and long-term debt will be secured as soon as possible after the completion of a project or 3 years, whichever is less, to replace the short term borrowing. All temporary borrowing costs will be charged as part of the project costs and form part of the long-term debt requirements.
4. Temporary Borrowing for operational purposes as per section 407 of the Municipal Act, 2201 as amended are authorized to meet the current expenditures of the Town until taxes or other revenues are received. Any temporary borrowing of this nature is to be repaid as soon as the Treasurer has determined adequate cash balances are available to do so.
5. Internal "borrowing or unfinanced" will be used as a means of advancing critical works where the need to proceed with expenditures is deemed necessary although specific funding (e.g. user rates, development charges etc.) is not currently available. Prioritized and identified needs for existing reserves, reserve funds and development charges will be taken into consideration first to ensure that the proper project is being debt financed when total funds required is greater than those available.

6. The Treasurer will provide annually to Council as part of the budget document pertaining to debt including but not limited to:
 - a) Debt Service Obligations – this provides info on existing debt levels, remaining terms and projected future requirements based on long term capital needs. We will assist Council in making decisions regarding reserve requirements to avoid future debt to be incurred and prioritization of projects to be considered for debt financing.
 - b) Debt per Capita (Households) – this is the amount owing per household and is useful in comparing to other municipalities and determining the tax burden per household.

Exclusions

N/A

References and Related Policies

Affordability Policy

Consequences of Non-Compliance

N/A

Review Cycle

This policy will be reviewed during the term of Council to ensure that the objectives are consistent with and continue to address the needs and Vision of the Community.

2016 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	47405	FIR CLEAN FLAG:	C
MUNID:	42041		
MUNICIPALITY:	The Blue Mountains T		
UPPER TIER:	Grey Co		
REPAYMENT LIMIT:		\$	5,262,288

The repayment limit has been calculated based on data contained in the 2014 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2014 to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. The limit is effective January 01, 2016.

FOR ILLUSTRATION PURPOSES ONLY,

The additional long-term borrowing which a municipality could undertake over a 5-year, a 10-year, a 15-year and a 20-year period is shown.

If the municipalities could borrow at 5% or 7% annually, the annual repayment limits shown above would allow it to undertake additional long-term borrowing as follows:

5% Interest Rate

(a)	20 years @ 5% p.a.	\$	65,579,734
(a)	15 years @ 5% p.a.	\$	54,620,745
(a)	10 years @ 5% p.a.	\$	40,633,989
(a)	5 years @ 5% p.a.	\$	22,782,951

7% Interest Rate

(a)	20 years @ 7% p.a.	\$	55,748,749
(a)	15 years @ 7% p.a.	\$	47,928,462
(a)	10 years @ 7% p.a.	\$	36,960,105
(a)	5 years @ 7% p.a.	\$	21,576,418

DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

The Blue Mountains T

MMAH CODE:

47405

Debt Charges for the Current Year

		1 \$
0210	Principal (SLC 74 3099 01)	825,112
0220	Interest (SLC 74 3099 02)	189,484
0299	Subtotal	1,014,596
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	1,014,596

Amounts Recovered from Unconsolidated Entities

		1 \$
1010	Electricity - Principal (SLC 74 3030 01)	0
1020	Electricity - Interest (SLC 74 3030 02)	0
1030	Gas - Principal (SLC 74 3040 01)	0
1040	Gas - Interest (SLC 74 3040 02)	0
1050	Telephone - Principal (SLC 74 3050 01)	0
1060	Telephone - Interest (SLC 74 3050 02)	0
1099	Subtotal	0
1410	Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02)	6,359
1411	Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02)	0
1412	Lump sum (balloon) repayments of long term debt (SLC 74 3110 01 + SLC 74 3110 02)	0
1420	Total Debt Charges to be Excluded	6,359
9920	Net Debt Charges	1,008,237

Excluded Revenue Amounts

		1 \$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01)	30,743,076
2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04)	1,232
2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC10 0815 01)	1,533,809
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	41,052
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	0
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	472,853
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	15,420
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	-18,451
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	949,663
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	2,665,400
2253	Other Deferred revenue earned (SLC 10 1814 01)	0
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	0
2299	Subtotal	5,659,746
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	25,082,098
2620	25% of Net Revenues	6,270,525
9930	ESTIMATED ANNUAL REPAYMENT LIMIT	5,262,288
	(25% of Net Revenues less Net Debt Charges)	

* SLC denotes Schedule, Line Column.