



Policy and Procedures

POL.COR.17.01 Debt Policy

Policy Type:	Corporate Policy (Approved by Council)
Date Approved:	February 21, 2017
Department:	Finance and IT Services
Staff Report:	FAF.17.15
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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, 2001 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

POL.COR.17.02 Affordability Policy for Water and Wastewater Service Extensions

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.