



TOWN OF INNISFIL CORPORATE POLICY

POLICY: <i>Debt Management</i>	COUNCIL APPROVAL DATE: May 07, 2014 RES. NO.: CR-098-11.14
POLICY NO.: <i>CP.05-14-05</i>	REVISED DATE: RES. NO.:

1. PURPOSE:

The Policy sets 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.

2. POLICY STATEMENT

The efficient and effective use of debt is recognized as an important component in the acquisition and deployment of critical infrastructure requirements that support existing and future residents, businesses and stakeholders of the Town. Affordability, sustainability and vulnerability factors must be considered while maintaining a degree of flexibility to address emerging financial needs.

3. APPLICATION

The Policy applies to the issuance of all debt and the resulting repayment terms, including capital lease financing agreements, entered into by the Town or any Boards and Commissions consolidated in full or in proportionate share as part of the Town's annual financial statements.

4. BACKGROUND

The Government Finance Officers Association (GFOA) recommends that local governments adopt comprehensive written debt management policies. To assist with the development of these policies the GFOA recommends that a government's Debt Management Policy (Policy) should be reviewed periodically and updated if necessary.

The Municipal Act, 2001 as amended provides the authority and imposes the restrictions concerning a municipality's ability to issue debt such that annual principal and interest payments cannot exceed 25% of "own source" revenues. The own source revenues exclude upper level government grants, development charges (even if they are being used to service the 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 has been fully retired as the available capacity is based on the annual cost to service the debt (principal and interest), not the increased equity in the asset the debt was issued for. 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 only ability to increase their capacity once debt has been issued is to:

- pay the debt off in full (this is difficult given the nature of the financial debt instrument);
- seek approval from the Province to increase their debt capacity beyond the 25% restriction or;
- 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 restricts the municipality's ability to utilize the "room" that should otherwise be available from the annual debt retirement for the duration of the term of the debt.

5. POLICY PARAMETERS:

1. This policy applies to all debt, including Lease Financing Agreements and long term commitments, entered into by the Town, its boards or commissions. All debt and long-term commitments must have Treasurer and Council approval prior to being entered into.
2. The Town's maximum annual debt repayment limit (ARL) will not exceed 20% of the Town's own source revenues in order to maintain up to 5% flexibility to address emergency issues.
3. The term of debt will be limited to the useful life of the particular asset but no instances of more than 20 years.
4. The timing and type of debt will be determined with a view to minimizing long-term cost while ensuring affordability for tax and user rate payers. Subject to current and projected interest rates, the issuance of long-term debt may be considered in advance of works being completed.
5. 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 two years and long-term debt will be secured as soon as possible after the completion of the project or two 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 requirement.
6. 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 is received. Any temporary borrowing of this nature is to be repaid as soon as the Treasurer has determined that adequate cash balances are available to do so.
7. Upon retirement of the long-term debt, the annual budgeted principal and interest amount funded from property taxes will continue as a transfer to a capital reserve fund to be available when required for major life-cycle repair and eventual replacement of the asset acquired.
8. Internal "borrowing" will be used as a means of advancing critical works in accordance with Capital Budget Policy CP04.11-05 where the need to proceed with an expenditure is deemed necessary although specific funding (e.g. user

rate reserves, development charges, other) is not currently available. Prioritized and identified needs for existing reserves, reserve funds and development charges will be taken into consideration first such to ensure that the proper project is being debt financed when total funds required is greater than those available.

9. Debt requirements for growth related infrastructure, defined as being at least 51% benefit to new residents, must have been identified in the development charges background study to be financed in this manner and that the interest carrying costs have been included in the fees being collected. The term of debt in these instances must not exceed 10 years and all efforts to secure front-ending agreements must have been explored prior to the commencement of the work and included in the report as identified in #7 of this policy.

In addition, the projected development charges revenues to be collected within the ten year debt period must be sufficient to cover the proportionate share of the annual debt servicing costs. If the debt was not identified in the background study and/or the projected revenues will not be sufficient during the term of the debt then the project must be deferred until adequate revenues are available or the annual debt servicing costs are provided through sustainable sources such as property taxation or water/wastewater user rates.

10. The Treasurer will provide Council with annual information concerning key financial indicators pertaining to debt including but not limited to:
 - Debt Service Ratio – the amount of own source revenue that is being used to service the municipality’s debt and is an indicator of either a high debt level or an aggressive repayment approach (i.e. shorter term but higher repayments)
 - Debt per Capita – this is the amount owing per person and is useful in comparing to other municipalities and in determining tax burden to property owners
 - Debt-Service Obligations – this provides info on existing debt levels, remaining terms and projected future requirements based on long term capital needs. 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.
11. The policy will be reviewed during the term of each new Council to ensure that the objectives are consistent with and continue to address the needs and vision of the Community.