



---

## Policy: Debt Management Policy

Department: Corporate Services

Effective Date: Draft

Revision Date: September 5, 2024      Review Date:

---

### 1. Coverage

All Bruce County departments.

### 2. Policy Statement

This policy will govern the County's use of short and long-term debt financing to help meet the goals set out in the County's Strategic Plan and uphold our value of Financial Sustainability through building financial capacity to sustain County resources.

### 3. Purpose

The purpose of the debt management policy is to:

- Ensure that the County complies with statutory requirements.
- Establish guidelines and appropriate benchmarks for the use of debt.
- Minimize long-term financing costs.
- Maintain long-term financial sustainability.

### 4. Legislative Authority

The *Municipal Act, 2001* (the Act) allows municipalities to take out debt and sets out a number of rules and parameters that municipalities must follow when using long-term debt. Some of the more important parameters include:

1. a by-law must be passed for the County to take out debt.
2. The annual debt servicing costs to satisfy the requirements of the debt must be included in the annual budget for approval by Council.

3. The term of the debt shall not exceed the useful life of the capital works and shall not exceed 40 years.

In addition, *Ontario Regulation 403/02 Debt and Financial Obligation Limits*, outlines the Annual Repayment Limit (ARL) that sets a maximum annual payment of both principal and interest at 25% of own-source revenues.

## **5. Definitions**

### **Annual Repayment Limit**

Under *Ontario Regulation 403/02 Debt and Financial Obligation Limits* this limit is the maximum amount which the County has available to commit to annual payments relating to debt and other financial obligations without seeking additional approvals from the Ontario Land Tribunal (OLT).

### **Capital Expenditure**

An expenditure incurred to acquire, develop, renovate or replace capital assets as defined by the Public Sector Accounting Board (PSAB), section 3150.

### **Construction Financing**

Medium term debt financing in which the County does not pay principal during the construction period for up to five years. This type of financing is used before formalizing the financing into long-term debt.

### **Debt**

Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as notes or cash loans from financial institutions and can also include loans from reserves. Debentures issued to Infrastructure Ontario as also considered debt.

### **Debt Servicing Costs**

Debt repayments, including principal and interest.

### **Financial Information Return (FIR)**

Data collection reports as completed by the County annually and submitted to the Ministry of Municipal Affairs and Housing.

### **Own-Source Revenues**

Revenue for a fiscal year, excluding:

- a) grants from the Government of Canada, Ontario, or other municipalities.
- b) proceeds from the sale of real property.
- c) net transfers from a reserve or reserve fund, including development charges.
- d) Revenues received from the Government of Ontario or other municipalities/school boards for the purpose of repayment of principal and interest on long-term debt.

## Promissory Note

To enable the use of internal funding, through unfinanced, that will lay out the terms of the loan including but not limited to, amount, length, and interest rate.

## 6. Procedure

### Purposes for which Debt can be Issued

The County may borrow by debenture, mortgage, or other acceptable debt instruments to finance capital expenditures that support Strategic Goals. The following guidelines shall be used on a case-by-case basis to determine whether debt is appropriate:

- Individual project value exceeds 1% of previous year tax levy
- Estimated useful life of the asset is greater than 10 years.
- The project has been approved by Council and was clearly identified as being debt financed.
- A sustainable funding source has been identified.
- Funding of the capital expenditure cannot be accommodated within the tax support.
- Projects where the cost of deferring the expenditure may exceed the interest costs of the debt.

The above criteria are not applicable to mortgage renewals, the decision to renew externally or bring the debt internally will be made on a case-by-case basis and will be brought forward for Council direction.

### Limitations on Debt

#### Statutory Limitations

The County is not allowed under Provincial regulation to issue debt which would result in the ARL being exceeded without prior OLT approval. The ARL is calculated each year by the Ministry of Municipal Affairs and Housing and relies on the County's previous year's FIR. The current ARL is 25% of Own-Source Revenues.

#### Non-Statutory Limitations

The County will further limit debt servicing costs from the 25% regulatory limit down to 10% self-imposed limit (or 40% of the ARL). Leaving the 15% gap will allow for debt capacity should the County have an emergency situation and require immediate capital spending capacity.

### Types of Debt

#### Short-Term -Less than One Year

Interim financing for capital expenditures that has long-term debt pending, these amounts will remain unfinanced as the County works through the process to take out long-term debt. For these items there will be no promissory note created for repayment purposes.

## **Medium-Term (One to Ten Years)**

Medium term financing requirements will be greater than one year but not more than ten years and will be included in the County's unfinanced capital projects. These items will have a promissory note to ensure that items do not remain as unfinanced for more than five years. These internal loans do not count against the County's ARL and will not be included in the self-imposed limit of 10% of own-source revenues.

## **Long-Term**

Long-term debt will consist of debentures, mortgages, or other forms of debt issued to the County to finance capital expenditures over a period of greater than five years but no more than 30 years. Options for these loans include Municipal serial or amortized debentures and long-term bank loans if deemed cost effective. The default for all County debt will be to have a fixed interest rate however if a variable rate is deemed more cost effective the Treasurer can make that determination.

## **Construction Financing**

Construction financing may be used for large-scale stand-alone assets that the County may require cash-flow resources as construction is completed. Construction financing is different than other types of debt as principal costs are accrued and only interest payments are made during the construction period. Once the construction is essentially complete the County will then formalize these costs into long-term debt.

## **Debt Structure**

- All County debt shall be issued in Canadian dollars.
- All County debt shall have a fixed interest rate, however if deemed cost effective the Treasurer may recommend variable interest rates.
- All loans will have a maximum repayment term of 30 years.
- All debt shall be structured to achieve the lowest possible net cost to the County.
- Unless deemed cost effective all repayment schedules will be level or declining payment basis.
- Early repayment of debt may be considered if deemed cost effective to do so and if allowed under the original debt agreement.
- Long-term debt will only occur when the capital project is essentially complete.

## **Strategic and Value Alignment**

- Funds included in the annual budget for long-term debt repayment that are not required due to timing of the debt shall either used to pay down the principle or transferred to the appropriate capital reserve if unable to be paid against the principle.
- Tax Levy room created through the elimination of debt shall be allocated as follows:
  - 100% shall be redirected to the appropriate capital reserve.

## **Reporting Requirements**

The Treasurer shall report annually, through the County's budget, a report that provides the following:

- Total outstanding debt
- Annual principal and interest payments by loan
- Forecasted debt issuances over the five-year capital budget.
- Percentage of Non-Statutory limit utilized and forecasted over the five-year capital budget.
- Non-Statutory debt ratio in the current year and forecast over the five-year capital budget.