

POLICY

POLICY TITLE: Corporate Debt Management Policy

POLICY NUMBER:

DATE: November 1, 2018

Policy Statement

The Corporation of the Town of Halton Hills (Town) strives to enhance its economic environment by achieving maximum utilization of all available financial resources, in accordance with legislation and the town's strategic goals. The prudent use of debt financing as a capital financing tool complements the funding of capital works which benefit future growth. In doing so, it ensures those who benefit will contribute to the cost.

Purpose

This policy provides guiding principles for the issuance of external debt by the town. Debt, in the context of this policy means external debt issued through the Region of Halton, the Halton District & Catholic School Boards or the Halton Hills Community Energy group of companies.

Scope

This policy summarizes the town's standard of care and legal authority relating to the financing of capital works through external debt.

Debt limit

The statutory annual repayment limit is a provincial calculation that limits the amount of debt a municipality can issue without requiring approval from the Ontario Municipal Board (OMB). The provincial legislated limit is 25% (note 1). This policy sets out further limitations on the amount of debt that the town may issue.

Total debt servicing cost (Principal and Interest) will not exceed 10% of the Town's Tax Levy.

Target Criteria

Provincial Measures:

- Debt Servicing costs as a % of operating revenue – maximum 5%
- Remain in a Low/Moderate risk factor per Provincial reporting standards

Town Measures:

- Outstanding debt per capita – Target maximum \$400/capita
- Carrying Costs per capita – Target \$78/capita

Types of Debt

A serial bond is a bond issue that is structured so that a portion of the outstanding bonds mature at regular intervals until all of the bonds have matured.

A sinking fund is a fund established by an economic entity by setting aside revenue over a period of time to fund a future capital expense, or repayment of a long-term debt. Regional Cash Management and Investment Policy (as amended) sets out the limitations for the use of sinking funds. These are typically used for debenture issuances in excess of a 10 year term.

Considerations when using debt:

- New/increased capital infrastructure providing services to current and future residents.
- Projects tied to third party matching funds.
- Projects where the cost of deferring expenditures exceeds debt serving costs.
- Project has a useful life greater than 10 years.
- All developer related advanced financing arrangements that are in accordance with the development charges legislation have been exhausted.
- All debt criteria to be within the limits listed above.

Reciprocal Agreements, Third party debt repayment of debt

Shall be permitted based on set criteria and must have the approval of the Town Treasurer. Criteria are as follows:

1. A 5 year viable business plan, including an acceptable infrastructure capital renewal/replacement provision, be submitted, and
2. The user group(s) must demonstrate a revenue stream sufficient to support the debt repayment; and
3. That all debt charges be repaid by user fees, surcharges or other non-tax supported means; and
4. Includes debt for local improvements, which are repaid by benefiting landowners.
5. In instances where principle and interest repayments are recoverable from user groups and arrangements have been made to defer repayment, the Town will recover additional charges from the user group for lost interest earnings resulting from the deferral.
6. Debt forgiveness/extending repayment terms – a report to council will be

prepared by the department initiating the user agreement. Full cost of debt forgiveness to the taxpayer must be disclosed or the impact of lost interest earned from extending the repayment terms.

Capital loans undertaken by a third party must be a formal term loan and be part of the Town's Capital program and LRFP to ensure compliance with debt ratios.

Loans that do not result in a capital asset must be accompanied by a user agreement that outlines the recovery of the loan. Memorandums of Understanding (MOU) that constitute a long term liability must not be entered into.

Terms of a reciprocal agreement which include interest rates, term, default, etc., will only be authorized by the Treasurer. An administration fee will be charged to offset any costs incurred in the development of the agreement, such as legal or third party review.

Term/minimum debt issuances

The term of the debt repayment will be a ten (10) year term. Longer terms can be considered but the debt repayment term must be less than the expected useful life of the asset. Requests for a debt term in excess of 10 years must be in line with LRFP requirements and must be accompanied by a detailed financing and repayment plan, and be presented to Council for special approval. The minimum debenture amount will be \$1,000,000. The Treasurer or designate can bundle a group of projects together in order to meet the minimum issuance amount.

Policy Maintenance

The Treasurer shall develop and maintain suitable procedures that provide for effective control and management of this policy.

The Treasurer shall review re-financing options due to decreases in interest rates and participate in the renegotiations with third party agreements.

Reporting

As part of the annual budget process staff will provide an update on the Town's Debt portfolio.

Authority

The provisions and requirements of the *Municipal Act, 2001* and its regulations govern the issuance of debt.

In accordance with the *Municipal Act, 2001* where there is a two-tier government structure, debt must be issued by the upper tier. Therefore, all external Debt is issued by the Region of Halton on the town's behalf. (PART XIII, Debt and Investment, S.401 (3))

The Treasurer and/or their delegate in accordance with the annual capital budget process and the Long Range Financial Plan shall determine eligible capital works for debt financing.

Any agreements with School Boards, Hydro company/affiliates and user groups need to be reviewed by the Treasurer in advance of any negotiations if they constitute a long-term liability and impact the Town's Annual Repayment Limit.

The authorization of debt financing for Capital works or enabling capital expansion for user groups through the budget process, shall be by town by-law.

NOTES:

1. Annual Debt Repayment Limit (FIR Schedule 81) calculation is based on prior years information (i.e. 2019 ARL is based on the 2017 Financial Information Returns)

Total Town Revenue (FIR schedule 10) less:

- a. Grants (provincial and federal)
- b. Proceeds from sale of real property
- c. Contributions/transfers from a reserve fund or reserve
- d. Other municipalities or school boards
- e. Increases/Decreases in Government Business Enterprise
- f. Donated Tangible Capital Assets
- g. Tile Drainage or Shoreline Property Assistance Act

Multiplied by 25%