



## POLICY

### I. POLICY STATEMENT

A policy governing the use and administration of capital financing and debt.

### II. PURPOSE

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements, and responsibilities for the prudent financing of the Municipality's operating and infrastructure needs.

### III. DEFINITIONS

For the purpose of this policy, the following terms shall have the meaning as ascribed to them:

1. Annual Repayment Limit ("ARL") - A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee, without seeking the approval of the Ontario Municipal Board;
2. Banker's Acceptance - a short-term credit obligation created by a non-financial firm such as the Corporation, and guaranteed by a bank as to payment;
3. Construction Financing - a form of debt financing in which the issuer does not pay any principal or interest for a period of up to three years during the construction or rehabilitation of the facility from which a revenue stream is expected to be generated; and,
4. Lease Financing Agreement - a lease allowing for the provision of Municipal Capital Facilities or assets if the lease may or will require payment by the Corporation beyond the current term of Council.
5. Non-material lease: A lease financing agreement in which the total undiscounted payments over the term of the lease, including potential extensions, does not exceed \$1,000,000.

### IV. PHILOSOPHY FOR CAPITAL FINANCING AND DEBT ISSUANCE

1. Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations; and,
2. Capital financing and debenture practices will be responsive and fair to the needs of both current and future ratepayers, and will be reflective of the underlying life cycle and nature of the expenditure.

### V. OBJECTIVES

The primary objectives for this policy, in order of priority, shall be:

1. Adhere to statutory requirements;
2. Credit rating sustained and/or improved;
3. Ensure long term financial flexibility;
4. Limit financial risk exposure; and,
5. Minimize long-term cost of financing;

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### 1. Adhere to Statutory Requirements

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the Municipal Act, the Local Improvement Act, or the Tile Drainage Act, and their related regulations. These requirements include, but are not limited to:

- a) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year;
- b) The term of capital financing will not exceed the lesser of 40 years, or the useful life of the underlying asset;
- c) Long-term debt will only be issued for capital projects;
- d) The total annual financing charges cannot exceed the Annual Repayment Limit or Council's approved limit as identified in the City's Financial Policy Framework, as applicable, unless approved by the Ontario Municipal Board.
- e) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing;
- f) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will have considered all financial and other risks related to the proposed construction financing.

### 2. Maintain a Superior Credit Rating

- a) Maintaining a superior credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. Also, a credit rating of at least AA- (or equivalent) will be needed by the Corporation to meet the statutory requirements for entering into certain types of capital financing.

### 3. Ensure Long Term Financial Flexibility

- a) The capital financing program will be managed in a manner consistent with other long-term planning, financial and management objectives as identified in the City's Financial Policy Framework.
- b) Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.
- c) The Corporation's normal practice will be to issue long-term debt for contractual terms that will be well received by the marketplace. However the amortization period over which the debt will be retired may be longer.



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### 4. Limit Financial Risk Exposure

- a) The capital financing program will be managed in a manner to limit financial risk exposure. The Corporation normal practice will be to issue debt that is denominated in Canadian dollars with an interest rate that will be fixed over its term.
- b) If there is a material financial advantage, or it is deemed prudent to issue variable rate debentures or enter into variable interest rate bank loan agreements, the interest rate can be left variable subject to regulatory constraints.
- c) Lease Financing agreements have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material lease financing agreement.

### 5. Minimize Long Term Cost of Financing

- a) The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing;
- b) Factors to be considered will include:
  - i) Current versus future interest rates;
  - ii) Availability of related reserve or reserve fund monies;
  - iii) Pattern of anticipated revenues or cost savings attributable to the project or purpose; and,
  - iv) Costs related to the financing of the project through debt.

## VI. STANDARD OF CARE

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

### 1. Ethics and Conflicts of Interest

- a) Officers and employees involved in the capital financing process are expected to abide by the Corporation's Code of Conduct. In particular they shall:
  - i) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions;



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- ii) Disclose any material interests in financial institutions with which they conduct business;
- iii) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and
- iv) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Corporation.

### 2. Delegation of Authority

- a) The Director of Finance and Treasurer will have the overall responsibility for the capital financing program of the Corporation. In addition the Director of Finance and Treasurer will have authority to approve non-material financing leases.
- b) The Senior Manager, Corporate Finance & Investment will oversee the activities of the capital financing program through review and approval of recommendations of the Portfolio Manager.
- c) The Portfolio Manager will be responsible for the administration of the capital financing program of the Corporation.

### 3. Requirement for External Advice

- a) The Corporation's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion, the appropriate level of knowledge not exist for unusual or non-standard transactions, or otherwise directed by Council, outside financial and/or legal advice will be obtained.

## VII. FINANCING INSTRUMENTS

The form of financing will be dependent on its term and the type of asset to be financed.

### 1. Short Term (Under One Year)

- a) Financing of operational needs for a period of less than one year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing, may be from the following sources:
  - i) Reserves and Reserve Funds provided that interest is treated in accordance with the City's Financial Policy Framework;
  - ii) Bank line of credit or loan agreement;
  - iii) Short-term promissory notes issued to approved financial institutions; and,
  - iv) Bankers' Acceptances.



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### 2. Long Term (Greater than One Year)

- a) Debentures will be used for financing of assets for a period greater than one year from any of the following sources:
  - i) Public capital markets;
  - ii) Financial Institutions; and,
  - iii) Government entities including Infrastructure Ontario.

### 3. Lease Financing Agreements

- a) For the purpose of this policy, a **Financing lease** is a lease financing agreement that includes terms that require, or may require, the City to make payments after the expiry of the term for which the council authorizing the agreement was elected.

## VIII. FINANCING LEASES

1. Financing leases include both material and non-material leases. A lease is non-material if in the opinion of both Council and the Treasurer it would not significantly affect the City's ARL.
2. Financing leases with total undiscounted payments, including potential extensions, exceeding \$1,000,000 are considered to have a material impact on the municipality.
3. Prior to entering into a Material Financing lease, the Treasurer must prepare a report to Council with a recommendation, assessing, in the opinion of the Treasurer, the costs, and financial and other risks associated with the proposed agreement (see sub-section IX.1) Reporting Requirements).
4. Council must provide a decision regarding the Treasurer assessment and report's conclusions. Material Financing leases may be entered into following a motion or resolution approved by City Council.
5. The financial risks include:
  - a) The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument.
  - b) The ability for lease payment to vary based on changes in the assumed residual values of the asset being leased.
  - c) Uncertainty over leasing costs if contract needs to be extended or renewed.
  - d) Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to its creditors.



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6. The possible benefits associated with leasing include:
  - a) Mitigating risk of obsolescence: if the term of the lease is shorter than the anticipated life of the asset the corporation could avoid costs associated with aging assets and/or have access to newer assets;
  - b) Participating in special financing deals offered by manufacturers;
  - c) Match the expected use of the equipment or capital property for a specified project or timeframe
  - d) Flexibility of obtaining assets when they're needed.

### IX. REPORTING REQUIREMENTS

As required, the Director of Finance and Treasurer shall submit to Council, the following:

1. A report, before entering into a financing lease which is other than non-material lease with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease. This report shall include:
  - A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
  - A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
  - A statement summarizing any contingent payment obligations under the lease that could result in a material impact for the Municipality.
2. Lists of any outstanding financing leases including the following details:
  - Estimates of the proportion of financing leases to the Corporation's total long-term debt.
  - A statement that in his or her opinion all financing leases were made in accordance with this Policy.
3. A statement before passing a by-law providing for construction financing, which shall consider:
  - The fixed and estimated costs to the Corporation;
  - Whether the costs of the proposed financing for construction of the undertaking are lower than other methods of financing available;
  - A detailed estimate with respect to the terms of the Corporation's expectation of revenue generation from the undertaking, once constructed;



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- The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and,
- The financial and other risks for the Corporation.

### X. RESPONSIBILITIES

1. Officers and staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein the Policy.
2. The Director of Finance and Treasurer shall in addition:
  - a) Calculate the Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
  - b) Review and approve the type and term of financing for capital projects and operating requirements; and,
  - c) Review and recommend to Council the financial and business aspects of any material lease agreements and transactions.
3. The Portfolio Manager shall:
  - a) Recommend the timing and structure of debt issues;
  - b) Coordinates the preparation of debt issue by-laws for Council; and,
  - c) Liaise with internal and external partners, including financial institutions, capital market participants, regulators, rating agencies in the issuance of securities and the evaluation of the credit worthiness of the Corporation's debt securities.
4. The Treasurer (or Designate) and any one of the following Officers (or Designate) may execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities:
  - Mayor
  - Chief Administrative Officer
  - General Manager of Community and Corporate Services
  - The Clerk



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Management Policy  
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### XI. REFERENCES AND RELATED POLICIES/DOCUMENTS

Financial Policy Framework

Municipal Act

Local Improvement Act

Tile Drainage Act

### XII. DEPARTMENT CONTACT

Craig Millar, Director of Finance and Treasurer x5130

Jennifer Cowles, Senior Manager of Corporate Finance and Investment x5347

Thierry Rayaisse, Portfolio Manager x4724