



CORPORATE POLICY

Sub Topic:	Debt Management Policy	Policy No.	FIN. 5.01
Topic:	Financial Services Policy	Employees Covered:	All Employees
Section:	Financial Services	Council Adoption Date:	May 7, 2018
Effective Date:	May 8, 2018	Revision No:	Date: N/A
			N/A

Policy Statement & Strategic Plan Linkages

This policy is in line with Council's priority "Ensuring effective and efficient services" and the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

The purpose of this policy is to set out the parameters for issuing debt and managing the debt portfolio and provide guidance to decision makers. This Policy enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement and ensures compliance with statutory requirements and long-term financial flexibility and sustainability.

Definitions

Debt: any obligation for the payment of money. Debt would normally consist of debentures as well as either notes or cash loans from financial institutions; Debt may also include loans from reserve funds or other financial obligations such as leases.

Own Source Revenues: direct municipal revenues such as property taxes, user fees and charges., They do not include grants, deferred revenues earned, donated/assumed tangible capital assets, gain/(loss) on sale of land & capital assets, and increase/decrease in government business enterprise equity.

Annual Debt Servicing Cost: annual required debt repayments including principal and interest.

Reserve: An appropriation from net revenue at the discretion of Council or the Treasurer, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Reserves are typically used for short-term purposes. As a general practice, reserve and reserve fund may both be referred to as reserve.

Reserve Fund: A fund that has been set aside either by a by-law of the municipality or by a requirement of provincial legislation to meet future events. A reserve fund can have a revenue and/or expenditure stream and earns interest. Reserve funds are typically used for long-term purposes such as reserve fund for capital.

Procedures

Use of Debt

Debt is a financing source but not a funding source. Debt can only be issued when all of the following criteria are met:

1. New capital expenditure;
2. The asset is included in the Asset Management Plan;
3. The amount, after deducting all available funding such as development charges or reserves, is greater than 1% of tax levy increase;
4. Borrowing from reserve funds is not a valid option (see Section IV Internal Loans)

Land Purchases

It is recognized that there may be opportunities that arise to purchase land which do not meet the Uses of Debt or Internal Loan criteria. In such a situation, Council may override those provisions and the Treasurer will propose a funding plan for approval.

As land is a non-depreciable asset, it is the exception to the 20-year term limit on long-term debt. If available, a 30-year term is permissible.

Authority to Issue Debt

A lower-tier municipality in a regional municipality, such as the Corporation of the Town of Newmarket (Town), does not have the power to issue debentures as per *Section 401(3), of the Municipal Act, 2001*. The Town Council has to approve a bylaw to make application to the Regional Municipality of York to issue debentures on behalf of the Town.

The Treasurer shall have the authority and responsibility to recommend to Council the most effective form of debt financing for any work/asset, in addition to the appropriate timing and duration.

Financial Debt and Obligation Limit

To limit the Town's debt risk, the Town's total financial debt and obligation limit shall meet the following criteria:

(a) Annual debt servicing cost plus annual capital lease payments are not to exceed 10% (or other percentage as set out by Council) of the Town's previous year's net own source revenues;

(b) Annual debt repayment limit is not to exceed the amount defined in the previous year's Financial Information Return Schedule "Annual Debt Repayment Limit" (ARL).

Types of Debt

I. Short-term Debt - Under 1 Year

The Town may temporarily borrow for cash flow purposes from any one or a combination of the following sources:

- a) Bank line of credit;
- b) Short-term promissory notes;
- c) Bankers' acceptances;
- d) Any other form of short-term indebtedness
- e) Reserve Funds

The Town's combined limit of borrowing from the above sources is subject to the limits set in the borrowing by-law. Effort should be made to have short-term debt repaid prior to December 31 of the year the debt is incurred, or as soon thereafter as possible.

II. Medium-Term Debt - 1 to under 5 Years

Medium-term financing requirements, for periods greater than one year but less than five years will be financed through any one or combination of:

- a) Capital leases;
- b) Term loans;
- c) Promissory notes.
- d) Reserve Funds (Internal Loans)

Financial commitments for existing and anticipated leases for the current fiscal year are to be included in the calculation of the Town's Financial Debt and Obligation Limit.

III. Long-Term Debt - 5 Years or Greater

Long-term debt consists of debentures or other forms of debt issued on behalf of the Town by the Regional Municipality of York to finance assets over a period of not less than 5 years and not more than 20 years (or 30 years for land). Long-term borrowing from Reserve Funds (Internal Loans) is also allowable and may be more appropriate.

IV. Internal Loan

The Town may borrow from its reserve funds for capital assets subject to the following:

- a) The underlying capital asset can pay for itself within a reasonable time period, not to exceed 10 years, through cost savings or additional revenues.
- b) The rate is not less than the prime rate at the time of borrowing;
- c) Term of repayment is not to exceed the lesser of 20 years or the life expectancy of the capital assets;
- d) Total loan from reserve funds is not to exceed 50% of the total reserve funds balance;
- e) Council approval

Term of Debt

The Town may incur debt for a maximum of 20 years. The term of any particular debt shall be dependent on:

- a) The nature of the underlying work/asset;
- b) The useful life of underlying work/asset;
- c) The likelihood or otherwise of the useful life being altered and reduced or extended;
- d) The state of the interest rates of the day;
- e) The value of the underlying work/asset to future generations;
- f) The user fees or other revenues which the underlying work/asset itself may generate to offset any increased cost for the debt and reduce any set property tax impact arising therefrom;
- g) The availability of funding for the underlying work/asset from other sources such as an Asset Replacement Fund

Land purchases are an exception and debt may be incurred for a maximum of 30 years.

Reporting

Once in every fiscal year, the Treasurer shall provide a report to Council containing, but not limited to the following:

- a) The balance of the Town's debt including internal loans;
- b) Debt servicing costs for the previous year and current year;
- c) Annual Debt Repayment Limit for the current year as calculated by Financial Information Return;
- d) Any new requests for debt

Responsibilities

The Treasurer has the overall responsibility for the management of debt. This includes but is not limited to the following:

- a) Reviews the need for debt and recommends the amount, type and term of debt to Council;
- b) Coordinates with the Region of York for issuance of debt;
- c) Calculates the financial debt and obligation limit;
- d) Ensures timely repayment of debts;
- e) Ensures all reporting requirements identified within this Policy are met;
- f) Reviews this policy periodically to ensure compliance with the statutory requirements as well as effectiveness and relevance and recommend any required changes to Council for consideration and approval.

Cross References

CORP. 1-03 Accountability and Transparency Policy

Delegation By-law No. 2016-17

FIN. 2-01 Operating and Capital Financial Policy

Municipal Act, 2001