CORPORATE POLICY AND PROCEDURE

POLICY	**Debt Management Policy**
CATEGORY	Finance
AUTHORITY	Council
RELATED POLICES	General Reserve and Reserve Fund Policy Investment Policy
APPROVED BY	Council
EFFECTIVE DATE	26 October 2009
REVIEW DATE	Within one year of adoption (on or before October 26, 2010)

---

1. POLICY STATEMENT

It is the policy of the City of Guelph

- to minimize both debt servicing costs and significant annual budget impacts
- that new debt be planned at a level which will optimize borrowing costs and not impair the financial position of the City, and
- to maintain or improve the City's credit rating.

2. PURPOSE OF POLICY

The purpose of this debt management policy is to

- Enhance the quality of decisions by promoting consistency;
- Establish the parameters regarding the purposes for which debt may be issued, the types and amounts of permissible debt, the timing of issuance and method of sale that may be used, and the procedures for managing outstanding debt;
- Integrate with other long-term planning, financial and management objectives of the City; and
- Assist with ensuring that the municipality maintains a sound financial position and that the worthiness of the City's credit rating is protected.

3. DEFINITIONS

Business Case – means an analysis that demonstrates the necessity for and viability of a new project. A business case will include a financial analysis and a financial plan that identifies and confirms sources of funding to provide for the financing of the capital and operating costs of a new project.

Capital Expenditures – means expenditures incurred to acquire, develop, renovate, or replace capital assets as defined by the Public Sector Accounting Board, section 3150.

Debt Service Cost – means debt repayments, including interest and principal (per FIR 74-3099).

Direct Debt – means the total debt burden of the City (per FIR 74-9910). It includes all debt issued by the City and consolidated entities less all debt assumed by others

Flexibility – is the ability of the City to issue new debt in response to emerging financing needs.

Net Revenue Fund Revenues – means total revenue fund revenue per line 9910 of FIR schedule 10 less grants received (10-0699 and 10-0899), less revenue from other municipalities (10-1099).

Infrastructure – large-scale public systems, services, and facilities of the City that are necessary for economic activity in the community, including water and wastewater systems, roads, and buildings / facilities.

Operating Revenue – means total revenue fund revenue per line 9910 of FIR schedule 10 less other revenue (10-1899), less grants received (10-0699 and 10-0899), less revenue from other municipalities (10-1099).

Sustainable – means meeting present needs without compromising the ability to meet future needs.

Statutory Annual Debt Repayment Limit – means the annual debt and financial obligation limit for municipalities as described under Ontario Regulation 403/02. The regulation provides a formula which limits annual debt service costs to an amount equal to 25% of operating revenue.

Tax-Supported Debt - means debt issued for capital expenditures related to tax-supported operations. This debt is repaid using net revenue fund revenues.

Tax-Supported Operations - means civic programs that are funded through net revenue fund revenues, such as roads, transit, and parks.

4. PURPOSES FOR WHICH DEBT MAY BE ISSUED

4.1 Tax-supported Debt

The City may borrow by debenture, mortgage or other acceptable debt instrument to finance the City portion of growth-related infrastructure, and emerging capital needs to support corporate priorities and approved strategic plans under the following conditions:

- o the individual project value exceeds $500,000
- o the estimated useful life of the asset is greater than ten years

- o the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt
- o it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users
- o the project is supported by a comprehensive business case including
- o total cost of the project
- o cash flow of the project including debt issuance
- o operating costs after completion of the project
- o benefits to the community
- o funding cannot be accommodated within the tax-supported capital budget, and other internal sources (such as borrowing from reserve funds) and external sources (such as senior government grants and subsidies, private / public partnerships, or user-pay systems) have been thoroughly investigated

The City will not use long-term debt to fund current operations.

The City will not use long-term debt to fund the ongoing rehabilitation of existing infrastructure. This will be funded by reserves.

4.2 Reserve and Reserve Fund Debt

Debt servicing costs are not normally funded by reserves or reserve funds. Instead, debt shall be incurred and repaid through the operating fund with corresponding transfers to and from reserves. Any funding of debt costs shall be identified in the City's annual operating budgets. However, in accordance with the General Reserve and Reserve Fund Policy, there remains only one exception to this rule:

- Development Charge Reserve Funds – Under the Development Charges Act, debt may be included as a capital cost to leverage development charge revenue while waiting for DC collections to catch up to growth-related spending.

For the 5% Cash in Lieu of Parkland Reserve Fund and Industrial Land Reserve Fund, historically, debt has been permitted for the purchase of parkland, land or the servicing of City-owned land in anticipation of future Parkland Cash in Lieu or land sale revenues. This practice is no longer recommended in order to avoid the risk associated with uncertain revenue streams. Any new capital financing required for these purposes will be repaid through the operating fund.

5. LIMITATIONS ON INDEBTEDNESS

Debt limits will preserve borrowing capacity for future capital assets while maintaining maximum flexibility of current operating funds.

5.1 Statutory Limitations – Annual Repayment Limit (ARL)

The 2010 ARL is based on the City's 2008 Financial Information Return (FIR). The City is not allowed under Provincial regulation to issue debt which would result in the annual repayment limit being exceeded without OMB approval. In fiscal year 2008, principal and interest repayments totaled approximately 27% of the available legislated capacity.

5.2 Self Imposed Limitations

Notwithstanding the limits prescribed in the regulations, prudent financial management calls for more stringent criteria to limit debt. These criteria will assist in preserving borrowing capacity for future capital assets while maintaining maximum flexibility for current operating funds.

5.2.1 Direct Debt to Operating Revenue
This measure identifies the percentage of annual operating revenues that would be required to retire the City's net debt. It is also the prime measure used by Standard and Poor's when assessing the debt burden of the municipality. A target rate of **less than 55%** should be maintained.

5.2.2 Debt Service Cost to Net Revenue Fund Revenue
This ratio is a measure of the principal and interest payable annually as a proportion of revenue fund revenues. It should not exceed a target of **10%**.

5.2.3 Development Charge Debt Servicing Ratio
This ratio is a measure of the debt service cost of the debt issued to support the DC reserve funds as a percentage of the average revenue forecast as identified in the DC background study. It should not exceed a target of **20%** for hard services (Roads, Storm water, Water works, Waste water) and **10%** for all other Development Charge reserve funds. Note: additional capacity has been provided for the hard DC services in recognition of the substantial front end financing required.

5.2.4 Direct Debt to Reserve Ratio
This ratio compares direct debt to the total of all reserves and reserve funds.
A generally accepted target ratio for municipalities is considered to be **1:1** and this level should be achieved within the next five years and maintained thereafter.

6. TYPES OF DEBT

6.1 Short-term Debt (under one year)

The City may use either of the following sources to fund short-term operational needs:
- Reserve and reserve fund loans
- Bank line of credit

6.2 Medium-term Debt (one to four years)

The City may use any of the following sources to fund medium-term needs:

- Reserve and reserve fund loans
- Operating and capital leases
- Term loans
- Promissory notes

6.3 Long-term Debt (five years or greater)

The City may use any of the following sources to fund long-term needs:

- Municipal serial or amortized debentures
- Term loans / mortgages with any Canadian bank
- Capital leases
- Reserve and reserve fund loans

6.4 Internal Borrowing from City Reserves and Reserve Funds

When an analysis of the reserve or reserve fund has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve or reserve fund, the City's reserve funds may be used as a source of financing for short to long term purposes. The reserves will be repaid with interest at a rate based on the actual annual average balance of the reserve fund and the Royal Bank Prime rate minus 1.75% (which is the interest rate received on City accounts) as specified in the City's reserve policy.

Each such loan is to be authorized by a specific by-law passed by Council and set out the amount, interest, term of the loan, and the specific reserve or reserve fund from which the loan is made. Borrowing in this manner offers several advantages over traditional debenture financing including the following:

- Increased flexibility in setting loan terms,
- Lower interest cost, and
- Avoidance of legal and fiscal agent fees.

7. STRUCTURAL FEATURES

7.1 Debt Denomination

The City shall issue debt denominated in Canadian dollars only.

7.2 Fixed Interest

The City shall issue general obligation debt with a fixed rate of interest. Interest rate swap agreements may be used to exchange floating-rate interest payments for fixed-rate interest payments.

7.3 Repayment Terms

The repayment term will be dependent on the useful life of the asset being acquired by the City, but should not exceed ten years except for major capital construction of public facilities. In no case shall the amortization period exceed 25 years.

7.4 Debt Structure

7.4.1 Debt shall be structured for the shortest period consistent with a fair allocation of costs to current and future users.

7.4.2 Debt shall be structured to achieve the lowest possible net cost to the City given market conditions, the type of debt being issued, and the nature and type of the repayment source.

7.5 Repayment

7.5.1 Unless otherwise justified and deemed necessary by the City's Fiscal Agent, the repayment schedule should be structured on a level or declining payments basis.

7.5.2 Early repayment of debt may be considered if it is financially beneficial to do so.

8. CREDIT OBJECTIVES

8.1 Credit Rating

The City will continually strive to maintain or improve its current AA stable credit rating by adhering to sound financial management practices. This practice will ensure the long-term financial health of the City so that its borrowing costs are minimized and its access to credit is preserved. Standard and Poor's (S&P) is the City's debt rating agency. City staff carry out a review with S&P officials to provide updates on information affecting the City's financial position.

9. USE OF FINANCIAL ADVISORS

9.1 Fiscal Agent

The City will engage the services of a Fiscal Agent to develop the debt issuance strategy, determine the interest rate and method of calculating the interest rate, and to market bonds to investors.

9.2 Syndicate of Investment Dealers

The City will use the services of the syndicate of investment dealers principally managed by National Bank Financial (NBF) because of their substantial presence in the Canadian municipal market.

9.3 Formal Review of Financial Advisors

The Director of Finance will undertake a formal review of the Fiscal Agent or Syndicate as warranted. The formal review process may include establishing a set of criteria (including fee structures), presence in the capital markets, placement of bonds in volume, dollar terms, etc., and any other criteria that may be deemed to provide value to the City through the review process.

9.4 Notwithstanding Section 8.3, the City retains the ability to enter into a private placement for the sale of debentures or any other permitted debt financing product without the services of a Fiscal Agent or Syndicate should it be determined that this is in the City's best interests both from a cost and an administrative viewpoint.

9.5 External Legal Counsel

For all debt issues, the City will retain external legal counsel who will assist with the drafting and reviewing of the debt issue bylaw and related schedules.

10. COUNCIL AUTHORIZATION FOR DEBENTURE ISSUE

10.1 Approval of Funding for Capital Projects

The approval to fund an eligible capital project by debenture will generally be sought through the annual capital budget process. The funding of emerging strategic priorities outside of the traditional budget process shall be approved by specific by-law.

10.2 Debenture Issue

Each debenture issue shall be approved by specific by-law of Council including the term, rates of interest, debt servicing obligation, and general terms of issue.

11. ADMINISTRATION

11.1 The borrowing to finance capital projects will normally occur once the projects are essentially completed.

11.2 When feasible, debt issuances will be pooled to minimize issuance costs.

12. POLICY REVIEW

This policy will be reviewed within one year of adoption.