

Corporate Policy and Procedure



Policy	Debt Management Policy
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Policy Statement

Managing the capital investments required of a growing city is fundamental to achieving the City of Guelph's vision. Balancing the requirements for strategic infrastructure growth and the need for renewal and rehabilitation of existing assets, while ensuring future budget flexibility, is necessary to support municipal long-term financial sustainability.

The City's Debt Management Policy sets out the parameters governing the use and management of long-term debt to finance capital works. The overall objective of this policy is to optimize the strategic use of debt by borrowing purposefully and sustainably.

Purpose

This policy:

- establishes debt management guidelines and appropriate controls for the issuance and use of debt, authorized financing instruments, reporting requirements, standards of care, and responsibilities for the prudent financing of the City's capital infrastructure needs;
- ensures compliance with statutory requirements;
- ensures affordability of debt while optimizing its use to meet the City's current and future infrastructure needs;
- promotes long-term financial flexibility and sustainability while limiting financial vulnerability and risk exposure; and
- helps the City to maintain a sound financial position and to protect the City's credit rating.

Guiding Principles

1. Long-term borrowing (debt) is an ongoing component of the City's capital financing plan and is integrated into the City's long-term plans and strategies.
2. Council may, where it is deemed to be in the best interest of its tax and/or ratepayers, approve the issuance of long-term debt.
3. The City must retain the ability to issue debt in response to emerging financing needs.
4. To the extent possible, debt should be structured in a way that is fair and equitable to those who pay for and benefit from the underlying assets over time (intergenerational equity).
5. The use of debt should contribute to a sustainable and vibrant City by balancing quality of life and financial considerations.
6. The issuance of new long-term debt must be approved by City Council in accordance with the Municipal Act and this policy.
7. The administration, monitoring and reporting of long-term debt must be undertaken by City Staff in accordance with this policy.

Definitions

"Act" - the Municipal Act, 2001, S.O. 2001, c25 as amended

"Annual Repayment Limit" or "ARL" - A calculation provided annually to a municipality by the Province 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 Land Tribunal, as prescribed under O. Reg. 403/02 of the Act.

"Capital Expenditure" - An expenditure incurred to acquire, develop, rehabilitate or replace one or more capital assets as defined by the Public Sector Accounting Board (PSAB), section 3150.

"Capital Financing" - A generic term for the financing of acquired or constructed capital assets using various forms of debt, reserves and reserve funds, grants, etc.

"City" - The Corporation of the City of Guelph, its agencies, boards and commissions, and in accordance with the City's Consolidated Financial Statements, those organizations accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City.

"Debenture" - A formal written obligation to repay specific sums of money on certain dates at specified rates of interest.

"Debt" - Any obligation for the payment of money, including but not limited to debentures issued in the debt capital markets or through agencies such as the Ontario Infrastructure and Lands Corporation (Infrastructure Ontario), the Canada

Infrastructure Bank, the Federation of Canadian Municipalities, the Canada Mortgage and Housing Corporation, and others, as well as notes or cash loans from financial institutions.

“Debt Servicing Cost” - the annual required debt repayment including both principal repayment and interest payments, as well as contributions to a sinking fund.

“Long-Term Debt” - any debt for which the repayment of any portion of the principal is due beyond one year.

“Own-Source Revenue” – as determined by the Province for the purposes of calculating the Annual Repayment Limit per O.Reg. 403/02 and Schedule 81 of the annual Financial Information Return.

“Temporary Borrowing” - debt for which the repayment of the entire principal is due within one year or in the case of funding for a capital project, borrowing until long-term debt to finance the expenditure is obtained or issued.

“Treasurer” - the duly appointed Treasurer/Chief Financial Officer for the City of Guelph or designate.

Statutory Requirements

Debt may only be issued by the City if and when it is in compliance with the relevant sections of the Act (specifically Part XIII – Debt and Investment) and the applicable regulations thereunder, as amended from time to time, including but not limited to those set out in the References section of this Debt Management Policy. These requirements include, but are not limited to:

- The City may incur a debt for municipal purposes and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt;
- All long-term borrowing must be approved by Council through a debenture-by-law;
- Long-term debt can only be issued for capital works;
- The term of capital financing can not exceed the lesser of 40 years or the useful life of the underlying asset being financed;
- The total annual financing charges (i.e. principal and interest payments) can not exceed the prescribed Annual Repayment Limit (ARL) unless approved in advance by the Ontario Land Tribunal (OLT).

Purposes for Which Debt May Be Issued

The City may borrow funds through the issuance of municipal debentures or other acceptable debt instruments to finance capital expenditure. Debt is permitted to finance costs associated with capital projects and acquisitions which are:

- a) undertaken directly by the City;
- b) undertaken by a service delivery partner and for which the City is cost-sharing; or

- c) undertaken by an external organization and for which the City is providing a capital grant as approved by City Council.

Long-term debt will be considered for capital works with a financing requirement of at least \$1,000,000, or in the case of a project undertaken by a service delivery partner for which the City is cost-sharing or undertaken by an external organization for which the City is providing a capital grant, the City's share or capital grant is at least \$1,000,000.

Debt Categories

To support debt planning, management and reporting, long-term debt is categorized as set out below based on the funding source for the associated debt servicing costs:

1. Tax-supported debt – debt issued for which the associated debt servicing costs are funded by property taxes and general municipal revenue;
2. Rate-supported debt – debt issued for which the associated debt servicing costs are funded by user rates including water rates, wastewater rates, storm water management rates, parking rates, etc.; and
3. Development charge-supported debt – debt issued for which the associated debt servicing costs are funded by development charge revenue and funded exemptions/discounts.

Debt Timing, Term and Structure

The timing, term and structure of debt financing for capital assets will be determined with a view to minimizing the City's overall long-term cost of financing and managing market risk associated with future refinancing of refundable debt.

Debt Timing

The timing of debt issuance shall be at the discretion of the Treasurer in consultation with the City's underwriting agent or syndicate, bank representative or other advisor(s) taking into consideration project cash flow requirements, overall cash balances and projections, budget constraints, timing of other funding sources, and market conditions.

Debt Term

The City's normal practice shall be to establish a debt financing term of 10, 15 or 20 years. Shorter or longer terms may be considered if deemed to be in the best interests of the City. In most cases the estimated useful life of the asset being constructed or acquired should be 10 years or greater. Exceptions can be made, such as for vehicles and equipment with shorter useful lives but for which debt financing is considered appropriate.

The following elements are to be considered when establishing the debt term: cost minimization, yield curve shape and level, useful life of the underlying asset, capacity for new debt servicing costs in the operating budget or development charge reserve funds, and an appropriate distribution of costs between periods to achieve a level of intergenerational equity.

Debt Structure

The City's general practice shall be to issue debt that is denominated in Canadian dollars with fixed interest rates over the term. Notwithstanding, if a borrowing structure is presented for which there is a material financial advantage and/or it is deemed prudent for the City to issue debt in a foreign currency and/or that is subject to interest rate fluctuations, the City may, at the discretion of the Treasurer, consider entering into this type of arrangement if in the opinion of the Treasurer it is in the City's best interest.

A range of debt types can be utilized:

1. Short-term (typically under 1 year): Interim financing for capital assets pending long-term capital financing may be provided from one or more of the following sources:
 - a) Bank line of credit;
 - b) Short-term promissory notes;
 - c) Bankers' Acceptances;
 - d) Infrastructure Ontario (or its successor organizations) short-term advances pending issuance of long-term debentures; and
 - e) Other permissible forms of indebtedness.

The Treasurer is authorized to issue temporary financing instruments from time to time to meet expenditures made in connection with a capital work to be financed in whole or in part by the issue of debentures, subject to Council having approved the issuance of debentures for the work.

2. Long-term: debt issued by the City to finance capital works over a period of not more than 40 years. Options include:
 - a) Debentures issued by the City in the debt capital markets;
 - b) Debentures issued through government and other agencies including Infrastructure Ontario, the Canada Infrastructure Bank, the Federation of Canadian Municipalities, the Canada Mortgage and Housing Corporation, etc.;
 - c) Bank loans; and
 - d) Other permissible forms of indebtedness.

Allowable long-term debt structures include serial (instalment) debentures, amortizing debentures, sinking fund debentures, construction financing debentures, bank loans and lease financing arrangements.

Refundable Debentures

The City may issue debentures for which the amortization period is longer than the contractual term of the debenture, but in no case longer than the lesser of 40 years and useful life of the asset. For such “refundable” debt, the balance of the debt remaining at the end of the contractual term may be refinanced in whole or in part, and conversely may be retired in whole or in part by the City.

At the end of the contractual period of such refundable debt, the Treasurer shall recommend to Council both the amount to be refinanced, if any, and the amount to be retired, if any.

While the use of refundable debentures will not be a preferred method of financing by the City, there is no restriction on the use of refundable debentures when the Treasurer determines that it is the preferable option at the time of issuance based on market conditions.

Sinking Fund Debentures

Whenever sinking fund debentures have been issued and are outstanding:

1. The City shall adopt a Sinking Fund Investment Policy governing the investing of sinking fund contributions to ensure that adequate funds will be available to retire the entire amount of debt principal upon its maturity; and
2. City staff will prepare annual sinking fund financial statements which will be subject to audit review and certification by the City’s duly appointed external auditor.

Alternative Strategies

Alternative borrowing techniques and strategies (e.g. lease financing) shall be considered if benefits can be demonstrated. Risk mitigation strategies will be developed when alternative financing techniques are considered.

Authorizing and Issuing Long-Term Debt

1) Project Approval and Pre-Issuance Requirements

The intent to issue long-term debt for a given capital work shall be explicitly set out in one or more of the following:

- the City’s Capital Budget and Forecast as approved by Council; or
- staff reports to Committee and Council and the associated resolutions and/or by-laws approved by Council.

2) Issuance of Debt

Before securing any long-term borrowing, the Treasurer shall review and explore all available options for such borrowing and shall recommend to Council the alternative that best meets the City's needs. In support of such recommendation, the Treasurer shall outline to Council the proposed projects to be financed, the maximum debt financing amount(s) and term(s), and the estimated debt servicing costs and associated funding sources.

Upon receiving Council authorization to issue debt, the Treasurer shall work with external legal counsel and the underwriting agent/syndicate, agency or bank representative to secure the required debt under terms and conditions that are acceptable to the Treasurer.

3) Debenture By-law Approval

The Treasurer, external legal counsel and underwriting agent, agency or bank representative(s) shall prepare all required legal documentation, including the debenture by-law to be approved by Council prior to the transaction closing date. The Treasurer shall advise Council of the details of the financing as deemed necessary.

Methods of Marketing/Selling Debenture Issues

Debenture securities may be sold by the following means:

- a) Underwriting Agent or Syndicate: The use of an underwriting agent or syndicate appointed by the Treasurer will be the normal method by which debentures will be issued by the City. Considerations for the appointment of a fiscal agent or a fiscal agency syndicate member will include, among other things:
 - the demonstrated ability of the firm to underwrite and/or sell municipal debentures in the debt capital markets;
 - the firm's commitment to supporting an active and robust secondary market for municipal debentures;
 - the firm's support for maintaining and developing new investors for municipal debentures; and
 - The firm's ability to provide ongoing relevant market insights and support to the Treasurer over the course of the year.

Where an underwriting syndicate is used, the Treasurer shall for each debenture issue appoint a lead agent and determine the allocation of underwriting fees to syndicate members. The Treasurer shall review the appointment of any and all underwriting agents periodically and at least once every five years.

b) Tender

A tender process may be used when and if significant savings could be expected when compared to issuing through an underwriting agent or syndicate.

c) Bought Deal/Private Placement

This may be appropriate for "one off" or unusual financing structures when significant savings would be expected or when market conditions are volatile or otherwise difficult.

Debt Servicing Cost Limitations and Guidelines

1) Statutory Limitation – Annual Repayment Limit (ARL)

The ARL is an upper limit for new debt servicing costs (principal and interest) to be incurred by a municipality in a given fiscal year, as prescribed by the Province under O. Reg. 403/02. The total principal and interest costs cannot exceed 25% of a municipality's own-source revenue as defined by the Province (includes user rates, fees and property taxes, but excludes development charges, grants, subsidies, asset sales, etc.) without prior provincial approval.

The Treasurer shall maintain an updated ARL calculation, and advise Council on an as-required basis of the results of said calculation and the ability of the City to take on new debt and associated debt servicing costs.

2) Internal Guidelines

Notwithstanding the statutory ARL described above, the City's approach to prudent financial management requires a guideline that will achieve a balance between preserving borrowing capacity for future capital works, managing debt servicing costs to maintain budget flexibility, and promoting the principle of intergenerational equity.

The City's internal debt servicing cost guidelines are measured on the basis of principal and interest payable as a percentage of own-source revenue relevant to the categories of debt set out in this Policy.

The City's corporate debt servicing cost guideline is 10% of own-source revenue in any given year. Sub-guidelines by debt category are as follows:

- Tax-supported debt servicing cost guideline: 10% of property tax and general own-source revenues in any given year;
- Rate-supported debt servicing cost guideline: 10% of user rate revenue in any given year; and
- Development charge-supported debt servicing cost guideline:
 - 50% of water and wastewater development charge collections and funded exemptions; and
 - 25% of development charge collections and funded exemptions for all other development charge-funded services.

Temporary variances to the above guidelines may be required from time to time to allow for the acquisition, construction or rehabilitation of critical capital assets. Such variances shall be reported to Council as part of the budget process and as part of year-end financial reporting.

Additional metrics will be monitored to regularly assess the long-term affordability and sustainability of the City's budget and financial plan. Such metrics may include, but are not limited to:

- Debt outstanding to own-source revenue (often used by credit rating agencies)
- Debt outstanding to reserve/reserve fund balances (debt-to-reserve ratio)
- Debt outstanding per capita and debt servicing costs per capita as compared to similarly-rated peers

To assist in managing future debt servicing costs within the internal guidelines shown above, upon the retiring of tax-supported or rate-supported debt, the amounts previously budgeted for annual debt servicing costs will be reallocated, subject to budget approval, towards:

- a) Debt servicing costs for new long-term debt issued by the City; and/or
- b) Contributions to the City's capital reserves.

Excess Debenture Issuance

Section 413(2) of the Municipal Act provides that if the money raised from the sale of debentures is in excess of or is not required for the purposes for which the debentures were issued, it shall be applied to repay the principal or interest of the debentures; or to repay any other capital expenditure of the municipality if the debt charges for the other expenditure are or will be raised from the same class of ratepayers from which the amounts required for the repayment of the debentures are raised.

Should this condition arise, the Treasurer is delegated the authority to take the necessary action to meet the provisions of s. 413(2).

Credit Rating

The City's capital financing program and Long-Term Financial Framework will be managed in a manner to support and maintain the City's credit rating to enable efficient access to debt and favourable terms of repayment.

Standard of Care

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

Ethics and Conflicts of Interest:

Officers and employees involved in the capital financing process shall:

- a) 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;

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

Delegation of Authority:

The Treasurer will have the overall responsibility for the City's long-term borrowing program and will implement such program and establish necessary procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for debt financing activities. No person shall be permitted to engage in such activities except as provided for under the terms of this Policy. The Treasurer shall establish a system of controls to regulate the activities of subordinate officials and exercise control over City staff.

Requirement for Outside Advice:

City staff will be expected to have sufficient knowledge to prudently evaluate standard debt financing transactions. However, should in their opinion the appropriate level of knowledge not exist for instances such as debt financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

Responsibilities:

The Treasurer:

- Appoints the City's Underwriting Fiscal Agent or two or more such agents to form the City's Debenture Underwriting Syndicate;
- In the case of an Underwriting Syndicate, assigns the lead underwriter and determines the percentage share of a planned debt issuance that will be allocated to each member of the Syndicate;
- Signs documents on behalf of the City and performs all other related acts with respect to the appointment of the Underwriting Fiscal Agent or Syndicate;
- Reviews and recommends the type and term of financing for capital projects;
- Calculates the updated ARL for the City as prescribed by O. Reg. 403/02;
- In consultation with the Underwriting Fiscal Agent or Syndicate or other issuing agency, approves the timing and structure of debt issues;
- Signs all documents, forms and certifications on behalf of the City needed to ensure the timely execution of long-term financing transactions including the payment of principal, interest and other related fees;
- Coordinates the preparation of debt issue by-laws for Council;
- Liaises and assists rating agencies in the evaluation of the credit worthiness of the City's debt securities;

- Ensures all reporting requirements identified within this Policy are met; and
- Performs all other duties as set out in this policy.

The Mayor:

- Executes and signs documents on behalf of the City with respect to the issuance of debt securities.

The Clerk:

- Certifies and signs documents on behalf of the City with respect to the issuance of debt securities.

Reporting Requirements

The Treasurer shall report on debt outstanding, debt servicing costs, planned debt issuance and debenture management metrics at least on an annual basis and as follows:

- As may be required in the City's Audited Financial Statements;
- As may be required in the City's Financial Information Return;
- As may be required under the Development Charges Act and under any other statute, regulation or directive;
- As required by this Policy; and
- Further as requested by Council or as deemed appropriate by the Treasurer.

Policy Review

This Policy will be reviewed periodically by the Treasurer. Any recommended or required changes shall be submitted to Council for consideration and approval. Otherwise, this Policy shall be formally reviewed and approved by Council once per term of Council.

References

- Ontario Municipal Act, 2001 - Part XIII Debt and Investment
- Ontario Regulation 403/02 (Debt and Financial Obligation Limits)
- Ontario Regulation 247/01 (Variable Interest Rate Debentures and Foreign Currency Borrowing)
- Ontario Regulation 276/02 (Bank Loans)
- Ontario Regulation 653/05 (Debt Related Financial Instruments and Financial Agreements)
- Ontario Regulation 278/02 (Construction Financing)
- City of Guelph Budget Policy
- City of Guelph Reserve and Reserve Fund Policy
- City of Guelph Code of Conduct Policy for Employees