The County of Peterborough
County Council

To: Warden and Members of Council
From: Trena DeBruijn, Director of Finance/Treasurer
Date: October 4, 2017

Subject: Debt Management Policy

Recommendation:

That County Council adopt the attached Debt Management Policy and that it be administered through the Finance Department (see Appendix A, attached).

Financial Impact:

The resources required to meet the requirements of the Debt Management Policy are expected to be available internally at no extra cost.

Background:

During a recent 2017 Strategic Planning session, Council requested staff to prepare a report, for information purposes, on debenture financing. If debenture financing is a tool that Council may want to consider for the future, it is recommended that a debt management policy be adopted by Council. A draft Debt Management Policy is attached to this report and the highlights of the policy are outlined below in this report.

Comments:

A debt management policy sets out the parameters for issuing debt, manages the debt portfolio and provides guidance to decision makers. A debt management policy is beneficial as it enhances the quality of decisions, rationalizes the decision making process, identifies objectives for staff to implement and demonstrates a commitment to long-term financial planning objectives.

In order to be an effective financial tool, provisions of the debt management policy must be compatible with the County’s goals pertaining to the capital program and budget, the financial reserve plan and the operating budget. A debt management policy should also strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities. A debt management policy should be
formally adopted by Council and the debt program should be continuously monitored to ensure that it is in compliance with the debt management policy.

Debt is a viable financing option, however, careful consideration and development of a debt management policy is required as excessive use of debt to finance capital works can seriously impair the ability of the County to provide the level of service expected by residents and could potentially impact the financial resource options for future Council and staff.

**Policy Statement(s):**

As outlined in the policy, attached, it is recommended that, prior to incurring debt, the following requirements be adhered to:

- Debt may be used for financing the acquisition or construction of an asset used in the delivery of municipal services and for avoiding an excessively heavy burden on the tax rate in one particular year,

- Consideration be given to the impact of debt on both current and future ratepayers as a means to achieve an appropriate balance between debt and other forms of funding,

- Repayment of debt will be structured in an manner that is fair and equitable to those who benefit or have access to the benefit(s) from the asset(s),

- Debt servicing must be affordable, sustainable and flexible to allow financing for any appropriate corporate project or priority approved by Council,

- A comprehensive review of each project must be completed prior to approval of new debt. The review must include the total cost of the project, cash flow of the project including debt issuance, operating costs after completion of the project and the benefit to the Community,

- The County will not use long term debt to fund current operations,

- The County may use long term debt to fund major rehabilitation of existing infrastructure in circumstances where funding cannot be accommodated with in the tax supported capital budget,

- Capital expenditures related to growth will not be debt financed unless the new costs exceeds the resources available for growth financing and then only the overage may be debt financed,

- Council must authorize debt through a by-law. Before doing so, council is required to obtain the treasurer’s certification that the municipality has sufficient capacity within its debt repayment limit to incur additional debt.
Financial Details:

Borrowing for capital expenditure purposes may be done through the use of debentures, mortgage loans or other equivalent debt instruments.

Temporary borrowing, for the purposes of short-term cash flow management, will be handled through a separate by-law and approved annually by Council.

The County may incur debt for capital assets that have a useful life of not less than ten (10) years, however, the term of the debt will be limited to the term of the useful life of a particular asset, not exceeding a maximum of 35 years.

Limitation of Debt:

For prudent financial planning purposes, debt should be undertaken when the size of a project is such that funding cannot be accommodated within the tax supported capital budget and when no other viable funding sources are available.

The amount of debt that a municipality is able to hold is limited by the Annual Repayment Limit (“ARL”), provided by the Ministry of Municipal Affairs. The ARL represents the maximum amount which the County has available to commit to payments relating to debt and financial obligations.

While the County is permitted to borrow up to the maximum permitted under the ARL (current 2017 ARL is $9,028,840), doing so would severely hamper the County’s flexibility and ability to respond financially to future requirements, emergencies and/or funding opportunities.

Accordingly, staff recommend that the annual debenture/debt payments for the County should not exceed a maximum of 50% of the ARL. Based on 2017 rates, this would mean that the maximum the County could apply to debt payments would be approximately $4,514,420 annually.

Further, staff recommend that borrowing to support long-term asset management planning needs not exceed 25% of the Annual Repayment Limit (approximately $2,257,210, based on 2017 rates), thereby leaving the County with flexibility to borrow up to an additional 25% of ARL, if required, to respond to emergencies and/or to meet senior government funding opportunities.

For illustration purposes, having a limit of 25% of ARL for long-term asset management needs, would provide the County with flexibility to borrow up to approximately $32,000,000 (assuming interest rate of 3.5% and a term of 20 years). Borrowing of this amount would commit the County to annual debt servicing costs of approximately $2,227,045 annually. In relation to the 2017 budget, the general levy (not including curb side or depot levies) is approximately $38,161,678, of which 1% is equivalent to $381,617.
If at any point in time, if Council decides to surpass the limitations set out in this policy, a resolution shall be passed, in an open Council session, which waives the policy restriction to surpass the maximum capacity of 50% of ARL.

**Reporting:**

Council must authorize debt through a by-law. Before doing so, Council is required to obtain the treasurer’s certification that the municipality has sufficient capacity within its debt repayment limit to incur additional debt.

Respectfully submitted,

Original signed by

Trena DeBruijn
Director of Finance/Treasurer