



Policy

Policy Name:	Corporate Debt Policy
Policy Owner:	Corporate and Financial Services
Approved by:	Commissioner, Corporate and Financial Services
Effective Date:	When adopted
Date of Last Revision:	November 10, 2015
Review Date:	Five Years from Effective Date
Policy Status:	New

PURPOSE:

The purpose of the Corporate Debt Policy is to establish the guiding principles and appropriate controls for the issuance and management of debt for the Town of Richmond Hill.

POLICY STATEMENT:

The Town of Richmond Hill strives for the optimum utilization of all available financial resources within its statutory limitations. The goal for capital financing is to first maximize all funding from external sources, Development Charges and reserve funding, however the Town understands that the prudent issuance of debt is an alternate financing consideration. The Corporate Debt Policy provides guidelines for staff to implement when the issuance of debentures or internal financing are the appropriate financial tools for funding of capital infrastructure and demonstrates a commitment to the Town's long-term financial planning objectives. A Corporate Debt Policy should be formally adopted by Council and the debt program should be continuously monitored to ensure that it is in compliance with the Corporate Debt Policy.

TWO TYPES OF DEBT FINANCING:

External Debt – Includes any obligation for the payment of funds which normally consists of debentures (issued through the Region) as well as notes or cash loans from financial institutions, and leases.

Internal Financing – Borrowing from other reserves with a commitment to repay principal with interest.

DEBT ADMINISTRATION:

Debenture issuance at the Town will only be undertaken in compliance with the provisions of the *Municipal Act, 2001*, specifically Part XIII Debt and Investment, as well as Ontario Regulation 403/02 (Debt and Financial Obligation Limit).

Under section 401 of the *Municipal Act*, in a two-tier government structure, debentures are issued by the upper tier; therefore the Region of York issues debentures on behalf of the Town of Richmond Hill. The Town's Financial

Services Division will determine the annual debenture requirements. Council is responsible for approving its capital budget and debenture needs as well as a debenture By-law. Once approved, the Town will notify the Region of its requirements and requests the Region to issue debt on the Town's behalf. Regional Council must approve the issuance of the Town's debt.

The Town's debentures may be in the following form or a combination thereof:

- Serial Debentures: designed to pay equal, semi-annual principal amounts with interest calculated on the declining balance;
- Amortizer Debentures: constructed to pay equal, semi-annual total payments with the interest component decreasing and the principal component increasing over the term.

DELEGATED AUTHORITY TO MANAGE DEBT:

The Director of Financial Services and Treasurer shall have the authority and responsibility to recommend to Council the most effective and appropriate form and terms of debt financing.

TERM OF DEBT:

The Town may incur debt for eligible capital works for a term of a minimum of five (5) years to a maximum of forty (40) years.

The term of any particular debt shall be dependent on:

- a) The nature of the asset;
- b) The expected useful life of the asset;
- c) The state of the interest rate environment;
- d) The value of the asset to future generations;
- e) The availability of funding for the asset from other sources.

DEBT AND FINANCIAL OBLIGATION LIMIT:

The Town's annual debt servicing limit is not to exceed 10% of the Town's previous year's net own-source revenues. The Development Charges funded debt limit will be further subject to a limit equal to 25% of the total Development Charges revenues projected in the 10 Year Capital Forecast.

ELIGIBLE CAPITAL WORKS:

The following capital works areas are eligible for long-term debt financing consideration:

- a) New municipal capital facilities and infrastructure projects that will benefit the community;
- b) Up-front capital investments for eventual operating cost mitigation or to generate future operating revenues;
- c) Advance Development Charge funded capital projects, with forecasted or pending future revenues.

DEBT PRINCIPLES:

The following principles will apply when debt is issued for the capital financing needs of the Town:

- a) Capital expenditures for the acquisition and/or construction of municipal facilities maybe debt financed if other more effective sources of financing are not available;
- b) Monies from projects which provide future cost savings or generate future operating revenues will be used to finance the annual debt costs;
- c) Growth related capital projects will not be debt financed unless the costs exceed the growth financing available and there are benefits to the Town in advancing these projects;
- d) When financing internally from available reserve funds, a commitment must be made to repay principal and interest as per the term of debt, with the interest rate equivalent to the rate earned if the funds were invested;
- e) Debentures should not be issued if internal funds are available at a lower cost. i.e. internal financing must be used if the interest rate equivalent, is less than the cost of borrowing externally.

ANNUAL REPORTING REQUIREMENTS

The Director of Financial Services and Treasurer will determine the short and long term borrowing needs and report to Council annually on any outstanding debt balance, their use and measured to key financial indicators. Through the Capital Budget process, the Director will also seek Council approval on all new debt prior to works being formally undertaken and will advise Council of issuance of debt when it is appropriate.

Where debt is issued on behalf of development charge funded capital projects, the repayments to be recovered from future development charge revenues including interest will be tracked separately.

The Corporate Debt Policy will be reviewed periodically and updated if necessary. Any required changes will then be submitted to Council for approval. Otherwise, the Corporate Debt Policy will be formally reviewed, at a minimum of every five years from the date of the last review.