

CORPORATE POLICY



Policy Title: **Debt Management Policy**
Policy Category: **Financial**
Control Policy No.: FC-009
Department: Corporate
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Author: Kim Reger
Attachments:
Related Documents/Legislation: Ontario *Municipal Act* Regulation 403/02

POLICY STATEMENT:

Council for the City of Waterloo is committed to demonstrating financial leadership and sustainability. This policy assists in formalizing a defined and transparent process for managing debt for the property tax base and enterprises.

PURPOSE:

The purpose of this debt management policy is to ensure:

- that the municipality maintains a sound financial position;
- that the City's financial practices comply with statutory requirements;
- long-term financial flexibility and sustainability;
- that the parameters for debt issuance, the type and amount of debt and the financial processes for managing debt are applied consistently to the tax base and enterprise operations and
- the integration with other long-term planning, financial and management objectives of the City.

DEFINITIONS

Annual Repayment Limit (ARL) - Is the legislated limit that caps principal and interest payments for municipalities based on net operating revenues.

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

Mandatory Policy, *Municipal Act*: No

Policy Administration Team, Review Date: Apr 14th, 2023

Corporate Management Team, Review Date May 3rd, 2023

Capital Infrastructure Reinvestment Reserve Fund (CIRRF) - The capital infrastructure reinvestment reserve fund is the primary source of funding for expenditures associated with the rehabilitation or replacement of all existing tax based capital infrastructure.

Capital Reserve Fund (CRF) - The capital reserve fund is the primary source of funding for the purchase, construction, or development of new capital assets and studies.

Climate Action Reserve Fund (CARF) - The Climate Action Reserve Fund helps facilitate projects, initiatives, and studies that support climate change mitigation and adaptation by targeting energy and greenhouse gas (GHG) reduction in alignment with the Council approved GHG emissions reduction targets of 50% by 2030 and 80% by 2050.

Chief Financial Officer (CFO) – Senior financial officer responsible for managing the City's debt.

Debenture - A formal written obligation to pay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured i.e. backed by general credit rather than by specified assets.

Debt - Any obligation for the payment of money. For Ontario municipalities, debt would typically consist of debentures as well as either notes or cash loans from financial institutions. Could also include internal loans from reserves or reserve funds. Debentures issued to Infrastructure Ontario are also considered debt.

Development Charge (DC) Collections - Charges collected from new development, at building permit issuance to help fund the cost of infrastructure required to accommodate growth.

Enterprise – A business unit that is funded through user fees rather than tax base revenue.

Financial Information Return (FIR) - Data collection reports providing statistical information on municipalities, as provided by the Ministry of Municipal Affairs and Housing (MMAH).

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, parks and buildings / facilities.

Municipal Act - The Municipal Act is the statute governing the powers, duties, internal organization, and structure of 443/444 Ontario municipalities.

Net Debt Charges (NDC) - Net Debt Charges are calculated as existing debt charges, less recoveries from user rates.

Non-tax Supported Debt - Debt issued for capital expenditures related to non-tax

supported operations. This debt is repaid using net revenue fund revenues, such as enterprises or development charges.

Non-tax Supported Operations - Municipal services that are not funded through the tax base, such as water, wastewater and stormwater rate revenues.

Tax Supported Debt - Debt issued for capital expenditures related to tax supported operations.

Tax Supported Operations - Civic programs that are funded through property tax revenue , such as fire services, roads maintenance, and parks.

Term Loan - A loan which is repaid in regular instalments over a set period, as laid out in the enabling documents.

Total Capital Charges - Is the relationship between the financial support required from the capital reserve fund, the climate action reserve fund and the capital infrastructure reinvestment reserve fund compared to the total payments from Net Debt Charges. The calculation used to determine Total Capital Charges is = Annual Net Debt Charges + the annual budgeted contribution to CRF, CARF and CIRRF

SCOPE

This policy applies to all members of the City's organization including members of Council, full, part-time and contract staff.

POLICY COMMUNICATION:

Council will receive this policy for approval. If approved, the policy will be posted on the City's intranet. Staff will be advised of the policy via distribution to the Operational Leadership Team and Corporate Management Team.

POLICY:

Debt Limits

1. ARL is limited to 25% of net operating revenues based on regulations established within the Municipal Act.
2. Annual Net Debt Charges (NDC) will not exceed the annual budgeted contribution to CRF, CARF and CIRRF as established by City policy.

Debenture Terms

1. Amortization periods of debentures will typically be 10 years.
2. Amortization periods can be extended to a longer term, up to 20 years if the following conditions are met:

- a. Underlying lifespan of the asset is greater than the extended amortization period
- b. That the additional interest expense is justified; the benefit of bringing the asset online earlier outweighs the additional interest cost over the longer amortization period
- c. Approval of a longer debt amortization period (up to 20 years) would require support from the Chief Financial Officer (CFO) and the program area Commissioner, and be subject to final Council approval.

Internal Borrowing

The City may decide to borrow from itself without issuing debt through the Region, up to a total of \$10 million dollars. To facilitate internal debentures, the following process would be followed:

- Internal debt needs to be declared in the budget to be actioned.
- Capital projects requiring internal debt will be categorized as 'non-routine', which will require staff to return to Council with a report to authorize the internal debt when required (with an associated by-law).
- The by-law to be passed by Council will set out the principal, payment, interest, the term of the loan and the specific reserve or reserve fund from which the loan is made (CRF, CIRRF or CARF).
- Debt is to be structured for the shortest period consistent with a fair allocation of costs to current and future users.
- Repayment schedule should be structured on a level or declining payment basis. Early repayment of debt may be considered if it is financially beneficial to do so.

External Borrowing

As per the Municipal Act, 2001, S.O.,c.25 Part XIII Debt and Investment, a lower-tier municipality in a regional municipality does not have the power to issue debentures. 2001, c. 25, s. 401 (3).

Due to this statute, the City of Waterloo does not have the authority to issue its own debt (internal borrowing is not consider debt) and instead works through the Region of Waterloo to secure external debt financing. To facilitate external debentures, the following process would be followed:

- External debt needs to be declared in the budget to be actioned.
- On budget day the city obtains specific Council approval within the Budget Day minutes for the debt, and the confirmation by-law of the Budget Day proceeding's acting as the By-law for the debt.
- When the city is ready to issue that debt they send the by-law and associated project's budget to the Region to execute the debt issue. Timing of that issue must coincide with the Region's debt issuance timing in the spring and fall.

Debt Application

Debt should be used primarily for strategic priorities including but not limited to, infrastructure renewal projects, climate action projects and or any other strategic initiative subject to the approval of Council.

Policy Exemptions

1. Projects included in the most recent approved Development Charges By-Law that have anticipated debenture financing that will be recoverable through Development Charges.

COMPLIANCE

In cases of policy violation, the City may investigate and determine appropriate corrective action.