

Capital Financing and Debt Management Policy

Policy Statement

It is the policy of the Municipality of Middlesex Centre to:

- Ensure adequate infrastructure, services, and resources to support existing and growing communities;
- Ensure new debt is planned at a level which will optimize borrowing costs and not impair the financial position of the Municipality;
- Ensure debt is structured in a way that is fair and equitable to those who pay for and benefit from the underlying assets over time; and
- Ensure debt financing for lifecycle and/or on-going projects will be incurred on an as-needed basis only, where other financing alternatives have been exhausted or are insufficient to meet the capital needs of the Municipality.

Purpose

The Municipality of Middlesex Centre recognizes the importance of having written guiding principles for the approval, issuance, and administration of Municipal debt, as well as meeting all the related statutory requirements.

The purpose of this capital financing and debt management policy is to:

- Establish financial guidelines and appropriate benchmarks for the issuance and use of debt in the Municipality.
- Ensure long-term financial flexibility and sustainability.
- Limit financial vulnerability.
- Integrate with other long-term planning, financial and management objectives of the Municipality.
- Ensure that the Municipality's financial practices comply with statutory requirements.

Scope

The Capital Financing and Debt Management Policy applies to all capital financing and debt activities of the Municipality. Municipal staff and Council assigned to the approval, issuance and administration of municipal debt shall adhere to the policy and procedures detailed below.

Definitions

Amortizing Debenture – Debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture issue.

Annual Repayment Limit (ARL) – Under Regulation 403/02: Debt and Financial Obligation Limits, the ARL represents the maximum amount which the municipality has available to commit to payments relating to debt and financial obligations without seeking the approval of the Ontario Land Tribunal (OLT). This limit is provided annually to a municipality by the Ministry of Municipal Affairs and Housing (MMAH) based on the Municipality's Financial Information Return (FIR). Internally, this limit must be updated by the Director of Corporate Services prior to Council authorizing any increase in debt-financing for capital expenditures.

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

Capital Financing – A generic term for the financing of capital assets using debt, financing leases, swaps, and other derivatives.

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. Debt could also include loans from reserves or reserve funds. Debentures issued to Infrastructure Ontario are also considered debt.

Debt Service Costs – Debt repayments, including interest and principal.

Flexibility – The ability of a municipality to issue new debt in response to emerging financing needs.

Financial Information Return (FIR) – Data collection reports providing statistical information on municipalities, as provided by the MMAH.

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

Infrastructure Ontario (or its Successor Organization) – Any entity established by the Province of Ontario to provide Ontario municipalities, universities, and hospitals with access to alternative financing service for long-term fixed rate loans for the building and renewal of public infrastructure.

Installment (Serial) Debentures – Debentures of which a portion of the principal matures each year throughout the life of the debenture issue.

Internal Funding – Funding provided from one municipal reserve fund to another, to fund specific short-term projects. These funds will be repaid from the receiving fund to the lending fund in accordance with the reserve and reserve fund policy.

Long-term Bank Loan – A long-term debt provided by a bank, or syndicate of banks.

Long-term Debt – Any debt for which the repayment of any portion of the principal is due beyond one year.

Ministry of Municipal Affairs and Housing (MMAH) – The Province of Ontario’s MMAH works with local governments to build safe, strong, and dynamic communities. The MMAH administers the Municipal Act, which sets legislative requirements for municipal financial management, as well as numerous other pieces of legislation that have financial implications, including the Development Charges Act, the Building Code Act, and the Planning Act, among others.

Own-Source Revenue – The revenues outlined Under Regulation 403/02: Debt and Financial Obligation Limits.

Short-term Debt – Any debt for which repayment of the entire principal is due within one year.

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

Roles & Responsibilities

1. Middlesex Centre members of Council and employees required to comply with this policy shall have the necessary authority to carry out their responsibilities and duties as identified.
2. No person shall be permitted to engage in a capital financing activity except as provided within this policy.
3. The Municipality’s staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should, in their opinion, the appropriate level of knowledge not exist for unusual or non-standard transactions, or otherwise directed by Council, outside financial and/or legal advice will be obtained.
4. The Director of Corporate Services shall in addition:

- a) Review and recommend the type and term of capital financing and operating requirements;
 - b) Calculate the Annual Repayment Limit or updated debt and financial obligation limit for the Municipality as prescribed by the Municipal Act;
 - c) Before the approval of the issuance of any form of debt, present any associated risks and considerations to Council, and where possible explain how the risks will be mitigated prior to issuance;
 - d) Approve the timing and structure of debt issues;
 - e) Coordinate the preparation of debt issue reports and by-laws for Council;
 - f) Execute and sign documents on behalf of the Municipality and perform all other related acts with respect to the issuance of debt;
 - g) Ensure a sustainable funding source for debt service costs has been identified for all debt projects;
 - h) Review and recommend to Council the financial and business aspects of any material lease agreements and transactions; and
 - i) Ensure all reporting requirements identified in this policy are met.
5. The Mayor may execute and sign documents on behalf of the Municipality with respect to the issuance of debt.
 6. The Chief Administrative Officer may certify and sign documents on behalf of the Municipality with respect to the issuance of the debt.

Guiding Principles

In the management of debt, the Municipality of Middlesex Centre considers four guiding principles:

1. Adhere to statutory requirements
2. Ensure long-term financial flexibility
3. Limit financial risk exposure
4. Minimize long-term cost of financing

Each of these guiding principles are described in greater details below.

Adhere to Statutory Requirements

1. Capital financing may only be undertaken if and when it follows the relevant sections of the Municipal Act, the Local Improvement Act, or the Tile Drainage Act, and their related regulations. These requirements include, but are not limited to:
 - a) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year.
 - b) The term of capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset.
 - c) Long-term debt will only be issued for capital projects.
 - d) The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the OLT.
 - e) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing.

Ensure Long-Term Financing Flexibility

1. The capital financing program will be managed in a manner consistent with other long-term planning, financial, and management objectives.
2. Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers to achieve an appropriate balance between capital financing and other forms of funding.
3. To the extent practicable, replacement assets as well as regular or ongoing capital expenditures (for example, annual replacement of vehicles and equipment) will be recovered on a “pay as you go” basis through tax levy, user fees, grants, or reserves and reserve funds.
4. It is recognized that reserves must be developed and maintained, as outlined in the Municipality’s Reserve and Reserve Fund Policy, for all capital assets owned by the Municipality to ensure long-term financial flexibility.

Limit Financial Risk Exposure

1. It shall be the general practice to issue debt where the interest rates will be fixed over the term.
2. For each project or purpose for which long-term financing is requested, the timing, type and term of financing will be determined with a view to minimizing long-term cost.

3. Under no circumstance may the term of financing exceed the anticipated useful life of the related asset. Wherever possible, as deemed by the Director of Corporate Services, the term of the debt shall be set for less than the related useful life of the asset.
4. Financing leases have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees, and indemnities. These risks will be identified prior to entering any material financing lease.

Minimizing Long-Term Cost of Financing

1. The timing, type, and term of financing for each capital asset will be determined with a view to minimize both its and the Municipality's overall long-term cost of financing.
2. Factors to be considered will include:
 - a) Current versus future interest rates
 - b) Availability of related reserve or reserve funds
 - c) Pattern of anticipated revenues or cost savings attributable to the project or purpose
 - d) Costs related to financing the project through debt

Protocols

Authorized Types of Debt

Short-Term – Under 1 Year

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing, may be from the following sources:

1. Internal Financing through Reserves and Reserve Funds (this may be used as the primary source of short-term financing if interest is paid in accordance with the Municipality's Reserve and Reserve Fund Policy);
2. Bank line of credit; and
3. Infrastructure Ontario (or successor organization) short-term advances pending issuance of long-term debentures.

Long-Term – Greater Than 1 Year

Financing of assets for a period greater than one (1) year may be from any of the following sources:

1. Debentures – These may be in the form or a combination of:
 - a) Installment
 - b) Amortizing
2. Internal Financing through Reserves and Reserve Funds – These may be used for a period of no greater than five (5) years if deemed cost effective or otherwise necessary. Any borrowing must be in accordance with the Municipality's Reserve and Reserve Fund Policy.
3. Long-Term Bank Loans – These loans will be fixed interest rate loans.
4. Lease Financing Agreements (Capital Financing Leases) – May be used when it provides material and measurable benefits compared with other forms of financing.

Limitations on Indebtedness

It is recognized that there is a significant cost, both in issuing debt as well as the annual interest cost, associated with borrowing funds.

Notwithstanding the limits prescribed in the regulations, prudent financial management calls for more stringent debt limits. Enacting a more stringent debt limit preserves borrowing capacity for future capital assets while maintaining maximum flexibility for current operating funds.

The Debt and Financial Obligation Limit of the Municipality shall not exceed 17% of total own-source revenues, unless otherwise approved by Council.

Reporting Requirements

The Director of Corporate Services shall submit to Council, at a minimum annually, a report that provides:

- Total debt outstanding
- Annual principal and interest payments
- Forecasted debt issuance over the 5-year horizon
- Debt outstanding per capita
- Debt to reserve ratio

Policy Review

This policy will be reviewed once every four (4) years, or as necessary.