Title:	Debt Management Policy	
Policy Group: Your Government and People		Policy Administrator: Finance
Resolution No. CW-118-2022		Policy Number: FIN-03
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1. Policy Statement

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

The debt management policy should achieve balance between establishing limits on the debt program and providing sufficient flexibility in response to unforeseen circumstances and new opportunities to preserve and improve the long-term financial health of the County.

2. Purpose

a) The purpose of this policy is to:

i. Establish parameters regarding the purpose for which debt may be issued

ii. Establish the timing, types and terms of permissible debt

iii. Promote management of debt in a consistent manner

iv. Assist with ensuring the County manages debt in a manner to limit financial risk exposure, minimize long-term costs of borrowing, protect the County’s credit quality and maintain long term financial flexibility

v. Promote integrations with other long-term planning, financial and management objectives of the County

3. Scope

a) The policy applies to the issuance of all debt and resulting repayment terms, including capital lease financing arrangements entered into by the County. The policy applies to all County of Prince Edward departments.

4. Legislative Authority

a) The Municipal Act, 2001, Ontario Regulation 403/02 defines the annual debt and financial obligation limit for municipalities. This regulation provides the authority and imposes the restrictions concerning a municipality's ability to issue debt such that the annual principal and interest payments cannot exceed 25% of "own source" revenues. The own source revenues exclude upper tier government grants, development charges, gains or losses on disposal of assets, and revenues from other municipalities.

5. Definitions

a) **Annual Repayment Limit (ARL)** – The maximum amount of annual debt servicing costs that the County can undertake or guarantee without seeking the approval of the Ontario Municipal Board.

The annual repayment limit is calculated based on data contained in the Financial Information Return, as submitted to the Ministry of Municipal Affairs and Housing. This limit represents the maximum amount the municipality has available to commit to payments relating to debt and financial obligations. Prior to the authorization by Council of a long-term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner.

b) **Debt** – any obligation for the payment of money over a period of time. Debt would consist of debentures, cash loans from financial institutions, capital leases, internal borrowing, loan guarantees and any debt issued by or on behalf of the County including mortgages, debentures or demand loans.

c) **Long Term Debt** – Any debt for which the repayment of any portion of the principal is due beyond one year.

d) **Capital Expenditure** – Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board, Section 3150.

e) **Net Revenues** – The County of Prince Edward's consolidated revenues less:

i. Fees for Tile Drainage / Shoreline Assistance
ii. Ontario and Canada Grants, including grants for Tangible Capital Assets

iii. Deferred revenue earned (Provincial and Canada Community Building Fund)
iv. Revenue from other municipalities, including revenue for Tangible Capital Assets
v. Gain/Loss on sale of land and capital assets
vi. Deferred revenue earned (Development Charges, Cash in Lieu of Parkland)
vii. Other Deferred revenue earned
viii. Donated Tangible Capital Assets
ix. Increase/Decrease in Government Business Enterprise equity
x. Fees and Revenue for Homes for the Aged

f) **Rate Supported Debt** - Debt for which annual principal and interest payments are funded from water and wastewater rates.

g) **Tax Supported Debt** – Debt for which annual principal and interest payments are funded from the general tax levy.

h) **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 is obtained or issued.

i) **Treasurer** – means the Director of Corporate Finance and Infrastructure Technology (Treasurer) for the County of Prince Edward.

6. General

a) Long term debt will not be used to finance current operations.

b) Long term debt will only be used for capital expenditures incurred to acquire, develop, renovate or replace capital assets used in the delivery of municipal services.

c) The County may use long term debt to fund the acquisition or major rehabilitation of existing infrastructure in circumstances where funding cannot be accommodated within the tax supported budget.

d) Consideration will be given to the impact of debt on future ratepayers in order to achieve an appropriate balance between debt and other forms of funding.

e) Debt servicing must be managed in a manner to limit financial risk exposure and flexible to allow financing for any appropriate corporate project or priority approved by Council.

f) The timing, type, and term of Debt will be determined with a view to minimizing long term cost, capital market conditions and the nature of the project.

g) The County's Annual Repayment Limit (ARL), including any internal borrowing, will not exceed 15% of the County's own source revenues (ARL) in order to maintain up to 20% in flexibility, if required, to respond to emergencies, peak period of asset management pressures, and/or to meet senior government funding opportunities.

h) At any point in time, if the County council decides to surpass the Annual Debt Repayment Limit of 15% of the County's own source revenues as set out in this policy, a resolution shall be passed, in open session, which waives the policy restriction to surpass the 15% limit.

i) Under the following circumstance the payments for the County's indebtedness may exceed the Annual Repayment Limit (ARL) as set annually by the Ministry of Municipal Affairs and Housing.

    i. Permission to exceed the limit has been obtained by the Ministry of Municipal Affairs and Housing. This will only be applied for where the County has a dedicated funding sources outside of regular revenues so support the debt payments (i.e., upfront financing agreements that cover the cost of the debt).

j) Temporary Borrowing as per section 405 of the Municipal Act, 2001, as amended is permitted to be used to meet cash flow requirements during the construction of capital infrastructure. Temporary borrowing will be no greater than 5 years and long-term debt will be secured as soon as possible after the completion of a project or 5 years, whichever is less, to replace the short-term borrowing. All temporary borrowing costs will be charged as part of the project costs and form part of the long-term debt requirements.

k) The County will seek to maximize the use of grants and subsidies from senior levels of government, as well as any other possible sources of external capital funding.

l) Development Charges are used as a source of funding for growth-related capital works in accordance with the current Development Charges Background Study, the County's current Development Charges By-law(s), and Development Charges Act.

m) To the greatest extent possible, the net County share of capital projects will be funded through they County's capital reserves as funded from the tax levy.

n) The County will use its capital reserves as required in order to finance capital projects and to limit large fluctuations in the tax levy funding for capital projects. Reserve funds will be set aside on an annual basis from the annual budget in order to accumulate reserves sufficient to fund large capital projects, subject to annual budget approval.

o) In the absence of a construction loan, internal "borrowing or unfinanced" will be used as a means to cash flow projects until completion. At the completion of the project a debenture will be undertaken to replace the internal "borrowing or unfinanced".

p) The County may borrow by debenture, mortgage loan, or other equivalent debt instrument.

q) The term of the Debt will be limited to the term of the useful life of the particular asset, but no greater than thirty (30) years.

r) The County may incur debt for assets that have a minimal useful life of ten (10) years.

s) The Treasurer will provide annually debt management indicators to Council as part of the annual budget document.

7. Responsibility and Implementation

a) Municipal Council is responsible for:

   i. Council must authorize long term debt through by-law.

   ii. Pass a resolution to by-pass this policy if the debt will exceed 15% limit of own source revenues.

b) Treasurer is responsible for:

i. Providing a certification that the municipality has sufficient capacity within its debt repayment limit as per the Ministry of Municipal Affairs and Housing ARL requirements.

ii. Provide policy to municipal auditors to audit policy to t he undertaking of debt during the annual audit.

iii. Arrange for the debt servicing

iv. Provide a report at the annual budget regarding debt management

v. Responsible for providing training and the implementation of the policy.

8. Documentation and Forms

Not Applicable