



CITY OF BELLEVILLE
Carol Hinze
Director of Finance/Treasurer
Finance Department
Report No. DF-2020-16
July 13, 2020

APPROVAL BLOCK
CAO <u> PB </u>

To: Mayor and Members of Council

Subject: Revised Debt Management Policy

Recommendation:

“THAT pursuant to the Director of Finance/ Treasurer’s Report No. DF-2020-16, Revised Debt Management Policy, be approved”.

Strategic Initiatives:

The City of Belleville’s Strategic Plan identifies nine strategic themes. The recommendation identified in this report aligns with all nine of the City’s strategic themes.

Background:

The original Debt Management Policy was approved by Council in 2017. The policy provided guidelines and principles for debt management and the financing of new assets. Debt financing spreads the cost of significant asset purchases over a number of periods, avoiding large short-term budget increases and matching the cost to the benefit received over the life of the asset.

All municipalities face continued infrastructure pressures to both renew existing infrastructure and support growth. While the City has been successful in application for various external Federal and Provincial grant programs in recent years, the availability of this funding is neither predictable nor sufficient to finance our Capital needs.

Since the inception of the Policy in 2017, the City has issued \$20.6 million in Debt for a number of critical infrastructure projects. The funding for repayment of debt is addressed in the City’s annual Operating Budget.

Analysis:

Under the current policy, the maximum amortization period is 15 years. This places significant pressure on both the Tax and User Rate supported Operating Budgets as new debt is issued. A debt management strategy should be considered a long-term approach and carefully weighed against immediate infrastructure needs and budget increases. By using a 15 year amortization for assets with a useful life which exceeds 15 years, we are not accomplishing the objective of spreading the cost over the life of the asset.

Staff surveyed other municipalities and determined that most municipal debt policies support amortization terms of 25 years or greater. The attached revised policy recommends an amended maximum amortization period as follows:

- "25 years or the economic estimated useful life of the asset subject to financing, as outlined in the City's Tangible Capital Asset Policy."

The following table illustrates the effect of extending the amortization period beyond 15 years. While interest rates are higher, the payments are more easily accommodated within the Operating Budget.

	\$1 Million Loan		
<i>interest rate</i>	1.77%	2.02%	2.20%
<i>term</i>	15 yr	20 yr	25 yr
Annual Payment	76,200.66	61,026.92	52,217.46
Total Interest expense	143,010.04	220,538.34	305,436.53

It should be noted that while "25 years" is the maximum period recommended under the revised policy, staff will carefully review each project to ensure that the shortest term possible is selected, balancing current budgetary pressures while minimizing future interest payments.

While the majority of changes to the Policy may be considered "housekeeping" i.e. wording and terminology, other substantive changes to the policy are as follows:

7.1.6 No debt shall be issued for an asset with an estimated useful life of less than 15 years (originally 5 years)

7.5.2 Maintaining an Annual Repayment limit of 12% as opposed to the 25% prescribed under Regulation 403/02 s.3 of the Municipal Act. This ensures that the City's financial position is protected well beyond the limits provided in regulation.

The revised Debt policy continues to restrict the issue of Debt to new initiatives and growth or expansion related projects that help support the City's strategic direction (7.1.3).

Recommendation:

A Debt Management Policy is a key document in the management of a municipality's finances. All policies need to be reviewed periodically to ensure that they best suit the City's financial position and surrounding economic circumstances. The revised Debt Management Policy will provide guidance to ensure that future borrowing decisions are based on a balanced approach which considers budgetary limitations and the appropriate allocation of costs to future periods.

Respectfully submitted,



par

Carol J. Hinze, CPA, CGA
Director of Finance/Treasurer

CH:jk

Attachment



City of Belleville Debt Management Policy

Subject: Municipal Debt Financing of Capital Assets

Dated: March 2017

Revised: July 2020

1. POLICY STATEMENT

The Municipal Debt Financing policy provides the framework for planning and management of the City's long-term debt financing capacity, costs, controls and process. Through implementation of this policy, the City of Belleville will endeavor to achieve the lowest cost of funds when financing capital assets, based upon current capital market conditions. When making decisions regarding the financing of a capital expenditure through the issuance of debt, Council must be satisfied that the lowest cost alternative is utilized.

The City is committed to ensuring that actions are prudent and necessary as they relate to the issuance and management of short and long term debt.

2. PURPOSE

The purpose of this policy is to establish financial guidelines and appropriate controls for the issuance and use of new Debt and to ensure a favourable financial position while supporting the City's ability to meet current and future infrastructure challenges.

Capital financing and debt practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and the nature of the expenditure.

3. SCOPE

This policy applies to any new Debt issued as financing of capital expenditures, on or after the date of this Policy.

All City departments, boards, committees, and other organizations falling within the reporting requirements of the City must comply with this Policy. Debt financing must reflect and comply with all relevant provisions of Ontario statutes, including, but not limited to, the following:

- Municipal Act, including sections relating to Business Improvement Areas
- Police Services Act
- Public Libraries Act
- Safe Drinking Water Act
- Development Charges Act
- Building Code Act

4. DEFINITIONS

- 4.1 Affordability** –the ability to pay for Debt Servicing costs and life cycle expenditures for the underlying asset. The overall measure of Affordable Debt is determined through the Debt Limits (Section 7.54) and Funding for Debt Servicing (Section 7.8) set out in this document.
- 4.2 Capital Expenditures** –Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150.
- 4.3 City Revenues** - Annual consolidated revenues as published in the most recent audited financial statements of the City, including taxation, user fees, developer contributions, grants
- 4.4 Debt** - Any obligation for the payment of money. Debt would normally consist of debentures as well as notes or loans from financial institutions or government lending agencies but could also include loans from reserves.
- 4.5 Debt Servicing** – Required annual Debt payments consisting of principal and interest.
- 4.6 Debt Term** – The period of time required to fully repay the debt.
- 4.7 Interim financing** –Borrowing made to temporarily finance a capital project
- 4.8 Long-Term Debt** – Debt with a repayment term greater than five years
- 4.9 User Rate Funded Debt** – Debt assumed to fund Capital Expenditures which will be fully repaid by user fees, including but not limited to Water, Wastewater, Parking and Local Improvements.
- 4.10 Short-Term Debt** – Debt with a repayment term of five years or less..
- 4.11 Sustainable** –meeting present needs without compromising the ability to meet future needs.
- 4.12 Tax Levy Revenues** – revenues generated to pay for Tax-Supported Operations which may include property taxes, non-user rate fees, fines, permits and investment income.
- 4.13 Tax-Supported Debt** - Debt assumed to fund Capital Expenditures which will be fully repaid by property taxation.
- 4.14 Tax-Supported Operations** - represent civic programs that are funded through Tax Levy Revenues, such as roads, transit, and parks.

5. FURTHER RESOURCES

5.1 Municipal Act, 2001, S.O. 2001, C 25

- 5.1.1 Ontario Regulations 276/02 – Bank Loans
- 5.1.2 Ontario Regulations 278/02 – Construction Financing
- 5.1.3 Ontario Regulations 403/02 – Debt and Financial Obligation Limits

6. RESPONSIBILITY

Municipal Council	<ul style="list-style-type: none">• Approve municipal debt financing of Capital Assets• Approve policies, procedures and guidelines as they relate to debt financing of Capital Assets
Chief Administrative Officer	<ul style="list-style-type: none">• Develop processes to reflect corporate priorities
Treasurer	<ul style="list-style-type: none">• Recommending policies and procedures surrounding the management of debt financing and preparing reports for presentation to both senior management and Council• Ensuring adherence to statutory and policy requirements governing debt management• Recommending debt financing with respect to capital funding decisions to departments and Council• Developing and recommending a sustainable financial plan to support the TCA program• Reporting the City's debt in the Annual Report, at a minimum, against the limits and guidelines identified in Section 7.5.

7. PROCEDURES

7.1 Use of Debt

- 7.1.1 The City will not issue Long-Term Debt-obligations to finance current operating expenditures.
- 7.1.2 When making a decision about the use of debt, alternative capital financing sources should be considered.
- 7.1.3 Long-Term Debt will be considered for the following Capital Expenditures:
 - a) New Initiatives or programs as follows:
 - a. major projects with significant long-term benefits;
 - b. projects that address emerging needs to support corporate priorities and approved strategic plans;
 - b) Growth/expansion related projects; which increase-infrastructure capacity and support the growth of the municipality

- 7.1.4 Long-Term Debt will not be utilized to fund the ongoing rehabilitation of existing infrastructure
- 7.1.5 Long-Term Debt shall not be issued for a project with a value of less than \$1,000,000.
- 7.1.6 No Debt shall not be issued for an asset with an estimated useful life of less than 15 years
- 7.1.7 Short-Term Debt can be considered for interim financing for Capital Expenditures.

7.2 Debt Approval

- 7.2.1 Capital projects with proposed Long-Term Debt financing will be presented for consideration through the annual Capital Budget process.
- 7.2.2 New debt issues will:
 - a) be within the debt limits and thresholds outlined in Section 7.5;
 - b) identify sources of funding for Debt repayment, and
 - c) align with the City's asset management plans and strategies
- 7.2.3 The Treasurer will provide updated debt limits to Council prior to approval of debt financing for capital projects during the Capital Budget process.

7.3 Debt Planning & Management

- 7.3.1 All issuance of Debt requires an authorized bylaw.
- 7.3.2 Any Bank loan agreements entered into by the Municipality will meet the conditions outlined in 276/02 of the Municipal Act.
- 7.3.3 Any Construction financing will meet the conditions outlined in 278/02 of the Municipal Act.

7.4 Types of Debt

- 7.4.1 **Short-term Debt** - Debt with a repayment terms of five years or less
- 7.4.2 **Long-term Debt** - Debt with a repayment terms greater than five years.
The City may use any of the following sources of Long-Term Debt:
 - Municipal serial or amortized debentures
 - Term loans / Mortgages
 - Capital Leases

7.4.3 Internal Borrowing from Reserves or Reserve Funds

When identified that the use of Reserve or Reserve funds will not adversely affect its intended purpose, these funds may be used as a source of financing for short or long-term purposes.

Each such loan shall be authorized by a specific by-law passed by Council and set out the amount, interest, term, and the specific Reserve or Reserve fund from which the loan is made.

7.5 Debt Limits

- 7.5.1 The maximum total Debt limit of the Municipality is outlined in Regulation 403/02, s.3 of the Municipal Act. The limit is defined as a restriction on the total debt payments a Municipality may incur annually which is referred to as the “Annual Repayment Limit”. This metric is measured as 25% of Net Operating Revenue less Debt Payments, and is provided by the Ministry of Municipal Affairs and Housing on an annual basis.
- 7.5.2 With respect to the limit provided in Regulation 403/02 and described in paragraph 7.5.1 of this Policy, the City will maintain an Annual Repayment Limit of 12%.
- 7.5.3 The Treasurer will provide the updated limit to Council, as outlined in 403/02, s. 4 of the Municipal Act, and the Debt threshold metrics (7.5.2) before the authorization of any work or increase in expenditure that would require a long-term debt.

7.6 Debt Amortization Term

- 7.6.1 The maximum Debt amortization term will be the lesser of 25 years or the estimated useful life of the asset subject to financing, as outlined in the City’s Tangible Capital Asset Policy.

7.7 Debt Structure

- 7.7.1 Debt should be structured to achieve the lowest net cost of funds, given the constraint of debt maturities and current capital market conditions. To the extent possible, the City will structure its debt obligations to require repayment as soon as feasible so as to recapture its borrowing capacity for future use and minimize costs where possible.
- 7.7.2 Alternative borrowing techniques and strategies shall be considered if benefits can be demonstrated. Risk mitigation strategies will be developed when alternative financing techniques are considered.

7.8 Funding for Debt Servicing Funding

- 7.8.1 Debt servicing will be funded by long-term sustainable revenue. Reserves and reserve funds shall not be used to debt servicing costs.
- 7.8.2 Where Debt Servicing has been identified under the City’s approved Development Charge background study, funding will be provided accordingly.
- 7.8.3 As Debt is retired, released Debt Service funding will be used to fund new debt Service costs, or transferred to Capital Reserve Funds.

7.9 Reporting

- 7.9.1 A summary of the City’s current Debt position, forecast and Annual Repayment Limit as defined under this Policy will be provided to Council annually.