

BY-LAW No. 2017-058
OF THE
CORPORATION OF THE TOWN OF COLLINGWOOD



BEING A BY-LAW TO ESTABLISH A DEBT MANAGEMENT POLICY

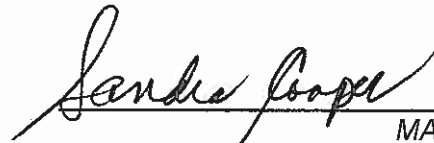
WHEREAS section 5(3) of the *Municipal Act, 2001*, S.O. 2001 c. 25, as amended, provides that a municipal power shall be exercised by by-law;

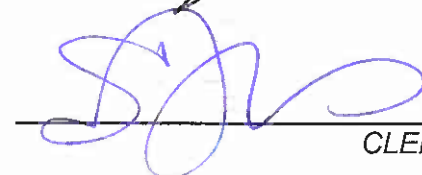
AND WHEREAS Council wishes to implement a policy with respect to capital financing and the management of debt;

NOW THEREFORE THE COUNCIL OF THE CORPORATION OF THE TOWN OF COLLINGWOOD HEREBY ENACTS AS FOLLOWS:

1. **THAT** the Policy entitled "Debt Management Policy" appended hereto as Schedule "A" is hereby approved and adopted.
2. **THAT** the "Debt Management Policy" approved by Council Resolution No. 500 on October 4, 2010 be hereby rescinded.
3. **THAT** this By-law shall come into full force and effect on the date of final passage hereof at which time all By-laws and/or resolutions that are inconsistent with the provisions of this By-law and the same are hereby repealed or rescinded insofar as it is necessary to give effect to the provisions of this By-law.

ENACTED AND PASSED this 21st day of August, 2017.


MAYOR


CLERK



Effective Date:
August 21, 2017

POLICY NUMBER:
FIN-002-01

POLICY STATEMENT:

This policy ensures compliance with all statutory requirements for incurring debt for operating and capital purposes and the issuance of debentures and prescribed financial instruments for or in relation to debt. This policy governs the use and administration of capital financing and debt

APPLICATION:

The Debt Management Policy covers all debt or financial obligations including related agreements and lease financing agreements for capital that are entered into by the Corporation, its boards and subsidiaries as well as those employees responsible for control, administration or management of capital financing and debt issuance activities.

1. PURPOSE

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the Corporation's operating and infrastructure needs.

2. DEFINITIONS

The following definitions do not include all of the possible debt instruments that a municipality could use for long-term financing purposes. The Town of Collingwood generally limits its long-term financing to either amortizing or serial type debentures but has made use of sinking fund debentures in the past. The definitions include only those more "common" methods of financing.

Amortizing Debentures:	A debenture that has a blended principal and interest payment that is equal in each repayment period.
Banker's Acceptance:	A short-term credit obligation created by a non-financial firm such as the Corporation and guaranteed by a bank as to payment.
Capital Financing:	A generic term for the financing of capital assets. Although this can be achieved through the use of a variety of funding sources, for the purposes of this policy it is assumed to mean the use of debt.
Construction Financing:	A form of debt financing in which the issuer does not pay any principal and/or interest for a period up to five (5) years during the construction or rehabilitation of the facility.

Corporation:	Refers to the Corporation of the Town of Collingwood.
Debenture:	A formal written obligation to repay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured.
Debt and Financial Obligation Limit:	A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board.
Debt:	Any obligation for the payment of money. The Town considers debt to consist of debentures, notes or cash loans from financial institutions, loans from reserves and discretionary reserve funds, financing leases, loan guarantees, mortgages, demand loans or internal loans.
Debt Servicing Costs:	Refers to the cash that is required to cover the repayment of interest and principal on a debt for a particular period.
Financial Guarantee:	An agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary debtor fails to perform.
Hedging:	A strategy used to offset or mitigate financial risk such as currency and/or interest rate risk.
Infrastructure Ontario (IO) or its successor organization:	Any entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals access to alternative financing and procurement service and to longer-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.
Lease Financing Agreements:	A lease for the purpose of obtaining long-term financing of a capital undertaking which requires payment by the Corporation beyond the current term of Council.
Long-Term Bank Loan:	Long-term debt provided by a bank or a syndicate (group) of banks.

Long-Term Debt:	Any debt for which the repayment of any portion of the principal is due beyond one year.
Municipal Capital Facilities:	Includes land, as defined in the Assessment Act, works, equipment, machinery and related systems and infrastructures.
Project Financing:	Financing in which principal and interest payments are structured so as to more closely match the revenues or cost savings of a specific project. Also includes financing for which the lender, in the case of default, would have no or limited recourse to the issuer beyond the assets purchased with the proceeds of the financing.
Refunding:	As applied to debentures, describes the process of retiring existing debt by issuing new securities to either reduce the interest rate or extend the maturity date or both.
Rolling Stock:	Equipment that moves on wheels used for transportation and/or transit purposes. Examples include subway cars, trucks, buses and tractor trailers.
Short-term Debt:	Any debt for which the repayment of the entire principal is due within one year.
Sinking Fund Debentures:	Debentures for which money is accumulated on a regular basis in a separate custodial account that when combined with interest earned is used to redeem the debentures.
Term Debentures:	Debentures that are comprised of a combination of installment and sinking fund debentures.
Town:	Refers to the Corporation of the Town of Collingwood
Variable Interest Rate Debentures:	Debentures that provide for one or more variations in the rate of interest payable on the principal during the term of the debenture.

3. DESCRIPTION

3.1 Philosophy for Capital Financing and Debt Issuance

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations.

“Best interest” will be consistent with the following key financial principle with respect to capital financing and debt practices:

“Capital financing and debenture 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.”

This philosophy will be met through the objectives outlined below.

3.2 Objectives of the Capital Financing and Debt Program

The primary objectives for the Corporation’s capital financing and debt program, in priority order shall be:

- a. Adherence to statutory requirements
- b. Ensure long term financial sustainability, stability and flexibility
- c. Limit financial risk exposure
- d. Minimize long-term cost of financing
- e. Match the term of the capital financing to the useful life of the related asset.

a. Adherence to Statutory Requirements

Capital financing may only be undertaken when in compliance with the relevant sections of the *Municipal Act, 2001* (the “Act”) and related regulations.

Requirements include but are not limited to the following:

- i. The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year.
- ii. The term of the capital financing shall not exceed the lesser of 40 years or the useful life of the underlying asset.
- iii. Long-term debt will only be issued for new capital projects.
- iv. The total financing charges after issuance of the proposed debt will not exceed the Debt and Financial Obligation Limit for the municipality responsible for incurring the debt unless otherwise approved by the Ontario Municipal Board.
- v. Prior to authorizing a lease financing agreement, a report will be prepared for Council assessing the costs as well as the financial and other risks associated with the proposed lease in relation to other methods of financing.
- vi. Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of

construction of an undertaking, Council shall consider all financial and other risks related to the proposed construction financing.

Furthermore, the awarding of any contract under this Policy, unless otherwise authorized by Council, will follow the procedures and authorities set out in the Corporation's Procurement By-law.

b. Ensure Long-term Financial Sustainability, Stability and Flexibility

The capital financing program will be managed in a manner consistent with other long-term planning, financial and management objectives.

Prior to the issuance of any new capital financing, consideration will be given to its impact on future taxpayers and/or ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.

Regular and/or ongoing capital expenditures and the current portion of future rehabilitation and replacement costs will be recovered on a "pay as you go" basis through rates, tax levy, user fees and/or reserve fund monies. Adequate reserve funds must be developed and maintained for all capital assets owned by the Corporation to ensure long-term financial sustainability and flexibility. However, where long-term financing is required, due consideration will be paid to all forms of financing including debentures, construction financing, long-term bank loans and lease financing agreements.

Financial sustainability depends on debt levels and debt servicing costs being consistent with the Corporation's level of affordability, both current and future. Debt issuance decisions must comply with ensuring long-term financial flexibility and sustainability for the Corporation.

Goals and limits on debt, and financial measures to assess financial flexibility and sustainability are as follows:

Goals

- Total tax supported debt servicing costs as a percentage of Town Own-Source Revenues shall not exceed 7%.
- Total water rate supported debt servicing costs as a percentage of Water Utility Own-Source Revenues shall not exceed 7%.
- Total wastewater rate supported debt servicing costs as a percentage of Wastewater Utility Own-Source Revenues shall not exceed 7%.

Financial Measures

Debt ratios are the key analytical measures used by credit rating agencies to evaluate the credit worthiness of a municipality. Three key debt ratios will be used to monitor the debt position:

- Debt servicing costs as a percentage of own source revenues

- Debt per capita
- Debt outstanding per \$100,000 of assessment

In addition, annually a third party assessment of the Corporation's financial health will be conducted to provide Council and tax/rate payers with an independent opinion on the Corporation's financial position and shall include but not be limited to all matters noted in the Goals and Financial Measures of the previous paragraph.

c. Limit Financial Risk Exposure

The capital financing program will be managed in a manner to limit financial risk exposure. As a result, it will be the Corporation's normal practice to issue debt that is only denominated in Canadian dollars with an interest rate that will be fixed over the term.

In compliance with the Goals and Financial Measures, if a situation arises where there is a material financial advantage and/or it is deemed prudent for the Corporation to issue debt that is subject to fluctuations, in foreign currency and/or interest rates, a hedging strategy will be considered to either reduce or eliminate the risk.

The hedging strategy would include the following:

- i. For debentures that are not denominated in Canadian currency, the rate of exchange will be fixed for the term of the obligation (both principal and interest payments) on or before the date of issuance.
- ii. For variable interest rate debentures with a term exceeding one year, the interest rate will be fixed within six (6) months of the issuance date.

However, long-term bank loans for which the interest rate may vary will not be fixed if prevailing market conditions are such that in the opinion of the Treasurer it is in the Corporation's best interests to allow the rate to float where such debt, in addition to any other outstanding variable rate loans or debentures, does not exceed fifteen percent (15%) of the total outstanding debt of the Corporation.

Lease financing agreements have different financial and other risks than traditional debt that must be considered and, where practicable, mitigated prior to use, including contingent payment obligations for items such as lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material lease financing agreement.

d. Minimize Long-Term Cost of Financing

The timing, type and term of financing for each capital asset will be determined with a view to minimize its overall long-term cost of financing. Factors to be considered will include:

- current versus future interest rates;

- the availability of related reserve fund monies;
- the pattern of anticipated revenues or cost savings attributable to the project; and,
- all costs related to the financing of the project whether by debenture, construction financing or lease financing.

e. Match the Term of the Capital Financing to the Useful Life of the Related Asset

The maximum term over which a capital asset may be financed is 20 years unless otherwise specifically approved by Council. In no case may the term of financing exceed the anticipated useful life of the related asset.

4. STANDARD OF CARE

An appropriate standard of care shall be achieved in the following manner:

4.1 Ethics and Conflicts of Interest

Officers and employees involved in the capital financing and debt management processes shall:

- a. Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions.
- b. Disclose any material interests in financial institutions with which they conduct business.
- c. Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties.
- d. Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Corporation.

4.2 Delegation of Authority

The Treasurer has overall responsibility for capital financing by the Corporation and is responsible for the implementation of the capital financing program and the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for capital financing activities. No person shall engage in a capital financing activity except as provided under the terms of this Policy.

4.3 Requirement for Outside Advice

The Corporation's staff is expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, when in their opinion the appropriate level of knowledge does not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

5. SUITABLE and AUTHORIZED FINANCING INSTRUMENTS

The form of financing that meets the objectives listed above will be dependent in part upon its term and the type of asset to be financed.

5.1 Short-Term – Under One (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 one or more of the following sources:

- a. Reserves and specified discretionary reserve funds
- b. Bank line of credit
- c. Short-term promissory notes issued to aforementioned institutions
- d. Bankers' Acceptances
- e. Infrastructure Ontario short-term advances pending issuance of long-term debentures

5.2 Long-Term – Greater than One (1) Year

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

- a. Debentures (including those issued to Infrastructure Ontario), which may be in the following form or a combination thereof:
 - i. Installment (including those with a refunding provision)
 - ii. Sinking Fund
 - iii. Term
 - iv. Amortizing
 - v. Variable Interest Rate

Fixed rate debentures will be the standard form of long-term financing used by the Corporation.

- b. Reserves and Specified Discretionary Reserve Funds
These may be used for both short and medium-term (up to three (3) years) financing if deemed cost effective or otherwise necessary. It is recognized however, that reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them.

Notwithstanding this policy, intra-fund borrowing between development charge reserve accounts for a longer period of time is permitted under the *Development Charges Act*.

- c. Long-Term Bank Loans
These may be used if deemed cost effective or otherwise necessary. These loans may be fixed or variable interest loans as determined by the Treasurer.
- d. Construction Financing

May be used for a period up to five (5) years during construction or rehabilitation of certain facilities from which a revenue stream will be generated (i.e. water treatment plant, wastewater treatment plant) upon completion.

e. Lease Financing Agreements

May be used when it provides material and measurable benefits compared with other forms of financing.

f. Mortgages

Mortgages may be used for a period up to ten (10) years if deemed cost effective or otherwise necessary.

Infrastructure Ontario or its successor organizations will be the prescribed primary lender for debenture requirements.

5.3 Debt Structures

Debt issues are structured to achieve the lowest possible all-in net cost of funds, subject to the constraints prevailing capital market conditions, debt maturity, the capital asset being financed and the objectives of the Debt Policy.

To the extent possible, debt will be structured to require repayment as soon as feasible so as to recapture borrowing capacity for future use and minimize costs where possible.

6. FINANCING RISK IDENTIFICATION AND MITIGATION STRATEGIES

Financial risks associated with certain types of financing shall be identified and considered in relation to other forms of financing that would be available. The mitigation strategies discussed below will be used to reduce the additional risk when deemed practicable.

6.1 Availability of Debt Capacity for Future Priority Projects

The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan based on the goals for financial sustainability and flexibility or the Debt and Financial Obligation Limit established by the province. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan. Project prioritization will permit the most critical elements of the capital plan to proceed in an expeditious manner.

6.2 Refunding Risk

The Corporation may issue debentures for which the amortization to retirement period is longer than the contractual term of the debenture, similar to a home mortgage where the term to retirement is 25 years and the renewal term is every five (5) years. For debentures of this type, the balance of debt remaining at the end of the contractual term will need to be refinanced.

A risk to the Corporation would be that interest rates may be higher during the second financing period, resulting in higher than anticipated debt payments. For this reason the

use of refunding debentures will not be the preferred method of financing by the Corporation.

6.3 Construction Financing

Construction financing is unique in that the debt and interest may be accrued in advance of the project's completion and no payments are made during the building period. The following risks compared to other forms of financing will be considered prior to the use of construction financing:

- a. The financial risks include the following:
 - i. Interest rates may fall from the time the rate for the construction loan is established and completion of construction. If there is a possibility of this occurring, the risk can be mitigated through the use of variable rate debt.
 - ii. The final cost of construction could be materially less than initially forecasted and financed. Mitigation can be achieved by issuing debt that does not exceed 75% of the projected costs.
- b. Other risks include the construction project may not be able to proceed or is not completed for technical or other reasons. The mitigation strategy will be not to issue long-term debt until all critical construction contracts have been awarded.

6.4 Lease Financing Agreements

Leases may be used to finance equipment, buildings, land or other assets that the Corporation does not have a long-term interest in or may not be able to acquire through other means. The following risks compared to other forms of financing will be considered prior to the use of lease financing agreements:

- a. The financial risks include the following:
 - i. The ability for lease payment amounts to vary if based on changes in an underlying debt instrument (generally expressed as a particular Government of Canada Bond). This risk usually only applies to new assets being added to a leasing schedule and would be the same as new debt being issued from time to time.
 - ii. The ability for lease payment amounts to vary based on changes in the assumed residual values of the asset being leased. Again, this risk usually only applies to new assets being added to a leasing schedule and would not be riskier than other forms of financing.
 - iii. Uncertainty over leasing costs if the contract needs to be extended or renewed. The normal practice of the Corporation will be to negotiate these costs prior to the agreement being executed.
- b. Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company. The normal practice of the Corporation will be to assess the financial strength of the leasing company prior to the agreement being executed.

7. REPORTING REQUIREMENTS

In addition to any information requested by Council or that the CAO and Treasurer considers appropriate the following reports will be provided:

- a. Annually, the Treasurer shall submit to Council a report or reports that:
 - i. Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year.
 - ii. Consistent with the Goals and Financial Measures adopted by Council, requests authority to finance certain capital items detailing for each item the type, amount and the maximum term of financing.
 - iii. States the sum, if any, that must be raised for sinking fund purposes in that year.
 - iv. Updates of the Debt Position of the Corporation.
 - v. An independent third party assessment of the financial health of the municipality.
 - vi. Lists and details of any outstanding construction financing debentures in accordance with the provisions of O. Reg. 278/02.
- b. Before entering into a lease financing agreement, the Treasurer shall submit to Council a report with a recommendation assessing the costs and financial and other risks associated with the proposed agreement. The report shall be prepared in accordance with the provisions of O. Reg. 266/02.
- c. Before passing a by-law providing for construction financing, the Treasurer shall submit to Council a report prepared in accordance with the provisions of O. Reg. 278/02.

8. RESPONSIBILITIES

Council

Council has the exclusive authority for authorizing debt issuance.

Mayor

The Mayor or, in the absence of the Mayor, Deputy-Mayor shall execute and sign the appropriate documents on behalf of the Corporation with respect to the issuance of debt instruments.

Treasurer

- a. Reviews and recommends the type and term of financing for capital projects and operating requirements.
- b. Calculates the financial debt obligation limit for the Corporation as prescribed by the Act.
- c. Coordinates the preparation of debt instrument by-laws for Council.

- d. Executes and signs appropriate documents on behalf of the Corporation and performs all other related acts with respect to the issuance of debt securities including the payment of principal, interest or other related fees.
- e. Reviews and recommends to Council the financial and business aspects of any lease financing agreements and transactions.
- f. Ensures all reporting requirements identified within this Policy are met.

Clerk

The Clerk shall certify and sign documents on behalf of the Corporation with respect to the issuance of debt securities.

9. POLICY REVIEW

This policy shall be reviewed when changes to the *Municipal Act* or Ontario Regulations affect the provisions contained herein. At a minimum this policy shall be reviewed every five (5) years.

REFERENCES:

Municipal Act, 2001, S.O. 2001 c.25 Sections 401 to 424.
Ontario Regulation 247/01 – Variable Interest Rate Debentures and Foreign Currency Borrowing
Ontario Regulation 266/02 – Financing Leases for Municipal Capital Facilities
Ontario Regulation 276/02 – Bank Loans
Ontario Regulation 278/02 – Construction Financing
Ontario Regulation 403/02 – Debt and Financial Obligation Limits
Ontario Regulation 586/06 – Local Improvement Charges – Priority Lien Status
Ontario Regulation 653/05 – Debt-Related Financial Instruments and Financial Agreements

Revision History:

Review Date	Description