

Bylaw # 2018 – 069

June 2018

***MUNICIPALITY OF
HASTINGS
HIGHLANDS***

*FIN-05 Finance Policy – Debt
Management*

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Municipality of Hastings Highlands

Policy Type: **Finance**

Policy Number: **FIN-05**

Policy Title: **Debt Management**

Policy Approval Date: **June 20, 2018**

A policy to establish standards and guidelines for the management of debt for the Municipality of Hastings Highlands.

1.0 Purpose

The purpose of this policy is to:

- Establish parameters regarding the purpose for which debt may be issued
- Establish the timing, types and terms of permissible debt
- Promote management of debt in a consistent manner
- Assist with ensuring the municipality manages debt in a manner to limit financial risk exposure and protect the Municipality's credit quality
- Promote integrations with other long term planning, financial and management objectives of the Municipality

2.0 Scope

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

In order to be an effective financial tool, provisions of the debt management policy must be compatible with the municipality's goals pertaining to the capital plan and budget, the financial reserves plan, and the operating budget.

A debt management policy should also strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities.

3.0 Definitions

“Council” means the Council for The Corporation of the Municipality of Hastings Highlands.

“Municipality” means The Corporation of the Municipality of Hastings Highlands.

“Annual Debt Repayment Limit (ARL)” means the maximum amount of annual debt servicing costs that the Municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board. The annual amount is provided by the Ministry of Municipal Affairs and must be adjusted by the treasurer in the prescribed manner prior to the authorization by Council of a Long Term Debt or financial obligation. Refer to Ontario Regulation 403/02. The Regulation provides a formula which limits the annual debt service costs to an amount equal to 25% of operating revenue.

“Capital Expenditure” means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board, Section 3150.

“Debt” means any obligation for the payment of money over a period of time. Debt would consist of debentures, cash loans from financial institutions, capital leases, loan guarantees and any debt issued by or on behalf of the Municipality including mortgages, debentures or demand loans.

“Long Term Debt” means any debt for which the repayment of any portion of the principal is due beyond one year.

“Major Rehabilitation” means the renovation of an existing asset or any of its components in order to restore and/or extend the life of the asset.

“Tax Supported Debt” means debt for which annual principal and interest payments are funded from the general municipal tax levy.

“Temporary Borrowing” means the 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.

4.0 Debt Management Statement(s)

Prior to incurring debt, the following requirements must be adhered to:

- Debt may be used for financing the acquisition or construction of an asset used in the delivery of municipal services and for avoiding an excessively heavy burden on the tax rate in one particular year.

- Consideration will be given to the impact of debt on current and future ratepayers as a means to achieve an appropriate balance between debt and other forms of funding.
- Repayment of debt will be structured in a manner that is fair and equitable to those who benefit or have access to the benefit(s) from the asset(s).
- Debt servicing must be affordable, sustainable and flexible to allow financing for any appropriate corporate project or priority approved by Council.
- A comprehensive review of each project must be completed prior to approval of new debt. The review must include the total cost of the project, cash flow of the project including debt issuance, operating costs after completion of the project and the benefit to the community.
- The Municipality will not use long term debt to fund current operations.
- The Municipality may use long term debt to fund major rehabilitation of existing infrastructure in circumstances where funding cannot be accommodated within the tax supported capital budget.
- Council must authorize debt through a bylaw. Before doing so, Council is required to obtain the treasurer's certification that the municipality has sufficient capacity within its debt repayment limit to incur additional debt.

5.0 Financial Details

- The Municipality may borrow by debenture, mortgage loan or other equivalent debt instrument.
- Council may authorize the treasurer to borrow funds on a temporary basis, for purposes of short-term cash flow management, in accordance with the definition for Temporary Borrowing in this Policy.
- The Municipality may incur debt for assets that have a useful life of not less than ten (10) years.
- The term of debt will be limited to the term of the useful life of the particular asset but not exceeding twenty five (25) years.

6.0 Limitation of Debt

- Debt may be undertaken when the size of a project is significant and when funding cannot be accommodated within the tax supported capital budget and when no other viable sources of funding is available.
- The annual debt (principal + interest) payments for the current year for the Municipality cannot exceed a maximum of 50% of the Annual Repayment Limit (ARL).
- At any point in time, if Council decides to surpass the limitations set out in this policy, a resolution shall be passed, in an open Council session, which waives the policy restriction to surpass the maximum capacity of 50% of Annual Repayment Limit (ARL), as outlined above.
- Borrowing to a maximum of 50% of the Annual Repayment Limit, leaves the Municipality with flexibility to borrow up to an additional 50% of ARL if required, to respond to emergencies and/or to meet senior government funding opportunities.
- Under no circumstances will the annual debt (principal + interest) payments for the Municipality's indebtedness exceed the Annual Repayment Limit (ARL) as set annually by the Ministry of Municipal Affairs and Housing.