Appendix A

THE CITY OF GREATER SUDBURY
POLICIES AND PROCEDURES

DEPARTMENTS: All Departments

SECTION: All Sections

TITLE: Debt Management Policy

APPROVED BY: City Council

DATE: October 8, 2013

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Purpose

The purpose of the Debt Management Policy is to set out the parameters for securing debt, managing outstanding debt and provides guidance regarding the timing of debt, type of debt instrument and the purpose for which the debt will be used.

Policy Statement

- Debt is an ongoing component of the City's capital financing structure and should be coordinated with the City's long-term plans and strategies
- Debt must be affordable and sustainable
- Debt should be structured in an equitable manner to those who pay should benefit from the asset
- Issuing or securing new debt should be only approved by Council
- Debt must be managed, monitored and reported upon

1.0 Principles of Debt Financing

The City's Capital Policy By-law 2012-119 states:

In accordance with the Long Term Financial Plan (L TFP), more specifically, Principle #7 "use debt financing where appropriate", any internal or external debt financing must be approved by Council, and should only be considered for:

- new, non-recurring infrastructure requirements
- programs and facilities which are self-supporting, and
- projects where the cost of deferring expenditures exceeds debt servicing costs

The LTFP also stated that Council should:

- Consider undertaking a short-term, managed program of debt financing to address the City's current infrastructure deficiency and to reduce further deterioration of the City's infrastructure
- Issue or secure debt for terms no longer than the anticipated life of the funded assets

Reductions in External Debt Repayments

The LTFP also recommends: "As debt charges decline due to retirement of debt, apply savings to accelerate achievement of full life cycle costing for City infrastructure."
When preparing the annual budget, any decrease in annual debt repayments shall be offset by a corresponding increase in the contribution to the respective Capital Envelope. This allows the envelopes to increase while having no impact on the operating budget.

2.0 Debt Approval

2.1 The Capital Policy By-law #2012-119 also provides guidance regarding debt approval.

Finance Approval for Debt Financing

If a capital project is identified that meets the above noted criteria for debt financing, an application should be made by the SMT member to the Chief Financial Officer.

The Financial Planning and Policy Section will determine if it is in the City's best interest to finance the project internally or externally.

Council approval is required for either internal or external debt financing.

Internal Debt Financing

From time to time, a capital project may require internal debt financing, with repayments to come from future capital envelopes or other sources over time. If the term of the repayment exceeds two years, then interest will be charged.

Any internal financing recommended to Council will be in accordance with the City's Investment Policy, which states that interest will be charged at one percent above the average investment rate locked in at the time the internal financing is approved. Finance will provide interest rates and amortization schedules for each project with internal debt financing.

2.2 A multi year debt service funding strategies consistent with the capital planning and budget cycle will be developed. Capital projects requiring debt financing should be identified during the budget process.

3.0 Debt Categories

To facilitate debt planning, management and reporting, debt is categorized into two groups based on the funding source for the debt servicing:

1. Tax Supported Debt – the debt repayment source would be the tax levy

2. Self Supporting Debt – the debt repayment source would be outside the tax levy – such as user fees or development charges. Such projects would include but not limited to water/wastewater projects, parking lot improvements, growth related projects, arena projects where other revenues would provide for all operating costs and debt servicing costs

4.0 Debt Limits

The municipal debt limits based on debt servicing costs are:

5% of Net Revenues or Own Purpose Revenues (as identified in the Ministry's Annual Repayment Limits). This refers to the total revenue the municipality receives and it is discounted for items such as the Ontario and Canada grants, deferred revenue earned and gain/loss on sale of land and capital assets.

5.0 Debt Instruments

The following are guidelines for the City:

- Issue an RFP to secure the best interest rates and terms available

- Obtain a credit rating from one of the rating services if it would assist in reducing the interest rate significantly, and the benefits outweigh the costs

- Make application and secure debt from Infrastructure Ontario if rates are lower than through the RFP process, and the terms are more favourable

- Use of debentures should be considered if bank rates or Infrastructure Ontario rates are not appealing

- Acquisition of financing through a Private Public Partnership (P3) must be approved by Council

- Before entering into a Capital Lease, it must be in accordance with Bylaw 2003-213

- Make use of Municipal Swaps when available to reduce interest costs

6.0 Debt Amortization Term

Debt term shall not exceed the probable life of the asset. If the debt term is less than the life of the asset and affordable, this would be recommended with the view of minimizing long term financing costs. (Municipal Act cannot exceed forty years).

Minimizing costs will be balanced against being fair and equitable to taxpayers that pay and benefit from the underlying assets over time.

7.0 Reporting and Monitoring

Staff will monitor this regularly and at a minimum report annually against the limits and guidelines identified in Section 4.0.

Staff will also periodically review benchmark data from other municipalities.