
Title: Tax Funded Debt Management

Department/Division: Corporate Services / Finance

Purpose

1. The purpose of this policy is to outline the internally imposed limits on debt payments to ensure that the City of Owen Sound plans for and uses debt financing to support the long term flexibility and sustainability of the City's financial position. The debt policy integrates with other financial policies including rate funded debt management, reserves and reserve funds and capital budget policies. The policy ensures that the City complies with statutory requirements and maintains sound financial position to protect the city's credit rating.

Scope

2. The policy applies to all departments of the City where debentures issued are paid for from the City's total levy.
3. Excluded from this policy are debt instruments to fund projects included in the most recently approved Development Charges By-Law that have anticipated debenture financing recoverable through development charges.
4. Excluded from this policy are debt instruments to fund projects that will be recoverable from non tax revenue (examples include but are not limited to; water, waste water, cemetery services, campground operations and leased facilities)

Definitions

5. For the purposes of this policy,
"ARL" means annual repayment limit. This is the legislated limit that caps principal and interest payments for municipalities based on revenues that are generated by the municipality (i.e. not including grant funding);

“Capital Project” means an expenditure related to capital assets as defined by the Public Sector Accounting Board (PSAB) section 3150.

“Capital Reserve Fund” means the capital reserve fund which is the primary funding source for the rehabilitation, replacement, construction, or development of infrastructure, new capital assets and studies. The portion of the annual levy that is raised to fund capital is the source of funds for this reserve fund.

“Debenture” means a formal written obligation to pay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured i.e. backed by general credit rather than by specified assets

“Debt Service Cost” means debt repayment, including interest and principal.

“Equipment Reserve Fund” means the capital reserve fund which is the primary funding source for the replacement of existing City fleet and equipment. Transfers to reserves from Equipment operating accounts are the source of funding for these reserves.

“Facility Reserve Fund” means the capital reserve fund which is the primary funding source for the rehabilitation, major restoration and replacement of existing City facilities and leasehold improvements. Transfers to reserves from property operating accounts are the source of funding for these reserves. Additionally, a portion of recreation facility revenue is allocated to facility reserves each year.

“Net Debt Charges” means the total debt charges less amounts recovered from user fees.

“Total Capital Charges” means the total of debt service costs plus the annual contribution to Capital, Storm Water, Equipment and Facility Reserve Funds.

Policy

Purposes for Which Debt may be issued

6. The City may borrow by debenture, mortgage or other acceptable debt instrument to finance capital expenditures that support corporate priorities and the approved strategic plan where the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt.
7. The City will not issue debt where the total capital project cost is less than \$1,000,000.

8. The City will not issue debt for rolling stock as these purchases are to be funded through the use of reserves.

Debt Limits

9. ARL is limited to 25% of own sourced revenues and applies to all external debt held by the Municipality. For clarification, the ARL includes all debt payments including those not included within the scope of this policy (water, waste water, campground etc...)
10. Annual Net Debt Charges will not exceed 10% of the total municipal levy.
11. Debenture funding will not exceed 70% of total capital project cost.
12. All debentures are supported by a bylaw which details the total amount of the debenture, the interest rate and the term of the loan.

Debenture Terms

13. Amortization periods of debentures may not exceed 10 years except when the project being funded by debt has an expected useful life of 50 years or more. In the instance that useful life exceeds 50 years, debenture terms of 15 to 25 years may be considered. No debt term shall ever exceed 40 years.

Net Debt Charges

14. In the event that a debenture matures and the payment is not allocated to a new debt instrument, the debt service costs previously payable will be transferred to the capital reserve such that the Total Capital Charges year over year never decreases as a result of maturing debt obligations.

Reporting Requirements

15. The Treasurer will present Council with a summary of debt payments, funding sources and debt balances annually. The report will include original loan amount, purpose, a breakdown of principle and interest payments, interest rate and maturity debt by debt instrument.

Related Policies & Legislation:

Internal

16. Rate funded Debt Policy
17. Reserve Policy

18. Capital Budget Policy

19. Grants Policy

External

20. Annual Repayment Limit

Appendices:

21. None

Revision History:

Resolution Number	Date