

Bill No. 338
2021

By-law No. CPOL.-48()-___

A by-law to amend By-law No. CPOL.-48-244, as amended, being “Debt Management Policy”, to add intergenerational equity and maintaining a strong credit rating to objectives, and to add clarifying language in the policy section.

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 section 9 of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

AND WHEREAS the Municipal Council of The Corporation of the City of London wishes to amend By-law No. CPOL.-48-244, as amended, being “Debt Management Policy”, to add intergenerational equity and maintaining a strong credit rating to objectives, and to add clarifying language in the policy section.;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. By-law No. CPOL.-48-244, as amended, being “Debt Management Policy”, is hereby amended by deleting Schedule “A” to the By-law in its entirety and by replacing it with the attached new Schedule “A”.
2. This by-law shall come into force and effect on the date it is passed.

PASSED in Open Council on August 10, 2021.

Ed Holder
Mayor

Catharine Saunders
City Clerk

First Reading – August 10, 2021
Second Reading – August 10, 2021
Third Reading – August 10, 2021

Schedule “A”



London
CANADA

Debt Management Policy

Policy Name: Debt Management Policy

Legislative History: Enacted June 13, 2017 (By-law No. CPOL.-48-244); Amended June 26, 2018 (By-law No. CPOL.-354-345); Amended June 15, 2021 (By-law No. CPOL.-_____)

Last Review Date: June 15, 2021

Service Area Lead: Director, Financial Planning & Business Support (or written designate)

1. Policy Statement

1.1 Purpose

The purpose of this policy is to establish objectives for debenture and other forms of financing necessary to meet The Corporation of the City of London’s (the “City”) infrastructure and operating requirements as prescribed by the relevant sections of the Municipal Act, 2001, c 25 (the “Act”), specifically Part XIII Debt and Investment, and the applicable regulations thereunder.

This policy also establishes strategies for managing debt, including establishing parameters related to new debt being authorized or issued and ensuring that debt is at a level that will not impair the financial position or the credit rating of the City.

1.2 Objectives

The primary objectives of this policy, in priority order, are as follows;

a) Adherence to statutory requirements

The City shall secure temporary or long-term borrowing for municipal purposes as prescribed by the Act, specifically Part XIII Debt and Investment and the applicable regulations thereunder, including, but not limited to Ontario Regulation 403/02 Debt and Financial Obligation Limits; Ontario Regulation 438/97 Eligible investments, Related Financial Agreements and Prudent Investment; Ontario Regulation 247/01 Variable Interest Rate Debentures and Foreign Currency; Ontario Regulation 276/02 Bank Loans; and Ontario Regulation 653/05 Debt-Related Financial Instruments and Financial Agreements, as amended.

b) Maintain a strong credit rating

The City shall strive to maintain a strong credit rating. A strong credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. In addition, a strong credit rating is required to meet the statutory requirements for entering into certain types of financing arrangements.

c) Intergenerational equity

The City shall structure debt financing in a way that is fair and equitable to those who pay and those who benefit from projects over time.

d) Managing long-term cost of financing

The City shall ensure that the debt program uses a systematic approach that minimizes the impact of debt servicing costs.

2. Definitions

- 2.1. **Annual Repayment Limit:** Under Regulation 403/02: Debt and Financial Obligation Limits, this limit represents the maximum amount which the municipality has available to commit to payments relating to debt and financial obligations without seeking the approval of the Ontario Land Tribunal. This limit is provided annually to a municipality by the Ministry of Municipal Affairs and Housing, additionally this limit must be updated by the City Treasurer prior to Council authorizing any increase in debt financing for capital expenditures.
- 2.2. **Authorized Debt:** Council approved debt financing as a source of funding for capital projects.
- 2.3. **Capital Financing:** A generic term for the financing of capital assets. This can be achieved through a variety of sources such as tax levy, grants, reserve funds and debt.
- 2.4. **Capital Plan:** The budget for capital projects i.e. the expenditures and resources required for capital projects.
- 2.5. **City Treasurer:** The individual appointed by the municipality as treasurer.
- 2.6. **Credit Rating:** A rating assigned by a credit rating agency as to the credit worthiness of an entity's debt obligations.
- 2.7. **Debenture:** 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).
- 2.8. **Debt Management Policy:** Refers to this document.
- 2.9. **Debt Program:** Refers to the practices related to authorizing debt, issuing debt and monitoring debt. For example, part of the debt program includes issuing debt and the particulars related to issuing debt specifically the amount, timing and structure of the issuance.
- 2.10. **Debt Servicing Costs:** Cash that is required to cover the repayment of interest and principal on a debt and other costs associated with issuing debt.
- 2.11. **Financial Guarantee:** An agreement whereby the City will take responsibility for the payment of debt in the event that the primary debtor fails to perform.
- 2.12. **Growth Project:** A capital project that will service growth and is included in the Development Charges Background Study.
- 2.13. **Intergenerational Equity:** In economic, psychological, and sociological contexts, is the concept or idea of fairness or justice between generations.
- 2.14. **Internal Debt Financing Cap:** The City's internal limit on debt as a source of capital financing for capital projects which is set by the City Treasurer. This limit is not referring to limits imposed by the Act or regulations thereunder.
- 2.15. **Issued Debt:** A fixed obligation, such as a debenture, notes or other agreements between the issuer (the borrower) and the lender. Municipalities issue debt to finance a variety of projects such as infrastructure projects.
- 2.16. **Lease Financing Agreement:** A financial lease agreement for the purposes of obtaining long term financing of a capital undertaking of the municipality. For example, leasing of computer equipment.
- 2.17. **Letter of Credit:** A binding document from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase (debt).

- 2.18. **Lifecycle Renewal Project:** A capital project for the rehabilitation or renewal of existing infrastructure due to obsolescence, health and safety concerns, or general deterioration of assets related to use or age.
- 2.19. **Service Improvement Project:** A capital project that provides a new or expanded level of service to the municipality or enhances an operational service area.

3. Applicability

This policy applies to all financial obligations made by the City on its own behalf and on behalf of its agencies, boards and commissions as well as the Elgin Area Primary Water Supply and Huron Primary Water Supply System in the City's capacity as the Administering Municipality, in accordance with the Transfer Orders issued September 15, 2000.

The following types of financial obligations are excluded from this policy;

- a) Lease Financing Agreements;
- b) Financial Guarantees; and
- c) Letters of Credit

4. The Policy

4.1. Strategy

4.1.1. Limiting and Reducing Authorized Debt

- a) The City shall limit the amount of debt authorized on an annual basis by applying debt financing to projects in the capital plan in a manner consistent with the following;
 - i) Debt financing may be utilized as a source of funding for growth projects;
 - ii) Debt financing may be utilized as a source of funding for service improvement projects after all other funding options have been applied and exhausted; and
 - iii) Debt financing shall only be authorized as a source of funding for lifecycle renewal projects after all other funding options have been applied and exhausted.
- b) The City Treasurer shall have the authority to change the above application of debt financing as a source of funding for projects in the capital plan.
- c) The City shall limit debt financing as a source of funding in the capital plan by way of an internal debt cap. The City Treasurer shall have the authority to set and modify the internal debt cap such that the internal debt cap meets the City's long-term financing strategies and does not contravene the Act or regulations thereunder.
- d) Authorized debt shall be reduced as follows;
 - i) As prescribed by the Council approved Surplus/Deficit and Assessment Growth Policies.
 - ii) By the amount of surplus debt financing in the capital financing budget in a given year, unless otherwise directed by the City Treasurer.

4.1.2. Minimizing Risk Associated with Issuing Debt

- a) The City shall not issue long-term financing on projects/capital works until they are substantially complete or a significant milestone is achieved.
- b) The timing and amount of debt issued in a given year shall be at the discretion of the City Treasurer or designate after consideration of cash flow requirements, budget constraints, and market conditions. This discretion must be exercised in accordance with the Act and the regulations.

- c) The City's general practice shall be to issue debt that is denominated in Canadian dollars with fixed interest rates over the term. Notwithstanding, if a borrowing structure is presented for which there is a material financial advantage and/or it is deemed prudent for the City to issue debt that is subject to interest rate fluctuations, the City may, at the discretion of the City Treasurer, consider entering into this type of arrangement. Variable interest rate structures must be in accordance with Ontario Regulation 247/01.
- d) Temporary financing instruments may be issued either for operating or capital purposes. Temporary financing for amounts that the City considers necessary to meet the expenses during the current fiscal year until the receipt of taxes and other revenues shall be in accordance with Section 407 of the Act and the temporary borrowing by-law passed by Council.

4.1.3. Managing Debt Servicing Costs

- a) The City Treasurer shall set debt servicing cost targets for each rate base (i.e. property tax supported, wastewater, water, and development charges) and these targets shall be a general guideline and utilized in the development of the City's budgets. These targets shall align with the City's long-term financing strategies and be subject to the requirements of the Act.
- b) The City shall strive to maintain a strong credit rating to assist in securing a favourable cost of borrowing.
- c) The City shall have a term preference of 10 years for debentures or other types of long-term financing for capital works. The term of long-term financing shall not extend beyond the lifetime of the capital work for which the debt was incurred and shall not exceed 40 years in accordance with Section 408 (3) of the Act. The term preference as well as structure of long-term financing instruments will be at the discretion of the City Treasurer or designate and subject to the requirements of the Act.
- d) The City shall monitor debt servicing costs and annual repayment limits as prescribed under Ontario Regulation 403/02: Debt and Financial Obligation Limits. The City shall also utilize other benchmarks, measures, indicators, ratios and limits as determined relevant and appropriate by the City Treasurer or designate to monitor debt levels and servicing costs. These measures shall include, but are not limited to debt servicing costs as a percentage of gross operating expenditures, debt financing as a percentage of the capital budget, debt per household and debt servicing costs as a percentage of revenue.

4.2 Reporting

In addition to any information requested by Council, or any information that the City Treasurer considers appropriate, the following shall be reported to Council;

- a) The status of issued and authorized debt as well as debt servicing costs through the budget monitoring reports;
- b) Projections for debt levels and debt servicing costs through the budget process; and
- c) Debenture issuances