



The Corporation of the Township of  
North Huron

Debt Management Policy

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## **SECTION A - POLICY OVERVIEW**

### **1. Purpose**

- 1.1 The purpose of this policy is to establish objectives for debenture and other forms of financing necessary to meet The Township of North Huron's 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.
- 1.2 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 Township.

### **2. Scope**

- 2.1 The Debt Policy covers all debt or financial obligations including related agreements for capital that are entered into by the Township as well as those employees who are responsible for the Township's debt issuance activities.
- 2.2 The Township may issue a debenture or other financial instrument for long-term borrowing only to provide financing for a capital work (Municipal Act, 2001, s. 408(2.1)).
- 2.3 The types of capital projects are as follows:
  - a) Growth/Development-Charge  
Issuance of growth-related debt may be undertaken in order to ensure adequate infrastructure or capital, services and resources to support the Township's growth plans. Repayment of this type of debt (principal and interest) shall be recoverable through the Township's development charges (DC).
  - b) Growth/Non-Development-Charge  
Other assets or capital works considered to be growth related, but not deemed to be funded through development charges can be funded using debt. This debt would be funded primarily from taxes, water and wastewater user rates and/or reserves.
  - c) Non-Growth Replacement  
To the extent practicable, replacement assets as well as regular and/or ongoing capital expenditures will be funded on a "pay as you go" basis through water and wastewater rates, tax levy, user fees and/or reserve monies.
  - d) Non-Growth  
The Municipal may also incur debt for other new capital related to the delivery of services that is not considered to be 'growth' in nature.

### 3. Review

3.1 The Debt Management Policy will be reviewed periodically by the Treasurer. Any required changes shall then be submitted to Council for consideration and approval. Any changes or revisions to the Municipal Act, 2001, or to the regulations thereunder subsequent to the formal adoption of the Debt Management Policy which affect the policy will apply when they come into force. The Debt Management Policy will be updated to reflect such change(s) at the time of formal review. Otherwise, the Debt Management Policy must be formally reviewed and approved by Council at a minimum every four years (from the date of the last review).

### 4. Definitions

For the purpose of this policy:

- 4.1 **“Amortizing Debenture”**: A debenture that has a blended principal and interest payment that is equal in each repayment period.
- 4.2 **“Annual Repayment Limit”**: A calculation, of the debt and financial obligation limit, provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines whether Ontario Municipal Board approval is required for the categories of debt or financial obligation described in Ontario Regulation 403/02 as amended.
- 4.3 **“Bank Loan”**: A loan made by a bank listed in Schedule I or II or III to the Bank Act (Canada), a loan corporation or trust corporation registered under the Loan and Trust Corporations Act or a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 applies and includes, (a) a syndicated bank loan, and (b) a banker’s acceptance, whether or not it is discounted, if, (i) it is drawn as a bill of exchange under the Bills of Exchange Act (Canada), and (ii) it is accepted by a bank to which the Bank Act (Canada) applies.
- 4.4 **“Borrower”**: The counterparty receiving the funds.
- 4.5 **“Banker’s Acceptance”**: A short-term credit obligation created by a non-financial firm such as the Township and guaranteed by a bank as to payment.
- 4.6 **“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 the Debt Policy it is assumed to mean the use of debt.
- 4.7 **“Construction Financing”**: A form of debt financing in which the issuer does not pay any principal and/or interest for periods of normally up to five years during the construction or rehabilitation of the facility.
- 4.8 **“Council”**: The Council of the Township of North Huron.
- 4.9 **“Credit Rating”**: A rating assigned by a credit rating agency (such as Standard and Poor’s or Moody’s Investors Service, Inc. or Dominion Bond Rating Service Limited or Fitch Ratings) recognized by the Municipal Act, 2001, S.O. 2001, c. 25 as to the credit worthiness of an entity’s debt obligations. The rating defines the financial strength of a borrower and assists investors to determine the likelihood that the debt issuer will pay the interest payments in a timely fashion and more importantly the initial investment at maturity.
- 4.10 **“Debenture”**: A formal written obligation to repay specific sums on certain dates.

- 4.11 **“Annual Debt and Financial Obligation Limit”**: A calculation of the debt and financial obligation limit, provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines whether Ontario Municipal Board approval is required for the categories of debt or financial obligation described in Ontario Regulation 403/02 as amended.
- 4.12 **“Debt Service Charges”**: The amount corresponding to annual debt and financial obligations.
- 4.13 **“Debt”**: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash loans from financial institutions, but could also include loans from reserves.
- 4.14 **“Deemed Debentures”**: A bank loan agreement is deemed to be a debenture for the purpose of the following provisions of the Municipal Act, 2001, as set out in O. Reg. 276/02, s. 5: Section 403; Subsections 404(1) to (8) and Subsections 404(10) to (14); Subsections 405(2); Section 406; Subsections 408(2.1) and (3), clauses 408(4)(a), (c) and (d), and subsections 408(5) and (7); Subsections 412 (2) and (4).
- 4.15 **“Development Charge”**: (DC) Fees collected from developers at the time a building permit is issued. The fees are charged for the cost of infrastructure required to provide municipal services to new development, such as roads, transit, water and sewer infrastructure, recreation, library and fire facilities.
- 4.16 **“DC Background Study”**: A document required by the Development Charges Act to identify service needs arising from residential and non-residential growth and the associated eligible costs, in order to calculate the Development Charge rates charged by the Township.
- 4.17 **“DC Eligible Costs”**: Growth related costs for certain services as defined by the Development Charges Act.
- 4.18 **“Development Charge Supported Debt”**: Debt which is supported by development charges.
- 4.19 **“Financial Guarantee”**: An agreement whereby the Township will take responsibility for the payment of debt in the event that the primary debtor fails to perform.
- 4.20 **“Hedging”**: A strategy used to offset or mitigate financial risk such as currency and/or interest rate risk.
- 4.21 **“Infrastructure Ontario (formerly Ontario Strategic Infrastructure Financing Authority (OSIFA) or its successor organizations)”**: A crown corporation wholly owned by the Province of Ontario and established by the Ontario Infrastructure and Lands Corporation Act, 2011. Infrastructure Ontario provides Ontario municipalities, universities and hospitals access to an alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.
- 4.22 **“Installment (Serial) Debentures”**: Debentures of which a portion of the principal matures each year throughout the life of the debenture issue.
- 4.23 **“Interest Rate Exchange Agreement”**: An agreement entered into with a financial institution to fix the future rate of interest paid on a variable interest rate debenture or variable interest rate bank loan agreement.

- 4.24 **“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).
- 4.25 **“Long-Term Bank Loan”**: Long-term debt provided by a bank or a syndicate (group) of banks.
- 4.26 **“Long-Term Debt or Financing”**: Any debt for which the repayment of any portion of the principal is due beyond one year.
- 4.27 **“Municipal Capital Facilities”**: Includes land, as defined in the Assessment Act, works, equipment, machinery and related systems and infrastructures.
- 4.28 **“Municipal Own-Source Revenue”**: Equal to “Net Revenues” per Financial Information Return (FIR) Schedule 81, Annual Debt Repayment Limit, Line 2610. The calculation of Net Revenues is basically Total Municipal Revenues less revenues from Federal & Provincial Grants and Gas Tax, Development Charges, Parkland Dedication, and Donated Tangible Capital Assets.
- 4.29 **“Short-Term Debt”**: Any debt for which the repayment of the entire principal is due within one year.
- 4.30 **“Sinking Fund”**: A fund in which money is accumulated on a regular basis that when combined with interest earned is used to retire or repay the debentures on maturity.
- 4.31 **“Sinking Fund Debentures”**: A long-term debt instrument that contains a sinking fund provision that the issuer has undertaken to regularly set aside on a fixed date funds to a sinking fund for the repayment of the principal at maturity.
- 4.32 **“Syndicated Bank Loans”**: A bank loan between the Township and an institution listed in the definition of “bank loan” where the financing for the bank loan is obtained through a syndicated bank financing agreement in which each of the institutions that is a party to the term agreement agrees to contribute a portion of the amount of the bank loan being given to the Township under the syndicated bank loan agreement.
- 4.33 **“Tax and Rate Supported Debt”**: Debt which is supported by the tax levy and by utility charges and fees.
- 4.34 **“Tender”**: A process whereby formal bids are submitted to issue debt securities.
- 4.35 **“Term Debentures”**: Debentures that are comprised of a combination of instalment and sinking fund debentures.
- 4.36 **“Tile Drainage Debentures”**: Debentures issued to the Province of Ontario to finance the construction of a tile drainage system for agricultural land in accordance with the Tile Drainage Act, R.S.O. 1990, c. T.8.
- 4.37 **“Township”**: The Township of North Huron.
- 4.38 **“Treasurer”**: The Treasurer of the Township of North Huron.
- 4.39 **“Underwriter(s)”**: An individual or group of investment bankers appointed as principals or on an agency basis, for the purpose of purchasing and reselling new debentures issued by the Township.
- 4.40 **“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.

## **5. Responsibilities**

5.1 Council has overall responsibility for authorizing debt issuance.

5.2 The Treasurer has responsibility for directing and implementing the activities of debt issuance including but not limited to:

- a) Review and recommend the type and term of financing for capital projects and operating requirements;
- b) Update the debt and financial obligation limit for the Township as prescribed by the Municipal Act, 2001;
- c) In consultation with the underwriting syndicate, approves the timing and structure of debt issues;
- d) Coordinate the preparation of debt issue by-laws;
- e) May execute and sign documents on behalf of the Township and perform all other related acts with respect to the issuance of debt securities;
- f) Liaise and assist credit rating agencies in the evaluation of the credit worthiness of the Township's debt securities;
- g) Ensure all reporting requirements identified within the Debt Management Policy are met; and
- h) Sign required documentation under the Municipal Act, 2001.

5.3 The Reeve may execute and sign documents on behalf of the Township with respect to the issuance of debt securities and shall sign debentures.

5.4 The Clerk may certify and sign documents on behalf of the Township with respect to the issuance of debt securities.

## **6. Reporting**

6.1 Construction Financing:

If the Township has any outstanding debentures related to construction financing under clause 408 (4) of the Municipal Act, 2001, in a fiscal year, the Treasurer shall present to Council once in that fiscal year, or more frequently, if Council so provides, a detailed report on all those debentures, containing the following:

- a) A description of the proportion of the construction financing debentures issued to the total long-term debt of the Township and a description of the change, if any, in that estimated proportion since the previous year's report
- b) A statement by the Treasurer as to whether, in his or her opinion, all debentures issued were made in accordance with the statement of policies and goals relating to construction financing adopted by Council
- c) An update of the detailed estimate with respect to the terms of the Township's expectations of revenue generation from the undertaking
- d) A record of the date of the repayment of each instalment of principal, interest or both principal and interest made during the period of construction and during the term of the debentures
- e) A statement of the outstanding instalments of principal, interest or both principal and interest repayable during the currency of the debentures issued that will be due and payable in each year

f) Any such other information that Council may require or that in the opinion of the Treasurer should be included.

#### 6.2 Bank Loans:

If the Township has any subsisting variable interest rate bank loan agreements in a fiscal year, or any subsisting interest rate exchange agreements applicable to them, the Treasurer shall present to Council once in that fiscal year, or more frequently if Council so desires, a detailed report on all those bank loan or interest rate exchange agreements. O. Reg. 276/02, s. 12.

#### 6.3 Variable Interest Rate Debentures:

If the Township has any outstanding variable interest rate debentures in a fiscal year, or any subsisting interest rate exchange agreements applicable to them, the Treasurer shall present to Council once in that fiscal year, or more frequently if Council so desires, a detailed report on all those debentures or agreements. O. Reg. 247/01, s. 12.

6.4 All the above include in addition any such information as the Council may require and such other information as the Treasurer considers appropriate to include in any of the reports.

## **SECTION B – GENERAL REQUIREMENTS**

### **1. Objectives**

1.1 The objectives of the Debt Management Policy are as follows:

- a) Comply with statutory requirements including monitoring and reporting;
- b) Ensure long-term financial flexibility and sustainability;
- c) Limit financial risk exposure;
- d) Minimize long-term cost of financing;
- e) Maintain the Township's credit rating

### **2. Compliance with Statutory Requirements**

2.1 Debt may only be undertaken by the Township if and when it is in compliance with the relevant sections of the Municipal Act, 2001, S.O. 2001, c. 25 (the "Municipal Act, 2001"), specifically Part XIII – Debt and Investment, and the applicable regulations thereunder, as amended from time to time, including but not limited to those set out in the References section of this Debt Management Policy.

2.2 The Township may incur a debt for municipal purposes, whether by borrowing money or in any other way, and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt (Municipal Act, 2001, s. 401(1)).



### **3. Ensure Long-Term Financial Flexibility and Sustainability**

3.1 The Township's ability to respond to unanticipated and emerging financing needs is affected by its access to funding, its debt capacity and debt service charges. Financial sustainability depends on the debt levels and debt service charges being consistent with the Township's level of affordability, both current and future. Debt issuance decisions must align with ensuring long-term financial flexibility and sustainability for the Township.

3.2 Goals and limits on debt, and financial measures to assist in assessing financial flexibility and sustainability are as follows:

#### a) Goals

- I. Total tax supported debt as a percentage of Municipal Own-Source General Revenues not to exceed 75% unless approved by Council.
- II. No more than 50% of total tax supported debt capacity will be used for infrastructure renewal (roads, bridges, etc.) unless approved by Council.
- III. Total rate supported debt as a percentage of Municipal Own-Source Water and Wastewater Revenues not to exceed 150% unless approved by Council.
- IV. Total DC-supported debt as a percentage of the total DC Eligible Costs for the forecast period of the latest DC Background Study, not to exceed 50% unless approved by Council.

#### b) Limits

- I. The annual debt and financial obligation limit for the Township is calculated in accordance with section 3 of Ontario Regulation 403/02 as amended.
- II. Outstanding variable interest rate bank loan agreements and variable interest rate debentures cannot exceed 15% of the total outstanding debt of the Township as set out in O. Reg. 276/02, s. 8(2).

#### c) Financial Measures

- I. Debt and debt service charges per capita
- II. Debt service charges as a percentage of Municipal Own Source Revenue
- III. Debt service charges as a percentage of the municipal levy
- IV. Debt to operating revenues
- V. Debt to reserves and reserve funds
- VI. Debt maturity profile
- VII. Cash and liquid assets to debt service; cash and liquid assets minus debt
- VIII. Other long-term liabilities
- IX. Annual increase in debt in relation to population, assessment growth, operating revenue, average household income

#### **4. Limit Financial Risk Exposure**

- 4.1 Debt will be managed in a manner to limit, where practicable, exposure to interest rate risk, foreign currency risk, and any other financial risks which may arise from the debt financing.
- a) The Township's normal practice to issue debt that is only denominated in Canadian dollars with an interest rate that is fixed over its term
  - b) If there is a material financial advantage and/or it is deemed prudent for the Township to issue variable rate debentures or enter into variable interest rate bank loan agreements, the interest rate can be left variable if in the opinion of the Treasurer it is in the Township's best interest.

#### **5. Minimize Long-Term Cost of Financing**

- 5.1 The type, term and structure of financing instrument used to issue debt and the timing for debt issuance will be determined with a view to minimize both its and the Township's overall long-term cost of financing. Factors to be considered include the following:
- a) current versus future expected interest rates
  - b) the shape of the interest rate curve
  - c) the availability of related reserve monies
  - d) the pattern of anticipated revenues or cost savings attributable to the project or purpose
  - e) all costs related to the financing of the project whether by debenture, construction financing or lease financing agreement
  - f) the use of Banker's acceptances to bridge finance pending issuance of a debenture, and may reduce up-front interest costs on an ongoing basis
  - g) variable interest rate debentures
  - h) variable interest rate bank loan agreements

#### **6. Maintain the Township's Credit Rating**

- 6.1 Maintaining a strong credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner.

## **SECTION C – DEBT INSTRUMENTS AND STRUCTURING PRACTICES**

#### **1. Suitable and Authorized Financing Instruments**

- 1.1 The types of allowed (debt) financing instruments and their structures will be dependent in part upon the term and the type of asset to be financed.
- a) Short-Term Debt – Less Than One (1) Year  
Financing of operational needs for a period of less than one year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long- term financing may be from one or more of the following sources:

- I. Reserves and Reserve Funds - An internal loan from reserve funds to finance capital projects must be in accordance with the Township's Reserve Policies and must be approved and authorized by Council; a recommendation report requesting authorization should contain the details pertaining to the loan including amount, term, interest rate and any other relevant details.
  - II. Bank line of credit or loan agreement
  - III. Short-term promissory notes
  - IV. Banker's Acceptances
  - V. Infrastructure Ontario (or its successor organizations) short-term advances pending issuance of long-term debentures
- b) Long-Term Debt - Greater Than One (1) Year
- Financing of assets for a period of greater than one year may be from any of the following sources:
- I. Debentures (including those issued to Infrastructure Ontario, or its successor organizations), which may be in the following form or a combination thereof:
    - Instalment/Serial
    - Sinking Fund
    - Amortizing
    - Variable Interest Rate
    - Retirement Fund
    - Term
  - II. Reserves and Reserve Funds
    - An internal loan from reserve funds to finance capital projects must be in accordance with the Township's Reserve Policies and must be approved and authorized by Council.
    - A recommendation report requesting authorization should contain the details pertaining to the loan including amount, term, interest rate and any other relevant details. Normal practice would be for a term or a period of less than or equal to ten years.
  - III. Bank loan agreements, variable interest rate bank loan agreements, syndicated bank loan agreements.
  - IV. Construction Financing Debentures
    - May be used for a period up to five (5) years during construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated (e.g. water plant) upon its completion.
    - Should the Township pass a debenture by-law which provides that instalments of principal or interest, or both, are not payable during the period of construction of an undertaking for which the debt was incurred, then the Township shall only do so in accordance with the requirements of O. Reg. 278/02 (Construction Financing).
  - V. Tile Drainage Debentures

- These will be used to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

c) Debt Structures

- I. Debt issues are structured to achieve the lowest possible all-in net cost of funds, subject to constraints of debt maturity, the capital asset being financed, prevailing capital market conditions and the objectives of the Debt Policy.
- II. The term of a debt of the Municipal or any debenture or other financial instrument for long-term borrowing issued for it shall not extend beyond the lifetime of the capital work for which the debt was incurred and shall not exceed 40 years (Municipal Act, 2001, s. 408(3)).
- III. To the extent possible, debt will be structured to require repayment as soon as feasible so as to recapture its borrowing capacity for future use and minimize costs where possible.
- IV. The principal must be amortized (repaid) over the term of the debenture and repaid to investors or contributed to a sinking fund that would provide for repayment when the debt matures.
- V. A by-law that authorizes a bank loan agreement shall provide for repayment of the principal and the interest on the unpaid balance in one or more instalments in each year. O. Reg. 276/02, s. 2(2).
- VI. For variable rate debentures and variable interest rate bank loan agreements, the Township may employ interest rate exchange agreements to fix the variable interest rate.
- VII. Every debenture issued by the Township shall rank concurrently and equally in respect of payment of principal and interest with all other debentures of the Township (Municipal Act, 2001, s. 408(7)).

d) Credit Rating Requirements

The Municipal may only issue variable interest rate debentures, and may enter into a variable interest rate bank loan agreement or into a syndicated bank loan agreement only if either the Township itself or its long-term debt obligations are rated by:

- I. Dominion Bond Rating Service Limited as “AA(low)” or higher, or
- II. Moody’s Investors Service, Inc. as “Aa3” or higher, or
- III. Standard and Poor’s as “AA-“, or higher, or
- IV. Fitch Ratings as “AA-“, or higher.

## **2. Financing Risk Identification and Mitigation Strategies**

2.1 Financial risks associated with financing instruments will be identified and considered prior to the use of the financing instrument in relation to other available financing instruments, and strategies to mitigate the risk will be considered and used when deemed practicable.

### 2.2 Availability of Future Debt Capacity

The Township recognizes the importance of maintaining availability of debt capacity for future capital needs and to ensure long-term financial flexibility. Accordingly, the tax and rate supported budget documents show the projected amount of debt financing that may be required for each year over a minimum five year forward looking period so as to evaluate future debt capacity and the impact on the Township's financial flexibility and sustainability.

### 2.3 Refunding Risk

- a) The Township may issue debentures for which the amortization to retirement period is longer than the contractual term of the debenture, similar to a home mortgage, resulting in the balance of the debt remaining at the end of the contractual term to be refinanced.
- b) The risk 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 a preferred method of financing by the Township whenever tax levy is the primary source of funding. However there will be no restriction to the use of refunding debentures funded mainly from development charges or user rates which tend to be for longer periods and are better able to absorb increases (or decreases) to their cost of financing over time.
- c) Further risk to the Township may arise if market conditions are unfavorable to financing at the end of the first contractual term of a refunding debenture. In this case, mitigation strategies that would be considered include pre-financing, short-term borrowing from reserves, using variable rate debt and lines of credit, and making borrowing applications to government and government agencies such as Infrastructure Ontario (or its successor organizations).

### 2.4 Construction Financing

- a) Construction financing may be used to "lock-in" the debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (e.g. water plant). Construction financing is unique in that the debt may be accrued in advance of the project's completion; the interest accrues and no payments are made during the building period.
- b) The following risks compared to other forms of financing will be considered prior to the use of construction financing:
  - I. The possibility that interest rates may fall from the time the rate for the construction loan is established and completion of construction. Should there be a high probability of this occurring, staff will consider the use of variable interest rate rather than fixed rate financing as a method to mitigate this risk;
  - II. The possibility that the final cost of construction could be materially less than initially forecasted and financed. Staff will consider whether or not to issue debt until a fixed rate contract has been awarded or to issue debt that does not exceed 75% of the projected cost as a method to mitigate this risk.

- III. Other risks include that the construction project may not be able to proceed or is not completed for technical or other reasons. The mitigation option to be considered in this case will be not to issue long-term debt until all critical construction contracts have been awarded.
- c) The Treasurer will prepare a statement of policies and goals related to construction financing, which must be adopted by Council before a by-law is passed that provides for construction financing. The statement shall include the following:
  - I. The fixed and estimated costs to the Township;
  - II. Whether the costs of the proposed construction financing are lower than other methods of financing available to the Township;
  - III. A detailed estimate with respect to the terms of the Township's expectations of revenue generation from the undertaking, once constructed;
  - IV. The risks to the Township if the undertaking is not constructed or completed within the period of construction as estimated by Council, and;
  - V. The financial and other risks for the Township. (O. Reg. 278/02, s. 2)

## 2.5 Variable Interest Rate Debenture and Variable Interest Rate Bank Loan Agreements

- a) Variable interest rate debentures and variable interest rate bank loan agreements may be used when there is volatility in the financial market and/or there is an expectation of significantly lower interest rates occurring within a few months of their issue or if it is financially advantageous or otherwise deemed necessary.
- b) The interest rate may be left variable if in the opinion of the Treasurer it is in the Township's best interest. A variable interest rate may be converted to a fixed rate by means of an interest rate exchange agreement in order to mitigate the interest rate exposure.
- c) The Township cannot enter into a variable interest rate bank loan agreement if the total amount of principal to be loaned under the agreement plus the total outstanding principal of all other variable interest rate bank loan agreements and variable interest rate debentures of the Township would exceed 15% of the total outstanding principal of all undertaking or work indebtedness of the Township plus the total amount of principal to be loaned under the bank loan agreement (O. Reg. 276/02, s. 8).

## **SECTION D – DEBT ISSUANCE PRACTICES**

### **1. Methods Used to Issue Debt**

#### 1.1 Sale Method for Debentures Issued in the Public Markets

- a) Underwriting Syndicate: The use of an underwriting syndicate will be the normal method by which debentures will be sold by the Township;
- b) Tender: A tender process may be used when and if significant savings could be expected when compared to issuing through an Underwriting Syndicate.

1.2 Bank loan agreements are deemed to be debentures. Variable interest rate bank loan agreements have a variable interest rate.

### 1.3 Debentures Issued Through Other Levels of Government

The Township may issue debentures to Infrastructure Ontario or its successor organizations. In general, when evaluating whether to participate in a loan or debt program being offered by the federal government or the government of Ontario, the interest rate and terms would be compared with the Township's all-in cost of borrowing for other methods under consideration.

1.4 Financial guarantees and/or letters of credit provided by the Township will be considered as debt and will be governed by the Debt Management Policy.

1.5 A sinking fund will be established whenever sinking fund debentures are issued during a calendar year. Investments for the sinking fund would be made in accordance with the Township's policies and procedures for Reserve/Revenue Funds

## **2. Township's Process for Issuing Debentures and/or Bank Loan Agreement**

2.1 Approval by Council is required to authorize the issuance of debentures and/or a bank loan agreement, and the general process for the Township is as follows:

a) The Treasurer through a Recommendation Report to Council:

- I. Requests authorization to negotiate the terms and placement of a debenture issue(s) and/or bank loan agreement in an amount to finance capital projects or for any short term loans for operations.
- II. Requests authorization to engage the services of a fiscal agent(s) and external legal counsel and enter into all agreements necessary, including Letter(s) of Representation with the Canadian Depository for Securities Ltd, to secure the terms and issuance of a debenture issue(s).
- III. Is directed by Council to negotiate and execute all required documentation, in a form satisfactory to the Municipal Solicitor
- IV. Recommends that a by-law be passed authorizing the debenture issue and/or bank loan agreement, which was negotiated and placed.
- V. Provides the details and rationale that justify the financing including the chosen structure of debt, an evaluation of the other financing options that were considered and a comparison of the costs.

b) The Treasurer prepares the required final legal documentation and arranges for its execution and decides on the timing of the debt closing.

c) Subsequent to the closing of a debenture issue or bank loan agreement or another debt, the Treasurer shall present to Council a report with details of the financing including the structure of the debenture and/or bank loan agreement, final monies raised, term to maturity, interest rate and cost savings compared with other forms of financing that were considered and any other relevant details

### **3. Investment of Debt Issuance Proceeds**

3.1 Funds raised through debt issuance activities will be invested in accordance with the Township's policies and procedures for Reserve/Revenue Funds until such time as the funds are required.

## **SECTION E – DEBT MANAGEMENT PRACTICES**

### **1. Ethics and Conflicts of Interest**

1.1 Municipal staff that are involved in the debt issuance process are expected to abide by the Township's Code of Conduct for employees policy. In particular, they shall:

- a) Refrain from personal business activity that could conflict with the proper execution and management of financing activities 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 related to the performance of their financing activities; and
- d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Township.

### **2. Requirements for Outside Advice**

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

### **3. Legal Support**

3.1 A specific borrowing by-law must be adopted by Council to authorize the borrowing through the issuance of debentures and/or the entering into a bank loan agreement for the purpose of capital financing that is covered by this Debt Management Policy.

3.2 External legal counsel may provide legal advice with regard to the Township's debt financing transactions. This advice would cover the initial proposal and extend to the various contracts and agreements that would have to be executed in conjunction with the transaction.

3.3 External legal counsel is retained by the Township to provide a legal opinion on the transaction. It is the responsibility of the issuer (i.e. the Township) to bear the full costs associated with the transaction

### **4. Authority to Issue Debt**

4.1 Council shall, before giving authorization for capital work that would require a long-term debt or financial obligation, have the Treasurer calculate an updated Annual



Repayment Limit using the most recent Annual Repayment Limit determined by the Ministry. O. Reg. 403/02, s. 4 (1). The Treasurer must submit to Council a report requesting authority to issue debt, for instance in any of the following cases:

- a) To undertake 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;
- b) To issue debt for certain items detailing for each type of item, the amount and the maximum term of financing, the type of instrument and structure used for the debt issuance or financing;
- c) To issue debt or finance for sinking fund purposes in that year.