

KING TOWNSHIP CORPORATE POLICY DEBT



POLICY NO.:
COR-POL-141

Finance Department

Issue Date: 4/26/2021

Issue No.: 1

Next Revision: 4/26/2026

1 PURPOSE STATEMENT

- 1.1 The purpose of this policy is to set out the parameters for issuing debt and managing the debt portfolio and provide guidance to decision makers. This policy establishes the criteria for the use of debt within the Township's overall financial framework.

2 POLICY OBJECTIVE

- 2.1 The objective of this policy is to identify the quality of decisions, rationalize the decision-making process, identify the objectives for staff to implement and ensure compliance with statutory requirements and long-term financial flexibility and sustainability.
- 2.2 This policy strikes a balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities.
- 2.3 This policy is to be formally adopted by Council and the debt program should be continuously monitored to ensure that activities are in compliance with this policy.
- 2.4 This policy is to be reviewed every 5 years to adapt to any changes in the activities of the Corporation.

3 APPLICATION/SCOPE

- 3.1 This policy applies to the Director of Finance/Treasurer and their designate(s).

4 DEFINITIONS

- 4.1 **Act** means the *Municipal Act, 2001*, S.O. 2001, c.25 as amended. The *Act* is the statute governing the powers, duties, internal organization, and structure of Ontario Municipalities.
- 4.2 **Annual Debt Financing Charges** means the estimated amount of operating budget funds, in a respective year's approved annual budget, required to meet that year's share of mandatory payments in respect of outstanding debentures, i.e. principal and interest payments, or payments of interest and contributions into sinking or retirement funds.
- 4.3 **Annual Debt Repayment Limit** means the maximum amount of annual debt servicing costs that the Township can undertake or guarantee without seeking the approval of the Local Planning Appeal Tribunal (LPAT). The annual amount is provided by the Ministry of Municipal Affairs and Housing (MMAH) 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 Regulation 403/02. The Regulation provides a formula which limits the annual debt services costs to an amount equal to 25% of operating revenue (own sourced revenue).
- 4.4 **Debt** means any obligation for the payment of money. Debt would normally consist

**KING TOWNSHIP
CORPORATE POLICY
DEBT**



POLICY NO.:
COR-POL-141

Finance Department

Issue Date: 4/26/2021

Issue No.: 1

Next Revision: 4/26/2026

of debentures as well as either notes or cash loans from financial institutions. Debt may also include loans from reserves funds or other financial obligations such as long term leases.

- 4.5 **Director** means the Director of Finance/Treasurer of the Township of King and their designate(s) i.e. Deputy Treasurers.
- 4.6 **Own Source Revenues** means direct municipal revenues such as property taxes, user fees and charges. They do not include grants, deferred revenues earned, donated/assumed tangible capital assets, gain/ (loss) on sale of land and capital assets, and increase / decrease in government business enterprises equity.
- 4.7 **Reserve** means an appropriation from net revenues at the discretion of Council or the Treasurer, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Reserves are typically used for short-term purposes.
- 4.8 **Reserve Fund** means a fund that has been set aside either by a by-law of the municipality or by a requirement of provincial legislation to meet future events. A reserve fund can have a revenue and /or expenditure stream and earns interest. Reserve funds are typically used for long-term purposes such as capital funding.
- 4.9 **Sinking Fund** means a segregated pool of funds managed by the Region of York for a class of debentures other than a sinking fund or term debenture. In each year the fund must contain an amount equal to or greater than the amount required for the repayment of the principal of specific debentures in that year, if the principal had been payable in equal annual installments and the debentures had been issued for the maximum period authorized by the municipality for the repayment of the debt for which the debentures were issued.
- 4.10 **Tax Supported Debt** means debt that is to be recovered from non-water and sewer revenues sources and includes growth related debt. Repayment of this growth-related debt (principal and interest) shall be recoverable through the Township's development charges.
- 4.11 **User Rate Supported Debt** means debt that is to be recovered from water and sewer user fee revenues and includes growth-related debt. Growth-related debt (principal and interest) shall be recoverable through the Township's development charges.

**KING TOWNSHIP
CORPORATE POLICY
DEBT**



POLICY NO.:
COR-POL-141

Finance Department	Issue Date:	4/26/2021
	Issue No.:	1
	Next Revision:	4/26/2026

5 AUTHORITY TO ISSUE DEBT

- 5.1 As a lower-tier municipality within a regional municipality, the Township of King does not have the power to issue debentures as per section 401(3) of the *Act*. The Township of King Council has to approve a bylaw to make application to the Regional Municipality of York to issue debentures on behalf of the Township.
- 5.2 As permitted under section 401 of the *Act*, the Treasurer shall have the authority and responsibility to recommend to Council the most effective form of debt financing for any work/asset, in addition to the appropriate timing and duration.
- 5.3 The Treasurer has the overall responsibility for the management of debt including but not limited to the following:
 - 5.3.1 Reviews the need for debt and recommends the amount, type and term of debt to Council;
 - 5.3.2 Coordinates with the Region of York for the issuance of debt;
 - 5.3.3 Calculates the financial debt and obligation limit;
 - 5.3.4 Ensures timely repayment of debts;
 - 5.3.5 Ensures all reporting requirements identified within this policy are met;
 - 5.3.6 Reviews this policy periodically to ensure compliance with the statutory requirements as well as effectiveness and relevance and recommend any required changes to Council for consideration and approval.

6 PRINCIPLES OF DEBT

- 6.1 Debt is a financing source but not a funding source. Debt can only be issued when all of the following criteria are met:
 - 6.1.1 New capital expenditure; and
 - 6.1.2 The asset is included in the Asset Management Plan; and
 - 6.1.3 The amount, after deducting all available funding such as development charges or reserves, is greater than 1% of the tax levy increase; and
 - 6.1.4 Debt can be tax supported which is recovered by non-water and sewer revenue sources
 - 6.1.5 User Rate Supported Debt which is recovered by water and sewer rated fees

Finance Department	Issue Date:	4/26/2021
	Issue No.:	1
	Next Revision:	4/26/2026

7 ELIGIBLE CAPITAL PROJECTS

- 7.1 The following types of capital works items are eligible for long-term debt financing:
 - 7.1.1 New Growth-related development charges funded infrastructure.
 - 7.1.1.1 Repayment of this type will be recovered through future development charge revenues received.
 - 7.1.2 New municipal facility and infrastructure non funded through development charges.
 - 7.1.3 Major rehabilitation or reconstruction of existing assets as a short-term strategy to address significant backlogs or emergency situations (e.g. roads or bridges).
 - 7.1.4 Projects that provide future cost savings or cost avoidance.
- 7.2 Non-Eligible expenditures include land as it is a non-depreciable asset which would not qualify under this financing source.

8 TERM OF DEBT

- 8.1 The Township may incur debt for a capital project or property/asset acquisition for a term having a minimum of one (1) year and a maximum of forty (40) years. The term depends on the nature of the asset, the expected useful life, the state of the interest rate, the value of the asset to future years and the availability of funding for the asset from other sources.
- 8.2 The annual debt financing charges or servicing is the estimated amount of operating budget funds, in a respective year’s approved annual budget, required to meet that year’s share of mandatory payments in respect of outstanding debentures, i.e. principal and interest payments, or payments of interest and contributions into sinking or retirement funds.

9 TYPES OF CAPITAL FINANCING

- 9.1 **Short-Term Debt:** Under five (5) years the Township may borrow from anyone or combination of the following sources:
 - 9.1.1 Bank line of credit;
 - 9.1.2 Short-term promissory notes;
 - 9.1.3 Bankers’ Acceptance;
 - 9.1.4 Any other form of short-term indebtedness to fund the needs for projects of less than five (5) years.

**KING TOWNSHIP
CORPORATE POLICY
DEBT**



POLICY NO.:
COR-POL-141

Finance Department	Issue Date: 4/26/2021
	Issue No.: 1
	Next Revision: 4/26/2026

- 9.2 **Medium-Term Debt:** Between five (5) years and ten (10) years will be financed through any one or combination of:
 - 9.2.1 Operating and/or capital lease/purchase;
 - 9.2.2 Term loans;
 - 9.2.3 Promissory notes;
 - 9.2.4 Any other type of medium term indebtedness that may be available.
- 9.3 **Long-Term Debt:** Ten (10) years or greater up to forty (40) years to finance assets over the life of the asset.
 - 9.3.1 Term Loans or Serial Debenture
 - 9.3.2 Amortized Debenture
 - 9.3.3 Sinking Fund Debenture

LIMITATION OF DEBT

- 9.4 The Township’s annual payments for debentures cannot exceed the maximum of 10% of the Annual Debt Repayment Limit. At any point, if Township Council decided to surpass the limitation set out in this policy, Council shall by resolution waive this policy direction.
- 9.5 Under no circumstances can payments for the Township indebtedness exceed the Annual Debt Repayment Limit set out annually by the Ministry of Municipal Affairs and Housing.

10 RELATED DOCUMENTATION

- 10.1 *Municipal Act*
- 10.2 *Ontario Regulation 403/02*

11 APPROVAL AUTHORITY

<u>Council</u> Authority	<u>20201-041</u> By-law	<u>Original Signed</u> Township Clerk	<u>4/26/2021</u> Date
------------------------------------	-----------------------------------	---	---------------------------------