	FINANCIAL SERVICES CAPITAL FINANCING AND DEBT MANAGEMENT POLICY	
Policy #: F03	Issued:	Reviewed/Revised:
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1.0 PURPOSE

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the Municipality's operating and infrastructure needs.

2.0 SCOPE

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations.

Capital financing and debenture practices will be responsive and fair to the needs of both current and future ratepayers and will be reflective of the underlying life cycle and nature of the expenditure.

3.0 DEFINITIONS

a) **Amortizing Debenture** - debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture issue.

b) **Annual Repayment Limit ("ARL")** - For the purpose of this Policy it has the same meaning as the Debt and Financial Obligation Limit.

c) **Banker's Acceptance** - a short-term credit obligation created by a non-financial firm such as the Corporation and guaranteed by a bank as to payment.

d) **Capital Financing** - a generic term for the financing of capital assets using debt, financing leases, swaps and other derivatives.

e) **Construction Financing** - a form of debt financing in which the issuer does not pay any principal or interest for a period of up to 5 years during the construction or rehabilitation of the facility from which a revenue stream is expected to be generated.

f) "**Corporation**" or "**Municipality**" - the Corporation of the Town of Kingsville.

g) **Debenture** - a formal written obligation to repay specific sums on certain dates. In the case of the Municipality they are typically unsecured.

h) **Debt** - any obligation for the payment of money. For Ontario municipalities, debt would typically consist of debentures as well as either notes or cash loans from financial institutions. Could also include loans from reserve funds. Debentures issued to Infrastructure Ontario are also considered debt.

i) **Financial Guarantee** - an agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary liable fails to perform.

j) **Hedging** - a strategy used to offset or mitigate currency, utility commodity price and/or interest rate risk.

k) **Infrastructure Ontario, or successor organization** - any entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals with access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.

l) **Installment (Serial) Debentures** - debentures of which a portion of the principal matures each year throughout the life of the debenture issue.

m) **Lease Financing Agreements** - a lease or rental agreement allowing for the provision of Municipal Capital Facilities if the lease or rental agreement may or will require payment by the Corporation beyond the current term of Council.

n) **Long-term Bank Loan** - long term debt provided by a bank, or syndicate of banks.

o) **Long-term Debt** - any debt for which the repayment of any portion of the principal is due beyond one year.

p) **Municipal Capital Facilities** - includes land, as defined in the *Assessment Act*, works, equipment, buildings, machinery and related systems and infrastructures.

q) **Project Financing** - financing in which principal and interest payments are structured so as to more closely match the revenues or cost savings of a specific project. Also includes financing for which the lender, in the case of default, would have no or limited recourse to the issuer beyond the assets purchased with the proceeds of the financing.

r) **Rent** - a payment made by the Corporation in respect of property which will be used either for the Corporation's purposes or to fulfill a Council motion for service provision by a third party and for which a formal ownership transaction does not take place. Rent includes all payments made to the owner of the property.

s) **Rolling Stock** - equipment that moves on wheels used for transportation and/or transit purposes. Examples include, trucks, buses, and tractor trailers.

t) **Short-term Debt** - any debt for which repayment of the entire principal is due within one year.

u) **Sinking Fund Debenture** - debentures for which money is accumulated on a regular basis in a separate account that when combined with interest earned is used to redeem the debentures.

v) **Tender** - a process whereby formal bids are submitted to acquire debt securities or to provide a lease.

w) **Term Debentures** - Debentures that are comprised of a combination of installment and sinking fund debentures.

x) **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.

4.0 REFERENCE DOCUMENTS

Municipal Act, 2001
Drainage Act
Tile Drainage Act,
and their related regulations

5.0 RESPONSIBILITIES

Delegation of Authority

1. The Director of Financial Services / Treasurer will have the overall responsibility for the capital financing program of the Corporation.
2. No person shall be permitted to engage in a capital financing activity except as provided within this Policy.
3. The Director of Financial Services / Treasurer shall establish a system of controls to regulate the activities of subordinate officials and exercise control over that staff.

Requirement for External Advice

1. The Corporation'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 unusual or non-standard transactions, or otherwise directed by Council, outside financial and/or legal advice will be obtained.

6.0 PROCEDURE

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be:

1. Adhere to statutory requirements;
2. Maintain a superior credit rating;
3. Ensure long term financial flexibility;
4. Limit financial risk exposure;
5. Minimize long-term cost of financing; and
6. Match the term of the capital financing to the lesser of the useful life of the related asset or the period over which third party funding for the retirement of debt will be received.

Adhere to Statutory Requirements

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the *Municipal Act*, the *Drainage Act* or the *Tile Drainage Act*, and their related regulations. These requirements include, but are not limited to:

1. The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year;
2. The term of capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset;
3. Long-term debt will only be issued for capital projects;
4. The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the Ontario Municipal Board.
5. Prior to entering into a lease financing or rental agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing;
6. Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will have considered all financial and other risks related to the proposed construction financing.
7. The awarding of any contract under this Policy will, unless otherwise authorized by Council, follow the procedures and authorities set out in the Corporation's Procurement Policy.

Maintains a Superior Credit Rating

1. Maintaining a superior credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. Also, a credit rating of at least AA- (or

equivalent) will be needed by the Corporation to meet the statutory requirements for entering into certain types of capital financing.

Ensure Long-Term Financial Flexibility

1. The capital financing program will be managed in a manner consistent with other long-term planning, financial and management objectives.
2. Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.
3. To the extent practicable, replacement assets as well as regular or ongoing capital expenditures will be recovered on a "pay as you go" basis through rates, tax levy, user fees or reserves and reserve funds.
4. It is recognized that reserves must be developed and maintained, as outlined in the Town's Reserve and Reserve Fund Policy, for all capital assets owned by the Corporation to ensure long-term financial flexibility.

Limit Financial Risk Exposure

1. The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure. The Corporation will only issue debt that is denominated in Canadian dollars with an interest rate that will be fixed over its term.
2. If a situation arises where there is a material financial advantage or it is prudent to issue debt in a foreign denomination, where allowed by law, the Corporation will develop a hedging strategy to mitigate financial risk.
3. Financing leases have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material financing lease.

Minimize Long-Term Cost of Financing

1. The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing;
2. Factors to be considered will include:

   a) Current versus future interest rates

b) Shape of the interest rate curve
c) Availability of related reserve fund monies
d) Pattern of anticipated revenues or cost savings attributable to the project or purpose
e) Costs related to the financing of the project through debt.

Match the Term of the Capital Financing

1. The Corporation's normal practice will be to issue long-term debt for contractual terms that will be well received by the marketplace. However the amortization period over which the debt will be retired may be longer.
2. The maximum term over which an asset may be financed is set out in Appendix 1 of this Policy.
3. In no case shall the term of financing exceed the anticipated useful life of the asset.

Standard of Care

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

Ethics and Conflicts of Interest

1. Officers and employees involved in the capital financing process are expected to abide by the Corporation's Code of Conduct. In particular they shall:

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

Suitable and Authorized Financing Instruments

The form of financing will be dependent on its term and the type of asset to be financed.

Short-Term (Under One (1) Year)

1. Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing, may be from the following sources:

   a) Reserve Funds (this may be used as the primary source of short-term financing provided that interest is paid in accordance with the Town's Reserve and Reserve Fund Policy);
   b) Bank line of credit;
   c) Short-term promissory notes issued to approved financial institutions;
   d) Bankers' Acceptances; and
   e) Infrastructure Ontario (or successor organization) short-term advances pending issuance of long-term debentures

Long-Term (Greater than One (1) Year)

1. Financing of assets for a period greater than one year may be from any of the following sources:

   a) Debentures, which may be in the form or a combination of:
   - Installment
   - Sinking Fund
   - Term
   - Amortizing
   - Variable Interest Rate
   - Retirement Fund

   b) Reserves and Reserve Funds
   These may be used for both interim and medium-term for a period of no longer than five (5) years if deemed cost effective or otherwise necessary. Any borrowing must be in accordance with the Town's established Reserve and Reserve Fund Policy
   c) Long-Term Bank Loans
   These loans may be either fixed or variable interest rate loans as determined by the Director of Financial Services / Treasurer. A preference to fixed rate will be made as it reduces interest rate risk if the rates were to increase in the future.
   d) Construction Financing
   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 upon its completion.

e) Lease Financing Agreements (Capital Financing Leases)
May be used when it provides material and measurable benefits compared with other forms of financing.

Financing Risk Identification and Mitigation Strategies

It is recognized that there may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered prior to their use in relation to other forms of financing that would be available.

Availability of Debt Capacity for Future Priority Projects

1. The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan based on the ARL. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan.
2. Each project will be prioritized by staff on the basis of its impact on the Corporation's growth plan and/or any strategic plan adopted by Council.

Construction Financing

1. Construction financing may be used to fund the debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (eg. Water plant, recreation centre).
2. The financial risks included

   a) The possibility that interest rates may fall from the time the rate for the construction loan is established and the completion of the construction.
   b) 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.
   c) The risk that the construction project may not be able to proceed or is not completed for technical or other reasons. Staff will mitigate this risk by not issuing long-term debt until all critical construction contracts have been awarded and the project is substantially completed.

Financing Lease Agreements

1. Leases may be used to finance equipment, buildings, land or other assets that the Corporation does not have a long-term interest in or may not be able to acquire through other means.
2. The financial risks include

   a) The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument.
   b) The ability for lease payment to vary based on changes in the assumed residual values of the asset being leased.
   c) Uncertainty over leasing costs if the contract needs to be extended or renewed.
   d) Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to its creditors.

Variable Interest Rate Debenture and Long-Term Bank Loans

1. Variable rate debentures and long-term bank loans 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.
2. The interest rate will be fixed no later than 6 months after issue by means of a hedging agreement in order to mitigate the financial exposure.

Methods of Marketing / Selling Debenture Issues

Debenture securities may be sold by the following means:

1. Corporation Purchased – The Corporation may purchase its own debentures with excess investment funds should such purchase be deemed appropriate by the Director of Financial Services / Treasurer. All debentures purchased in this manner will be fully disclosed in the notes to the financial statements of the Corporation in accordance with Public Accounting Auditing Standards.
2. Debenture Call List – For issues relating to drainage and local improvements, the debenture call list may be exercised on a first come first served basis in accordance with the Debenture Call List procedure.
3. Tender - This process may be used when and if significant savings could be expected when compared to issuing through alternative means.

Financial Guarantees and Letters of Credit

1. Financial guarantees and / or letters of credit provided by the Corporation, its boards and subsidiaries will be considered as debt and will be governed by this Policy.

Thresholds for Debt Issuance

1. It is recognized that there is a significant cost, both in issuing debt as well as the annual interest cost associated with borrowing funds.
2. The Town will not issue debt for a capital project or group of projects where the Corporation's share of the project (including water and wastewater) is less than $500,000.00.
3. Issuance of debt to third parties will be for terms of ten (10) years or longer, to a period not exceeding the estimated useful life of the asset. Capital projects with a useful life less than ten (10) years will be financed through either the tax levy, use of reserves and reserve funds, or borrowing internally from reserve funds over a period of no longer than five (5) years.
4. Debt issued on behalf of benefitting landowners relating to assessments for drainage, local improvements or fees and charges may be for terms ranging from two (2) to ten (10) years as recommended by the Director of Financial Services / Treasurer.

Rolling-Stock

1. The Town will not issue long-term debt for rolling-stock, these purchases are to be funded through the use of reserves.
2. Leases of rolling-stock shall be permitted where feasible and where the overall cost to the taxpayer will be lower than if the vehicle was purchased.
3. The Town will, through the budget process, annually fund reserve(s) for the purpose of replacing rolling stock at the end of its useful life. The Town will estimate the annual contribution to reserves by the following - Cost of Vehicle / Estimated # of Years of Useful life.
4. Where a vehicle purchase is required prior to the expected replacement date, the contribution to reserves will be adjusted in the following year to ensure that planned future rolling stock replacements are funded.

Non-Tax Supported Projects

1. The Corporation has several areas which have been identified as being "Non-Tax Supported", that is to say that the activity receives revenues and incurs expenses on its own without support from the general tax levy.
2. These Non-Tax Supported Activities include, but are not limited to:
   a) Water System
   b) Wastewater System
3. Where a project includes tax-supported and non-tax supported activities (for example road reconstruction where water and sanitary sewers are also replaced), the financing will be shared between the general tax levy and the non-tax supported activity.
4. The cost of the project will be split proportionately between the tax-supported and non-tax supported activities based on the estimated cost provided by the engineer.
5. Funds received from senior levels of government will be attributed, where allowed under the terms of the agreement, to the tax-supported portion first. Any remaining funding after the allocation to the tax-supported costs, is then attributed to the non-tax supported portion in the same ratio as the costs are attributed.
6. Debt, and related interest, taken on by the Corporation for the use of a Non-tax Supported Activity will be repaid by the revenues of that activity.

Reporting Requirements

1. Annually the Director of Financial Services / Treasurer shall submit to Council a report or reports that:
   a) Requests authority for temporary borrowing up to a stipulated amount to meet the day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year;
   b) Requests authority, if required, to finance certain capital items detailing for each type of item, the amount and maximum term of financing;
   c) States the sum, if any, that must be raised for sinking fund purposes in that year;
   d) As part of the annual budget a Long-Term Debt and Financial Obligation Management Plan to be adopted or affirmed by Council containing at least:
   - Projections for each year over a multi-year period of estimated long-term debt and financial obligations payments

- Strategies for prudently and cost effectively dealing with risks associated with planned long term debt and financial obligations and mitigation strategies for adverse contingencies which may arise;
- A statement indicating the plan is in compliance with this Policy.

2. As required, the Director of Financial Services / Treasurer shall submit to Council, the following:

a) A report, before entering into a financing lease which is other than non-material lease with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease. This report shall include:

- A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
- A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
- A statement summarizing any contingent payment obligations under the lease that could result in a material impact for the Municipality.

b) Lists of any outstanding financing leases including the following details:

- Estimates of the proportion of financing leases to the Corporation's total long-term debt.
- A statement that in his or her opinion all financing leases were made in accordance with this Policy.

c) A statement before passing a by-law providing for construction financing, which shall consider:

- The fixed and estimated costs to the Corporation
- Whether the costs of the proposed financing for construction of the undertaking are lower than other methods of financing available
- A detailed estimate with respect to the terms of the Corporation's expectation of revenue generation from the undertaking, once constructed.
- The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
- The financial and other risks for the Corporation.

d) A report detailing at least once in a fiscal year, any subsisting variable interest rate bank loan agreements and any subsisting interest rate exchange agreements applicable to them.

e) Lists any outstanding construction financing debentures including the following details:

- A description of the estimated proportion of the total debentures of the municipality issued to the total long-term debt of the municipality and a description of the change, if any, in that estimated proportion since the previous year;
- A statement as to whether, in his or her opinion, all debentures issued were made in accordance with this Policy;
- A record of the date of the repayment of each installment of principal, interest or both during the period.
- A statement of the outstanding installments of principal and /or interest of debentures due within the year.

f) Details of all outstanding hedging instruments

Responsibilities

1. Officers and staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein the Policy.
2. The Director of Financial Services / Treasurer shall in addition:

a) Review and recommend the type and term of financing for capital projects and operating requirements;

b) Calculate the Financial Obligation Limit for the Corporation as prescribed by the *Municipal Act*;

c) Approve the timing and structure of debt issues;

d) Coordinate the preparation of debt issue by-laws for Council;

e) May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities;

f) Liaise and assist rating agencies in the evaluation of the credit worthiness of the Corporation's debt securities, if necessary;

g) Review and recommend to Council the financial and business aspects of any material lease agreements and transactions; and

h) Ensure all reporting requirements identified in this Policy are met.

a) The Mayor may execute and sign documents on behalf of the Corporation with respect to the issuance

3. The Chief Administrative Officer may certify and sign documents on behalf of the Corporation with respect to the issuance of the debt securities.

Appendix 1 - Maximum Financing Term of an Asset

Maximum Length of Time	Assets to Finance
3 Years	• Computer software
4 Years	• General purpose vehicle • Personal computer and monitors
5 Years	• Computer server and network equipment • Radio and telecommunication system • Office furnishings • Audio and Video equipment • Printers
10 Years	• Specialized vehicle / equipment • Parking lot • Public Works facility (depot, dome, etc) • Solid Waste equipment • Transit vehicle • Park or recreational facility • Dock, wharf, pier, breakwater • Retaining wall, embankment, flood control • Sidewalk, path • Street lighting • Underground wiring • Road
15 Years	• Police, Fire or EMS station • Library

Maximum Length of Time	Assets to Finance
20 Years	• Water main, hydrant, filtration plant, storage facility, pumping station • Sanitary sewer, storm sewer, treatment plant, pumping station • Office building
30 Years	• Water and wastewater main projects, provided the assets have a useful life >30 years AND the project will have revenues for a similar period

7.0 REVIEW/REVISIONS

No.	Revision Details (incl. provision #)	Revision By	Date
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			

Questions about this policy can be referred to the Director of Financial Services / Treasurer.