

THE CORPORATION OF THE TOWN OF GEORGINA

REPORT NO. CAO-2017-0014

**FOR THE CONSIDERATION OF COUNCIL
NOVEMBER 1, 2017**

**SUBJECT: SERVICE DELIVERY REVIEW (SDR) PROGRESS REPORT NO. 6
FINANCIAL POLICY FRAMEWORK
PART B – CORPORATE DEBT MANAGEMENT POLICY**

1. RECOMMENDATION:

- 1) That Council receive Report CAO-2017-0014 prepared by the Office of the CAO dated November 1, 2017 regarding SDR Progress Report No. 6, Financial Policy Framework, Part B – Corporate Debt Management Policy**
- 2) That Council adopt as a Policy a maximum annual debt servicing limit equivalent to 15% of the Municipality's Annual Repayment Limit (ARL) as set by the Ministry of Municipal Affairs and housing based on Town's Own Source Revenue (OSR);**
- 3) That Council approve the Corporate Debt Management Policy and the Debenture Terms as outlined in section 5.4.1 of this report, or any other options as directed by Council which shall be reflected in the amended version of Attachment 1 of this Report;**
- 4) That staff be instructed to follow the guidelines of the approved Corporate Debt Management Policy in preparation of the annual Capital Budget and the Ten Year Forecast;**
- 5) That staff be directed to include the most recent copy of the Ministry of Municipal Affairs and Housing's communication on Annual Repayment Limit (ARL) and the Financial Indicator Review for information purposes as part of the annual budget deliberation ;**
- 6) THAT the Treasurer be directed to report back to Council on the debt status, in detail, as part of the annual budget deliberation.**

2. PURPOSE:

The purpose of this Report is to introduce a new Corporate Debt Management Policy (CDMP) for the Town of Georgina, providing a clear financial framework for borrowing as a funding resource to accommodate the Town's future capital needs while maintaining responsible and prudent fiscal management. This report is also seeking Council's approval on a preferred option with respect to utilization of the Town's eligible debt capacity as set out in the Municipal Act that strategically positions the Town to better manage its long term infrastructure financing.

3. EXECUTIVE SUMMARY:

Debt Financing (borrowing for capital projects has been identified as one of several sources of funding for the Town's capital forecast. As such, the need for a Corporate Debt Management Policy was identified and recently referenced through the Service Delivery Review (SDR) Progress Report No. 4, Financial Policy Framework, on October 11, 2017. A clear Debt Policy will emphasize on the following sound management objectives:

- Sets forth the limits/restrictions of issuing debt as a source of capital funding
- Clarifies the parameters for managing the debt portfolio
- Enhances the quality of the decision-making process with clear objectives
- Clarifies the budget process for staff to implement
- Demonstrates the commitment to the long-term financial goals/plans
- Defines the terms and sets criteria for future borrowing

If the Debt Policy threshold of 15% of the Town's ARL OSR is adopted by Council, this would translate into the ability to finance approximately \$75M of additional capital projects (in 2017 dollars).

4. BACKGROUND:

In November 2016, as part of the Long Range Financial Plan conducted by Hemson Consulting Group Ltd. and adopted by the Council, it was identified that, in order to finance the capital projects as listed on the ten year forecast, the Town will need to incur approximately \$73.1M in debt between the years 2016 and 2025. It is important to note that the provisions of the Debt Policy must be compatible with the Town's goals and objectives pertaining to the delivery of capital projects and the operating budget that can

be accommodated within the recommended parameters. However, if Council wishes to approve a different threshold for the CDMP, the capital project delivery may be effected accordingly.

5. ANALYSIS & OPTIONS:

5.1 General

Debenture financing allows the Town to be proactive in providing financial resources for the projected infrastructure in a manner aligned with service demands. Frequently, the cost of ongoing maintenance for an aging asset exceeds the cost of financing. Delaying capital replacement could also be costly when the annual construction cost increase is considered.

Considering the number of growth-related projects and major infrastructure that needs to be in place in advance of the growth, and the lengthy time that is required to raise/save the funds to pay for a new facility that would serve both the current and future ratepayers, the benefits of a capital debenture are immeasurable. The services of the facility can be enjoyed almost immediately, and the cost shared over the period of life expectancy of the asset. It should also be noted that, the Town of Georgina is a lower tier municipality within York Region and under section 401.3 of the new Municipal Act, the Town does not have the power to issue debentures independent from the upper tier. Any borrowing will have to be done through the Region.

5.2 Debt Capacity/Limit

The Ministry of Municipal Affairs & Housing sets the Annual Repayment Limits (ARL) for all municipalities of Ontario. These limits are determined based on a maximum of 25% of net-owned sources of revenues from the preceding fiscal year, excluding non-continuous revenues such as grants and/or Development Charges. This means the Town's debt servicing obligations, or commonly called as debt repayment (principal & interest), should not exceed 25% of the Town's revenues, as prescribed by the Municipal Act.

Based on 2016 ARL directives, for 2017, the 25% limit for Town's annual payment for the total borrowing was set for \$12.2M, out of which the town has already committed to approximately \$1.8M leaving a capacity of \$10.4M annual payment capacity per year (see Attachment 2).

Another view or way of measuring the municipal debt that has recently gained momentum is the ratio of debt servicing cost as a percentage of total operating revenue.

In an annual communication the Ministry of Municipal Affairs & Housing (MMAH) issues the Financial Indicators, which measures the level of “risk” associated with municipal financial activities in seven categories. The Town of Georgina has been assessed low risk on all categories, other than a moderate assessment in Asset Consumption Ratio, which is in the “moderate” risk (see Attachment 3). This category measures the age of a municipality's physical assets and the extent to which depreciable assets have been consumed by comparing the amount of the assets that have been used up and their cost.

5.3 Term of Debt

The borrowing terms can be defined as three (3) major categories:

- Short term – less than five (5) years
- Medium term – Five to Ten (5-10) years
- Long term – up to forty years

The Municipal Act under section 408.3 limits the term of municipal borrowing such that the term would not exceed the useful life of the asset being financed, but not to exceed forty (40) years, which is estimated to be the maximum life expectancy for any municipal asset. It is suggested however, that the term of any debt incurred be in accordance with:

- The nature of asset
- The useful life of the asset
- The likelihood of the asset being re-purposed
- Financial factors such as market values/interest rates
- User fees, special levies and/or other revenues associated with the asset
- DC funding and its relation to the Growth Management (IMPORTANT)

5.4 Policy Options

As described, MMAH has prescribed a ceiling/maximum debt for municipalities. This approach however, has not been acceptable to many municipalities which resulted in adopting a different maximum allowable debt servicing cost by their respective councils. The Town Council now has the opportunity to create and/or determine maximum term and ARL to be used for capital project funding. For example, if an option with lower than 15% option is adopted, a number of projects will have to be delayed or scoped down to

fit the new parameters. Conversely, if a higher capacity was adopted, even though it will provide greater capacity for capital projects, it will also result in higher amount of liability for the municipality. It is therefore, recommended, that the policy should strike a balance between establishing limits on the borrowing and providing flexibility for program/service delivery.

The need for any debenture for the 2018 capital budget will be identified and presented to Council as part of the budget deliberation process currently underway.

5.4.1 Recommended

The recommended options on the terms of debt, depending upon the source of funding can include, but are not limited to:

- a) Growth related projects where partially/fully funded by DC funded debentures, a maximum term of ten (10) year, or not to exceed the final year of the approved Growth Plan (currently 2041), whichever comes first.
- b) For tax funded projects, a maximum term equivalent to the maximum useful life of the asset being financed, but not to exceed twenty five (25) years, unless at the discretion of the Treasurer, a longer term debenture is justified for a specific purpose.

Other options can include but are not limited to:

- c) Anything between the recommended options, up the limitations allowed under Municipal Act as described above.

5.4.2 Commonly Adopted Limited Borrowing in Relevance to ARL

Given the moderate risk assessment of Town's debt servicing capacity by the Ministry, the options commonly adopted for the debt capacity or ARL, include but not limited to:

- a) Maximum capacity use or ARL, not to exceed 15% (recommended)
- b) Maximum capacity use or ARL, not to exceed 10%
- c) Maximum capacity use or ARL, not to exceed 12.5%
- d) Maximum capacity use or ARL, not to exceed 20%
- e) As allowed by MMAH, the maximum capacity 25%

It is also important to note that it is not a good practice to borrow to the maximum allowed, as the municipality may be exposed to financial risk, in case of unforeseen events.

5.5 Summary

While this report is providing Council with recommendations for; a) the term, and b) maximum use of ARL categories, staff are seeking Council's approval on recommendations included in the sections 5.4.1 and 5.4.2 to be reflected in the Debt Management Policy as shown in Attachment 1.

6. RELATIONSHIP TO STRATEGIC PLAN

The Corporate Debt Management Policy contained herein provides several recommendations to enhance financial sustainability of the Town's service delivery and stewardship of the Town's capital assets, as well as rate stabilization, supporting the following goal in the Town's Strategic Plan:

Strategic Goal #4 "Provide Exceptional Municipal Service" – Organizational and Operational Excellence:

- Open, accountable and responsive government
- Proactive financial and municipal asset management
- Progressive organizational practices
- Engaged and collaborative leadership.

7. FINANCIAL AND BUDGETARY IMPACT:

Major capital expenditures provide long term benefits to the community. As such, they are generally outside the scope of short term funding. It is therefore, quite reasonable that, the cost of financing should be spread over the useful life expectancy of assets, as they do serve both present and future taxpayers of the Town. The key to a successful debt management policy is to find the balance between sound financial planning and managing the Town's financial ability for capital delivery. In November 2016, Town of Georgina completed a Long Range Financial Plan to identify the fiscal pressures based on the approved growth plan that was in place at the time. If the overall cost and the timing of capital projects was to remain the same as the forecast, a maximum use of the debt capacity or ARL would have not exceeded 15%. Staff however need to inform Council that the current ten year forecast is the best estimate available today and the

project costs can easily go higher than those assumed in the Long Range Financial Plan. This will have a direct impact on further debenture and/or property tax rates in order to provide sufficient funding.

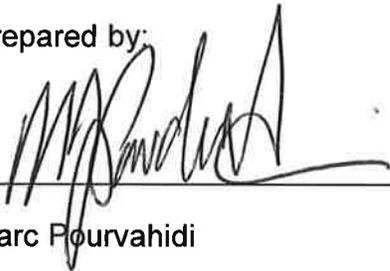
8. PUBLIC CONSULTATION AND NOTICE REQUIREMENTS :

This report is administrative in nature and there has been no related public consultation.

9. CONCLUSION:

This report recommends that Council receive and approve the Corporate Debt Management Policy, presented as attachment 1 to this report.

Prepared by:



Marc Pourvahidi

Service Delivery Review Project Manager

Approved by:



Winanne Grant, B.A., AMCT, CEMC

Chief Administrative Officer

Attachment 1: Draft Corporate Debt Management Policy

 GEORGINA _____ Policy No. – NO. and NAME OF POLICY	Prepared By: Approved By:
Approved on Effective Date: Revision Date:	Page 1 of 4

NAME OF POLICY: CORPORATE DEBT MANAGEMENT POLICY

PURPOSE: The purpose of this policy is to introduce a policy that provides a general framework on the type and the terms of any borrowing for the Town of Georgina, to accommodate the future capital needs of the Town while maintaining a responsible and prudent fiscal management.

POLICY STATEMENT: The Corporation of the Town of Georgina strives to use any funding tools available to deliver its capital program in a manner that will provide the lowest degree of risk exposure while maintaining an adequate level of debt financing.

A debt policy sets forth the parameters for issuing debt and managing the debt portfolio and provides guidance to decision makers. As such, a debt policy is beneficial because it enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement, and demonstrates a commitment to long-term financial planning objectives.

In order to make the policy an effective financial tool, provisions of the debt policy must be compatible with the Town's goals pertaining to the capital program and budget, the financial plan, and the operating budget. A debt policy also should strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities.

A debt policy should be formally adopted by Council and the debt program should be continuously monitored to ensure that it is in compliance with the debt policy.

1. DEFINITION OF DEBT

Debt includes any obligation for the payment of money over a period of time. Debt would normally consist of debentures from other levels of governments, as well as either notes or case loans from financial institutions and other entities; however, debt may also pertain to other financial obligations such as leases.

2. AUTHORITY TO ISSUE DEBT

A lower-tier municipality in a regional municipality or two tier governance, such as the Corporation of the Town of Georgina (Town), does not have the power to issue debentures as per Section 401 (3) of the new Municipal Act. The Town Council has to

 GEORGINA _____ Policy No. – NO. and NAME OF POLICY	Prepared By: _____ Approved By: _____
Approved on _____ Effective Date: _____ Revision Date: _____	Page 2 of 4

approve a by-law to make application to the Region of York to issue debentures on behalf of the Town.

3. PURPOSE OF DEBT

- a) Capital expenditures for the purchase and/or construction of land or buildings, recreational, cultural, public works, libraries, fire stations and any other municipal facilities may be debt financed if other more effective sources of financing are not available;
- b) Capital replacement expenditures will not be debt financed unless the replacement value is more than 50% greater than the resources available for replacement and then only the overage may be debt financed ;
- c) Capital expenditures related to growth will not be debt financed unless the new costs exceeds the resources available for growth financing and then only the overage may be debt financed;
- d) Minimizing Costs through cost-effective innovative financing alternatives for capital projects will be actively considered, provided that a potential for economic benefit is apparent and the alternatives meet the requirements of the Town. The financial risk exposure to the Town must not exceed traditional financing vehicles. The form of financing selected will be as such that the overall costs to the Town are minimized.
- e) Local Improvements, a request for debenture financing may not be made until either:
 - i) the work undertaken has been completed or;
 - ii) a firm contract has been entered into whereby the cost of completing the undertaking has been established and construction of the work has commenced.

4. TERM OF DEBT

The Town may incur debt for a capital work or property/asset acquisition for a term having a minimum of one (1) year and a maximum of forty (40) years.

4.1) Limitation on the Term of Debt

The Town may borrow for various funds for a term limited to following any one or combination of the following restrictions:

- i) Development Charges Funds - Maximum of Ten (10) years , with maturity not surpassing the year 2031 ;
- ii) Tax Funds - Maximum of Twenty Five (25) years, but not exceeding the useful life of the financed asset;
- iii) Special Levy/Local Improvement - Maximum of Fifteen Years, but not exceeding the useful life of the financed asset;

 GEORGINA _____ Policy No. – NO. and NAME OF POLICY	Prepared By: Approved By:
Approved on Effective Date: Revision Date:	Page 3 of 4

5. TYPES OF CAPITAL FINANCING:

a) Short-Term Debt - Under 5 Years the Town may borrow from any one or combination of the following sources:

- i. Own reserves at market rates;
- ii. Bank line of credit;
- iii. Short-term promissory notes;
- iv. Bankers' Acceptances;
- v. Any other form of short-term indebtedness to fund the needs for projects of less than five (5) years;

b) Medium-Term Debt- 5 to Under 10 Years

Medium-term financing requirements, for periods greater than one (1) year but less than five (10) years will be financed through any one or combination of:

- i) Operating and/or capital lease/purchase;
- ii) Term loans;
- iii) Promissory notes;
- iv) Any other type of medium term indebtedness that may be available.

The financial commitments for existing and anticipated leases for the current fiscal year are to be included in the calculation of the Town's Debt and Obligation Limit.

c) Long-Term Debt - 10 Years or Greater to 40 Years Long-term debt consists of debentures or other form of debt issued to finance assets over a period of not less than five (10) years and not more than forty (40) years in accordance with other sections of this policy.

d) Other - For short, medium or long-term debts, any available sources of borrowing from other levels of governments can also be used.

6. LIMITATION OF DEBT

- a) Unique to the Town of Georgina, the annual payments for the debentures cannot exceed a maximum of 15% use of Annual Repayment Limit
- b) At any point of time, if Town Council decided to surpass the limitations set in this policy, Council shall by resolution in an open Council waive the policy restriction to surpass the maximum capacity use as outlined in item "a" above;
- c) Under no circumstances, the payments for the Town indebtedness can exceed the Annual Repayment Limit (ARL) set annually by the Ministry of Municipal Affairs and Housing.

 GEORGINA _____ Policy No. – NO. and NAME OF POLICY	Prepared By: _____ Approved By: _____
Approved on Effective Date: Revision Date:	Page 4 of 4

7. AUTHORITY

As allowed under the section 401 of the new Municipal 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.