City of Mississauga

Corporate Policy & Procedure

MISSISSAUGA

Policy Title: Debt Management

Policy Number: 04-13-01

Section:	**Finance and Accounting**	Subsection:	**Investments**
Effective Date:	**December 14, 2011**	Last Review Date:	**December, 2015**
Approved by: **Council**		Owner Division/Contact: **Investment Portfolio Manager, Finance Division, Corporate Services Department**	

Policy Statement

The City of Mississauga strives for the optimum utilization of all available financial resources within statutory limitations. The City recognizes the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements. The City understands that the prudent issuance of Debt is an efficient use of available financial resources.

Purpose

This policy outlines the methods the City will use to manage its Debt in accordance with the City's Guiding Principles.

Scope

This policy applies to all future Debt of the City of Mississauga.

Investment management of Debt issuance proceeds are restricted by the City's Corporate Policy and Procedure - Finance - Investments.

Definitions

For the purposes of this policy:

"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.

"Approved Annual Budget" means the annual operating budget adopted by Council and which is the basis for any tax-rate change in a single fiscal year.

"Approved Capital Budget" means the budget estimate for capital project(s) and/or capital program(s) that has been adopted by Council and is the level at which Council approves funding and fund controls.

"Bank Loan" means a loan between the City and a bank listed in Schedule I, II or III of the *Bank Act* (Canada), a loan corporation registered under the *Loan and Trust Corporations Act* or a credit union to which the Credit Unions and Liaison Popularise Act, 1994 applies.

"Banker's Acceptance" means a Short-Term credit obligation created by a non-financial firm, such as a corporation, which is endorsed by a bank, effectively making the obligation that of the bank.

"Capital Reserve Fund" means the monies set aside for the repair and major maintenance costs of capital infrastructure and for large approved capital expenditures, such as the renovation of a community centre or road reconstruction.

"Commissioner" means the Corporation's Commissioner of Corporate Services, Chief Financial Officer and Deputy Treasurer and includes any person who has been authorized, in writing, to temporarily act during absence or vacancy in that office.

"Construction Financing" means a form of Debenture financing for revenue generating capital projects whereby the issuer does not pay any principal and/or interest for periods of normally up to five years during the construction period.

"Cost Mitigation Project" means any capital project whereby the baseline costs in the Operating Forecast are reduced as a result of the proposed capital project, either through forecast revenue increases or forecast expenditure decreases.

"Debenture" means a formal written obligation to repay specific sums on certain dates. Debentures issued by a municipality are unsecured and are backed by the good faith and credit of the municipality. Municipalities are authorized to issue Debentures for long-term borrowing of capital projects. Authorized types of Debentures include: Sinking Funds; instalment (serial); term; amortizing; Retirement Funds; Construction Financing and Variable Interest Rate.

"Debt" means any obligation for the payment of money. For Ontario municipalities, Long-Term Debt normally consists of Debentures; Short-Term Debt normally consists of notes or loans from financial institutions, but could also include loans from Reserves and Reserve Funds, Sinking Funds or an Endowment Fund. Debentures issued to Infrastructure Ontario are also considered as Debt.

"Debt and Financial Obligation Limit" means Ontario Regulation 403/02 (Debt and Financial Obligation Limits), which is the limit or amount provided annually to a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that constitutes the maximum amount of new annual debt serving costs that a municipality can undertake or guarantee, without seeking the prior approval of the Local Planning Appeal Tribunal (LPAT). The Director is to calculate and report annually to MMAH the Annual (Debt) Repayment Limit (ARL), as required by the legislation and related regulations. Additionally, the Director shall recalculate an updated limit using the most recent ARL and provide this to Council before Council authorizes specific work or class of work or any increase in expenditure for a previously authorized specific work or class of work that requires Long-Term Debt issuance.

“Development Charges” means those charges imposed under the City’s Development Charges By-Law 161-14 as amended.

“Director” means the Corporation’s Director of Finance and Treasurer and includes any person who has been authorized in writing, to temporarily act during absence or vacancy in that office.

“Infrastructure Ontario” means the entity established by the Province of Ontario to provide eligible public organizations such as Ontario municipalities, universities and hospitals access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.

“Lease Finance Agreement” means a lease allowing for the provision of Municipal Capital Facilities, if the lease may or will, require payment by the Corporation beyond the current term of Council.

“Long-Term Bank Loan” means Long-Term Debt provided by a bank or a syndicate (group) of banks.

“Long-Term Debt” means any Debt for which the repayment of any portion of the principal is due beyond one year.

“Municipal Capital Facilities” includes land, as defined in the *Assessment Act,* works, equipment, machinery and related systems and infrastructures.

“Operating Forecast” means the projection of expenditures, revenues and staffing levels beyond the Approved Annual Budget year in which the forecast is made.

“Own-Source Revenue” means revenue for a fiscal year, excluding:

a) grants from the Government of Ontario or Canada or from another municipality
b) proceeds from the sale of real property
c) contributions or net transfers from a Reserve Fund or reserve
d) Government of Ontario revenues received for the purpose of repaying the principal and interest of Long-Term Debt, toward meeting financial obligations of the municipality

e) other municipality or school board receipts for the purpose of repayment of the principal and interest on Long-Term Debt of the municipality borrowed for the exclusive purpose of the other municipality or school board

“Reserve Fund(s)” means a fund that is segregated and restricted to meet a specific purpose. Monies set aside for a Reserve Fund(s) must be deposited into a separate bank account and the interest earned on those investments must be added to the Reserve Fund(s).

“Short-Term” means any Debt obligation for which the repayment of the entire principal is due within one year.

“Sinking Fund” means a segregated pool of funds managed by the Region of Peel for which an estimated amount in each year, with interest compounded annually, will be sufficient to pay the principal of the related Sinking Fund Debentures at maturity.

“Retirement Fund” means a segregated pool of funds managed by the Region of Peel 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 instalments 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.

“Variable Interest Rate Debentures” means Debentures that provide for one or more variations in the rate of interest payable on the principal during the term of the Debentures.

Guiding Principles

The following are the City’s Guiding Principles for the management of its Debt obligations, which will help protect the City’s AAA credit rating and its long-standing financial reputation.

- Adherence to Legislative Requirements
- Long-Term Debt Financing for Eligible Capital Works
- Long-Term Financial Sustainability and Flexibility
- Long-Term Debt Financing Cost Minimization
- Long-Term Debt Financing Cost Certainty

Adherence to Legislative Requirements

Debt issuance at the City will only be undertaken in compliance with the provisions of the *Municipal Act*, 2001 (the Act), specifically Part XIII - Debt and Investment, as well as Ontario Regulation 403/02 (Debt and Financial Obligation Limits); Ontario Regulation 438/97 (Eligible Investments and Related Financial Agreements); Ontario Regulation 247\01 (Variable Interest Rate Debentures and Foreign Currency); and Ontario Regulation 276\02 (Bank Loans), as amended.

Debentures cannot be issued to finance current operations. The use of money received will be applied only for the purposes for which the Debentures were issued or for repayment of outstanding temporary borrowing. The City is permitted under Section 407 of the Act to draw on temporary borrowing facilities, in a tax year, pending receipt of tax revenues. By-law 0052-2003 governs the authorities and controls for the use of temporary borrowing.

Regional Debt Administration
Under Section 401 of the Act the Region of Peel issues Debentures for the City. This includes arranging Debenture financing; collection of interest and principal; and Act compliance and administration of Sinking Funds and Retirement Funds.

Under Section 401 (3.1) of the Act, Debentures constitute direct, joint and several obligations of the Region of Peel and its lower-tier Municipalities.

Authority to Manage Debt Proceeds
City of Mississauga By-Law 0188-2015, as amended, delegates authority for the management of cash, securities and Debt to the Director. The By-Law details the specific authorization required for each action outlined in the By-Law.

Long-Term Debt Financing For Eligible Capital Works

The following capital works items are eligible for Long-Term Debt financing

1) New Municipal Capital Facilities and Infrastructure not funded through Development Charges
2) Major Reconstruction and Rehabilitation
3) Cost Mitigation Project
4) Storm Water Management
5) Funding of the City's 10% share of Development Charges growth capital projects
6) Development Charges funded projects, with forecasted or pending revenues

Long-Term Financial Sustainability and Flexibility

The City' credit rating agency, Standard & Poor's (S&P), provides City Finance staff with guidance on financial metrics to measure the financial health of a corporation. Some key indicators which will influence the Approved Capital Budget and which the City will monitor to ensure long-term financial sustainability, include:

- Debt per capita
- Debt charges per capita
- Debt charges, as a percentage of Own-Source Revenue
- Debt charges, as a percentage of the municipal levy
- Debt to operating revenues
- Debt to Reserves and Reserve Funds
- Cash and liquid assets to operating expenditures

Debt will be managed in a manner consistent with the City's Guiding Principles, long-term planning and financial and management objectives as follows:

1) Total Debt Limit is set at 15% of City Own-Source Revenues, comprised of:
   a) Annual Debt Financing Charges (excluding Debt financing for Development Charges debentured projects and any Debt financing for projects supported by non-tax revenues), inclusive of any budgeted or proposed Debt issue and which are comprised of the principal and interest component (or of the interest and Sinking or Retirement Fund contribution component) for the related Debenture, will not exceed 10% of tax-supported Debt as a share of City Own-Source Revenues, unless otherwise approved by Council.

   b) Annual Debt Financing Charges for non-tax supported Debentures, i.e. Debentures that are funded by Development Charges revenues or other non-tax revenues, will not exceed 5% of City Own-Source Revenues.

   c) The Development Charges funded Debt limit will be further subject to a limit equal to 25% of the 10 year forecast of average annual Development Charges revenues.

2) To ensure financial solvency, liquidity and flexibility, the City will maintain a minimum threshold cash balance in the Capital Reserve Fund, which is equivalent to one year's worth of the 10 year average of the tax-supported capital expenditure requirements.

   Capital Reserve Fund balances to be used for Approved Capital Budget funding calculation purposes will be the closing cash balances of Reserve Funds from the 3rd quarter of a given year.

3) To monitor and control the impact of Debt servicing costs on the Approved Annual Budget of any given year and in consideration of the impact on future ratepayers, the annual Approved Capital Budget will demonstrate a balanced approach amongst all forms of funding, including external Debt financing, over a 10 year horizon.

Long-Term Debt Financing Cost Minimization

Timing, type and term of Debt financing for the Approved Capital Budget will be determined in order to minimize the City's overall long-term cost of financing. Typically, shorter term interest rates (five year borrowing rates) are lower than longer term interest rates (30 year borrowing rates).

In order to minimize interest costs over time

1) While the amortization of Debenture financing will essentially match the useful life of the Debentured asset, the term of any particular Debenture may be shorter than the useful life of the capital asset and, in any case, will not exceed the lesser of 30 years or the estimated useful life of the underlying asset.

2) In no case will the term of financing exceed the anticipated useful life of the underlying asset or the maximum term of 40 years, in accordance with the Act.

3) Banker's Acceptance, which may be issued to bridge finance pending issuance of a Debenture, will reduce up-front interest costs on an ongoing basis.

4) In accordance with Ontario Regulation 247\01, the City may issue Variable Interest Rate Debentures, wherein the interest rate is typically lower than a fixed rate Debenture.

5) Long-Term Bank Loans with a variable interest rate and Variable Interest Rate Debentures can be left variable if prevailing market conditions are favourable, as determined by City Finance staff, designated in writing.

6) Construction Financing methods will be considered in accordance with Section 405 of the Act. In advance of the issuance of Debentures, Short-Term temporary borrowing for capital projects is allowed. The use of rolling Short-Term financing may be used for a Debenture approved capital project. A Construction Financing Debenture may be issued pursuant to which principal and/or interest may be deferred for up to five years as the project is being completed.

7) The City (with an AAA Credit Rating) would normally realize its lowest financing cost under its name or the Region's. However, there may be times when the City may receive a subsidized financing rate which is lower, due to its participation in a multi-party large scale capital project. In this circumstance, Lease Finance Agreements may be considered if and when it is financially beneficial to the City to enter into this form of borrowing.

8) Cost reduction factors which influence the timing and type of Debt to be considered by City Finance staff, designated in writing, include:
   a) Timing of costs and revenues related to a project and any offsetting cost savings attributable to a project
   b) The optimal usage of overall City cash
   c) Capital Reserve Fund levels, over minimum balances and the availability of surplus Reserve Fund monies.

Long-Term Debt Financing Cost Certainty

Debt financing will be managed in a manner to limit, where practicable, variations in costs. As a result, it will be the City's normal practice to require that the Region of Peel issue Debentures with a fixed interest rate over the issuance term (which eliminates increases in interest cost for the respective Debentures issue) and that is only denominated in Canadian dollars (which eliminates exchange rate risk).

Where variable rate Debt exists in conjunction with any other outstanding Variable Interest Rate Debentures or loans, the total outstanding variable interest rate Debt of the City will not exceed 15% of all outstanding Debt.

Through the Region of Peel, bond forward agreements may be entered. A bond forward agreement, which is similar to purchasing a forward diesel fuel contract, can lock-in a forward interest rate, with an 'insurance premium', for up to six months in advance. While this instrument provides cost certainty, the price to lock-in a future interest rate may not be cost effective. The City will reserve the right to not participate in any bond forward agreement that the Region enters.

Notice Period

The City recognises that, in order to ensure orderly placement of a Debenture issue within capital markets, the Region of Peel requires a long notice period (18 months, with a $25 million variance; six months, with a $10 million variance) for the issuance of Debentures.

City Finance staff, designated in writing, will provide no less than 75 days of official notice, in writing, to the Region of Peel regarding City participation in the issuance of Debentures.

Revision History

Reference	Description
GC-0775-2011 – 2011 12 14	
December 17, 2015	Scheduled review, admin revisions to reflect By-Law 0188-2015
August 29, 2018	Housekeeping – OMB renamed the Local Planning Appeal Tribunal.