



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

## 1.0 Purpose

- 1.1 This Policy sets forth parameters for Town of Cobourg council and staff regarding the issuance of debt and management of outstanding debt. A debt management policy is beneficial as it assists in consistent decision making, rationalizes the decision-making process, identifies objectives for staff to implement, and demonstrates a commitment to the objective of long-term financial planning.
- 1.2 The purpose of this Policy is to outline the procedures and steps undertaken to ensure the Town of Cobourg plans for and uses debt appropriately.

## 2.0 Definitions

- 2.1 “Annual 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
- 2.2 “Annual Repayment Limit (“ARL”)” means the maximum amount that a municipality may commit to payments related to debt and financial obligations as calculated by the Province of Ontario and adjusted by the municipal treasurer from time to time
- 2.3 “Bank Loan” means a loan between the Town and a bank listed in Schedule 1, 2 or 3 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
- 2.4 “Capital Expenditure” means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board, Section 3150
- 2.5 “Capital Financing” means the financing of capital assets using debt, financing leases, swaps and other derivatives
- 2.6 “Debenture” is a formal written obligation to repay specific sums on certain dates. In the case of a municipality, debentures are unsecured i.e. backed by general credit rather than by specified assets
- 2.7 “Debt” means any obligation for the repayment of money. For Ontario municipalities, long term debt normally consists of debentures, short-term debt normally consists of notes or loans from financial institutions. Inter-fund borrowing, and debentures issued to Infrastructure Ontario are also considered to be debt



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

- 2.8 “Inter-Fund Borrowing” means financial resources being transferred internally from one fund to another with express purpose to repay the loan plus applicable interest
- 2.9 “Lease Financing Agreements” means 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.
- 2.10 “Long Term Borrowing/Long Term Debt” means any debt for which the repayment of any portion of the principal is due beyond one year
- 2.11 “Reserve(s)” means a fund that may be for a specific purpose but is considered discretionary in nature. Interest is not earned on those investments
- 2.12 “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)
- 2.13 “Short-term Borrowing/Short Term Debt” means any debt for which repayment of the entire principal is due within one year
- 2.14 “Sinking Fund” means a segregated pool of funds managed by the Town of Cobourg 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
- 2.15 “Town” means the Corporation of the Town of Cobourg, its agencies, boards and commissions and in accordance with the Town’s Consolidated Financial Statements, those organizations accountable for the administration of their financial affairs and resources to the Town and which are owned or controlled by the Town
- 2.16 “Treasurer” means the Director of Corporate Services for the Town of Cobourg

## **3.0 Policy**

### **3.1 Adherence to Statutory Requirements**

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

- a) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

- b) The term of capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset
- c) Long-term debt will only be issued for capital projects
- d) The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the Ontario Municipal Board
- e) Prior to entering into a lease financing 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
- f) 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, the Council will have considered all financial and other risks related to the proposed construction financing
- g) The awarding of any contract under this Policy will, unless otherwise authorized by the Council, follow the procedures and authorities set out in the Corporation's Procurement Policy

## 3.2 Short Term Debt (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) Reserves and Reserve Funds (this may be used for 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



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

## 3.3 Long Term Debt (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:
  - i. Installment
  - ii. Sinking Fund
  - iii. Term
  - iv. Amortizing
  - v. Variable Interest Rate
  - vi. Retirement Fund
- b) Reserves and Reserve Funds
  - i. These may be used for both interim and medium-term for a period of no greater 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
  - i. These loans may be either fixed or variable interest rate loans as determined by the Director of Finance and POA Court 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
  - i. May be used for a period of 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



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

## e) Lease Financing Agreements (Capital Financing Leases)

- i. May be used when it provides material and measurable benefits compared with other forms of financing

### 3.4 Purposes for Which Debt May Be Issued

The Town may borrow by debenture, mortgage or other acceptable debt instrument to finance capital expenditures that support corporate priorities and approved strategic plan, while using the following guidelines to determine on a case-by-case basis whether the use of debt is appropriate:

- (1) Whether the individual project value exceeds \$2,000,000
- (2) Whether the estimated useful life of the asset is greater than 20 years
- (3) Whether the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt
- (4) Whether it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users
- (5) Whether the project is supported by a comprehensive business case if the project is not included in the annual budget.

### 3.5 Debt Issuance

- (1) When the incurrence of Long-Term Debt is deemed to be an appropriate method to finance capital projects, the Province will be initially considered as a lender
- (2) Where it is more attractive and advantageous, a long term financing arrangement with another acceptable lender will be considered

### 3.6 Reporting Requirements

As required, the Director of Corporate Services/Treasurer shall submit to Council, the following:

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



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

associated with the proposed lease and those associated with other methods of financing;

- b) 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 of calculations, including possible financing rate changes, that may be used to establish the variance under the lease;
  - c) A statement summarizing any contingent payment obligations under the lease that could result in a material impact for the Town
  - d) Report on any outstanding financing leases including the following details:
    - d.1 Estimates of the proportion of financing leases to the Corporation's total long-term debt
    - d.2 A statement that in his or her opinion all financing leases were made in accordance with this Policy
- (2) A report before passing a by-law providing for construction financing, which shall consider:
- a) The fixed and estimated costs to the Corporation
  - b) Whether the costs of the proposed financing for construction of the undertaking are lower than other methods of financing available
  - c) The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
  - d) The financial and other risks for the Corporation
- (3) A report detailing at least once in a fiscal year, any current variable interest rate bank loan agreements and any subsisting interest rate exchange agreements applicable to them
- (4) Report during the annual budget any outstanding construction financing debentures including the following details:
- a) A description of the estimated proportion of the total debentures of the municipality issued to the total long term debt of the municipality and



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance  
of Debt Policy

**Section #**  
**Policy #**

a description of the change, if any, in that estimated proportion since the previous year;

- b) A statement as to whether, in his or her opinion, all debentures issued were made in accordance with this Policy;
- c) A record of the date of the repayment of each installment of principal, interest or both during the period;
- d) A statement of the outstanding installments of principal and/or interest of debentures due within the year

(5) Report on any outstanding hedging instruments, including with number 4 - variable

## **4.0 Scope**

4.1 This policy pertains to the issuance of all debt and resulting repayment terms, including capital lease financing arrangements entered in by the Town. This policy applies to all members of the Town's organization including members of Council, full, part-time and contract staff.

## **5.0 Administration**

5.1 Municipal Council is responsible for:

- 1) Council must authorize long term debt through by-law
- 2) Pass a resolution to by-pass this policy if the debt will exceed 15% limit of own source revenues

5.2 The Director of Corporate Services/Treasurer is responsible for:

- 1) Ensure that the municipality has sufficient capacity within its debt repayment limit as per the Ministry of Municipal Affairs and Housing ARL requirements
- 2) Provide policy to municipal auditors to audit policy to the undertaking of debt during the annual audit
- 3) Arrange for the debt servicing
- 4) Provide a report at the annual budget regarding debt management



# Corporation of the Town of Cobourg

**Division:** Corporate Services

**Effective Date:**

**Department:** Finance

**Approval Level:** Council

**Policy Title:** Long Term Debt and Issuance of Debt Policy

**Section #**  
**Policy #**

- 5) Responsible for providing training and the implementation of the policy
- 6) Submit annual temporary borrowing bylaw to Council in accordance with the Municipal act.

## Cross Reference

Policy # (related policy)

Procedure # (related procedure)

Division Director / Resolution  #	Revision Purpose/Description:	Municipal Clerk/Approved by CAO:	Council/Division Director Approval Date:
		<hr style="width: 100%;"/> Signature	