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| SECTION: Finance SUBJECT: Debt Management - Under Review | | POLICY 13.2.5 |
| EFFECTIVE: June 19, 2013 | REPLACES: n/a | PAGE: 1 of 11 |
| APPROVED BY: CW224-2013/C183-2013 | PROCEDURAL UPDATES: n/a | |

POLICY STATEMENT:

The City recognizes that the prudent issuance of Debt within the context of a long term plan can be an efficient use of available financial resources. Decisions to issue external debt must be made in the context of the optimum utilization of all available financial resources within statutory limitations, and recognizing the basic need to protect and preserve capital while maintaining solvency and liquidity to meet ongoing financial requirements.

PURPOSE:

The purpose of this policy is to outline the methods and principles that the City will use to manage its Debt in accordance with best practices of sound financial management

SCOPE:

This policy applies to all future external debt financing that may be issued by the City of Brampton.

Internal borrowing from the City’s working funds, reserves and reserve funds is governed by Corporate Policy – Finance – Internal Financing (13.2.3)

Investment management of Debt issuance proceeds is restricted by the City’s Corporate Policy – Finance & Insurance – Investments (13.6.0).

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DEFINITIONS:

For the purpose 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 Current (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 Populaires Act, 1994* applies.

“Bankers 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, major maintenance, rehabilitation and replacement of capital infrastructure and for other large approved tax funded capital expenditures, including principally but not limited to Reserve Fund #4, Asset Repair and Replacement.

“Debenture” means a formal written obligation to repay specific sums on certain dates. Debentures issued by a municipality are typically unsecured and are backed by the good faith and credit of the municipality. Municipalities are authorized to issue Debentures for long-term financing of capital projects. Authorized types of debentures include: sinking funds, installment (serial); term; amortizing; retirement funds; construction financing and variable interest rate.

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“Debt” means any obligation for the repayment of money. For Ontario municipalities, Long-Term Debt would normally consist of debentures, capital or financing leases, as well as notes or cash 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 a Debt.

“Debt and Financial Obligation Limit” means the limit or amount determined annually for a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that constitutes the maximum amount of new annual debt servicing costs that a municipality can undertake, or guarantee, without seeking prior approval of the Ontario Municipal Board (OMB), as prescribed by Ontario Regulation 403/02 (Debt and Financial Obligation Limits). MMAH calculates and report annually to the Treasurer the Annual (Debt) Repayment Limit (ARL), as required by the legislation and related regulations. The Treasurer shall recalculate an updated limit using the most recent ARL and provide this to Council before Council authorizes any specific work or class of work or any increase in expenditure for a previously authorized specific work or class of work that requires issuance of long-term debt.

“Development Charges” means those charges imposed under the City of Brampton Development Charges By-Laws, as prescribed by the Ontario Development Charges Act, 1997, to fund new infrastructure and capital facilities required due to growth of the City.

“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 Financing 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 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.

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

“Operating (Current) Budget Forecast” means that 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 other government type bodies such as Conservation Authorities, Commissions, Crown Corporations and Agencies, or from another municipality
- b) Proceeds from the sale of real property
- c) Contributions or net transfers from a reserve or Reserve Fund
- 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.

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

“Short-Term Debt” 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 contributed 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 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.

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“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 principles will govern the management of the City’s debt obligations, which will help to protect the City’s 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

The City will only undertake issuance of Debt 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 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 and passes a Temporary Borrowing By-law annually to provide the necessary authority.

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Regional Debt Administration

Under Section 401 of the Act the Region of Peel issues Debentures for the City. This includes arranging Debenture financing; compliance with the Act; collection of interest and principal; 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

The Treasurer is responsible for management of the proceeds of debt issued.

LONG-TERM DEBT FINANCING FOR ELIGIBLE CAPITAL WORKS

The following types of capital works are eligible for Long-Term Debt financing:

- 1) Development Charge funded capital facilities, infrastructure and equipment required to be replaced before revenues are received
- 2) Non-growth share and 10% mandatory co-funding portion of the cost of Development Charge funded capital projects
- 3) New growth-related municipal capital facilities and infrastructure not eligible for funding from Development Charges, or other public capital facilities determined to be required for the well-being of the residents of Brampton
- 4) Major replacement, reconstruction, rehabilitation and retrofit projects

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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. In no case will the term of financing exceed the maximum term of 40 years, in accordance with the Act.

LONG-TERM FINANCIAL SUSTAINABILITY AND FLEXIBILITY

The City’s credit rating agency provides City 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 associated financing plans, 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
- Reserve fund balances in relation to minimum liquidity thresholds

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

- 1) Total Debt Repayment Limit for all City long term debt, inclusive of any budgeted or proposed Debt issue, and which is comprised of the principal and interest component (or of the interest and Sinking or retirement Fund contribution component) for the related Debentures, is set at 12.5% of City Own-Source Revenues, comprised of:

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- a. Annual Debt Financing Charges for Development Charges supported Debentures, i.e. Debentures that are funded by Development Charge revenues, will not exceed the lesser of 7.5% of the City's Own-Source Revenues, or 20% of the 5 year average annual Development Charges revenues.
 - b. Annual Debt Financing Charges excluding Debt financing for Development Charges debentured projects and any Debt financing for projects supported by non-tax revenues, will not exceed 5% of the City Own-Source Revenues, unless otherwise approved by Council.
- 2) 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. Annual debt charges will be the first priority draw on available capital funding (development charge or tax funding as appropriate) each year.
 - 3) Sufficient Development Charge revenue shall be held in reserve each year to fund the following year's DC funded debt repayment obligation, to minimize risk to the tax funded budget of any downturn in revenue.
 - 4) Issuance of Development Charge funded debt shall be accompanied by implementation of a plan to eliminate any existing deficit or over-commitment of the City's DC funds over the forecast years remaining to build-out of the City.

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.

In order to minimize interest costs over time:

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

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- a. 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.
- b. 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 approved by the Treasurer.
- c. Construction financing methods will be considered in accordance with Section 405 of the Act. In advance of the issuance of Debentures, shorter 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.
- d. Cost reduction factors which influence the timing and type of Debt to be considered by the Treasurer include:
 - i. Timing of costs and revenues related to a project and any offsetting cost savings attributable to a project,
 - ii. The optimal usage of overall City cash,
 - iii. 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

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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, subject to requirements of Ontario Regulation 653/05 (Debt-Related Financial Instruments and Financial Agreements). 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 into.

NOTICE PERIOD

The City recognizes that, in order to ensure orderly placement of a Debenture issue within capital markets, the Region of Peel requires a lengthy notice period (18 months in advance of when the funds are required, within a range of plus or minus \$25 million variance; to be further confirmed six months in advance, within plus or minus \$5 million) for the issuance of Debentures.

The Treasurer 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.

ACCOUNTABILITY:

The Financial and Information Services Department is responsible for developing recommendations and appropriate advice to Council on debt financing decisions and for administering any approved debt financing in conjunction with the Region of Peel.

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ADMINISTRATION:

Financial Planning & Budgets Division is responsible for maintaining and updating this policy.

CONTACT:

Finance

RELATED DOCUMENTS:

- City of Brampton, Corporate Policy 13.2.3 (Finance – Internal Financing)
- City of Brampton, Corporate Policy 13.6.0 (Finance & Insurance – Investments)
- Ontario Municipal Act 2001 (the Act), as amended, specifically Part XIII – Debt and Investment
- Ontario Regulation 247/01 (Variable Interest Rate Debentures and Foreign Currency)
- Ontario Regulation 276/02 (Bank Loans)
- Ontario Regulation 403/02 (Debt and Financial Obligation Limits)
- Ontario Regulation 438/97 (Eligible Investments and Related Financial Agreements)
- Ontario Regulation 653/05 (Debt-Related Financial Instruments and Financial Agreements)