

Category: Finance

Financing Policy

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Administered by: Financial Planning and Analytics, Finance

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1. Purpose

The purpose of this Policy is to outline the principles and framework employed by the City of Brampton to manage its external, internal and capital lease financing for the prudent management of the City's operating and infrastructure needs.

2. Application and Scope

This Policy applies to all external, internal and capital lease financing that may be utilized or issued by the City. Outcomes

3. Guiding Principles

The following principles govern the management of the City's financing obligations, which help to protect the City's credit rating and its long-standing financial reputation:

- Adherence to legislative and policy requirements
- Ensure financial sustainability and flexibility
- Minimize long-term cost of financing
- Maintain cost certainty

3.1 Adherence to Legislative and Policy Requirements

The City will only undertake financing, subject to formal approval by Council, when it is in compliance with the relevant sections of the Municipal Act, the applicable regulations and policy requirements thereunder:

3.1.1 External debt financing

- a) Long-term debt will only be issued for capital projects.
- b) The type of long-term debt financing the City will utilize may include debentures (including those issued through Infrastructure Ontario or successor organization), long-term bank loans (including syndicated bank loans) and/or construction financing.
- c) In accordance with the Municipal Act, the Region of Peel issues long-term debt on behalf of the City. This includes arranging collection of interest and principal and administration of sinking and retirement funds.
- d) The City may draw on temporary financing in a fiscal year, pending receipt of tax revenues and by passing a 'Temporary Borrowing By-law'. Temporary financing may consist of Banker's Acceptance, short-term bank loans, line of credit or other such temporary financing arrangements.
- e) The term of temporary or short-term financing for operating purposes will not exceed the fiscal year of when it was utilized or issued.

3.1.2 Capital lease financing

- a) The City may enter lease financing agreements for the purpose of obtaining long-term financing of a capital nature.
- b) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as financial and other risks associated with the proposed lease, in relation to other methods of financing.

3.1.3 Internal financing

- a) The City may use internal financing for selected capital projects.
- b) The financing of the project will be in a manner that does not detract from the City's overall investment performance objectives.
- c) Internal financing loans will have a specific term and a formal repayment schedule.
- d) Repayment for internal financing will include both principle and interest, except for any tax-supported internal financing which will include only the principle amount.

3.1.4 Limits and guidelines for all types of financing

- a) The term of any debt, debenture or other financial instrument for long-term borrowing shall not extend beyond the lifetime of the capital project for which the debt was incurred and shall not exceed 40 years.
- b) The annual debt repayment limit for all external and capital lease financing is set at 15% of City Own-Source Revenues.
- c) The budgeting for the annual debt repayment charge related to external, internal and capital lease financing will start in the same year as the debt approval, unless an exception to this is approved by Council.

3.2 Ensure Financial Sustainability and Flexibility

- a) Financial sustainability depends on the debt levels and debt service charges being consistent with the City's level of affordability, both current and future.
- b) Debt issuance decisions must align with ensuring long-term financial flexibility and sustainability for the City.
- c) The City will attempt to recover the current portion of rehabilitation and replacement costs on a "pay as you go" basis through a tax levy, user fees and/or reserve fund monies to the extent practicable to ensure long-term financial sustainability and flexibility.
- d) Where long-term financing is required, due consideration will be paid to all forms of financing.

3.3 Minimize Long-Term Cost of Financing

The City will determine the timing, type and term of debt financing for the capital budget to minimize the City's overall long-term cost of financing. Cost reduction factors which influence the timing and type of debt to be considered by the Treasurer 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; and
- c) Capital reserve fund levels, over minimum balances and the availability of surplus Reserve Fund monies.

3.4 Maintain Cost Certainty

- a) Debt financing will be managed in a manner to limit, where practicable, variations in costs.
- b) 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).

- c) The City may choose to issue variable interest rate debt. However, the total outstanding variable interest rate debt of the City will not exceed 15% of all outstanding debt.

4. Roles and Responsibilities

4.1 Council is responsible for:

- 4.1.1 overall responsibility for authorizing debt issuance.

4.2 Treasurer is responsible for:

- 4.2.1 directing and implementing the activities of debt issuance;
- 4.2.2 review and recommend the type and term of financing for capital projects and short-term financing for operating requirements;
- 4.2.3 update the debt and annual debt repayment limit for the City as prescribed by the Municipal Act;
- 4.2.4 in consultation with the underwriting syndicate, approves the timing and structure of debt issues;
- 4.2.5 coordinates the preparation of debt issue by-laws;
- 4.2.6 may execute and sign documents on behalf of the City and perform all other related acts with respect to the issuance of debt securities;
- 4.2.7 liaises and assists credit rating agencies in the evaluation of the credit worthiness of the City's debt securities;
- 4.2.8 reviews and recommends to Council the financial and business aspects of any capital lease financing agreements and transactions;
- 4.2.9 establishes a set of procedures consistent with the Policy and including explicit delegations of authority to persons responsible for financing activity;
- 4.2.10 ensures all reporting requirements identified within this Policy are met;
- 4.2.11 signs required documentation under the Municipal Act; and
- 4.2.12 report to Council to resolve any disputes or extraordinary circumstances that may arise regarding the application of this Policy.

5. Conflicts of Interest

Council and City staff responsible for financing activities will follow the standard of care identified in this Policy. In particular, they shall:

- 5.1 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.
- 5.2 Disclose any material interests in financial institutions with which they conduct business.
- 5.3 Disclose any material personal financial/investment positions that could be related to the performance of their capital financing duties.
- 5.4 Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the City.

6. Monitoring and Compliance

- 6.1 The Treasurer shall provide an annual report to Council that will include the following:
 - 6.1.1 Projections for each year over a multi-year period of estimated long term debt and financial obligations payments compared to the annual debt repayment limit.
 - 6.1.2 Any other information that may be requested by Council.

7. Definitions

- 7.1 **Annual Debt Repayment Charge** – means a charge which is comprised of the principal and interest component (or of the interest and Sinking or retirement Fund contribution component).
- 7.2 **Annual Debt Repayment 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.

- 7.3 **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.
- 7.4 **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.
- 7.5 **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.
- 7.6 **Capital Leases** – means a lease that meets one of the following criteria:
- 7.6.1 There is reasonable assurance that lessee will obtain ownership of the leased property by the end of the lease term (bargain purchase option);
 - 7.6.2 Lease term is 75% or more of the economic life of the leased property; and
 - 7.6.3 Present value of the minimum lease payments is equal to substantially all (90% or more) of the fair value of the leased property.
- 7.7 **Capital Projects** – means costs incurred for projects that are directly attributable to the acquisition, construction, development or betterment of an asset. They may include but are not limited to DC funded capital projects, other public capital facilities determined to be required for the well-being of the residents of the City and also major replacement, reconstruction, rehabilitation and retrofit projects.
- 7.8 **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.
- 7.9 **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.

- 7.10 **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 Debt.
- 7.11 **Development Charges (DC)** – 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.
- 7.12 **Fiscal year** – means the period from January 1st to December 31st.
- 7.13 **Infrastructure Ontario, or successor organization** – 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.
- 7.14 **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.
- 7.15 **Long-term Bank Loan** – means Long-Term Debt provided by a bank or syndicate (group) of banks.
- 7.16 **Long-Term Debt** – means any Debt for which the repayment of any portion of the principal is due beyond one year.
- 7.17 **Municipal Capital Facilities** – includes land, as defined in the Assessment Act, works, equipment, machinery and related systems and infrastructures.
- 7.18 **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.
- 7.19 **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.

7.20 **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.

7.21 **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.

7.22 **Treasurer** – means Treasurer as defined under the Municipal Act, 2001.

7.23 **Variable Interest Rate Debt** – means debt that provide for one or more variations in the rate of interest payable on the principal during the term of the debt.

8. References and Resources

This Council Policy should be read and applied in conjunction with the following references and resources as updated from time to time. Please note that some of the following documents may not be publicly available.

8.1 External references

- 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)

9. Revision History

Date	Description
2018/06/27	Approved – Replaces the following policies rescinded by resolution CW264-2018 on 2018/06/27: <ul style="list-style-type: none">• Policy 13.2.3 Internal Financing• Policy 13.2.4 Lease Financing• Policy 13.2.5 Debt Management
2022/01/01	A review was conducted by the department, and no content changes were recommended. Minor administrative and formatting changes were made to comply with the new Policy Template. This has been authorized by the City Treasurer.
2023/01/01	Next Scheduled Review