

# Corporate Policies

SECTION: <b>FINANCE</b>		DEPT: Finance Department	
SUBJECT: <b>Internal Financing - Under Review</b>			
POLICY NO. 13.2.3	SUPERCEDES POLICY DATED: N/A		PAGE: 1 OF 3
EFFECTIVE DATE: Sep. 13, 2004	APPROVED BY: AF040-2002 / C207-2002 AF021-2003 / C081-2003 CW444-2004 / C252-2004	APPROVAL May 27, 2002 Amended: Feb. 24, 2003 Amended: Sep 13, 2004	

## POLICY STATEMENT:

Internal financing may be available to selected acquisitions or capital projects, subject to formal approval by Council in the context of a Capital Budget and a multi-year Current Budget projection showing the long-term impact of repayment terms.

City Council may grant an internal loan to finance selected acquisitions or capital projects, financed from available internal funds. The financing of the project will be in a manner that does not detract from the overall City's investment performance objectives. Internal financing loans will have a specific term, a defined interest rate, and a formal repayment schedule.

**Term** - The term of the loan should not exceed 50% of the expected useful life of the equipment or project being financed, unless specifically approved by Council.

**Interest Rate for an Internal Loan** - The interest rate will be based on the yield available for an investment security of a comparable time period. It is necessary that the rate reflect the investment opportunities available for a comparable term investment available to the City.

The interest rate will be set by the Finance Department within 90 days after the project has been approved by Council for internal financing.

**Minimum Size of Loan** - Internal financing must be for no less than \$100,000.

**Repayment Schedule** - The repayment schedule will be based on semi-annual payments including interest. Semi-annual payments will be made on June 30 and Dec 31 of each year until the loan is repaid.

**Start Date for Repayment of Loan** – The first semi-annual payment will be June 30 of the following year in which the internal loan was approved. There will be no semi-annual payment required in the year the loan is approved, unless requested by the borrowing Department.

The start date for the repayment of the loan is subject to any subsequent Council decisions that may affect the start of the approved capital project. The start date for the



# Corporate Policies

SECTION: <b>FINANCE</b>		DEPT: Finance Department
SUBJECT: <b>Internal Financing</b>		
POLICY NO. 13.2.3	SUPERCEDES POLICY DATED: N/A	PAGE: 2 OF 3
EFFECTIVE DATE: Sep. 13, 2004	APPROVED BY: AF040-2002 / C207-2002 AF021-2003 / C081-2003 CW444-2004 / C252-2004	APPROVAL May 27, 2002 Amended: Feb. 24, 2003 Amended: Sep 13, 2004

repayment of the loan is also subject to circumstances beyond the Department's control that would delay and/or postpone the start of the capital project.

**Reduction of the Principal Amount** – During the repayment period and only once a year, departments have an option to return a portion of the principal amount owing if it is deemed that there will be surplus financing of the acquisition or capital project. This option to request a reduction must be exercised by September 30. A new repayment schedule, based on the original interest rate and the remaining term, will then be effective as of January 1 of the following year. The request to return a portion of the principal is to be sent to the Accounting Section, Finance Department.

**Total Amount of the Annual Repayments of the Outstanding Internal Loans** – The total amount of the annual repayments of the outstanding internal loans may not exceed 10% of the annual total current budgeted expenditures.

**Hierarchy of Funding Sources** - Internal loans will be advanced from the following sources of available funds and in the following priority sequence:

- 1) Non-Statutory Reserve Funds;
- 2) Community Investment Fund (only for the specified uses in keeping with the Community Investment Fund polices);
- 3) Statutory Reserve Funds (only for inter-fund related projects that are specific to Development Contributions – new DC's.).

**Procedures:** The Finance Department will review all the financing alternatives. If internal financing is determined to be the best choice, a report recommending the internal financing will be brought to Council for approval. All selected acquisitions or capital projects for internal financing must supply the following information:

- Amount of funds being requested;
- Purpose of loan;
- Funding source for internal financing;
- Term of the loan and when the funds are needed;
- Cash flow analysis reflecting the length of time for repayment of the loan.



# Corporate Policies

SECTION: <b>FINANCE</b>		DEPT: Finance Department	
SUBJECT: <b>Internal Financing</b>			
POLICY NO. 13.2.3	SUPERCEDES POLICY DATED: N/A		PAGE: 3 OF 3
EFFECTIVE DATE: Sep. 13, 2004	APPROVED AF040-2002 / C207-2002 BY: AF021-2003 / C081-2003 CW444-2004 / C252-2004	APPROVAL May 27, 2002 Amended: Feb. 24, 2003 Amended: Sep 13, 2004	

## ACCOUNTABILITY:

The Finance Department will review the request and prepare the loan terms and repayment schedule based on the specifications of the request and the guidelines in this policy.

## ADMINISTRATION:

Treasury Services will be responsible for keeping this policy up to date.

## CONTACT:

Treasury Services & Deputy Treasurer

