

Policy Title: Debt Management

Policy Number: 04-13-01

Section: Finance and Accounting

Effective Date: December 10, 2021

Approved by:

Council

Subsection: Investments

Last Review Date: December, 2021

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:

"Amortizing Debentures" means Debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the Debenture issue.

"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 Populaires 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.

“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.

“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; Foreign Currency; Construction Financing; and Variable Interest Rate.

“Debt” means any obligation for the payment of money. For Ontario municipalities, Debt normally consists of Debentures, 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” 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 Ontario Land Tribunal (OLT). The Director shall recalculate an updated limit using the most recent Annual (Debt) Repayment Limit (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 would require a Long-Term Debt or financial obligation.

“Development Charges” means those charges imposed under the City’s Development Charges By-Law, as prescribed by the Ontario *Development Charges Act, 1997*, 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.

“Foreign Currency Debentures” means Debentures that are denominated or payable in a foreign currency.

“Infrastructure Ontario” means the Crown agency of the Province of Ontario that provides eligible public organizations, such as Ontario municipalities, access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.

“Instalment (Serial) Debentures” means Debentures of which a portion of the principal matures each year throughout the life of the Debenture issue and interest is paid on the unpaid balance in one or more instalments in each year.

“Lease Financing Agreement” means a financial agreement for the purpose of obtaining long-term financing of a capital undertaking of the municipality, if the lease requires or may 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.

“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).

“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.

“Retirement Fund Debentures” means Debentures that contain a retirement fund provision pursuant to which the issuer has undertaken to annually pay, on a fixed date, funds into a retirement fund for the repayment of the principal at maturity, on the basis that the annual payments into the retirement fund will commence after the principal of the other Debentures issued under the same debenture by-law becomes payable.

“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.

“Sinking Fund Debentures” means a long-term Debt instrument that contains a sinking fund provision pursuant to which the issuer has undertaken to annually pay, on a fixed date, funds into a sinking fund for the repayment of the principal at maturity.

“Term Debentures” means Debentures that are comprised of a combination of instalment and Sinking Fund Debentures.

“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 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 247\01 (Variable Interest Rate Debentures and Foreign Currency); Ontario Regulation 278\02 (Construction Financing); Ontario Regulation 653\05 (Debt-Related Financial Instruments and Financial Agreements); 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 0092-2012, as amended, 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

Any capital project funded from property tax, Development Charges or Stormwater Charge is eligible for Long-Term Debt financing.

The Debt charges for the Long-term Debt financing are to be funded from the same source as the original funding source of the capital project, i.e. if the capital project was originally to be funded from property tax, the Debt charges would be funded from the property tax revenue.

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. Based on the S&P's guidance and other factors, the City will keep monitoring key indicators to ensure long-term financial sustainability, which will also influence the Approved Capital Budget.

The details are provided in the related guideline(s).

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, 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 15% as a share of City Own-Source Revenues, unless otherwise approved by Council.

- b) 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.
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 40 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, as a highly rated government entity, 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 Financing 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 are 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.

Allocation of Returned Surplus Funds to Capital Projects

The surplus Debt funds returned from capital projects will be transferred to the Debt Management Reserve Fund(s). These funds can be used in the future in three ways, noted below in order of priority:

1. Increase Capital Project Funding: use these funds to fund future Debt eligible projects in addition to the planned Debt issue
2. Reduce Future Debt: use these funds to fund future Debt eligible projects to reduce the value of the planned Debt
3. Reduce Debt Charges: use these funds to reduce the Debt charges

Guidelines

The City's guideline(s) related to the Debt Management Policy will provide details regarding the following:

- Reporting to Leadership Team (LT) and Council
- Roles and responsibilities with respect to issuing Debt in liaison with the Region of Peel
- Detailed break-up of Debt limits
- Monitoring of the Debt indicators

In addition to the above mentioned, the guideline(s) can include any other details as required to manage the City's Debt.

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 Debt forecast identifying anticipated borrowing 18 months in advance (with a \$25 million variance) and the anticipated borrowed amounts to be further confirmed within six months (with a \$5 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	Click here to enter text.
December 17, 2015	Scheduled review, admin revisions to reflect By-Law 0188-2015
August 29, 2018	Housekeeping – OMB renamed the Local Planning Appeal Tribunal.
December 10, 2021	Scheduled review; revised to align with new guidelines and current practices. Approved by the Director, Finance.