

<b>Policies and Procedures</b>			
<b>The Corporation of the Town of Cochrane</b>			
<b>Department</b>	<b>Administration</b>	<b>Effective:</b>	<b>April 2015</b>
<b>Subject:</b>	<b>Debt Management and Capital Financing Policy</b>	<b>Pages:</b>	<b>Page 1 of 4</b>
<b>Approved by:</b>	<b>By-Law Number 1083-2015</b>	<b>Revised:</b>	

**POLICY STATEMENT**

The Corporation of the Town of Cochrane recognizes that one of the keys to sound financial management is the development of a formal debt policy that is integrated into a broader long term financial management plan.

Debt will continue to be an ongoing component of the Municipality’s capital financing structure. Repayment will be structured in a manner that is fair and equitable to those who pay and benefit from the underlying assets over time. The servicing of long term debt must be both affordable and sustainable, while allowing the flexibility to respond to emerging needs in order to support corporate priorities and approved strategic plans.

The Municipality will anticipate capital needs through prudent long-term financial planning, and reliance on debt will be reduced by adhering to the Reserve Fund Policy.

**PURPOSE**

The purpose of this debt management policy is to:

- Enhance the quality of decisions by promoting consistency;
- Establish the parameters regarding the purposes for which debt may be issued, the types and amounts of permissible debt, the timing of issuance and method of sale that may be used, and the procedures for managing outstanding debt;
- Integrate with other long term planning, financial and management objectives of the Municipality; and
- Assist with ensuring that the Municipality maintains a sound financial position and that credit quality is protected.

**POLICY REQUIREMENTS**

**Tax-Supported Revenue Fund**

The Municipality may borrow by debenture, mortgage loan or other acceptable debt instrument to finance the Municipality portion of infrastructure and emerging capital needs to support corporate priorities and approved strategic plans under the following conditions:

1. the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt

Policies and Procedures			
The Corporation of the Town of Cochrane			
<b>Department</b>	<b>Administration</b>	<b>Effective:</b>	<b>April 2015</b>
<b>Subject:</b>	<b>Debt Management and Capital Financing Policy</b>	<b>Pages:</b>	<b>Page 2 of 4</b>
<b>Approved by:</b>	<b>By-Law Number 1083-2015</b>	<b>Revised:</b>	

2. it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users
3. funding cannot be accommodated within the tax supported capital budget and other internal sources (such as borrowing from reserve funds) and external sources (such as senior government grant and subsidies, private/public partnerships, or user pay systems) have been thoroughly investigated

The Municipality will not use long term debt to fund current operations.

### **Reserve and Reserve Fund Debt**

Debt servicing costs are not normally funded by reserves or reserve funds. Instead, debt shall be incurred and repaid through the operating fund with corresponding transfers to and from reserves. Any funding of debt costs shall be identified in the Municipality's annual operating budgets.

### **LIMITATIONS ON INDEBTEDNESS**

Debt limits preserve borrowing capacity for future capital assets while maintaining maximum flexibility of current operating funds.

#### **Statutory Limitations – Annual Repayment Limit (ARL)**

The 2014 ARL is based on the Municipality's 2013 Financial Information Return (FIR). The Municipality is not allowed under Provincial regulation to issue debt which would result in the annual repayment limit being exceeded. In fiscal year 2013, principal and interest repayments totaled approximately 27% of the available legislated capacity.

#### **Self Imposed Limitations**

Notwithstanding the limits prescribed in the regulations, prudent financial management suggests more stringent criteria to limit debt. These criteria will assist in preserving borrowing capacity for future capital assets while maintaining maximum flexibility for current operating funds.

##### **1. Debt Service Cost to Net Revenue Fund Revenues**

This ratio is a measure of the principal and interest payable annually as a proportion of revenue fund revenues. It should not exceed a target of **10.0%**

##### **2. Maximum annual financing as a % of Total Capital**

This ratio is a measure of total capital being financed for the year as a proportion of total capital expenditure for the year. It should not exceed a target of 50%. If in a year the amount of capital being financed falls below the target, the unused borrowing room may be carried forward for up to two years.

<b>Policies and Procedures</b>			
<b>The Corporation of the Town of Cochrane</b>			
<b>Department</b>	<b>Administration</b>	<b>Effective:</b>	<b>April 2015</b>
<b>Subject:</b>	<b>Debt Management and Capital Financing Policy</b>	<b>Pages:</b>	<b>Page 3 of 4</b>
<b>Approved by:</b>	<b>By-Law Number 1083-2015</b>	<b>Revised:</b>	

## **ADMINISTRATION**

The borrowing to finance capital projects will normally occur once the projects are essentially completed.

When feasible and practical, borrowing will be pooled to provide for efficiencies.

## **POLICY REPORTING**

Compliance with the limitations provided for within this policy will be reported on annually to Council.

## **POLICY REVIEW**

This policy will be reviewed at each new term of Council.

## **DEFINITIONS**

**“Business Case”** – an analysis that demonstrates the necessity for and viability of a new project. A business case will include a financial analysis and a financial plan that identifies and confirms sources of funding to provide for the financing of the capital and operating costs of a new project.

**“Capital Expenditures”** – means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150.

**“Debt Service Cost”** – means debt repayments including interest and principal (per FIR 74-3099).

**“Direct Debt”** – Total debt burden of the Municipality (per FIR 74-9910). Includes all debt issued by the Municipality and consolidated entities less all debt assumed by others

**“Flexibility”** – is the ability of the Municipality to obtain new debt in response to emerging financing needs.

**“Net Revenue Fund Revenues”** – per FIR 10-9910

**“Infrastructure”** – large-scale public systems, services and facilities of the Municipality that are necessary for economic activity in the Community, including water and wastewater supplies, roads and buildings / facilities.

<b>Policies and Procedures</b>			
<b>The Corporation of the Town of Cochrane</b>			
<b>Department</b>	<b>Administration</b>	<b>Effective:</b>	<b>April 2015</b>
<b>Subject:</b>	<b>Debt Management and Capital Financing Policy</b>	<b>Pages:</b>	<b>Page 4 of 4</b>
<b>Approved by:</b>	<b>By-Law Number 1083-2015</b>	<b>Revised:</b>	

**“Operating Revenue”** – Total revenue fund revenue per line 9910 schedule 10 FIR less other revenue (10-1899), less grants received (10-0699 and 10-0899), less revenue from other municipalities (10-1099)

**“Sustainable”** – means meeting present needs without compromising the ability to meet future needs.

**“Statutory Annual Debt Repayment Limit”** – The annual debt and financial obligation limit for municipalities is described under Ontario Regulation 403/02. The regulation provides a formula which limits annual debt service costs to an amount equal to 25% of operating revenue.

**“Tax-Supported Debt”** – means debt issued for capital expenditures related to tax-supported operations. This debt is repaid using net revenue fund revenues.

**“Tax-Supported Operations”** – represent civic programs that are funded through net revenue fund revenues, such as roads, transit, and parks.