Whereas Section 8 of the Municipal Act, 2001, c.25, as amended, provides that the powers of a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

And whereas Section 11 of the Municipal Act, 2001, c.25, as amended authorizes municipalities to pass by-laws regarding the accountability and transparency of the municipality and its operations;

And whereas Section 270 (1) 5 of the Municipal Act, 2001, c.25, as amended authorizes the municipality to adopt and maintain policies with respect to the manner in which the municipality will try to ensure that it is accountable to the public for its actions, and the manner in which the municipality will try to ensure that its actions are transparent to the public;

And whereas the Council of the Corporation of the Town of South Bruce Peninsula adopted a Municipal Policy Manual and desires to amend said by-law by adding a policy regarding debt management.

Now therefore the Council of the Corporation of the Town of South Bruce Peninsula enact as follows:

1) That Policy TR.21.1 Debt Management be as attached hereto and shall form part of the Municipal Policy Manual.

2) That all by-laws and policies inconsistent with this by-law are hereby repealed and replaced with this by-law.

3) That this by-law shall come into full force and effect upon the final passing thereof.

Read a first and second time this 15th day of April, 2014.

[Signatures]
Read a third time and finally passed this 15th day of April, 2014.

Chris Thomas
Mayor

Cynthia Cattell
Clerk
Debt Management 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 the procedures for managing outstanding debt;
- Integrate with other financial policies of the Town to facilitate the orderly budgeting of future capital needs through the use of reserves;
- Assist with ensuring that the Municipality maintains a sound financial position and that credit quality is protected.

Policy:

The policy is attached hereto.
Debt Management Policy

South Bruce Peninsula

Town of South Bruce Peninsula
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1. Statements of Principle

- The Town of South Bruce Peninsula 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 Town's capital financing structure, as identified and required by Federal and Provincial infrastructure investment programs.
- Debt 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 Town will anticipate capital needs through prudent long-term financial planning, and reliance on debt will be reduced by adhering to the Reserve and Reserve Fund Policy.

2. Purpose of Policy

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 the procedures for managing outstanding debt;
- Integrate with other financial policies of the Town to facilitate the orderly budgeting of future capital needs through the use of reserves;
- Assist with ensuring that the Municipality maintains a sound financial position and that credit quality is protected.

3. Application of Policy

The Debt Management Policy applies to all departments, committees and local boards of the Corporation of the Town of South Bruce Peninsula.

4. Purposes For Which Debt May Be Issued

Capital expenditures are identified annually in the capital budget and 9-year forecast. The net project cost after deducting grant funding, developer or partner contributions and donations is the responsibility of the Municipality.
The Municipal portion of each capital project will be funded by reserve transfer.

The Municipality is guided by Asset Management principles, and as directed by our Asset Management Plan is working towards a point of sustainable capital funding whereby sufficient contributions are being set aside from our operating budget on an annual basis for the replacement needs of all our existing capital assets.

At times and under certain conditions, debt may be considered as a source of funding for capital projects.

4.1 Tax-Supported Operations

4.1.1 The Municipality will not use long term debt to fund the ongoing rehabilitation of existing capital infrastructure. This will be funded by reserve transfers in accordance with asset management principles and the Reserve and Reserve Fund Policy.

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

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

- the individual project value exceeds $250,000
- the estimated useful life of the asset is greater than ten years
- the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt
- there is a clear and demonstrated benefit to the general community
- an appropriate cost sharing agreement has been negotiated with other beneficial groups (eg: developers seeking growth-related infrastructure)
- it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users
- the project is supported by a comprehensive business case including
  - total cost of the project
  - cash flow of the project including debt issuance and increased revenue as a result of the investment by the Municipality
  - operating costs after completion of the project
  - benefits to the community as a whole

4.2 User Pay Supported Operations

Same provisions as above in 4.1 with the following provision:
4.2.1 While in principle, the criteria for debt issuance by user-pay supported funds would be the same as those for the tax-supported revenue fund above, the Town of South Bruce Peninsula has its own unique situation as identified by our Asset Management Plan.

Sewer infrastructure has a backlog of projects in poor to critical condition over the immediate and short term (immediate to five years). At the same time our reserves are wholly insufficient to address this funding need.

In our unique position, and as a temporary exception to the direction and intent of this policy, debt may be considered a source of funding in order to clear the backlog of critical infrastructure replacement needs for user pay funded operations. This exception shall remain in effect for a period of five years or until the next review of this policy.

4.2.2 Local Improvements such as the extension of water or sewer services may be funded by debt as the cost will be repaid by the additional users who will be offered connection to the system and there will be no residual cost to the Municipality.

5. Responsibilities

5.1 Town Council

Town Council shall:
- Approve eligible capital projects for debt financing as presented during the annual capital budget process,
- Approve funding of emerging strategic priorities outside of the traditional budget process and shall be approved by specific by-law,
- Approve by-laws authorizing the issuing of debt.

5.2 Manager of Financial Services / Treasurer

The Treasurer shall:
- Develop and update this policy as necessary and present changes to Council,
- Ensure that the principles and requirements contained in this policy are applied consistently, and report annually to Council regarding the Town’s compliance with this policy,
- Determine the appropriate source of funding for Town capital works, and make recommendations to Council on the most effective form of debt financing for any eligible and approved project, as well as the timing and amortization of such debt,
- Ensure compliance with the Ontario Municipal Act requirements for debt.
6. Types of Debt

6.1 Short Term Debt (under one year)
The Municipality may use any of the following sources to fund short term operational needs:
- Reserve and reserve fund loans at market rates
- Bank line of credit

6.2 Medium Term Debt (one to four years)
The Municipality may use any of the following sources to fund medium-term needs:
- Reserve and reserve fund loans
- Operating and capital leases
- Term loans
- Promissory notes

6.3 Long Term Debt (five years or greater)
The Municipality may use any of the following sources to fund long-term needs:
- Reserve and reserve fund loans
- Capital leases
- Term loan / mortgages with any Canadian bank or government lending agency
- Municipal serial or amortized debentures

6.4 Internal Borrowing from Reserves and Reserve Funds

When an analysis of the reserve or reserve fund balances has determined that excess funds are available, and that the use of these funds will not adversely affect the intended purpose of the reserve or reserve fund, the Municipality’s reserve funds may be used as a source of financing for short to long term purposes. The reserves will be repaid with interest at the prevailing rate as if the loan had taken place in the market.

Internal borrowing will always be the preferred source of debt financing since it maximizes return on investment of our available funds and offers increased flexibility in setting loan terms.

Short term reserve borrowing is governed by the Reserve and Reserve Fund Policy. Medium and long term reserve borrowing would be authorized by a specific by-law passed by Council and set out the amount, interest, term of the loan and the specific reserve or reserve fund from which the loan is made.
7. Limitations on Indebtedness

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

7.1 Statutory Limitations – Annual Repayment Limit (ARL)

The annual debt and financial obligation limit for Municipalities is described under Ontario Regulation 403/02. The regulation provides a formula which limits annual repayment obligations to an amount equal to 25% of revenue. The Municipality is not allowed to issue debt which would result in the annual repayment limit being exceeded.

The 2014 Annual Repayment Limit is based on the Municipality’s 2012 Financial Information Return (FIR). In fiscal year 2012, principal and interest repayments totaled approximately 10.6% of the available legislated capacity.

7.2 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.

7.2.1 Debt Service Cost to Net Revenue (see ARL)

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%

(Town ratio currently 2.65%)

7.2.2 Direct Debt to Reserve Ratio

This ratio compares direct debt to the total of all reserves and discretionary reserve funds. A generally accepted target ratio for municipalities is considered to be 1:1.

(Town ratio currently 0.23 : 1)

8. Structural Features

8.1 Debt Denomination

The Municipality will issue debt denominated in Canadian Dollar only.
8.2 Fixed Interest

The Municipality will issue general obligation debt with a fixed rate of interest. Interest rate swap agreements may be used to exchange floating-rate interest payments for fixed-rate interest payments.

8.3 Repayment Terms

The repayment term shall be dependent on the useful life of the asset being acquired by the Municipality, but in no case shall the amortization period exceed 25 years.

8.4 Debt Structure

8.4.1 Debt shall be structured for the shortest period consistent with a fair allocation of costs to current and future users.

8.4.2 Debt shall be structured to achieve the lowest possible net cost to the Municipality given market conditions, the type of debt being issued, and the nature and type of the repayment source.

8.5 Repayment

8.5.1 Unless otherwise justified and deemed necessary by the Treasurer, the repayment schedule should be structured on a level or declining payments basis.

8.5.2 Early repayment of debt may be considered if it is financially beneficial to do so.

9. Administration

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

9.2 When feasible, debt issuances will be pooled to minimize issuance costs.

10. Policy Review

This policy will be reviewed annually by the Manager of Financial Services with any changes being recommended to Town Council for approval.
11. 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.

"Council" means the municipal Council of the Town of South Bruce Peninsula.

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

"Municipality" means the Corporation of the Town of South Bruce Peninsula.

"Net Revenue" – per FIR 81-2610

"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, bridges and buildings / facilities.

"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 Operations" - represent civic programs that are funded through net revenue fund revenues, such as roads, bridges, facilities, fleet recreation and parks.

"Town" means the Corporation of the Town of South Bruce Peninsula.

"Treasurer" means the Treasurer of the Town of South Bruce Peninsula or Designate.

"User Pay Supported Operations" - represent civic services that are fully funded through fees charged to the users of the service, such as water and sewer services.