

	<b>TOWNSHIP OF SOUTH STORMONT</b>
	Title: Debt Management Policy
	Policy Category: Finance
	Effective Date: November XX, 2021, Revision Date:

## Purpose

A comprehensive debt policy is the foundation of any well-managed debt program. The Debt Management Policy sets guidelines for borrowing debt and managing outstanding debt. It also provides the parameters to decision makers regarding the timing and purposes for debt type, debt process.

For the purposes of this policy, debt means debentures issued external to the Township.

The Debt Management Policy aims to ensure that a municipality maintains a sound debt position and that credit quality is protected.

## Scope

This Debt Management Policy documents the existed rules, regulations and current practices relating to external debt. The debt related legal authority, restrictions, and responsibilities are summarized for the Township as below.

- a. Legal authorization and limitations.
- b. Debt capacity and benchmarking.
- c. Types of debt.
- d. Debt management practices.

## Objectives

The Township must manage the long-term obligations such as Debt levels, debt costs within available resources and This policy is established for this process.

## Debt Capacity and Benchmarking

### a. Ability to Pay

The Capacity of the Township to borrow debt is directly related to its ability to manage debt payments, which include both annual interest and principal payments.

### b. Capital Budgeting and Debt Financing Relationship

The Debt Management Policy has a direct link to the capital and operating budget processes. It is important to recognize that a borrowing decision made in the current year for the Capital budget affects future operating budgets by way of principal and interest charges for long-term period.

### c. Tax-supported, Self-funded and Self-supported Debt

- Tax-supported debt is for capital projects that will be serviced from the tax-supported operating budget.
- Self-funded debt is for capital projects that the Township reserves and reserve funds may finance provided the payback period is 5 years or less and appropriate interest is paid on the funds used.
- Self-supporting debt is for capital projects that will be serviced from utility operations revenue.

### d. Measurements

- Annual comparison of the outstanding debt per capital.
- Annual comparison of the percentage of debt interest of total revenues.
- A percentage of net debt of operating revenues.

## Types of Debt

The Township's current portfolio of debt is exclusively fixed rate debt and being borrowed from Infrastructure Ontario and other bank institutions,

Under certain market conditions, there may be some merit to consider variable rate or floating rate debt in order to take advantage of lower short-term interest rates.

## Debt Management Process

a. Determine the purpose of debt.

Determination of the purpose of debt generally occurred in budget process and it also can be processed when the need of debt appears. Department director is responsible to initiate the purpose of debt.

b. Financial Analysis of debt.

The affordability, sustainability and financial flexibility analysis should be processed and the comparison between annual debt payment (debt principal payment and interest payment) and revenue should be processed accordingly. Director of Finance is responsible of financial analysis.

c. Administrative review of debt.

Ensure the purpose of the debt will be lined with community strategic plan and it will support long-term asset management plan. CAO is responsible of recommendation of administrative review.

d. Council review and approval of debt.

Council reviews the purpose, financial analysis and administrative recommendation of debt and approve or not approve the debt.

e. Debt application and financial process.

Finance department prepares the debt application and ensure related financial process is appropriate.

f. Annual financial evaluation of debt.

Yearly debt financial evaluation is part of the annual year-end closing process and the evaluation will be disclosed to related departments. Director of Finance is responsible of debt financial evaluation.

## Review

This policy will be reviewed annually by CAO and Director of Finance. This policy should be reviewed during each term of Council to ensure its continued effectiveness.

## Legal Authorizations and Limitations

### a. Part 8 Debt and Investment, Municipal Act, 2001 Ontario

- Subject to this or any other Act, a municipality may incur a debt for municipal purposes, whether by borrowing money or in any other way, and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt. 2001, c.25, s. 401(1).
- A lower-tier municipality in a regional municipality does not have the power to issue debentures. 2001, c.25, s. 401(1).

### b. Annual Repayment Limit (ARL), Ontario

Municipalities in Ontario are responsible for ensuring that they do not exceed their ARL as set by the Province. The Director of Finance must determine if there is capacity within the municipality's ARL to undertake the planned borrowing.

## Contact

For more information on this policy, contact:

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