

## **Policy Statement**

1. The City recognizes its responsibility to comply with statutory requirements and maintain a sound financial position to protect the City's credit rating.

## **Purpose**

2. The purpose of this policy is to outline the internally imposed limits on debt payments to ensure that the City of Owen Sound plans for and uses debt financing to support the long-term flexibility and sustainability of the City's financial position. The debt policy integrates with other financial policies including rate funded debt management, reserves and reserve funds and capital budget policies.

## **Scope**

3. This policy applies to all departments of the City where debentures issued are paid for from the City's total levy.
4. Excluded from this policy are debt instruments to fund projects included in the most recently approved Development Charges By-Law that have anticipated debenture financing recoverable through development charges.
5. Excluded from this policy are debt instruments to fund projects that will be recoverable from non-tax revenue (examples include but are not limited to: water, waste water, cemetery services, campground operations and leased facilities).

## **Definitions**

6. For the purposes of this policy,

"ARL" means annual repayment limit. This is the legislated limit that caps principal and interest payments for municipalities based on revenues that are generated by the municipality (i.e. not including grant funding);

"Capital Project" means an expenditure related to capital assets as defined by the Public Sector Accounting Board (PSAB) section 3150;

"Capital Reserve Fund" means the primary funding source for the rehabilitation, replacement, construction, or development of infrastructure,

new capital assets and studies. The portion of the annual levy that is raised to fund capital is the source of funds for this reserve fund;

“City” means the City of Owen Sound, and a reference to the City is a reference to the geographical area or The Corporation of the City of Owen Sound as the context requires;

“Debenture” means a formal written obligation to pay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured, i.e., backed by general credit rather than by specified assets;

“Debt Service Cost” means debt repayment, including interest and principal;

“Equipment Reserve Fund” means the primary funding source for the replacement of existing City fleet and equipment. Transfers to reserves from Equipment operating accounts are the source of funding for these reserves;

“Facility Reserve Fund” means the primary funding source for the rehabilitation, major restoration and replacement of existing City facilities and leasehold improvements. Transfers to reserves from property operating accounts are the source of funding for these reserves. Additionally, a portion of recreation facility revenue is allocated to facility reserves each year;

“Net Debt Charges” means the total debt charges less amounts recovered from user fees; and

“Total Capital Charges” means the total of debt service costs plus the annual contribution to Capital, Storm Water, Equipment and Facility Reserve Funds.

## **Policy**

### **Purposes for which debt may be issued**

7. The City may borrow by debenture, mortgage, or other acceptable debt instrument to finance capital expenditures that support corporate priorities and the approved strategic plan where the project has been approved by Council as part of the annual capital budget and has been clearly identified as being funded by debt.
8. The City will not issue debt where the total capital project cost is less than \$1,000,000.
9. The City will not issue debt for rolling stock as these purchases are to be funded through the use of reserves.

## **Debt Limits**

10. The ARL is limited to 25% of own sourced revenues and applies to all external debt held by the City. For clarification, the ARL includes all debt payments including those not included within the scope of this policy (water, wastewater, campground, etc.).
11. Annual Net Debt Charges must not exceed ten per cent (10%) of the total municipal levy.
12. Debenture funding must exceed seventy per cent (70%) of total capital project costs.
13. All debentures must be supported by a bylaw detailing the debenture amount, the interest rate, and the loan term.

## **Debenture Terms**

14. Amortization periods of debentures may not exceed 10 years except when the project being funded by debt has an expected useful life of 50 years or more. In the instance that useful life exceeds 50 years, debenture terms of 15 to 25 years may be considered. A debt term must never exceed 40 years.

## **Net Debt Charges**

15. If a debenture matures, and the payment is not allocated to a new debt instrument, the debt service costs previously payable will be transferred to the capital reserve such that the Total Capital Charges year over year never decrease due to maturing debt obligations.

## **Reporting Requirements**

16. The Treasurer will present City Council with a summary of debt payments, funding sources, and debt balances annually. The report will include the original loan amount, purpose, a breakdown of principal and interest payments, interest rate, and maturity debt by debt instrument.

## **Policy review**

17. The Treasurer will review this policy:
  - a. every five (5) years to ensure effectiveness and compliance with current business processes; or
  - a. sooner, if required, based on legislative changes.
18. The Treasurer is authorized to make such administrative changes to this policy as appropriate to keep the policy current. Any revision to the policy's intent must be presented to Council for consideration.

## Related Information and Resources

### Internal

19. Rate Funded Debt Policy (To be developed)
20. FS22 Reserve and Reserve Fund Policy and 2018 Reserves and Balances
21. FS25 Capital Budget Policy
22. FS23 Grants Policy

### External

23. [Annual Repayment Limit](#)

### Appendices

24. N/A

### Revision History

Authority	Date	Approval	Description of Amendment
Council	2021-06-28	By-law 2021-082	
Administration	2023-10-27	Treasurer	New policy template
Choose an item.	Click or tap to enter a date.	Choose an item.	