

Debt **Management** Policy



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Administration & Finance	August 13 April 28, 2026 13	80-2013	1	7
Subsection	Repeals By-Law Number	Policy Number		
Financial Instruments	88-2010	AF-4-1		

Policy Statement

The Debt Management Policy establishes the framework for the issuance and management of debt, supports decision-making by Administration and Council, and demonstrates a commitment to long-term financial planning while considering impacts on ratepayers.

The City recognizes that debt will remain an important component of its long-term funding structure. Debt repayment should be structured in a fair and equitable manner so that costs are shared by those who benefit from the underlying assets over time. Long-term debt servicing must be affordable and sustainable while preserving flexibility to respond to emerging needs and approved corporate priorities.

The City recognizes that the prudent use of debt is necessary to protect and preserve capital assets, optimize available financing sources, and maintain sufficient flexibility to respond to unforeseen circumstances.

Purpose

The purpose of this policy is to establish the strategy, principles, controls, and requirements for managing the City's debt obligations in compliance with the Municipal Act, 2001, as amended, and its related regulations. The goal of the City debt policy shall be to set out guiding principles for the approval, issuance and administration of any City held debt, including leases. The goal of the City debt policy shall also be to meet all the related statutory requirements.

Definitions

For the purposes of this policy, the following definitions shall be established:

"Act" means the *Municipal Act, 2001, S.O. 2001, c25* as amended;

"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

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share of mandatory payments in respect of outstanding Debentures, i.e., principal and interest payments or payments of interest and contributions into Sinking Funds.

"Annual Debt Repayment Limit" means the limited amount of annual debt service payments (principal and interest) set by The Ministry of Municipal Affairs and Housing as "Debt and Financial Obligation Limit." This limit is set at 25% as own source revenues as reported through the Provincial Financial Information Return.

"Approved Annual Budget" means the annual Current (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.

"Capital Reserve Fund" means the monies set aside for the repair, major maintenance, rehabilitation and replacement of capital infrastructure and for other large, approved tax funded capital expenditures.

"Debenture" means a formal written obligation to repay specific sums on certain dates. Debentures issued by a municipality are typically unsecured and are backed by the good faith and credit of the municipality. Municipalities are authorized to issue Debentures for long-term financing of capital projects. Authorized types of debentures include: sinking funds, instalment (serial); term; amortizing; retirement funds; construction financing and variable interest rate.

"Debt" means any obligation for the repayment of money. For Ontario municipalities, Long-Term Debt would normally consist of debentures, capital or financing leases, as well as notes or cash loans from financial institutions, but could also include loans from Reserves and Reserve Funds, Sinking Funds or an Endowment Fund.

"Debt and Financial Obligation Limit" means the limit or amount determined annually for a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that constitutes the maximum amount of new annual debt servicing costs that a municipality can undertake, or guarantee, without seeking prior approval of the Ontario Municipal Board (OMB), as prescribed by Ontario Regulation 403/02 (Debt and Financial Obligation Limits). MMAH calculates and report annually to the Treasurer the Annual (Debt) Repayment Limit (ARL), as required by the legislation and related regulations.

"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.

"Loan Guarantee" means a contractual agreement under which the City assumes responsibility for repayment of a borrower's debt obligations if the borrower defaults.

"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.

"Net revenues" means the City's total consolidated revenues less grants from other levels of government. These revenues do not include the donation of tangible capital assets.

"Reserve Fund" means a fund that is segregated and restricted to meet a specific purpose. Monies set aside for a Reserve Fund must be deposited into a separate bank account and the interest earned on those investments must be added to the Reserve Fund.

"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 City of Kenora 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.

"Tax Supported Debt" means debt that is to be recovered from general tax revenues.

"User Supported Debt" means debt that is to be recovered from user fee revenues.

"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 City shall adhere to the following guiding principles in the consideration, approval, issuance, and administration of any City debt: The City shall adhere to the following guiding principles in the consideration, approval, issuance and administration of any City held debt:

- a) Adherence to all statutory-regulatory requirements
- b) Ensure long-term financial sustainability and flexibility
- c) Limit financial risk exposure

- ~~d) Minimize long-term cost of financing~~
- ~~e) Limit the limit the term of financing to the useful life of the related asset~~
- ~~f) Maintain a superior credit rating~~

Authority

The Treasurer, in accordance with the approved annual Capital Budget, shall assess and recommend debt financing for eligible capital projects. Borrowing authority shall be approved by Council through the Capital Budget process and any required by-laws.

Adhere to ~~Statutory~~ Legislative Requirements

The City shall issue debt only in compliance with the Municipal Act, 2001, Part XIII – Debt and Investment, and all applicable regulations, including Ontario Regulation 403/02, Ontario Regulation 247/01, Ontario Regulation 278/02, and Ontario Regulation 276/02, as amended.

Capital financing may only be undertaken when in compliance with the relevant sections of any applicable legislation and related regulations. Requirements include, but are not limited to, the following:

- ~~i. The term of temporary or short term debt for operating purposes shall not exceed the current fiscal year; Long term debt will not be used to finance current operations;~~
- ~~ii. The term of Debt will be limited to term of the useful life of the particular asset, but not greater than of the capital financing shall not exceed the lesser of 40 years or the useful life of the related asset;~~
- ~~iii. Long-term debt shall only be issued for eligible capital projects and debt financing charges be funded through the same source as the original capital project, i.e., capital project was funded through water and sewer user rates, debt charges would be funded through the same user rates;~~
- ~~iv. The total financing charges after issuance of the proposed debt shall not exceed the Debt and Financial Obligation Limit for the City, unless otherwise approved by Council. Exceedance of the Annual Debt Repayment Limit requires approval by the Ontario Municipal Board;~~

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- v. Prior to authorizing a financing lease, a report shall be prepared assessing the related costs as well as any relevant risks associated with the proposed lease;

- vi. Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will consider all relevant risks related to the proposed construction financing.

Ensure Long-Term Financial Sustainability and Flexibility

~~Prior to the implementation of any new capital financing will give,~~ consideration ~~will be given~~ to its impact on future ratepayers as a means to achieve an appropriate balance between capital financing and other forms of funding focusing on optimum utilization of all available financial resources. -

Ability to Pay

The City has many competing spending priorities for the limited amount of revenues collected each year. The City's capacity to issue debt is directly related to its ability to service the payments required on the debt through annual interest and principal payments. The City's ability to service the payments required is directly linked to the ability to raise sufficient funds from either taxes or fees. This in turn is related to the ability of the citizens to be able to sustain increases in taxes or fees.

Debt Limits - Recommendation for Council Approval

The City of Kenora's maximum Annual Debt Financing Charges, including any internal borrowing, will not exceed 8% of City Own-Source/Tax Levy Revenue unless otherwise approved by Council.

Limit Financial Risk Exposure

All debt shall be issued in Canadian dollars.

It shall be the general practice to issue debt where the interest rates will be fixed over its term. The City may issue long term debentures and / or bank loans in which the interest rate will vary where, in the opinion of the Treasurer, it is in the City's best interests to allow the rate to float provided such debt, in addition to any other outstanding variable rate loans or debentures, does not exceed fifteen percent (15%) of the total outstanding debt of the City in accordance with O.Reg 276/02 s(2).

Minimize Long-Term Cost of Financing

For each project or purpose for which long-term financing is requested, the timing, type and term of financing will be determined with a view to minimizing long-term cost.

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. 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.
4. 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 Administration.
5. 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 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.

Limit the Term of Financing to the Useful Life of the Related Asset

Under no situation may the term of financing exceed the anticipated useful life of the related asset. Where it is deemed by the Treasurer to be in the best interest of the City, the term of the debt shall be set for less than the related useful life of the asset.

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~~to be in the best interest of the City, the term of the debt shall be set for less than the related useful life of the asset.~~

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~~**Maintain a Superior Credit Rating**~~

~~The City shall issue and manage its debt in a manner to ensure that it maintains a superior credit rating.~~

Authorized Types of Debt

Short-Term – Under 1 Year

When financing operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or to provide interim financing for capital assets pending long-term capital financing, any one or more of the following sources may be used:

- i. Reserves and reserve funds

- ii. Bank line of credit
- iii. Short-term promissory notes
- iv. Bankers' Acceptances

The City shall hold a bank line of credit in an amount to be determined from time to time by the Treasurer ~~and approved by Council~~ for use in emergency situations as approved by Council.

Long-Term – Greater Than 1 Year

Financing of assets for a period of greater than one year may be from any of the following sources:

- i. Debentures
- ii. Reserves and Reserve Funds
- iii. Long-Term Bank Loans
- iv. Construction Financing

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~~Risks and Considerations Associated With Debt~~

~~Before the approval of the issuance of any form of debt, the following risks and considerations must be given due course by Council, and where possible the risks shall be mitigated prior to issuance.~~

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Debentures

Fixed rate debenture issue will be the standard practice for long-term financing used by the City.

~~Reserves and Reserve Funds~~

~~It is recognized that reserves and reserve funds are for a defined purpose and must be available when that purpose occurs. If this cannot be guaranteed, this source of financing shall not be used.~~

Construction Financing

Construction Financing may be used for a period up to 5 years during the construction or rehabilitation of certain facilities for which a revenue stream will be generated (e.g., water plant). The following risks must be carefully considered:

- a) Interest rates fall between the time the rate on the construction loan is established and the completion of construction.
- b) The final cost of construction could be materially less than initially forecasted and financed.
- c) The construction project may not be able to proceed or is not completed for technical or other reasons.

Financing Lease

A Financing Lease may be used when it provides material and measurable benefits compared with other forms of financing, including internal financing. A Financing Lease may also be used if it is determined that the City cannot internally provide sufficient funds to allow the required purchase, and that there will be a significant impact on City operations and / or the standard of service without implementing the lease. Financing leases could include rolling stock leases. The following risks must be carefully considered:

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- a) The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument (generally expressed as a particular Government of Canada Bond).
- b) The ability for lease payment to vary based on changes in the assumed residual values of the asset being leased.
- c) Uncertainty over leasing costs if contract needs to be extended or renewed.
- d) The potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company.
- e) Contingent payment obligations for items such as;
 - i. lease termination provisions
 - ii. equipment loss
 - iii. equipment replacement options
 - iv. guarantees and indemnities

Reports to Council – Request for Additional Debt (not included in Budget)

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Prior to the issuance of any debt outside of the approved Capital Budget, the appropriate Manager must prepare a report to Council, clearly outlining all required information on that debt in accordance with this policy, demonstrating adherence to this policy. The report shall specifically include any and all considerations and risks that must be addressed prior to the issuance of that debt.

Issuance of Debt

Short-term debt may be approved at the discretion of the Treasurer without Council approval only where the full costs relating to that debt is included within the City's approved operating budget, and any obligation within that debt does not extend outside of the current fiscal year.

It shall be the general practice of the City to issue debt internally between the City and the Citizens Prosperity Trust Fund, City reserves and reserve funds, or other City held investments. Consideration of annual returns on the City Prosperity Trust Fund, City Reserves or other City held investments and current bank rates must be made to support the use of internal debt versus external debt. An optimal internal debt solution would have the City investment rate of return being less than the cost to borrow. Where debt is issued in this manner, the following principles shall be used for establishing interest rates:

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- a) Citizens Prosperity Trust Fund (CPTF) - interest rates shall be set based on the minimum prescribe rate as permitted in the Municipal Act as per the Ontario Regulation 82/98. In general, the rate is tied to the Bank of Canada rate in effect on the date of the by-law. a split between what the City would earn on its bank accounts and what the City could borrow from the bank at as of the date of issue. A threshold limit of 10% of the principal balance of the CPTF can be utilized for internal financing, ensuring the preservation and ability for the fund to generate interest income.
- b) ~~Reserves and Reserve Funds or other City held Investments - - interest rates shall be set based on the minimum prescribe rate as permitted in the Municipal Act as per the Ontario Regulation 82/98. In general, the rate is tied to the Bank of Canada rate in effect on the date of the by-law. interest rates shall be set based on what the reserves and / or reserve funds would earn on either their bank accounts or their investments as of the date of issue.~~

~~e) Other City Held Investments — interest rates shall be negotiated with the entity~~

It shall be at the discretion of the Treasurer to review internal debt on an ongoing basis, and where the Treasurer deems that there has been a significant fluctuation in prevailing interest rates and that it would provide the City with a significant benefit to refinance the related debentures, the City shall refinance those debentures to more closely reflect those prevailing rates.

Where it is not possible to issue the debt internally, or in situations where it can be shown that the issuing of debt externally will result in a greater overall benefit to the City than would issuing the same debt internally, the City shall consider the available opportunities for the issuance, with the intent to adhere to the guiding principles and requirements as laid out in this policy. Agencies that may be considered include, but are not limited to:

- a) Fiscal Agency / Underwriting Group (Debenture Sales)
- b) Tender
- c) Banks / Financial Institutions

~~Adherence to Debt and Financial Obligation Limit~~

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Adherence to City Policies

The awarding of any contract under this Policy, unless otherwise authorized by Council, shall follow the requirements as set out in the City's Purchasing Policy.

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Annual Review/Reporting

~~To Monitor and control the impact of Debt servicing costs on the approved annual budget and in consideration of the impact on ratepayers the annual budget will demonstrate a balanced approach amongst all forms of funding including external Debt. The amount, composition, budget requirements and debt repayment forecast will be presented to Council on an annual basis through the budget process. Council, in conjunction with the CAO and the Treasurer, shall review the City's outstanding debt instruments in conjunction with the annual budget process.~~ A schedule incorporating the City's long-term debt must be incorporated into the City's annual operating budget.

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