

To:	Warden McQueen and Members of Grey County Council
Committee Date:	April 9, 2020
Subject / Report No:	FR-CW-08-20
Title:	Debt Management Policy
Prepared by:	Kevin Wepler, Director of Corporate Services
Reviewed by:	Kim Wingrove, CAO
Lower Tier(s) Affected:	None
Status:	Recommendation adopted by Committee as presented per Resolution CW73-20; Endorsed by County Council April 23, 2020 per Resolution CC45-20;

Recommendation

1. That Council receive Report FR-CW-08-20 titled Debt Management Policy; and
2. That Council adopt the attached Debt Management Policy.

Executive Summary

Debt is used by municipal governments to finance capital initiatives. The repayment of debt is managed through the annual operating budget. A debt management policy sets out the parameters for issuing debt, manages the debt portfolio and provides guidance to staff and County Council. A debt management policy is beneficial as it assists in decision-making, identifies objectives for staff to implement, and demonstrates a commitment to the objective of long-term financial planning.

A debt management policy provides a framework by which staff can administer the financial requirements of the County. Debt financing, using either internal or external borrowing, is a key source of funding that can help manage the capital plan. Appropriate use of debt is critical to the sustainability of long term capital planning. While the Municipal Act limits that the annual debt does not exceed 25% of “own source” revenues, staff are proposing that the County’s annual debt repayment limit not exceed 10%.

The purpose of this report is to provide Council with a policy document that provides a balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities.

Background and Discussion

Municipalities in Ontario may only issue long term debt for capital purposes. The Province regulates the amount of municipal debt and other financial obligations through an Annual Repayment Limit (ARL) regulation under the Municipal Act.

The Municipal Act, 2001 as amended provides the authority and imposes restrictions concerning a municipality's ability to issue debt such that the annual principal and interest payments do not exceed 25% of "own source" revenues. The "own source" revenues exclude upper tier government grants, deferred revenue, revenue from other municipalities, development charges, gains or losses on the disposal of assets, and donated tangible capital assets.

The borrowing capacity or Annual Repayment Limit does not change significantly as annual repayments are made to retire the debt, as the net debt charges do not change significantly until the debt is retired. Only the increase in Net Revenues will increase the estimated Annual Repayment Limit.

With the County planning to invest in the redevelopment of its Long Term Care facilities (pending provincial approval) and undertake debt, a formal debt management policy is being recommended.

Debt Management Policy

Policy purpose:

1. Establish parameters regarding the purpose for which debt may be issued
2. Establish the timing, types and terms of permissible debt
3. Promote management of debt in a consistent manner
4. Assist with ensuring the County manages debt in a manner to limit financial risk exposure, minimize long-term costs of borrowing, protect the County's credit quality and maintain long term financial flexibility
5. Promote integrations with other long term planning, financial and management objectives of the County

Limitations of Debt Financing:

1. The County may incur debt for assets that have a useful life of a minimum of ten (10) years.
2. The term of debt will be limited to the term of the useful life of the particular asset but not exceeding 25 years.
3. Debt may be undertaken when the size of the project is significant and when funding cannot be accommodated with the tax supported capital budget and when no other viable sources of funding are available.
4. The County's maximum Annual Debt Repayment, including any internal borrowing, will not exceed 10% of the County's own source revenues (ARL), thereby providing the County with flexibility to borrow up to the 25% of Net Revenues (ARL) if required, to respond to emergencies, peak period of asset management pressures, and/or to meet senior government funding opportunities. As per the BMA Municipal Study, credit rating agencies consider that debt payments of 10% or lower of own source revenues to be prudent. While Grey County does not seek an external credit rating, it should have regards for the indicators that credit rating agencies use when assessing financial health.
5. Internal "borrowing or unfinanced" will be used as a means of advancing capital work where adequate funding form reserve funds exist.
6. Under no circumstances will the payments for the County's indebtedness exceed the Annual Repayment Limit as set annually by the Ministry of Municipal Affairs and Housing.

2020 Debt Charges and Long Term Liabilities

Project	Loan Facility/Commitment & Term	Principal & Interest Amount	Maturity Date
Georgian College – Marine Emergency Duties Training & Research Centre	Capital grant of \$2,000,000 paid in equal installments of \$200,000 commencing in 2015	\$200,000	July 2024
Housing - Golden Town Housing Build	Bank of Nova Scotia – 5 Years	\$434,690	November 2026
Housing – Golden Town Housing Build	Canada Mortgage and Housing Corp.– 4 Years & 9 months	\$54,148	November 2020
Administration Building – Expansion & Renovation	Internal Borrowing – 13 Years	\$706,539	December 2031
Grey Gables – Roof Replacement	Internal Borrowing – 15 Years	\$73,234	December 2030
Paramedic Services – Chatsworth Base Build	Internal Borrowing – 13 Years	\$65,424	December 2031
Total		\$1,534,035	

Debt Indicators

	Tax Debt Charges as % of Own Source Revenue	Debt Outstanding per \$100,000 of Weighted Assessment	Tax Debt Outstanding per Capita	Debt Outstanding % of Own Source Revenue	Debt to Reserve Ratio
Grey County	0.6%	\$29	\$46	5.7%	0.1%

*2019 BMA Municipal Study utilizing 2018 Financial Information Return

Debt - Long Term Care Asset Renewal

County Council has directed staff to make application to the Ministry of Long Term Care for the redevelopment and addition of long term care beds at the Grey Gables and Rockwood Terrace long term care facilities. The following tables provide information on the Capital Financial Proforma for these two builds, impact on the County's Annual Debt Repayment and Consolidated Statement of Financial Position.

Capital Financial Proforma

	Grey Gables 128 Bed Build	Rockwood Terrace 128 Bed Build	TOTAL 256 Bed Builds
Beds to be Constructed	128	128	256
Estimated Build Cost Per Bed	\$280,000	\$280,000	\$280,000
Estimated Construction Cost	\$35,840,000	\$35,840,000	\$71,680,000
Beds Eligible for Construction Subsidy	62	128	190
Construction Subsidy Per Diem Per Day	\$18.03	\$18.03	\$18.03
Resident Days Per Year	22,630	46,720	69,350
Construction Subsidy (Years)	25	25	25
Estimated Total Construction Subsidy	\$10,200,473	\$21,059,040	\$31,259,513
LTC Redevelopment Reserve (2019 Projected Year End Balance)	\$0	\$5,650,680	\$5,650,680
Capital Annual Debt Repayment 3% Interest over a 25 Year Term	\$2,058,215	\$1,733,708	\$3,791,923
Less: Annual Construction Subsidy	\$408,019	\$842,362	\$1,250,381
Less: LTC Redevelopment Transfer to Reserve	\$469,663	\$891,347	\$1,361,010
NET LEVY IMPACT CAPITAL ANNUAL REPAYMENT	\$1,180,533	\$0	\$1,180,533

Consolidated Statement of Financial Position Scenario (Based on 2018 FIR)

December 31, 2018	2018	Future LTC Asset Renewal funded by Debt
Financial Assets		
Cash and investments	\$64,477,827	\$58,827,147
Trade and other receivables	\$3,174,940	\$3,174,940
Inventory held for resale	\$10,024	\$10,024
	\$67,662,791	\$62,012,111
Liabilities		
Accounts payable and accrued liabilities	\$16,289,339	\$16,289,339
Vacation pay, post-employment benefits and WSIB Schedule II liabilities	\$7,619,250	\$7,619,250
Deferred revenue	\$11,316,965	\$11,316,965
Net long-term liabilities	\$4,493,973	\$70,523,293
	\$39,719,527	\$105,748,847
Net financial assets / Net debt	\$27,943,264	\$(43,736,736)
Non-financial assets		
Prepaid expenses	\$26,764	\$26,764
Tangible capital assets	\$201,217,733	\$272,897,733
Inventory of supplies	\$1,269,853	\$1,269,853
	\$202,514,350	\$274,194,350
Accumulated surplus	\$230,457,614	\$230,457,614

Annual Debt Repayment Limit Scenario (Based on 2018 FIR)

Determination of Annual Debt Payment Limit	2018	Future LTC Asset Renewal funded by Debt
Debt Charges for the Current Year		
Principal	\$471,405	\$2,282,448
Interest	\$16,255	\$1,997,134
Total Debt Charges	\$487,660	\$4,279,582
Excluded Debt Charges		
Provincial Grant Funding for repayment of long term debt	\$0	\$1,250,381
Net Debt Charges	487,660	\$3,029,201
Total Revenues	\$140,457,608	\$141,707,989
Excluded Revenue Amounts		
Ontario Grants, including Grants for Tangible Capital Assets	\$55,456,015	\$56,706,396
Canada Grants, including Grants for Tangible Capital Assets	\$735,581	\$735,581
Deferred revenue earned (Canada Gas Tax)	\$3,456,080	\$3,456,080
Revenue from other municipalities	\$871,784	\$871,784
Gain/Loss on sale of land & capital assets	(\$825,785)	(\$825,785)
Deferred revenue earned (Development Charges)	\$2,606,404	\$2,606,404
Other Revenue	\$5,150,160	\$5,150,160
Subtotal	\$67,450,239	\$68,700,620
Net Revenues	\$73,007,369	\$73,007,369
25% of Net Revenues	\$18,251,842	\$18,251,842
ESTIMATED ANNUAL REPAYMENT LIMIT	\$17,764,182	\$15,222,641

Recommended Debt Management Policy Limit		
10% of Net Revenue		\$7,300,737
Less: Estimated Net Debt Charges		\$3,029,201
Less: Internal Borrowing or Unfinanced		\$845,197
DEBT ROOM LIMIT AVAILABLE		
– 10% DEBT MANAGEMENT POLICY LIMIT		\$3,426,339
\$40.9M at 3% with a Loan Term of 15 Years		
– Total Annual Payment		\$3,426,053
\$35.56M at 5% with Loan Term of 15 Years		
– Total Annual Payment		\$3,425,932

Legal and Legislated Requirements

The Municipal Act, 2001, Ontario Regulation 403/02 defines the annual debt and financial obligation limit for municipalities.

This Regulation provides the authority and imposes the restrictions concerning a municipality's ability to issue debt such that the annual principal and interest payments cannot exceed 25% of "own source" revenues. The own source revenues exclude upper tier government grants, development charges, gains or losses on disposal of assets, and revenues from other municipalities.

Financial and Resource Implications

The 2020 Annual Repayment Limit indicates that the County's repayment limit is \$17,764,182 (attached). The County is currently at 2.7% of the legislated capacity of net revenues. The 2020 ARL is calculated based on data contained in the 2018 Financial Information Return, as submitted to the Ministry.

Using the Draft Debt Management Policy, the County's maximum Annual Debt Repayment, including any internal borrowing, will not exceed 10% of the County's own source revenues, therefore based on the 2018 Financial Information Return, the maximum repayment limit would be \$7,300,737.

Assuming the County was to undertake net debt of \$66M for the builds of two long term care facilities, and incur annual debt charges of \$3,791,922, the County would have \$3,426,378 remaining of its maximum 10% debt policy annual repayment limit. For illustration purposes, assuming a 15-year repayment plan, with 5% interest, this would represent \$35.56M in debt.

Relevant Consultation

- Internal: Departmental Managers, Senior Management Team and CAO
- External - BDO

Appendices and Attachments

[Draft Debt Management Policy](#)

[2020 Annual Repayment Limit \(based on 2018 Financial Information Return\)](#)

[Debt Scenario Consolidated Statement of Financial Position](#)

[Debt Scenario ARL Debt Management Policy](#)

[Amortizing Debenture Schedule \\$35.56M at 5% Interest for 15 Year Term](#)