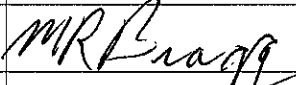


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## Debt Management Policy

### POLICY

A debt management policy ensures that prudence and fiscal responsibility are exercised in all matters of borrowing by the County of Oxford. In order to be an effective financial tool, provisions of the debt policy must be compatible with the County's long term financial sustainability plan and capital plan. A debt policy should achieve balance between establishing limits on the debt program and providing sufficient flexibility in response to unforeseen circumstances and new opportunities to preserve and improve the long term financial health of the County.

### DEFINITIONS

*Debenture* a written promise to pay a specified sum of money called the face value or principal amount at a specified date or dates in the future, called maturity dates, together with periodic interest at a specified rate.

*Capital Project Expenses* any significant expense incurred to acquire, improve or rehabilitate land, buildings, engineering structures, facilities, machinery or equipment, and all associated items to bring the foregoing into functional operation. The work typically confers a benefit lasting beyond one year (and as such is non-recurring in nature) and results in the acquisition or extension of the life of a fixed asset. Capital project expenses also include the cost of studies undertaken in connection with acquiring land or constructing infrastructure and facilities.

### PROCEDURES

- 1.0 Long term debt will not be used to finance current operations.
- 2.0 Long term debt will only be used for capital project expenses that are identified in the Capital Plan.
- 3.0 The County's Capital Plan will determine the long term debt requirements in conjunction with the following sources for funding capital expenses:

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- 3.1 The County will seek to maximize the use of grants and subsidies from senior levels of government, as well as any other possible sources of external capital funding.
- 3.2 Development Charges are used as a source of financing for growth-related capital works in accordance with the current Development Charges Background Study, the County's current Development Charges By-Law, and the Development Charges Act.
- 3.3 To the greatest extent possible, the net County share of capital projects will be funded through current year appropriations from the tax levy.
- 3.4 The County will use its capital reserves as required in order to finance capital projects and to limit large fluctuations in tax levy funding for capital projects – through the County's reserve and reserve fund policy, funds will be set aside on an annual basis from the operating budget in order to accumulate reserves which are sufficient to fund large capital projects, subject to annual budget approval.
- 4.0 A 10 year financing term is considered financially prudent in order to maintain financial flexibility in the face of significant and changing financial requirements. Generally, long term financing will be based on a term of 10 years, however, longer term financing will be evaluated with respect to capital market conditions, nature of the project, and long term infrastructure needs as considered appropriate by the the County Treasurer.
- 5.0 Sources of financing will be determined based on a short, medium or long term horizon and will have regard for debt related risk such as those arising from interest rate fluctuations and concentration of lenders. Debt financing sources that can be considered include:
- 5.1 borrowing internally from reserve funds;
  - 5.2 debt facility through a Canadian Schedule 1 Chartered Bank; and
  - 5.3 partnerships with the private sector for the construction of facilities.
- 6.0 Interest rates for borrowing internally from reserve funds will be set by calculating the average rate over the same term offered within one week of the financing date for:
- 6.1 debentures through the Ontario Infrastructure and Lands Corporation;
  - 6.2 debt facility through a Canadian Schedule 1 Chartered Bank; and
  - 6.3 Government of Canada marketable bonds average yield over ten year plus 2 percent - <http://www.bankofcanada.ca/rates/daily-digest/>

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## 7.0 Reporting and Monitoring

7.1 In order to monitor and manage the County's debt to ensure financial sustainability in the future, the following benchmarks will be reported annually in accordance with the County's Long Term Financial Sustainability Plan:

- 7.1.1 Operating balance as a percentage of operating revenue
- 7.1.2 Cash and committed facilities as a percentage of operating expenses<sup>1</sup>
- 7.1.3 Net debt to total operating revenue
- 7.1.4 Net debt to taxable assessment
- 7.1.5 Debt charges to total revenues
- 7.1.6 Capital expenses as a percentage of total expenses

Notes:

<sup>1</sup> cash and committed facilities are cash and investment balances plus restricted revenues (e.g. development charges plus deferred revenues)

- 7.2 As part of the annual Capital Plan review, the Treasurer will prepare a report on the committed and proposed debt obligations and confirm that the accumulated debt is within the County's most recent annual debt repayment limit as prescribed by the Ministry of Municipal Affairs and Housing.
- 7.3 Due to economic conditions that arise from time to time that are beyond the control of the County, the debt management policy will require to be reviewed and updated on a regular basis, and not less frequently than bi-annually.