



100 John West Way
Aurora, Ontario
L4G 6J1
(905) 727-3123
aurora.ca

Town of Aurora

Memorandum

Finance

Re: Debt Management Policy

To: Finance Advisory Committee

From: Sandeep Dhillon, CPA CMA, Senior Financial Management Advisor

Date: June 14, 2022

Recommendation

1. That the memorandum regarding Debt Management Policy be received; and
2. That the Finance Advisory Committee comments regarding Debt Management Policy be received and referred to staff for consideration and further action as appropriate.

Background

As outlined in the fiscal strategy approved in 2021, a debt management policy for the Town should be developed to ensure stronger longer term financial management. This memo provides an overview of the newly developed Debt Management Policy and its alignment to the fiscal strategy.

Acquisition of debt and debentures can play a very important role in the Town's finances. Debt can provide liquidity to fund new assets, infrastructure and other capital projects when the asset is built in advance of growth. The Town should continue to use debt wisely over the long-term and understand that the prudent issuance of debt is an efficient use of available financial resources.

Analysis

Debt Management Policy outlines the guidelines and controls for the issuance of debt

The purpose of the Debt Management policy is to establish financial guidelines and appropriate controls for the issuance and management of debt for the Town of Aurora. This policy establishes objectives, standards of care, authorized financing instruments,

reporting requirements and responsibilities for the prudent financing of the Town's infrastructure needs.

The objectives of the debt policy are outlined below:

- Adherence to Legislative Requirements
- Long-term Debt Financing
- Debt Financing Consideration Guidelines
- Ensure Long-term Financial Flexibility and Sustainability
- Aurora Debt Repayment Limit and Framework for Debt Management
- Limit Financial Risk Exposure
- Minimization of the Long-Term Cost of Financing
- Suitable and Authorized Debt Financing Instruments
- Financial Guarantees and Letters of Credit
- Notice Period
- Allocation of Excess Debt Financing to Capital Projects

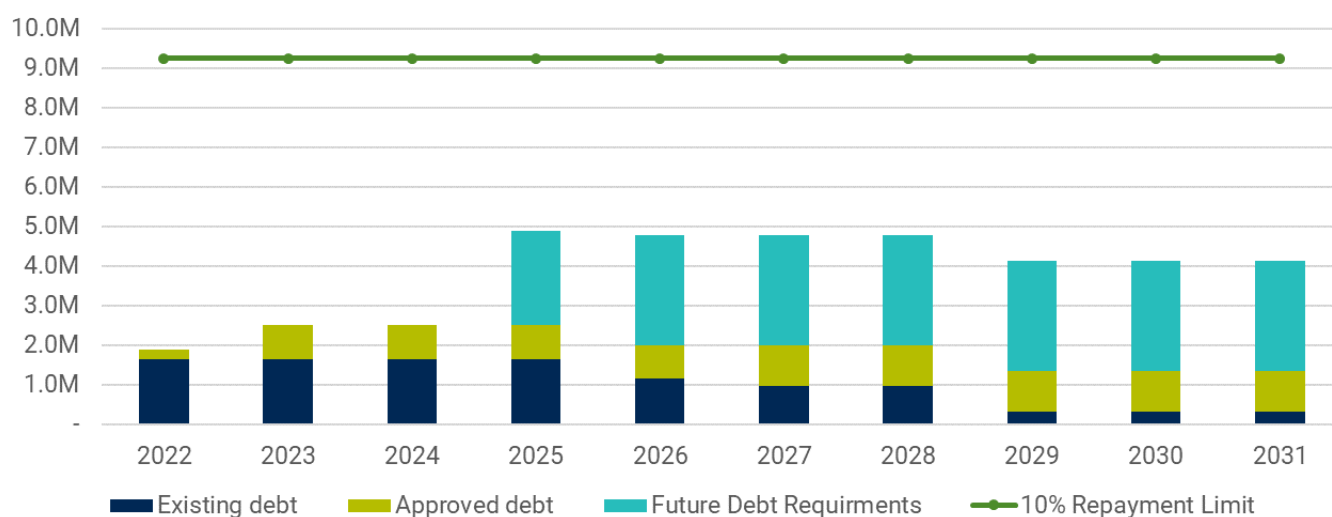
The debt policy recommends an annual repayment limit of 10 percent which is lower than legislated

The Annual Repayment Limit (ARL) is generally summarized as the maximum amount that a municipality in Ontario can pay each year (without first going to the Local Planning Appeal Tribunal) in principal and interest payments for long-term debt and other long-term financial commitments.

For most municipalities (not including Toronto and York Region) the ARL is set at 25 percent of their annual own- source revenues (such as property taxes, user fees and investment income), less their annual existing long-term debt service costs and payments for other long-term financial obligations. Municipalities may only exceed their ARL with the prior approval of the Local Planning Appeal Tribunal (LPAT). The Town's 2022 ARL is \$23,130,500 which has been calculated based on the data contained in the 2020 Financial Information Return.

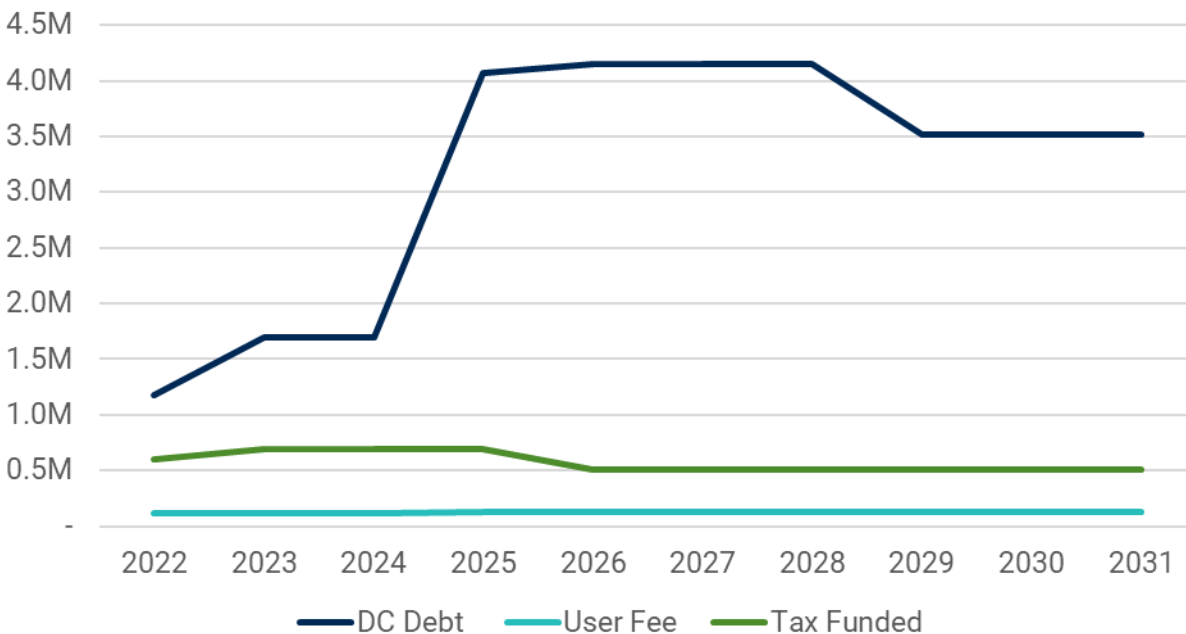
Issuing debt to the level prescribed by the province is not sustainable. This policy sets a self-imposed ARL limit at 10% of own-source revenues. As per the Ministry of Municipal Affairs and Housing, Aurora's annual debt repayment cost for 2022 is 2.1 percent of own-source revenue. When adding in the recent approvals of debt, annual repayment cost increase to 2.7 percent.

Figure 1
Debt repayment forecast



The policy recommends a lower ARL limit because debt should only be considered to fund growth related projects which are primarily funded by development charges. Typically, the development charge revenues are collected over an extended period as the new developments are built. There is a risk of stranded debt in the instances when debt is issued based on provincial ARL target of 25% and the DC revenue forecast is much lower than the projected annual debt payments. Therefore, to be fiscally sustained town should not seek authority to exceed the 10% ARL limit and for development charge funded debt, a minimum balance of one-year's principal and interest costs shall be maintained in DC reserves.

Figure 2
Annual debt repayments by funding source



Reporting and adherence to the policy

Another important component for the debt management policy is reporting and adherence to the policy by the Town staff. The implementation of the debt management policy principles in acquiring new debt should be monitored through the annual budget report and will be part of the reserve and debt management chapter of the budget binder. The debt management policy should ensure that the Town's fiscal impact year-over-year is manageable and is well below the Town's self-prescribed annual repayment limit.

The Debt Management Policy Report will be presented to General Committee on July 5, 2022.

Attachments

Attachment 1: Debt Management Policy