

**The Corporation of the Municipality of Grey Highlands  
Debt Management Policy A09-F-10**

**Purpose**

Debt financing is an essential tool for the Municipality to fund its significant capital program. Careful consideration should be made for its use. The purpose of the debt management policy is to establish financial guidelines and benchmarks for the use of debt by the Municipality. This policy establishes the objectives, reporting requirements and responsibilities for financing of the Municipality's infrastructure needs through the use of debt.

**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.

**Definitions**

Annual Repayment Limit (ARL) – the maximum amount of debt servicing costs that the Municipality can undertake. The limit represents the maximum amount the municipality has available to commit to payments relating to debt and financial obligations. Prior to the authorization by Council of long term debt, the limit as contained in the Financial Information Return (FIR) must be adjusted by the Treasurer in the prescribed manner.

Long Term Debt – any debt for which the repayment of any portion of the principal is due beyond five years. An obligation for the payment of money.

Short Term Debt – any debt for which repayment of all the principal is due within one to five years.

Capital Expense – Expenses incurred to acquire, build, renovate, or replace capital assets as defined in the Tangible Capital Asset Policy and Public Sector Accounting Board Section 3150.

## Schedule A to By-law No. 2025-085

Tax Supported Debt – Debt for which annual principal and interest payments are funded from the general tax levy

Rate Supported Debt – Debt for which annual principal and interest payments are funded from water and/or wastewater rates

DC Supported Debt – Debt for which annual principal and interest payments are funded from development charges collected under the Development Charges Act

Own Source Revenue – revenue for the fiscal year that is calculated in accordance with Ontario Regulation 403/02

### Objectives

When planning for the use of debt, the following objectives should be considered:

- ensure long term financial sustainability
- limit financial vulnerability
- maintain flexibility to respond to emergency situations
- maintain flexibility to respond to opportunities, such as leveraging grant opportunities
- integration of decisions with other long-term planning, financial and management objectives of the municipality
- ensure that the Municipality's financial practice complies with all statutory requirements and limitations and industry best standards
- the timing, type, and term of long-term debt will be determined with a view of minimizing long-term costs to the extent possible
- ensure new debt is planned at a level which will optimize borrowing costs and does not impair the financial position of the municipality
- debt should be structured in a way that is fair and equitable to those who pay for and benefit from the underlying assets over time

### Qualifying Criteria

New debt financing shall be limited to:

- new infrastructure requirements
- projects where the cost of deferring expenditures exceed debt servicing costs
- assets that have a useful life of 10 years or more

## Schedule A to By-law No. 2025-085

- the term of Debt will be limited to the term of the useful life of the particular asset, but not exceeding 25 years
- the project has been approved by Council as part of the capital budget or resolution which includes approved debt financing authority
- projects where the capital cost cannot be funded because of limitations to the tax supported budget. To the greatest extent possible, capital should be funded from the tax levy subject to annual budget approval.
- priority shall be given to capital programs that are self-supporting or financed by a dedicated revenue stream or expenditures savings

### Responsibilities

#### The Municipal Treasurer:

- has overall responsibility for the capital financing program of the Municipality and ensuring a plan is in place for all expenses
- calculates the financial obligation limit for the Municipality in accordance with the Municipal Act
- reports to Council during the annual budget process and financial reports on outstanding debt obligations including projects that are unfunded
- recommends alternative financing options to Council where appropriate
- ensures that debt is properly managed and stays within the provincial regulations for how much debt a municipality should issue by making recommendations to Council
- ensures that debenture funds are applied only for the purposes which the debentures were issued
- monitors and provides financial indicators to Council as required for decision making
- recommends changes to the Debt Management Policy to Council as required

#### Council:

- may not approve debt to finance current operations
- responsible for the approval of any debt financing through the annual budget process or resolution, and for approving of the borrowing by-law
- responsible for approving budget funds for the repayment of debt through the annual budgeting process