



# County of Essex Policy and Procedures Manual

## Capital Financing and Debt Policy

<b>Policy Number:</b>	YYYY-XXX (Number provided by LCS)
<b>Policy Type:</b>	Corporate Policy
<b>Approval Authority:</b>	Essex County Council
<b>Office of Responsibility:</b>	Financial Services
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<b>Replaces Policy:</b>	03-001

### 1.0 Introduction

The Corporation of the County of Essex recognizes the need for sound financial management in its capital and debt financing. This policy ensures compliance with relevant legislation, including the Municipal Act, 2001 and O.Reg. 403/02, strategic financial planning, and the County's commitment to long-term fiscal sustainability. It is designed to provide a clear framework for making decisions regarding debt issuance and capital financing, aligning with the County's strategic objectives and financial goals.

### 2.0 Scope

This policy applies to the management of all capital finance and debt-related activities for the Corporation of the County of Essex. It covers the issuance, management, and reporting of debt used to fund capital projects, including both short-term and long-term debt instruments. This policy is relevant to all departments and staff involved in capital planning, debt management, and financial reporting within the County.

### 3.0 Definitions

To provide context for this policy, a list commonly used terms is provided herein and shall be used in conjunction of the interpretation of this document.

**County of Essex** means the Corporation of the County of Essex, and may be used interchangeably with the terms the 'County', the 'Corporation' or 'County of Essex'.

**Capital Financing** refers to the process of funding long-term capital projects through debt issuance or other financing methods.

**Construction Financing** refers to A form of debt where principal and/or interest payments are deferred for up to five years during construction of a revenue-generating facility.

**Debt** refers to any borrowing undertaken by the Corporation to finance capital projects, including bonds, loans, and other debt instruments.

**Debenture:** A type of debt instrument, typically unsecured, that is issued by the County to raise capital.

**Debt Service:** The total amount of principal and interest payments required to be made on the County's outstanding debt obligations.

**Financing Lease:** A lease used to acquire capital assets that may extend beyond the term of Council and involves material financial commitments.

**Fiscal Agents:** The total amount of principal and interest payments required to be made on the County's outstanding debt obligations.

**Material Impact:** Costs or risks that significantly affect the County's financial obligations or statutory debt limits.

**Municipal Act, 2001** refers to the principal legislation governing municipalities in Ontario, which includes provisions on the management of municipal finances, including borrowing and debt management.

### 4.0 Purpose

The purpose of this policy is to establish a framework for the County of Essex to manage its capital financing and debt activities effectively. The policy aims to:

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- Ensure compliance with applicable legislation, including the Municipal Act, 2001, S.401-407 and related regulations such as O.Reg. 403/02.
- Establish clear guidelines for the issuance of debt to finance capital projects, ensuring that the County can meet its infrastructure needs without compromising its long-term financial stability.
- Provide direction for managing the County's debt service obligations in a sustainable manner.
- Ensure accountability and transparency in capital financing decisions, including the management and reporting of debt levels.

## 5.0 Policy and Procedures

### 5.1 Capital Financing Framework

The County will finance capital expenditures through a combination of debt issuance, reserves, grants, and other financial mechanisms. The approach to capital financing will be determined on a project-by-project basis, taking into account the project's cost, its importance to the County's strategic plan, and the availability of financing options.

### 5.2 Issuance of Debt

Debt may be issued for capital projects in accordance with the following conditions:

- Debt issuance will be considered only for projects that provide long-term value to the County, such as infrastructure improvements, land acquisition, or facility construction.
- The County will limit debt issuance to a level that is sustainable, ensuring that debt service does not exceed the County's annual debt capacity
- Debt issuance must comply with the Municipal Act, 2001 s.401-404, and other applicable regulations such as O.Reg. 403/02.
- The Director of Financial Services/Treasurer will evaluate the cost-effectiveness of debt issuance, including interest rates, repayment terms, and any associated risks.

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- The County will match the term of debt financing to the useful life of the asset, not to exceed 40 years, unless specifically approved by Council.
- All debt issuance shall be subject to the approval of County Council through an authorizing by-law.

### 5.3 Debt Management

The County will manage its debt portfolio to minimize costs and risks while ensuring that debt obligations are met in a timely manner. This will involve:

- Monitoring debt levels to ensure compliance with limits set by Council or regulatory requirements.
- Ensuring that debt service payments are included in the annual budget and are prioritized.
- Evaluating refinancing opportunities to reduce debt service costs when appropriate.
- Capital financing will be in Canadian dollars with fixed interest rates to minimize exposure and rate volatility.

### 5.4 Capital Planning and Budgeting

The County will develop a comprehensive capital plan as part of its annual budget process. This plan will identify the financing sources for capital projects and align with the County's long-term infrastructure needs. The plan will be reviewed annually by the Director of Financial Services/ Treasurer to ensure it remains aligned with the County's fiscal health and priorities.

### 5.5 Financial Instruments and Risk Considerations

The County may use the following financial instruments based on project need and financial carefulness:

#### **Short-Term – Under One (1) Year**

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital

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assets pending long-term capital financing may be from one or more of the following sources:

- Reserves and reserve funds. (This may be used as the primary source of short-term financing)
- Bank line of credit;
- Short-term promissory notes issued to aforementioned institutions;
- Bankers' Acceptances; and
- IO (or its successor organizations) short-term advances pending issuance of long-term debentures.

### Long-Term – Over One (1) Year

- Debentures (Installment or Amortizing)
- Long-Term Bank Loans
- Construction Financing
- Lease Financing

Each option will be evaluated based on:

- Financial risk (e.g., interest rate risk, refinancing risk, construction delay risk)
- Total cost of borrowing
- Impact on statutory debt limits and operating flexibility

Financing leases and construction loans must be evaluated for risk and cost against other forms of financing before approval

## 5.6 Reporting Requirements

The Director of Financial Services/Treasurer will provide annual reporting to Council including:

- Debt service forecasts
- Outstanding financing lease obligations and associated risks
- Construction financing updates
- Annual Debt Retirement Limits in compliance with O.Reg. 403/02

Additional reports will be provided:

- Prior to entering material financing leases
- Prior to passing construction debt by-laws

## 6.0 Responsibility

6.1 **The County Warden** is responsible to execute authorizing By-laws and sign documents on behalf of the Corporation with respect to financing of municipal capital projects of the County.

6.2 **The Chief Administrative Officer (CAO)** is responsible for the overall financial management strategy of the County, ensuring that all financial risk management practices, including capital financing and debt, align with the County's long-term goals.

6.3 **The Director of Financial Services/Treasurer** is responsible for reviewing and recommending the type and term of financing for capital projects and operating requirements in accordance with this policy.

### **They are also responsible to:**

- Calculate the financial debt and obligation limit for the County as prescribed by the Municipal Act;
- In consultation with the County's Fiscal Agent(s), approve the timing and structure of debt issues;
- Coordinate the preparation of debt issue by-laws for County Council;
- Execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the financing of municipal capital requirements;
- Liaise with and assist the Corporation's rating agency in evaluating the creditworthiness of the County's debt securities; and
- Review and recommend to Council the financial and business aspects of all lease agreements and transactions.

6.4 **The Director, Legislative and Community Services and Clerk** are responsible for authorizing by-laws, making declarations, and certifying documents related to capital financing and debt agreements as required.

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- 6.5 **All Employees Involved in Capital Financing and Debt** are responsible for ensuring compliance with this policy and for reporting any concerns related to the agreements.

## 7.0 Related Documents/Legislation

- Municipal Act, 2001, S.401-407
- Ontario Regulation 403/02-Debt and Financial Obligation Limits
- Reserve Management Policy

## 8.0 Summary of Amendments

Date	Amendments
2025-06-15	Updated definitions for clarity and added references to Ontario Regulation 403/02. Expanded the responsibilities section. Added a section outlining debt instruments and associated risks. Detailed reporting obligations. Updated the policy to reflect current County policy template.

## Appendices

- N/A