

2019

Debt Risk Management Framework

Corporate Services Committee

February 20, 2019

Agenda

Background

Purpose

Debt Risk Management Strategy
Committee

Financial Indicators

Debt Risk Management Framework

Future Considerations

Background

Municipal Act includes legislation on the issuance of debentures:

- Region issues debentures on behalf of Local Area Municipalities
- Municipalities required to comply with Annual Repayment Limit
- Region and Municipalities assume joint and several liability for debt
- Municipal debt is shown on Region's Statement of Financial Position

Background



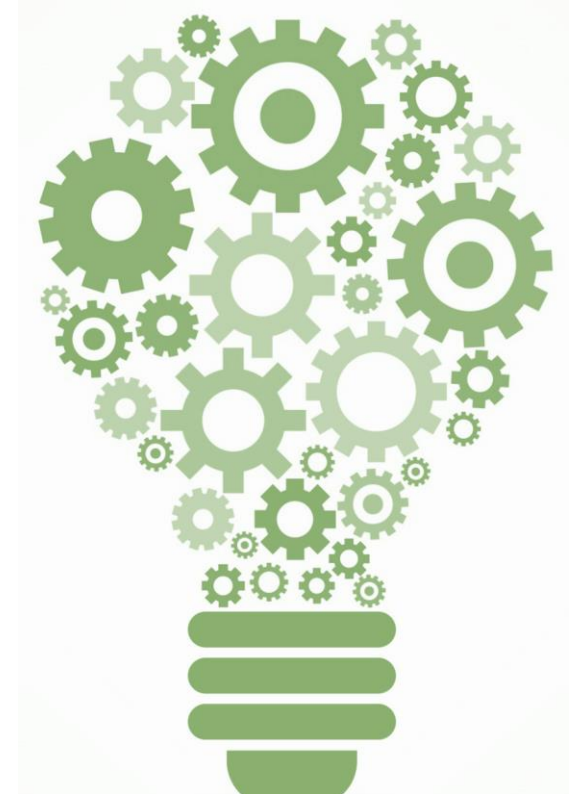
Purpose

- Demonstrate Region's due diligence process
- Monitor risk related to debt
 - Potential to impact Region's credit rating and overall cost of borrowing for all Municipalities
 - Monitoring compliance with Annual Repayment Limit regulations
- Support Municipalities with regard to debt financing
 - Streamlining of debenture approval process and documentation



Debt Risk Management Strategy Committee

- Members included: Regional Finance and representatives of Local Area Treasurers and CAOs
- The Committee met four times during 2018
- Key contributions to the Framework:
 - Inclusion of nine financial indicators
 - Definitions and context for each financial indicator
 - Separate reporting form for each municipality, allows for municipalities to provide comment



Financial Indicators - Flexibility

- Measures the ability to react and adapt to changing financial conditions

Ratios included:

Annual
Repayment
Limit %

Debt Service
Coverage
Ratio

Debt to
Reserve
Ratio

Debt
Outstanding
per Capita

Financial Indicators - Sustainability

- Measures ability to maintain an organization and manage risks over the long term

- Ratios included:

Net Financial
Assets/(Debt) as a
% of Own Purpose
Taxation + User
Fees

Total Reserves &
Discretionary
Reserve Funds as a
% of Opex

Asset Consumption
Ratio

Operation Surplus
Ratio

Total Municipal
Burden as a % of
Household Income

Debt Risk Management Framework

Comprised of two documents:

1. Financial indicator definition sheet including information on calculation, source and relevance of metric
2. Framework reporting form for debt and results of financial indicators
 - debt approvals
 - forecast debt issuance

Debt Risk Management Framework

- Information used for annual credit rating review
 - Early warning of potential pressure on Standard & Poor's rating
- Transparency - information presented to Council (part of debt by-law approval process)
- Awareness for all Local Area Municipalities on debt risks
 - Region and Local Area Municipalities can continue conversation

Future Considerations

- Work collaboratively with Area Treasurers to consider development of financial policies
- Retain third-party facilitator with financial expertise in the following areas to assist in establishing common guiding principles/policies:
 - Barriers to use of debt
 - Appropriate use of debt
 - Rate vs. levy debt thresholds
 - Impacts of rate vs. levy debt on the S&P rating methodology
 - Appropriateness of self-imposed limits below the ARL
 - Debt vs. other types of capital funding

