



## Development Charge Borrowing/*Lending* Policy

Policy Category:

Policy No.:

Implementing Procedure No.:

Approving Authority: Council

Effective Date: September, 2010

Approved or Last Reviewed Date: Sept, 2022

Next Review Year: 2027

Area(s) this policy applies to: Financial Strategy & Investments, *Financial Services*

Owner Department: Financial Strategy & Investments, *Financial Services*

Related Policy(ies):

Note: Questions about this policy should be directed to the Owner Department.

### 1. Purpose Statement

The objective of this policy is to provide a framework with respect to borrowing funds to complete Development Charge (DC) related capital projects. **As well, this policy provides a framework for the City to borrow funds from the DC Reserves.**

### 2. Applicability and Scope Statement

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### 3. Background

Every five years, Council is required to approve a Development Charges Background Study and associated by-laws.

As part of these updates, multi-year capital programs are approved by Council. Due to the timing of these capital programs, it is regularly communicated that there will be significant borrowing required to fund these projects in advance of the City collecting the related DCs.

There are really only two funding options available to the City. The first is to borrow funds through debenturing or government agency sponsored loans (i.e. Canada Housing and Mortgage Corporation for certain projects). The second is to borrow internally. Under either method, the interest on the borrowed amount can be charged back to the Developers, under the Development Charge Act.



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### **Debentures (External Borrowing)**

For the majority of its external funding requirements, the City would have to borrow through the Region of York (the Region has an AAA credit rating; Markham does not have a rating). The disadvantages of this approach are that the City would have to borrow in advance of needing the cash and in significant sizes that would result in situations of having borrowed money (at higher rates) sitting in the bank (at lower rates) for prolonged periods of time. As well, there would be an uncertainty regarding the required term of the borrowing. If the City collects DC's faster than expected, that money will be sitting in the bank waiting to repay the external debt at maturity. Or alternatively, the City collects less DC's than expected and does not have enough money to repay the debt at maturity and requires further borrowing. Under this method, the Developers may end up paying more interest than necessary. The disadvantages of external borrowing can be negated by combining the approach with an internal borrowing strategy.

### **Internal Borrowing**

This general portfolio balance is a potential source of borrowing for the DC reserves. Under the right conditions, this type of internal borrowing can benefit both the City and Developers since it allows for greater flexibility as it does not require the involvement of York Region and the comparatively longer lead times for borrowing.

Internal borrowing will be capped at a maximum of 25% of the previous year's average general portfolio balance, in order to not restrict the City's ability to invest in other opportunities. This policy will allow the City to reap higher rates of return for its general portfolio, while still allowing the DC reserves to borrow at market rates but with greater flexibility.

The strategy will be to take advantage of external borrowing when rates are low and to use internal borrowing when rates are higher. The attached DC Borrowing Policy combines both the internal and external approaches.

Any internal borrowing will be tracked and accounted for in the same manner as the City's existing money market and bond investments.

### **Development Charge Lending**

From time to time, the City's general bank account may have a short term requirement for funds. To allow for flexibility, the DC Reserve can act as a funding mechanism to avoid a potential overdraft situation. Any lending would follow the same guidelines as outlined in this policy for borrowing.

## **4. Definitions**

## 5. Policy Statements

### SOURCES OF BORROWING

This section outlines the sources of funding available when the DC Reserves are in (or are approaching) a deficit balance.

#### Internal Borrowing

The City may loan the DC reserves up to a cumulative maximum of 25% of the previous year's average general portfolio balance (i.e. the City's cash and investments, as defined under the Eligible Investments section of the Municipal Act, that are not attributable to interest bearing reserves, reserve funds, and trust funds). For example if the average general portfolio balance was \$400 million, the City could provide up to \$100 million of funds to the DC reserves. The 25% limit was chosen as it still allows the City to maintain a high level of liquidity and mirrors the 25% annual repayment limit decided upon by the Ministry of Municipal Affairs and Housing.

#### Term of Borrowing

The internal borrowing provided from the City's General Portfolio will act as a loan for a predetermined period of time. DC Reserves will be able to continue to use these funds while there is a negative balance. At any time, the City can decide to call upon these funds if the money is needed elsewhere. It would be at this point, the DC Reserve would turn to external borrowing. (Note: there would need to be enough time to secure external borrowing before the loan could be called).

#### Internal Borrowing Interest Rate

The Prime Rate will be applied when the borrowing is deemed to be less than five years in duration. The York Region debenture rate will be applied when the borrowing is deemed to be greater than five years in duration. The specific York Region debenture rate should match the forecasted duration of the loan.

#### External Borrowing

Any funding requirements not covered by internal borrowing will require external borrowing. The determination of the source of the funds (i.e. debenturing through the Region of York or borrowing through a bank or government agency) will be made at that time depending on the length of term required, market conditions and rates. All external borrowing needs to be coordinated through the Region of York.



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### **ADMINISTRATION**

Any external borrowing will be brought to Council for approval. Any internal borrowing will be approved by the Treasurer and be reported to Council no fewer than twice per year. The determination of the borrowing source will be at the discretion of the Treasurer of the City of Markham.

Any internal borrowing will be tracked and accounted for in the same manner as the City's existing investment portfolio.

As per the Municipal Act, before authorizing any specific work or class of work or any increase in the expenditure for a previously authorized specific work or class of work that would require a long term debt or financial obligation, the Treasurer will calculate an updated annual repayment limit using the most recent debt and financial obligation limit determined by the Ministry of Municipal Affairs and Housing.

### **6. Roles and Responsibilities**

The Financial Services Department shall be responsible for:

- Future updates to this policy