Council Policy

Council Policy No.:	CP2026-062
Council Policy Name:	Debt Policy
Date Approved by Council:	June 23, 2026 CR2026-210
Date revision approved by Council:	
Related SOP, Management Directive, Council Policy, Forms	Replacement of Council Policy CP2021-018 (Financial Management Policy)

Policy Statement and Rationale:

The City of Kawartha Lakes is committed to lawful, prudent and sustainable use of debt as a financing mechanism designed to manage capital expenditure volatility, bridge capital funding gaps, maintain liquidity, and regulate cash flow. To that end, and with a view toward ratepayer affordability, this policy guides the City's usage of debt.

Scope:

This policy applies to all debt and its usage, whether planned, budgeted or actual, by or on behalf of the City or any of its agencies, boards or commissions.

Policy:

1 Definitions

In this policy,

"Annual Repayment Limit" or "ARL" means the maximum annual expenditure a municipality may commit to meeting debt service costs and certain other long-term financial obligations, expressed as a percentage of the municipality's own-source revenue, pursuant to O. Reg. 403/02. This limit is provided annually by the Ministry of Municipal Affairs and Housing (MMAH);

"asset" means a tangible article of capital, such as land, facilities, infrastructure or equipment, or a component thereof, that is or will be owned by the City and is capitalizable pursuant to the Strategic Asset Management Policy;

"capital funding gap" means expenditure planned in a capital budget that, due to exhaustion of current funding sources, must be met by future funding sources through issuance of debt;

"capital project" means a project for the design, creation, installation, acquisition, expansion or disposition of one or more physically related assets, or the material improvement thereto;

"City" means the City of Kawartha Lakes together will all of its agencies, boards and commissions;

"debenture" means a debt that is repaid in specified amounts on specified dates such that the debt is retired at the end of a fixed term (e.g. 30 years);

"debt" means a financial obligation, such as a debenture or loan, incurred as a result of borrowing funds;

"debt service cost" means monies expended or to be expended for the repayment of debt in the form of principal and interest (per Financial Information Return 74-3099);

"debt service ratio" or "DSR" means, in respect of a given year, debt service costs divided by corresponding revenue, excluding revenue from and debt service costs payable by development charges, capital charges, other orders of government or other external sources;

"expansionary capital project" means a capital project designed primarily to accommodate development and growth or to enhance service levels, typically resulting in material expansion of the asset portfolio and service capacity;

"long-term debt" means debt that is not short-term;

"short-term debt" means debt arising from temporary borrowing, as defined by sections 405-407 of the Municipal Act, such as construction financing, or debt that must be repaid in full within one year of its incurrence, such as bank overdrafts; and

"state-of-good-repair capital project" means a capital project designed primarily to renew existing capital assets, typically resulting in no material expansion of the asset portfolio or service capacity.

2 Nature and Purpose of Debt

2.1 Debt is a financing mechanism designed to manage capital expenditure volatility, bridge capital funding gaps, maintain liquidity, and regulate cash flow.

2.2 By converting current obligations into future obligations, and thus spreading the impact of upfront costs over time, debt is an instrument that, when appropriately used, enables an organization to better match revenues and costs in any given timeframe. Interest is the price paid for these benefits.

2.3 Since it must be repaid from a funding source such as tax levies, user fees or development charges, debt is not a funding source itself, but is rather a financing mechanism only.

2.4 While debt is a legitimate and useful tool for municipalities, usage of debt shall be lawful, prudent, sustainable and in accordance the purpose of debt outlined in the foregoing provisions. Debt is not permissible to fund the annual Operating Budgets.

3 Legislated Requirements Respecting Debt

3.1 Usage of debt shall be in accordance with applicable legislation, including the relevant provisions and regulations of the Municipal Act and the Drainage Act.

3.2 The ARL shall not be exceeded, unless permission to do so has been granted by the Ontario Land Tribunal.

3.3 Short-term debt repayment terms shall not exceed one year.

3.4 Long-term debt repayment terms shall not exceed the lesser of 40 years or the expected useful life of the asset for which the debt was incurred.

4 Parameters for Short-Term Debt

4.1 The City Treasurer and the Chief Financial Officer shall have discretion to use short-term debt prudently as needed to maintain liquidity, regulate cash flow and better match revenues with costs within any given year or part thereof.

4.2 The City Treasurer and the Chief Financial Officer shall consider usage of short-term debt in the form of construction financing to support significant capital projects during their construction until budgeted funding for or long-term debt required by the projects is sufficiently secured.

5 Parameters for Long-Term Debt

5.1 Long-term debt may be incurred only to finance capital projects.

5.2 Wherever practicable, debt budgeted for any given capital project shall be $500,000 or more.

5.3 In any capital budget with a capital funding gap, the use of debt to resolve the gap shall, as far as may be practicable, minimize the number of debt-financed capital projects and prioritize capital projects resulting in assets with higher expected useful lives.

5.4 In any capital budget without a capital funding gap, debt may be applied only to capital projects that are expansionary or are state-of-good-repair and result in assets with useful lives of at least 30 years.

5.5 The standard instrument of debt shall be the debenture with a fixed interest rate and denominated in Canadian dollars, but other instruments of debt (e.g. internal borrowing from reserves of reserve funds) may be considered by the City Treasurer or the Chief Financial Officer on a case-by-case basis.

5.6 The financial benefits and risks of the term, payment schedule and interest rate structure (fixed or variable) of each debt issuance shall be considered and weighed by the City Treasurer prior to presenting Council with a by-law to authorize the debt issuance.

5.7 Wherever practicable, debts shall be issued expeditiously and in batches to maintain liquidity, regulate cash flow, and minimize transaction costs and administrative burden.

6 Other Parameters for Debt

6.1 Debt in the form of internal borrowing from reserves or reserve funds shall be issued and structured in accordance with the Municipal Act and the Reserve and Reserve Fund Policy.

6.2 A maximum DSR of 12.5% shall be observed for each year.

7 Responsibilities

7.1 The City Treasurer shall report annually to Council with respect to the following: (i) existing and forecasted debt; (ii) annual principal and interest payments for existing and forecasted debt; (iii) the ARL and the City's existing and forecasted positions with respect to it; and (iv) the maximum DSR and the City's existing and forecasted positions with respect to it.

7.2 On each occasion on which a debt issuance by-law is presented to Council for approval, the City Treasurer shall report to Council on the effect of the added debt on the City's position with respect to the maximum DSR.

7.3 The City Treasurer and the Chief Financial Officer are jointly responsible for the application of this policy.

Revision History:

Proposed Date of Review: 2027-2028

Revision	Date	Description of Changes	Requested By
0.0	June 23, 2026	Initial Release	Director of Corporate Services