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MEMORANDUM TO: **Superintendents of Business and Finance**

FROM: Andrew Davis
Director
Financial Analysis and Accountability Branch

DATE: July 20, 2010

SUBJECT: Debentures and Refinancing

I'm writing to you today to address a number of questions that have arisen about Sinking Funds as it relates to the capital wrap-up and more generally, about any debentures that need to be refinanced through the Ontario Financing Authority in the future.

There are two key risks that are now being assumed by the province through the capital wrap-up, these include: enrolment risk and interest rate risk. However, one risk that remains with boards to manage is related to the return on sinking fund assets.

Best practices and effective board policies surrounding sinking funds would suggest that every board had in place the following:

- A borrowing by-law;
- An explicit assumed rate of return and hence the annual contributions;
- How the sinking fund contributions would be invested or otherwise managed; and
- A review of actual investment performance to determine if top-ups are necessary.

If the actual return on sinking fund assets is less than the assumed rate of return then the board has an investment loss, the impact of which (both now and in the past) should go through the operating budget. It is highly recommended that the sinking fund be trued up against the assumed rate annually. If you expect to have a significant financial loss, please ensure your Ministry Finance Officer is apprised of the situation.

In the capital wrap-up, the province will provide the sinking fund contributions for eligible debt equal to the amounts in the by-law or the board's policy. If boards recorded higher contributions than what the board policy was in the last approved Capital Liquidity Template, this higher amount will be recognized in the wrap-up.

It is also recommended that before the balloon payment on a sinking fund comes due, you begin working with your financial advisor (if you have one) to ensure the assets are converted into cash to make this payment.

Another common question relates to fees on sinking funds. Some funds are assessed fees that are not included in the initial costs or reflected in the interest rate. These are considered normal administrative operating costs that are to be covered through the Board Administration Grant.

Refinancing

The process and requests for refinancing and borrowing are led by the Capital Programs Branch. If you require a debenture to be refinanced, sinking fund or otherwise, the remaining eligible principal based on the Capital Wrap-up Template will be refinanced through the Ontario Financing Authority (OFA) over the remaining term. As in the past, OFA financing will be coordinated by Mathew Thomas who can be reached by email at Mathew.P.Thomas@ontario.ca or by phone at (416) 326-9920. Please notify Mathew of any refinancing needs well in advance.



Andrew Davis
Director
Financial Analysis and Accountability Branch