

The Borrowing Code

The CPA must have and adhere to a Borrowing Policy that:

- Is consistent with the Code;
- Is approved by the board of directors;
- Contains the following elements:
 1. The following prudential indicators:
 - i) *Indicator 1 – Total Borrowings*. The same definition that currently appears in the Letters Patent.
 - ii) *Indicator 2 - Debt Service Coverage Ratio*: Equal to the Free Cash Flow Available for Debt Services (FCADS) divided by Total Debt Services. In turn, FCADS is equal to total operating revenues - total operating expenses (including taxes) - sustaining capital expenditures - adjustments to any reserve account (such as debt service or major maintenance reserve funds). Debt Services is equal to principal repayment plus interest for the Borrowings. Borrowings that are contingent as well as debt instruments that do not self-amortize are included in Total Debt Services by way of sinking fund payments as if the debt were to be amortized in a straight line depreciation method over a term that is appropriate for the Borrowings in question.
 - iii) *Indicator 3 - Loan Life Coverage Ratio*. Equal to the present value of the FCADS over the present value of Total Debt Services, both being calculated in a given year to the end of the forecast period.
 - iv) *Indicator 4 - Total Debt Service as a Share of Operating Expense*. Equal to Total Debt Services as a percentage of Total Expenses.
 - v) *Indicator 5 - Maximum Annual Debt Service Coverage*. Equal to peak annual Total Debt Services in period extending from given year to remaining years of the forecast period over the FCADs in that given year.
 - vi) *Indicator 6 - Available liquidity*: Amount of cash, marketable securities, undrawn credit or available Letters of credit.
 - vii) *Indicator 7 - Variable rate exposure*: The proportion of interest payments that is subject to variable rates for Total Debt Services associated with Borrowings that are not contingent.
 2. The identification and definition of other prudential indicators, over and above those specified above, which the Board has chosen to adopt;
 3. The definition of significant borrowings and the requirement for the full board of directors for approving significant borrowings;
 4. The frequency of review of the Borrowing Policy, which cannot be less than once every three years;
 5. The frequency of review, authorization and disclosure to the Minister of the prudential indicators identified in the Borrowing Policy of the CPA, which cannot be less than annually whenever the CPA has outstanding or is planning on issuing debt in the current or following fiscal year. Otherwise, the requirement for reviewing, authorizing and disclosing prudential indicators is not applicable;
 6. The procedures for amending the Borrowing Policy of the CPA;
 7. Any other elements that the CPA judges appropriate, consistent with the Code.

The Borrowing Code

- Indicate that the board of directors must oversee the borrowing activities of the CPA and must be guided by the following general principles:
 1. capital expenditure plans must be affordable;
 2. borrowings and other long-term liabilities must be within prudent levels;
 3. financial management decisions must be taken in accordance with professional best practice; and
 4. that the CPA is accountable for its decisions in regards to the above through a clear and transparent framework, as per the Code.
- Indicate that the CPA must have at its disposal a financial model that can produce an income statement, balance sheet and flow of funds over the time period necessary to fully amortize existing and planned debt. The financial model shall have the following capability: to perform sensitivity analyses measuring the impact on the CPA's cash flow and prudential indicators of changes to the assumptions; to separately determine the impact on cash flow of new investment projects planned by the CPA; to calculate the profitability and rate of return generated by major capital investment projects.
- Indicate that the CPA must prepare annually a long term-capital expenditure (CAPEX) forecast, including maintenance capital expenditures.
- Indicate that the disclosure values for prudential indicators (actual and forecast values) must be based on the following:
 1. For the actual values, the latest two audited annual financial statements of the CPA;
 2. For the forecast values, the yearly estimates derived from the financial model available to the CPA, shall be calculated for the total forecast period, which shall be no less than the term of financing for existing and planned debt; and,
 3. For limiting values, the upper or lower targeted bounds, as the case may be, for each indicator in each of the years for which there is a forecast value.
- The board of directors must approve annually a certificate (the form of which would be prescribed in an appendix to the Code), signed off by the Chief Executive Officer, which states their confidence in the financial stability of the CPA for the following five years. The approved certificate must be submitted annually to the Minister of Transport, Infrastructure and Communities and may be filed at the same time as the annual Business Plan submitted to the Minister. The board of directors, on its own motion or on the advice of the Chief Executive Officer, must notify the Minister as soon as possible if he or she has reasonable grounds for believing that the CPA would be unable to respect its financial obligations as they come due over the next 12 months.
- The requirement for disclosing the prudential indicators approved by the Board of the CPA can be met by submitting a stand-alone document to the Minister of Transport, Infrastructure and Communities or by incorporating the required information in the annual Business Plan of the CPA.
- The Chief Executive Officer, on the advice of the Chief Financial Officer or Vice President of Finance, must notify the board of directors as soon as practical if he or she is of the

The Borrowing Code

opinion that it is likely, or it has become apparent, that the limiting values approved by the board of directors will not be respected. The board of directors, as soon as practicable after they have been given such notice, must review the prudential indicators in light of the situation to determine an appropriate course of action. Any change approved by the board of directors as a result of this review, to the previously approved values for the prudential indicators, must be filed with the Minister.