

## FINANCE COMMITTEE REPORT

M&C No.	2019 - 167
Report Date	July 08, 2019
Meeting Date	July 08, 2019
Service Area	Finance and Administrative Services

His Worship Mayor Don Darling and Members of Common Council

***SUBJECT: General Fund Debt Management Policy FAS-006***

***OPEN OR CLOSED SESSION***

This matter is to be discussed in open session of Common Council.

***AUTHORIZATION***

Primary Author	Commissioner/Dept. Head	City Manager
<b><i>Kevin Fudge</i></b>	<b><i>Kevin Fudge</i></b>	<b><i>John Collin</i></b>

***RECOMMENDATION***

*Be it resolved that:*

1. Finance Committee recommends that Common Council approve the General Fund Debt Management Policy FAS-006;

***EXECUTIVE SUMMARY***

It is recommended that Common Council approve the Debt Management Policy. Debt Management Policies are best practice for fostering a fiscally responsible City and a key instrument in the development of a robust Long Term Financial Plan.

***PREVIOUS RESOLUTION***

N/A

***REPORT***

The City's ability to finance infrastructure depends upon operating budget capacity, debt capacity and access to government grants. Relying on debt capacity can affect the City's sustainability based on its ability to afford principal and interest payments. The City must manage debt to ensure it is able to meet its financial and service objectives.

Financial policies provide the “rules” that shape financial decisions. When policies are effective they can enhance the financial health of governments. By contrast, weak policies can create fiscal instability. Financial policies provide the “rules” that shape financial decisions. When policies are effective they can enhance the financial health of governments. By contrast, weak policies can create fiscal instability. The Debt Management Policy establishes objectives, guidelines, targets and appropriate controls for the use and issuance of debt for the City. It is considered a best practice policy in promoting fiscal responsibility and the broader implications of issuing debt, as well as an important governance document to support the development of a long term financial plan.

The objectives of the Debt Management Policy is to:

1. Ensure the City obtains long term debt only when necessary, balancing financing needs and taxpayer affordability;
2. Ensure the City manages its debt such that future financial flexibility is maintained;
3. Ensure the City strategically obtains debt based on sound long term financial planning and targets.

The proposed Debt Management Policy includes ***conditions for the issuance of debt*** that will protect the City’s financial health:

1. Debt is issued both prudently and cost effectively according to the Long Term Financial Plan;
2. Debt is issued solely for the purpose of financing the projects approved in the Capital Budget and the Capital Investment Plan (CIP);
3. Debt is not used to fund operating or maintenance costs or be used as a tool to balance the operating budget;
4. The City shall promote a balanced debt management approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth;
5. Debt is structured to fairly distribute costs over time, taking into consideration inter-generational equity.

#### **DEBT LIMITS AND DEBT TARGETS FOR 2030**

The Debt Management Policy includes debt limits prescribed by Provincial Legislation, debt limits, and debt targets to improve the City’s financial health. The City shall only take on additional debt when existing debt is within the following legislative and policy debt limits:

### **Local Governance Act Legislative Limits**

- *A local government shall not, in any one year, borrow for its current operations any money in excess of the sum represented by 4% of the budget of that local government for that year or \$15K, whichever is greater;*
- *A local government shall not, in any one year, borrow for capital expenditures any money in excess of the sum represented by 2% of the assessed value of real property in that local government;*
- *The total amount of money borrowed by a local government for capital expenditures shall not exceed 6% of the assessed value of real property in the local government.*

### **City General Fund Debt Management Limits and Targets**

- General Fund Debt per Capita shall not exceed \$1600;
- The General Fund Debt Service Ratio shall not exceed 12%;
- The City's General Fund Debt as a percentage of Operating Budget shall not exceed 70%;
- The City's Target General Fund Debt per Capita Ratio shall be \$1175 by the year 2030;
- The City's Target General Fund Debt Service Ratio shall be 9% by the year 2030;
- The City's Target General Fund Debt as a percentage of Operating Budget is 50% by 2030;

### **REDUCTION OF THE CITY'S RELIANCE ON DEBT**

The Debt Management Policy supports reducing the City's reliance on long term debt to fund Capital Expenditures by promoting the gradual increase in funding of pay-as-you-go for capital over time. As described in the policy, Pay-as-you-go capital funding is best suited for the following reasons:

- To Fund Asset Renewal Projects;
- To Fund Assets with a Useful Life of less than 10 Years;
- Situations where additional debt could adversely impact the City's Financial Health;
- Situations where market conditions favour the use of cash rather than debt (for example, escalating interest rates)

The Policy will also allow the City Treasurer to utilize reserve funds as a source of funds for the internal financing of capital projects (rather than new debt). Effective cash management can be a strong tool in reducing long term debt.

## **CONCLUSION**

The Debt Management Policy is the 6<sup>th</sup> Financial Policy recommended by the Finance Committee. The Suite of Financial Policies will serve as pillars to improving the City's long term fiscal health. The Long Term Financial Plan debt covenants and targets overarching goal is to manage existing and future debt levels to minimize the impact of debt servicing costs on taxpayers and to create a balance between the use of debt and a pay-as-you-go approach. The Policy incorporates debt limits to ensure that debt obligations will not threaten the long-term financial stability of the City and place undue financial burden on taxpayers.

## ***SERVICE AND FINANCIAL OUTCOMES***

This report and recommendation are in alignment with best practices and will support future strong fiscal management.

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**ATTACHMENTS:** FAS 006 Debt Management Policy