



SAINT JOHN

Title: Debt Management

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I certify that this Policy was adopted by Common Council as indicated above.

Common Clerk

Date

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Finance and Administrative Services



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1. POLICY STATEMENT

- 1.1. The Debt Management Policy does not apply to Saint John Water;
- 1.2. The Debt Management Policy is established to ensure that all debt is issued prudently and cost effectively in accordance with the Long Term Financial Plan;
- 1.3. The Debt Management policy objectives are as follows:
 - The City obtains debt financing only when necessary;
 - The City manages debt such that future financial flexibility is maintained;
 - The City strategically issues debt based on sound financial planning.
- 1.4. The Capital Investment Plan (CIP) is essential to intelligent planning of debt issuance by prioritizing potential capital investment and potential sources of financing.
- 1.5. All City debt issuance and management procedures will comply with the following legislation where applicable:
 - Province of New Brunswick *Local Governance Act*
 - Province of New Brunswick *Municipal Capital Borrowing Act*
 - Province of New Brunswick *Municipal Debentures Act*
 - Province of New Brunswick *Control of Municipalities Act*
 - Province of New Brunswick *Financial Corporation Act*

2. DEFINITIONS

Sustainability – means meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Long Term Debt – means financing with a term over 10-30 years with municipal bonds through the Municipal Finance Corporation or capital leasing as defined by the Public Sector Accounting Standards.

Inter-Generational Equity – means distributing the costs associated with capital investments across the generations which will be enjoying the benefits of the capital assets built today.

Debt Term – the period of time during which debt payments are made. At the end of the debt term, the loan is paid in full.

Internal Financing – means financing for capital purchases from reserve funds as permitted in FAS-003 Reserves Policy.

Pay-As-You Go Financing – means the use of operating funds for capital purchases as opposed to using debt or reserves.

3. ACCEPTABLE CONDITIONS FOR USE OF DEBT

- 3.1. The City will issue long-term debt solely for the purpose of financing the projects approved in the Capital Budget and the Capital Investment Plan (CIP);
- 3.2. Long term debt shall not be used to fund operating or maintenance costs or used as a tool to balance the operating budget;
- 3.3. The Long Term Debt amortization period shall not exceed the life of the asset it is financing;
- 3.4. The City shall promote a balanced approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth by:
 - Utilizing this Policy in conjunction with the Asset Management Plan, FAS-005 Capital Budget Policy, FAS-004 Operating Budget Policy and FAS-003 Reserves Policy.
 - Integrating debt issuance with the Capital Budgeting process to determine the necessity, priority, and viability of the capital project.
 - Considering the Long Term Financial Plan, and analyzing the tolerance or capacity to absorb and manage new debt given future priorities.
- 3.5. Debt will be structured to fairly distribute the costs over time, taking into consideration inter-generational equity.
- 3.6. The City may also issue debt on behalf of an Agency, Board or Commissions (ABC) under its control pursuant to Generally Accepted Accounting Principles to further the public purposes of the City. The City shall take appropriate steps to confirm the financial feasibility of the project, the financial solvency of the ABC, and that the issuance of such debt is consistent with the policies set forth herein;
- 3.7. This Policy does not apply for the use of Short Term debt instruments.

4. DEBT LIMITS AND DEBT CAPACITY

4.1. The New Brunswick Local Governance Act stipulates that:

- 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.

4.2. The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt. Three key performance indicators will be benchmarked and measured and the following debt limits shall be applicable:

- **Debt per Capita:** This measurement can provide elected officials with a trend of overall debt outstanding by measuring how much debt the City has per citizen. **General Fund Debt per Capita shall not exceed \$1600;**
- **Debt Service Ratio:** This measurement allows elected officials to be aware of the amount of the current year's annual operating budget which is devoted to servicing debt. **The General Fund Debt Service Ratio shall not exceed 12%;**
- **Total Debt Outstanding as a Percentage of Operating Budget:** This measurement identifies the percentage of annual operating revenues that would be required to extinguish the City's outstanding debt. **The General Fund Total Debt Outstanding as a Percentage of Operating Budget shall not exceed 70%;**

4.3. Additional debt is only permissible when existing debt is within these limits, the limits will be reviewed and updated on an annual basis;

4.4. The City's General Fund target Debt Per Capita is \$1175 by 2030, the City's Debt Service Ratio Target is 9% by the year 2030 and the City's General Fund Target Debt Outstanding as a Percentage of Operating Budget is 50% by 2030.

4.5. Long Term Debt Term shall be in accordance with the Debt Management Plan.

5. DEBT ISSUANCE

- 5.1. A resolution of Council is required for all new debt issues.
- 5.2. The debt issuance process generally follows the steps below:
- Notice of motion: Council gives notice of intent to borrow after 30 days from the day of Council resolution;
 - After expiration of 30 days, Council authorizes staff to issue and sell to the New Brunswick Municipal Finance Corporation debentures at such terms and conditions recommended by the Corporation;
 - Application form filled out and submitted to the New Brunswick Municipal Finance Corporation;
 - New Brunswick Municipal Finance Corporation advises the City of the actual bond issue; and
 - Staff reports back to Council regarding terms of the issue, coupon rate, price, average yield and settlement date.
- 5.3. Debt is structured to fairly distribute the costs over time, taking into consideration intergenerational equity;

6. INTERNAL FINANCING

- 6.1. The City may use reserves as a source of funds for the internal financing of capital projects as approved by Council. Any borrowing from reserve funds shall comply with Policy FAS-003 Reserves Policy.

7. PAY-AS-YOU-GO FINANCING

- 7.1. The City will seek to gradually increase pay-as-you-go as an option for financing capital over time. Factors which favor pay-go financing include:
- Asset Renewal Projects;
 - Assets with a useful life that is less than 10 years – for example, IT equipment and road maintenance;
 - 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)

8. REPORTING

- 8.1. The total debt outstanding, and total annual debt service payments will be reported in the annual consolidated financial Statements;
- 8.2. Key performance indicators for debt will be measured and tracked in the City's Annual Financial Health Report Card;
- 8.3. Long-term debt will be forecasted over the long term in a Debt Management Plan based on the Capital Investment Plan as part of the City's Long-Term Financial Plan.

9. ROLES AND RESPONSIBILITIES

9.1 Council shall:

- 9.1.1 Approve the Debt Management Policy;
- 9.1.2 Approve new debt issues; and
- 9.1.3 Approve budgets sufficient to provide for the timely payment of principal and interest on all debt.

9.2 Finance Committee shall:

- 9.2.1 Review borrowing requirements for alignment with the Long Term Financial Plan; and
- 9.2.2 Recommend to Council the approval of new debt issues.

9.3 The Finance Commissioner shall:

- 9.3.1 Review the policy annually in consideration to meeting the City's debt management goals and submit required changes to the Finance Committee for recommendation to Common Council consideration and approval.
- 9.3.2 Assume primary responsibility for the debt management process;
- 9.3.3 Determine the City's available debt capacity and alignment with Long Term Financial Plan;
- 9.3.4 Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- 9.3.5 Submit to Finance Committee and Council, all recommendations to issue debt; and
- 9.3.6 Ensure compliance with the principles and mandatory requirements contained in this policy.