



Debt Management Policy

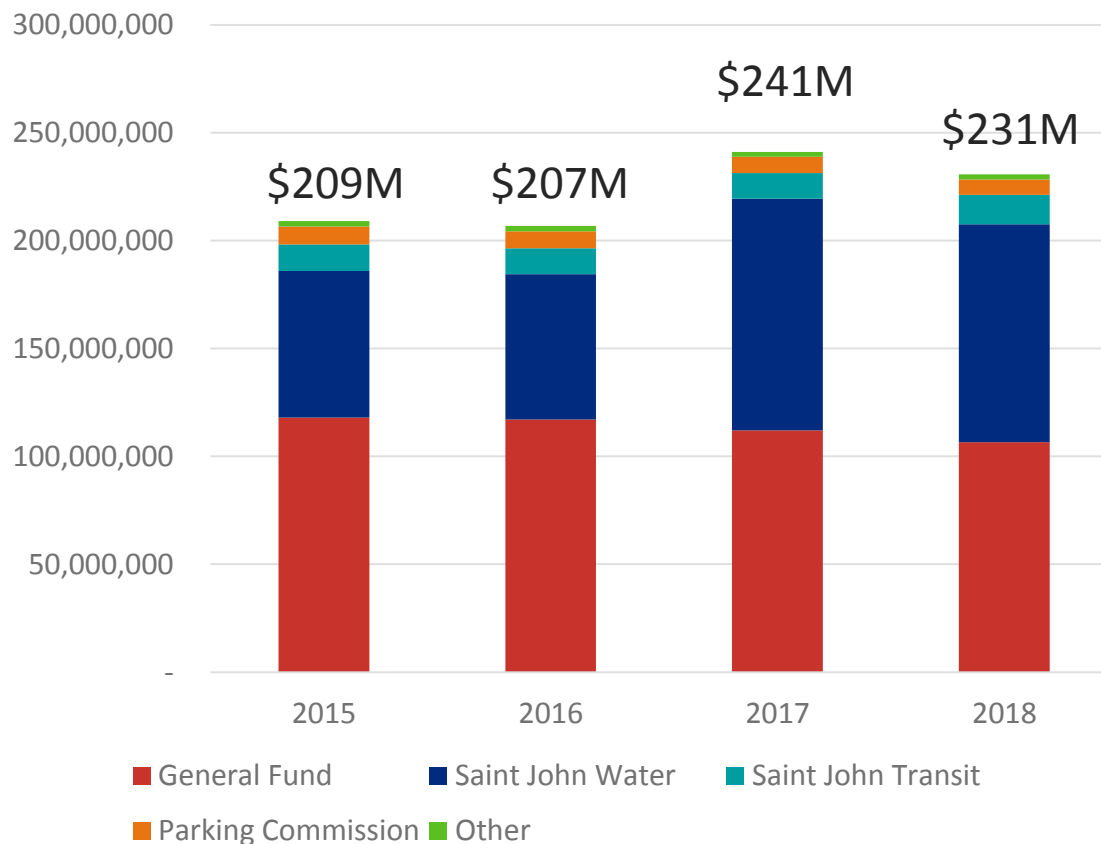
City of Saint John

July 8th , 2019



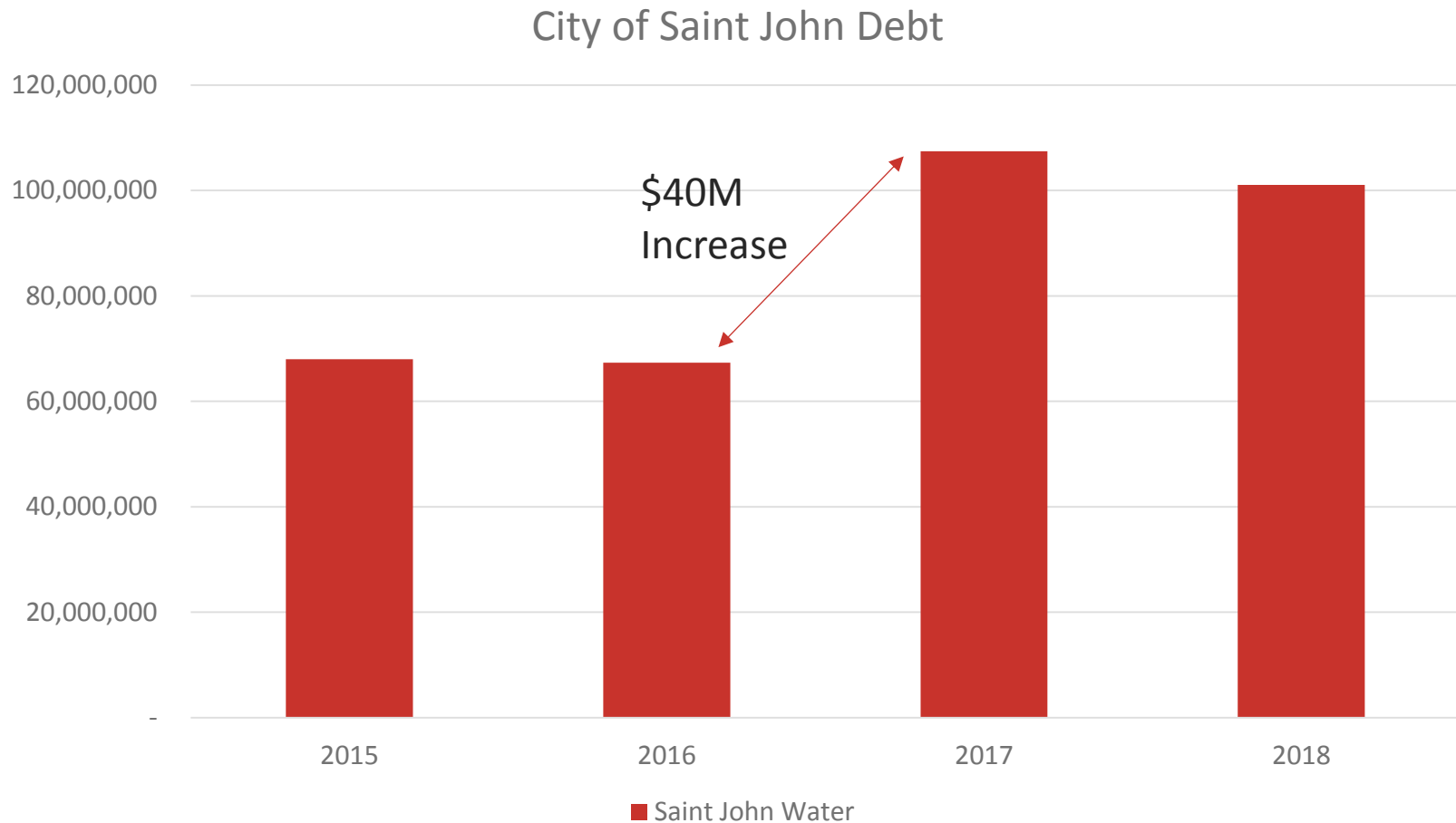
What is the City's Consolidated Debt Position

City of Saint John Debt

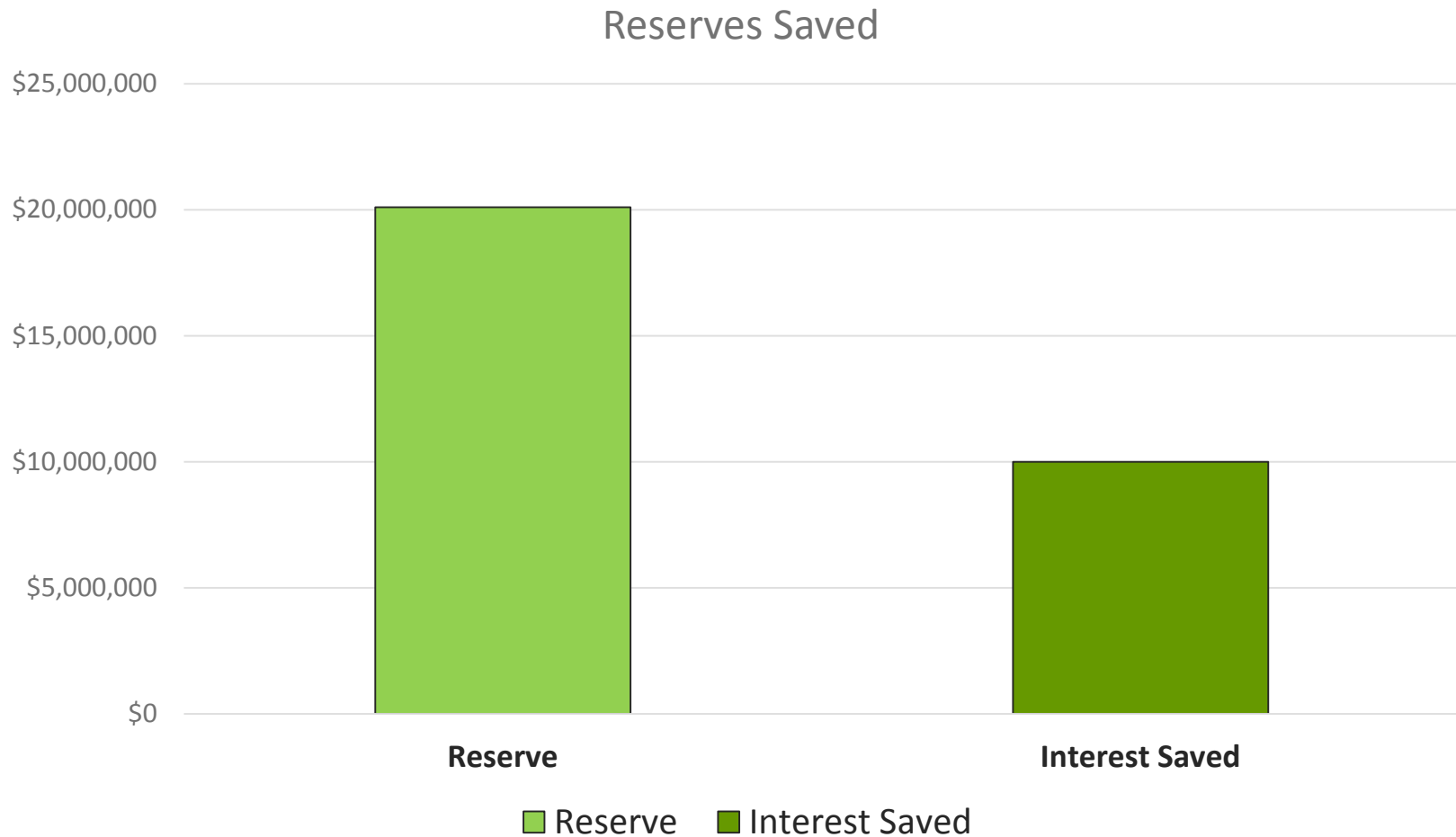


- GENERAL FUND DEBT
- SAINT JOHN WATER DEBT
- SAINT JOHN TRANSIT DEBT
- PARKING COMMISSION

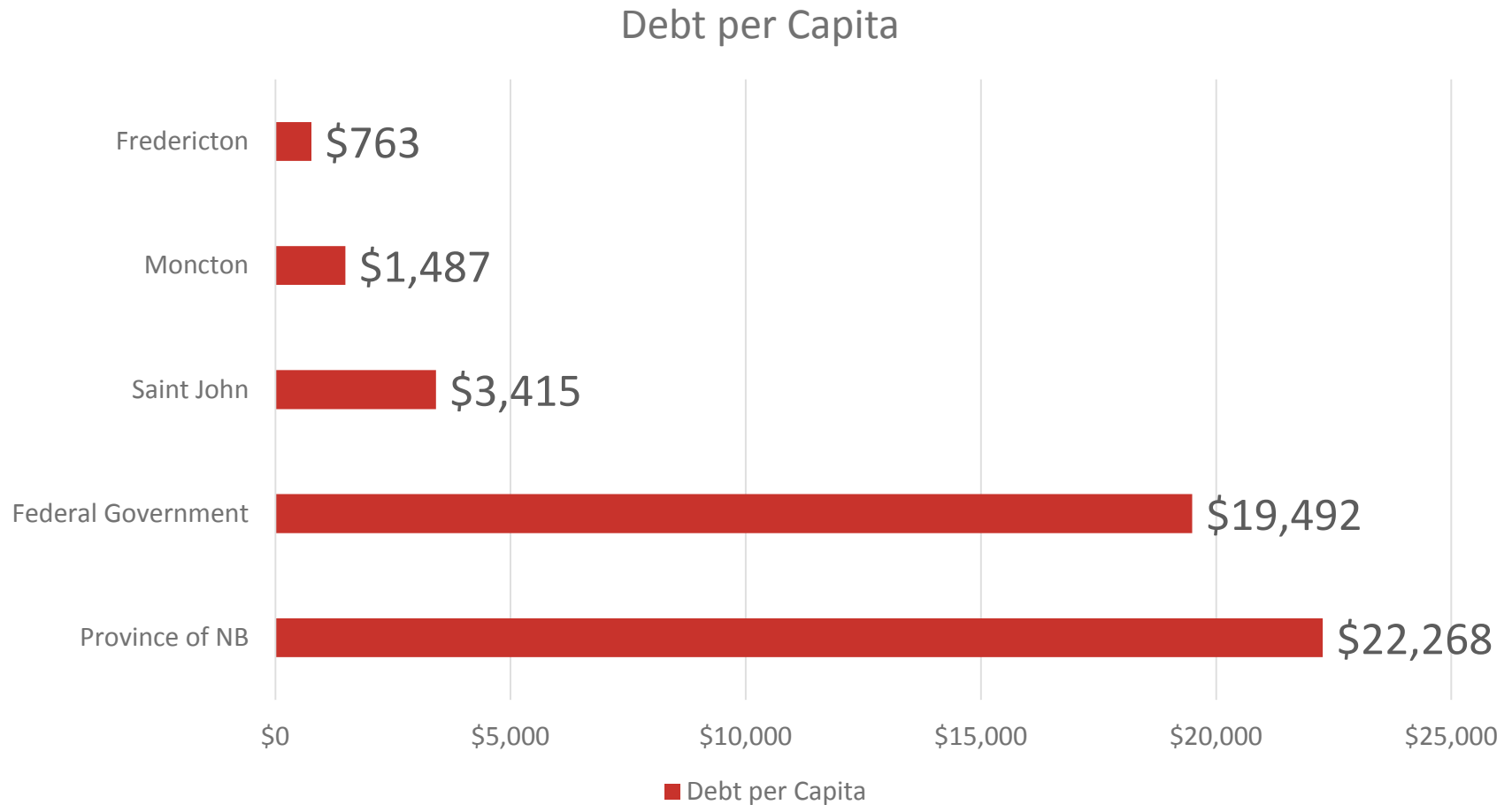
Safe Clean Drinking Water impact on Debt Position



Reserve Strategy has reduced Debt \$20M and Saved Ratepayers \$10M

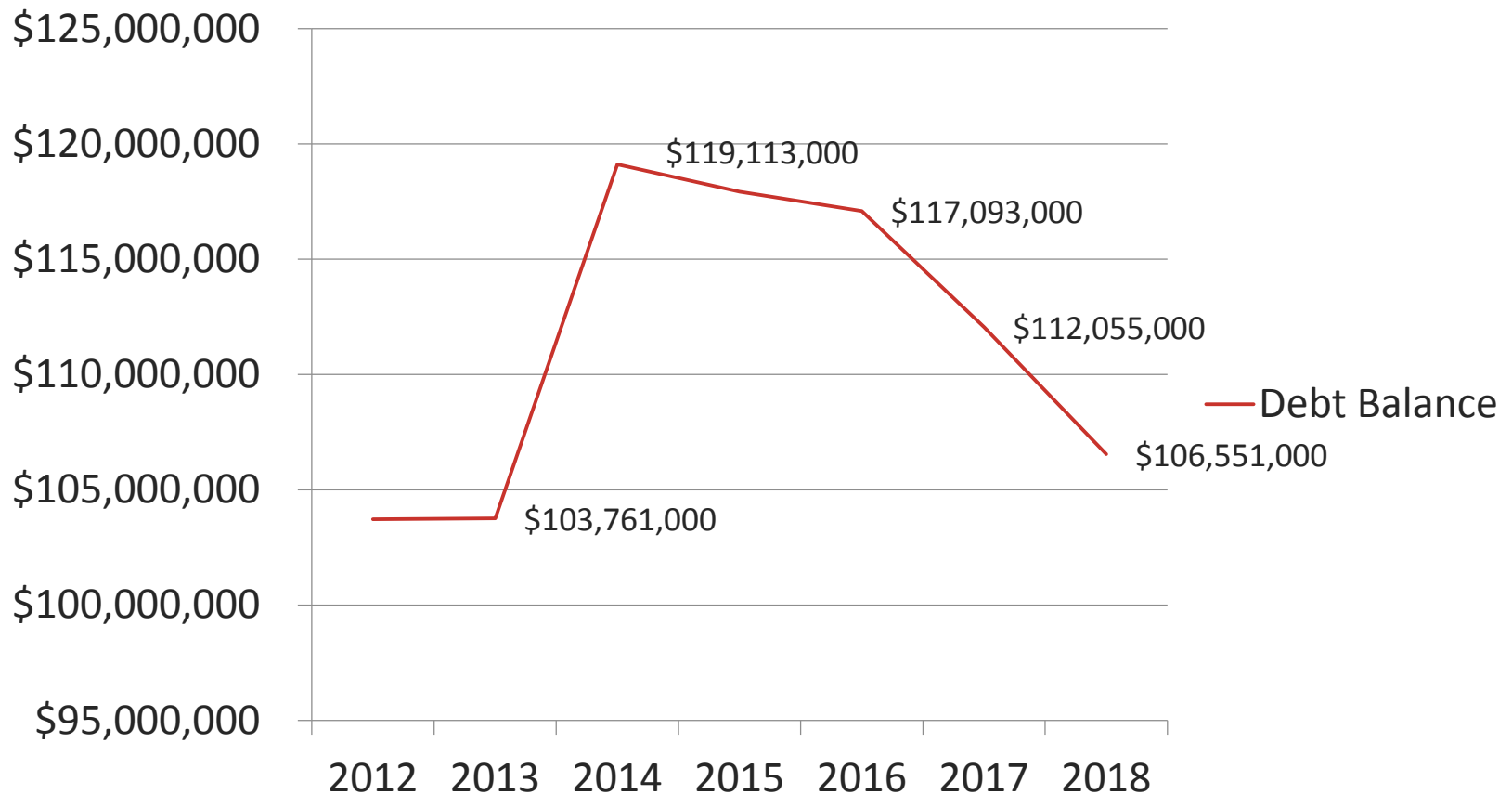


How does the City's Consolidated Debt per Capita (population) Compare to Other Governments



Is the City Controlling Debt in the General Fund?

General Fund Debt Balance



Debt Targets (In Long Term Financial Plan)

TARGETS

- Reduce Debt Balance by 25% over 10 Years or 2.5% per Year

Debt Management Policy

PRINCIPLES

2. Flexibility

- *Active Debt Management to reduce Debt Level.*

3. Vulnerability

- *Must consider Reserve Strategy, Pay-As-You-Go Strategy and Infrastructure Deficit Strategy*



Capital Budget Policy



Operating & Capital Reserves Policy



Debt Management Policy: Why it is needed

1. Policy establishes criteria for the issuance of debt so that acceptable levels of debt are maintained that meet the City's financial objectives;
2. Assures the taxpayer and those wishing to invest in Saint John that the City is committed to sound financial management;
3. Best Practice – the Government Finance Officer Association and Bond Rating Agencies strongly encourage the development of a formal debt policy;

Saint John Water

- Saint John Water will require its own separate Debt Management Policy for the following reasons:
 - General Fund is subject to Legislative Debt Limits while Saint John Water is not;
 - Saint John Water has its own unique financial challenges (Rates vs Property Tax, Unique Infrastructure Challenges);
 - Saint John Water is Infrastructure Intense – majority of costs are infrastructure related versus the diverse services offered within the General Fund;

Objectives of Debt Management Policy

1. Ensure debt is issued prudently and cost effectively in accordance with the Long Term Financial Plan;
2. Debt is managed such that the City's financial flexibility is maintained;
3. Re-enforce applicable provincial debt management legislation;
4. Structure debt to fairly distribute the costs over time, taking into consideration intergenerational equity (matching the cost of debt to those who benefit from the use of the capital);



Acceptable Conditions for Use of Debt

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);
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. The Long Term Debt amortization period shall not exceed the life of the asset it is financing;
4. The City shall promote a balanced approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth;

Debt Limits in Local Government 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; **(2019: \$6.4M)**
- 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; **(2019: \$138M)**
- 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. **(2019: \$414M)**

Debt Policy Limits

The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt. The following debt limits shall be applicable:

1. **General Fund Debt per Capita:** Measures Debt per Population.

Recommended: *General Fund Debt per Capita shall not exceed \$1600;*

2. **Debt Service Ratio:** Measures percentage of operating budget used to service debt (principal and interest).

Recommended: *General Fund Debt Service Ratio shall not exceed 12%;*

3. **Total Debt Outstanding as a Percentage of Operating Budget:** Measures the percentage of annual operating budget that would be required to extinguish the City's General Fund Debt.

Recommended: *The General Fund Debt Outstanding as a Percentage of Operating Budget shall not exceed 70%;*

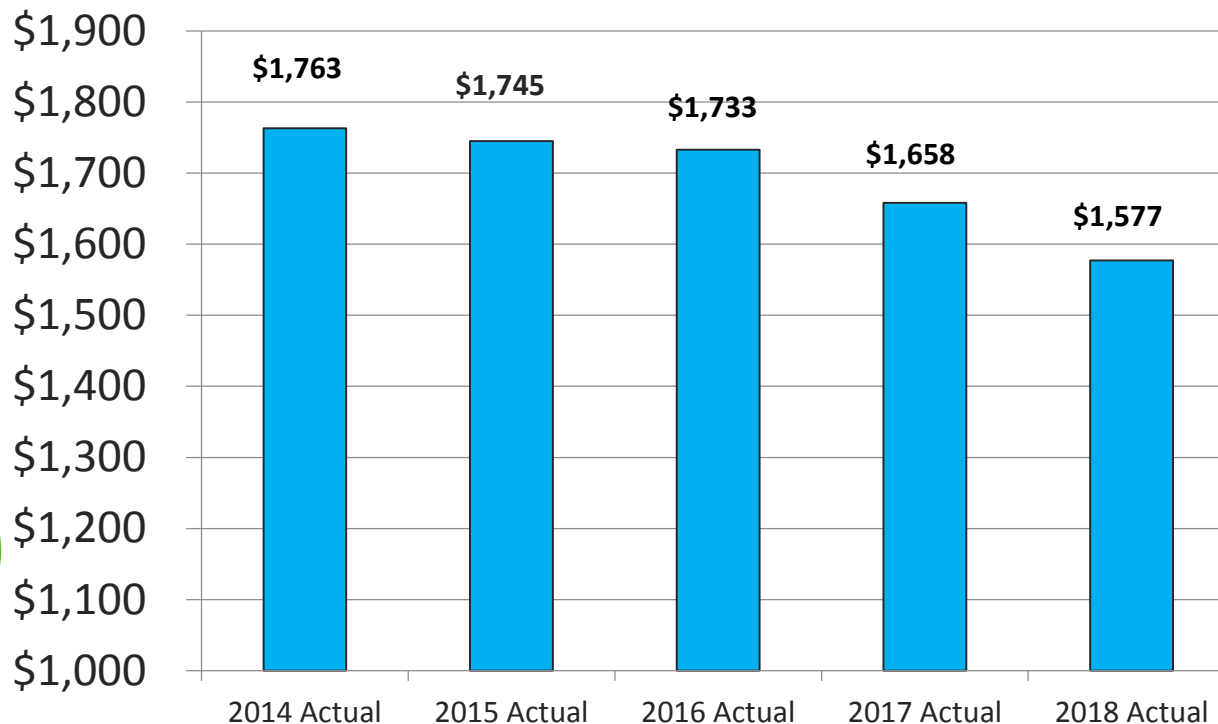
Policy states Borrowing New Debt is only permissible when the General Fund meets these covenants.



General Fund Debt per Capita

Metric: Outstanding General Fund Debt Balance at Year End per Capita

Debt Per Capita



Trend

↑ Positive Trend – decrease in debt per capita

Policy Cap

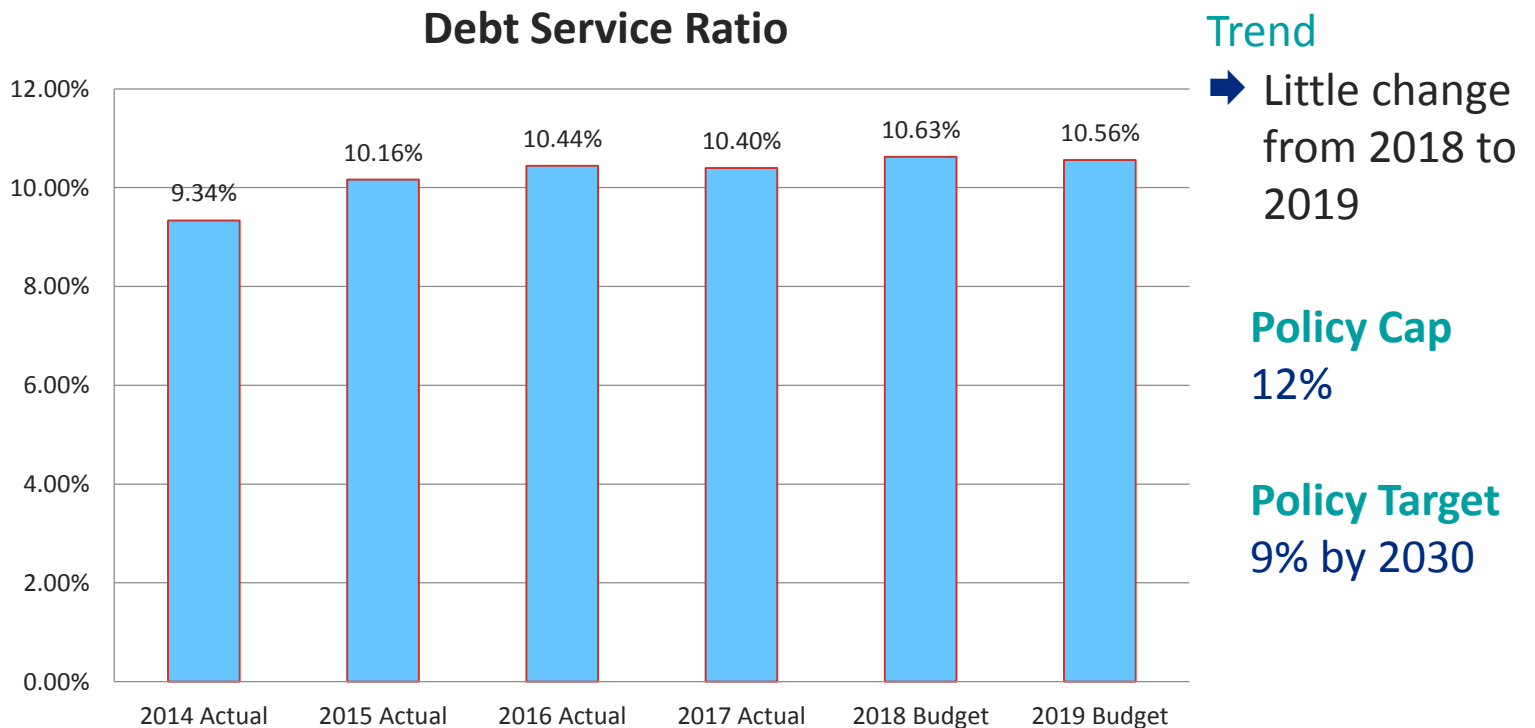
\$1,600

Policy Target:

\$1,175 by 2030

General Fund Debt Service Ratio

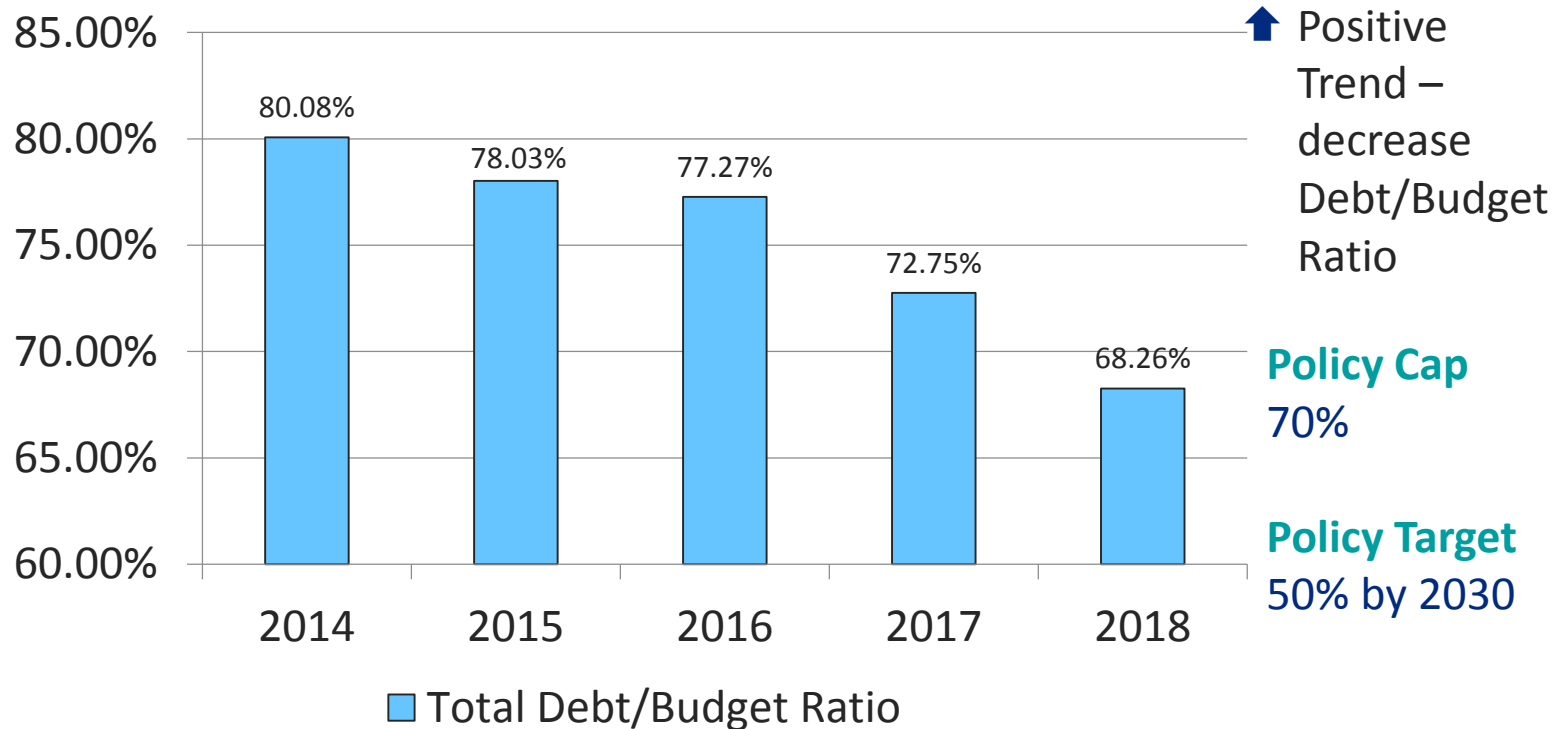
Metric: Percentage of the Operating Budget that funds Debt



Debt/Budget Ratio

Metric: Percentage of Annual Budget Required to Extinguish the City's outstanding debt

Total Debt/Budget Ratio



What do we need to do to Accomplish this

- Reduce heavy reliance on debt to fund Capital
- Strategic Targets for Infrastructure Deficit
 - Impacts Strategies for funding Pay-As-you-Go and Reserves
- Culture Change - Reserve Funds (save before you spend to manage future debt;
- Strategic: Direct Pay-As-You-Go funds to the following categories:
 - Asset Renewal Projects; (Aspirational goal – Debt only for new 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).

Recommendation

- Finance Committee recommends:
 - Common Council approve the Debt Management Policy.

Q & A

