

FINANCE COMMITTEE REPORT

M&C No.	# found on Sharepoint.
Report Date	March 13, 2019
Meeting Date	March 13, 2019
Service Area	Finance and Administrative Services

His Worship Mayor Don Darling and Members of Common Council

SUBJECT: Debt Management Policy FAS-006

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

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

RECOMMENDATION

Be it resolved that:

1. Finance Committee recommends that Common Council approve the Draft City of Saint John Debt Management Policy FAS-006;

EXECUTIVE SUMMARY

It is recommended that Common Council approve the Debt Management Policy for the City of Saint John. The Policy applies to the General Fund. Debt Management Policies are considered a best practice financial policy and instrumental to creating 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 needs is affected by its access to funding, its debt capacity and debt service charges. Debt affects a City's financial sustainability based on the level of debt it must service, the amount of principal and interest payments on the debt in conjunction with the City's level of affordability, both current and future. The City must manage debt in a way that

aligns with ensuring the long-term financial flexibility and sustainability for the City.

The main objective of the debt management policy is to ensure the City's financing needs and its payment obligations are met at the lowest possible cost over the long term while being affordable for taxpayers.

The Debt Management Policy establishes objectives, guidelines, targets and appropriate controls for the use and issuance of debt for the City. The Policy is to be used in an integrated manner with the other approved Financial Policies of the City in order to integrate debt management with the long term financial goals of the City.

The Debt Management Policy is considered best practice for providing guidelines to Common Council and staff of the broader implications of issuing debt. The objective 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.

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 includes fundamental ***conditions for the use of debt*** that will protect the City's financial health:

1. The Debt Management Policy is established to ensure that all debt is issued both prudently and cost effectively according to the Long Term Financial Plan;
2. 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. Long term debt shall not be 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 approach between maintaining an affordable debt level, maintaining infrastructure and accommodating growth;
5. Debt will be structured to fairly distribute the costs over time, taking into consideration inter-generational equity.

DEBT LIMITS AND DEBT TARGETS FOR 2030

The Debt Management Policy not only includes Debt Limits prescribed by Provincial Legislation, but it also incorporates additional debt limits and debt targets to improve and protect the City's financial health. Debt Management must be strategically balanced with the need to address the City's Infrastructure Deficit. The City shall only take on additional debt when existing debt is within the following parameters:

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 Debt as a percentage of Operating Budget shall not exceed 70%;
- The City's Target Debt per Capita shall be \$1175 by the year 2030;
- The City's Target Debt Service Ratio shall be 9% by the year 2030;
- The City's Target Debt as a percentage of Operating Budget is 50% by 2030;
- Long Term Debt Term shall be in accordance with the Long Term Financial Plan.

STRATEGIC REDUCTION OF THE CITY'S HEAVY RELIANCE ON DEBT

The Debt Management Policy supports reducing the City's heavy reliance on long term debt to fund Capital Expenditures. The Policy will allow the City Treasurer to utilize reserve funds as a source of funds for the internal financing of capital projects (rather than new debt) as approved by Council in the Reserve Policy. The Policy recognizes effective cash management can be a strong tool in reducing long term debt.

In addition, the Debt Management Policy prescribes that the City will seek to gradually increase pay-as-you-go as an option for financing capital over time. The best use of Pay as you Go financing is as follows:

- 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)

CONCLUSION

The Debt Management Policy is the 6th 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 strategic area of debt in the City's Financial Plan has an overarching goal of managing 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