



Debt Management Policy

City of Saint John

March 13th, 2019



Financial Targets and Principles

TARGETS

- Reduce Debt Balance by 25% over 10 Years or 2.5% per Year
- Increase contributions to capital reserves by 10% per year

Debt Management Policy

PRINCIPLES

2. Flexibility

- *Active Debt Management to reduce Debt Level.*

3. Vulnerability

- *Adequate reserves to minimize financial risks to tax payers and address Infrastructure Deficit*



Capital Budget Policy

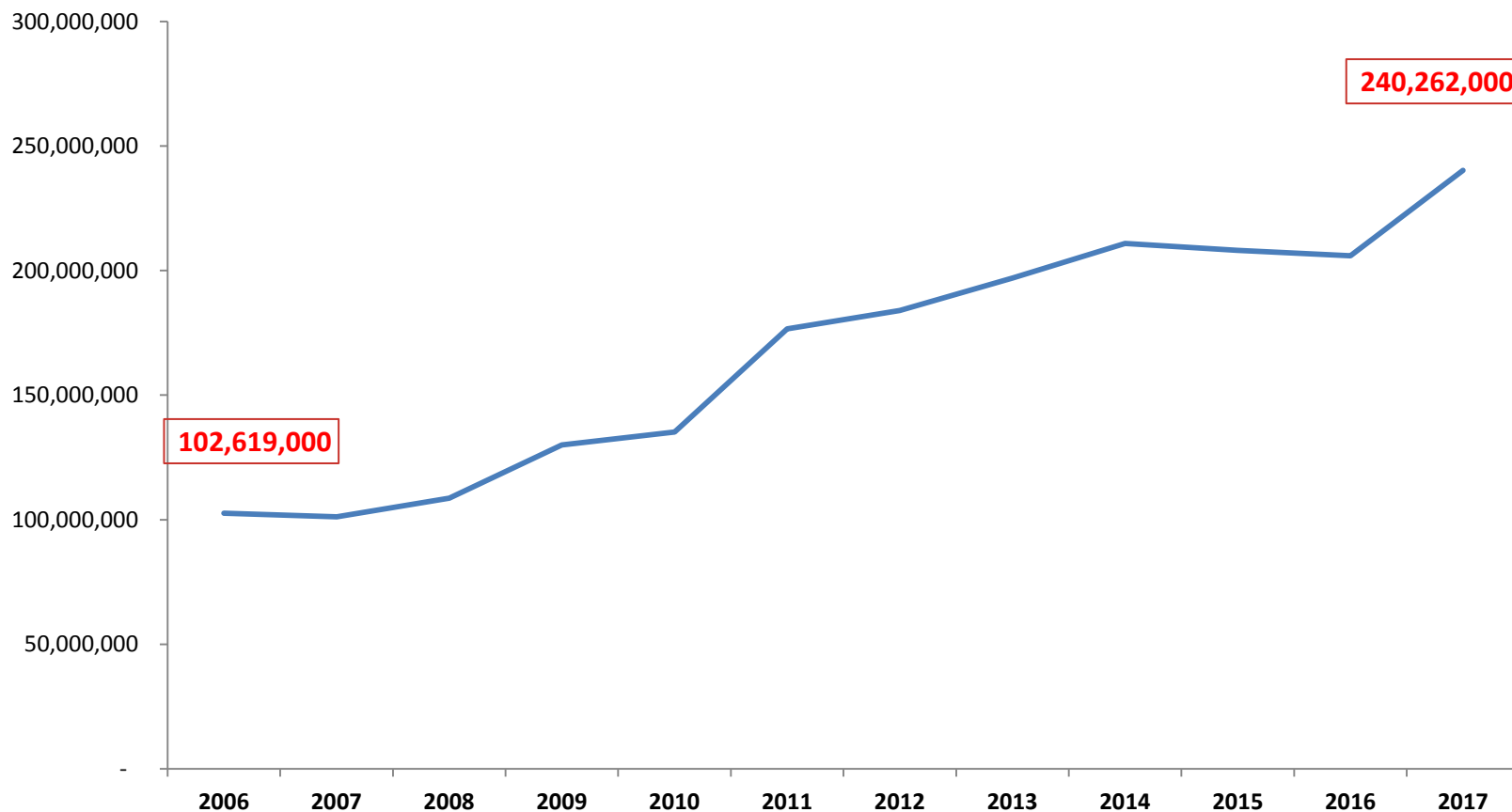


Operating & Capital Reserves Policy



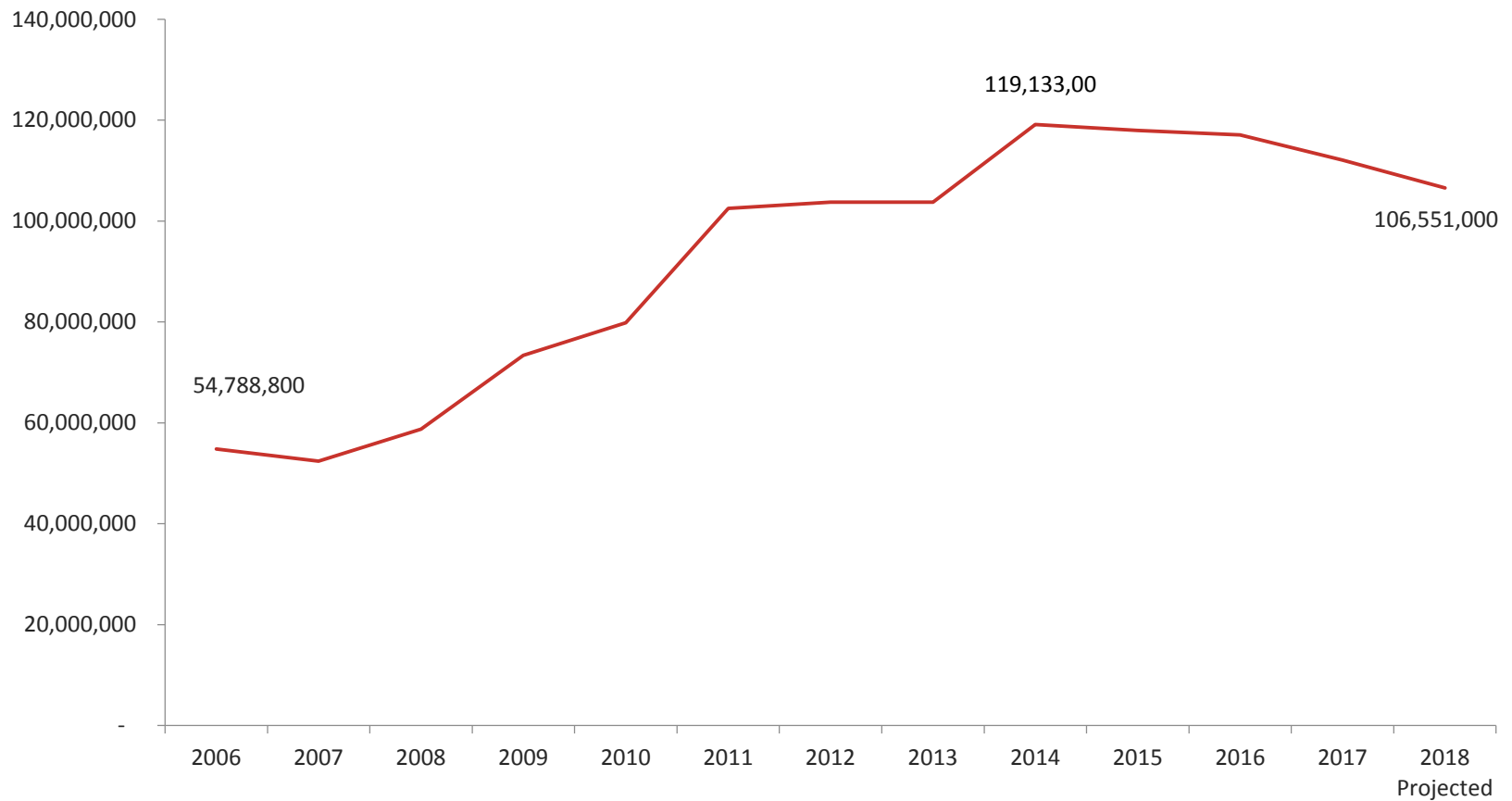
City of Saint John Total Debt

CITY OF SAINT JOHN TOTAL DEBT



General Fund Debt

GENERAL FUND DEBENTURE BALANCE



Reasons for Debt Management Policy

1. Policy establishes criteria for the issuance of debt obligations so that acceptable levels of debt are maintained;
2. Transmits a message to the public 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;

Purpose of Debt Management Policy

1. Debt is issued prudently and cost effectively in accordance with the Long Term Financial Plan based on sound financial planning;
2. Debt financing is obtained only when necessary;
3. Debt is managed such that the City's future financial flexibility is maintained;
4. All City debt issuance and management procedures will comply with the applicable provincial legislation;
5. The Capital Investment Plan (CIP) is essential to intelligent planning of debt issuance by prioritizing potential capital investment and potential sources of financing.
6. Debt is structured 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;
5. 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.

Debt Issuance

- A resolution of Council is required for all new debt issues.
- The debt issuance process generally follows the steps below:
 1. Notice of motion: Council gives notice of intent to borrow after 30 days from the day of Council resolution;
 2. 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
 3. Staff reports back to Council regarding terms of the issue, coupon rate, price, average yield and settlement date.

Debt Limits and Debt Capacity

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 Limits and Debt Capacity

Policy Limits

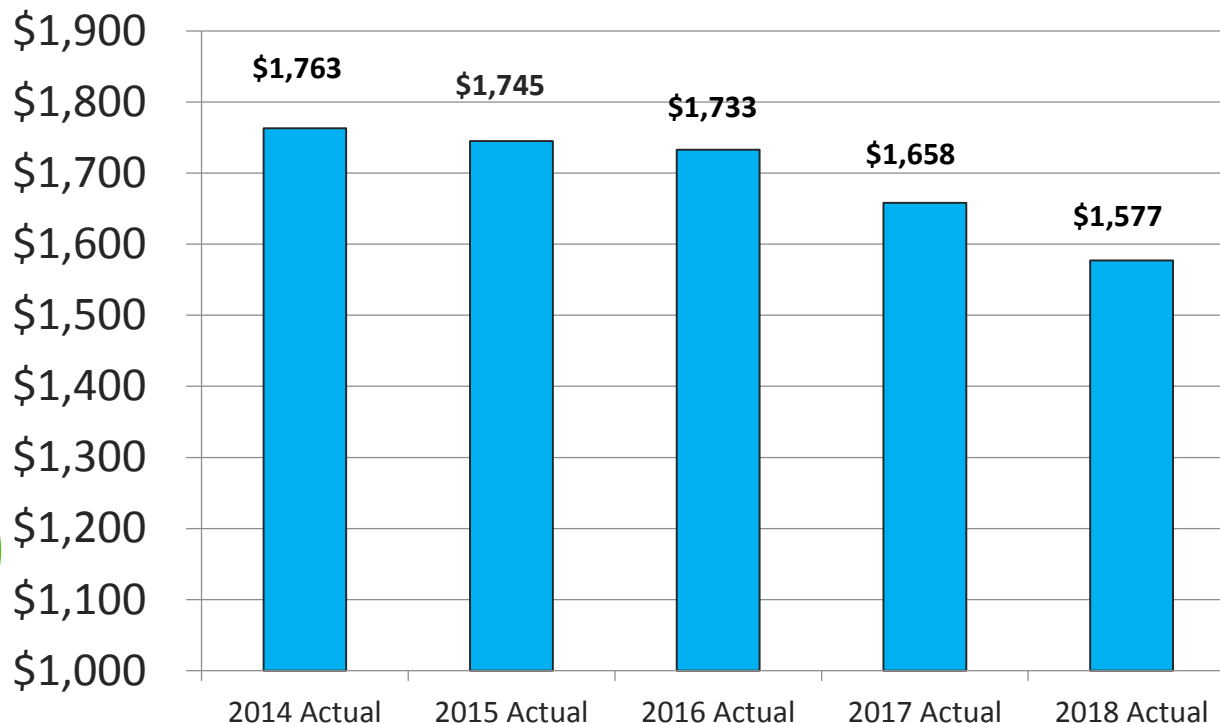
The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt. Three key performance indicators will be benchmarked and measured and the following debt limits shall be applicable:

1. **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;**
2. **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%;**
3. **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 General Fund Debt. **The General Fund Debt Outstanding as a Percentage of Operating Budget shall not exceed 70%;**
4. **Additional debt is only permissible when existing debt is within this parameter.**

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

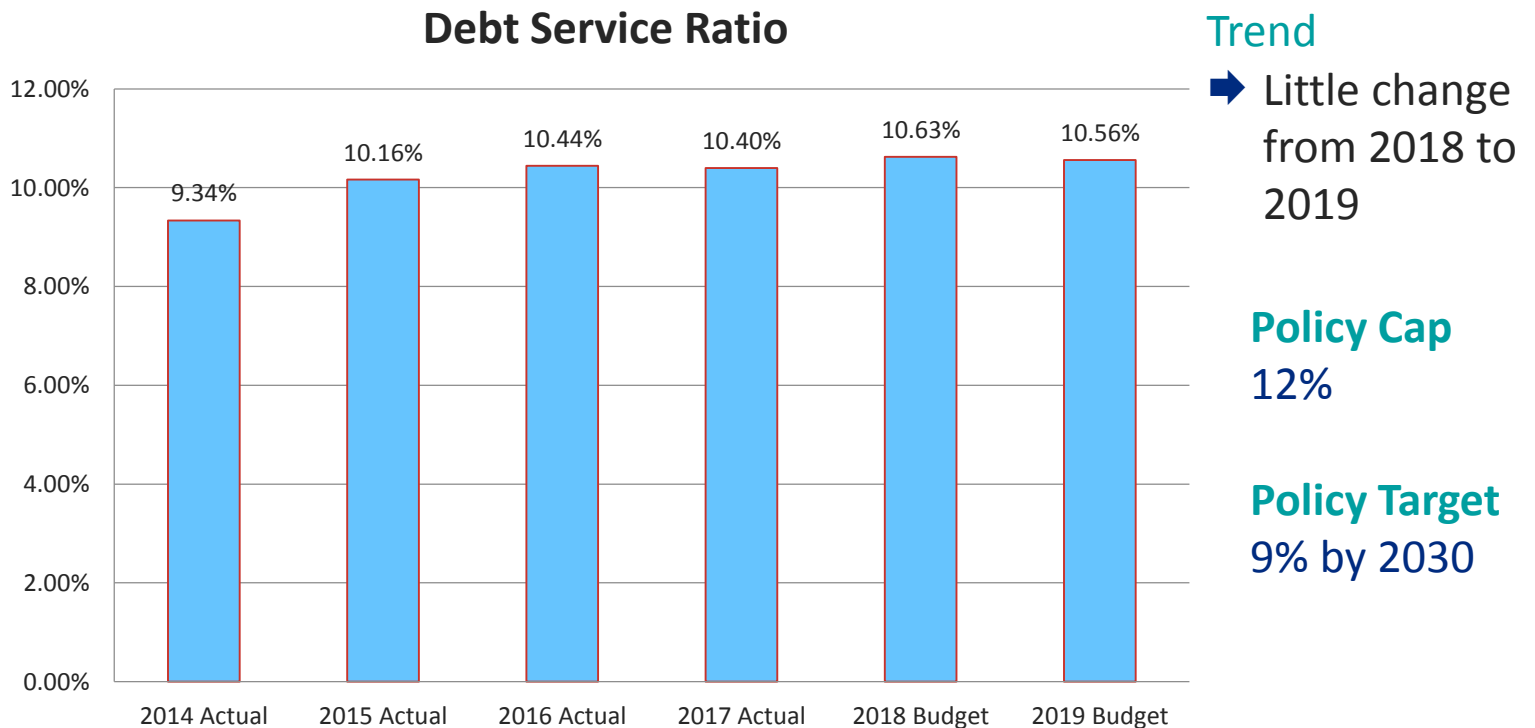
\$1,600

Policy Target:

\$1,175 by 2030

General Fund Debt Service Ratio

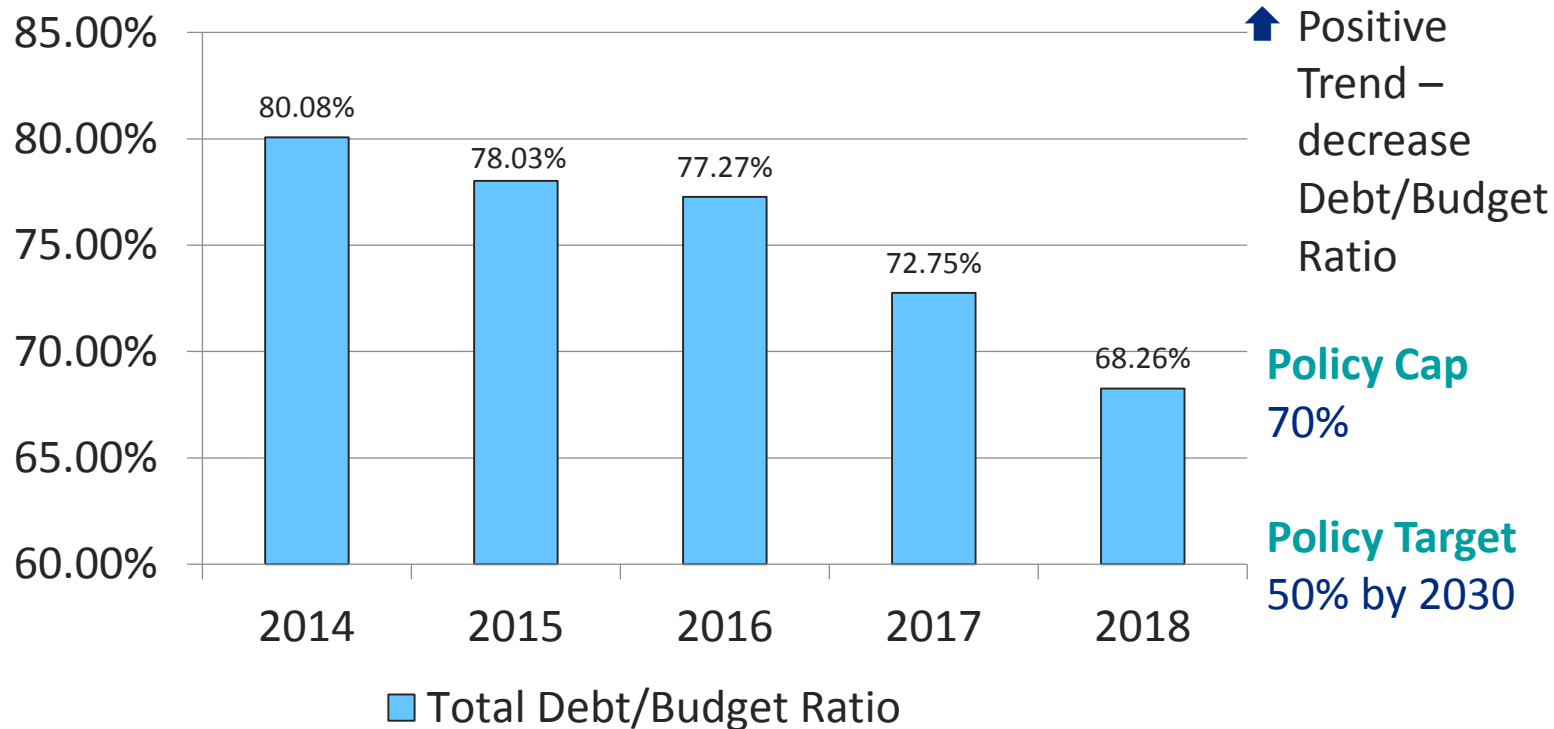
Metric: Percentage of the Operating Budget that funds Debt



Debt/Budget Ratio

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

Total Debt/Budget Ratio



Strategic Debt Management – Internal Financing

- *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.*
- The Debt Management Policy provides policy that will support 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.

Strategic Debt Management - Pay as You Go Financing

- Means using current tax dollars or accumulated reserves to fund capital purchases;
- Justified on the grounds of keeping the community's debt burden down (thereby preserving future flexibility);
- 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; (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

- It is recommended that:
 - Finance Committee approve the Draft Debt Management Policy as presented by staff;
 - Finance Committee recommend that Common Council approve the Draft Debt Management Policy.

Q & A

