



CITY POLICY

POLICY NUMBER: C203C

REFERENCE:

City Council 2008 07 23
 City Council 2002 09 17
 City Council 1991 12 03
 City Council Minutes 1986 12 09
 City Council Minutes 1984 02 28 pg. 558, 559
 City Council Minutes 1982 03 09 pg. 44
 City Council Minutes 1980 08 12 pg. 1689-91
 Municipal Government Act, R.S.A 2000, C.26 (as amended)
 Debt Limit, A.R. 255/2000
 City Policy C304B – Utility Fiscal Policy (as amended)
 City Policy C200B – Financing of Local Improvements (as amended)

ADOPTED BY:

City Council 2008 07 23

SUPERCEDES:

C203B

PREPARED BY: Corporate Services

DATE: 2008 07 23

TITLE: Debt Management Fiscal Policy

Policy Statement:

1. Debt is an ongoing component of the City's capital financing structure and is integrated into the City's long-term plans and strategies.
2. Debt must be Affordable and Sustainable. The City must maintain Flexibility to issue Debt in response to emerging financing needs.
3. Debt must be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets over time.
4. Debt decisions must contribute to a sustainable and vibrant City by balancing quality of life and financial considerations.
5. The issuance of new Debt must be approved by City Council.
6. Debt must be managed, monitored and reported upon.

The purpose of this policy is to:

Establish financial guidelines and appropriate controls for the issuance and use of new Debt and to ensure a favourable financial position while supporting the City's ability to meet current and future infrastructure challenges.

This policy is subject to any specific provisions of the Municipal Government Act or other relevant legislation or Union Agreement.



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1. DEFINITIONS

- 1.1 Affordability** – means ability to pay for Debt Servicing costs and life cycle expenditures for the underlying asset. The overall measure of Affordable Debt is the burden of Debt Servicing costs and life cycle expenditures relative to City revenues.
- 1.2 Capital Expenditures** – means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150.
- 1.3 City Revenues** - means annual revenues as published in the last audited financial statements of the City prior to the time of calculation, to include revenues from taxes, Utilities, user fees, departmental and corporate programs, developer and customer contributions, and Boards and Authorities as calculated under the Debt Limit Regulation A.R. 255/2000, as amended.
- 1.4 Debt** – means borrowing as defined under MGA section 241(a). In the case of the City, this is usually in the form of a debenture varying in Debt Terms. Other forms of debt include but are not limited to, leases of capital property as defined under MGA section 241, other long-term financial commitments, Public Private Partnerships (PPP), Community Revitalization Levy financing, loans and loan guarantees issued under section 264 & 265 of MGA.
- 1.5 Debt Servicing** – means annual required Debt repayments including interest and principal.
- 1.6 Debt Term** – The period of time during which Debt payments are made. At the end of the Debt Term, the Debt must be paid in full.
- 1.7 Flexibility** – is the ability of the City to issue new debt in response to emerging financing needs.
- 1.8 Internal Municipal Debt Limits** - means the City's maximum Debt Service costs allowed as set out in section 2.04.

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- 1.9 Interim financing** – means borrowing made for the purpose of temporarily financing a capital project as defined under MGA section 259.
- 1.10 Long-Term Debt** – Debt with terms greater than five years as defined under MGA section 258.
- 1.11 Self-Supporting Tax Guaranteed Debt** – Debt issued to finance Capital Expenditures by non-utility operations that ordinarily generate sufficient cash to fund all obligations or have a dedicated source of revenues. Any funding shortfall to repay the Debt will be funded through Tax Levy Revenues.
- 1.12 Self-Liquidating Debt** – Debt assumed to fund Capital Expenditures by activities or programs which are self-funded, including but not limited to Utilities and local improvements.
- 1.13 Short-Term Debt** – Debt with terms of five years or less as defined under MGA section 257. For the purpose of this Procedure, Short-Term Debt excludes a line of credit and the issue and sale of commercial paper in the form of short-term promissory notes maturing not more than one year from the date of issue for the purpose of financing operating expenditures.
- 1.14 Sustainable** – means meeting present needs without compromising the ability to meet future needs.
- 1.15 Tax Levy Revenues** – means revenues generated to pay for Tax-Supported Operations. This includes revenues such as property and business taxes, non-utility user fees, fines, permits and investment income.
- 1.16 Tax-Supported Debt** - means Debt issued for Capital Expenditures related to Tax-Supported Operations. This Debt is repaid using Tax Levy Revenues.
- 1.17 Tax-Supported Operations** - represent civic programs that are funded through Tax Levy Revenues, such as roads, transit, and parks.
- 1.18 Utilities** - are self-funded operations providing a service to its customers, including a return on investment, at rates regulated by City Council. An example would be the Sanitary Utility.

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2. FINANCIAL GUIDELINES

2.01 Use of Debt

- 2.01.1** The City will not issue Long-Term Debt or Short-Term Debt obligations to finance current operating expenditures.
- 2.01.2** When making a decision about the use of debt, alternative capital financing sources should be considered.
- 2.01.3** Long-Term Debt will be considered for Capital Expenditures for:
- a)** large projects with long-term benefits;
 - b)** projects with benefits to the community at large (for tax-supported debt);
 - c)** growth related projects;
 - d)** emerging needs to support corporate priorities and approved strategic plans; and
 - e)** major rehabilitation of existing assets as a short-term strategy to eliminate a significant backlog.
- 2.01.4** Short-Term Debt can be considered for interim Financing for Capital Expenditures.

2.02 Debt Approval

- 2.02.1** A multi-year Debt guideline and corresponding Debt Service funding strategies, consistent with the capital planning and budget cycle, will be developed. The guideline will be segregated by debt categories as identified under section 2.05.1.
- 2.02.2** Capital projects for Debt financing will proceed through the budget process.

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2.02.3 New debt issues will:

- a) be Affordable, Sustainable and maintain the City's financial flexibility;
- b) identify sources of funding for Debt repayment; and
- c) align with the City's capital plans and strategies and other financial and non-financial considerations to support a positive image of the City.

2.03 Debt Planning & Management

2.03.1 All issuance of Debt requires an authorized bylaw.

2.03.2 Internal processes and systems will be developed and maintained to ensure sound Debt management.

2.04 Debt Limits

2.04.1 The City has established internal Municipal Debt Limits based on Debt Servicing costs at:

- a) 22% of City revenues for total Debt; and
- b) 15% of Tax Levy Revenue for Tax-Supported debt.

2.05 Debt Categories

2.05.1 To support Debt planning, management and reporting, Debt is categorized into three groups based on the funding source for Debt Service as follows:

- a) Tax-Supported Debt;
- b) Self-Supporting Tax-Guaranteed Debt; or
- c) Self-Liquidating Debt.

2.05.2 Self-Supporting Tax-Guaranteed Debt is considered Tax-Supported Debt for the purpose of sections 2.02 and 2.04 of this Procedure.



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2.06 Debt Amortization Term

2.06.1 Debt Term shall not exceed the probable lifetime of the underlying asset. It is preferred for the Debt Term to be less than the probable lifetime of the asset, if it is Affordable.

2.06.2 The following elements should be considered when establishing the Debt Term: cost minimization, availability of Debt Servicing funding, fair distribution of costs between periods, capital life cycle implications, if it is Sustainable, and the City's financial Flexibility.

2.07 Debt Structure

2.07.1 Alternative Debt repayment structures can be utilized to issue Debt. Examples are payment arrangements such as, level Debt Service, level principal, bullet, fixed and variable rates.

2.07.2 Alternative borrowing techniques and strategies shall be considered if benefits can be demonstrated. Examples are lease financing and interest rate swaps.

2.07.3 Risk mitigation strategies will be developed when these alternative financing techniques are considered.

2.08 Debt Repayment Funding

2.08.1 New Debt Service costs will be funded by long-term sustainable revenue.

2.08.2 New Debt Service costs for Utilities, local improvements and community revitalization levy financing will be funded through corresponding revenues.



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2.08.3 As Debt retires, released Debt Service funding will be used to fund new debt Service costs, and/or to directly fund Capital Expenditures.

2.09 Debt Prepayment or Refinancing

2.09.1 Procedures will be developed to review and consider cost saving opportunities through prepayment or refinancing of existing debt.

2.10 Reporting

2.10.1 The City's utilization of Debt will be reported through regular performance reporting.

2.10.2 For benchmarking, the City's debt will be monitored and reported in the Annual Report, at a minimum, against the limits and guidelines identified in section 2.04.