

Revised Debt Management Fiscal Policy

October 17, 2022
City Council

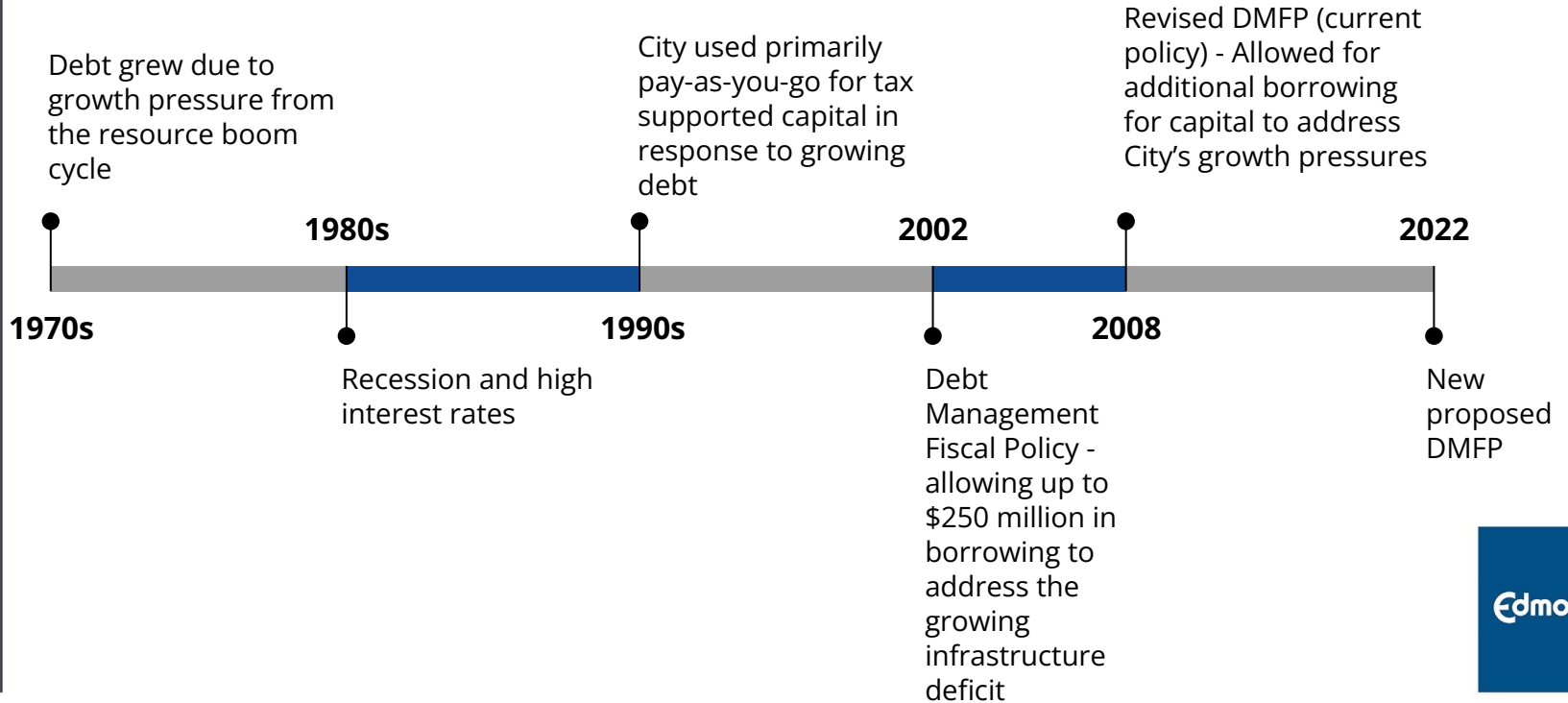
Current Framework

- MGA sets debt and debt servicing limits for all municipalities in Alberta
- Current City of Edmonton monitors its debt against:
 - MGA debt & debt service limits
 - City of Edmonton Debt Management Fiscal Policy
- City Charter allows the City of Edmonton and City of Calgary to create their own debt and debt servicing limits

Agenda

- History of the City's use of debt
- Why the City uses debt
- City's use of debt
- Types of debt
- Jurisdictional Scan
- New Proposed Debt Servicing Limits
- Approaching the limits
- Next steps

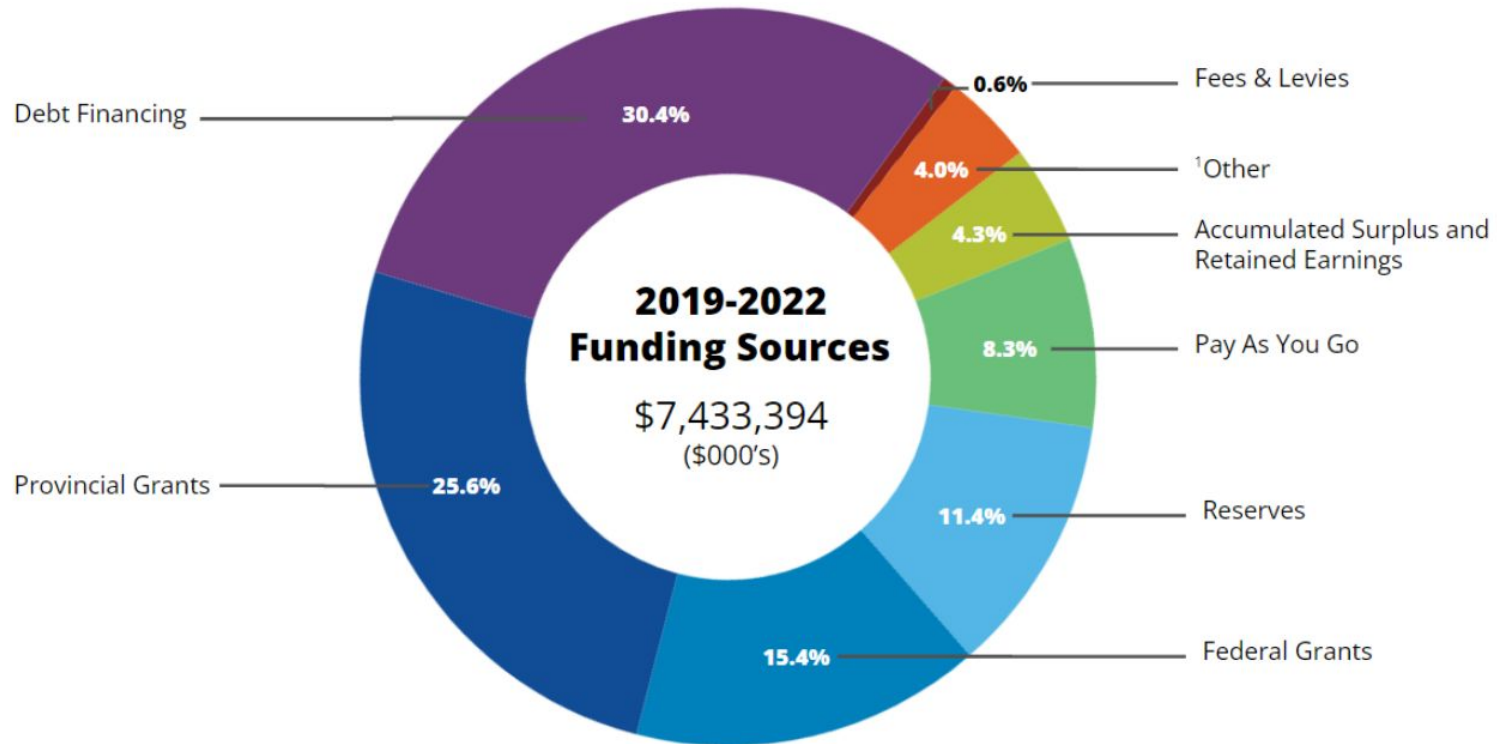
History



Why the City Uses Debt

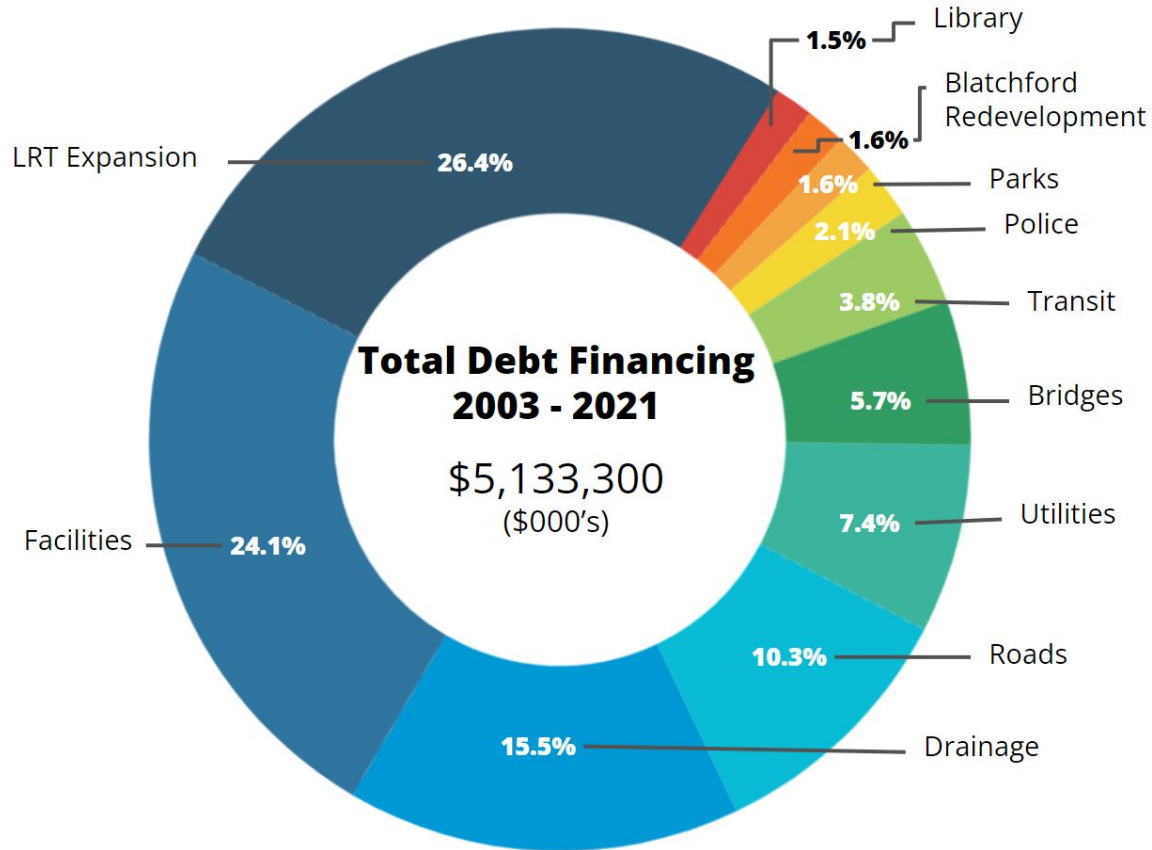
- Advance large infrastructure projects without waiting to accumulate savings to pay at one time
 - Taxpayers expectation that funds collected be used in the short-term
 - Smooth out significant peaks in required capital expenditures
 - Avoid negative carrying costs
 - Generational equity
- Maintain key infrastructure
- Leverage external grant funding

Capital Funding Sources



¹Other includes partnership funding, Waste Services retained earnings, Edmonton Police Service Pay-As-You-Go, and Edmonton Public Library Pay-As-You-Go.

City's Use of Debt



Types of Debt

Type	Definition	Examples
Tax-supported	<ul style="list-style-type: none">• Repaid through tax-levy revenues	<ul style="list-style-type: none">• Yellowhead Trail Conversion Project
Self-supporting tax-guaranteed (categorized as tax-supported)	<ul style="list-style-type: none">• Repaid through non-tax levy revenues with the guarantee that any shortfall be funded through tax-levy	<ul style="list-style-type: none">• Rogers Place (debt servicing funded with ticket tax and lease revenue)• Capital Line (debt servicing funded through external grant)
Self-liquidating	<ul style="list-style-type: none">• Self funded programs with any shortfall managed through self funded programs with no impact to the tax-levy	<ul style="list-style-type: none">• Waste Services capital projects (debt servicing funded by utility rates)• Local Improvements (debt servicing funded local improvement levies)

Jurisdictional Scan

Municipality	Debt per Capita (2021)	Debt Servicing Limits	S&P Credit Rating
Edmonton	3,508	15% of Tax-Supported Revenues	AA
Calgary	2,093	10% of Tax-Supported Expenses	AA+
Vancouver	1,462	10% of Operating Revenues*	AAA
Toronto	2,915	15% of Property Tax Revenues	AA
Montreal	8,303	16% of Total Expenses*	AA
Ottawa	2,905	7.5% of Property Tax Revenues	AA+
St. John's	4,967	17.5% of Operating Revenues	AA-
Winnipeg	1,932	10% of Revenues	AA+

** Montreal and Vancouver debt servicing limits reflect total debt servicing limits. All other municipalities reflect tax-supported debt servicing limits.*

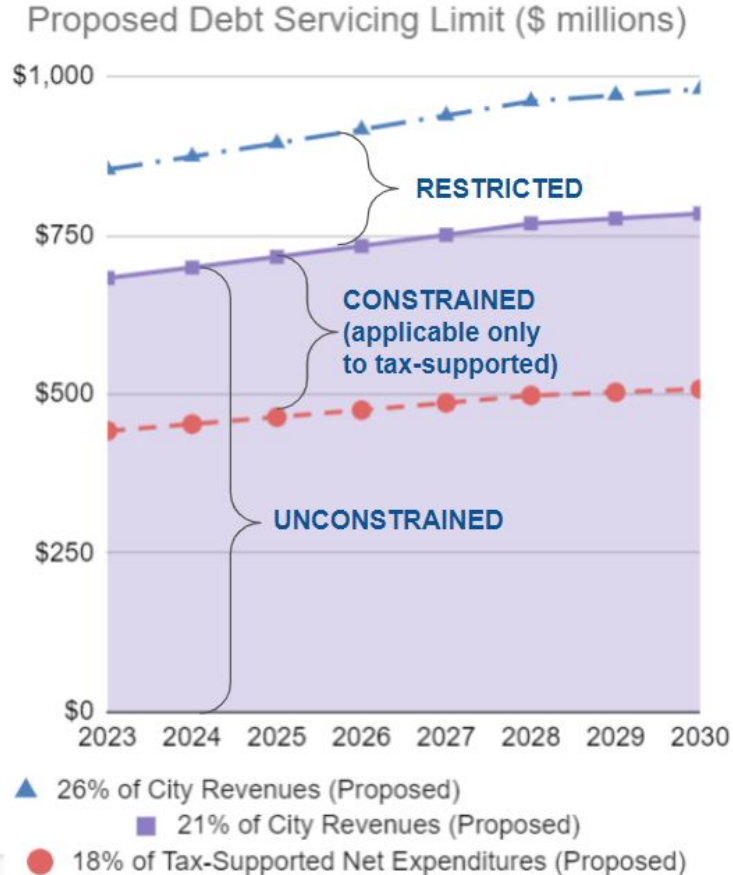
Proposed Limits - Principles

- **Affordability**
 - Reasonable annual debt servicing cost
- **Financial sustainability**
 - Level of debt should not deteriorate City's financial condition/credit rating
 - Protect ability to borrow at a reasonable rate
- **Financial flexibility**
 - Allow responsible and prudent borrowing to advance key capital projects

BALANCED APPROACH

Current Limits	Proposed Limits	Rationale
<p>Debt Limit</p> <p>2 x Consolidated Revenues (MGA)</p>	<p>Debt Limit</p> <p>Equivalent debt allowed based on debt servicing limits and interest rates</p>	<ul style="list-style-type: none"> Debt aligned with debt servicing limits
<p>Debt Servicing Limits</p> <p><u>Total debt servicing</u></p> <ul style="list-style-type: none"> 35% of City Revenues (MGA) 22% of City Revenues (DMFP) <p><u>Tax-supported debt servicing</u></p> <ul style="list-style-type: none"> 15% of Tax-Supported Revenues 	<p>Debt Servicing Limits</p> <p><u>Total debt servicing</u></p> <ul style="list-style-type: none"> 26% of City Revenues 21% of City Revenues <p><u>Tax-supported debt servicing</u></p> <ul style="list-style-type: none"> 18% of Tax-Supported Expenditures 	<ul style="list-style-type: none"> 75% of MGA max debt service limit Risk of credit downgrade Maintain debt servicing as a reasonable portion of the expense budget

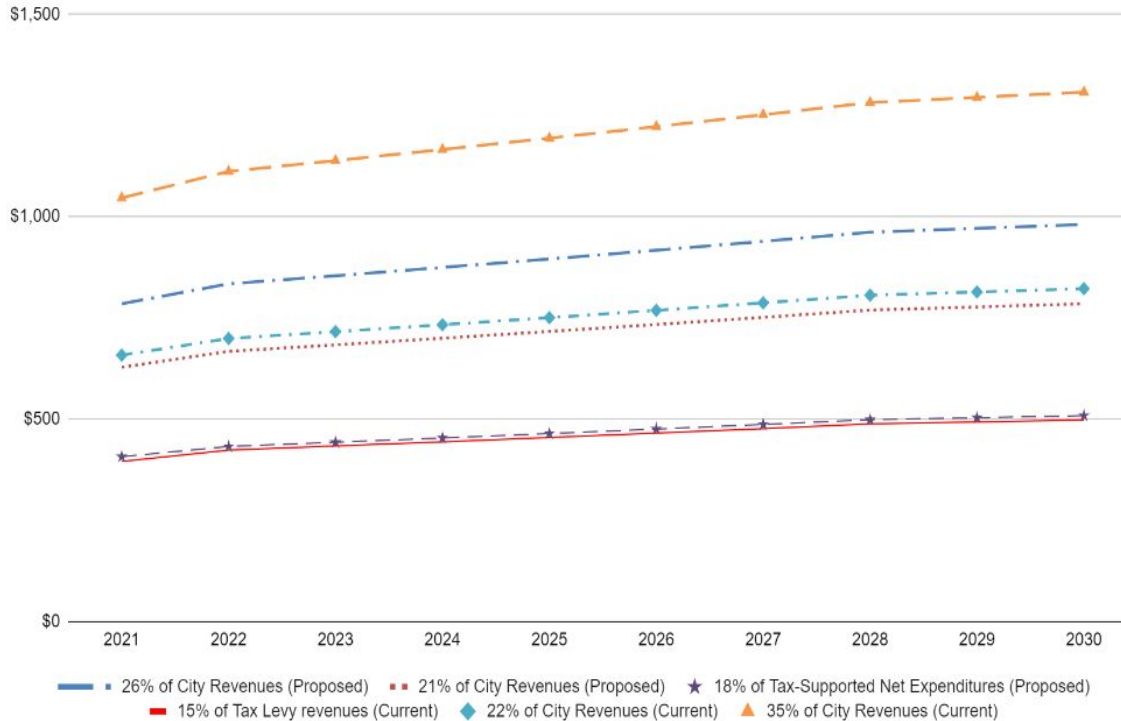
Proposed Limits - Thresholds



Total Borrowings	
Restricted (21% - 26%)	Emergency purposes only
Unconstrained (0-21% limit)	No restrictions, with exception of tax-supported borrowings
Tax-Supported Borrowings	
Constrained (18% - 21%)	Matching required to leverage external funds Emergency purposes Self-supported tax guaranteed
Unconstrained (0-18%)	No restrictions

Proposed Limits compared to Current Limits

Proposed Debt Servicing Limits vs. Current Limits (\$ millions)



Proposed Limits - Debt Room 2023-2026

Borrowing room to 18% tax-supported debt servicing limit	\$650 M
Borrowing room to 21% total debt servicing limit	\$3,500 M
Borrowing room to 26% total debt servicing limit	\$6,200 M

Debt Servicing Limits - Approaching the Limit

- Permitted to borrow when debt servicing is forecasted below the limits
- Once debt servicing has exceeded limits, no additional unconstrained tax-supported borrowing is permitted
- Prioritization to use remaining debt servicing room is critical
- Financing a project with debt today can restrict advancing key infrastructure priorities in the future
- Not permitted to shift debt to different categories prior to debt financing decision

Next Steps

- November 14/15 City Council Meeting
 - Statutory Public Hearing Process
 - Council can approve the policy after the public hearing

Thank you

The logo for the City of Edmonton, featuring the word "Edmonton" in white text on a blue square background.

Edmonton