Council Policy
Debt Management Fiscal Policy

Program Impacted	Financial Sustainability *The City of Edmonton's resilient financial position enables both current and long-term service delivery and growth.*
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Statement

The Debt Management Fiscal Policy provides parameters related to the use and management of debt to finance infrastructure projects. Managing and maintaining the infrastructure needs of a growing City is fundamental to achieving the City's vision. Balancing the need for strategic infrastructure growth, while ensuring debt servicing is affordable is necessary to ensure the City remains financially sustainable. The overall objective is to optimize the strategic use of debt.

The purpose of this policy is to establish debt management guidelines and appropriate controls for the issuance and use of debt. The policy helps ensure affordability of debt while optimizing the use of debt to meet the City's current and future infrastructure needs.

Guiding Principles

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 is only permitted for capital infrastructure projects, financing loans approved by City Council to external organizations for capital purposes, or for the Clean Energy Improvement Program.
3. Debt is not to be used to finance operating expenditures.
4. Debt must be Affordable and Sustainable.

5. The City must maintain the ability to issue Debt in response to emerging financing needs.
6. Debt must be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets over time.
7. Debt decisions must contribute to a sustainable and vibrant City by balancing quality of life and financial considerations.
8. The issuance of new Debt must be approved by City Council in accordance with the legislation.
9. Debt must be managed, monitored and reported on in accordance with this policy.

1. Use of Debt

1.1. The City will not issue Long-Term Debt or Short-Term Debt obligations to finance current operating expenditures.

1.2. When making a decision about the use of debt, alternative capital financing sources should be considered.

1.3. Long-Term Debt will be considered for Capital Expenditures for:

- 1.3.1. large projects with long-term benefits;
- 1.3.2. projects with benefits to the community at large (for tax-supported debt);
- 1.3.3. growth-related projects;
- 1.3.4. emerging needs to support corporate priorities and approved strategic plans; and
- 1.3.5. major rehabilitation of existing assets as a short-term strategy to eliminate a significant infrastructure renewal backlog.
- 1.3.6. borrowing related to Emergency purposes, as defined in this policy
- 1.3.7. borrowing related to financing the Clean Energy Improvement Program
- 1.3.8. borrowing to finance loans to non-profit organizations or controlled corporations for capital purposes.

1.4. Short-Term Debt can be considered for interim financing for Capital Expenditures.

- 1.4.1. Where Short-Term Debt is used to interim finance Capital Expenditures, a funding source to repay the Short-Term Debt and funding to pay for the remainder of the Capital Expenditures must be identified prior to borrowing the Short-Term Debt.

2. Debt Approval

2.1. 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 5.

2.2. Capital projects financed with debt will be approved by Council through the budget process.

2.3. New debt issues will:

- 2.3.1. be Affordable, Sustainable and maintain the City’s financial flexibility;
- 2.3.2. identify sources of funding for Debt repayment; and

2.3.3. align with the City's capital plans and strategies and other financial and non-financial considerations to support a positive image of the City.

3. Debt Planning & Management

3.1. All issuance of Debt requires an authorized bylaw.

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

4. Debt Servicing and Debt Limits

4.1. The City has established internal Municipal Debt Servicing and Debt Limits as follows:

<u>Tax-Supported Debt Servicing Limits</u>

4.2. Where the Tax-Supported Debt Servicing is at or below 18% of Tax-Supported Net Operating Expenditures, borrowing is permitted for capital projects identified in section 1.3.

4.2.1. Debt Servicing at or below 18% of Tax-Supported Net Operating Expenditures is unconstrained, flexible and can be used without limitation, including fully financing capital projects with tax-supported debt.

4.3. Tax-Supported Debt Servicing is permitted to exceed 18% of Tax-Supported Net operating expenditures, with borrowing constrained to the following capital projects:

4.3.1. Projects that have a minimum of 1/3rd funding from External Funding Sources and identified in section 1.3.1 to 1.3.5.

4.3.2. Projects financed through Self-supporting tax guaranteed debt and identified in section 1.3.1 to 1.3.5.

4.3.3. Borrowing related to Emergency purposes, as defined in this policy

<u>Total Debt Servicing and Debt Limits</u>

4.4. Where Total Debt Servicing is at or below 21% of City Revenues, borrowing is permitted for capital projects identified in section 1.3.

4.5. Total Debt Servicing is permitted to exceed 21% of City Revenues up to and including a maximum of 26% of City Revenues with borrowing restricted for Emergency purposes only, as defined in this policy.

4.6. Total Debt is limited to the level of Debt that would result in Total Debt Servicing equal to 26% of City Revenues using the City's Average Long-term Borrowing Rate.

4.7. The limits will apply to the forecast of debt on currently approved projects, which will be reported to Council along with quarterly performance reporting as well as budget discussions.

4.8. Shifting debt servicing for specific projects to other ranges of borrowing limits (constrained and restricted) is not permitted subsequent to approval of the capital project.

4.9. Debt related to financing the Clean Energy Improvement Program are excluded from debt limit calculations.

4.10. Once debt and debt servicing limits have been exceeded, no additional debt borrowing is permitted without prior approval from City Council as an exception to the policy following an advertised statutory public hearing.

5. Debt Categories

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

5.1.1. Tax-Supported Debt;

5.1.2. Self-Supporting Tax-Guaranteed Debt; or

5.1.3. Self-Liquidating Debt.

5.2. Self-Supporting Tax-Guaranteed Debt is considered Tax-Supported Debt for the purposes of debt approval and debt servicing limits.

6. Debt Amortization Term

6.1. 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.

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

7. Debt Structure

7.1. 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.

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

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

8. Debt Repayment Funding

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

8.2. A funding source must be identified to repay Short-Term Debt that is used for interim financing for Capital Expenditures.

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

8.4. As Debt retires, released Debt Service funding will be used to fund new Debt Service costs, directly fund Capital Expenditures on a Pay-As-You-Go basis, and/or reduce the tax-levy requirement as determined by City Council through the budget process.

9. Debt Prepayment or Refinancing

9.1. Administration will review and consider prepayment or refinancing of existing debt only where cost saving opportunities exist.

10. Reporting

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

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.

11. Legislative Authority

11.1. This policy is in compliance with applicable legislation.

Definitions

- **Affordable** – means Debt Servicing costs and life cycle expenditures for the underlying asset are reasonable and within the City's ability to pay. The overall measure of affordable debt is the burden of Debt Servicing costs and life cycle expenditures relative to City expenditures and revenues.
- **Average long-term borrowing rate** – calculated as total interest divided by total outstanding debt based on the most recent audited financial statements.
- **Capital Expenditures** – means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Chartered Professional Accountants Canada Public Sector Accounting Handbook section 3150.
- **City Revenues** - means consolidated annual revenues as published in the last audited financial statements of the City prior to the time of calculation, less government transfers for purposes of a capital property reported in that statement if those transfers are included in total revenue, and less amounts reported as contributed or donated tangible capital assets if those amounts are included in total revenues, as calculated under the *Debt Limit Regulation,* A.R. 255/2000, as amended.
- **Debt** – means borrowing as defined under MGA section 241(a.1). In the case of the City, this is usually in the form of a debenture that vary in Debt Terms. Other forms of debt include but are not limited to, the borrowing of money, refinancing of existing debt, long-term leases of capital property, as defined under MGA section 241, other long-term financial commitments, an agreement to purchase capital property such as a Public Private Partnership (PPP), loans and loan guarantees issued under sections 264 & 265 of MGA.
- **Debt Servicing** – means annual required Debt repayments including interest and principal.
- **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.
- **External Sources -** includes grants from other orders of government, partner contributions, and any other capital funding source that is not a City own-source revenue.

- **Emergency** - For the purposes of this policy, an emergency could not have reasonably been anticipated and must be an urgent and critical situation of a temporary nature that pertains only to the City's capital assets that:
    - imminently and seriously endangers the lives, health, safety or welfare of people, or
    - requires prompt action to limit damage to City property or the environment, or
    - compromises the integrity of infrastructure service delivery.

- **Internal Municipal Debt Servicing and Debt Limits** - means the City's Debt Service costs allowed as set out in section 4 of the Policy.
- **Interim Financing** – means borrowing made for the purpose of temporarily financing a capital project as defined under MGA section 259.
- **Long-Term Debt** – Debt with terms greater than five years as defined under MGA section 258.
- **Pay-As-You-Go (PAYG)** - A source of funding for capital projects through contributions transferred from the current operating budget.
- **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.
- **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.
- **Short-Term Debt** – Debt with terms of five years or less as defined under MGA section 257. For the purpose of this Policy, 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.
- **Sustainable** – means meeting present needs without compromising the ability to meet future needs.
- **Tax Levy Revenues** – means revenues generated to pay for Tax-Supported Operations. This includes revenues such as property taxes, non-utility user fees, fines, permits, franchise fees and investment income.
- **Tax-Supported Debt** - means Debt issued for Capital Expenditures related to Tax-Supported Operations. This Debt is repaid using Tax Levy Revenues.
- **Tax-Supported Net Operating Expenditures** - means expenditures for Tax-Supported Operations less amortization of tangible capital assets and loss (gain) on disposal, impairment and transfer of tangible capital assets as reflected in the most recent audited financial statements.
- **Tax-Supported Operations** - represent civic programs that are funded through Tax Levy Revenues, such as roads, transit, and parks.
- **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 Waste Services.