



Debt Management Policy

Effective Date: September 19, 2017

Revised Date:

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Purpose

The purpose of the City's Debt Management policy is to establish financial guidelines and appropriate controls for the issuance and use of debt and to ensure a sound financial position is maintained while supporting the City's ability to meet current and future infrastructure challenges.

Definitions

Alternative Approval Process is one of the two forms of electoral approval to support a bylaw. Pursuant to section 86 of the *Community Charter*, after a specified public notice period, alternative approval is obtained if no more than 10% of eligible electors have signed elector response forms indicating that Council may not proceed with the loan authorization bylaw.

Capital Assets are the City's physical assets that are used in the delivery of services and have estimated useful lives extending beyond one year. These include for example, City facilities and infrastructure assets such as roads, transportation, storm water, sanitary sewer and water.

Debt Servicing Costs are the annual repayment costs of debt which include scheduled principal and interest payments. Debt servicing costs will be funded by the respective fund operating budget revenues, property taxation, user fees or appropriate reserves.

Electoral Approval is the approval of the electors to support a bylaw which can be obtained by either referendum or with alternative approval process. External borrowing requires elector approval under most circumstances per section 180 of the *Community Charter*.

Long-Term Debt is long-term borrowing over five or more years with an underlying loan authorization borrowing bylaw approved by the Ministry and the electorate pursuant to section 179 of the *Community Charter*. Debt must be used for a capital project and the debt term cannot exceed the lesser of the estimated useful life of the underlying asset or thirty years.



Referendum is one of the two forms of elector approval to support a bylaw. Pursuant to section 85 of the *Community Charter*, assent of the electors by referendum is obtained only if a majority of the votes counted are in favour of the loan authorization bylaw.

Temporary Borrowing is short-term borrowing less than five years that is utilized for the construction period of a capital project. The temporary borrowing bylaw provides financing up to the amount approved under an adopted long-term loan authorization bylaw pursuant to section 181 of the *Community Charter*.

3. Policy Administration

3.1 Responsibilities

The Director of Financial Services shall be responsible for:

- Ensuring the use of debt funding as a financing tool is utilized in compliance with this policy;
- Ensuring the management and maintenance of existing debt is in compliance with this policy;
- Conducting an annual review of debt and reporting the results to City Council through the annual report;
- On an “as required basis”, recommend revisions to this policy due to changes in financial stability, capital financing needs, applicable statutes, accounting standards, or the economy.

The issuance of new debt must be approved by City Council through the loan authorization bylaw process for external debt or through the financial plan bylaw for internal borrowing from reserves.

3.2 Debt Approval Process

The use of debt as a funding source for projects in the capital plan and related debt servicing costs will be approved by Council through the City’s annual financial plan bylaw. Debt servicing costs must be affordable and sustainable.

Long-term debt requires approval from the electorate, whether through referendum or the use of the alternative approval process.

Pursuant to section 182 of the *Community Charter*, long-term debt must be undertaken by the City’s applicable regional district, Metro Vancouver Regional District.



3.3 Lending Institutions

The City must borrow long-term debt from the Municipal Financing Authority (MFA), pursuant to section 182 of the *Community Charter*.

3.4 Interest

All debt issues will accumulate interest expense each year which will be funded by the respective fund's primary revenues, whether property taxation, user fees or appropriate reserves. Interest rates will be based on stated MFA fixed rates at the time of issuing.

3.5 Internal Borrowing

Internal borrowing from Statutory Reserve Fund balances shall be permissible pursuant to section 189 of the *Community Charter*. Internal borrowing allows for more flexibility in terms of payback amounts and loan duration than that of external borrowing. A clearly defined and attainable payback plan, including payment of foregone interest is required and to be included in the financial plan bylaw.

3.6 Borrowing Limits

Limits shall be established to determine the affordable levels of debt and related debt servicing costs for the City. A review of the borrowing limits shall be undertaken annually with consideration of the flexibility, sustainability, and vulnerability of the City's financial position today and in the future. Intergenerational equity shall be considered which can be defined as achieving a fair, equitable balance of costs and benefits between present and future users for the costs of maintaining City infrastructure.

4. Guiding Principles and Objectives

4.1 Guiding Principles

Incurring debt commits a municipality's revenues several years into the future, and may limit the government's flexibility to respond to changing service priorities, revenue inflows, or cost structures. Adherence to a debt policy ensures that debt is issued and managed sensibly in order to maintain a sound fiscal position and protect credit quality.

The City's management of debt shall conform to the statutory and legal requirements including the *Community Charter* and *Local Government Act*.

The Debt Management Policy has been prepared in accordance with the Government Finance Officers Association (GFOA) Recommended Practices on Debt Management Policies as well as aligned with other local government debt policies.



4.2 Objectives

The primary objectives of the City's use of debt are to:

- a) Provide Funding for the Capital Plan – Debt will be utilized for financing capital projects. Debt will not be utilized to finance operating activities. Short-term debt may be used temporarily, for a financial emergency that was not anticipated, and when the City's General Fund Accumulated Surplus Reserve has insufficient funds available to fund such events.

- b) Fairness and Stability for Taxpayers – The use of external debt financing and internal reserves to fund the City's capital plan ensures fairness to both current and future City taxpayers. Debt financing provides long-term payback of significant investment in capital assets, which provides a greater correlation between the lifecycle of the related asset and the payment for that asset. Facility and infrastructure assets have long useful lives which support long-term debt terms.

The City will strive to be proactive in achieving long-term financial stability and balancing the costs of maintaining stable tax rates for current and future taxpayers.

Due to the fundamentals contained in the philosophies "Pay as You Use" and "Replacement of Existing Assets", the first life cycle of an asset may involve simultaneously funding debt servicing costs for the new asset and reserve contributions for its eventual replacement.

- c) Maintain Service Levels – In order for the City to maintain its service levels, the facility and infrastructure assets must be maintained and upgraded to meet the demands of its citizens. Ongoing capital maintenance, upgrades and enhancements of City facilities and infrastructure ensures that the City can continue to provide existing and enhanced service levels.

5. Use of Debt

The primary uses of the City's debt financing are to:

- a) Safeguard and Replace Existing Core Capital Assets - The primary use of long-term debt in the long-term financial plan is to safeguard and replace existing capital assets. The City has an inventory of specialized machinery, equipment, facilities, technology and infrastructure that are necessary for the efficient delivery of services to the public. These capital assets need to be upgraded and replaced according to service lifecycle to maintain service levels and to reduce the risk of escalating costs of repair



if these assets are not maintained and upgraded as necessary. The City has a significant infrastructure deficit due to the age of its capital assets including roads, storm water drainage, sanitary sewer and water. The use of external debt financing with a long-term payback provides an alternate funding source in addition to City reserve funds.

- b) Growth and Development Funding Support for Capital Assets – A secondary purpose of utilizing long-term debt is to provide funding support for capital asset infrastructure renewals or upgrades relating to the growth and development of the City. Development cost charges and the City’s internal reserve funds do not provide adequate funding to upgrade or enhance all of these assets due to increasing service level demands created by growth.

6. Decision Packages

Any capital project with a recommendation for debt funding must be supported by a decision package and presented to Council during business planning. Presentation of the decision package shall include the situation analysis, analysis of decision criteria and measures, identification of alternative solutions, evaluation of the alternatives both financially and non-financial, recommendation, and implementation plan. The City has limited funding available for capital maintenance and upgrades, therefore, any project recommended for debt requires a complete analysis by way of a business case to ensure the decision to obtain external borrowing is operationally, strategically, and financially sound.

7. Borrowing Limit

The legislated limit for debt servicing is 25% of calculated revenues which includes core revenues and excludes one-time or non-reliable revenues. This is set out in the *Community Charter* section 174 and *BC Regulation 254/2004*.

8. Debt Term

8.1 Useful Life of Asset

Long-term debt terms shall not exceed the lesser of the estimated useful life of the underlying asset or thirty years pursuant to section 179 (5) of the *Community Charter*. It is preferred for the debt term to be less than the expected life of the asset if it is affordable.



8.2 Stability

The debt term and related debt servicing costs must be funded by long-term sustainable revenues or appropriate reserves with reliable revenue sources.

9. Debt Retirement

The decision to retire debt before the originally intended debt term must be completed in consideration of the overall capital plan and funding requirements. It will be necessary to consult with the Municipal Finance Authority (MFA) to determine the feasibility and timing of early retirement debt.