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Presented by: Anne Victoor, Director, Financial & Strategic Services

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Attachments: 1. UPDATED Debt Management Policy C-FS-03, 2. Debt Management Policy C-FS-03 (Nov 2019), 3. Policy Changes Justification Addendum

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6/11/2024	1	Standing Committee of the Whole	adopted	

TAMRMS#: B06

5.2

Debt Management Policy (C-FS-03)

Presented by: Anne Victoor, Director, Financial & Strategic Services

RECOMMENDED MOTION(S)

That Standing Committee of the Whole recommend to Council that the updated Council Policy C-FS-03 Debt Management, as attached to the agenda report entitled “Debt Management Policy (C-FS-03)” dated June 11, 2024, be approved.

PURPOSE OF REPORT

The purpose of this report is to bring forward amendments to the Debt Management Policy C-FS-03 (the “Policy”) for Standing Committee of the Whole’s consideration, in accordance with previous Council direction and administrative recommendations.

BACKGROUND AND DISCUSSION

There are a number of external factors challenging the City’s financial sustainability. The City is experiencing faster growth than we have historically experienced which has led to community pressure for new amenities while maintaining an aging infrastructure. As a result of the growth, there is an increasing expectation for the City to front end road and utility projects. The reduction in provincial funding is further compounded by escalating construction costs resulting in reduced funding for capital projects and thus requiring projects to be considered for debt funding. Over the

last few years, increasing interest rates have resulted in higher servicing costs for debt funded projects. Due to the increased cost of living from inflation, residents are also more sensitive to tax increases.

To address the above factors, administration is recommending changes to the Debt Management Policy. These changes will support Council in ensuring future investments are made in a financially sustainable manner for the community.

One of the more significant recommendations is to establish internal limits on debt based on total debt servicing instead of total debt. The reality is that the debt servicing payments are long term fixed costs which impact future years. The new limits ensure that not too much of our budget is allocated to fixed debt payments to position the City to be financially resilient and able to respond to external factors and emergencies.

Provided as attachments are the proposed new Policy, the current Policy, and a summary of the changes made to the Policy with justifications for them. The following sections seek to provide an overview of the proposed changes:

Purpose

Updated wording to reflect the use of debt as one financing tool and to align the use of debt to the City's asset management framework and planning process.

Policy Statement

1. Additional verbiage added to highlight that debt is one of several financing tools that needs to be considered in long term asset management.
2. Remove specific reference to debt limits as they are referenced in "Debt Limits" section.
3. Add verbiage on why the City must maintain flexibility within debt and debt limits.
4. Include reference to the Clean Energy Improvement Program (CEIP) which is financed through a Loan/Grant program under the Federation of Canadian Municipalities (FCM) and provides financing for energy-efficiency and renewable energy upgrades to residential properties.

Definitions

Update as required to reflect the policy changes.

Responsibilities

1. Expand Council responsibilities to acknowledge that Council has a say in prioritizing future capital projects and debt funding.
2. Expand CAO responsibilities to reflect CAO's responsibility to manage debt in a responsible manner and review the long-term debt strategy with Council.

Introduction and Context

New section to set the context for the Policy within the existing prioritization process.

Short-term Debt

1. Remove section *a.iii to offset cash flow timing issues* and update section a.i to incorporate old sections a.i and iii. Update b.iii to provide clarity as short-term banking can be conventional or ACFA.
2. Add section c. to provide transparency and address gaps based on review of other municipalities' debt policies.

Internal Financing

1. Add section b. to provide clarity and transparency and address gaps based on review of other municipalities' debt policies.
2. Minor verbiage updates to section c. to establish a repayment schedule.

Long Term Debt

1. Amalgamate old sections b. and d. into section a. to provide greater clarity and highlight the importance of the type of capital project that can be considered for debt.
2. Update old section a. to section b. to provide greater transparency on the impact of debt to residents.
3. Amalgamate old sections d. and e. into c. to provide greater clarity and ensure the amortization term does not exceed the life of the asset.
4. Addition of section e. to provide other structures that could be used for debt.
5. Removal of section f. as it is included in Internal Financing.

Debt Limits

1. Retain an internal debt ceiling of 85% of the provincially regulated limit and specify that the remaining 15% is solely restricted to emergency situations.
2. Remove the internal tax supported debt limit and internal tax supported debt serving limit as the City is recommending a new servicing limit be established.
3. Include a new internal debt servicing limit of 18% of the City's consolidated operating expense budget (excluding existing debt servicing) for **total** debt servicing.

4. Include a new internal debt servicing limit of 12% of the City's consolidated operating expense budget (excluding existing debt servicing) for **tax supported** debt servicing.

Repayment of Debt

1. Include an acknowledgement that the City is legally liable for all debt payments, regardless of where the initial funding comes from. While debt service payments may initially come from the Offsite Levy Recovery Fund Reserve, if circumstances result in the Reserve being depleted the debt servicing payments will have to be paid from the tax base or another reserve.
2. Include new Policy on how to account for retiring debt. Rather than the City maintaining a Capital Funding Formula, which can restrict funds allocated to debt, debt will be addressed independently. To mitigate tax swings as a result of debt retiring or new debt, any "savings" due to the retirement of a debenture will not be used to reduce the tax levy, instead the budgeted funds will be temporarily applied to PAYG until such time as new debt is added. This debt will then be used to offset the new debt servicing so only the difference between the old and new debt servicing will impact the tax base.
3. Removal of section relating to debt payments for Multipurpose Leisure Centre as this debt is fully retired in 2025.

Performance Measures

1. Delete section as the City has other measures in place to assess financial position.

Use of Debt Borrowing Proceeds

2. Delete section as City only takes out debentures as expenses have been incurred.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

N/A

IMPACTS OF RECOMMENDATION(S)

Financial:

None at this time. C-FS- Budget and Taxation Guiding Principles Policy will need to be updated to redefine the function of the capital funding formula.

Compliance & Legal:

None at this time. Using debt servicing limits to manage debt over generic limits established through the Municipal Government Act allows the City to manage debt in a sustainable manner.

Program or Service:

None at this time.

Organizational:

None at this time.

Risks

N/A

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Under Council's Strategic Priority for Financial Sustainability, the Corporate Business Plan (CBP) has identified the development of a Long-Term Debt Strategy as a significant tactic to address this priority.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

N/A

IMPACTS OF ALTERNATIVES CONSIDERED

If Standing Committee of the Whole does not wish to support the recommendation, the following alternatives could be considered:

1. SCOW could direct Administration to make further changes to Policy C-FS-03 prior to recommending that the Council approve the policy.
2. Do nothing.

Financial:

None at this time.

Compliance & Legal:

None at this time.

Program or Service:

None at this time

Organizational:

None at this time.

Risks

None at this time.

Report Date: June 11, 2024

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