

# Draft Debt Policy

March 11, 2019

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## Today

- Municipal Debt
  - External and Internal Debt
  - Municipal Finance Authority (MFA)
- Overview of the City's Debt
  - Why does the City borrow money?
  - Current Debt
  - Planned New Debt
- Draft Debt Policy
  - Used best practices
  - Purpose, responsibilities, principles and objectives

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## External Debt

- Municipalities may utilize debt in compliance with the *Community Charter*
  - Short-term (5 years or less)
  - Long-term (usually 20 years)
  - Electoral approval required for long-term borrowing
    - Referendum
    - Alternative Approval Process
  - Debt Servicing Limit
  - Used for capital investment

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### Internal Debt

- Municipalities may utilize internal borrowing under specific conditions in compliance with the *Community Charter*, Section 189
  - May borrow from one Statutory Reserve to another Statutory Reserve
  - Allows the municipality to meet short-term funding needs as long as lending reserve can fulfill its purpose
  - Must be repaid with interest

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### Municipal Finance Authority of BC

- Provides long-term, short-term and equipment financing to local governments in BC
- Long-term borrowing process:
  - Facilitated through the RDN
  - City follows specific steps which include Council's approval and adoption of a Loan Authorization Bylaw, approval from the Inspector of Municipalities and Electoral Approval
- Short-term and equipment borrowing process:
  - Council resolution and/or bylaw

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### Overview of the City's Debt

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**Why does the City borrow money?**

Reserves or other funding sources not adequate for total cost of capital investment

- External long-term Debt has primarily been used for new facilities
  - Port of Nanaimo Centre
  - Nanaimo Aquatic Centre
  - Fire Station #4
  - Water Treatment Plant

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**Why does the City borrow money?**

Debt has also been used to implement service delivery changes.

The City has utilized external short-term Debt to implement automated solid-waste collection:

- Purchase of carts
- Purchase of automated collection trucks

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**Why does the City borrow money?**

Under specific circumstances, where statutory reserves are not adequate for needed capital investment the City utilizes internal borrowing.

- The 2019 – 2023 Financial Plan includes:
  - Borrowing from the Drainage DCC Reserve to the Sewer DCC Reserve
  - Repayment of borrowing with appropriate interest

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### Current Borrowing - \$ million

Asset	Amount Borrowed	Outstanding at Dec 31 2018	Year Borrowing Repaid
Fire Station #1	\$3.2	\$3.2	2038
Fire Station #4	\$3.8	\$2.1	2027
NAC	\$8.6	\$1.3	2020
Sanitation	\$5.7	\$5.2	2022
VICC	\$30.0	\$15.6	2027
Water Treatment Plant	\$22.5	\$18.8	2034
<b>Total</b>	<b>\$69.6</b>	<b>\$46.2</b>	

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### Provisional 2019 – 2023 Financial Plan New Borrowing - \$ million

excludes proposed borrowing for Port Theatre

	2019	2020	2021	2022	2023	Total
<b>External Borrowing (MFA)</b>						
Fire Station #1	\$ 6.0	\$ 7.2	\$ 0.2			\$13.4
Waterfront Walkway	\$ 5.2	\$ 3.4	\$ 8.3	\$ 8.5	\$ 3.7	\$29.1
Sanitation (5 Year Term)	\$ 0.4			\$ 0.5		\$ 0.9
<b>Total External Borrowing</b>	<b>\$11.6</b>	<b>\$10.6</b>	<b>\$8.5</b>	<b>\$9.0</b>	<b>\$3.7</b>	<b>\$43.4</b>
<b>Internal Borrowing</b>						
Sewer DCC Projects	5.3	\$ 1.7	\$ 0.9	\$ 2.0	\$ 2.8	\$ 12.7
<b>Total Borrowing</b>	<b>\$16.9</b>	<b>\$12.3</b>	<b>\$ 9.4</b>	<b>\$11.0</b>	<b>\$ 6.5</b>	<b>\$56.1</b>

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### Debt Servicing Limit

- The Liability Servicing Limit is defined as 25% of municipality's controllable and sustainable revenues for the year
- City of Nanaimo limit at September 10<sup>th</sup> is \$40.1 million for annual principle and interest payments
- At September 10<sup>th</sup> the City was at 14.3% of current limit

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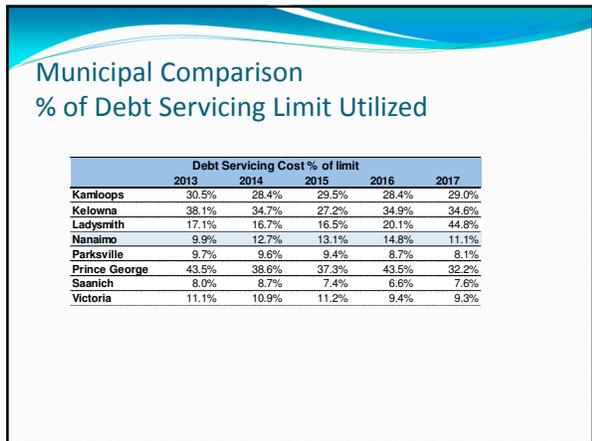
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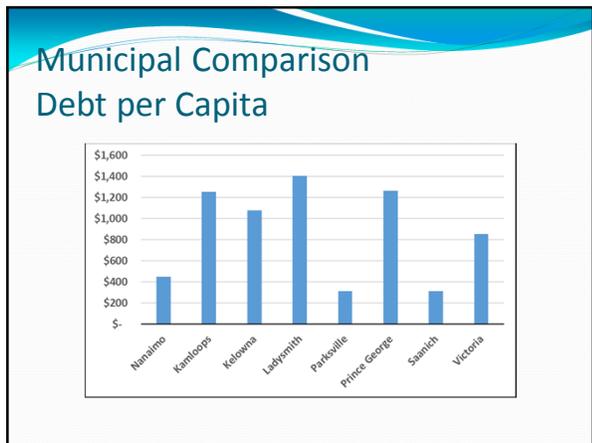
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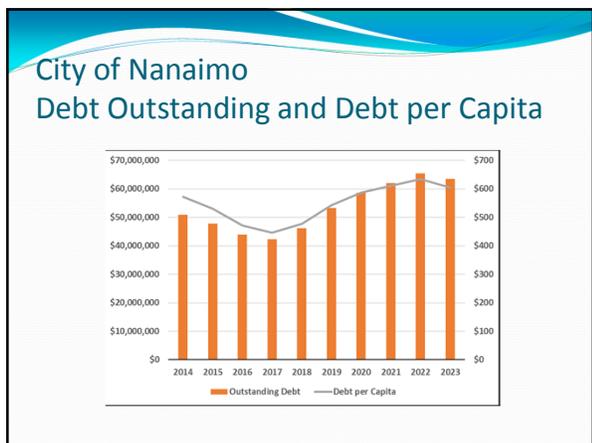
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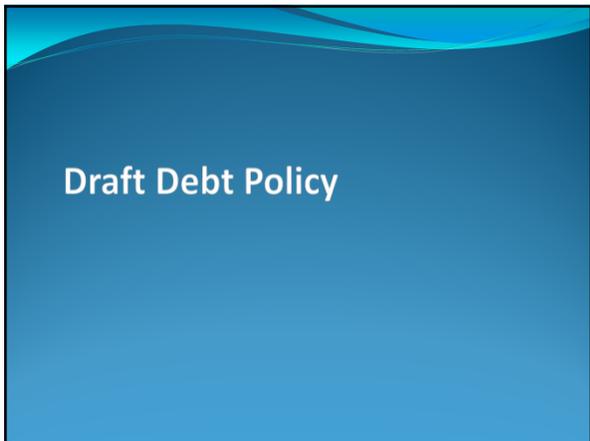
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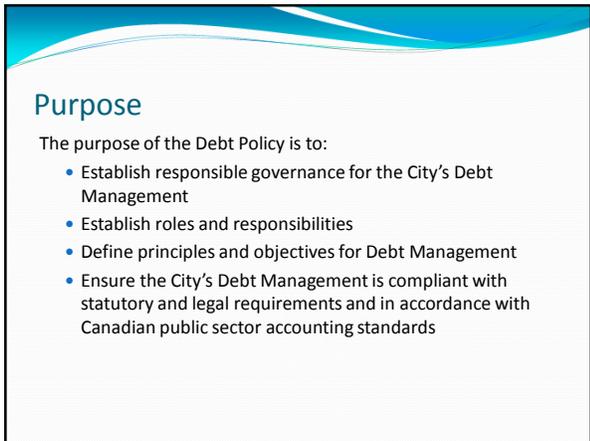
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- The purpose of the Debt Policy is to:
- Establish responsible governance for the City's Debt Management
  - Establish roles and responsibilities
  - Define principles and objectives for Debt Management
  - Ensure the City's Debt Management is compliant with statutory and legal requirements and in accordance with Canadian public sector accounting standards

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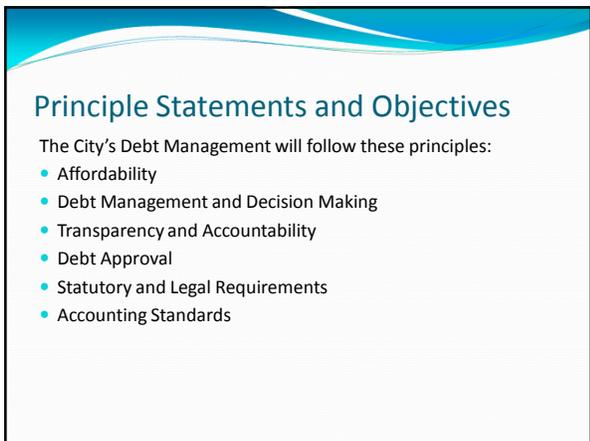
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- The City's Debt Management will follow these principles:
- Affordability
  - Debt Management and Decision Making
  - Transparency and Accountability
  - Debt Approval
  - Statutory and Legal Requirements
  - Accounting Standards

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### Debt Policy - Administration

- Key Administrative Processes:
  - Business Cases
    - Proposed investment requires external debt financing
    - Utilize best practices
      - Robust analysis, recommendation and decision criteria
  - Internal Borrowing
    - Prudent repayment plan
  - Reporting

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### Debt Limit Discussion

- Draft Debt Policy debt limit would comply with Community Charter – limit is 25% of controllable annual revenues
- Council may wish to consider a lower debt limit and direct staff to provide additional information on options and impacts

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### Next Steps

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**Next Steps**

- Staff to review and provide information on a recommended debt servicing limit
- Review by external auditors
- Finalize Debt Policy
- Council adoption of Debt Policy

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