

DATE OF MEETING March 29, 2023
AUTHORED BY LAURA MERCER, DIRECTOR, FINANCE
SUBJECT **DRAFT DEBT MANAGEMENT POLICY**

OVERVIEW

Purpose of Report:

To provide Council with an understanding of the use of debt by the City of Nanaimo and an introduction to the draft Debt Management Policy.

BACKGROUND

At the 2019-MAR-11 Committee of the Whole meeting, Staff introduced a Draft Reserve Policy and a Debt Management Policy to the Committee. While work continued on the Reserve Policy that resulted in the adoption of the Policy in 2019, the work on the Debt Management Policy stalled due to the Covid-19 Pandemic.

With the potential of several large capital projects being undertaken in the coming years, Staff felt it was timely to bring back the Debt Management Policy for discussion and eventual goal of Council adoption.

DISCUSSION

Debt is one option available to Council for funding capital improvements. This report and the accompanying presentation is intended to help Council understand how debt fits into the City of Nanaimo's long term financial plans and the legislative and practical framework around borrowing.

Municipalities may utilize debt in compliance with the *Community Charter*. Borrowing may be short-term (five years or less) or long-term (usually 20 years) and is subject to a debt servicing limit where total borrowing cannot exceed 25% of controllable annual revenues. Under the *Community Charter*, debt can only be incurred for capital investment.

The Municipal Finance Authority of BC provides long-term, short-term and equipment financing to local governments in BC. The long-term borrowing process is facilitated through the Regional District of Nanaimo and must have Council's approval through adoption of a Loan Authorization Bylaw, approval from the Inspector of Municipalities and electoral approval. The City of Nanaimo has used long term borrowing to fund new facilities, such as the Port of Nanaimo Centre, the Nanaimo Aquatic Centre, Fire Station #4, the Water Treatment Plant and Fire Station #1.

The short-term borrowing process must have Council's approval through a resolution or bylaw. In the past, the City has used short-term debt to implement automated solid- waste collection.

Municipalities may also use internal borrowing in compliance with the *Community Charter*. Borrowing from one Statutory Reserve to another Statutory Reserve is allowed as long as the lending reserve is able to fulfill its purpose. Internal borrowing can also be done from operating reserves. The 2023 – 2027 Financial Plan includes internal borrowing for the Millstone Trunk Central DCC Sewer project.

The presentation provides information on the amount the City's current debt and the proposed borrowing in the 2023 – 2027 Financial Plan. This information will also provide context as Council continues to move forward in evaluating several large proposed capital projects.

A draft Debt Management Policy is attached to this report. The policy sets out basic objectives and principles of borrowing and provides some guidance for Staff in making future recommendations to Council.]

NEXT STEPS

- Staff to review and provide information on a recommended debt servicing limit
- Policy to be reviewed by external auditors, KPMG
- Finalize Policy based on all feedback received
- Council adoption of Debt Management Policy]

SUMMARY POINTS

- The City of Nanaimo may borrow money in compliance with the *Community Charter*.
- Generally, Long-term borrowing requires electoral approval.
- The City has existing debt and more is included in the 2023-2027 Financial Plan that if undertaken, debt borrowing would be the recommended funding source.
- There are several large projects not included in the 2023-2027 Financial Plan that if undertaken would need to be funded using debt.

ATTACHMENTS

Attachment A: Draft Debt Management Policy.]

Submitted by:]

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