



**Draft Debt
Management Policy**

*Finance & Audit
Committee Meeting
March 29, 2023*



Agenda

- **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**
 - Uses 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)
 - Equipment Financing
- Long-term (usually 20 years)
- Generally, electoral approval is 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
 - Must be repaid with interest
- May borrow from one Operating Reserve to another Statutory Reserve
 - No requirement to be repaid with interest
- Allows the municipality to meet short-term funding needs as long as lending reserve can fulfill its purpose


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Municipal Finance Authority of BC (MFA 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 City's Debt



Why Does The City Borrow Money?


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

Provides for intergenerational equity

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 reserves are not adequate for needed capital investment, the City utilizes internal borrowing.

- The 2023 – 2027 Financial Plan includes:
 - Borrowing from the Drainage DCC Reserve to the Sewer DCC Reserve
 - Repayment of borrowing with appropriate interest

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Outstanding Debt at Dec 31, 2022

	Amount	Year Borrowing Repaid
External Borrowing (MFA)		
Fire Station #1	\$15,553,662	2038/2040/2041/2042
Fire Station #4	\$ 1,228,398	2027
Sanitation	\$ 673,273	2023/2025
Vancouver Island Conference Centre	\$ 8,920,004	2026/2027
Water Treatment Plant	\$14,926,575	2033/2034
Total External Borrowing	\$41,301,912	
Internal Borrowing		
DCC SS45: Chase River Pump Station & Forcemain	\$ 2,665,254	2039/2040
DCC SS9: Millstone Trunk South	\$ 3,310,003	2040/2041/2042
Total Internal Borrowing	\$ 5,975,257	

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New Debt Included in 2023 – 2027 Financial Plan

	Amount	Term	Year of Borrowing
External Borrowing (MFA)			
Property Purchase	\$4,993,150	5 Year	2023
Sanitation Trucks (3)	\$1,435,200	5 Year	2023
Total External Borrowing	\$6,428,350		
Internal Borrowing			
DCC SS19: Millstone Trunk South	\$ 97,532	20 Year	2023
DCC SS18: Millstone Trunk Central	\$2,402,400	20 Year	2024
Total Internal Borrowing	\$2,499,932		

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Emerging Major Capital Projects

Four emerging major capital projects with a debt funding strategy are not currently included in the 2023 – 2027 Provisional Project Plan.

- Nanaimo Operations Center (NOC)
- Police Operations Building – Future Phases
- Waterfront Walkway
- South End Community Center

As timing and funding strategy is confirmed plans will be presented to Council for approval.

Projects will be included in the plan when Council and electoral approval for borrowing is received.

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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 December 31, 2021 is \$47.2 M for annual principle and interest payments
- At December 31st the City was at 13.4% of current limit

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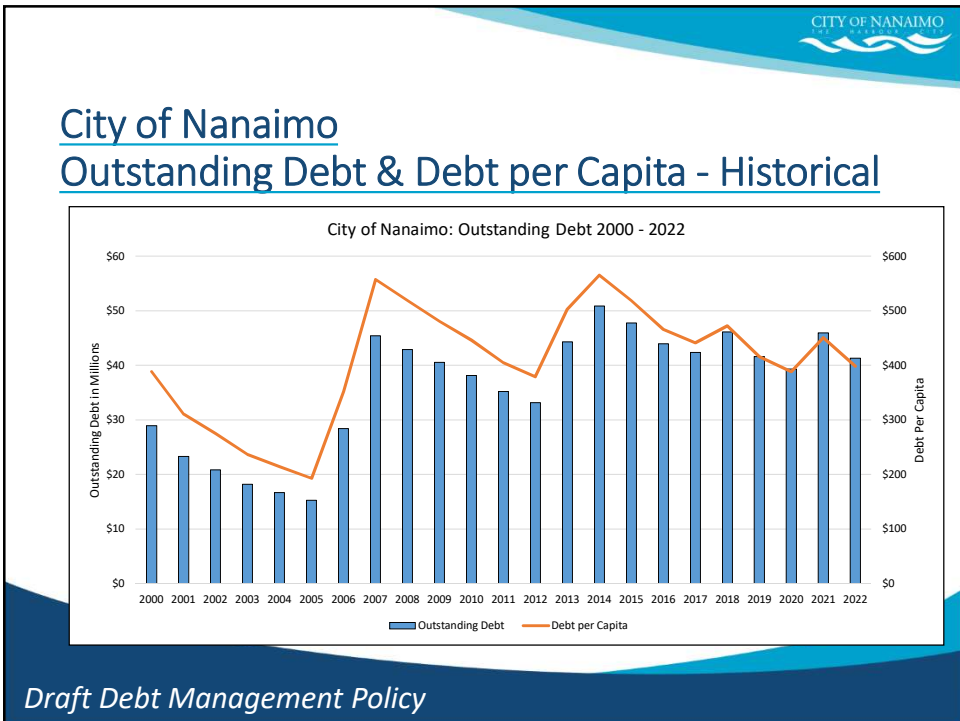
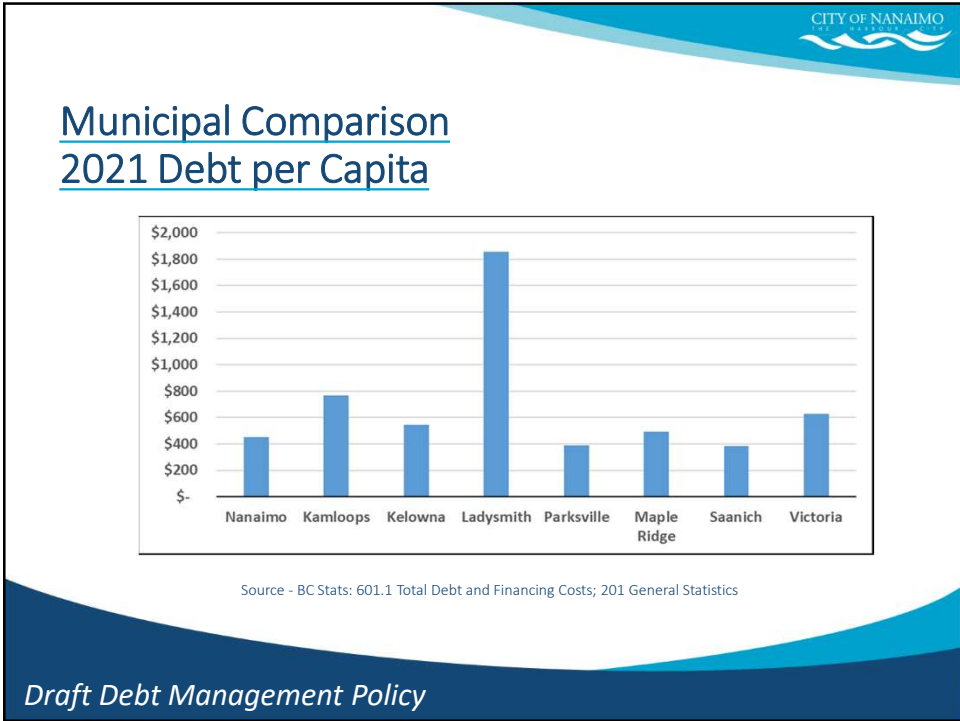
Municipal Comparison

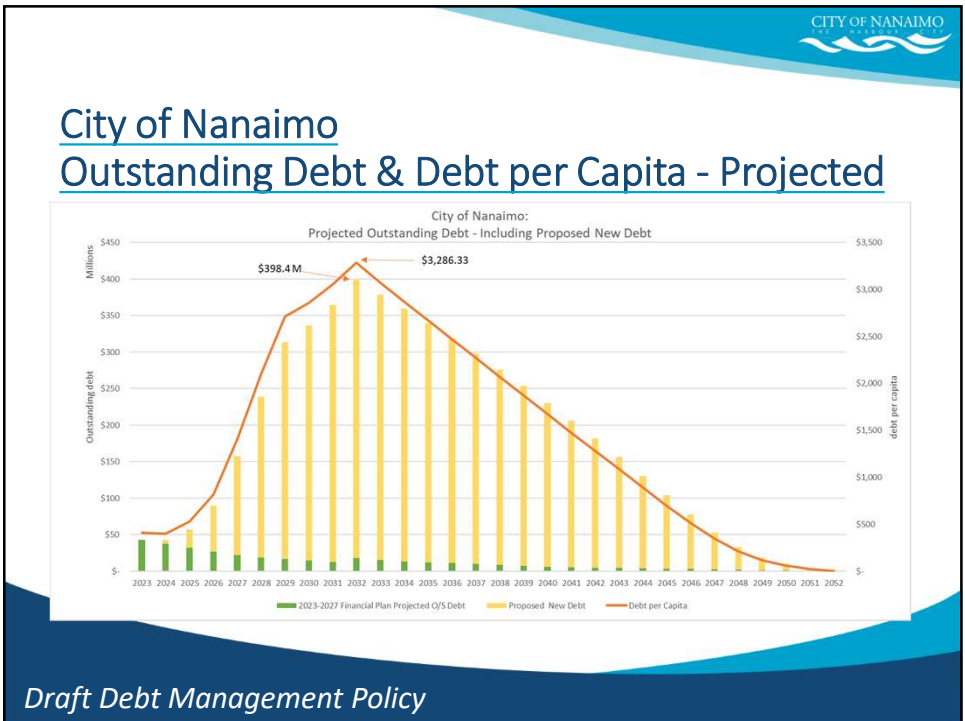
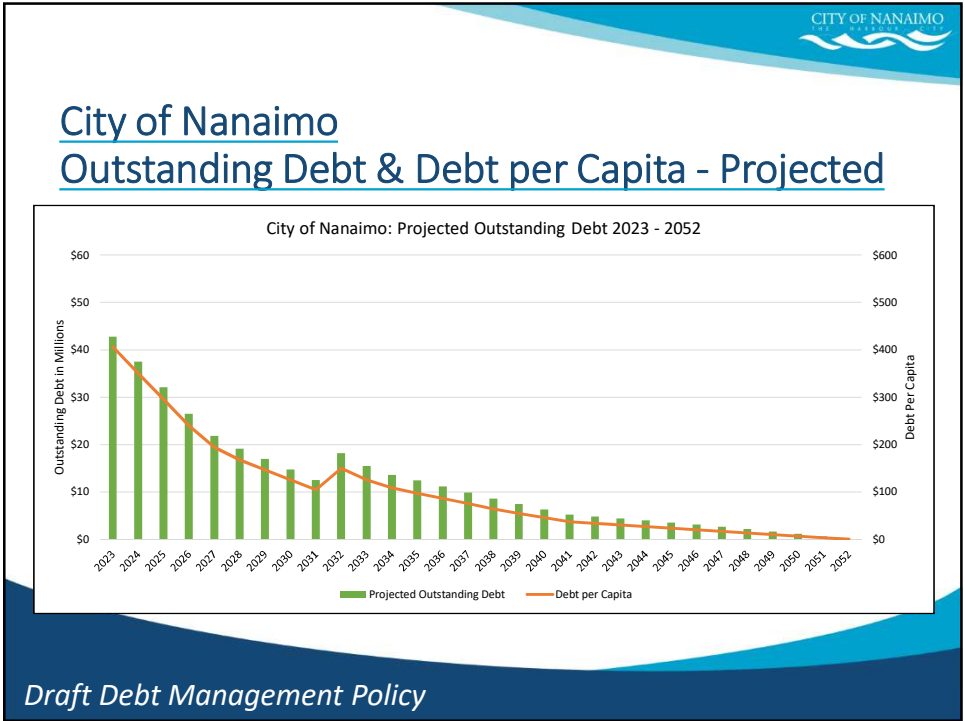
	Debt Servicing Limits				
	2017	2018	2019	2020	2021
Kamloops	44,590,765	45,613,405	48,992,036	47,983,763	49,638,937
Kelowna	70,309,126	79,457,574	81,643,095	74,141,942	82,304,903
Ladysmith	3,588,988	3,865,710	4,218,062	4,224,355	4,532,646
Maple Ridge	32,359,610	33,714,975	35,965,266	36,683,133	38,436,615
Nanaimo	40,133,329	43,120,716	44,839,046	44,370,220	47,198,318
Parksville	5,306,651	5,646,788	6,476,439	6,477,091	6,977,432
Saanich	48,279,619	50,681,673	53,519,092	53,623,777	56,603,503
Victoria	57,248,034	62,102,416	64,465,215	61,120,784	63,755,199

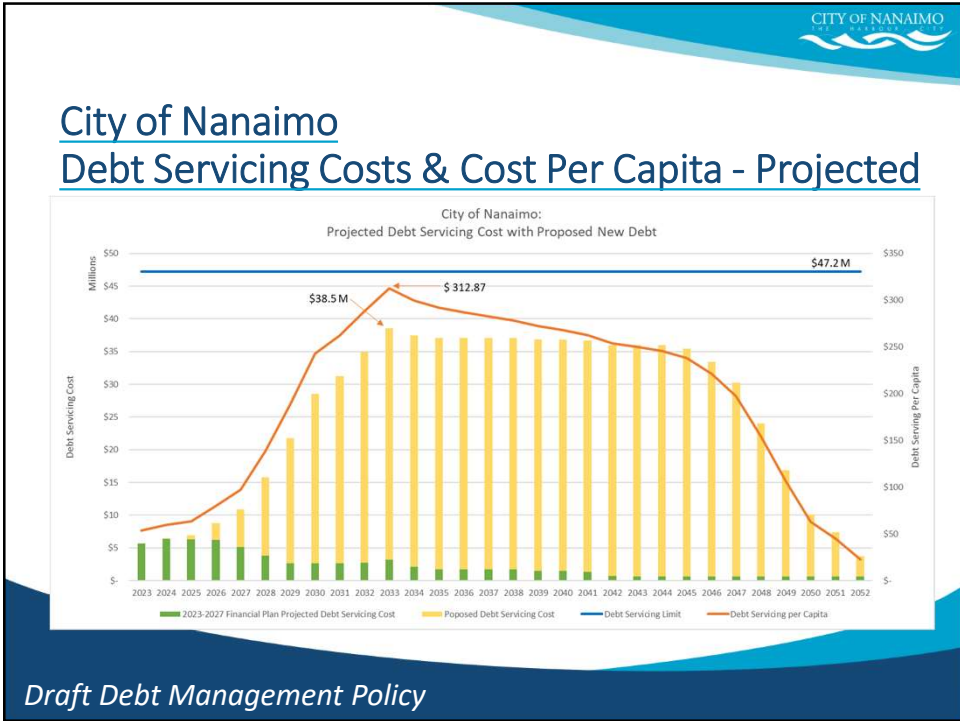
	Debt Servicing Cost % of limit				
	2017	2018	2019	2020	2021
Kamloops	30.4%	27.9%	34.9%	22.9%	21.0%
Kelowna	46.4%	45.7%	23.0%	20.3%	15.4%
Ladysmith	59.9%	37.9%	25.5%	40.7%	37.5%
Maple Ridge	18.3%	37.6%	20.9%	22.6%	18.4%
Nanaimo	12.1%	11.0%	14.6%	15.5%	13.4%
Parksville	8.1%	7.8%	6.2%	7.7%	7.0%
Saanich	7.6%	10.1%	10.2%	11.6%	10.4%
Victoria	9.5%	9.6%	9.2%	10.1%	10.2%

Source - BC Stats: 602.1 Liability Servicing Limit

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Purpose

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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Principle Statements and Objectives

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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Debt Limit Discussion

- Is Council satisfied to leave the maximum allowable borrowing limit as outlined in the Community Charter or would you like to set a lower limit?
- Is Council in agreement that even if the City is within its assent free zone, for all long term borrowing will require electoral approval?

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Next Steps

Next Steps

- Staff update Policy per Council Direction
- Review by external auditors
- Finalize Debt Policy
- Council adoption of Debt Policy

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Questions?