

DATE OF MEETING    OCTOBER 18, 2023  
AUTHORED BY        LAURA MERCER, DIRECTOR, FINANCE  
**SUBJECT             DEBT MANAGEMENT POLICY**

## **OVERVIEW**

### **Purpose of Report**

To present the Debt Management Policy for adoption. |

### **Recommendation**

That the Finance and Audit Committee recommend that Council adopt the Debt Management Policy.

## **BACKGROUND**

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

With the City currently developing a number of large capital projects that will require borrowing to proceed, it is appropriate that the Debt Management Policy be completed and adopted to guide future borrowing. Staff reintroduced the policy at the 2023-MAR-15 Finance and Audit Committee meeting for discussion with the goal of Council adoption. |

## **DISCUSSION**

Debt is one option available to Council for funding capital improvements. 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.

Short-term borrowing requires Council 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*. One Statutory Reserve may borrow from another Statutory Reserve as long as the lending reserve is able to fulfill its purpose. Internal borrowing can also be done from operating reserves. The City

has used internal borrowing to fund two Sewer DCC projects and the 2024 – 2028 Draft Financial Plan includes internal borrowing for the Millstone Trunk Central Sewer DCC project.

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

The purpose of the Debt Management 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

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

- Provide funding for large capital expenditures with long-term benefits;
- Maintain service levels by providing a funding option for needed equipment and infrastructure replacement investment;
- Provide funding for capital expenditures required for service delivery innovation or change;
- Minimize impact of capital investment on property tax and user fee increases; and
- Minimize need to reduce the City's reserves below prudent levels.

At the 2023-MAR-15 meeting, the Committee was asked to consider:

**1. 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?**

The Committee voiced that it would recommend leaving the borrowing limit at the maximum allowable under the *Community Charter*.

As at 2022-DEC-31, the City's Liability Servicing Limit is \$51.9M. This means that the City can have a maximum of \$51.9M in annual principle and interest payments. This limit is updated at the end of every year and is defined as 25% of a municipalities controllable and sustainable revenues per year. Currently, annual repayment totals \$7.2M or 13.8% of the total limit available.

**2. Is Council in agreement that even if the City is within its assent free zone, all long-term borrowing will require electoral approval?**

The Committee took no issue with recommending that all long term borrowing requiring electoral approval even if it was within the assent free zone.

Since the Policy was reintroduced in March, the City's external auditors, KPMG, have reviewed the Policy and have expressed no concerns. Based on all of the feedback provided, Staff have finalized the Policy for adoption consideration by Council. |

## **OPTIONS**

1. That the Finance and Audit Committee recommend that Council adopt the Debt Management Policy.
  - The advantages of this option: Provides guidance for Staff in making future recommendations to Council regarding debt funding.
  - The disadvantages of this option: None
  - Financial Implications: None
  
2. That the Finance and Audit Committee recommend that Council do not adopt the Debt Management Policy.
  - The advantages of this option: No change to current process
  - The disadvantages of this option: No formal guidance for Staff in making debt funding recommendations to Council.
  - Financial Implications: None

## **SUMMARY POINTS**

- The City may borrow money in compliance with the Community Charter.
- Generally, long-term borrowing requires electoral approval
- The City has existing debt and additional debt is included in the 2024-2028 Draft Financial Plan.
- There are several large capital projects currently not included in the 2024-2028 Financial Plan that if undertaken would require borrowing to proceed.

## **ATTACHMENTS:**

Attachment A: COU-234 Debt Management Policy

**Submitted by:**

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