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| Policy Number: | COU-234 | Amendment Date/s: | |
| Title: | Debt Management Policy | Repeal Date: | |
| Department: | Finance | Approval Date: | 2023-NOV-06 |

PURPOSE:

The City of Nanaimo (the City) is committed to sustainable, prudent and transparent management of financial resources used to provide valued community services.

The purpose of this Policy is to:

- Establish responsible governance for Debt Management;
- Establish governance roles and responsibilities for Debt Management;
- Define principles and objectives for Debt Management that are appropriate for the City's financial position, and are reasonable, logical and necessary for delivery of sustainable, affordable services; and
- Ensure the City's Debt Management is compliant with the statutory and legal requirements of the *Local Government Act* and the *Community Charter* and in accordance with Canadian public sector accounting standards.

DEFINITIONS:

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| Alternative Approval Process (AAP) | Means the Alternative Approval Process as outlined in section 86 of the <i>Community Charter</i> . |
| Business Cases | Means a project management document to help decision makers evaluate proposals for new investment, changes in service delivery or new services. Typically includes description of business issue, options, benefits, challenges and financial impacts of each option and recommendation. |
| Capital Expenditures | Means Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150. May also be referred to as Capital Projects or Projects. |
| City | The Corporation of the City of Nanaimo located in the Province of British Columbia. |
| Debt Servicing | Means annual required debt repayments including interest and principal. |
| Debt Term | Means period-of-time during which debt payments are made. At the end of the Debt Term, the debt must be paid in full. |
| Electoral Approval | Means assent by the electorate to authorize long-term borrowing through a Loan Authorization bylaw as outlined in section 180 of the <i>Community Charter</i> . |

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| External Debt | Means borrowing that is usually provided by the Municipal Finance Authority of BC (MFA) pursuant to security issuing bylaws under authority of the <i>Community Charter</i> to finance certain capital expenditures. The MFA provides long and short-term financing to communities and public institutions in BC. |
| General Fund Debt | Means debt issued for capital expenditures related to operations funded from General Fund Revenues. |
| Five-Year Financial Plan | Means the City's annual budget required under section 165 of the <i>Community Charter</i> . |
| Funds | Means the resources and operations of the City which are segregated into General, Utility and Reserve Funds for accounting and budgeting purposes. The General and Utility Funds also have corresponding Capital Funds. |
| General Fund Operations | Means non-utility operations. |
| General Fund Revenues | Means revenues generated to pay for General Fund Operations. These revenues include property taxes, non-utility user fees, permits and investment income. |
| Infrastructure | Means a wide range of assets that are used to deliver City services. These assets include transportation amenities, drainage, sanitary sewer, water, recreation amenities and buildings. |
| Internal Borrowing | Means borrowing between Reserve Funds under specific conditions in compliance with the section 189 of the <i>Community Charter</i> . The City may also borrow from Operating Reserves as well. |
| Liability Servicing Limit | Means 'Liability Servicing Limits' as outlined in section 174 of the <i>Community Charter</i> . The maximum value of liability servicing cost for a given year is 25% of a municipality's controllable and sustainable revenues for the previous year. |
| Long-Term Debt | Means debt with repayment terms greater than five years. Long-term debt is usually undertaken for twenty years. |
| Municipal Finance Authority (MFA) | Means the Municipal Finance Authority of British Columbia who provide long-term, short-term and equipment financing to communities and public institutions in BC. |
| Short-Term Debt | Means debt with repayment terms of five years or less. |
| Sustainability | Means the pillars of sustainability which includes ensuring that current socio-cultural, economic and environmental commitments are considered in investment decisions and do not compromise the ability of future generations to meet their own needs. |

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| Utility Debt | Means debt issued for capital expenditures related to operations funded from Utilities Revenues. |
| Utilities | Means self- funded operations providing a service to its customers at rates regulated by Council. The City's current self-funded operations are the Water Utility Fund, the Sanitary Sewer Utility Fund and Solid Waste Collection services. |
| Utilities Revenues | Means revenues generated to pay for water, sewer and solid waste collection services. |

SCOPE:

Council is responsible for:

- Adoption, periodic review and updating the Debt Management Policy; and
- Approval of new debt and internal borrowing.

The Chief Administrative Officer is responsible for:

- Implementing the Debt Management Policy.

The Director of Finance is responsible for:

- Implementing internal processes and systems in compliance with this Policy;
- Ensuring the use of debt complies with this Policy;
- Ensuring utilization of debt is clearly disclosed in the City's Five-Year Financial Plan and other long-term financial plans; and
- Recommending revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or to support the City's long-term financial management.

POLICY:

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.

PROCESS:

The City delivers services to the community through a wide range of City-owned assets as well as some assets managed through co-management agreements. In addition to these existing assets, the City may receive or construct new assets. Provision of new assets and renewal of existing assets requires significant long-term planning and investment for capital projects. The City utilizes annual revenues, reserves, grants, private contributions and Debt to fund these capital projects.

1. Corporate Context

This Policy applies to Debt utilized by the City to fund capital infrastructure and equipment investment. To support Debt planning, management and reporting, Debt is categorized into two groups as follows:

- General Fund Debt
- Utility Debt

2. Implementation, Review and Reporting

The implementation, review and reporting associated with this Policy will be integrated within City business processes.

3. Benefits of Compliance

Implementing this Policy will improve the City's governance through:

- Improvements to decision making and financial performance;
- Improvements to financial preparation for future commitments; and
- Improvements to transparency and accountability.

4. Principle Statements and Objectives

The City will strive to ensure the following principles and objectives are applied to all Debt Management strategies, processes and reporting.

4.1 Affordability

The City will consider impact on property taxes, utility and other user fees when considering new debt.

4.2. Debt Management and Decision Making

4.2.1 The City recognizes that the utilization of debt may be needed to provide funding for needed capital investment.

4.2.2 The City will utilize Business Cases where appropriate to provide necessary information regarding capital investment and new debt for decision makers.

4.2.3 The City will utilize the financing options offered by the Municipal Finance Authority for debt.

4.2.4 The City may consider and utilize financing options through other appropriate institutions where it is demonstrated to be beneficial.

4.2.5 The City may consider internal borrowing between statutory reserves, in compliance with section 189 of the *Community Charter* where it is prudent and does not impair the capacity of the lending reserve to fulfill its purpose.

4.2.6 The City will utilize Debt with a term that is less than the expected life of the underlying asset.

- 4.2.7 The City will not issue Debt to finance annual operating expenditures.
- 4.2.8 The City will ensure that new General Fund Debt Servicing costs will be funded by long-term sustainable General Fund revenues, reserves or reserves funds.
- 4.2.9 The City will ensure that new Utility Debt Servicing costs will be funded by related long-term sustainable utility revenues, reserves or reserves funds.
- 4.2.10 The City will review and consider cost saving opportunities through prepayment or refinancing of existing debt.
- 4.2.11 The City will utilize Equipment Financing in compliance with the *Community Charter*, Section 175, when appropriate.

4.3 Transparency and Accountability

- 4.3.1 The City recognizes that Debt must be managed, monitored and reported upon.
- 4.3.2 The City's utilization of Debt will be reported to Council through regular performance reporting including against the City's current Liability Servicing Limit.
- 4.3.3 The City will ensure utilization of new debt, the projected annual repayment costs for current and new debt, and the impact on the City's Liability Servicing Limit is clearly disclosed in the annual Five Year Financial Plan.

4.4 Debt Approval

- 4.4.1 The City will ensure new debt is approved by Council and receives appropriate electoral approval as outlined in sections 178 and 180 of the *Community Charter*, and as outlined in this Policy.
 - i. The annual Five-Year Financial Plan bylaw includes utilization of internal debt.
 - ii. The annual Five-Year Financial Plan bylaw includes utilization of external debt.
 - iii. All issuance of external short-term debt requires a Council bylaw or resolution.
 - iv. All issuance of external long-term debt requires a loan authorization bylaw.
 - v. All issuance of external long-term debt requires electoral assent.
 - vi. All issuance of internal debt requires a Council resolution.
- 4.4.2 New external debt under a loan authorization bylaw must be undertaken by the Regional District of Nanaimo in compliance with section 182 of the *Community Charter*.

4.4.3 Section 179 of the *Community Charter* allows for borrowing without electoral assent if the City's total annual borrowing costs are less than 5% of sustainable revenues.

- i. If the borrowing is for longer than five years and if the City is within its asset free zone the City will still seek electoral approval through referendum or AAP.
- ii. If borrowing is five years or less and if the City is within its assent free zone than electoral approval is not required.

4.5 Statutory and Legal Requirements

4.5.1 The City will ensure that the maximum amount borrowed from external sources is compliant with section 174 of the *Community Charter*.

4.5.2 The City will only use debt in compliance with sections 178, 179, and 181 of the *Community Charter*.

4.5.3 The City will ensure that electoral approval is obtained in compliance with section 180 of the *Community Charter*.

4.5.4 The City may consider temporary borrowing under loan authorization bylaw in compliance with section 181 of the *Community Charter*.

4.6 Accounting Standards

The City will ensure that administration and reporting of Debt is in accordance with Canadian public sector accounting standards.

5. **Administration**

The following key administrative processes will support implementation of the Debt Management Policy. Additional information is provided in the City's Debt Management Processes document.

5.1 Business Cases

The City will utilize business cases where appropriate for a proposed investment that requires new external debt financing. The business case will: provide a robust analysis of the investment, be prepared according to best practices and include relevant financial and non-financial information. Key components of a business case include a comprehensive explanation of the business need, reasonable options, the benefits, challenges and expected outcomes or measures for each option, a recommendation and the decision criteria used.

5.2 Internal Borrowing

5.2.1 Internal borrowing from Statutory Reserve Funds is allowed pursuant to section 189 of the *Community Charter*.

- The City will ensure that internal borrowing does not impair the purpose of the lending reserve.

- The City will ensure that repayment of internal borrowing includes interest that would have been earned on the amount had it remained in the lending reserve.

5.2.2 Internal Borrowing from operating Reserves

- The City will ensure that internal borrowing does not impair the purpose of the lending reserve.

5.2.3 The City will clearly disclose a prudent repayment plan for internal borrowing as part of the Five-Year Financial Plan bylaw approved by Council.

5.2.4 As per best practice, Staff will seek an internal borrowing resolution from Council endorsing the anticipated internal borrowing need.

6. Reporting

The City will develop and maintain annual reporting processes that provide decision makers with all relevant debt information.

RELATED DOCUMENTS:

Local Government Act

Community Charter

Canadian Public Sector Accounting Standards (PSAB)

REPEAL or AMENDMENT:

N/A