

Category: FINANCE

Subject: Debt Management Policy

Purpose

To ensure that debt is used strategically to maintain the City's financial strength and stability by providing appropriate guidance for the use of debt financing. The use of debt can support the goal of providing adequate infrastructure, services, and resources to meet the community's ongoing and emergent requirements.

Debt is used to strategically manage borrowing capacity for future capital assets, maintain maximum flexibility of current operating funds, and consider the users benefit from the useful life of the asset when establishing borrowing terms.

Scope

This policy applies to all City departments, boards, agencies and other organizations included within the reporting framework of the City. All debt incurred by the City in accordance with Part 6, Division 3 of the *Community Charter* is considered to be debt of the City.

Policy Statement

The efficient and effective use of debt is recognized as an important component to meet infrastructure requirements that support existing and future residents, businesses, and stakeholders of the City. All borrowing, debt, or liabilities must adhere to legislative requirements.

Responsibilities

Authority to manage the City of Penticton's debt is granted to the Director of Finance and Administration (DFA) and is derived from section 149 the *Community Charter (CC)*.

The DFA works with the members of the Finance Department and with Council on certain aspects of the management of the City of Penticton's debt management. Responsibilities have been allocated as follows:

Council will approve:

- The policy and any updates and amendments to the policy;
- The issuance of new debt through the annual budget process and the approval of required bylaws;
- The Annual Financial Statements which includes details of the City's Debt Issued and Outstanding.

Director of Finance and Administration:

- Reviewing the principles and policy statements and recommending any updates and amendments to the policy;
- The overall responsibility for the debt program of the City;
- Requesting the use of debt funding of a capital project through the Capital Plan.

Manager of Finance:

- Managing, monitoring and reporting on debt levels and capacity;
- Conducting reviews of the debt liability servicing limit and reporting the results through to Council as part of the annual budget process.

Financial Planning and Budget Specialist:

- Preparation of debt related bylaws;
- Ensuring that the Five Year Financial Plan Bylaw details the borrowing requirements and the impacts of debt repayment.

Financial Analyst

- Liaising with City Staff to determine debt requirements.

Service Standards/ Expectations

1. Short-term debt

All short-term debt in excess of one year shall be subject to City Council approval through the budget process, by bylaw, or by resolution as required. A bylaw is required for revenue anticipation borrowing under Section 177 of the *Community Charter*, short term capital borrowing under Section 178, or temporary borrowing under Section 181. Short term borrowing is for a term of less than 5 years and either from a financial institution or the MFA.

The City may, from time to time, incur short term debt to:

- Manage short-term cash flow requirements such as interim financing for capital projects;
- Provide financing for emergency purposes; or to
- Offset cash flow timing issues

Short-term debt shall be financed through:

- Internal borrowing;
- A line of credit; or
- Short-term debt, either conventional bank or Municipal Financing Authority (MFA).

2. Internal Borrowing

Where the City's current and future reserve position allows, and based on the five-year Financial Plan, the City may use internal borrowing to fund capital projects in order to optimize use of available resources and reduce overall net borrowing costs. Under Section 189 (4.1) and (4.2) of the *Community Charter*. Council may use money not currently required under a capital reserve for the purpose of a second reserve.

Where the City chooses to internally borrow, a financing rate shall be applied to funds where prescribed by the City's Reserve Policy.

All internal borrowing shall be subject to City Council approval through the budget bylaw process and by resolution as required.

3. Long-term debt

The City may incur and carry long-term debt only to support priority capital projects pursuant to the approved Financial Plan and resulting capital budgets and/or emergent needs.

The City is required by the *Community Charter* Section 182 to borrow through the MFA to finance the construction, purchase, or major restoration of facilities and infrastructure. The projects shall appear in the approved Financial Plan and as otherwise approved by Council.

Long-Term Debt may be considered for capital expenditures for municipal or utility purposes where the expected asset life, or increase to asset life, is greater than five years. The maximum term of the debt is the lesser of:

- (a) 30 years, and
- (b) the reasonable life expectancy of the subject capital asset.

The repayment term (amortization) in respect of long-term debt shall not exceed the useful life of the asset being financed by the City.

4. Debt Limits (Debt Capacity)

Debt financing, including incurring of liabilities under contract, will only be undertaken in compliance with the relevant sections of *the Community Charter* Section 174 and *BC Regulation 254/2004*, which sets the total liability servicing limit at 25% of specific municipal revenues of the City for the previous year.

The City's combined external and internal total liability servicing limit should be maintained according to the limits as set out in the City's Financial Management Policy.

5. Repayment of Debt

The City may take advantage of opportunities to retire outstanding debt early if financially beneficial to do so. High interest, tax supported debt shall be given priority consideration for early debt repayment.

Sources of funding for debt repayment must be identified prior to borrowing approval, and be sufficient to cover annual repayment while still maintaining some flexibility in that area in the event of increased interest rates and/or other funding pressures. To finance repayments, Staff will make an effort to utilize existing reserves or, where applicable, build into user rates in advance to fund debt payments.

6. Strategies

The City should adhere to the following strategies to ensure financial stability and flexibility:

- a) The City's debt capacity will be preserved by limiting the use of debt to fund major capital projects or major equipment purchases, in accordance with the debt limits set out in this policy.
- b) Impacts on overall City debt levels from "self-funded" utilities should be considered to ensure these areas do not inadvertently negatively affect the City's ability to borrow for General Fund purposes.
- c) Debt financing can be used as a leveraging tool to secure third party funding for capital investment opportunities.
- d) The City may consider public-private partnerships where the agreements reduce City risk and provide for private capital for works, facilities, services, or activities that benefit the City and its residents.

7. Administration of Debt

Administration of debt assists with interpretation of the policy once applied.

- a) When required, revenues will be sufficiently increased to accommodate debt servicing and debt obligations will be repaid by annual revenue or reserve draws specific to the fund that the debt is in relation to.
- b) Interest costs related to debt obligations will be expensed in the year it is paid or becomes payable and will not be capitalized.
 - i. Debenture debt security issuing costs normally deducted from debenture debt proceeds will be capitalized to the project cost the financing relates to.
- c) Any monies refunded to the municipality, at the end of the term of a debenture, not related to the respective Debt Reserve Fund, will be placed in a reserve specific to the fund that the debenture was initially undertaken and recorded in initially.
- d) Disclosure of the City's outstanding debt obligations will be presented in the annual financial statements in accordance with standards and regulations as outlined by the *Community Charter*.

Please see Appendix A for more information regarding the various types of external and internal debt.

Related Policies and Legislation

- Reserve Policy (dated Feb 5, 2019 Resolution 39/2019)
- Year End Surplus Policy (dated February 15, 2022 Resolution No. 37/2022)
- Risk Management Policy (dated July 2, 2019 Resolution No. 328/2019)
- Financial Management Policy (dated July 3, 2018 Resolution No. 314/2018)
- "Officers and Delegation of Authority Bylaw No. 2018-75" and any amendments
- CP#2023-04 Investment Policy

Approval History			
Previous revisions/replaces:		n/a	
Approved by Council on:	May 2, 2023	Resolution No.:	180/2023

Certified Correct:



Angie Collison, Corporate Officer

Appendix A - Glossary

The following terms are used in this policy and are defined as follows:

Capital Expenditure

Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Standard section 3150 and are approved in the Financial Plan annually.

Debenture

A formal written obligation to repay specific sums on certain dates. Debentures issued by a municipality are unsecured and are backed by the good faith and credit of the municipality.

Debt

An obligation for the repayment of money. Long term debt normally consists of debentures; short term debt may include notes or loans from financial institutions or from MFA, and may also include purchase agreements or loans from reserves or reserve funds.

Debt Servicing

The annual required debt repayments including principal and interest.

Municipal Finance Authority (MFA)

A collective structure operating under the governance of a Board of Members appointed by the Regional Districts and independent of the Province of BC. The Authority was established in 1970, under its own act, to pool the borrowing and investment needs of BC communities.

Own source revenues

Revenue derived from internally generated programs and services (user fees, license fees, sale of service revenues, etc.) excluding revenue from self-funded cost centres.

Self-Funded

Funding that does not rely on taxation (electrical, storm water, water, and wastewater).

Specific Municipal Revenues

Specific Municipal Revenues are annual calculation revenue determined in Part 1 of the *Community Charter* Municipal Liabilities Regulation 254/2004.