

 M O N C T O N	POLICY	Owner Department: Finance
	Debt Management Policy	
Effective Date: October 18, 2010	Last Reviewed Date: March 1, 2021	
Approving Authority: Moncton City Council	Replaces No.: Policy 0220	
1. Purpose Statement		

This policy will assist the City of Moncton in managing debt, while allowing growth and ensuring infrastructure sustainability.

A formal debt management policy will facilitate the City’s ability to manage its financial resources available to support existing capital investment, as well as preserve borrowing capacity for future capital investment.

The purpose of this policy is to:

1. assist in maintaining a strong financial position;
2. encourage and facilitate orderly planning and budgeting of capital programs;
3. limit the impact that debt charges will have on future property tax and utility rates;
4. match the cost of debt to those who benefit from the use of the capital, creating intergenerational equity;
5. provide flexibility of current operating funds to cope with changing economic conditions;
6. effectively support initiatives as identified in the municipal Strategic Plan.

2. Definitions

Business Case: refers to an analysis that demonstrates the necessity for, and viability of, a new project. A business case will include a brief financial analysis and a financial plan that identifies and confirms sources of funding to provide for the financing of the capital and operating costs of a new project as well as itemize what priority the project should be given.

Capital Budget: is the corporate capital plans formulated based on prioritized capital investment and capital maintenance needs for both the General and the Utility funds in which there is no pre-defined budget allocation to each department.

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Capital Expenditures: means expenditures incurred to acquire, develop, or renovate assets where the benefit of the expenditure will extend beyond a one-year period and the amount of the expenditure exceeds the City's minimum capitalization threshold.

Capital from Operating: represents annual tax levy revenues that are budgeted within the operating budget to finance tax-supported capital expenditures.

Debenture: municipal bonds issued through the Municipal Finance Corporation. A 'debenture issue' involves the consolidated borrowing, at one point in time, of amounts that may be authorized by Finance Corporation. Debentures range from 5 to 20 years.

Debt Ratio: is a measure of the portion of the municipality's budget which is allocated to the repayment of long-term debt. It is calculated by dividing total fiscal cost by total expenditures.

Fiscal costs: means annual required debt repayments including interest and principal.

Intergenerational Equity: means matching the cost of debt to those who benefit from the use of the asset.

Long-Term Debt: means a debt obligation that is typically issued for capital expenditure.

Tax-supported Debt: refers to all internal and external debt incurred that will be repaid, together with interest, through municipal property tax levies. The establishment of annual property tax rates will be sufficient to provide for the annual debt servicing requirements and the orderly repayment of the debt.

Utility Rate Supported Debt: refers to debt incurred for utility capital projects that will be repaid, together with interest, by a portion of the annual utility rate charged to utility operations customers.

3. Policy

This policy provides a framework and guiding principles for the management of long-term debt.

A debt management policy is a crucial consideration in long-term financial planning and solid financial management of a municipality. The debt affordability of the City is based on the output of the long-term financial plan considering the known facts at that time as well as educated assumptions. The debt affordability will be calculated each year during the long-term financial exercise and will be adjusted accordingly based on known facts at the time. The debt affordability is dependent on multiple factors including assessment increases, service level changes, inflation, cost of major projects as well as other factors.

To meet the objectives of this policy, the annual budget approved by City Council will be developed based on the guiding principles outlined in the annual long-term financial plan for both the general operating fund and utility fund.

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All borrowing requirements for each year will be identified in the annual Capital Budget and upon Council's approval of the budget will be submitted to the Municipal Capital Borrowing Authority board for approval of the borrowing program.

4. Benefits

By reaching a clear understanding of its objectives in terms of debt management, and by continually measuring progress towards achieving those objectives, the City can attain greater long-term fiscal stability and prosperity, therefore maintaining stable tax and user rates.

5. Authority

City Council, through resolution, approves the borrowing requirements in conjunction with its approval of the Capital Budget.

The application to the Capital Borrowing Board for authorization to obtain money by way of a loan, by the issue of a debenture, or to guarantee the repayment of any loan or issue of a debenture of another party, must be approved by City Council through resolution in accordance with the [Municipal Capital Borrowing Act](#).

6. Legal and Regulatory Constraints

Debt can only be issued in compliance with all appropriate provisions contained within the New Brunswick, [Municipal Capital Borrowing Act](#) and as provided by the Municipal Capital Borrowing Board and the [New Brunswick Municipal Finance Corporation](#).

7. Administration

This section outlines the guiding principles and the directives that ensure that these guiding principles are followed.

Guiding principles

1. Long-term debt will not be incurred for operating purposes.
2. The City will only incur and carry long-term debt to support capital projects pursuant to approved capital budgets.
3. The City may, from time to time, incur short-term debt (i.e. bank line of credit funding) to bridge short-term cash flow requirements.
4. The City will consider reserves as a source of financing to support approved capital projects.
5. The City will continue to provide a "Capital from Operating" program within the operating budget to support approved capital projects. Any increases to the annual "Capital from Operating" program will be made through the annual budgeting process.

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6. The City will consider emergent capital initiatives as they arise through the business case process and will assess their impact on current and future borrowings, debt ratios, property tax rates and current level of capital borrowing covered.
7. The City's borrowings will not exceed the guidelines of the Municipal Capital Borrowing Board, in specifics:
 - a. Total General fund debt outstanding will be less than 2% of the municipal assessment base in each year.
 - b. General fund annual debt service cost should be less than 20%.
8. The amortization period of new debt incurred shall not exceed the estimated life of the capital project being financed. On a case-by-case basis, if a project is deemed to be in the best interest of the City's long-term sustainability and would otherwise not be possible, an extension of borrowing terms may be considered.
9. Long-term debt will generally be obtained through the New Brunswick Finance Corporation. Other financing options will be considered if advantageous and suitable, and authority will be requested from the Municipal Capital Borrowing Board.
10. Due to its extensive capital nature, the utility fund annual debt service cost should not exceed 35%.
11. Unused borrowing authorities will be reviewed annually to determine if they require to be maintained and if not, will request for them to be voided and returned. The City will follow the Municipal Capital Borrowing regulations and return unused authority upon project completion and once the aging of the authority reaches the 2-year threshold, as indicated by the Municipal Capital Borrowing Board.
12. Capital Debt will be divided in the accounting records.
13. The applicability of all other existing financial policies should be reviewed and considered, including but not limited to the following:
 - a. Reserves Policy
 - b. Capital Asset Policy

8. Responsibilities

The City's Finance Department will:

1. coordinate the development of a Capital Budget for Council's review and approval;
2. develop the application for Municipal Capital Borrowing Board approval;
3. borrow authorized funds as required;
4. make debt repayments as required;
5. recommend changes to the guidelines outlined in this policy; and

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6. recommend any revisions or amendments to this Policy that may be required from time to time, as a result of changes in applicable statutes, accounting standards, economic conditions, etc.

Administration and Contact

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