

Report to Council



Date: September 17, 2018
File: 0160-20
To: City Manager
From: Genelle Davidson, Divisional Director, Financial Services
Subject: Debt Policy

Report Prepared by: Financial Analyst, K. Kennedy

Recommendation:

THAT Council adopts Council Policy No. 377, being a Debt Policy as outlined in the report from the Divisional Director, Financial Services dated September 17, 2018.

Purpose:

To adopt a new Council Policy pertaining to debt financing.

Background:

A debt management policy serves to set out the parameters for issuing debt, and to ensure that debt financing is used strategically to maintain the City's financial strength and stability. Adoption of this policy will provide guidelines for the decision-making process, and aligns borrowing actions with the strategies set out in the Council adopted Financial Principles & Strategies.

Debt-specific strategies are outlined below

- General Fund debt servicing costs will be maintained at or below a targeted level of annual taxation demand
- The City's debt capacity will be preserved by limiting the use of debt to fund only one-time major capital projects
- If possible and when beneficial, debt will be paid down earlier
- Financing for less than a five-year term will be completed through internal financing
- Impacts on overall City debt levels from "self-funded" cost centres and Funds will be reviewed and understood

The Debt Policy provides appropriate guidance for the use of debt to support the goal of providing adequate infrastructure, services and resources to meet community requirements, and to ensure the financial sustainability of the City. The policy sets out guidelines for using debt along with ongoing administration requirements. This policy includes legal limits, financial limits, and public policy limits as outlined below.

Constraints

Legal Limits - Community Charter

- The City will not incur a liability if that causes the annual cost of servicing the aggregate liabilities to exceed 25% of the annual calculation revenue of the City for the previous year (CC Section 174 and regulation 254/2004).

Financial Limits – City of Kelowna

- Internal municipal debt limits based on debt servicing costs are set at:
 - 15% of City own source revenues, and
 - 8% of annual tax levy revenues for tax supported debt.

The City of Kelowna's ability to maintain service levels from year to year will be monitored with the following ratio.

- tax-paid debt charges as a percentage of annual tax levy revenue

The community's ability to support further indebtedness will be monitored with the following ratios.

- debt per capita
- debt to taxable property value

Financial flexibility should be emphasized for self-funded cost centres to ensure their ability to respond to emerging opportunities. The relationship between self- and taxation-funded debt will be monitored with the following ratio:

- self-funded debt as a percentage of total debt

Public Policy Limits

- Debt is to be managed in a manner consistent with the guiding principles and long-term planning objectives of the City. New debt must align with capital plans and strategies and other financial considerations, such as ability to pay, to support a positive image for the City.
- Decisions about the use of debt must consider all alternative capital financing sources. Long term debt will be considered for capital expenditures that are included in the City's approved 10 Year Capital Plan

Internal Circulation:

G. King, Financial Planning Manager
L. Demer, Financial Analyst
S. Fleming, City Clerk

Existing Policy:

The debt policy is formed from the basis of the Principles and Strategies for Financial Strength and Stability adopted by Council in August 2015.

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Financial/Budgetary Considerations:

Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by: G Davidson, Divisional Director, Financial Services

Approved for inclusion:



Genelle Davidson, Divisional Director Financial Services