

CITY OF WHITEHORSE

COUNCIL POLICY

POLICY: **Fiscal Management - Debt Management**

PURPOSE: To standardize and rationalize the issuance and management of debt by the City of Whitehorse. The objective is to establish conditions for the use of debt, create procedures that define the level of debt to be included in rates, and minimize the City's debt servicing costs.

AUTHORITY: Council Resolution #2002-09-10 dated May 13, 2002

DEBT MANAGEMENT POLICY

Background

Regular, updated debt policies are an important tool to ensure the use of the City's resources to meet its commitments to provide needed services to the citizens of Whitehorse and to maintain sound financial management practices. These policies are therefore guidelines for general use, and allow for exceptions in extraordinary conditions.

Definitions

LONG TERM DEBT means the obligation to repay funds borrowed over a period exceeding one year.

ANNUAL DEBT SERVICING COST means the aggregate cost each year to pay principal and interest on the long-term debt.

TAXABLE ASSESSMENT means that portion of total assessment from which tax revenue is calculated.

PER/CAPITA DEBT means total long-term debt divided by population estimates.

WATER AND SEWER FUND means a separate accounting entity used to track resources segregated for water and sewer activities.

GENERAL FUND means the accounting entity used to track resources used for all activities other than water and sewer.

General

1. The debt capacity analysis is premised on the idea that resources, as well as needs, should drive the City's debt issuance program. It will link projected long-term financing with economic, demographic and financial resources expected to be available to pay for that debt.

2. Many analysts use debt ratios to analyze debt levels. This analysis is not intended to review the City's total financial position or to make projections of future expenditures other than debt service. The decision to use debt to finance capital needs should be weighed against the ability to manage debt over time to achieve the City's goals.
3. The concept of debt capacity or affordability, recognizes that the City of Whitehorse has a finite capacity to issue debt at a given taxation or fee for service level that is significantly less than the maximums allowed under existing legislation.
4. The City's ability to meet future debt obligations will depend on the financial and other economic resources available at that time. This analysis assumes a continuation of the current situation, particularly as to the City's tax structure and population and assessment growth. An additional source from which the City can obtain debt capacity is through the retirement of currently outstanding debt. As the City retires debt this amount becomes available as a resource for new debt issuance without adding to the City's existing debt position. A Change in Debt Servicing analysis illustrates the effect of debt retirement on costs based on the Capital plan.

Application

5. This policy will apply to all long-term financial commitments proposed by the City. Debt incurred for utilities will, as a matter of policy, be compensated for through the Water and Sewer rate structure.
6. The City of Whitehorse will analyze the rationale for any additional long term borrowing in accordance with the following guidelines that fall within the debt restrictions outlined in sections 249 - 254 of the *Municipal Act*

Debt Term and Structure

7. To avoid charging users for facilities that do not benefit them, debt will not be issued for a term exceeding the useful life of the facilities as defined by generally accepted engineering and financial principles.
8. Debt should be structured to provide for level annual debt servicing costs. Deferring payment of principal should be avoided except in select instances where it will take a period of time before project revenues are sufficient to service the debt.

Procedure

9. Each year a Capital Plan will be developed indicating anticipated projects, their cost, and how they will be financed.
10. Once it is determined that borrowed funds would be required to finance a project, the following analyses, which include the proposed borrowing, are completed:
 - (1) Ten Year Debt Analysis
 - (2) Statutory Borrowing Limits Analysis

- (3) Change in Debt Servicing Cost Analysis
 - (4) Debt Load Statistical Analysis
11. If it is determined that the proposed borrowed funds would:
- (1) exceed 50% of the total debt allowed under the *Municipal Act*; or
 - (2) cause the General Fund per capita debt to exceed \$500; or
 - (3) cause the General Fund annual gross debt servicing costs to exceed 10.0% of the annual tax levy; or
 - (4) cause General Fund gross debt servicing costs per capita to exceed \$70; or
 - (5) cause Water and Sewer Fund gross debt servicing costs to exceed 20% of water sales,
- the project or purchase would not be included in the plan unless otherwise directed by Council.
12. Should the guidelines be met, the project is included in the capital plan and subsequently included in the appropriate annual capital budget subject to the same review.
13. Authorization to bring forward the borrowing of the funds will be made as part of the adoption of the annual budget.
14. Timing of the borrowing and the prerequisite borrowing bylaw will be determined based on optimizing cash flow projections.

◆April 30, 2002