Policy Fin – 02

Debt Management Policy

Purpose

The incurrence of long-term debt can be an appropriate financial tool as the beneficiaries (future users) of the capital infrastructure funded by the long-term debt are responsible for the future repayment of the long-term debt. Regional Service Commission 11 will only incur debt subject to this policy which details guidelines to address the management of long term debt. The following elements are integral to an effective debt management plan.

Regional Service Commission 11 will only incur new debt when it is consistent with its strategic direction and objectives. The use of debt solely to reduce current user fees is to be avoided. This policy provides the framework for the management of long term debt. Long term debt is a source of funding that will be used to support capital expenditures. Long term debt will not be used to finance operating expenses.

Debt must be affordable and manageable as effective debt management is an important part of the overall financial management of the Commission. In this regard, the following points form the basis of the Commission's Debt Management Policy:

1. The focus of an effective debt management policy should be on debt "management" as opposed to debt "reduction". Debt reduction is a component but it is not the only objective in this debt management policy.
2. An effective debt management policy should also focus on debt "avoidance". In this regard, the link to and management of reserves is an important factor in debt management.
3. An effective debt management plan needs to be flexible in order to address new initiatives and take advantage of changing markets.

Definitions

1.1 Affordability – means ability to pay for Debt Servicing costs and life cycle expenditures for the underlying asset. The overall measure of affordable debt is the burden of debt servicing costs and life cycle expenditures relative to Commission revenues.

1.2 Capital Expenditures – means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board Section 3150.

1.3 Debt – means borrowing, usually in the form of a debenture varying in debt terms. Other forms of debt include but are not limited to leases of capital property.

1.4 Debt Servicing – means annual required debt repayments including interest and principal.

1.5 Debt Term – The period of time during which debt payments are made. At the end of the debt term, the Debt must be paid in full.

1.6 Debt Avoidance – The setting aside of funds for the purpose of having funds on hand in reserve to finance capital projects that would otherwise be financed by incurring new debt.

1.7 Flexibility – the ability of the Commission to issue new debt in response to emerging financing needs.

1.8 Interim financing – means borrowing made for the purpose of temporarily financing a capital project.

1.9 Long-Term Debt – Debt with terms beyond one year.

1.10 Short Term Debt – Debt that is due on demand (i. e. bank operating lines) or otherwise due within one year.

1.11 Sustainable – means meeting present needs without compromising the ability to meet future needs.

GUIDELINES

Use of Debt

RSC 11 will only incur and carry long-term debt to support priority capital expenditures pursuant to approved capital budgets. Long-term debt will not be incurred for operating purposes. The Commission may, from time to time, incur short-term debt (i.e. bank line of credit funding) to bridge short-term cash flow requirements (the primary source of bridging is reserves). Generally, long-term debt will only be incurred after all other funding sources have been explored.

Where feasible, capital expenditures for equipment less than $100,000 in cost shall be purchased from operating funds to minimize the use of debt. However, in those instances where numerous pieces of equipment costing less than $100,000 each, but totalling a significant amount may be grouped together and purchased using debt proceeds, in an effort to manage the Commission's costs in accordance with its strategic plans.

Debt Approval

Capital expenditures for debt financing will proceed through the budget cycle. Should an unbudgeted capital project arise, the Board will be informed of the requirements for unbudgeted borrowing and the requirements of the Regional Service Delivery Act will be followed. A resolution shall be required for all long-term borrowing applications.

New debt issues will:

- Be affordable, sustainable, and maintain the Commission's financial flexibility
- Align with the Commission's capital plans and strategies and other financial and non-financial considerations

Debt Limits

The total debt outstanding shall not exceed the Province of New Brunswick debt limit guidelines. These provide that the Commission's Debt Service Cost to Gross Expenditures ratio should not exceed 20%.

Debt Service Cost to Gross Expenditures is defined as a measure of the portion of the budget which is allocated to the repayment of long-term debt.

Total Debt Service Cost includes:

• Principal repayment

• Bank Service Charges

• Interest expense

• Capital lease payments

• Interim interest

• Guarantees

• Debenture issue expenses

• Purchase arrangements

• Sinking fund allocations

It is calculated by dividing Total Debt Service Cost by Total Expenditures and then multiplying the result by 100.

Notwithstanding the Provincial limit of a 20% debt service ratio the Commission will attempt to manage its debt portfolio within a target of 15%. This will mean that there will be unused capacity to deal with unforeseen circumstances or opportunities.

There will undoubtedly be times when normal operations require the Commission to exceed this 15% level but part of that planning will include a long term strategy to return to that target or to adjust the target level as appropriate to the circumstances at the time.

Interim Financing

The Commission may borrow funds on an interim basis until long-term financing is arranged, in accordance with the Municipal Capital Borrowing Act.

Debt Amortization Term

Debt amortization shall not exceed the probable life of the underlying assets. It is preferable that the debt amortization be less than the probable life of the asset, provided it is affordable.

Date Approved: ______________________________
Chair: ______________________________
Executive Director: ______________________________