Agenda – Council – February 22, 2024

Report – Standing Policy Committee on Finance and Economic Development – February 5, 2024

Item No. 2 Debt Management Policy Update

STANDING COMMITTEE RECOMMENDATION:

On February 13, 2024, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and Economic Development and submitted the following to Council:

1. That the Debt Management Policy, effective immediately, as included as Appendix A to this report, including the accompanying Debt Strategy included as Appendix B to this report, be adopted.

2. That the Proper Officers be authorized to do all things necessary to implement the intent of the forgoing.

Report – Standing Policy Committee on Finance and Economic Development – February 5, 2024

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 13, 2024, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and Economic Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On February 5, 2024, the Standing Policy Committee on Finance and Economic Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: Debt Management Policy Update

Critical Path: Standing Policy Committee on Finance and Economic Development – Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
R. Provencher, C. Kloepfer	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The City adopted a Debt Management Policy ("Policy") on February 23, 2005. On June 22, 2011, Council also adopted a Debt Strategy ("Strategy") which imposed limits on City borrowing.

The Financial Services Division of Corporate Finance has conducted a jurisdictional scan, compared the City's Debt Management Policy and Strategy to criteria used by credit rating agencies, and is recommending a refresh to use more modern language, streamlined measurements, and an increase in the affordability thresholds. In addition, the Policy and Strategy are now using current City of Winnipeg formats.

Key updates include:

- The target duration is set at 30 years, up from 20 years, with exceptions for market conditions or life span of the asset being financed.
- Removal of debt per capita and debt servicing as a percentage of revenue metrics as they bear limited relevance as debt limit measures for the City.
- Change in net debenture debt as a percentage of operating revenues to 100% from the previous level of 90%, as per the accompanying Strategy. This change aligns to practices across the country and aligns with the measurements used by the credit rating agencies.
- Streamlined measurements using the City as a whole.
- To ensure its continued effectiveness, the Policy now contains a mandatory review of the Policy and Strategy during each term of Council.

RECOMMENDATIONS

1. That Council adopt the Debt Management Policy, effective immediately, as included as Appendix A to this report, including the accompanying Debt Strategy included as Appendix B to this report.

2. That the Proper Officers be authorized to do all things necessary to implement the intent of the forgoing.

REASON FOR THE REPORT

The Strategic Priorities Action Plan recommends the Debt Management Policy be updated, including a jurisdictional review. A Debt Management Policy is a combination of written guidelines and restrictions, which impact the way the City manages its existing and potential future debt. Good governance practices recommend such policies be reviewed from time to time.

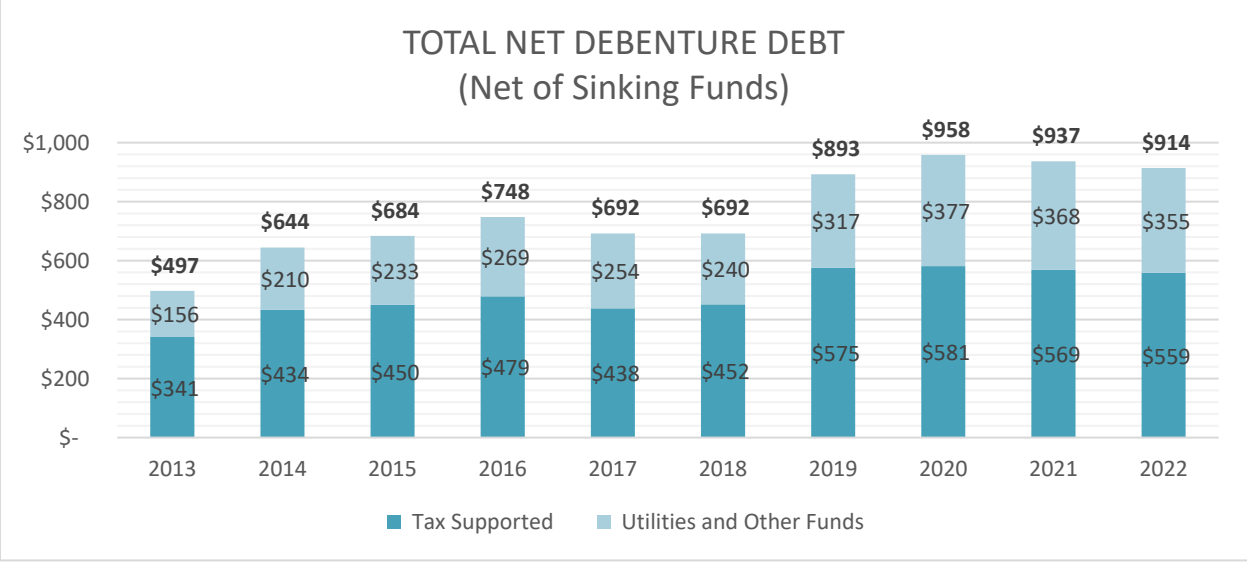
IMPLICATIONS OF THE RECOMMENDATIONS

There are no immediate implications of the updated Debt Management Policy other than clarifying current policy. However, the increase in the debt affordability measure provides additional capacity to accommodate expected upcoming capital investments. The Public Service will continue to provide the impact of each such capital project on the remaining borrowing capacity as projects are brought forward for approval.

HISTORY/DISCUSSION

In 2005, the City of Winnipeg adopted a Debt Management Policy which brought together in one document the existing rules, regulations, and current practices (at that time) relating to external debt.

The City of Winnipeg uses long-term debt in the form of debentures issued in the capital markets in order to fund capital expenditures. This is governed under Part 7 of The City of Winnipeg Charter which provides the authority for Council to borrow money. In most cases, the target duration of the debentures is 30 years; however, there can be exceptions. For example, to fund the major Waste Water treatment plant upgrades, the City may issue longer term debt of 50 years or more given the intergenerational nature of such projects.



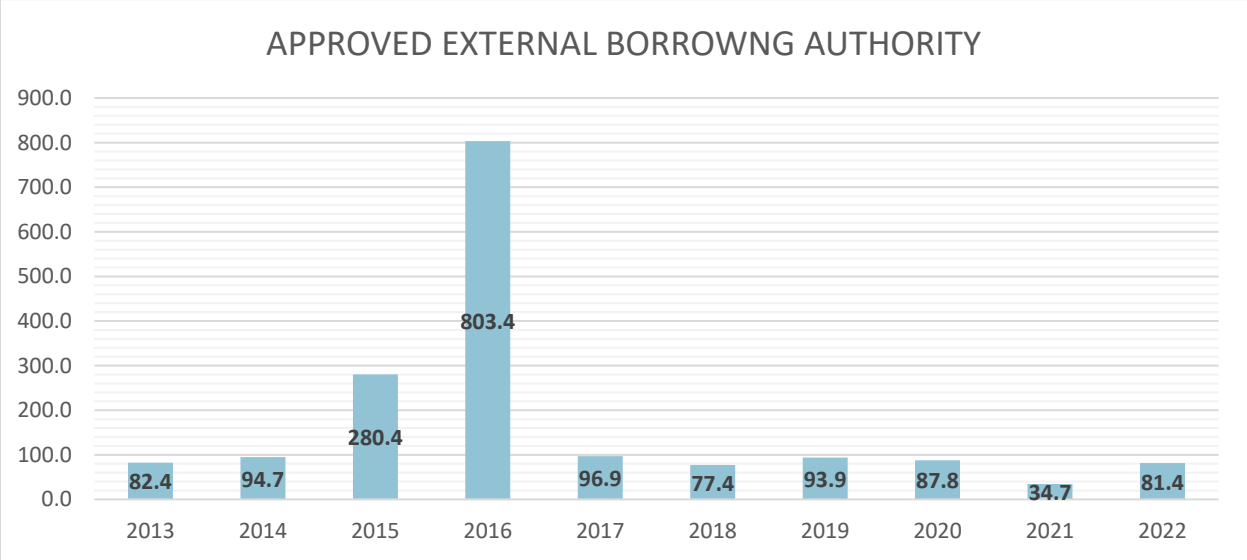
Debt levels are monitored by the credit rating agencies used by the City including Moody's and S&P Global. Comments from their most recent rating reports speak to the debt levels as follows: *Downward rating pressure would result from sustained lower level of gross operating balances or a rise in net direct and indirect debt above 100% of revenues.*

Moody's October 19, 2023

We could lower the ratings in the next two years if slower-than-expected economic growth hinders the city's revenue-generating ability and erodes budgetary performance such that after-capital deficits exceed 5% of revenues on a sustained basis and result in additional borrowing requirements that push the debt burden to more than 120% of revenue or the interest expense to greater than 5% of revenues.

S&P Global November 15, 2023

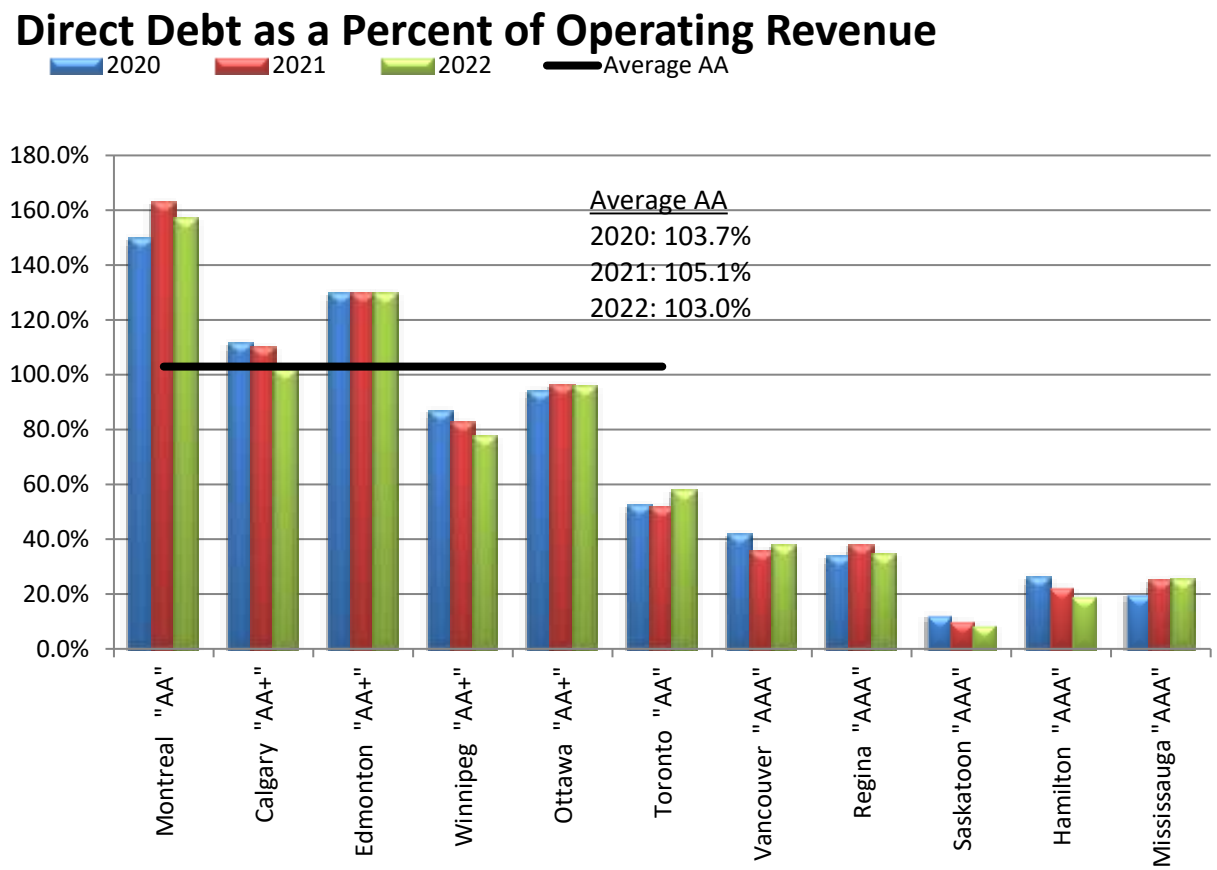
The Adopted Budget Recommendations each year include a borrowing authority level based on the projects and programs included in the capital budget.



*2016 includes $587 million for Utility operations (NEWPCC) and $112 million for Southwest Rapid Transit

Through the continued adherence to the City's Debt Management Policy, the City is demonstrating to residents, investors, credit rating agencies and the capital markets in general that it is committed to maintaining a prudent and affordable amount of debt. Further evidence to support this theory is this statement from S&P Global in the same credit report of November 15, 2023: *"Prudent financial management practices will allow the city to manage its large capital plan and maintain stable budgetary performance."*

Direct Debt[1] as a Percent of Operating Revenues[2]: Of the following Canadian municipalities rated by Standard & Poor's in the AA to AA+ category, the average direct debt as a percent of operating revenues was 103.0% in 2022. Winnipeg's direct debt as a percent of operating revenues in 2022 was below average when compared to these other Canadian municipalities.



*Source: Standard & Poor's, Ratings Direct

Currently the City's debt is broken down by Tax Supported, Utility and Other. When reviewing City of Winnipeg debt, rating agencies monitor total levels of debt for the City, going forward, streamlined measurements using the City as a whole will more accurately reflect this.

[1] Definition of Direct Debt: Long-and short-term financial debt assumed directly by the borrower (loans, bonds, credits, and capitalized lease obligations) that a local and regional government (LRG) is obliged to pay to another entity in accordance with an express agreement or for any other legally binding reason. This excludes guaranteed debt and the debt of government-related entities, unless serviced by the LRG on an ongoing basis. It includes debt serviced via subsidies from other levels of government unless the legal obligation to service this debt is transferred to the other government. Standard & Poor's.

[2] Definition of Operating Revenues: Recurrent revenues received by an LRG. Operating revenues are comprised of taxes and non-tax revenues such as grants, operating subsidies, fines, and fees for services, tariffs, rents, and other sources levied by the LRG. They exclude capital revenues such as capital subsidies and sales of assets, and any revenues from borrowed funds. Standard & Poor's.

Total City Debt Capacity will be increased from 90% to 100%. This will increase the City's total borrowing capacity by approximately $250 million based on current projections. This change aligns to practices across the country and aligns with the measurements used by the credit rating agencies. Based on the proposed debt-funded capital projects/programs included in the Preliminary 2024-2027 Multi-Year Budget, approximately $130 million will remain after the anticipated March 2024 adoption.

The Public Service also recommends the removal of a debt per capita measurement and debt servicing as a percentage of revenue metric as they both bear limited relevance as debt limit measures for the City.

Financial Limits – Debt and Capital Financing	**Total City**
Debt Capacity: ▪ Net debt as a percent of revenue not to exceed	100%

It has been almost two decades since the City first adopted the Debt Management Policy, and thirteen years since the adoption of the accompanying Debt Strategy. In order to ensure the ongoing effectiveness of this Policy and Strategy, the updated Policy includes a mandatory review and update during each term of Council.

FINANCIAL IMPACT

Financial Impact Statement

Date: January 12, 2024

Project Name:

Debt Management Policy Update

Comments:

There are no financial implications associated with the recommendations of this report.

Randy Bernard

Randy Bernard, CPA, CMA
Manager of Finance & Administration (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with: N/A

OURWINNIPEG POLICY ALIGNMENT

1.6 Results-Based Budgeting – Use this Plan as a foundation for municipal budget priorities to achieve integrated, intergenerational life-cycle planning that maximizes community return on investment.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Climate Action Plan (CAP), and it was determined that the CAP is not applicable to this specific report.

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Consideration was given as to whether this report connects to the Winnipeg Poverty Reduction Strategy (PRS), and it was determined that the PRS is not applicable to this specific report.

SUBMITTED BY

Department: Office of the Chief Financial Officer
Division: Corporate Finance
Prepared by: Catherine Kloepfer and Rob Provencher
Date: January 12, 2024
File No: N/A

Attachments:

Appendix A: Updated Debt Management Policy

Appendix B: Updated Debt Strategy