



Policy Title: Debt Policy
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Policy Owner: Chief Financial Officer's Department

1. POLICY STATEMENT

- 1.1 The City of Calgary ("The City") utilizes debt in its commitment to manage its fiscal position in a prudent and sustainable manner, as well as balance the need for Capital Infrastructure and Calgary's ability to pay for it.
- 1.2 Debt must be structured in a way that can reasonably be considered fair and equitable to those who pay and benefit from the underlying assets over time.
- 1.3 The *Debt Policy* guides the rationale and processes that govern The City's borrowing as it pertains to the overall levels of indebtedness, the structure of the debt, as well as the annual debt servicing limits.
- 1.4 The issuance of new debt must be approved by Council and authorized by adopting a borrowing bylaw.

2. PURPOSE

- 2.1 The purpose of the *Debt Policy* is to outline objectives, standards and appropriate controls for the use and issuance of debt, and to ensure that The City's financial conduct is governed by the following principle:
 - 2.1.1 The City utilizes debt prudently and efficiently in accordance with best practice as applied in the context of municipal fiscal policy and treasury management. This includes, but is not limited to the following considerations:
 - 2.1.1.1 Identifying sources of funding for debt repayment when debt is issued
 - 2.1.1.2 Aligning with The City's planning and budgeting process and longer-term financial considerations
 - 2.1.1.3 Ensuring appropriate guidelines and controls are in place for both the issuance and use of debt
 - 2.1.1.4 Minimizing the long-term cost of financing
 - 2.1.1.5 Striving to maintain or improve The City's credit rating
 - 2.1.1.6 Considering the use of debt in the context of other forms of financing, generally as the last applied form of financing.
 - 2.1.1.7 Limiting financial risk exposure and applying appropriate risk mitigation strategies



- 2.1.1.8 Fulfilling all relevant provincial and federal legislative requirements
- 2.1.1.9 Adhering to transparent and reasonable reporting requirements
- 2.1.1.10 Designating the relevant authority and responsibilities to qualified personnel and following the appropriate reporting structure in alignment with other City Finance policies
- 2.1.1.11 Formally enforcing ethical conduct and mitigating potential conflicts of interest for staff involved in debt issuance activities
- 2.1.1.12 Ensuring that the City has sufficient debt capacity available to provide for financial flexibility by appropriately managing the timing of cash flows in both short term as well as longer time horizon.

3. DEFINITIONS

3.1 The following definitions apply:

3.1.1 Amortizing Debt

Refers to repayment of debt according to a predetermined amortization schedule that is generally composed of fixed payments paid in regular installments. Each payment is composed of a principal and an interest component so that the debt is repaid in full at the maturity date.

3.1.2 Bullet Debt

A debt structure whereby a large portion (or the full amount) of principal is repaid at a specified date, usually at maturity. Regular installments between inception and maturity cover the interest portion of the debt only.

3.1.3 Credit Rating

Quantitative and qualitative assessment of borrower's creditworthiness (as it pertains to the ability to honour existing and potential debt obligations) conducted by a reputable credit rating agency (such as Standard and Poor's, Moody's Investors Service, Inc., DBRS Morningstar or Fitch Ratings) that is based on past indicators as well as estimates of future metrics. In a municipal context, at this time, the following areas are generally subject to a due diligence process by the credit rating agency: economic structure, fiscal and financial management, as well as relations with senior levels of government. Additional factors may include ownership of municipal corporations and municipal governance. The higher the credit rating score, the greater the ability to issue debt efficiently.

3.1.4 Debt

Money borrowed from a counterparty in exchange for compensation in the form of interest payment. It represents an obligation that must be repaid within a predetermined time horizon under conditions that both parties to the transaction agree upon. Debt is



utilized primarily when other sources of financing are not available or are considered less efficient.

3.1.5 Debt Structure

The structure of debt repayment agreed upon between the lender and the borrower upon issuance of debt. Specifically, it may refer to the time pattern (e.g., duration and timing) of principal and interest payments, interest rate calculation (e.g., fixed or variable rate), credit and liquidity enhancements, use of derivatives, and potentially other tools available to structure debt. In general, debt should be structured to achieve the lowest possible cost of funds, subject to constraints of debt maturity, the capital asset being financed, capital market conditions and the objectives of the *Debt Policy*.

3.1.6 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.

3.1.7 Derivatives

Financial security (a contract) whose price is derived from changes in value of the underlying asset. In municipal debt context, derivatives are primarily utilized for risk management purposes (hedging) by allowing the debt issuer (The City) to transfer certain kinds of risk to a counterparty in the transaction. Prudent use of derivatives may increase the City's financial flexibility and provide opportunity for cost savings.

3.1.8 Financing Method

Method of financing a project or initiative either from own or borrowed sources. Examples include earmarking of a specific funding source, issuing debt, entering into a derivatives contract or lease financing.

3.1.9 Funding Source

Sources of funds earmarked to repay debt, either capital or operating in nature. May refer to a variety of tools such as proceeds from the City's investment portfolio, operations (sales of goods and services), user fees and levies, tax revenue, grants, reserves or other revenue sources.

3.1.10 Long-term Debt

Debt with maturity over one year generally issued to finance a capital project or a capital asset purchase.

3.1.11 Revenue



The total revenue reported in the City's last available audited annual financial statement, net of any transfers from other levels of government reported as revenue, and net of contributed or donated tangible capital assets reported as revenue. Sources of revenue include but are not limited to the following: property taxes, revitalization and improvement levies, business taxes, sales of goods and services, investment income, fines and penalties, licenses, permits, fees, or other miscellaneous revenue.

Revenue of authorities over which the City has direct control (Calgary Parking Authority, Calgary Public Library Board, Calhome Properties Ltd. (operating as Calgary Housing Company), Calgary Municipal Land Corporation, Attainable Homes Calgary Corporation, The Calgary Convention Centre Authority (operating as Calgary TELUS Convention Centre), Calgary Economic Development Ltd., Calgary Arts Development Authority Ltd.) is included in this calculation.

ENMAX Corporation, a wholly owned subsidiary of The City, is excluded from the debt limit calculation. Other organizations that have fiscal relationships with the City but are not included in City's consolidated financial statements, such as City and Civic partners, are also excluded from debt limit and debt servicing limit calculations.

3.1.12 Self-sufficient Tax-supported

Debt for non-utility operations, programs or activities, whose operating costs, including debt servicing, are self-funded by revenues or cash flows from a dedicated funding source. Self-sufficient tax-supported debt has also included short-term debt that was funded from future grant receipts from the Alberta Government's Municipal Sustainability Initiative (MSI).

3.1.13 Self-supported Debt

Debt mainly for City Utility services which is not funded by tax revenues but by revenues generated by the Utility, including rates charged directly to users and other cash flows generated from operations.

3.1.14 Short-term Debt

Short-term debt issued in the form of commercial paper or promissory notes issued to manage cash flows of The City. The primary purpose is to bridge the gap between cash outflows and cash inflows. Short-term debt is limited in its term to 365 days and is not issued as a financing source for any capital projects and/or capital asset purchases.

3.1.15 Structured Debt

A form of debt "tailored" to borrower's needs. May be used in instances where traditional forms of amortizing debt are considered insufficient to address the scale of a project, and/or related implications on risk, credit or liquidity management need to be addressed either through the use of derivatives or additional structure-enhancing mechanisms.



3.1.16 Tax-supported Debt

Debt issued for capital expenditures that is funded in whole or in part from tax revenues.

3.1.17 Tax-supported Gross Expenditures (Net of Recoveries)

Expenditures funded in whole or in part from tax revenues, calculated as total City expenditures (net of recoveries) less City utilities expenditures net of recoveries.

3.1.18 Taxable Assessment

Total residential, commercial, industrial, and farm value assessed for property tax purposes as reported by the City of Calgary in accordance with the Municipal Government Act.

3.1.19 Total Debt

Includes all principal that is outstanding at the calculation time on all borrowings made or guaranteed by the municipality, less any principal the City is entitled to recover at the calculation time. Debt may be in a form of a debenture, bond, commercial paper, promissory note, lease of capital property, participation in a Public Private Partnership (PPP), loan, loan guarantee or other form of contractual long-term financial commitment or guarantee.

3.1.20 Total Debt Service

All principal and interest payments with respect to debt as defined above that the City is required to pay in a 12-month period after the calculation time, or that the City is liable to pay as a result of guarantees made by the City, less any principal and interest amounts to be recovered within that period.

- 3.2 Furthermore, this Council Policy applies the definitions related to pertinent sections of MGA, namely those related to "Borrowing" (section 251 to 263) and "Loans and Guarantees" (section 264 – 268), including any subsequent amendments.

4. **APPLICABILITY**

- 4.1 This Council policy applies to all City departments, business units and services. It does not apply to The City's subsidiaries that are consolidated in The City's financial statements.
- 4.2 The *Debt Policy* should be read in conjunction with Council's *Budget Reporting Policies (CF0006)* that sets forth procedures on reporting of budget variances, adjustments and spending.

5. **LEGISLATIVE AUTHORITY**



- 5.1 Pursuant to The City of Calgary Charter (Alberta Regulation 40/2018), Council must obtain an external credit rating and then establish a debt limit policy and a debt servicing policy. Before establishing a debt limit policy and a debt servicing policy, Council must hold a public hearing with respect to those policies in accordance with section 230 after giving notice of it in accordance with section 606 of MGA.
- 5.2 Furthermore, the *Debt Policy* is to be aligned with other pertinent sections of MGA, namely those related to “Borrowing” (section 251 to 263) and “Loans and Guarantees (section 264 – 268), including any subsequent amendments.
- 5.3 This Council Policy is in compliance with applicable provincial and federal laws and regulations.

6. PROCEDURE

6.1 Categories of Debt

6.1.1 All Debt will be categorized as either:

- a) Tax supported;
- b) Self-sufficient tax-supported; or
- c) Self-supported.

6.1.2 Debt limits for Tax-supported Debt are to include Self-sufficient Tax-supported Debt.

6.1.3 No Debt will be approved or originated without an identified Funding Source for repayment of all principal and interest to the satisfaction of the Treasurer.

6.1.4 All use of Debt will be considered in the context of other forms of financing

6.2 Debt Limits

6.2.1 Total Debt shall not exceed 1.6 times Revenue.

6.2.2 Total Debt service shall not exceed 0.28 times Revenue.

6.2.3 The limit for the City Tax-Supported Debt service is a maximum of 10% City Tax-Supported Gross Expenditures (net of recoveries).

6.2.4 If any Debt Limits are exceeded, Administration will prepare a recommended plan for returning to the limit or below within the next budget cycle.

6.2.5 The City will also report the level of indebtedness as measured by the following:

- a) Tax-supported Debt per capita;
- b) Tax-supported Debt as a percentage of Taxable Assessment

6.3 Debt Terms

- 6.3.1 The term of any Debt for capital assets shall not exceed the useful life of the asset being financed.
 - 6.3.2 The term of any Debt shall not exceed 20 years unless approved by Council.
 - 6.3.3 Procedures shall be developed to review and consider cost saving opportunities through prepayment or refinancing of existing Debt.
 - 6.3.4 Short-term Debt issued for cash management purposes shall not exceed a term of 365 days.
- 6.4 Debt Structure
- 6.4.1 In order to minimize the cost of Debt, Amortizing Debt will be used in most circumstances.
 - 6.4.2 Structured Debt, including Bullet Debt, may be considered for Short-term Debt or only when the cash flows of the funding source support a structure other than Amortizing Debt.
- 6.5 Credit Rating
- 6.5.1 The City will strive to maintain or improve its current Credit Rating (“AA (high)” according to DBRS Morningstar and “AA+” according to Standard & Poor’s Global Ratings) for long term debt in order to minimize the cost of debt and be able to access capital markets in an efficient manner. The minimum Credit Rating required for The City to maintain in order to issue debt is investment grade.
- 6.6 Policy Review
- 6.6.1 The Director of Finance (City Treasurer), Corporate Budget Office Manager and Treasury Manager will formally review the Debt Policy at least once in every five years. Any changes or revisions to legislation which affect the policy will apply when they come into force. The Debt Policy will be updated to reflect such changes at the time of formal review.
- 6.7 Use of Derivatives
- 6.7.1 Derivatives may be used insofar as they facilitate achieving a specific financial objective consistent with the *Debt Policy*, and if deemed prudent and in The City’s best interest as determined by the City Treasurer. They are to be considered as an interest rate management tool in instances when they could facilitate the hedging of risk or achieving significant cost savings as compared to a non-derivative financial instrument. For instance, in certain cases The City may wish to consider issuing Debt with variable interest rate. To mitigate associated interest rate risk, The City may consider entering into an interest rate exchange



agreement that would effectively alter the pattern of Debt service payments or cap the variable rate at a predetermined level. Alternatively, were the City to issue Debt denominated in a foreign currency, entering into a foreign currency exchange agreement should be considered to convert the obligation to Canadian currency.

7. SCHEDULE(S)

8. AMENDMENT(S)

Date of Council Decision	Report/By-Law	Description
2020/11/2	TT2020-1191	Policy Created

9. REVIEWS(S)

Date of Policy Owner's Review	Description