Winnipeg

CITY OF WINNIPEG POLICY NO. FI-002

POLICY TITLE	ADOPTED BY	EFFECTIVE DATE
Debt Management Policy	*City Council*	*February 23, 2005*
ORIGIN / AUTHORITY *Executive Policy Committee*	**CITY POLICY NO.** FI-002	**MOST RECENT CONSOLIDATION** *February 22, 2024*

This document is an office consolidation of amendments to the policy. The City of Winnipeg expressly disclaims any responsibility for errors or omissions.

1. Purpose

The City of Winnipeg (City) recognizes that the foundation of any well-managed debt program is a comprehensive debt policy. This Debt Management Policy:

- sets the parameters for issuing debt and managing outstanding debt;
- provides guidance to decision makers regarding the timing and purposes for which debt may be issued; and
- provides guidance on the types of debt and structural features that may be used.

For the purposes of this policy, debt means public debentures issued, Public Private Partnership liabilities, bank loans and loan guarantees to City affiliated entities that form part of the City's Consolidated Financial Statements. Loan guarantees to external entities are not considered to be debt for purposes of the City's Consolidated Financial Statements.

Adherence to a Debt Management Policy helps to ensure that a government maintains a prudent debt position and signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations.

The benefits of this Debt Management Policy are as follows:

- Enhances the quality of decisions by imposing order and discipline, and promotes consistency and continuity in decision-making;
- Rationalizes the decision-making process;
- Identifies objectives for the Public Service to implement;
- Demonstrates a commitment to long-term financial planning objectives; and
- Is regarded as a positive rating factor by the credit rating agencies in reviewing credit quality.

The City has instituted sound management practices that support Our Winnipeg, the organization's long-range policy plan and the Financial Management Plan, the framework for the City's overall fiscal planning and management. In addition, the City has followed practices that reflect positively in the credit rating process. Among these are the Debt Strategy Policy, Financial Management Plan, Asset Management Policy and Multi-Year Budget Policy.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. Issuance of debt must consider future projected City revenues and remain affordable to the citizens of Winnipeg. An effective Debt Management Policy provides guidelines for a government to manage its debt program in line with those resources.

2. Definitions

2.1 **"Borrowing Syndicate"** Public debenture issuance syndication is the process of involving a group of lenders (borrowing syndicate) to fund various portions of a debenture for a single borrower. Borrowing syndication most often occurs when a borrower requires an amount too large for a single lender to provide or when the debenture is outside the scope of a lender's risk exposure levels. Thus, multiple lenders form a syndicate to provide the borrower with the requested capital.

2.2 **"Defeasement"** Defeasement relates to methods by which an outstanding bond issue can be made void, both legally and financially.

2.3 **"Loan Guarantee"** A loan guarantee is a promise that the City will repay a lender (e.g., a bank or other financial institution providing credit or funding to another party) the amount guaranteed, subject to the terms and conditions of an agreement and subject to the existing Council adopted Loan Guarantee Policy, which aligns with the City of Winnipeg Charter sections 219 to 220. If the borrower defaults, the City is responsible for payment of the balances outstanding on the loan. The guarantee will reduce the lender's risk and should enable the borrower to secure a loan at a lower interest rate or obtain a loan that might not otherwise have been achievable.

2.4 **"Private Placement"** A private placement is a sale of bonds to pre-selected investors and institutions rather than on the open public market

2.5 **“Public-Private Partnership”** Public-Private Partnerships involve collaboration between a government agency and a private-sector company that can be used to finance, design, build, maintain and operate projects, (or a combination of such actions) including public transportation networks, roadways and bridges, or other significant projects. Financing a project through a public-private partnership may facilitate capital project delivery, budget goals and associated feasibility.

2.6 **“Serial Debt”** Serial debt, or amortizing bonds, refers to debentures which have a portion of the outstanding principal retired on each coupon payment date of the debentures (typically semi-annually) such that all of the principal is repaid by the maturity date.

2.7 **“Sinking Fund Debentures”** Sinking Fund Debentures, or bullet bonds, are debt instruments where a single payment is due on the maturity date of the debenture. Interest payments occur during the term of the debt. Annual principal contributions are also made to a Sinking Fund. These contributions will earn interest, with the goal of funding the principal repayment upon maturity of the debenture.

3. Debt Management Policy

The Debt Management Policy brings together in one document the existing rules, regulations, and practices relating to external debt. The policy summarizes the City’s legal authority, restrictions, and responsibilities relating to external debt, which flow from The City of Winnipeg Charter, and addresses other areas related to debt management. This policy has been prepared in accordance with the Government Finance Officers Association (GFOA) Best Practices on Debt Management Policies.
This policy includes:

1. Legal authorization and limitations;
2. Debt capacity and benchmarking;
3. Types of debt and structural features;
4. Debt management practices; and
5. Credit rating considerations.

3.1 Legal Authorizations and Limitations

a) The City of Winnipeg Charter

Subsection 294(1) states that: "Subject to subsection (2), Council may pass by-laws enabling the city to borrow money in such manner, in such amounts, and on such security as council may consider necessary for any purpose for which the city is authorized to make provision, including, without limiting the generality of the foregoing, borrowing money required for local improvements." In addition, subsection 285(2) states: "In adopting an operating budget, council must ensure that the estimated expenditures for a fiscal year do not exceed the estimated revenues for the year."
The City has never borrowed money for operating purposes on other than a temporary or short-term basis. Long-term borrowing is restricted solely for capital purposes.

Note that any deficits incurred in a fiscal year not resolved through reserves, must be considered in the following fiscal year budget as per section 285 (1) (b) of the City of Winnipeg Charter.

b) Debt Strategy Limitations on Indebtedness

On June 22, 2011, Council adopted a Debt Strategy which imposed limits for tax supported, utilities and total City borrowing. Debt limits are reviewed regularly to establish a prudent level of debt to support the City's capital infrastructure program while maintaining an appropriate credit rating, long-term financial flexibility and sustainability.

The City is currently facing an infrastructure deficit related to water and wastewater facilities, roads, parks, transit, land drainage and community facilities, with this financial figure being updated regularly in the City of Winnipeg Infrastructure Plan.

To partially address the City's infrastructure deficit, the City has undertaken several Public-Private Partnerships to enable delivery of capital projects. These Public-Private Partnership arrangements constitute long-term financial obligations that are factored into the debt metrics. In addition, the ability to advance significant capital projects has also been aided through the Government of Canada's Investing in Canada Infrastructure Program.

By ensuring debt remains within the limits set in the Debt Strategy, Council is able to assess affordability when setting multi-year budgets. The Debt Strategy uses three metrics: debt capacity, affordability (service levels) and debt per capita.

The use of debt to finance capital projects increases operating expenses which reduces the ability to maintain service levels with the balanced budget imperative, and it also potentially increases utility rates as debt servicing costs (interest and principal) for the repayment of the debt are a component of the operating budget.

Loan guarantees are legal commitments by the City of Winnipeg to back-stop loans made to third parties. When the City guarantees such a loan, it must disclose this contingent liability in its financial statements. In the case of an entity which is included in the consolidated financial statements of the City, the outstanding loan balance is recorded as a liability in the financial statements and forms a part of the consolidated debt of the City. If the organization defaults on the loan, the City would be obligated to make payments on the loan or pay out the remaining balance of the loan. The City implemented a Loan Guarantee Policy, effective September 28, 2016, to manage this risk.

c) Authority to incur Long-term Debt and issue Debentures

Subsection 294(1) of The City of Winnipeg Charter provides the authority for the City to incur long-term debt and issue debentures. This section states the following:

"*Subject to subsection (2), council may pass by-laws enabling the city to borrow money in such manner, in such amounts, and on such security as council may consider necessary for any purpose for which the city is authorized to make provision, including, without limiting the generality of the foregoing, borrowing money required for local improvements*."

Subsection (2) states:

"*Before council gives second reading to a by-law under subsection (1), the city must apply for and obtain the approval of the Minister of Finance for the borrowing under the proposed by-law*."

Therefore, the authority to incur long-term debt is subject to the approval of the Minister of Finance for the Province of Manitoba. Under subsection 294(4), in considering an application by the City for borrowing approval, the Minister must consider not only the financial position of the City, but may impose terms and conditions of the borrowing which may include the period within which the amount to be borrowed must be repayable.

Section 298 of The City of Winnipeg Charter deals with the authority of the Chief Financial Officer regarding issuing debentures. Once a borrowing by-law has been passed, the Chief Financial Officer has administrative authority to issue debt in the City's name.

Subsection 100(h) requires the Chief Financial Officer to ensure "*that money collected for the purpose of paying interest and principal of city securities is properly applied to those payments.*" Furthermore, subsection 299(1) requires the Chief Financial Officer to report on the issue and sale of debentures "*in such a manner as may be resolved by council.*"

d) Financing of Special Service Units

Section 215 of The City of Winnipeg Charter permits Council to establish special service units (often referred to as 'Special Operating Agencies' or 'SOAs') to provide a commodity or service. Council may under subsection 215(4) authorize a special service unit to "*borrow, on terms and from sources approved by council, to finance the unit's operating and capital requirements*".

3.2 Debt Capacity and Benchmarking

a) Ability to pay

The City has many competing spending priorities for the limited amount of revenues collected each year. The City's capacity to issue debt is directly related to its ability to service the payments required on the debt. These include both annual interest and principal payments, including sinking fund payments. Furthermore, the City's ability to service the payments required is directly linked to the ability of the City to raise sufficient funds from either taxes or fees. This in turn is related to the ability of the citizens to be able to sustain increases in taxes or fees.

b) Capital Budgeting and Debt Financing Relationship

The Debt Management Policy has a direct link to the capital and operating budget processes. Under Subsection 284(2) of The City of Winnipeg Charter, Council is required to adopt an Annual Capital Budget and Five-Year Capital Forecast. These plans reflect the coming 6 years and are updated annually. The capital budget document contains descriptions of the projects, sources of funds and the timing of capital projects, the effect of the projects on future debt outstanding, debt service requirements and current revenue requirements. Subsection 285(1) requires every operating budget to make provision for all amounts required to pay principal and interest payments falling due within the year of any debt of the City. It is important to recognize that a borrowing decision made in the current year for the capital budget will impact future operating budgets by way of principal and interest charges until the maturity date of the debt.

Borrowing to finance capital projects normally occurs in arrears as the project progresses for major projects and subsequent to completion for other projects. The City approves borrowing authority through the Capital Budget process or Administrative Reports to Council. When capital expenditures warrant, the City will issue debentures against the outstanding borrowing authorities, drawing on the oldest borrowing authorities first. The outstanding borrowing authority provides a record of which projects approved in past capital budgets have not yet been completed and/or externally financed.

Borrowing authority is issued to back-stop internal borrowing. Internal borrowing is limited to the balance in the Financial Stabilization Reserve.

c) Tax-Supported and Self-Supporting Debt

The City issues debt for two main purposes related to capital expenditures. Tax-supported debt which is for capital projects that will be serviced from the tax-supported operating budget and self-supporting debt which is for capital projects that will be serviced from revenues from the City's utility operations.

d) Measurements

There are two measurements used to monitor both current and projected outstanding debt levels and debt costs and to plan for future debt levels. This is achieved through the City's Debt Strategy.

The main measurements are as follows:

- Debt interest costs as a percentage of consolidated revenues which may be compared to previous and future years. This measurement allows elected officials to be aware of the amount of the current year's annual budget which is devoted to servicing debt.
- The other measurement is net debenture debt as a percentage of consolidated revenues. This measurement identifies the percentage of annual consolidated revenues that would be required to eliminate the City's outstanding net debt.

e) Asset Life Considerations

The City's practice is to issue debt for a period that aligns with the useful life of the asset being financed. For practical and efficiency reasons, the City issues debt in significantly large amounts, there may be times when not all of the issued debt can be allocated to capital projects with a useful life that matches the maturity of the debt. However, as a matter of practice, every effort will be made to ensure that this result is minimized.

3.3 Types of Debt and Structural Features

a) Types of Debt

Subsection 298(2) of The City of Winnipeg Charter provides that City Securities issued for long-term borrowing may include *"…any provision that in the opinion of the Chief Financial Officer is necessary or advisable to facilitate the sale of the City securities…"*. Subsection 308(1) permits borrowing in currencies other than the Canadian dollar.

In addition, section 293 of The City of Winnipeg Charter permits Council to pass by-laws to provide for temporary borrowing not to exceed the revenues in the City's operating budget for the previous fiscal year. The City has passed a by-law establishing the annual amount the City is authorized to borrow in this manner.

Even though the City has the authority and ability to issue debt in foreign currencies., the depth of the Canadian capital markets is sufficient for the funding requirements of the City. However, should the City exercise its ability to issue debentures in a foreign currency, the City would immediately undertake an analysis to determine if it should eliminate the exposure to foreign currency fluctuations related to this transaction through hedging arrangements. Subsection 291(1) of The City of Winnipeg Charter allows the City to enter into agreements respecting the management of its debts once Council has adopted a policy for entering into that type of agreement and this policy is approved by the Minister of Finance. The City currently does not have a Financial Instruments Policy with respect to debt management agreements (eg. these agreements are used for derivative instruments) and has not entered into those types of agreements.

The City's current portfolio of debt is primarily fixed rate including Sinking Fund (Bullet) debt but has issued Serial debt in the past.

There may be merit to issuing debt that has a maturity date which is shorter than the asset life being financed, for example, bridges have a very long useful life.

Section 300 of The City of Winnipeg Charter allows the City to issue variable rate debt. Council must, by by-law, establish a policy regarding the issuance of variable rate securities prior to their use and this policy must be approved by the Minister of Finance. The City has not issued any variable rate securities to date.

b) Structural Features

The City's historical preferred term of financing is 30 years which reflects the average useful life of the projects the City finances with external debt. In the event the capital markets are not receptive to an issue in this term, the City may issue shorter term or longer debt. Alternatively, for inter-generational projects, the City may choose to issue longer term debt. The City has typically issued debentures with sinking fund provisions. However, the City could also issue serial debt if market conditions so warrant.

Subsection 298(2)(b) provides for the issuing of Callable or Redeemable debentures. Callable debentures allow the City to pay off the debentures earlier than the maturity date without a penalty to the City. Redeemable debentures allow the holder of the debenture to request payment of the debenture sooner than the maturity date of the debenture without penalty. Each of these debenture structures could have a benefit to the City depending on the interest rate environment they were issued under. The City would pay a premium to issue a redeemable debenture. The City has not used either of these features in a debenture issue in recent years.

Derivative products may be considered for altering the debt structure from fixed to floating and vice versa as well as a means of setting a ceiling on the coupon rate of future debt issues. The City does not currently have a policy with respect to the use of derivative products. Section 291 of The City of Winnipeg Charter requires that a policy, approved by the Minister of Finance, must be established prior to the use of derivative products by the City.

The timing and type of a particular debt issue is normally recommended by the Corporate Finance Department – Financial Services Branch based on current market conditions and in consultation with members of the City's Borrowing Syndicate, subject to Council approved borrowing authority. Included in these considerations will be the current interest rate environment as well as the forecasted interest rate environment, capital markets receptivity as to credit and term issues, actual versus budgeted costs of financing and any other issues that may be determined to influence the success of issuing debt at a given point in time. Since the capital markets operate in a dynamic environment, there is no specific method or form of debt issuance that can be determined in advance. Rather, in response to the dynamics of the capital markets, the benefits and costs of the various types of debt will need to be considered in light of the market conditions that exist at the time of issuance.

3.4 Debt Management Practices

a) Method of Sale

Subsection 298(3) of The City of Winnipeg Charter outlines some of the powers the Chief Financial Officer of the City has with respect to issuing debentures. Included in this section of the Charter is clause (d) which states: the Chief Financial Officer may do all acts and things he or she considers necessary… Including … "entering into agreements with respect to the offer, issue, sale and trade of city securities and other transactions relating to city securities, including underwriting, fiscal agency, pricing, exchange rate agency, paying agency, trust, distribution, registrar or other agreements;". In this regard, the City uses a Borrowing Syndicate for the issuance and sale of debentures. This arrangement defines the parties the City uses when issuing debentures as well as the commission structure payable. Regardless, the City has the ability to enter into a private placement for the sale of debentures should it be determined this is in the City's best interests both from a cost and administrative viewpoint.

b) Method of Selecting Financial Consultants

The Chief Financial Officer reviews the composition of the Borrowing Syndicate on a regular basis in order to keep it current. Subsection 298(3) of The City of Winnipeg Charter provides the authority to the Chief Financial Officer to determine when a formal review of the Borrowing Syndicate is warranted. The formal review process may include establishing a set of criteria, including fee structures, presence in the capital markets, placement of bonds in volume and dollar terms, etc., and any other criteria that may provide value to the City through the review process.

c) Refinancing and Defeasement

Section 302 of The City of Winnipeg Charter provides authority for refinancing debentures. In practice, the City provides for a principal payment or sinking fund levy on each fixed rate serial or sinking fund debenture issued. In most cases, the annual serial payments or proceeds of the entire sinking fund will be sufficient to repay the principal amount outstanding upon maturity of the debentures

In the case of Sinking Fund debentures, should the Sinking Fund not be able to earn a sufficient amount of interest over the maturity period of the debentures to retire the debt, this may result in the need to refinance the maturing debentures. In these instances where refinancing is necessary, the approval of the Minister of Finance will be required prior to refinancing these debentures.

In certain situations, the City may choose to defease its outstanding indebtedness through purchases of its securities on the open market.

d) Disclosure Practices

The City is committed to full disclosure of financial information as it relates to debt management. The City's financial statements are prepared in accordance with Canadian accounting standards for governments established by the Public Sector Accounting Board of the Chartered Professional Accountants and includes a comprehensive section dealing with the outstanding debt and debt obligations of the City.

e) Investment of Bond Proceeds

The City makes borrowing decisions based on cashflow needs as well as capital market conditions. The City will not normally borrow money too far in advance of when it is required. However, should this occur, the investment of proceeds would be managed by Financial Services Branch – Money Management area of Corporate Finance.

Section 290 of The City of Winnipeg Charter restricts the investments that can be made with City funds and the City has adopted an Investment Policy with respect to the types of investments permitted. Since the nature of funds borrowed in advance of when they are required is typically short-term, only short-term, liquid securities will be used for investing the proceeds.

f) Management of Debt Portfolio

The Chief Financial Officer oversees the management of the City's debt portfolio including the servicing of the debt.

Section 100 of The City of Winnipeg Charter outlines the duties of the Chief Financial Officer. Clause (i) outlines the Chief Financial Officer's duties with respect to reporting and states: "*The powers, duties and functions of the chief financial officer include…"submitting to council, within six months after the end of each fiscal years of the city, a report on the financial position of the city at the end of that fiscal year, including balance sheets, statements of revenue and expenditures and other financial statements necessary to provide full disclosure of the financial position of the city*;".

There are a number of reports regarding the City's debt contained in the Detailed Financial Statements which is a companion report to the City's Annual Report. Other reporting requirements are determined as required by the Chief Financial Officer.

Regularly scheduled meetings are held to discuss issues related to outstanding debt as well as potential new debt to be issued.

3.5 Credit Rating Considerations

a) Credit Rating

The City of Winnipeg dedicates substantial time and effort to the credit rating process.

Currently, the City maintains a relationship with S&P Global(S&P) and Moody's Investors Service (Moody's). The City should always maintain a relationship with a minimum of two recognized credit rating agencies as most institutional investors require two credit ratings to purchase the City's debentures. Enabling a larger pool of eligible institutional investors facilitates liquidity in the City's debentures and may reduce borrowing cost.

A credit rating is very important to an entity which issues debt because it is one of the key factors that determines access to Investors and the interest rate the entity will pay on debentures when they are issued. In addition, the credit rating agencies provide comparisons to other debt issuers and therefore a relative measure of the financial well-being of the City.

While the City does not have a formal objective with respect to the credit rating process it is implied that the City wishes to obtain the highest credit rating possible without compromising the delivery of services deemed to be essential by Council and in consideration of the tax impact to the public.

The City meets with the credit rating agencies annually and provides periodic updates of information affecting the City's financial position as it becomes available.

4. Responsibilities

4.1 Review of Debt Management Policy

This policy will be reviewed from time-to-time, at least once during each term of Council to ensure its continued effectiveness. This will be done by the Corporate Finance Department – Financial Services Branch in consideration of meeting City debt management goals, the capital markets and associated market conditions, technology, and industry best practices. Recommended changes will be submitted to Council for consideration and approval.