

CITY OF SASKATOON COUNCIL POLICY

NUMBER
C03-027

POLICY TITLE <i>Borrowing for Capital Projects</i>	ADOPTED BY: <i>City Council</i>	EFFECTIVE DATE <i>March 30, 1987</i>
		UPDATED TO <i>November 30, 2020</i>
ORIGIN/AUTHORITY <i>Legislation and Finance Committee Reports 11-1987, 33-1987 and 41-1987; Administration and Finance Committee Reports 3-1997 and 4-2010, City Council - Administration Report – Item 6.2.1 – Nov 30, 2020</i>	CITY FILE NO. <i>CK. 1750-1, 1815-1, 1702-1 and 4020-1</i>	PAGE NUMBER <i>1 of 8</i>

1. PURPOSE

To provide a method of financing municipal capital projects for which:

- a) Sufficient funds are not otherwise available in existing reserves or through external sources.
- b) It is intended to recover all or part of the capital costs from future operating revenues or operating savings; and/or,
- c) It would be equitable to extend the capital financing to future users.

2. DEFINITIONS

- 2.1 External Debt - refers to all debt incurred by the issuance of debentures, term loans, bankers' acceptance loan/interest rate swaps, and similar financing instruments.
- 2.2 Internal Debt - refers to funds loaned from existing funding that would have otherwise been invested through the investment committee or civic reserves, in accordance with various City policies, for the financing of capital projects.
- 2.3 Municipal Debt Limit – refers to the debt limit for the City as established by the Saskatchewan Municipal Board.
- 2.4 Productivity Improvements - refer to capital projects which will result in the delivery of an existing operating program (with or without a service

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enhancement) at a lower cost or will generate greater revenues through increased utilization.

- 2.5 Tax-supported Debt - refers to all internal and external debt which is repaid in whole or in part by using tax levy revenues.
- 2.6 Utility Debt - refers to all internal and external debt incurred for capital projects undertaken by Saskatoon Light and Power, Transit Services Branch, and the Water and Wastewater Treatment Branch of the Utility Services Department. Utility debt is serviced from direct charges to the user or beneficiary, at rates approved by City Council.
- 2.7 Debt Financing Costs - refers to the net amount of any premium/discount, underwriting fees and external legal fees associated with a 'debt financing'. A 'debt financing' may involve the consolidated borrowing for various capital projects authorized by the appropriate borrowing bylaw.
- 2.8 Controlled Corporation – refers to a controlled corporation within the meaning of *The Cities Act*.

3. POLICY

All capital borrowings of the City shall be the responsibility of the Investment Committee and shall be administered in accordance with this policy.

All decisions with respect to incurring additional internal and external debt shall be evaluated from the perspective of not adversely affecting the City of Saskatoon's overall credit worthiness (as measured by its external credit rating) and the ongoing financing of its committed programs (as measured by the ability of the municipal mill rate and other operating revenues to accommodate the associated additional debt repayment requirements).

- a) Internal and external debt shall be utilized as a source of financing for capital projects and will not be available for ongoing expenditures that are or would be financed initially from the Operating Budget.

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- b) A 10% downpayment provision must be made for all unfunded capital projects that require internal or external borrowing.
 - i) The 10% downpayment shall be financed from the Operating Estimates in the year that the decision to borrow takes effect.
 - ii) Capital projects financed through Productivity Improvement Loans shall be excluded from the 10% downpayment requirement.
- c) All borrowing requirements for each year shall be identified in the annual Capital Budget and upon approval of the document, the approved borrowing program shall be undertaken on a global, as opposed to a project-specific, basis. Such borrowing programs shall proceed primarily on the basis of capital market opportunities, interest rate trends, and cash flow requirements.
- d) The total external debt outstanding after incurrence of the proposed debt shall not exceed the authorized Municipal Debt Limit, unless otherwise approved by the Saskatchewan Municipal Board.
- e) Proposals to incur additional utility debt shall be evaluated in relation to the long-term debt repayment impact on the associated user fees.
- f) Debt incurred for productivity improvements or green loans shall be evaluated solely on satisfying the financial payback criteria.
- g) Internal loans may be made from funds that would have otherwise been invested in accordance with City Council Policy C12-009 (“Portfolio Management”) and City Council Policy C012-002 (“Investment Committee”) or from those reserves and under conditions specified in City Council Policy C03-003 (“Reserves for Future Expenditures”). This includes cash flowing capital projects from the City’s available cash balances as a short-term loan.
- h) Borrowing for capital projects shall be fully compliant with City Council Policy C01-021 (“Public Notice”).

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- i) A Loan Agreement is required when the City is lending funds to one of the City's controlled corporations.
- j) For those capital projects which require a loan amortization period greater than 10 years, City Council shall be advised accordingly.
- k) Project financing may involve the consolidation of various project funding requirements if this is deemed to be in the best long-term financial interests of the City.

3.1 External Debt

- a) External debt may be used as a source of financing for municipal capital projects where:
 - i) the project's estimated useful life exceeds 10 years and,
 - ii) the amount to be borrowed for the project exceeds \$2,000,000.
- b) All debt service (i.e. both principal and interest) shall be charged, on an annual basis, to the appropriate operating program.
- c) In all such cases, the projects designated for external debt financing shall be required to incorporate in their capital budgets a provision of at least 0.75% of the amount borrowed in order to finance the debt financing costs of issuing the debt. All debt financing costs shall be charged proportionately to relevant capital projects.
- d) Internal interest charges shall be applied on a monthly basis to capital projects using a short term interest rate (as determined by the City Treasurer) where:
 - i) external borrowing is a source of project funding;
 - ii) unfunded expenditures are greater than \$500,000; and
 - iii) the project has been cash flowed for one year.

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3.2 Internal Debt

- a) Internal debt may be used as a source of financing for municipal capital projects where:
 - i) the project's estimated useful life is 10 years or less; or,
 - ii) the amount to be borrowed for the project is \$2,000,000 or less.
- b) Projects which have an estimated debt financing requirement in excess of \$2,000,000 and a useful life greater than 10 years may be financed from internal borrowing if this is deemed to be in the best long-term financial interests of the City.
- c) Notwithstanding other City policies, the maximum term of any internal loan (excluding those for productivity improvements) is the lesser of 10 years or the estimated useful life of the project. Interest shall be charged, on an annual basis, at the equivalent City borrowing rate (as determined by the City Treasurer), with the associated interest revenue credited in accordance with the City's accounting procedures and financing policies. All internal loans authorized in the Capital Budget shall be issued on July 1 of the budget year and subsequent repayment shall occur at a frequency (i.e. annual, semi-annual, quarterly) as determined by the Investment Committee.

3.3 Productivity Improvement Loans

Funding for productivity improvements shall be secured through internal loans and shall be available to all civic departments, boards, and commissions that are able to demonstrate expected achievement of the payback requirements.

- a) To be eligible for productivity improvement loans, projects must satisfy all of the following criteria:
 - i) the proposal is a capital project; and,

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- ii) the capital expenditures shall be fully repaid by additional operating revenues and/or operating expenditure savings (with or without a service enhancement) within a period that does not exceed five years. The debt service shall include an interest charge equivalent to the City's borrowing rate, as determined by the City Treasurer. All debt service shall be charged directly to the appropriate operating program of the civic department, board or commission responsible for the proposal.
- b) All productivity improvement loans must be approved by City Council, upon recommendation of the City Comptroller.
- c) The City Comptroller shall determine in advance the total amount of funds available each year, for productivity improvement loans.

3.4 Green Loans

Funding for energy and water use reductions shall be secured through internal loans and shall be available to all civic departments, boards and commissions that are able to demonstrate expected achievement of utility savings.

- a) To be eligible for green loans, projects must satisfy all of the following criteria:
 - i) the proposal is a capital project;
 - ii) the proposal utilizes proven energy reduction techniques and technologies; and,
 - iii) the capital expenditures shall be fully repaid from utility expenditure savings within a period that does not exceed ten years. The debt service shall include an interest charge equivalent to the City's borrowing rate, as determined by the City Treasurer. All debt service shall be charged directly to

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the appropriate operating program of the civic departments, board or commission responsible for the proposal.

- b) There is no maximum loan size.
- c) All green loans must be approved by City Council, upon recommendation of the City Comptroller.

4. RESPONSIBILITIES

4.1 Investment Committee

- a) Shall make recommendations to City Council on the administration of this policy.
- b) Shall make recommendations to City Council on the appropriate method of borrowing for Capital Budget requirements, consistent with this policy.

4.2 City Treasurer

- a) Shall determine the interest rate that is levied on internal debit, productivity improvement loans and green loans.

4.3 City Comptroller

- a) Shall analyze productivity improvement loan and green loan proposals to determine the potential of achieving payback criteria.
- b) Shall determine the annual borrowing requirements as specified through the Capital Budget.
- c) Shall report to City Council, on an annual basis, the results of the Productivity Improvement Loan and Green Loan programs in meeting its stated objectives.

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4.4 City Council

- a) Approves the annual internal and external borrowing requirements in conjunction with its review of the Capital Budget/Plan.
- b) Approves all productivity improvement loans, green loans, and loans to its controlled corporations.
- c) Approves the applicable borrowing bylaws relating to the issuance of external debt.