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*TOWN OF BRIDGEWATER*  
*POLICY*

***DEBT MANAGEMENT***

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Policy No.	<b>105</b>
Approved:	January 24, 2022
Resolution #:	22-022

**Purpose**

1. Municipalities in Nova Scotia are restricted from running operating deficits. However, they may incur debt for capital purposes as well as limited operating purposes provided they have statutory authority.
2. The Town of Bridgewater recognizes that the foundation of any well-managed debt program is a comprehensive Debt Management Policy. This document provides guidelines for the Town to manage its debt program within available resources.
3. The purpose of this policy is to introduce a policy that provides a general framework on the type and the terms of any borrowing for the Town of Bridgewater, to accommodate the future capital needs of the Town while administering capital financing in a manner that is affordable, sustainable, and in compliance with applicable legislation.

**Scope**

4. The Policy applies to the issuance of all debt and the resulting repayment terms, including capital lease financing agreements, entered into by the Town or any Boards and Commissions of the Town.
5. The efficient and effective use of debt is recognized as an important component in the acquisition and deployment of critical infrastructure requirements that support existing and future residents, businesses and stakeholders of the Town. Affordability, sustainability and vulnerability factors must be considered while maintaining a degree of flexibility to address emerging financial needs.

6. To best strategically manage debt, Council has developed a 10-year Capital Plan in which future debt requirements are forecast. Council shall use this plan to model future debt affordability, which will aid in decision making respecting debt.

## **Definitions**

7. "MFC" means the Nova Scotia Municipal Finance Corporation, the provincial authority in Nova Scotia that provides local governments with financing for capital projects.
8. "MGA" is the Municipal Government Act for Nova Scotia
9. "Capital" or "Tangible Capital Assets" are assets that have economic lives that extend beyond the accounting period. Such assets are available for use and may require operating and maintenance expenditures and may need to be replaced in the future. They include assets such as equipment, buildings, land, roads, sewage collection systems and water distribution systems.
10. "Debt" includes:
  - a. debentures acquired through the MFC,
  - b. debt acquired through a bank via a line of credit, an operating loan, or credit cards,
  - c. debt acquired in the form of a lease of capital property, and
  - d. loan guarantees taken under MGA Section 88.
  - e. Any other borrowing permitted by the MGA
11. "Own-Source Operating Revenue" as defined by the Department of Municipal Affairs, means revenue for a fiscal year, from the following sources:
  - a. Net property taxes and payment in lieu of taxes
  - b. Services provided to other governments
  - c. Sales of Service
  - d. Other Revenue from Own Sources

- e. NSPI – Grant in lieu of taxes
  - f. NSPI – HST Offset
12. “Debt servicing cost” means the annual required debt repayments including interest and principal.
  13. “Debt servicing ratio” refers to the Town’s debt service cost compared to Own Source Revenue as calculated from time to time by the Department of Municipal affairs.
  14. “Debt amortization” means the period of time during which debt repayments are made. At the end of the debt term, the debt is repaid in full.
  15. “Long-term debt” means debt with terms greater than five years.
  16. “Self-supporting debt” means debt taken to fund capital expenditures, the repayment of which is wholly funded by non-tax levy sources, including, but not limited to, PACE Loans and other debt costs recovered from user fees, rental revenue, local improvement levies, and grants. The fact that financing conditions may require any debt servicing shortfalls be funded through general municipal tax levies does not preclude the debt from being self-supported, as long as the probability of requiring tax support is remote.
  17. “Tax supported debt” means debt that has been taken to fund capital expenditures, the repayment of which is funded by tax revenue. This includes, but is not limited to, revenue from property taxes, area rates, sewer rates and special purpose taxes or other Own Source Revenue.
  18. “Temporary borrowing” means debt with a repayment term normally not exceeding one year that is used as a temporary expenditure payment mechanism. It includes sources such as lines of credit, operating loans, and credit cards. The one year term may be extended if for multi-year projects which require interim financing until long term financing is put in place following completion of the project.

### **Policy Objectives**

19. The objectives of the Debt Management Policy are to:
  - a. Ensure adherence to statutory requirements

- b. Enhance long-term financial flexibility and sustainability
- c. Minimize the long-term cost of borrowing
- d. Ensure the term of capital financing is no longer than the useful life of the related asset
- e. Ensure consistency and continuity in long-term debt decision making

### **Incurring Debt**

- 20. The Town of Bridgewater has many competing spending priorities for revenues collected each year. The Town's capacity to incur debt is directly related to its ability to service the payments required on the debt. These include both annual interest and principal payments. Furthermore, the Town's ability to service the payments required is directly linked to the ability of the Town to raise sufficient funds from either taxes or fees.
- 21. The Town incurs 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-supported debt under section 81 of the MGA, which is for capital projects that will be serviced from revenue generating capital projects (ie borrowing for PACE Loans).
- 22. This policy applies to all debt, including Lease Financing Agreements and long term commitments, entered into by the Town, its boards or commissions. All debt and long-term commitments must have CAO and Council approval prior to being entered into.

### **Debt Limits**

- 23. The Town's maximum annual debt service cost will not exceed 30% of the Town's own source revenues. (30% Debt Service ratio)
- 24. It is the Council's priority to limit borrowing to 50% of the permitted Debt service ratio (15% Debt service ratio).
- 25. Temporary borrowing is permitted to be used to meet cash flow requirements during the construction of infrastructure.
- 26. Temporary borrowing for operational purposes is authorized to meet the current expenditures of the Town until taxes or other revenue is received. Any

temporary borrowing of this nature is to be repaid as soon as the Director of Finance (or designate) has determined that adequate cash balances are available to do so.

27. Internal "borrowing" will be used as a means of advancing critical works in accordance with Capital Budget where the need to proceed with an expenditure is deemed necessary although specific funding (e.g. user rate reserves, development charges, other) is not currently available. Prioritized and identified needs for existing reserves, reserve funds and development charges will be taken into consideration first such to ensure that the proper project is being debt financed when total funds required is greater than those available. Interest will be charged at the most recent MFC rate for a similar term debenture.
28. At any point of time, if Town Council decided to surpass the limitations set in paragraph "30" of this policy, Council shall by resolution in an open Council waive the policy restriction to surpass the maximum capacity use as outlined in paragraph "30" above;
29. Under no circumstances, the payments for the Town indebtedness can exceed the Debt Service Ratio set by the Department of Municipal Affairs.

### **Debenture terms**

30. The Town may borrow for tangible capital assets for a term limited to following any one or combination of the following restrictions:
  - a. The Town's goal is to limit borrowing to 10 to 15 year terms, with the term not to exceed the assets useful life.
  - b. The term of debt will be limited to the useful life of the particular asset but no instances of more than 20 years.
  - c. 20 year terms would only be used in exceptional circumstances as balloon payments are required, and future interest payments on refinancing may be unknown.
  - d. The timing and type of debt will be determined with a view to minimizing long-term cost while ensuring affordability for tax and rate payers. Subject to current and projected interest rates, the issuance of long-term debt may be considered in advance of works being completed.

### **Managing outstanding debt**

31. The Town's long-term debt is owed to the Municipal Finance Corporation (MFC). When the Corporation issues debentures to the Department of Finance or capital markets, the Corporation is locked into the same maturity schedule, including principal and interest payments, as the assets it holds from clients. As a result, the Corporation does not allow for the early redemption of debentures.
32. The Town of Bridgewater will continue to service its outstanding debt according to the schedules agreed upon with MFC at the time the debt was incurred.

### **Timing & Purpose of Debt**

33. The Town of Bridgewater will not incur additional long-term debt except when the capital project:
  - a. maintains current service levels affecting public health, safety or welfare;
  - b. is a legal or regulatory requirement;
  - c. is no net cost to the municipality;
  - d. alleviates an emergency service disruption,
  - e. has long-term benefits,
  - f. benefits the community at large, or
  - g. is for growth related infrastructure and/or other assets, or
  - h. when the implication of deferring the project is more expensive than the project itself.
  - i. To fund emerging needs to support Council priorities and approved strategic and business plans,
  - j. To refinance existing tax supported debt, or
  - k. The project is on behalf of external agencies or authorities that support the goals and objectives of the Town.

### **Application**

34. This policy applies to all long-term capital borrowing of the Town of Bridgewater.

