

Administration Standard

Title:	Debt Management & Issuance
Approved by:	Executive Leadership Team
Effective Date:	Completed by Governance and Policy team.
Last Updated:	Completed by Governance and Policy team
Responsible Service(s):	Treasury, Finance

1. ASSOCIATED GOVERNANCE

- 1.1** This Administration standard outlines requirements in support of Council's Debt Policy.
- 1.2** The Debt Management & Issuance standard aligns with the sections of Municipal Governance Act, RSA 2000, c. M-26 related to "Borrowing" (sections 251 to 263) and "Loans and Guarantees" (sections 264 to 268).

2. PURPOSE

- 2.1** This standard will be followed when:
- a) Planning for the use of Debt;
 - b) Issuing of any form of Debt; and
 - c) Management of Debt.
- 2.2** Following this standard will:
- a) Mitigate financial risk;
 - b) Improve The City's effectiveness in complying with applicable laws and contracts; and
 - c) Ensure central management, by Treasury, of all Debt issued by The City.

3. DEFINITIONS

- 3.1** In this Administration Standard:

- a) **"Credit Rating"** means quantitative and qualitative evaluation of a borrower's ability to meet current and future Debt obligations, conducted by reputable agencies like Standard & Poor's, Moody's, Morningstar DBRS, or Fitch Ratings. For municipalities, this annual assessment typically covers economic structure, fiscal management, financial governance, and relationships with higher levels of government. A higher credit rating indicates greater efficiency in issuing Debt.
- b) **"Debt"** means money borrowed by The City from a third party under terms that require repayment including principal, interest, and fees within an agreed upon timeframe. It is primarily used when other funding sources are unavailable or less flexible in the period that funds are required for capital expenditures. For clarity, a third party may include the Canada Infrastructure Bank, Canada Mortgage and Housing Corporation, Federation of Canadian Municipalities, other financial

institutions, the Province of Alberta, the debt capital markets and any other capital funding source that is not internal to The City.

- c) **"Debt Limit"** means
 - a. Total Debt shall not exceed 1.6 times Revenue;
 - b. Total Debt Service shall not exceed 0.28 times Revenue; and
 - c. Tax-Supported Debt service shall not exceed 10% of Tax-Supported Gross Expenditures (Net of Recoveries).
- d) **"Debt Retirement Account"** means an account to hold and invest funds specifically for Debt repayment. The only permitted use of funds held in a Debt Retirement Account will be for repayment of principal, interest and fees associated with The City's Debt Capital Markets and Private Placement Program. The account must be in a form acceptable to the City Treasurer.
- e) **"Debt Structure"** means a 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., amount, 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 available funding, debt maturity, the capital asset being financed and any borrowing bylaws, capital market conditions and the objectives of the *Debt Policy*.
- f) **"Derivatives"** means a 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 the opportunity for cost savings.
- g) **"Employee"** means any person employed by The City and reporting to a City of Calgary business unit, department, the Office of the Chief Administrative Officer, the Office of the Chief Operating Officer, the Office of The Mayor, The City Auditor's Office, Calhomes Properties Ltd., operating as Calgary Housing, and the Calgary Police Service, including those working under an employment contract with The City.
- h) **"Financial Capacity"** means the financial resources available to The City to pursue multiple capital projects concurrently, and the coinciding impact on key financial capacity metrics. Financial capacity will be measured against metrics, including but not limited to The City's Debt Limits, and Credit Rating agency metrics.
- i) **"Funding Source"** means financial / monetary resources earmarked for project expenditures or repay Debt, either capital or operating in nature. This may refer to a variety of resources such as proceeds investment income, operations (sales of goods and services), user fees and levies, tax revenue, grants, reserves, or other revenue sources.
- j) **"Revenue"** means total revenue reported in The City's latest audited annual financial statement, net of any revenues from government transfers and contributed or donated tangible capital assets. Sources include, but are not

- limited to, property taxes, business taxes, levies, sales of goods and services, investment income, fines, licenses, permits, fees, and other miscellaneous income.
- k) **“Self-Sufficient Tax-Supported Debt”** means Debt issued to fund non-utility capital expenditures, operations, programs or activities whose operating costs, including Debt servicing, are completely self-funded by Tax Revenues.
 - l) **“Structured Debt”** means a form of Debt “tailored” to the 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.
 - m) **“Tax-supported Debt”** means Debt issued for capital expenditures that is funded in whole or in part from tax revenues.
 - n) **“Tax-supported Debt Service”** means all principal, interest and, and fees The City must pay on Tax-supported Debt and Self-Sufficient Tax-Supported Debt within a calendar year, including guaranteed obligations, less any funds held within the Debt Retirement Account, specifically for debt repayment within that same calendar year.
 - o) **“Total Debt”** means all outstanding principal on The City’s borrowings or guarantees. Debt may be in a form of a debenture, bond, commercial paper, promissory note, lease of capital property, financial liabilities associated with entering a Public Private Partnership (PPP), loan, guarantee or other form of contractual long-term financial commitment. Debt of ENMAX Corporation, a wholly owned subsidiary of The City, is excluded from Debt Limit calculations. Other organizations that have fiscal relationships with The City but are not included in The City’s consolidated financial statements, such as City and civic partners, are also excluded from The City’s Debt Limit calculations.
 - p) **“Total Debt Service”** means all principal, interest and fees The City must pay on Total Debt within a calendar year, including guaranteed obligations.

4. APPLICABILITY

This Administration Standard applies to all City of Calgary Employees but it does not include those employed by Calhomes Properties Ltd., operating as Calgary Housing.

5. STANDARD

5.1 Treasury will utilize Debt prudently and efficiently in accordance with industry best practice as applied in the context of municipal fiscal policy and treasury management. This includes, but is not limited to the following considerations:

- a) Ensuring appropriate guidelines and controls are in place for both the use and issuance of Debt.
- b) Directing the use of Debt within The City’s planning and budgeting process and aligning with longer-term financial considerations

- c) Considering the use of Debt in the context of other forms of funding, generally as the last applied when financially prudent.
 - d) Ensuring that The City has sufficient debt capacity available for current and future commitments to provide for financial flexibility.
 - e) Striving to maintain or improve The City's Credit Rating in the context of municipalities of a similar size.
 - f) Identifying sources of funding for Debt principal and interest repayment before Debt is issued.
 - g) Minimizing the long-term cost of financing subject to The City's risk tolerance levels as well as any relevant constraints and considerations to maintain financial flexibility.
 - h) Limiting financial risk exposure and applying appropriate risk mitigation strategies.
 - i) Fulfilling all relevant provincial and federal legislative requirements.
 - j) Adhering to transparent and reasonable reporting requirements.
 - k) Designating the relevant authority and responsibilities to qualified personnel and following the appropriate reporting structure in alignment with other municipal finance policies.
 - l) Formally enforcing ethical conduct and mitigating potential conflicts of interest for staff involved in Debt issuance activities.
 - m) Ensuring that The City has sufficient debt capacity available for current and future commitments to provide for financial flexibility by appropriately managing the timing of cash flows in both short term as well as longer time horizon.
 - n) Establish and maintain a Debt Retirement Account. The funds within the Debt Retirement Account will be invested in accordance with *Debt Retirement Account Portfolio Policy*.
- 5.2** Treasury must be engaged prior to the use of Debt in the capital planning, prioritization and budget processes or any ad-hoc approval with Debt as a potential Funding Source.
- 5.3** Treasury will consider Debt to finance all or a portion of capital expenditures, including but not limited to:
- a) large projects with long-term benefits;
 - b) projects with benefits to the community at large (Tax-Supported Debt);
 - c) emerging needs to support corporate priorities and approved strategic plans;
 - d) major rehabilitation of existing assets as a short-term strategy to eliminate a significant infrastructure renewal backlog; and
 - e) borrowing to finance The City's climate and environmental objectives along with social and governance initiatives.
- 5.4** Treasury will evaluate all Debt in the context of the corporation's Financial Capacity.
- Treasury will complete a financial capacity assessment and other financial analysis on The City's capital plan including the amount of Debt that will be required for each project and year of the plan.
- 5.5** Portfolio Finance Manager will:

- a) Conduct planning and prioritization of capital assets that may require Debt.
- b) Engage Treasury prior to the use of Debt in the capital planning, prioritization and budget processes or any ad-hoc project approval with Debt as a potential Funding Source.
- c) Identify Funding Sources for capital projects, including the repayment source of the capital financing before the approval of Debt.
- d) Support the development and negotiation of commercial terms to procure the capital assets with capital financing.
- e) Provide Debt forecasts or updated financial information on projects and capital spends and share with Treasury and corporate budget office, no more frequent than monthly.
- f) Obtain approval from the service director for any Debt requests prior to seeking Council's approval.

5.6 Treasury, Corporate Finance, Project Development (CFP) will:

- a) Direct the use of Debt within the capital planning, prioritization, and budget processes or any ad-hoc project approval with Debt.
- b) Determine the optimal capital structure that includes Debt and other sources.
- c) Determine the most efficient form, structure, and terms of Debt.
- d) Evaluate all forms of Debt, including alternative financing options and Structured Debt in the planning of the use of Debt.
- e) Assess whether The City has sufficient debt capacity available for current and future commitments as part of a Financial Capacity assessment.
- f) Prepare and present a financial capacity assessment and other financial analysis prior to the use of Debt as part of the capital planning, prioritization and budget processes or any ad-hoc project approval.
- g) Maintain The City's long-term forecast of Total Debt and debt servicing limits.
- h) Negotiate the terms of the capital financing from external sources.
- i) Execute financings by seeking corporate authority and documenting on the capital financing, including credit agreements and all related/ ancillary documents.
- j) Advise on the commercial agreements for the capital asset that requires Debt.
- k) Draft Council reports and direct Law on drafting of borrowing bylaw

5.7 Treasury, Corporate Finance, Credit (CFC) will:

- a) Determine the procedures required to issue different types of Debt in the debt capital markets i.e. general obligation bonds, sustainability bonds and private placements.
- b) Provide insight to CFP on cashflows and risks associated with debentures issued to internal and external parties to determine the most efficient form, structure, and terms of Debt.
- c) Act as principal corporate liaison for borrowing from the debt capital markets including corresponding and managing relationships with investors, dealers and Credit Rating agencies.

- d) Act as principal corporate liaison for syndicate creation and syndicate review when issuing into the debt capital markets.
- e) Negotiate terms of borrowing from the debt capital markets.
- f) Execute on the issuance of Debt in the debt capital markets, including credit agreements and all related/ ancillary documents.
- g) Act as principal corporate liaison with the communications team and act as the investor relations function.
- h) Monitor compliance of external lenders in the debt capital markets.
- i) Obtain compliance reporting requirements from business units for the debt capital markets.
- j) Act as principal corporate liaison to all non-profit organizations or controlled corporations seeking debt.
- k) Assess and evaluate borrowing requests from non-profit organizations or controlled corporations for capital purposes.
- l) Develop Capital Debt Borrowing & Accounting Procedures.

5.8 Law will:

- a) Advise The City from a legal perspective on all forms of Debt issuance.
- b) Draft bylaws as directed by Treasury and in accordance with applicable legislation.
- c) Engage external counsel to support Treasury as needed.
- d) Lead drafting and execution of documents for debt capital market issuances.
- e) Lead drafting and execution of all alternative financing agreements.

5.9 Treasury Manager will:

- a) Ensure the appropriate procedures, guidelines and controls are in place for both the use and issuance of Debt.
- b) Ensure systems, staffing, and training are in place to effectively manage the debt issuance process and mitigate the risks associated with the use of debt at The City.
- c) Plan, negotiate, execute, administer, and manage all Debt issued by The City.
- d) Act as the principal corporate liaison with all external lenders or assign a delegate from treasury.
- e) Manage Debt levels to limit financial risk exposure and achieve the lowest cost of funds given the determined level of risk exposure.
- f) Determine the Debt Structure of financing for each capital asset with a view to minimizing The City's overall long-term cost of financing.
- g) Seek Council's and Chief Financial Officer's approval for authorizing bylaws to issue new Debt.
- h) Draft Council Reports to support issuance of Debt.
- i) Negotiate and execute commercial agreements for Debt, reflecting The City's risk tolerances.

- j) Ensure Debt is managed in a manner consistent with other long-term planning, financial and management objectives.
- k) Approve the year-end debt reporting.
- l) Determine the use of Derivatives 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 approved by The City Treasurer.

5.10 Treasury, Operations and Investments will:

- a) Provide lending rates to business units and external parties on an ad hoc basis.
- b) Provide insight to CFP and CFC on cashflows and risks associated with debentures issued to internal and external parties to determine the most efficient form, structure, and terms of Debt.
- c) Monitor and track all internal and external principal and interest payments, interest accruals, and amounts outstanding.
- d) Complete journal entries for all external Debt.
- e) Manage, record, and document the debentures issued to internal and external parties.
- f) Manage the investment of the Debt Retirement Account
- g) Regularly report and monitor the Debt Retirement Account.
- h) Complete the year-end debt reporting requirements.

6. CONSEQUENCES OF NON-COMPLIANCE

Employees who fail to adhere to this Administration standard and any associated policies and procedures may be subject to corrective action, including dismissal from employment, in accordance with the Labour Relations policy, the Exempt Staff policy, or the specified terms outlined in their employment contract.

7. HISTORY

Action	Date	Report Number	Description
To be completed by Governance and Policy Team			