CORPORATION OF THE TOWNSHIP OF ESQUIMALT

COUNCIL POLICY

TITLE:	Debt Management Policy	NO.	FIN-25

Effective Date:	XXXX XX, 2026
Approved by:	Council
Reference:	Staff Report Number FIN-26-014
Amends:	*New*

POLICY:

Purpose

The purpose of the Township's long-term debt policy is to establish financial guidelines and appropriate controls for the issuance and use of debt and to ensure a sound financial position is maintained while supporting the Township's ability to meet current and future infrastructure challenges.

Guiding Principles

a) Incurring debt commits a municipality's revenues several years into the future and may limit the government's flexibility to respond to changing service priorities, revenue inflows, or cost structures. Adherence to a debt policy ensures that debt is issued and managed sensibly to maintain a sound fiscal position and protect credit quality.
b) Debt supports the principle that those who benefit from the infrastructure should contribute to its cost. By spreading payments over time, debt ensures that future users help pay for assets that will serve them. This approach avoids placing the full financial burden on current taxpayers for assets that will provide value over multiple decades.
c) The Township's management of debt shall conform to the statutory and legal requirements including the *Community Charter and Local Government Act*.

Objectives

a. Provide Funding for the Capital Plan

Debt will be utilized for financing capital projects and not to finance operating activities. While this is typically in the form of a long-term issuance, short-term debt may be used. Short term borrowing could be appropriate in instances of an unanticipated financial emergency, when the Township's has insufficient funds available to fund such expenditures and when the capital project cost is below the limit established by legislation.

b. Fairness and Stability for Taxpayers

The Township will strive to achieve long term financial stability and fairness for current and future taxpayers using external debt financing and internal reserves to fund the Township's capital plan. Debt financing provides long term payback of significant investment in capital assets, which provides a greater correlation between the lifecycle of the related asset and the payment for that asset. Facility and infrastructure assets have long useful lives which support long-term debt terms.

c. Maintain Service Levels

For the Township to maintain its service levels, the core infrastructure assets must be maintained and upgraded to meet the demands of its citizens. Ongoing capital maintenance, upgrades and enhancements of Township core infrastructure ensures that the Township can continue to provide existing and enhanced service levels.

Use of Debt

The primary uses of the Township's debt financing are to:

a. Safeguard and Replace Existing Core Capital Assets

The primary use of debt in the long-term financial plan is to safeguard and replace existing capital assets. In addition to facilities and linear infrastructure assets such as roads, storm drains, and sewers, the Township has specialized machinery, equipment, technology and infrastructure that are necessary for efficient service delivery. These core capital assets need to be upgraded and replaced according to service lifecycles to maintain service levels and to reduce the risk of escalating repair costs if these assets are not maintained and upgraded as necessary. The use the external debt financing with a longer-term payback provides necessary funding that aligns with the asset useful lives.

b. Grow and Develop Funding Support for Core Capital Assets

A secondary purpose of utilizing debt is to provide funding support for core capital asset infrastructure renewals or upgrades relating to the growth and development of the Township. When internal reserve funds do not provide adequate funding to upgrade or enhance these assets with increasing service level demands, debt financing can be utilized to provide funding support for these necessary upgrades.

Responsibilities

The Director of Financial Services will:

- ensure the management and maintenance of existing debt complies with this policy;
- recommend the use of debt funding when appropriate, through the Township's annual budget process, or as required;
- recommend any revisions or amendments to this policy, as may be required from time to time, as a result of changes in financial stability, capital financing needs, applicable statutes, accounting standards, or economic conditions.

Council will:

- approve this policy and any updates and amendments to the policy;
- approve the issuance of new debt through the annual budget process and the approval of required bylaws; and
- review the Township's debt status reported in the annual audited financial statements.

LEGISLATION AND GUIDELINES:

Debt Approval Process

The use of debt as a funding source for projects in the capital plan, and related debt servicing costs will be approved by Council through the Township's financial plan bylaw.

Pursuant to section 182 of the *Community Charter*, long-term debt must be undertaken by the Township's applicable regional district, the Capital Regional District.

Lending Institutions

The Township must borrow debt from the Municipal Financing Authority (MFA), pursuant to section 410 of the *Local Government Act*.

Interest

All debt issues will accumulate interest expense each year which will be funded through the general operating fund or sewer operating fund within the financial plan.

Interest rates will be based on stated MFA rates at the time of issuance.

Interfund Borrowing

Interfund borrowing provides flexibility to fund capital projects that would not otherwise be affordable given existing reserve balances. This may be considered when:

- the term of borrowing is less than 5 years;
- insufficient reserve funds have been set aside for the specific purpose for which the funds are needed;
- sufficient funds remain in the reserve fund being borrowed from such that the near-term needs of the fund are not compromised;
- there is a tangible financial advantage as compared to other financing alternatives; and
- there is a clearly defined and attainable payback plan

In accordance with the *Community Charter,* interfund borrowing must be paid back with interest.

Borrowing Limits

Limits shall be established to determine the affordable levels of debt and related debt servicing costs for the Township. A review of the borrowing limits shall be undertaken annually with consideration of the flexibility, sustainability, and vulnerability of the Township's financial position today and in the future. Intergenerational equity shall be considered which can be defined as achieving a fair, equitable balance of costs and benefits between present and future users for the costs of maintaining Township infrastructure.

Legislated Limit

The legislated limit for debt servicing is 25% of calculated revenues which is a determined formula which includes ongoing core revenues but excludes one-time or non-reliable revenues. This is set out in the *Community Charter* section 174 and *BC Regulation* 254/2004.

Township Limit

Borrowing limits exist to ensure that the Township maintains financial stability and flexibility today and in the future. In evaluating the Township's overall debt capacity, debt servicing costs should generally not exceed 10% of calculated revenues for the previous year; and in no circumstance should they exceed 12.5%.

The maximum limit of debt servicing costs for the Township has been established at half of the legislated limitation; this provides adequate debt financing to fund required capital projects without hindering the Township's ability to maintain base service levels.

Asset Useful Life

Debt terms shall not exceed the lesser of the estimated useful life of the underlying asset or thirty years pursuant to section 179 (5) of the *Community Charter*. It is preferred for the debt term to be less than the expected life of the asset, if it is affordable.

Flexibility

Commitment to debt should not impede the Township's future flexibility and funding availability for future projects. The recommended debt term is fifteen years, with a minimum of five years up to a maximum of thirty years. When the Township is considering debt terms, interest rates should be a consideration with more flexibility on longer terms if interest rates are low, as compared to shorter terms when interest rates are higher.

Early Retirement

The decision to retire debt before the originally intended debt term must be completed in consideration of the overall capital plan and funding requirements, as well as the consideration of the long-term stability of the Township. It will be necessary to consult with the Municipal Finance Authority (MFA) to determine the feasibility and timing of early retirement debt.

DEFINITIONS:

"Asset Useful Life" means the number of years that an asset and all its major components is expected to provide service when installed as new, assuming regular maintenance is performed.
"**Capital Assets**" are the Township's physical assets that are used in the delivery of services and have estimated useful lives extending beyond one year.
"**Core Capital Assets**" are the Township's infrastructure that provides core service levels to the residents, primarily linear and related infrastructure including roads and transportation, storm water, sewer, in addition to Township facilities.
"**Debt Servicing**" are the annual repayment costs of debt which include scheduled principal and interest payments. Debt servicing costs will be funded by operating budget revenues or property taxation.
"Interfund Borrowing" means the temporary lending of funds from one reserve to another.
"**Long-Term Debt**" is long-term borrowing with an underlying loan authorization borrowing bylaw approved by the Ministry and the electorate pursuant to section 179 of the *Community Charter*. Debt must be used for a capital project, and the debt term cannot exceed the lesser of the estimated useful life of the underlying asset or thirty years.
"Reserve Funds" are funds set aside for a specified purpose by Council, through bylaw, in accordance with the *Community Charter.*