STRATHCONA COUNTY

Policy

Debt Management

References: *Municipal Government Act*, RSA 2000, c M-26 (MGA)

Policy Statement

Strathcona County recognizes that, properly applied, debt can be an affordable source of financing that complements the sustainability of an organization and helps to achieve service provision and growth objectives. The incurrence of Long-Term Debt is generally appropriate as the beneficiaries (future users) of the capital infrastructure funded by the Long-Term Debt will then share responsibility for the future repayment of the Long-Term Debt. The foundation of any well managed Debt program is a comprehensive Debt policy which sets forth the parameters for issuing Debt and managing outstanding Debt, and provides guidance to decision makers.

1. Debt is an ongoing component of Strathcona County's capital financing structure and is integrated into the County's long-term plans and strategies.
2. Debt must be affordable and support the sustainability of the Municipality. The County must maintain flexibility to utilize Debt in response to emerging financing needs.
3. Debt must consider intergenerational equity and be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets over time.
4. The issuance of new Debt must be approved by Council.
5. Debt must be monitored and reported upon.

Purpose

The purpose of this policy is to establish financial guidelines and controls for the issuance and use of new Debt and to ensure a favourable financial position while supporting the County's ability to meet current and future infrastructure requirements including replacement, new growth, and emergent capital initiatives.

Definitions

1. **Affordability** – means ability to pay for Debt Servicing costs and life cycle expenditures for the underlying asset. The overall measure of affordable Debt is the burden of Debt Servicing costs and the life cycle expenditures relative to the County Revenues. The Debt Service Ratio measures Debt Servicing costs against net operating income and is a benchmark used to determine affordability.

2. **Alberta Capital Financing Authority (ACFA)** refers to the non-profit corporation established under the authority of the *Alberta Capital Finance Authority Act*, to provide Alberta local authorities with flexible financing for capital projects.

3. **Authorized Borrowing Bylaw** – As per the Municipal Government Act (MGA) section 251(1), a municipality may only make a borrowing if the borrowing is authorized by a borrowing bylaw.

4. **Capital Expenditure** – means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150 and FIN-001-027 Tangible Capital Assets Financial Reporting Policy.

5. **County Revenues** – means annual revenues as published in the last audited financial statements of the County prior to the time of calculation, to include revenues from taxes, Utilities, user fees, departmental and corporate programs, developer and customer contributions, and Boards and Authorities as calculated under the Debt Limit Regulations A.R. 222/2000, as amended.

6. **Debt** – means borrowing as defined under MGA section 241(a.1). In the case of the County, this is usually in the form of a debenture varying in Debt Terms. Other forms of Debt include but are not limited to; leases of capital property as defined under MGA section 241(c); other long-term financial commitments; Public Private Partnerships (PPP) Community Revitalization Levy financing; and loans and loan guarantees issued under sections 264 & 265 of the MGA.

7. **Debt Limit** – means the Debt Limit for the County, in respect of the County's total Debt and Debt Service, as determined in accordance with the MGA Debt Limit Regulation Alberta Regulation 255/2000, as amended.

8. **Debt Servicing** – means annual required Debt Repayments for principal plus the interest amount to be paid on the outstanding debt.

9. **Debt Repayment** – means the regular repayment of Debt principal that has been incurred to finance capital projects.

10. **Debt Term** – the period of time during which Debt payments are made. At the end of the Debt Term, the Debt is paid in full.

11. **Flexibility** – is the ability of the County to issue new Debt in response to emerging financing needs.

12. **Intergenerational Equity** - in the economic context, this refers to distributing the costs associated with capital growth across the generations which will be enjoying the benefits of the capital assets built today.

13. **Long-Term Debt** – Debt with a term greater than five years, as defined under MGA section 258(1).

14. **Reserves** – means money that has been specifically set aside by Council to finance future expenditures.

15. **Short-Term Debt** – Debt with a term of five years or less, as defined under MGA section 257(1).

16. **Sustainable** – means meeting the needs of the present without compromising the ability of future generations to meet their own needs.

17. **Utilities** – are self-funded operations providing a service to its customers, including a return on investment, at rates regulated by Council. These Utilities include Community Energy, Water, Wastewater and Solid Waste.

Guidelines

1. **Use of Debt**
   a. Strathcona County will only incur and carry long-term Debt when it is consistent with the Strategic Plan direction and objectives to support priority capital projects pursuant to approved capital budgets.
   b. Long-term Debt will not be incurred for operating purposes.
   c. Long-term Debt will typically be incurred after the actual Capital Expenditure.
   d. The County may, from time to time, incur Short-Term Debt (e.g. bank line of credit financing) to bridge short-term cash flow requirements (note that the primary source of bridging is Reserves).

2. **Debt Approval**
   a. New capital projects to be approved for Debt financing will proceed through the business planning and budget process.
   b. All issuance of Debt requires an authorized bylaw. The Authorized Borrowing Bylaw must be in place prior to undertaking capital activities funded by external Debt sources.

3. **Debt Planning & Management**
   a. The tolerance or capacity to absorb and manage new Debt will be analyzed as part of the annual capital budgeting process to determine the necessity for and viability of the capital project and identify the revenue stream for the repayment.
   b. Intergenerational Equity is considered when determining capital projects that will proceed for Debt approval.
   c. Annual projected utility operations Debt service payments are supported by projected utility rates as determined by the utility rate model approach. The potential impact to future utility rates must be considered and acknowledged in advance of incurring new utility Debt.

4. **Debt Limits**
   a. Total Debt outstanding
      - Shall not exceed 80% of the Province of Alberta Debt Limit regulations as calculated under the Debt Limit Regulation A.R. 255/2000, as amended.
      - These regulations indicate that a municipality's total Debt outstanding cannot exceed 1.5 times its annual operating revenue.
   b. Total annual Debt service payments
      - Shall not exceed 80% of the Province of Alberta Debt Service Limit regulations as calculated under the Debt Limit Regulation A.R. 255/2000, as amended.
      - These regulations indicate that a municipality's total annual Debt Servicing payments cannot exceed 25% of its annual operating revenue.
   c. The Total Debt outstanding and total annual Debt service payments will be applied to the Utility User Rate debt independently. Prior to the Utility User Rate debt exceeding the MGA debt limits, administration will report to Council with recommendations on the current and projected Utility debt position.

5. **Debt Categories**
   a. To support Debt planning, management and reporting, Debt is categorized into three groups based on the nature of the Capital Expenditure and the financing source for Debt Servicing as follows:
      1. Tax-Supported Debt
         - Issued for Capital Expenditures related to tax supported operations.

- This Debt will be repaid, including interest, using tax-supported revenues such as property and business taxes, non-utility user fees, fines, permits and investment income.

2. Utility User-Rate Debt
   - Issued for Capital Expenditures related to Utilities.
   - This Debt will be repaid, including interest, using Utility user rates.
3. Non Tax-Supported Debt
   - Issued to fund Capital Expenditures by activities or programs which are self-funded, including but not limited to:
   - Local Improvement Supported Debt
     - Issued for capital improvements that benefit specific properties pursuant to an approved Local Improvement plan.
     - This Debt will be repaid, including interest, from Local improvement tax levies on the benefiting properties
   - Developer Levy Supported Debt
     - Issued for Capital Expenditures that are related to new development such as arterial roadways or utility infrastructure.
     - This Debt will be repaid, including interest, from current and future developer levies.

6. <u>Debt Terms</u>

a. The Debt Term shall not exceed the estimated life of the capital project being financed.
b. The following elements should be considered when establishing the Debt Term:
   - cost minimization,
   - availability of Debt Servicing funding,
   - intergenerational equity,
   - capital life cycle implications,
   - sustainability, and
   - financial flexibility.

7. <u>Debt Issuance</u>

a. When the incurrence of Long-Term Debt is deemed to be an appropriate method to finance capital projects, then ACFA will be initially considered.
b. Where it is more attractive and advantageous, a long term financing arrangement with another acceptable lender will be considered.

8. <u>Debt Structure</u>

a. Alternative Debt Repayment structures can be utilized to issue Debt. Examples are:
   - Level Debt Service (Blended Amortization) – fixed payment over the life of the term with a blend of principal and interest in the amount
   - Fixed principal – payment declines over time as principal repayment amount is fixed and interest is added based on the outstanding balance
   - Bullet – fixed interest only payments until the end of the term when the principal and final interest payment are made
   - Fixed and variable rates – a unique repayment schedule

9. <u>Internal Financing</u>

a. As per FIN-001-024 Financial Reserves Policy, reserve description R13 – Internal Financing, the County may use the Internal Financing Reserve as a source of funds for the internal financing of operating and capital projects as approved by Council.
b. Internal loan repayments will be made from user fees, utility user rates, municipal taxes, or other identified sources through the annual operating budget.
c. Internal loans from the Internal Financing reserve will be 5 year terms unless otherwise identified in the business planning and budget process.

10. Reporting

a. Regular reporting on the County's utilization of Debt will occur through management reporting.
b. The County's Debt Limits, total Debt outstanding, and total annual Debt service payments will be reported in the Annual Consolidated Financial Statements.
c. Long-term projections for outstanding Debt will be provided through the annual budget process.

Policy Record

Date of Approval by Council: Dec 18, 2007; 12/14/2004; 6/29/2004; 5/1/2001

Resolution No: 919/2007; 948/2004; 577/2004; 293/2001

Next Review Date: December, 2010

Policy No: FIN-001-025

Last Review Date: December 18, 2007

Replaces: N/A

Administrative Review: Financial Services