



## Debt Management

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**Authority:** Council

**Effective Date:** July 13, 2020

**Date Approved by Council:** July 13, 2020

**Resolution No.:** 155/07/20/SP

**Future Review Date:** 2024

**Last Review:** 2017

**Responsibility:** Corporate Services

**References:** Municipal Government Act 251 – 263, Debt Limit Regulation 255/2000

C-FS-027 - Accumulated Surplus - Restricted (Reserves)

C-FS-019 - Corporate & Long Term Planning

**Replaces:** Debt Management C-FS-002

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**1.0 Purpose:** To establish financial guidelines and appropriate controls for the issuance and use of new debt and borrowing capacity for future capital assets. To limit the impact that Debt Servicing will have on future tax and utility rates to ensure a sustainable financial position while supporting the Town’s ability to meet current and future infrastructure challenges.

**2.0 Scope:** This policy covers borrowing for all facets of the Town’s operation.

### 3.0 Definitions

- 3.1 **Affordable** – 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 life cycle expenditures relative to Town revenues.
- 3.2 **Debt Servicing** – means the required annual debt repayments on account of principal and interest.
- 3.3 **Flexibility** – is the ability of the Town to issue new debt in response to emerging financing needs
- 3.4 **Intergenerational Equity** – means the fair and equitable distribution of long term capital project costs across the generations that benefit from the underlying assets.
- 3.5 **Sustainable** – means meeting present needs without compromising the ability to meet future needs.

- 3.6 **Tax Supported Operations** – means civic programs and services offered to the community, including but not limited to, fire and protective services, roads, parks, and transit.
- 3.7 **Utilities Operations** – means water distribution, wastewater collection, stormwater collection and solid waste/recycling/organic services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility services.

#### **4.0 Statement:**

- 4.1 Debt is an ongoing component of the Town's capital financing structure and is integrated into the Town's long term plans and strategies.
- 4.2 Debt must be Affordable and Sustainable. The Town must maintain Flexibility to issue Debt in response to emerging financing needs.
- 4.3 Debt must be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets over time.
- 4.4 Debt decisions must contribute to a Sustainable and vibrant Town by balancing quality of life and financial considerations.
- 4.5 The issuance of new debt must be approved by Council.
- 4.6 Debt must be managed, monitored and reported upon.

#### **5.0 Standards:**

##### **5.1 Use of Debt**

- 5.1.1 The Town of Stony Plain will only incur and carry long term debt to support capital expenditures for which a business case has been prepared and pursuant to an approved capital budget.
- 5.1.2 The Town will not incur long term debt for operating purposes.
- 5.1.3 Long term debt shall be borrowed after full consideration of alternative capital funding strategies and will typically only be considered when all other funding sources have been exhausted.
- 5.1.4 The use of debt shall be utilized in the context of the Town's long term fiscal sustainability framework.
- 5.1.5 The Town may incur short term debt to bridge short term cash flow requirements or for smaller capital projects. For short term funds, internal borrowing will be used prior to external borrowing sources. External short term borrowing may include a bank line of credit or debenture maturing in less than five years.

## **5.2 Responsibilities**

- 5.2.1 Council is responsible for the approval of borrowing bylaws to authorize short and long-term debt.
- 5.2.2 The Chief Administrative Officer, or delegate, is responsible for:
  - a. Completing a needs analysis and a financial feasibility analysis on each identified project prior to any proposed borrowing.
  - b. Preparation of borrowing by-laws and managing any advertising requirements as stipulated in the MGA.
  - c. Communicating to Council any tax and/or utility rate impacts and impact on debt limits.

## **5.3 External limits**

Total debt outstanding shall not exceed the Province of Alberta Debt Limit Regulation as determined by the Province of Alberta. The current regulation provides that a municipality's total debt outstanding cannot exceed 1.5 times the revenue of the municipality.

Total annual debt service payments shall not exceed those indicated in the Province of Alberta Debt Limit Regulation determined by the Province of Alberta. The regulation provides that a municipality's total annual debt servicing payments cannot exceed 0.25 (25%) times the revenue of the municipality.

## **5.4 Internal limits**

- 5.4.1 The ceiling for borrowing purposes and the target for debt reduction shall be 80% of the provincially regulated debt limit and 80% of the provincially regulated debt service limit.
- 5.4.2 While Council may at any time at its discretion approve debt beyond the 80% internal limits prescribed within this policy, these internal limits have been established for the following purposes:
  - a. to direct Administration and set targets for the development of operating and capital budgets not to exceed the internal limits;
  - b. to serve as an early warning signal that debt is becoming a burden on the Town and appropriate steps should be taken to manage the short, medium and long-term implications; and
  - c. to achieve the Town's objective of sustaining a financially viable municipality.

## **5.5 Repayment**

- 5.5.1 The repayment term in respect of long term debt shall not exceed the useful life of the capital project being financed.
- 5.5.2 When establishing debt terms, consideration shall be given to the following factors:

- a. cost minimization;
- b. availability of debt servicing funding;
- c. Intergenerational Equity;
- d. capital life cycle implications;
- e. long term financial sustainability; and
- f. financial flexibility.

5.5.3 The repayment term shall not exceed 20 years unless there are compelling factors which make it necessary to extend the term beyond that point. By financing over the shortest term possible, lower interest rates and reduced future costs of financing result. This also allows for a debt-free period for the capital asset in which other financial policies such as reserve allocations can be initiated.

5.5.4 New debt service costs will be funded by sustainable revenue.

5.5.5 The Town will take advantage of opportunities to retire outstanding debt early if it appears to be financially beneficial to do so and with consideration of the need for funding of future projects. High interest, municipal tax supported debt will be given priority consideration for debt prepayment.

## **5.6 Internal borrowing**

When the Town's reserve position allows, and based on cash flow analysis, the Town may internally borrow from its reserve funds to provide for the financing of capital projects. Reserves will be repaid with interest (generally over a period of five (5) years or less), with the interest rate equivalent to the average rate of return the Town receives on the Town's investments. This interest rate is intended to offset the investment interest not earned by the Town on funds utilized to interim finance capital projects.

## **5.7 Debt Categories**

To support long term debt planning, management and reporting, long term debt is categorized into two groups based on the nature of the capital expenditure and funding source for debt servicing as follows:

- a. Tax supported debt - issued for capital expenditures related to Tax Supported Operations; debt servicing payments shall be repaid using tax supported revenues such as property taxes, non-utility user fees, fines, licenses, permits and investment income.
- b. Utility user rate debt - issued for capital expenditures related to Utilities Operations; debt servicing payments shall be repaid using utility user rates.

## **6.0 Reporting**

The Town Manager or designate shall report to Council regarding the Town's compliance with this policy. Reporting on the Town's outstanding debt, debt limits and long term projections shall be provided through the annual corporate planning process, financial statements, and quarterly reporting.

## **7.0 Policy Review**

This policy will be reviewed by Administration every four years with any changes being recommended to Council for approval.