

Title: Debt Management

Policy No: 9505

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Motion Number: 25.358

Department: Budget & Financial Planning

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Legal References:

Municipal Government Act, RSA 2000, c M-26, Part 8.
Debt Limit Regulation, AR 255/2000.

Cross References:

Policy 1016 "Budget Development Process"
Policy 1507 "Tangible Capital Assets"
Policy 9500 "Financial Reserves"
Policy 9501 "Financial Reporting"

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

1. DEFINITIONS

- 1.1. **Authorized Borrowing Bylaw** means a Greenview bylaw with reference to a particular borrowing as required under section 251(1) of the MGA.
- 1.2. **Capital Expenditure/Project** means expenditures incurred to acquire, construct, develop, replace or better a tangible capital asset as defined by Public Sector Accounting Board section PS 3150.
- 1.3. **Council** means the municipal Council of the Municipal District of Greenview No. 16.
- 1.4. **Debt** means borrowing as defined under section 241(a.1) of the Municipal Government Act.
- 1.5. **Debt Limit** means the maximum allowable debt outstanding as determined by the Province of Alberta 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.
- 1.6. **Debt Service Limit** means the maximum allowable debt service costs as determined by the Province of Alberta 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.
- 1.7. **Debt Servicing** means the required annual principal and interest debt repayments.
- 1.8. **Debt Term** means the period of time during which debt payments are made. At the end of the debt term, the debt is paid in full.
- 1.9. **Greenview** means the Municipal District of Greenview No. 16.

- 1.10. **Intergenerational Equity** means distributing the costs associated with capital growth across the generations which will be enjoying the benefits of the tangible capital assets built today.
- 1.11. **Long-Term Debt** means debt with a term greater than 5 years, as defined under MGA section 258(1).
- 1.12. **MGA** means the Municipal Government Act.
- 1.13. **Short-Term Debt** means debt with a term of five years or less, as defined under MGA section 257(1).
- 1.14. **Tangible Capital Asset** means non-financial assets having physical substance that:
 - A) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
 - B) have been acquired, constructed or developed;
 - C) have useful economic lives extending beyond an accounting period;
 - D) are to be used on a continuing basis; and
 - E) are not for sale in the ordinary course of operations.

2. POLICY STATEMENT

- 2.1. Greenview recognizes that, properly applied, debt can be an affordable source of financing that complements the financial sustainability of an organization and is an important long-term planning tool.
- 2.2. The incurrence of debt must consider intergenerational equity. Debt is generally appropriate where the beneficiaries (future users) of the infrastructure funded by the debt will then share responsibility for the future repayment of the debt.
- 2.3. Debt is only permitted for capital projects and is not to be used to finance ongoing operating expenditures.
- 2.4. The timing, type, and term of debt shall be determined with the objective of minimizing the long-term costs to Greenview.
- 2.5. Greenview must maintain flexibility to utilize debt in response to emerging financial needs.
- 2.6. The issuance of new debt must be approved by Council in accordance with the legislation.

3. USE OF DEBT

- 3.1. Greenview will not issue debt to finance ongoing operating expenditures.
- 3.2. When deciding on the use of debt, alternative capital financing sources should be considered.
- 3.3. Debt will be considered for capital expenditures for:
 - A) tangible capital assets with long useful lives that provide long-term benefits;
 - B) capital projects that provide community-wide benefits;
 - C) emerging needs to support Council priorities and approved strategic plans;
 - D) major rehabilitation of existing assets; and
 - E) other priorities as determined by Council.

- 3.4. Short-term debt may be considered for interim or bridge financing of capital expenditures for the management of cash flow requirements (note that the primary source of bridge financing is Reserves).
- 3.5. Council has discretion to approve the use of debt on behalf of other organizations or agencies within the context of this policy.

4. DEBT APPROVAL

- 4.1. Capital projects subject to debt financing shall be considered and approved as part of the Greenview's annual budget process.
- 4.2. 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.
- 4.3. New debt issuances shall identify funding sources and debt repayment schedules.

5. DEBT PLANNING & MANAGEMENT

- 5.1. 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.
- 5.2. Intergenerational equity shall be considered when recommending capital projects for debt approval.

6. DEBT LIMITS

- 6.1. Total debt outstanding shall not exceed 75% of the provincially regulated debt limit and debt servicing shall not exceed 75% of the provincially regulated debt service limit.
- 6.2. While Council may at any time at its discretion approve debt beyond the 75% 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 significant burden on Greenview and appropriate steps should be taken to manage the short, medium and long-term implications;
 - C) to recognize the additional reporting requirements which may be required by lenders. For example, the Province of Alberta under the Loans to Local Authorities requires additional documents from municipalities within 25% of their provincially regulated debt or debt service limits; and
 - D) to achieve the Greenview's objective of sustaining a financially viable municipality.

7. DEBT CATEGORIES

- 7.1. To support debt planning and management, debt is categorized into groups based on the nature of the capital expenditure and the financing source for debt servicing as follows:
 - A) Tax-Supported Debt - issued for capital projects related to tax supported operations; debt servicing payments shall be repaid from tax-supported revenues such as property taxes, nonutility user fees, fines, licenses, permits and investment income.

- B) Non Tax-Supported Debt - issued for capital projects which are self-funded and include but are not limited to local improvement supported debt. Debt is issued for capital projects that benefit specific properties pursuant to an approved local improvement plan; debt servicing payments shall be repaid from local improvement tax levies on the benefitting properties.
- C) Utility User-Rate Debt - issued for capital projects related to utilities operations; debt servicing payments, or a portion thereof, shall be repaid from utility user rates.

8. DEBT ISSUANCE, TERMS AND REPAYMENT

- 8.1. When the incurrence of long-term debt is deemed to be an appropriate method to finance capital projects, the Province will be initially considered as a lender. Where it is more attractive and advantageous, a long-term financing arrangement with another acceptable lender will be considered.
- 8.2. Greenview shall limit long-term debt financing to capital projects with a life expectancy greater than 5 years. With the exception of heavy equipment such as graders and emergency equipment such as fire trucks, Greenview shall not finance the purchase of vehicles, machinery, equipment, computer hardware or software through long-term debt even though their life expectancy is greater than 5 years.
- 8.3. The debt term shall not exceed the estimated useful life of the tangible capital asset being financed.
- 8.4. The repayment of principal on debt shall not extend beyond 20 years, unless there are compelling factors which make it necessary to extend the term beyond this point. By financing over the shortest term possible, lower interest rates and reduced future costs of financing result.
- 8.5. Greenview shall consider early repayment of debt if it is economically advantageous.

9. REPORTING

- 9.1. Greenview's debt limits, total debt outstanding, and total annual debt service payments will be reported in the Annual Financial Statements.
- 9.2. Long-term projections for outstanding debt will be provided through the annual budget process.

10. COUNCIL RESPONSIBILITIES

- 10.1. Council is responsible to direct the use of debt through the annual budget process, bylaw, or resolution.

11. ADMINISTRATION RESPONSIBILITIES

- 11.1. Administration is responsible for administrative compliance and monitoring of this Policy.