COUNCIL POLICY

FIN-028-C

DEBT MANAGEMENT

Date Issued: October 9, 2018, R274-18	Mandated by: City Council
Current Revision: October 9, 2018	Cross Reference: • Financial Reserves Policy FIN-021-C • Operating and Capital Budgets Policy FIN-024-C • Management and Financial Reporting Policy FIN-025-C
Next Review: January 1, 2021	Responsibility: City Manager

PURPOSE

The City recognizes that debt management is an important long-term planning tool for reaching and achieving the City's objective of sustaining a financially viable municipality. The City also recognizes that debt can be an affordable source of funding; however, excessive debt reduces the City's flexibility and ability to respond effectively to unforeseen challenges.

This Policy establishes guiding principles and appropriate controls for the issuance and use of new debt and to ensure a favourable financial position while supporting the City's long-term capital plan.

POLICY

1. The City shall use debt as part of financing its capital expenditures to address growth pressures and aging infrastructure and debt shall be integrated into the City's long-term financing plans and strategies.

2. Debt must consider intergenerational equity and shall be structured in a way that is both fair and equitable to those that pay and benefit from the underlying assets. The City shall continue its practice of matching long-term debt to capital projects that provide long-term benefits to the community.

3. The timing, type and term of debt shall be determined with the objective of minimizing the long-term costs to the City.

DEFINITIONS

Alberta Capital Finance Authority (ACFA) – means the non-profit Corporation established under the authority of the *Alberta Capital Finance Authority Act*, to provide Alberta local authorities with flexible funding for capital projects.

Authorized Borrowing Bylaw – means a City bylaw with reference to a particular borrowing as required under section 251(1) of the MGA.

Capital Expenditure / Project – means an expenditure in excess of $10,000 incurred to acquire, construct or improve a tangible capital asset used in the provision of municipal services.

City – means the City of Fort Saskatchewan.

Council **–** means the municipal Council of the City of Fort Saskatchewan.

Debt Servicing – means the required annual debt repayments on account of principal and interest.

Intergenerational Equity – means the fair and equitable distribution of long-term capital project costs across the generations that benefit from the underlying assets.

Long-Term Debt – means debt with a term greater than 5 years, as defined under MGA section 258(1).

MGA – means the *Municipal Government Act*.

Provincially Regulated 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.

Provincially Regulated Debt Service Limit – means the maximum allowable annual debt servicing payments 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.

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

Tangible Capital Assets – means land, buildings, water and sewer systems, roads, infrastructure, machinery, vehicles, and equipment that has been purchased, constructed or contributed to the City and provides long-term benefits.

Tax Supported Operations – means civic programs and services offered to the community such as fire and protective services, roads, parks, and transit.

Utilities Operations – means water distribution, wastewater collection and solid waste services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility services.

GUIDING PRINCIPLES

<u>Use of Debt:</u>

1. The City shall only use debt to finance capital expenditures and not for operating purposes.

2. The use of debt shall be done with full consideration of alternative capital funding strategies and in the context of the City's long-term financial sustainability plan.

3. Short-term debt use shall be limited to interim financing of capital expenditures, or management of short-term cash flow requirements such as bridge financing for capital projects.

4. Long-term debt use shall 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 (for tax-supported debt);
    c. growth-related capital projects;
    d. emergent needs to support corporate priorities and approved strategic plans; and
    e. major rehabilitation of existing tangible capital assets as a short-term strategy to address significant backlogs or emergency / disaster recovery situations.

5. Council has discretion to approve the use of debt on behalf of other organizations or agencies within the context of this policy.

Debt Approval:

6. A multi-year debt guideline, corresponding debt servicing schedule, and funding strategy shall be maintained and consistent with the City's long-term capital plan and various master servicing plans.

7. Capital projects subject to debt financing shall be considered and approved as part of the City's annual budget process pursuant to Operating and Capital Budgets Policy FIN-024-C.

8. New debt issuances shall identify funding sources and debt repayment schedules.

9. All issuance of debt requires an authorized borrowing bylaw. The bylaw must be in place prior to undertaking capital projects funded by external debt sources.

Debt Planning and Management:

10. The City's capacity to take on and manage new debt shall be analyzed as part of the City's annual capital budgeting process to determine the necessity for and viability of the capital project, and to identify appropriate revenue streams for repayment.

11. Intergenerational equity shall be considered when recommending capital projects for debt approval.

Debt Limits:

12. The ceiling for borrowing purposes and the target for debt reduction shall be 75% of the provincially regulated debt limit and 75% of the provincially regulated debt service limit.

13. 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 the City and appropriate steps should be taken to manage the short, medium and long-term implications;

c. to recognize the additional reporting requirements by ACFA for municipalities within 25% of their provincially regulated debt and debt service limits; and

d. to achieve the City's objective of sustaining a financially viable municipality.

Debt Categories:

14. For purposes of debt planning, management and reporting, debt is categorized into 3 groups based on the nature of the capital expenditure and the funding 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, non-utility 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:

        i. Local improvement supported debt 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; and

        ii. Developer levy supported debt issued for capital projects that relate to new development such as arterial roadways or utility infrastructure; debt servicing payments shall be repaid from current and future developer levies.

    c. Utility user-rate debt – issued for capital projects related to utilities operations; debt servicing payments shall be repaid from utility user rates.

Debt Issuance, Terms and Repayment:

15. Unless more advantageous interest rates can be obtained elsewhere, the City shall obtain capital financing funds through the sale of debentures to ACFA.

16. 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.

17. The City 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, the City 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.

18. The debt term shall not exceed the estimated useful life of the tangible capital asset being financed.

19. The repayment of principal on tax-supported 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. This also allows for a debt-free period for the capital asset in which other financial policies such as reserve allocations can be initiated.

20. The City shall give consideration to early repayment of debt if it is economically advantageous to the City.

21. When a debenture is fully paid and retired, the City shall assess the viability of maintaining equivalent payments into capital reserves. This approach helps to stabilize the associated tax or utility rate, and permits ongoing, established funding to be redirected towards other capital projects as needed.

Debt Reporting:

22. The City's debt utilization shall be reported through the quarterly and annual reporting processes prescribed within Management and Financial Reporting Policy FIN-025-C.

AUTHORITY / RESPONSIBILITY TO IMPLEMENT

1. The City Manager is responsible for administrative compliance and monitoring of this Policy.

2. The City Manager may delegate responsibility to the Chief Financial Officer to establish and administer compliance with this Policy, and for compliance with City Bylaws, the *Municipal Government Act*, and other applicable legislation.