

Debt Management Policy

Date Approved by Council: November 24, 2020

Resolution Number: Motion 505/20

Mayor: "Original Signed – Alanna Hnatiw"

County Commissioner: "Original Signed – Reegan McCullough"

1. Purpose

This policy aims to establish financial guidelines and controls for the sustainable issuance and use of debt while providing the ability and flexibility to meet current and future infrastructure needs and address unforeseen challenges.

2. Revision History

<i>Approval Date</i>	<i>Revision Number</i>	<i>Modification</i>
2015/10/13	1.0	New Document
2020/08/25	2.0	Amendment
2020/11/24	3.0	Amendment

3. Persons/Areas Affected

County Council
County Administration

4. Definitions

Affordability means the ability to pay for Debt Service and life cycle costs for the underlying expenditure.

Capital Expenditure means expenditures incurred to acquire, develop, better, or replace capital assets as defined by Public Sector Accounting standards section PS-3150.

Council means the municipal Council of Sturgeon County.

County means the municipality of Sturgeon County.

Debt means borrowing as defined under section 241(a.1) and loans or loan guarantees as described under section 264(1) of the *Municipal Government Act* (MGA). Typical examples include borrowing in the form of debenture varying in debt terms, capital leases, and lines of credit.

Debt Term means the period of time during which debt payments are made. At the end of the debt term, debt must be paid in full.

Debt Service means annual principal and interest amounts, for the 12 months preceding the calculation date, owing on outstanding loans made by the municipality plus annual principal and interest amounts

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that the municipality estimates, on reasonable grounds, will be liable to pay on loans guaranteed by the municipality.

Flexibility means the ability to take on new debt in response to emerging financial needs.

General Reserve means a reserve as defined in Sturgeon County Reserve policy that has not been established for a specific project arising from a contractual obligation, or whose use is governed by legislation.

Long-term Debt means borrowing where the term of the debt is greater than 5 years.

Operating Expenditure means a cost incurred as a result of performing day-to-day business activities.

Non-Tax Supported Debt means borrowing, interest and principle, used to fund programs which are self-supported, including but not limited to local improvement supported borrowing, developer levy supported borrowing, and borrowing on behalf of non-profit organizations.

Short-term Debt means borrowing where the term of the debt is not greater than 5 years.

Tax Supported Debt means borrowing, interest and principal, incurred for general municipal purposes generally repaid through municipal tax levies.

Treasury Board and Finance (TBF) means the department of the Government of Alberta that administers the lending program for Alberta local authorities.

Uncommitted means the portion of a reserve that is available for use.

Utilities Supported Debt means borrowing, interest and principle, on debt incurred for utility operations or utility capital.

5. Policy Statement

Sturgeon County recognizes that strong financial leadership and planning are fundamental to ensuring long-term viability and financial sustainability.

Sturgeon County recognizes that Debt is an integral and ongoing component of long-term financial plans and strategies and can be an affordable source of financing that provides flexibility during challenging economic conditions while supporting the achievement of service level delivery and growth objectives.

Sturgeon County recognizes that the overutilization of Debt can hinder an organization's ability to remain flexible in handling unforeseen challenge and therefore supports a conservative approach to the use of Debt as a financing source.

Sturgeon County aims to structure Debt in a way that is equitable to those who pay for Debt and those who most benefit from the underlying expenditure and seeks to balance the quality of life of County residents with the impact Debt Service can have on future rates.

6. Use of Debt

Sturgeon County will only incur Debt when it aligns with the Strategic Plan, Corporate Business Plan, or with approval from Council by bylaw.

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Prior to issuing new Debt, a funding analysis will be performed to ensure Sturgeon County is balancing the use of Long-term Debt, reserves, contributions from operations, grant revenue, and community fundraising.

Long-term Debt will only be incurred for funding:

- Non-recurrent Capital Expenditures where the useful life of the underlying capital asset is greater than five years and has an individual value of greater than \$100,000.
- Capital infrastructure projects whose beneficiaries are generally future users.
- Growth related Capital Expenditures.
- Operating Debt that provides long-term benefits to the County at large through the involvement of assets not owned by Sturgeon County.
- Major rehabilitation of existing capital infrastructure to address significant emergency or disaster recovery situations.

Short-term Debt will only be incurred:

- To provide interim or bridge financing, for Capital or Operating Expenditures, arising from timing differences in cash flows or for financing emergency items. Where practical to do so, the primary source of bridge financing will be reserves.
- For funding Capital Expenditures where the useful life of the underlying capital asset is less than five years.

Where practical to do so, internal borrowing will be used over Short-term Debt.

7. Debt Limitations

Sturgeon County shall adhere to the debt limit regulations outlined by *Municipal Government Act* Debt Limit Regulation 255/2000, which are defined as follows:

- Total Debt may not exceed 1.5 times the revenue of the municipality, and
- Debt Service may not exceed 0.25 times the revenue of the municipality.

Sturgeon County Council, as a precaution, will be informed once the debt limit reaches 1.0 times and 1.2 times the revenue generated by Sturgeon County.

Investment interest earned on funds borrowed in advance of offsetting the related expenditure will at no time be used to increase the applicable capital project budget without Council approval.

The Government of Alberta will be used as the lender of choice for capital borrowing unless a more beneficial arrangement is available from another acceptable lender.

8. Debt Structure

With the objective of minimizing long-term cost to Sturgeon County, the following elements will be considered when establishing the Debt Term:

- availability of future funding;
- life cycle cost implications;
- sustainability; and
- maintaining financial flexibility

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The term of a Long-term Debt issuance will not exceed 75% of the useful life of the asset acquired, as defined by Sturgeon County's Tangible Capital Asset Procedure, and in no case shall exceed 25 years. This allows for a debt-free period for an asset in which other financial policies, such as the Reserve Policy for capital reserve allocations, can be initiated.

To the extent possible, Utility Supported Debt for capital asset acquisition or construction of utility infrastructure shall be financed by utility operations to allow for repayment from utility rates.

When reserve and cash positions allow, based on a cash flow analysis, Long-term Debt for financing capital infrastructure projects will be drawn at the end of capital construction.

Alternative borrowing techniques, such as lease financing, will be considered if the benefits can be demonstrated.

9. Debt Repayment

Sturgeon County will choose a Debt repayment structure which is most suited to the type of expenditure or underlying capital asset. Examples of debt repayment structures utilized by Sturgeon County include:

- Blended Amortization – fixed payments over the life of the term with a blend of principal and interest.
- Fixed principal – payments decline over the life of the term as the principal repayment amount is fixed and interest is added based on the outstanding balance.
- Bullet – fixed interest only payments over the life of the term with final payment, at the end of the term, for the full principal borrowing and the final interest amount.
- Fixed and variable – any unique or customized repayment schedule.

Sturgeon County will take advantage of opportunities to retire outstanding debt early where it is considered advantageous and financially beneficial to do so.

Debt Service obligations will be incorporated into the annual budget and will be funded by sustainable revenue.

10. Internal Financing

When reserve positions allow, based on a cash flow analysis, Sturgeon County may use the Uncommitted portion of a General Reserve as a source of funding for internal financing of Operating or Capital Expenditures.

Internal financing arrangements will be repaid from user fees, utility rates, municipal taxes, or other designated sources, and will be incorporated in the borrowing department's annual operating budget.

Internal loans will be for a term of 5 years unless otherwise decided during the budget and planning process.

11. Other Borrowing

Council may authorize Non-Tax Supported Debt issuance on behalf of a non-profit organization within the context of section 264 of the *Municipal Government Act* and Sturgeon County policy ADM-LOA-1 Loans to Non-Profit Foundations.

12. Responsibilities

Council is responsible for:

- authorizing Borrowing bylaws as required,
- authorizing debt financing proposals for Short-term Debt, including borrowing on Sturgeon County's line of credit and overdraft, and Long-term Debt,
- authorizing the early retirement of Debt,
- approving the Debt Management Policy, and
- approving the annual Operating and Capital Budgets and multi-year Financial Forecasts which incorporate anticipated Debt requirements.

Administration is responsible for:

- ensuring the proper Borrowing bylaws are in place prior to pursuing any project that is to be funded by external borrowing, and
- negotiating the terms of the financing arrangements with the goal of securing the most advantageous and financially beneficial borrowing terms.

13. Procedures

Expenditures that require Debt financing must be approved by Council as a Service Enhancement brought forward through the budget and planning process or as a Request for Decision.

Sturgeon County may not acquire, remove, or start the construction or improvement of a Capital Expenditure that is to be financed, in whole or in part, through Debt unless the corresponding Borrowing bylaw has been passed.

The Debt Management Policy is subject to biennial review. Amendments to the Debt Management Policy are subject to Council approval.

14. Reporting

Regular reporting on Sturgeon County's utilization of Debt and the Debt limit will occur through management reporting.

Sturgeon County's Debt limit, total Debt, and annual Debt Service obligation will be reported in the Annual Financial Statements.

Long-term Debt projections will be provided through the annual planning and budget process.

15. Cross Reference

Debt Management Procedure

Municipal Government Act

Municipal Government Act Debt Limit Regulation 255/2000

Loans to Non-Profit Foundations – Policy ADM-LOA-1

Tangible Capital Asset Procedure