

Debt Management Policy Changes Justification Addendum

June 11, 2024 SCOW

Section	Current	New	Justification
Purpose	<p>To consider debt as a financing tool, supporting the City’s ability to meet current and future infrastructure challenges.</p> <p>To strategically manage borrowing capacity for future capital assets, maintain maximum flexibility of current operating funds, and limit the impact that debt charges will have on future tax and utility rates.</p> <p>The City recognizes that, properly applied, debt can be an affordable source of funding that complements the sustainability of an organization. The City also recognizes that excessive debt reduces an organization’s flexibility and its ability to handle unforeseen challenges. Debt decisions shall balance quality of life and financial considerations.</p>	<p>To support the use of debt as a strategic financing tool, this policy establishes principles, guidelines and controls for the issuance of new debt as captured in the Long-Term Debt Strategy.</p> <p>Aligning with the City’s asset management framework and planning processes, the City seeks to strategically manage borrowing capacity for future infrastructure requirements, maintain maximum flexibility of current operating funds, and control the impact that debt charges will have on future tax and utility rates.</p> <p>The City recognizes that, properly applied, debt can be a cost-effective source of funding that complements the sustainability of an organization. Debt decisions shall take a long-term view balancing quality of life and financial impacts.</p>	<p>Wording updated to align with the intent of the Policy and to reference Long-Term Debt Strategy referenced in the Definitions Section.</p>
Policy Statement	<p>Long-term debt shall not be incurred for operating purposes. Long-term debt may be considered for the construction or rehabilitation of major municipal and utility infrastructure as may be determined by Council.</p>	<p>Debt should be regarded as a viable and complimentary financing tool alongside grant funding, tax-supported budget allocations, reserves, developer levies, and partnerships for the purchase, construction, and rehabilitation of capital assets. All of these components must</p>	<p>Clarification that debt is one financing tool that needs to be considered in the Long-Term Debt Strategy.</p>

	<p>The City shall also adhere to an internal debt limit of 85% of the provincially prescribed debt limit and debt servicing limits, and shall further restrict tax-supported borrowing through an internal tax-supported debt limit of 50% of the City's internally determined debt limit and debt servicing limits.</p>	<p>come together as part of a long-term asset management plan.</p> <p>Debt is only permitted for capital infrastructure projects or the Clean Energy Improvement Program. Debt is not to be used for operating expenditures with the rare requirement to manage cash flow or extraordinary events.</p> <p>The City must maintain flexibility within defined debt and debt servicing limits to ensure both sustainability as well as the ability to respond to unplanned emergent items.</p> <p>Debt should be structured in a way that promotes generational equity to support the philosophy that those who benefit from the use of the asset contribute proportionally to its cost.</p>	<p>Include reference to CEIP, which is a new program partially funded from debt.</p> <p>Take out restriction on internal debt limits to allow for flexibility and address emergent requests.</p> <p>Debt limits are captured in Debt Limits Section.</p>
Definitions			Updated as required to reflect the new policy.
Responsibilities	<p>Council is responsible for the approval of borrowing bylaws to authorize short and long-term debt.</p> <p>The Chief Administrative Officer is responsible for:</p> <ol style="list-style-type: none"> 1. preparation of borrowing by-laws and managing any advertising requirements as stipulated in the <i>MGA and as further defined in Council</i> 	<p>Council is responsible for:</p> <ol style="list-style-type: none"> a. the approval of borrowing bylaws to authorize short and long-term debt, and b. working with the CAO to prioritize future Capital Plan projects to be considered for debt financing as input into the Long-Term Debt Strategy. <p>The Chief Administrative Officer is responsible for:</p>	<p>Part b. is added to acknowledge that Council has a say in prioritizing future capital projects and debt funding.</p> <p>CAO additional requirements added in to reflect transparency on long-term strategies and Council priorities.</p>

	<p><i>Policy C-CAO-22 Borrowing Bylaw Advertising</i></p> <p>2. Communicating to Council any tax and/or utility rate impacts related to the debt</p>	<p>a. preparation of borrowing by-laws and managing any advertising requirements as stipulated in the <i>MGA and as further defined in Council Policy C-CAO-22 Borrowing Bylaw Advertising</i>;</p> <p>b. communicating to Council any tax and/or utility rate impacts related to the debt;</p> <p>c. managing City’s debt in a responsible and planned manner in accordance with this policy ensures appropriate resources are available to meet current and future obligations; and</p> <p>d. reviewing the long-term debt strategy with Council to confirm priorities on regular basis.</p>	
<p>NEW: Introduction and Context</p>		<p>All capital funding types including taxes, reserves, grants, levies and debt are ultimately borne by (or guaranteed by) the taxpayer either in the form of direct payment or with relation to grants through the allocation to one project versus another.</p> <p>The City will always be in a position where demand/desire/requirement for capital investment exceeds available funding.</p> <p>To support decision making, the City has a robust process for the evaluation and prioritization of both municipal and off-site levy capital projects that considers:</p>	<p>New section to set the context for the policy within the existing prioritization processes.</p>

		<ol style="list-style-type: none"> 1. impact on or support for health, safety and environment 2. level of alignment with council's strategic plan or other policy direction 3. it's support for maintaining or enhancing services/service levels 4. the return on investment (financial and non-financial) 5. the level to which the project supports strategic growth <p>Only those projects that score highly in these areas, and thus demonstrate direct benefit to the community, should be considered for funding. The combination of funding sources for these projects will be assigned to make maximum use of grants, support generational equity and propose debt in consideration of it's long-term obligation for the City and alignment to this policy.</p>	
Short-term Debt	<p>a. The City may, from time to time, incur short-term debt to:</p> <ol style="list-style-type: none"> i. Manage short-term cash flow requirements such as interim financing for capital projects; ii. Provide financing for emergency purposes; or iii. to offset cash flow timing issues; 	<p>a. The City may, from time to time, incur short-term debt to:</p> <ol style="list-style-type: none"> i. manage short-term cash flow requirements and ii. provide financing for emergency purposes. <p>b. Short-term debt shall be financed through:</p> <ol style="list-style-type: none"> i. internal financing; ii. a line of credit; or 	<p>Part a.iii not required as repetition of a.i.</p> <p>Part b.iii provides clarity and eliminates duplication.</p>

	<p>b. Short-term debt shall be financed through:</p> <ul style="list-style-type: none"> i. Internal financing; ii. A line of credit; or iii. Short-term debt, either conventional banking or ACFA. <p>c. All short-term debt in excess of one year shall be subject to City Council approval through the budget process, by bylaw, or by resolution as required.</p>	<p>iii. conventional short-term banking.</p> <p>c. Where Short-term debt is used, a funding source to repay the Short-term debt must be identified prior to borrowing.</p> <p>d. All Short-term debt in excess of one year shall be subject to City Council approval through the budget process, by bylaw, or by resolution as required.</p>	<p>Part c. is taken from Edmonton's Policy and provides transparency as to how the debt will be repaid. This section addresses a gap identified based on review of debt policies of other municipalities.</p>
<p>Internal Financing</p>	<p>a. Where the City's reserve position allows, and based on cash flow analysis, the City may use internal borrowing to fund capital projects in order to reduce overall net borrowing costs.</p> <p>b. Where the City chooses to internally borrow, a financing rate shall be applied to funds required to offset the capital project expenditures to date. The rate used shall be the average rate of return earned by the City's investments. This interest rate is intended to offset the investment interest not earned or lost by the City on funds utilized to interim finance capital projects.</p>	<p>a. Where the City's reserve position allows, and based on cash flow analysis, the City may use internal financing to fund capital projects in order to reduce overall net borrowing costs.</p> <p>b. Consideration for internal financing along with an identified funding source will require approval from Council during the budget process or through formal resolution.</p> <p>c. Where the City chooses to internally borrow, a repayment schedule will be established, and a financing rate shall be applied to funds required to offset the capital project expenditures. The rate used shall be the average rate of return earned by the City's investments. This interest rate is intended to offset the</p>	<p>Part c. is taken from Edmonton's Policy and provides transparency as to how the debt will be repaid. This section addresses a gap identified based on review of debt policies of other municipalities.</p> <p>Added specifics for clarity.</p>

		investment interest not earned or lost by the City on funds utilized to finance capital projects.	
Long-term Debt	<p>a. Prior to any proposed borrowing, Administration shall complete a needs analysis and a fiscal impact analysis on each identified project.</p> <p>b. The City may incur and carry long-term debt only to support priority capital projects pursuant to approved Business Plans and resulting capital budgets and/or emergent needs.</p> <p>c. The City may borrow by debenture, conventional bank financing or other approved financing debt instruments to finance the construction, purchase, or major restoration of facilities and infrastructure. The projects shall appear in the approved Capital Budget or as otherwise approved by Council.</p> <p>d. Long-Term Debt may be considered for capital expenditures for municipal or utility purposes where the expected asset life, or increase to asset life, is greater than five years and a valid project charter</p>	<p>a. Long-Term Debt may be considered for capital expenditures for municipal or utility purposes where the expected asset life, or increase to asset life, is greater than five years, and a valid project charter has been approved by Council.</p> <p>b. Prior to approval of any project being considered for debt financing, Administration shall analyze and communicate to Council the estimated impacts on the City's existing and forecasted debt position, potential tax impacts and/or policy compliance as it relates to the OSL recovery fund if applicable.</p> <p>c. The repayment term (amortization) in respect of long-term debt shall not exceed the useful life of the asset being financed by the City.</p> <p>d. Debt terms shall be chosen in consideration of total cost of borrowing, tax impacts, management of debt levels, and generational equity.</p> <p>e. In support of the overall Long Term Debt Strategy, the CAO may also choose alternate repayment structures, such as Level Debt Service, Fixed Principal, Bullet, and Fixed and variable rates.</p>	<p>Old part a. has been removed, as the new part a. addresses that any charter considered for debt must have gone through the prioritization and been approved by Council.</p> <p>Part b. provides greater transparency on the impact of debt to residents.</p> <p>Part d. provides greater clarity on the determination of debt terms and addresses sustainability goals of the Long-Term Debt Strategy.</p> <p>Part e. provides other repayment structures that could be used.</p>

	<p>has been established for the capital project</p> <p>e. The repayment term (amortization) in respect of long-term debt shall not exceed the useful life of the asset being financed by the City; however, in order to minimize borrowing costs, the term shall be minimized.</p> <p>f. Existing reserves may be used as a source of internal financing in lieu of external borrowing. When used as internal financing, the reserves shall be repaid with interest at the rates specified in the City's Reserve Policy. If sufficient funds are not available in reserves to provide long-term financing, then the Alberta Capital Finance Authority (ACFA) may be used as the lender of choice. Where it is more attractive and advantageous (considering factors such as penalties for early repayment and other considerations), a longer term financing arrangement with another acceptable lender may be considered. Upon approval by Council, specific reserves</p>	<p>f. The City may borrow by debenture, conventional bank financing or other approved financing debt instruments including internal financing.</p>	
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	may be utilized to provide debt servicing for long term debt with no expected repayment provisions.		
Debt Limits	<p>The City shall adhere to a ceiling for borrowing purposes of 85% of the debt limits prescribed by Provincial regulation. These shall be referred to as the City’s “internal debt limits”. Further, the City shall adhere to a “tax supported debt limit” and “tax supported debt servicing limit” of 50% of the City’s internal debt limit. Current Provincial limits for total debt and debt servicing are:</p> <p>a. Total Debt as a % of the Debt Limit - 1.5 times the annual operating revenue.</p> <p>b. Total Debt Service Limit - 25% of the annual operating revenue.</p>	<p>To ensure debt capacity remains for Emergency Purposes, the City shall adhere to a ceiling for borrowing purposes of 85% of the debt limits prescribed by Provincial regulation. This shall be referred to as the City’s “internal debt limit”.</p> <p><u>Debt Servicing Limits</u></p> <p>The City shall establish internal debt servicing limits to support the long-term financial sustainability of the City.</p> <ol style="list-style-type: none"> 1. Total Debt Servicing shall not exceed 18% of the City’s consolidated operating expense budget (excluding any amount budgeted for existing debt servicing) 2. Tax-Supported Debt Servicing shall not exceed 12% of the City’s consolidated operating expense budget (excluding any amount budgeted for existing debt servicing) 	<p>Removal of internal tax supported debt limit as the City is recommending servicing limits over a debt limit.</p> <p>Inclusion of Debt Servicing Limit amounts.</p> <p>Establishing that the 85% internal debt limit is to ensure the City has capacity to borrow debt in the event an emergent situation arose.</p> <p>Most significant change is the shift from focus on debt to focus on debt servicing.</p>
Repayment of Debt	<p>a. The City may take advantage of opportunities to retire outstanding debt early if financially beneficial to do so. High interest, tax supported debt shall be given</p>	<p>a. The City of St. Albert is legally responsible for all debt-servicing payments regardless of the initial intended funding source. For projects approved for funding</p>	<p>Acknowledgement that the City is legally liable for debt payment and if funds were not available in the Off-Site Levy Reserve any debt payment initially funded</p>

	<p>priority consideration for early debt repayment.</p> <p>b. For debt that was originally approved for Debt Servicing through the Capital Funding Formula, as debt is retired and debt servicing costs decrease, the City will rebalance the Capital Funding Formula by reallocating the dollars to tax supported funded capital projects (PAYG) or lifecycle replacement reserves.</p> <p>c. As additional debt is borrowed, Council may choose one of the following financing strategies:</p> <p>i. Service the debt through the Capital Funding Formula. The Capital Funding Formula will be rebalanced by reducing PAYG and Lifecycle replacement reserves in an amount equal to the annual debt servicing requirement. Due to the nature of the rebalancing, the process stabilizes the City's municipal tax rates, or</p> <p>ii. Increase the general tax base in an amount equal to the annual debt servicing requirement. This additional budget will be included as part of the general municipal tax</p>	<p>through the OSL Recovery Fund, if the fund experiences a deficit, any debt serviced from it will require a new funding source to be identified, such as property taxes or an alternate reserve. OSL funded projects are governed by the OSL Recovery Fund Utilization Policy.</p> <p>b. Retiring tax-supported debt servicing will not be used to reduce the tax requirement where additional debt is planned in the next five years. Where new debt is not anticipated in the upcoming budget year, the same amount will be redirected to PAYG on an interim basis until such time as new debt servicing is required.</p> <p>c. New Tax-Supported Debt servicing will be added to the tax requirement as an ongoing adjustment in the year the first payment becomes payable in an amount that is not offset by 5.b above.</p> <p>d. The City may take advantage of opportunities to retire outstanding debt early if financially beneficial considering debt retirement penalties. High interest, tax supported debt shall be given</p>	<p>from there would be funded through the tax base.</p> <p>Provides tax stabilization as the City undergoes more debt.</p> <p>As the City moves to maintain its existing infrastructure while providing for growth the Capital Funding Formula is not an effective tool to support the Long-Term Debt Strategy. Allowing for new debt to be added while applying the reduction of old debt will better align with the Strategy.</p> <p>Further updates to the Budget and Taxation Guiding Principles Policy will be required to</p>
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	<p>levy, unless otherwise directed by Council, and will not form part of the Capital Funding Formula but rather will be reported as a separate line item. As the debt is retired, the municipal tax levy will be reduced accordingly.</p> <p>The annual debenture payments relating to Multipurpose Leisure Centre Borrowing Bylaw 14/2004 do not form part of the capital envelope as it is taxed as a separate levy.</p>	<p>priority consideration for early debt repayment.</p>	<p>redefine the function of the capital funding formula.</p> <p>Servus Place debentures fully retire in 2025 therefore this is no longer required.</p>
Performance Measures	<p>The debt limit and debt servicing limit, as regulated by both the Province and the City, as well as comparable municipalities, shall be used as performance measures to assess the City of St. Albert's financial position.</p>	<p>DELETE</p>	<p>The city has other measures in place to assess financial position.</p>
Use of Debt Borrowing Proceeds	<p>Investment interest earned on funds borrowed, until required to offset expenditures, shall either be credited to the Internal Financing Reserve, or used to reduce the City's overall borrowing requirements.</p>	<p>DELETE</p>	<p>In taking out debt, the City only takes what expenses have been incurred in a year.</p>
Reporting	<p>The Chief Administrative Officer or designate shall report quarterly to Council regarding the City's compliance with this policy. Reporting on the City's outstanding debt, debt limits and long-term projections shall be provided through the annual budget</p>	<p>The Chief Administrative Officer or designate shall report to Council regarding the City's compliance with this policy. Reporting on the City's outstanding debt, debt and debt servicing limits, and long-term projections shall be provided through the quarterly reports, budget process, and annual financial statements.</p>	<p>Update to align reporting with other policies.</p>

	process and current financial statements.		
Policy Review	This policy shall be reviewed annually by Administration, with any amendments to be recommended to Council	This policy shall be reviewed in accordance with the corporate review schedule.	Updated to reflect current corporate practice.
Cross References	Policy C-FS-01, Financial Reserves Policy C-FS-05 Budget and Taxation Guiding Principles Policy C-FS-14 Utility Fiscal Policy	Policy C-FS-01, Financial Reserves Policy C-FS-05 Budget and Taxation Guiding Principles Policy C-FS-14 Utility Fiscal Policy Policy C-FS-20 OSL Recovery Fund Utilization	Added reference to Off-Site Levy Recovery Fund Utilization Policy.

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