



CITY OF ST. ALBERT
CITY COUNCIL POLICY

| NUMBER | TITLE |
|------------------------|------------------------|
| C-FS-03 | Debt Management |
| ORIGINAL APPROVAL DATE | DATE LAST REVISED |
| November 17, 2003 | June X, 2024 |

Purpose

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 input into the Long-Term Debt Strategy.

Aligning with the City’s Asset Management Framework and planning processes, the City seeks to strategically manage borrowing capacity for future infrastructure requirements, to maintain maximum flexibility of current operating funds, and to control the impact that debt charges will have on future tax and utility rates.

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.

Policy Statement

Debt should be regarded as a viable and complementary 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 come together as part of a long-term asset management plan and funding strategy.

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.



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.

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.

Definitions

“Act” means the *Municipal Government Act*, RSA 2000, c M-26 and amendments thereto.

“borrowing bylaw” is a Council approved bylaw referred to in section 251 of the Act, which authorizes a municipality to borrow money.

“bullet” refers to fixed interest only payments until the end of the term when the principal and final interest payment are made.

“cash” refers to cash, cash equivalents, and short term (less than 5 years) investments.

“Capital Funding Formula” refers to a base budgeted amount built into the operating budget consisting of three components: long-term debt, capital asset lifecycle reserves and Pay-As-You-Go.

“capital asset lifecycle” refers to a component of the Capital Funding Formula where annual transfers are made to provide stable funding for the repair, maintenance and replacement of groups of assets supported by detailed long-term replacement plans.

"capital expenditures" means expenditures incurred to acquire, develop, or renovate assets where the benefit of the expenditure will extend beyond a one-year period and the amount of the expenditure exceeds the City's minimum capitalization threshold.

“Chief Administrative Officer” or “CAO” means the individual appointed by Council to the position of Chief Administrative Officer under section 205 of the Act and pursuant to the *Chief Administrative Officer Bylaw 13/2002*.

"debt limit" refers to the City's established debt limit or, as applicable based on the context, the provincial *Debt Limit Regulation*, which provides that a municipality's total debt outstanding cannot exceed 1.5 times its annual operating revenue.

"debt repayment" refers to the regular and/or special repayment of debt principal that has been incurred to finance capital projects.

"debt servicing" means annual required debt repayments including interest and principal.

"emergency purposes" refers to an urgent and unexpected situation that poses a risk to health, life, property, or environment and requires immediate action.

"fixed and variable rates" refer to a unique repayment schedule.

"fixed principal" refers to a concept where payment declines over time as principal repayment amount is fixed, and interest is added based on the outstanding balance.

"internal financing" refers to borrowing from existing City reserves to finance projects. When the City internally finances, the repayment terms will include the principal amount borrowed plus interest. The interest owed shall begin accruing in the month following the borrowing.

"level debt service" (i.e. Blended Amortization) is a fixed payment over the life of the term with a blend of principal and interest in the amount.

"long-term debt" means a debt obligation that is typically issued for capital expenditures. In the case of the City, this is usually in the form of a debenture varying in debt terms of three years or greater.

"Long-Term Debt Strategy" includes the long-term outlook for City's capital plan that included debt financing requirements.

"municipal infrastructure" means all City owned buildings, parks, trails, transportation networks and information technology forming part of the built environment but excluding utility infrastructure.

"Off-Site Levy Recovery Fund" is a reserve to fund future development of specified off-site roadway and utility construction.

"Pay-As-You-Go" represents annual tax levy revenues that are budgeted within the operating budget to finance tax-supported capital expenditures.

"project charter" refers to an analysis that demonstrates the necessity for and viability of a new project. A project charter will include a financial analysis of the capital and operating costs of a new project.

"reserves" are money that has been specifically set aside by Council to finance future expenditures, which are either operating or capital in nature.

"revenues" means the total amount of money brought in on an annual basis as published in the last audited financial statements of the City prior to the time of calculation, to include money from taxes, utilities, user fees, departmental and corporate programs, developer and customer contributions, and Boards and Authorities.

"short-term debt" means a debt obligation that is used to cover cash-flow timing issues, smaller capital projects, and interim financing for capital expenditures. The term of debt is less than three years.

"sustainability" means meeting present needs without compromising the ability to meet future needs.

"tax levy revenues" means revenues generated to pay for tax-supported operations. This revenue is calculated annually, taking the overall expenditures and subtracting all other sources of revenue such as user fees, fines, permits, grants and investment income. The balance remaining is the amount to be raised through municipal property taxes.

"tax-supported debt servicing" represents has annual required debt payments including interest and principal issued for capital expenditures using tax levy as the source of repayment.

"utilities" are self-funded operations providing a service to its customers, at rates regulated by City Council, and are: Water, Waste Water, Storm Water, and Solid Waste/Organics/Recycling.

"utility infrastructure" means all the systems and facilities associated with the City's Water, Waste Water, Storm Water, and Solid Waste/Organics/Recycling utilities.

Responsibilities

Council is responsible for:

- 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.

The Chief Administrative Officer is responsible for:

- a. preparation of borrowing bylaws and managing any advertising requirements as stipulated in the Act and as further defined in Council Policy C-CAO-22 Borrowing Bylaw Advertising;
- b. communicating to Council any tax and/or utility rate impacts related to the debt;

- c. managing the City's debt in a responsible and planned manner in accordance with this policy, ensuring appropriate resources are available to meet current and future obligations; and
- d. reviewing the Long-Term Debt strategy with Council to confirm priorities on regular basis.

Service Standards/Expectations

1. Introduction and Context

All capital funding types, including taxes, reserves, grants, levies, and debt, are ultimately borne (i.e. guaranteed) by the taxpayer either in the form of direct payment or with relation to grants through the allocation to one project versus another.

The City will always be in a position where demand, want, or requirement for capital investment exceeds available funding.

To support decision making, the City has a robust process for the evaluation and prioritization of both municipal and Off-Site Levy Recovery Fund capital projects that considers:

- a. impact on or support for health, safety, and environment;
- b. level of alignment with Council's Strategic Plan or other policy direction;
- c. its support for maintaining or enhancing services and service levels;
- d. financial and non-financial the return on investment; and
- e. the level to which the project supports strategic growth.

Only those projects that score highly in these areas to demonstrate direct benefit to the community should be considered for funding. The combination of funding sources for these projects will be determined to make maximum use of grants, support generational equity, and propose debt in consideration of its long-term obligation for the City and alignment to this policy.

2. Short-Term Debt

- a. The City may, from time to time, incur short-term debt to:
 - i. manage short-term cash flow requirements; and
 - ii. provide financing for emergency purposes.

- b. Short-term debt shall be financed through:
 - i. internal financing;
 - ii. a line of credit; or
 - iii. conventional short-term banking.

- c. Where short-term debt is used, a funding source to repay the short-term debt must be identified prior to borrowing.

- d. All short-term debt in excess of one year shall be subject to Council approval through the budget process, by bylaw, or by resolution as required.

3. Internal Financing

- a. The City may use internal financing to fund capital projects in order to reduce overall net borrowing costs when:
 - i. the City's reserve position allows it; and
 - ii. cash flow analysis supports it.
- b. Consideration for internal financing together with an identified funding source will require approval from Council during the budget process or through formal resolution.
- c. Where the City chooses to internally finance, 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 investment interest not earned or lost by the City on funds utilized to finance capital projects.

4. Long-term Debt

- a. Long-term debt may be considered for capital expenditures for municipal or utility infrastructure 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.
- 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 policy compliance as it relates to the Off-Site Levy Recovery Fund (if applicable).
- c. The repayment term (i.e. amortization) in respect of long-term debt shall not exceed the useful life of the asset being financed by the City.
- d. Debt terms shall be chosen in consideration of total cost of borrowing, tax impacts, management of debt levels, and generational equity.
- e. In support of the overall Long-Term Debt Strategy, the Chief Administrative Officer may also choose alternate repayment structures, such as level debt service, fixed principal, bullet, and fixed and variable rates.
- f. The City may borrow by debenture, conventional bank financing, or other approved financing debt instruments including internal financing.

5. Debt Limits

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. These shall be referred to as the City's "internal debt limits".

6. Debt Servicing Limits

The City shall establish internal debt servicing limits to support the long-term financial sustainability of the City.

- a. Total debt servicing shall not exceed 18% of the City's consolidated operating expense budget. This excludes any amount budgeted for existing debt servicing.
- b. Tax-supported debt servicing shall not exceed 12% of the City's consolidated operating expense budget. This excludes any amount budgeted for existing debt servicing.

7. Repayment of Debt

- 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 through the Off-Site Levy 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. Off-Site Levy Reserve Fund funded projects are governed by the Off-Site Levy Recovery Fund Utilization Policy.
- 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 Pay-As-You-Go on an interim basis until such time as new debt servicing is required.
- 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 7.b above.
- 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 priority consideration for early debt repayment.

8. Reporting

The Chief Administrative Officer 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.

9. Policy Review

This policy shall be reviewed in accordance with the corporate review schedule.

Legal References

Debt Limit Regulation, Alta. Reg. 255/2000

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-20 OSL Recovery Fund Utilization

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