



CITY OF ST. ALBERT CITY COUNCIL POLICY

NUMBER	TITLE
C-FS-03	Debt Management
ORIGINAL APPROVAL DATE	DATE LAST REVISED
November 17, 2003	December 12, 2016

Purpose

To consider debt as a financing tool, supporting the City's ability to meet current and future infrastructure challenges.

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.

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.

Policy Statement

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.

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.

Definitions

"Alberta Capital Finance Authority (ACFA)" refers to 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.

"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 ~~and a of the capital and financial plan that identifies and confirms sources of funding to provide for the financing of the capital and~~ operating costs of a new project.

"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 (PAYG).

"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.

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

"Debt Limit" refers to the City's established debt limit, and/or the Province of Alberta's 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.

"Internal Borrowing" refers to borrowing from ~~existing~~ City ~~reserves cash balances~~ to finance projects. When the City internally borrows, the repayment terms will include the principal amount borrowed plus interest. The interest owed shall begin accruing in the month following the borrowing. The repayment terms and schedule are to be approved by council as part of the annual budget process.

"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 from greater than 5 years to 25 years in length.

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

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

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

"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 not in excess of five 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 will include revenues such as property taxes, user fees, fines, permits and investment income.

"Tax-Supported Debt" represents debt that has been issued for capital expenditures related to tax-supported operations. This debt is repaid using tax levy revenues.

"Utilities" are self-funded operations providing a service to its customers, ~~including a return on investment~~, at rates regulated by City Council. For the City, these are: Water, ~~Sanitary Sewer~~Waste Water, Storm ~~Sewer~~Water, and Solid Waste/Organics/Recycling.

"Utility Infrastructure" means all the systems and facilities associated with the City's Water, ~~Sanitary Sewer~~Waste Water, Storm Water~~Sewer~~, and Solid Waste/Organics/Recycling utilities.

Responsibilities

Council is responsible for the approval of borrowing bylaws to authorize short and long term debt.

The City Manager is responsible for:

1. preparation of borrowing by-laws and managing any advertising requirements as stipulated in the *MGA*.
2. Communicating to Council any tax and/or utility rate impacts related to the debt

Service Standards/ Expectations

1. Short-term Debt

- a. The City may, from time to time, incur short-term debt to:
 - i. Manage short-term cash flow requirements such as interim financing for capital projects;
 - ii. Provide financing for emergency purposes; or to
 - iii. Offset cash flow timing issues;
- b. Short-term debt shall be financed through:
 - i. Internal financing;
 - ii. A line of credit; or
 - iii. Short-term debt, either conventional banking or ACFA.
- 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.

2. Internal Borrowing

- a. Where the City's ~~reserve~~cash 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.
- 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.

3. Long-term Debt

- a. Prior to any proposed borrowing, Administration shall complete a needs analysis and a fiscal impact analysis on each identified project.
- 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.
- 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.
- 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 has been established for the capital project

- 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.
- 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 may be utilized to provide debt servicing for long term debt with no expected repayment provisions.

4. Debt Limits

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:

- a. Total Debt as a % of the Debt Limit - 1.5 times the annual operating revenue.
- b. Total Debt Service Limit - 25% of the annual operating revenue.

5. Repayment of Debt

- 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 priority consideration for early debt repayment.

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 Envelope Funding Formula by reallocating the dollars to tax supported funded capital projects (PAYG) or lifecycle replacement reserves.

c. Conversely, as additional debt is borrowed, Council may choose one of the following financing strategies:

- a. 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 re-balancing, the process stabilizes the City's municipal tax rates, or

b.

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 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. ~~and debt servicing costs increase, the City will rebalance the Capital Envelope by reducing the dollars to tax funded capital projects. Due to the nature of the re-balancing, the process stabilizes the City's municipal tax rates.~~ As the debt is retired, the municipal tax levy will be reduced accordingly.

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.

6. Performance Measurement

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.

7. Use of Debt Borrowing Proceeds

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.

8. Reporting

The City Manager 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 process and current financial statements.

9. Policy Review

This policy shall be reviewed annually by Administration, with any amendments to be recommended ~~through Council's Standing Committee of the Whole to~~ Council.

Legal References

Cross References

Policy C-FS-01, Financial Reserves
Policy C-FS-05 Budget and Taxation Guiding Principles
Policy C-FS-14 Utility Fiscal Policy

REVIEW	REVISION
June 2017 <u>August 2018</u> – Financial Services	Dec 12 AR-16-529

REVIEW DATES