



## COUNCIL DEBT MANAGEMENT POLICY

<b>Policy Number:</b>	ADM38
<b>Administered By:</b>	Chief Administrative Officer
<b>Approved By:</b>	Town Council R.075.2023
<b>Effective Date:</b>	February 27, 2023

### Purpose:

The purpose of this policy is to establish the parameters of debt financing for capital projects and to maintain the long-term viability of the municipality.

### Scope:

This policy applies to the Town's elected officials and all Town staff.

### Responsibilities:

The Chief Administrative Officer (CAO) is the administrative head of the municipality and is granted responsibilities through the *Municipal Government Act (MGA)*, including but not limited to, the responsibility to ensure the policies and procedures and programs of the municipality are developed and implemented.

### Policy:

The Town of Fort Macleod recognizes that the use of debt in a strategic manner can provide capital funding flexibility and allow for essential assets with long lifespans to be constructed in a timely manner. Debt is also a tool that allows capital investment to occur when construction costs are favorable. The Town also recognizes that high debt levels reduce flexibility and can impair fiscal sustainability. The purpose of this policy is to maintain a good balance between financing needs and not cause undue pressure on future revenue requirements.

### Definitions:

- **Government of Alberta:** The Government of Alberta (GOA) provides eligible municipal, regional, health and education authorities with financing for capital projects.
- **Provincially Mandated Debt Limits:** The Municipal Government Act (MGA) defines limits to the amount of debt a municipality can take on and the amount of debt service. The debt limit is calculated at one and a half (1.5) times revenue of the municipality (as defined by Alberta Regulation 255/00) and the debt service limit is calculated at one quarter (0.25) times such revenue.
- **Debenture:** A debenture is a medium to long-term debt format that is used by large companies to borrow money. Debentures are the most common type of long-term loans. Municipalities typically draw debentures through the GOA. Debentures are for a fixed term, require annual payment for principal and interest.
- **Major Capital Projects:** Town capital projects that are significant in nature and typically not of a life cycling nature. These types of projects typically span over multiple years.
- **Tax Supported Debt:** This type of debt is associated with capital infrastructure used to provide tax base supported service to the community.

- **Utility Supported Debt:** This type of debt is associated with capital infrastructure used to provide utility services to the community (water, sewer, stormwater and solid waste management).
- **Development Supported Debt:** This type of debt is associated with capital infrastructure used to construct infrastructure growth and new development.
- **Net Operating Fund Revenue:** Total revenue in the general operating fund net of requisitions, internal transfers and utilities revenues.

## Principles:

To maintain a sound debt position, the following principles will be incorporated into strategy, long-term plans and budgets.

- Debt financing will only be used for major capital projects.
- The cost of financing Town vehicles and small equipment will be funded through the tax base/reserves and will not be financed with debt.
- The Town's operational needs will not be financed with the use of debt.
- Diversification in debt financing will be considered if favorable rates are obtained and the structure of the debt instrument is advantageous.
- Adherence will be maintained to the MGA including debt limitations, bylaw procedures for the issuance of debentures and requirements to raise tax dollars to cover annual debt servicing.
- Long term capital planning will be used to project and plan for the use of debt financing and self-imposed debt limits will be adhered to.
- Debt terms will not exceed twenty-five (75%) percent of the useful life of the asset and will not exceed twenty (20) years unless other compelling factors make it necessary to extend beyond that period of time. Debt terms associated with roadways will not exceed fifteen (15) years.
- Debt will be managed within three distinct categories: tax supported, utility supported, and development supported.

## Procedure:

**Self-Imposed Debt Limits:** Establishment and adherence to self-imposed debt limits is critical to ensure responsible use of debt financing. These limits are much more restrictive than provincially imposed limits and help to ensure reasonable levels of revenue requirements to pay for the debt.

1. Tax Supported Debt Limit: The cost of this type of financing (principal and interest) is to be recovered through tax revenue.
  - a. Total tax supported debt payments in the general operating budget will not exceed ten (10%) percent of the net operating fund revenue.
2. Utility Supported Debt Limit: The cost of this type of financing (principal and interest) is to be recovered through utility rates.
  - a. Total utility supported debt payments in the utility budget will not exceed ten (10%) percent of revenues generated through the utility rate structure.
3. Development Supported Debt Limit: The cost of this type of financing (principal and interest) is to be recovered through land sales.
  - a. Growth and development debt financing should not exceed fifty (50%) percent of the projected capital budget cost.

**Ongoing Monitoring:** The Town is committed to ongoing monitoring and periodic review of this policy and related procedures as determined by the Director of Finance.

**Further Information:**

For further information regarding this Policy, please contact the department identified in the title bar under Administered By.



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CAO – Town of Fort Macleod