



City of St. Albert  
**CITY COUNCIL POLICY**

Debt Management

| AUTHORITY    | APPROVED | Res. No.  | mm dd | REVISED | Res. No.  | mm dd |
|--------------|----------|-----------|-------|---------|-----------|-------|
| City Council |          | C632-2003 | 11 17 |         | C187-2005 | 05 02 |
|              |          |           |       |         | C355-2006 | 07 04 |
|              |          |           |       |         | C299-2009 | 05 19 |
|              |          |           |       |         | C559-2010 | 09 27 |

## 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.

## Policy

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.

Long-term debt shall not be incurred for operating purposes, or for growth-related utility servicing purposes. The construction or rehabilitation of major utility infrastructure shall be eligible for long-term debt, while tax-supported long-term debt shall be limited only to municipal projects such as Ray Gibbon Drive, Servus Place, and other major initiatives 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.

"Business Case" refers to an analysis that demonstrates the necessity for and viability of a new project. A business case will include a financial analysis and a financial plan that identifies and confirms sources of funding to provide for the financing of the capital and operating costs of a new project.

"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.



"City 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 City reserves to finance capital projects. When an internal borrowing occurs, it is planned that the reserve is repaid the principal amount borrowed plus interest.

"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.

"Pay-As-You-Go" 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 or bridge financing for capital expenditures. The term of debt is not in excess of five years. In the case of the City, short term debt may be in the form of internal financing, line of credit or debenture debt with a term five years or less.

"Sustainable" 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, Storm Sewer, and Solid Waste.

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

## **Standards**

### **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 bridge financing for larger capital projects;
  - ii. Provide funding for emergency purposes;
  - iii. Offset cash flow timing issues; or to
  - iv. Provide funding for capital projects of a smaller nature.
- b. Short-term borrowings shall be financed through:
  - i. Internal financing;
  - ii. A \$10 million line of credit; or
  - iii. Short-term debt, either conventional banking or ACFA.
- c. All short-term borrowings in excess of one year shall be subject to City Council approval through the budget process, by bylaw, or by resolution.

## 2. Interim Financing

- a. Where the City's cash position allows, and based on cash flow analysis, the City shall use interim financing to fund capital projects during the fiscal year in order to reduce overall net borrowing costs.
- b. Where the City chooses to utilize interim financing, an interim financing rate shall be applied to funds required to offset the capital project expenditures to date. The rate used shall be the three-year ACFA published rate at that point in time, and will normally be credited to the City's Interest Income account on a quarterly basis. This calculation is intended to offset the investment interest not earned or lost by the City on funds utilized to interim finance large capital projects.

## 3. Internal Financing

- a. Internal financing may be allocated towards funding for smaller capital projects in order to reduce administrative time related to external borrowings.
- b. The Internal Financing Reserve shall be the preferred funding source for internal financing, as the reserve is intended to provide short-term financing required for tax supported capital projects. If the Internal Financing Reserve is insufficient, another reserve may be used as long as the intended purpose of the reserve is not impaired.

## 4. 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.
- 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 approved by Council.



- d. Long-Term Debt may be considered for:
  - i. capital expenditures for tax-supported municipal purposes, where the expected asset life is greater than five years and a valid Business Case has been established for the capital project;
  - ii. the rehabilitation of existing major utility infrastructure; or
  - iii. the construction of major utility infrastructure.
- e. Long-term debt shall not be considered for growth-related or “strategic” utility servicing purposes.
- f. 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 and shall not exceed 15 years except for specific major capital road projects (such as Ray Gibbon Drive), or major capital facilities projects (e.g. Servus Credit Union Place). In no case shall the amortization period exceed 25 years.
- g. Existing reserves may be used to fund or finance capital expenditures in lieu of long-term debt. When sufficient funds are available, the City’s reserve funds shall be used as a source of funding. 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.

5. Debt Limits

The City shall adhere to a ceiling for borrowing purposes and a target for debt reduction 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.

6. Early Repayment of Debt

- a. The City may take advantage of opportunities to retire outstanding debt early if is financially beneficial to do so. High interest, tax supported debt shall be given priority consideration for debt prepayment.
- b. As debt is retired and debt servicing costs decrease through the capital envelope, the City may increase its pay as you go funding levels by a corresponding amount to reduce future debt requirements and maintain its fiscal capacity.



7. Performance Measurement

This policy shall be used as a benchmark for debt ratios and other debt related affordability targets, on an annual basis. Results shall be reflected in the City's Three-Year Corporate Business Plan.

8. 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.

9. 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.

10. Policy Review

This policy shall be reviewed annually by Administration, with any amendments to be recommended through Council's Standing Committee on Finance.

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**Legal References:** Alberta Debt Limit Regulation 255/2000

**Cross References:** Policy C-CAO-04, CAO Limitations on Financial Planning and Budgeting; Policy C-CAO-05, CAO Limitations on Financial Conditions and Activities; C-CAO-07, CAO Limitations on Asset Protection; Policy C-FS-01, Financial Reserves

