

COUNCIL POLICY



DEBT MANAGEMENT

Policy #: FIN-107-2024

Section: Finance

Rescind Policy #: n/a

Legislative Reference: Municipal Government Act & Debt Limit Regulation

1. POLICY STATEMENT

1.1 The Debt Management Policy provides parameters related to the use and management of Debt to finance infrastructure projects. Balancing the need for strategic infrastructure growth, while ensuring Debt Servicing is Affordable is necessary to ensure the Town remains financially Sustainable. The overall objective is to optimize the strategic use of Debt.

2. PURPOSE

2.1 To establish financial guidelines and appropriate controls for the issuance and use of new Debt and borrowing capacity for future capital assets. To limit the impact that Debt Servicing will have on future tax and utility rates while supporting the Town's ability to meet current and future infrastructure challenges.

3. DEFINITIONS

3.1 "Affordable" means ability to pay for Debt Servicing costs and life cycle expenditures for the underlying asset. The overall measure of Affordable Debt is the burden of Debt Servicing costs and life cycle expenditures relative to Town revenues.

3.2 "CAO" shall mean the Chief Administrative Officer of the Town of Smoky Lake.

3.3 "Debt" means:

- a) debentures acquired through the Government of Alberta loans.
- b) loans acquired through the Federation of Canadian Municipalities related to their program offerings.
- c) Debt acquired through a bank via a line of credit, an operating loan, or credit cards.
- d) loan guarantees taken under MGA Section 264.

For greater certainty, "Debt" does not include loans made by the Town to other entities, organizations, or individuals.

3.4 "Debt Limit(s)" means the Town's Debt Limit as calculated from time to time in accordance with Alberta's Debt Limit Regulation A.R. 255/2000, as amended.

3.5 "Debt Servicing" means the required annual Debt repayments on account of principal and interest.

3.6 "Debt Term(s)" means the period during which Debt repayments are made. At the end of the Debt Term, the Debt is repaid in full.

3.7 "Flexibility" is the ability of the Town to issue new Debt in response to emerging financing needs.

3.8 “Intergenerational Equity” means the fair and equitable distribution of long-term capital project costs across the generations that benefit from the underlying assets.

3.9 “Long-Term Debt” means Debt with terms greater than five (5) years as defined under the MGA Section 258.

3.10 “Short-Term Debt” means Debt with terms of five (5) years or less as defined under MGA section 257. For greater certainty it does not include a line of credit, operating loan, or credit cards.

3.11 “Sustainable” means meeting present needs without compromising the ability to meet future needs.

3.12 “Tax Supported Debt” means Debt that has been taken to fund capital expenditures, the repayment of which is funded by tax levy revenue. This includes, but is not limited to, revenue from property taxes, non-utility user fees and levies, fines, permit fees, and license fees that are not otherwise restricted. For greater certainty it does not include investment income, utility use fees and levies, transfers from Town reserves, and restricted developer contributions and levies.

3.13 “Tax Supported Operations” means civic programs and services offered to the community, including but not limited to, fire and protective services, roads, parks, and transit.

3.14 “Town” shall mean the Municipal Corporation of the Town of Smoky Lake.

3.15 “Utilities Operations” means water distribution, wastewater collection, stormwater collection and solid waste services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility services.

4. PRINCIPLES

4.1 Debt is an ongoing component of the Town’s capital financing structure and is integrated into the Town’s long-term plans and strategies.

4.2 Debt must be Affordable and Sustainable.

4.3 The Town must maintain Flexibility to issue Debt in response to emerging financing needs and changing economic conditions.

4.4 Debt must be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets over time.

4.5 Debt decisions must contribute to a Sustainable and vibrant Town by balancing quality of life and financial considerations.

4.6 The issuance of new Debt must be approved by Council.

4.7 Debt must be managed, monitored, and reported upon.

5. USE OF DEBT

5.1 The Town of Smoky Lake will only incur and carry Long-Term Debt to support capital expenditures pursuant to an approved capital budget.

5.2 The Town will not incur Long-Term Debt for operating purposes.

5.3 Long-Term Debt shall be borrowed after full consideration of alternative capital funding strategies and will typically only be considered when all other funding sources have been exhausted.

5.4 The Town may incur Short-Term Debt to bridge short term cash flow requirements or for smaller capital projects. For short-term funds, internal borrowing will be used prior to external borrowing sources. External short-term borrowing may include a bank line of credit or debenture maturing in less than five (5) years.

6. RESPONSIBILITIES

6.1 Council is responsible for the approval of borrowing bylaws to authorize Short and Long-Term Debt.

6.2 The CAO, or delegate, is responsible for:

- a) Preparation of borrowing bylaws and managing any advertising requirements as stipulated in Municipal Government Act (MGA).
- b) Communicating to Council any tax and/or utility rate impacts and impact on Debt Limits.

7. EXTERNAL LIMITS

7.1 Total Debt outstanding shall not exceed the Province of Alberta Debt Limit Regulation as determined by the Province of Alberta. The current regulation provides that a municipality's total Debt outstanding cannot exceed one and a half (1.5) times the revenue of the municipality.

7.2 All Short-Term Debt obligations shall have a maximum term to maturity of the lesser estimated useful life of the infrastructure or other assets being financed, or five (5) years.

7.3 When establishing Debt Terms, consideration shall be given to the following factors:

- a) Cost minimization.
- b) Availability of Debt Servicing funding.
- c) Intergenerational Equity.
- d) Capital life cycle implications.
- e) Long term financial sustainability.
- f) Financial Flexibility.

7.4 The repayment term shall not exceed twenty (20) years unless there are compelling factors which make it necessary to extend the term beyond that point. By financing over the shortest term possible, lower interest rates and reduced future costs of financing result. This also allows for a Debt-free period for the capital asset in which other financial policies such as reserve allocations can be initiated.

7.5 New Debt Servicing costs will be funded by long-term Sustainable revenue.

7.6 The Town will take advantage of opportunities to retire outstanding Debt early if it appears to be financially beneficial to do so and with consideration of the need for funding of future projects. High interest, municipal Tax Supported Debt will be given priority consideration for Debt repayment.

8. EXCEPTIONS

8.1 Council may exceed the limits without need to amend this Policy under the following conditions:

- a) There is an emergent need for an infrastructure or other asset project and alternative funding sources are not available; or
- b) There is an opportunity to leverage grant dollars to help pay for an infrastructure or other asset project that requires a municipal contribution, but alternative funding sources are not available; and
- c) In both cases, a plan for returning the Debt and Debt Servicing costs to within limits will be provided at the time Council is considering approval of the Debt that causes them to be exceeded.

9. POLICY REVIEW

9.1 This Policy will be reviewed by the CAO and/or designate every four (4) years with any changes being recommended to Council for approval.

	DATE	RESOLUTION NUMBER
Approved	June 10, 2024	321-2024

Original Signed
Amy Cherniwchan
 Mayor

Original Signed
Dawn Phillips
 Chief Administrative Officer