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## Debt Management

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**Policy Number:** CP242/2024  
**Approval Date:** October 8, 2024  
**Supersedes Policy:** Debt Management – CFS14/2020

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### SECTION A

#### 1.0 Policy Purpose

- 1.1 To establish financial guidelines and controls for the issuance and use of debt to support Morinville's ability to meet current and future infrastructure requirements, including replacement, new growth and emergent capital initiatives.
- 1.2 To strategically manage borrowing 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.

#### 2.0 Definitions

- 2.1 "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.
- 2.2 "Capital Expenditures" means expenditures incurred to acquire, develop or improve assets where the benefit of the expenditure will extend beyond a one-year period and the amount of the expenditure exceeds Morinville's minimum capitalization threshold as defined in the *Tangible Capital Assets Policy*.
- 2.3 "Debt Limit" refers to Morinville's established Debt Limit under 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.

- 2.4 "Debt Repayment" refers to the regular and/or special repayment of debt principal that has been incurred to finance capital projects.
- 2.5 "Debt Servicing" means annual required Debt Repayments, including interest and principal.
- 2.6 "General Municipal Revenues" means revenues generated to pay for tax-supported operations. This will include all revenues other than utility service fees.
- 2.7 "Internal Financing" refers to borrowing from Morinville Reserves to finance capital projects. When Internal Financing occurs, it is planned that the reserve is repaid with the principal amount borrowed plus interest.
- 2.8 "Long-Term Debt" means a debt obligation that is used to support capital projects and has an initial term of more than five (5) years.
- 2.9 "Reserves" refers to money that has been specifically set aside by Council to finance future expenditures, which may be operating or capital in nature.
- 2.10 "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 with a term of five (5) years or less.
- 2.11 "Utilities" means self-funded operations providing a service to its customers, including a return on investment, at rates regulated by Morinville Council. For Morinville, these are Water, Sanitary Sewer, Storm Sewer, and Solid Waste.
- 2.12 "Utility Infrastructure" means all the systems and facilities associated with Morinville's Water, Sanitary Sewer, Storm Sewer, and Solid Waste utilities.

### **3.0 Policy Statements**

- 3.1 Morinville recognizes that, properly applied, debt can be a viable source of funding that complements the sustainability of an organization. Morinville also recognizes that excessive debt reduces an organization's flexibility and its ability to handle unforeseen challenges. Debt decisions shall balance fiscal management with the need for the project considered for debenture financing.
- 3.2 Morinville shall adhere to an internally restricted Debt and Debt Servicing Limit of 85% of the legislated limits.
- 3.3 Long-Term Debt shall not be incurred for operating purposes.

- 3.4 The purchase, construction or rehabilitation of major infrastructure shall be eligible for Long-Term Debt.
- 3.5 The Manager, Financial Services shall be responsible for the implementation of the Debt Management Policy and oversight of activities related to Debt Management.

#### **4.0 Guidelines**

##### **4.1 Council review and approval:**

- 4.1.1 Debentures – All debentures, borrowing from an external source, require approval of Council through a formal borrowing bylaw. Requests for decision of Council with respect to borrowing bylaws will include a Business Case for the use of debentures as a source of financing for the respective project.
- 4.1.2 Internal Financing – Where the use of Internal Financing is proposed, either as an interim or comprehensive financing solution, a request for decision of Council will be brought forward requesting a motion of Council to approve the use of reserve funding as interim financing for the respective project. The request for decision will include a Business Case outlining the rationale for the use of debt and the Internal Financing of that debt.

##### **4.2 Short-Term Debt:**

- 4.2.1 Morinville may, from time to time, incur Short-Term Debt to:
  - 4.2.1.1 Manage short-term cash flow requirements such as bridge financing for larger capital projects;
  - 4.2.1.2 Provide funding for emergency purposes;
  - 4.2.1.3 Offset cash flow timing issues; or to
  - 4.2.1.4 Provide funding for capital projects of a smaller nature.
- 4.2.2 Short-term borrowings shall be financed through:
  - 4.2.2.1 Internal Financing;
  - 4.2.2.2 Line of credit; or
  - 4.2.2.3 Short-Term Debt.

#### 4.3 Interim Financing:

- 4.3.1 Interim financing shall be used for all projects to be financed with long-term debentures to provide sufficient cash flow during construction and to ensure long-term debentures are only acquired in the amount necessary to support final construction costs.
- 4.3.2 Interim financing may be funded internally, but only when sufficient cash flow is available, and rates of return on investments are lower than the interest rates available for interim financing.
- 4.3.3 Where Morinville chooses to utilize internal 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 current rate for Morinville's overnight cash account at the start of construction and will normally be credited to Morinville's interest income account on an annual basis. This calculation is intended to offset the investment interest not earned or lost by Morinville on funds utilized to interim finance large capital projects.

#### 4.4 Long Term Debt:

- 4.4.1 Prior to any proposed borrowing, Administration shall complete a needs analysis and a fiscal impact analysis on each identified project.
- 4.4.2 Morinville may incur and carry Long-Term Debt only to support capital projects included in approved business plans and resulting capital budgets.
- 4.4.3 Morinville 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.
- 4.4.4 Long-Term Debt may be considered for:
  - 4.4.4.1 Capital Expenditures for tax-supported municipal purposes;
  - 4.4.4.2 The rehabilitation of existing major Utility Infrastructure; or
  - 4.4.4.3 The purchase or construction of major Utility Infrastructure.
- 4.4.5 The repayment term for Long-Term Debt shall not exceed the useful life of the asset being financed by Morinville. The repayment term shall

generally not exceed 30 years unless the estimated useful life of the capital project and projected cash flow of the debt service demonstrates that a term greater than 30 years would be appropriate and beneficial.

4.4.6 The following elements should be considered when establishing the repayment term:

- 4.4.6.1 Cost minimization;
- 4.4.6.2 Impact of Debt Servicing costs on the annual budget and associated operational plans;
- 4.4.6.3 Capital life cycle implications; and
- 4.4.6.4 Financial flexibility.

## **5.0 Reporting**

5.1 Regular reporting on Morinville's utilization of debt, including plans for the use of debt within the long-term capital plan, will occur through the annual budget process to Council.

## **6.0 Review Date**

6.1 For the purpose of ensuring that this Policy is revised for ongoing relevancy and necessity, a review will occur prior to December 31, 2027. The Policy shall be brought forth with the option that it may be repassed in its present or an amended form or that it be rescinded.

6.2 This Policy shall remain in effect if the review date passes prior to Council review.

## **SECTION B**

### **1.0 Reference to other Policy and Legislation**

*Municipal Government Act, RSA 2000, c. M-26 (section 250)*  
*Debt Limit Regulation, 255/2000*

### **2.0 Persons Affected**

Municipal Residents

### **3.0 Review/Revision History and Author**

Debt Management Policy CFS14/2020 – January 14, 2020  
June 2024 – Revised Draft; Financial Services

#### **ORIGINAL SIGNED**

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Simon Boersma  
Mayor

#### **ORIGINAL SIGNED**

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Michelle Hay  
Acting Chief Administrative Officer