Council Policy

Debt Management

Policy Number: FS83/2016
Approval Date: March 8, 2016
Supersedes Policy: N/A

SECTION A

1. Policy Purpose

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

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. Definitions

2.1. **"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.

2.2. **"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.

2.3. **"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 Morinville's minimum capitalization threshold.

2.4. **"Debt Limit"** refers to Morinville'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.

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2.5. **"Debt Repayment"** refers to the regular and/or special repayment of debt principal that has been incurred to finance capital projects.

2.6. **"Debt Servicing"** means annual required debt repayments including interest and principal

2.7. **"Internal Borrowing"** refers to borrowing form Morinville reserves to finance capital projects. When an internal borrowing occurs, it is planned that the reserve is repaid the principal amount borrowed plus interest.

2.8. **"Long-Term Debt"** means a debt obligation that is typically issued for capital expenditures. In the case of Morinville, this is usually in the form of a debenture varying in debt terms from greater than 5 years to 25 years in length.

2.9. **"Morinville Revenues"** means annual revenues as published in the last audited financial statements of Morinville 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.

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

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

2.12. **"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 Morinville, short term debt may be in the form of internal financing, line of credit or debenture debt with a term five years or less.

2.13. **"Sustainable"** means meeting present needs without compromising the ability to meet future needs.

2.14. **"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.

2.15. **"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.

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2.16. **"Utilities"** are 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.

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

3. Policy Statements

3.1. Morinville recognizes that, properly applied, debt can be an affordable 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 quality of life and financial considerations.

3.2. Long-term debt shall not be incurred for operating 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 Morinville Community cultural Centre, a future recreational centre, and other major initiatives as may be determined by Council.

3.3. Morinville shall also adhere to an internal debt limit of 85% of the provincially prescribed debt limit and debt servicing limits.

4. Standards

Short-term Debt
4.1. Morinville may, from time to time, incur short-term debt to:
   4.1.1. Manage short-term cash flow requirements such as bridge financing for larger capital projects;
   4.1.2. Provide funding for emergency purposes;
   4.1.3. Offset cash flow timing issues; or to
   4.1.4. Provide funding for capital projects of a smaller nature.

4.2. Short-term borrowings shall be financed through:
   4.2.1. Internal financing;
   4.2.2. A $1 million line of credit; or
   4.2.3. Short-term debt, either conventional banking or ACFA.

4.3. All short-term borrowings in excess of one year shall be subject to Morinville Council approval through the budget process, by bylaw, or by resolution.

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Interim Financing

4.4.   Where Morinville's cash position allows, and based on cash flow analysis, Morinville shall use interim financing to fund capital projects during the fiscal year in order to reduce overall net borrowing costs.

4.5.   Where Morinville 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 Morinville's Interest Income account on a quarterly 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.

Internal Financing

4.6.   Internal financing may be allocated towards funding for smaller capital projects in order to reduce administrative time related to external borrowings.

4.7.   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.

Long Term Debt

4.8.   Prior to any proposed borrowing, Administration shall complete a needs analysis and a fiscal impact analysis on each identified project.

4.9.   Morinville may incur and carry long-term debt only to support priority capital projects pursuant to approved Business Plans and resulting capital budgets.

4.10.   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.

4.11.   Long-Term Debt may be considered for:
    4.11.1. 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;
    4.11.2. the rehabilitation of existing major utility infrastructure; or
    4.11.3. the construction of major utility infrastructure.

4.12. The repayment term (amortization) in respect of long-term debt shall not exceed the useful life of the asset being financed by Morinville; 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, major capital facilities projects or major utility projects. In no case shall the amortization period exceed 25 years.

4.13. Existing reserves may be used to fund or finance capital expenditures in lieu of long-term debt. When sufficient funds are available, Morinville's reserve funds shall be used as a source of funding. The reserves shall be repaid with interest at the rates specified in Morinville'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

5.1. Morinville 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 Morinville's "internal debt limits".

Current Provincial limits for total debt and debt servicing are:

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

6. Expiry 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, 2019. The policy shall be brought forth and accepted in its present or amended form or rescinded.

6.2. This policy shall remain in effect if the review date passes prior to formal review.

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SECTION B

1.0   Reference to other Policy and Legislation

2.0   Persons Affected

3.0   Review/Revision History and Author

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Lisa Holmes
Mayor

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Andrew Isbister
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