



City of Leduc Policy

Policy Title: Debt Management

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Authority: Council	
Section: Finance	Approval Date: June 26, 2017
Responsible Department: Finance	Effective Date: June 26, 2017
Relevant Legislation: Municipal Government Act s. 251-263 and Alberta Regulation 255/2000	
Relevant Council Resolution(s) and Date(s): June 26, 2017	
Relevant Bylaw and Date(s): N/A	
Authority's Signature:	

Purpose:

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the City of Leduc's (the City) operating and infrastructure requirements.

Policy Objectives:

1. Long term planning

Long-Term Debt decisions will be integrated with the City's long term financial sustainability plan.

2. Sustainability and Flexibility

Long-Term Debt will facilitate and enhance the City's ability to maintain service level commitments to residents now and in the future with the ability to be proactive when responding to unanticipated and emerging financing requirements and opportunities.

3. Manage risk and cost

Long term costs of borrowing should be minimized while limiting the City's borrowing interest rate risk.

4. Alignment of users and payers

Debt repayment will be fair to those who pay and benefit from the underlying asset.

5. Compliance with the Municipal Government Act

Policy:***Scope***

This policy covers all Long-Term Debt as defined above.

Purpose and restriction on Long-Term Debt

This City will only incur and carry Long-Term Debt when it is consistent with the City's long term financial sustainability plan and in conjunction with the Infrastructure Investment Strategy Policy (12.02.09) that identifies and supports priority capital projects pursuant to approved capital budgets.

In addition:

- Long-Term Debt will not be incurred for operating purposes.
- Long-Term Debt will typically be incurred after the actual capital expenditure.
- The City may, from time to time, incur short-term debt (e.g. bank line of credit financing) to bridge short-term cash flow requirements (note that the primary source of bridging is reserves).
- The City will not fund the purchase of vehicles and small equipment, computer hardware and software through Long-Term Debt even though their life expectancy is greater than five years. This excludes heavy equipment such as graders and emergency equipment such as fire trucks and ambulances.

Types of debt

The types of allowed (debt) financing instruments and their structures will be dependent in part upon the term and the type of asset to be financed.

Short-Term Debt – one year and less

Financing of operational needs for a period of one year or less pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term financing may be from one or more of the following sources:

- Reserves and Reserve Fund
- Bank line of credit or loan agreement
- Short-term promissory notes
- Banker's Acceptances

Long-Term Debt - greater than one year

This can be funded through the following means.

- i. Debentures, which may be in the following form or a combination thereof:
 - Instalment/Serial
 - Sinking Fund
 - Amortizing
 - Variable Interest Rate
 - Retirement Fund
 - Term
- ii. Reserves and reserve funds
- iii. Bank loan agreements, variable interest rate bank loan agreements, syndicated bank loan agreements.
- iv. Construction Financing Debentures

Long-Term Debt for Off-Site Levy Capital Projects

If it is determined that borrowing for off-site levy projects is appropriate, it is advantageous to consider flexible borrowing terms. Flexible borrowing terms can help mitigate the risk associated with repayment so that the City does not have to make up any shortfall in payment if levies are collected slower than the minimum required debt servicing payment.

Alignment of users and payers

Funding of Long-Term Debt must be fair and equitable to those who pay and benefit from the underlying assets over time. As far as practicable the following principals should be applied:

- Long-Term Debt for growth-related projects should be funded by direct developer contributions and off-site levies. The City's offsite levy bylaw allows the city to collect fees from the development of lands that are required to construct the necessary infrastructures for growth related projects. Water, sanitary, storm sewer, or road construction (MGA Part 17 sections 647 and 648) are examples of the types of capital projects resulting from growth in the City of Leduc that are paid for by the developer; i.e. development community.
- Long-Term Debt for projects of a general function of government should be paid for with general tax revenues. General function refers to providing services that are replacing aging infrastructure and/or outside the scope of what can be collected through offsite levies for growth; i.e. spray park, recreational facility, fire hall, library and police station are some examples.

Compliance with statutory requirements

All borrowing shall be in compliance with Municipal Government Act sections 251-263 and accompanying regulation 255/2000.

Notwithstanding any internal limits, Long-Term Debt shall not exceed debt limits established by the province.

Internal Long-Term Debt Limits

Overall Long-Term Debt levels for the city are further limited to a self-imposed 75% of the maximum level established by provincial regulation.

For determining compliance with internal debt limits debt levels shall include all Long-Term Debt plus future expected Long-Term Debt on multi-year projects already in progress.

Approval by Council

All Long-Term Debt must be approved by Council in the form of a borrowing bylaw in compliance with the MGA.

Other sources of funding

The City will first consider other sources of funding (e.g. grants, developer contributions, off-site levies, user fees or reserves) for capital asset acquisition before making a decision to borrow.

Lenders

The Alberta Capital Finance Authority (ACFA) will be considered as the first option for long-term borrowing (ACFA long-term interest rates are generally more favourable than conventional bank financing).

Borrowing from another lender will be initiated on a case by case basis, depended on factors such as flexibility, interest and loan type.

Matching debt amortization term and life of asset

The debt term shall not exceed the estimated useful life of the underlying asset. If possible, the debt term should not exceed 75% of the useful life of the asset acquired.

The repayment of principal on Tax-Supported Long-Term Debt should generally not extend beyond 25 years unless there are compelling factors which make it necessary to extend the term beyond this point.

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Borrowing from reserves

When sufficient funds are available, the City may internally borrow from its reserve funds to provide for the financing of Capital Expenditures.

Borrowing from reserves will be repaid with interest. Internal loan repayments will be made from user fees, utility user rates, municipal taxes, or other identified sources through the annual operating budget. The interest rate will be equal to the average rate of return the City receives on the investment of surplus funds.

All borrowing from reserves, including the term of repayment and interest rate must be approved by Council. The term of repayment will generally be five years or less unless otherwise approved.

Timing of loan proceeds

Administration will manage the receipt of proceeds from Long-Term Debt as closely as possible with the accompanying Capital Expenditures.

Investing loan proceeds when not in use

Proceeds from Long-Term Debt borrowing will be invested in accordance with the City's investment policy (policy No. 11.00:28) until such time as the funds are required.

Short-term debt

The City may issue Short-Term Debt (less than one year) to bridge short-term cash flow requirements and as interim financing for Capital Expenditures pending the receipt of taxes, grants and other revenues.

The primary source of funding should be from reserves but funding can also come from the City's bank line of credit.

If the term of the debt exceeds one year it has to be approved by Council.

Opportunities for early repayments

Administration will actively monitor Long-Term Debt to identify opportunities for cost savings through prepayment or refinancing of existing debt.

Budgeting

The City will budget the first annual debt payment in the year that the debt is secured. This ensures that the operational impacts are taken into consideration in the same year that the debt is initiated.

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Capital projects for debt financing will be considered and approved as part of the City's budget process.

Ongoing capital maintenance

When Long-Term Debt is repaid, administration will transfer the annual debt payments to reserves to ensure that the capital funding base is maintained for future requirements.

Debt categories

To support Long-Term Debt planning, management and reporting, Long-Term Debt is categorized into three groups based on the nature of the capital expenditure and the financing source for Long-Term Debt servicing.

i. Tax-supported Long-Term Debt

- Issued for Capital Expenditures related to tax supported operations.
- This Long-Term Debt will be repaid, including interest, using tax-supported revenues such as property and business taxes, non-utility user fees, fines, permits and investment income.

ii. Utility User-Rate Long-Term Debt

- Issued for Capital Expenditures related to utilities.
- This Long-Term Debt will be repaid, including interest, using utility user rates.

iii. Self-Supporting Tax-Guaranteed Long-Term Debt

- Issued to fund Capital Expenditures by activities or programs which are self-funded, including but not limited to:
 - Local improvement supported Long-Term Debt
 - Issued for capital improvements that benefit specific properties pursuant to an approved local improvement plan.
 - This Long-Term Debt will be repaid, including interest, from local improvement tax levies on the benefiting properties
 - Developer levy supported Long-Term Debt
 - Issued for Capital Expenditures that are related to new development such as arterial roadways or utility infrastructure.
 - This long-term debt will be repaid, including interest, from current and future developer levies.

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Process:

1. Roles and responsibilities

Council:

- Approve the City's long-term strategic plan and operating / capital budget
- Approve all new Long-Term Debt
- Approve debt policy and internal debt limit

Administration:

- Minimize both the term of repayment and interest rate costs and consider alternate sources of funding
- Monitor and report on Long-Term Debt and identify opportunities for early payment
- Ensure compliance with statutory requirements and the City's debt policy, in particular statutory and internal debt limits.

2. Requests for debt approval by Council information items

In making a request to Council for approval of new Long-Term Debt the Director of Finance will demonstrate that the following was considered:

- Consistency with long-term strategic and financial plans and impact if any on previous debt forecasts
- The source of funding for debt serving payments
- The fair alignment of payers of the Long-Term Debt and users of the related asset
- Adherence to the purpose and restriction on Long-Term Debt as outlined in this policy
- Compliance with statutory requirements on borrowing including statutory Long-Term Debt limits
- Compliance with Internal Long-Term Debt Limits
- Possible alternative sources of funding
- For self-supporting debt (e.g. infrastructure to be repaid by off-site levy) an analysis of the likelihood and timing of the source of funding
- Justification for debt term beyond 25 years

3. Reporting

The City's annual Long-Term Debt reporting will include at a minimum the following elements though the year end and budgeting process:

Year End

- The City's debt limits, total debt outstanding, and total annual debt service payments will be reported in the Annual Consolidated Financial Statements

Budget

- Long-term projections for outstanding debt will be provided through the annual budget process as follows:
 - By category (tax-supported long-term debt, utility user rate long-term debt, self-supporting tax-guaranteed long-term debt)
 - Information on borrowing from reserves, e.g. total borrowing and interest rates
 - Forecasted long-term debt levels and long-term debt limits

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Appendix A

Definitions:

Capital Expenditures

Expenditures incurred to acquire, develop, renovate or replace tangible capital assets as defined by the CPA Canada Public Sector Accounting Handbook.

Flexibility

Flexibility is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

Interest Rate Risk

The risk that interest payments will increase because of increases in borrowing interest rates on Long-Term Debt.

Internal Long-Term Debt Limit

The debt limit established by the City.

Long-Term Debt

Any borrowing that would require classification as Long-Term Debt, capital lease (with a threshold of \$50,000 or greater) or a contingent liability incurred as a result of a loan guarantee provided by the City in accordance with the CPA Canada Public Sector Accounting Handbook.

Note that the definition of Long-Term Debt/borrowing for compliance with the Municipal Government Act s. 241 (a.1) is slightly different than the definition for this policy.

Long-Term Debt term

The period of time during which Long-Term Debt payments are made. At the end of the debt term, the debt must be paid in full.

Off-Site Levy Capital Projects

Road and municipal utility systems required outside or "off" the site of a particular development or subdivision that will directly or indirectly serve that development. These capital projects are to be repaid through off-site levies.

Short-Term Debt

A debt obligation that is used to cover cash-flow timing issues, smaller capital projects, and interim financing for Capital Expenditures (temporary financing of a capital property). The term of debt is one year or less.

Self-Supporting Tax-Guaranteed Long-Term Debt

Long-Term Debt issued to finance Capital Expenditures that are expected to generate sufficient cash to fund all obligations or have a dedicated source of revenues. Any funding shortfall to repay the debt will be funded through tax levy revenues.

Sustainability

Sustainability is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates.

Syndicated Bank Loan Agreement

A bank loan between the City and a bank where the financing for the bank loan is obtained through a syndicated bank financing agreement in which each of the institutions that is a party to the term agreement agrees to contribute a portion of the amount of the bank loan being given to the City under the Syndicated Bank Loan Agreement.

Tax-Supported Long-Term Debt

Long-Term Debt issued for Capital Expenditures related to tax-supported operations (e.g. roads, transit, and parks). This debt is repaid using property tax levy revenues.

Utility User Rate Long-Term Debt

Long-Term Debt issued for Capital Expenditures related to utilities.