



POLICY C-F109

Debt Management

Prepared By: Financial Services
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References: N/A
Function: Financial Management

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PURPOSE

The purpose of this policy is to establish financial guidelines and appropriate controls for the issuance and use of new debt to ensure a favorable financial position while supporting Parkland County's ability to address current and future infrastructure challenges, as well as any unforeseen events that may arise.

POLICY STATEMENT

Debt is an ongoing component of Parkland County's financing structure and is integrated into the County's long-term plan and strategies. Parkland County must establish debt management standards to ensure debt incurred to fund capital and/or unforeseen expenditures is:

1. Affordable, flexible, and sustainable;
2. Structured in a manner that is equitable to those who pay for and benefit from the underlying expenditure;
3. Contributing to the establishment of a vibrant community by balancing quality of life and financial considerations;
4. In accordance with the corresponding legislation; and
5. Monitored and reported on.

DEFINITIONS

1. "Affordable" means able to pay for debt servicing costs.
2. "Capital expenditure" means costs incurred to acquire, develop, rehabilitate, or replace capital assets.
3. "County" means the Municipality of Parkland County.
4. "County revenues" means total revenue (excluding government transfers for the purpose of financing capital property and amounts reported as contributed or donated tangible capital assets) as reported in the last audited annual financial statements of the County prior to the time of calculation.
5. "Debentures" means unsecured debt instruments.
6. "Debt" means an obligation to pay.
7. "Debt service payments" means debt repayments including interest and principal.

8. "Debt term" means the period during which debt service payments are made.
9. "Flexible" means able to issue new debt in responses to unanticipated financial need.
10. "Operating expenditure" means costs incurred as a result of performing day-to-day business functions.
11. "Probable lifetime" means the estimated useful life of the underlying asset.
12. "Rehabilitation" means improvements made to existing property that meets the definition of a capital asset as defined by the County's Capitalization Policy.
13. "Sustainable" means meeting present needs without compromising the ability to meet future needs.
14. "Tax-supported debt" means debt incurred by the County where debt service payments are funded through taxation revenue.
15. "Unforeseen expenditures" means expenses that arise unexpectedly.
16. "User-pay debt" means debt incurred by the County where debt service payments are funded through fees assessed to users of the underlying asset.

SCOPE

This policy applies to all departments within Parkland County.

MANAGEMENT RESPONSIBILITIES

Financial Services is responsible for implementing, monitoring, and evaluating this policy.

STANDARDS

1. Use of Debt

- a. Debt will only be incurred after all other funding sources have been exhausted.
- b. The County will not issue debt to fund current operating expenditures.
- c. Debt will only be considered as a source of funding for expenditures involving:
 - i. Projects with benefits beyond one year;
 - ii. Projects with benefits to the community at large (for tax-supported debt);
 - iii. Growth related projects;
 - iv. Emerging needs to support corporate priorities and approved strategic plans; and
 - v. Major rehabilitation of existing assets.

2. Debt Limits

- a. As outlined in section 2(1) of *Debt Limit Regulation* A.R. 255/2000:
 - i. Total debt outstanding shall not exceed 1.5 times County revenues; and
 - ii. Total annual debt service payments shall not exceed 0.25 times County revenues.

3. Debt Categories

- a. To support debt planning, management, and reporting, debt is categorized into the following groups based on the funding source of debt service payments:
 - i. Tax-supported debt; or
 - ii. User-pay debt.

4. Maximum Debt Term

- a. The debt term shall:
 - i. For debt incurred to fund a capital expenditure: The lesser of the probable lifetime of the underlying asset(s) or forty (40) years. It is preferred for the debt term to be less than the probable lifetime of the asset(s), if affordable.
 - ii. For debt incurred to fund an unforeseen expenditure: Reflect the magnitude of the amount borrowed to ensure the County is not placed under financial strain as a result of debt service payments.
- b. The following elements should be considered when establishing the debt term: cost minimization, availability of debt service funding, fair distribution of costs between periods, sustainability, and the County's financial flexibility.

5. Debt Structure

- a. When the incurrence of debt is deemed to be an appropriate funding method, issuing debentures to the Alberta Capital Finance Authority will initially be considered.
- b. Alternative borrowing techniques and strategies may be considered if benefits can be demonstrated.

6. Debt Repayment Funding

- a. New debt service costs will be funded by sustainable revenue.
- b. As debt retires, released debt service funding will be used to fund new debt service costs and/or to directly fund capital and/or unforeseen expenditures.

7. Debt Approval

- a. Capital and/or unforeseen expenditures that require debt financing must be approved by Council through either the budget process or a request for decision.
- b. As outlined in section 251(1) of the *Municipal Government Act* R.S.A 2000, an issuance of County debt must be authorized by a corresponding borrowing bylaw.
- c. As outlined in section 254 of the *Municipal Government Act* R.S.A 2000, the County may not acquire, remove, or start the construction or improvement of a capital property that is to be financed in whole or in part through debt unless the corresponding borrowing bylaw is passed.

8. Reporting

- a. The County's debt position will be reported through routine financial reporting.
- b. For benchmarking, the County's debt will be monitored and reported in the Annual Financial Report, at a minimum, against the debt limits identified in Standard 2 (Debt Limits).