

	City of Lacombe Debt Management Fiscal Policy	
	Policy Number:	13/201/02 (2012)
	Approval Date:	July 9, 2012
	Effective By:	July 9, 2012
	Supersedes:	New
	Revision Date:	July 4, 2012
	Review Date:	
	Department:	Corporate Services Department – Financial Services
	Reference:	13/201/01 (2012) Reserve and Equity Accounts Policy 13/212/01 (2009) Tangible Capital Asset Policy

Purpose of Policy

Provide financial guidelines and appropriate controls for the issuance and use of new debt and to ensure the responsible management of the City's financial resources.

Policy Statement

1. Debt is an ongoing component of the City's capital financing structure and is integrated into the City's long term plans and strategies.
2. Debt must be Affordable and Sustainable. The City must maintain Flexibility to issue Debt in response to emerging financing needs.
3. 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. Debt decisions must contribute to a sustainable and vibrant City by balancing quality of life and financial considerations.
5. The issuance of new Debt must be approved by City Council.
6. Debt must be managed, monitored and reported upon.

Definitions

1. **Affordability** – 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 City revenues.
2. **Capital Expenditures** – means expenditures incurred to acquire, develop, renovate or replace capital assets in accordance with terms outlined in the City 's Tangible Capital Asset Policy #13/212.01
3. **City Revenues** - means annual revenues as reported in the latest audited financial statements of the City prior to the time of calculation, as calculated under the Debt Limit Regulation A.R. 255/2000, as amended and includes revenues from taxes, utilities, user fees, departmental and corporate programs, developer and customer contributions, and excluding any grants from the Government of Canada and/or Alberta for the purposes of acquiring capital property.

4. Debt – means borrowing as defined under MGA section 241(a). In the case of the City, this is usually in the form of a debenture varying in debt Terms. Other forms of debt include but are not limited to, leases of capital property as defined under MGA section 241, Public Private Partnerships (PPP), Community Revitalization Levy financing, and loans and loan guarantees issued under section 264 & 265 of MGA.
5. Debt Servicing – means annual required debt repayments including interest and principal.
6. Debt Term – The period of time during which Debt payments are made. At the end of the Debt Term, the Debt must be paid in full.
7. Flexibility – is the ability of the City to issue new debt in response to emerging financing needs.
8. Internal Municipal Debt Limits - means the City's maximum debt level.
9. Interim financing – means borrowing made for the purpose of temporarily financing a capital project as defined under MGA section 259.
10. Long-Term Debt – debt with terms greater than five years as defined under MGA section 258.
11. MGA – means the Municipal Government Act, RSA 2000, c M-26 as amended.
12. Provincial Regulation – means the Debt Limit Regulations AR 255/2000 as amended.
13. Self-Liquidating Debt – debt assumed to fund capital expenditures by activities or programs which are self-funded, including but not limited to Utilities and local improvements.
14. Short-Term Debt – debt with terms of five years or less as defined under MGA section 257. For the purpose of this procedure, short-term debt excludes a line of credit and the issue and sale of commercial paper in the form of short-term promissory notes maturing not more than one year from the date of issue for the purpose of financing operating expenditures.
15. Sustainable – means meeting present needs without compromising the ability to meet future needs.
16. Tax Levy Revenues – means revenues generated to pay for tax-supported operations. This includes revenues such as property taxes, non-utility user fees, fines, permits and investment income.
17. Tax-Supported Debt - means debt issued for capital expenditures related to tax-supported operations. This debt is repaid using tax levy revenues.
18. Utilities - are self-funded operations providing a service to its customers.

Financial Guidelines

1. Use of Debt
 - 1.1 The City will not issue long-term debt or short-term debt obligations to finance current operating expenditures.
 - 1.2 When making a decision about the use of debt, alternative capital financing sources should be considered.
 - 1.3 Long-term debt will be considered for capital expenditures for:
 - a) large projects with long-term benefits;
 - b) projects with benefits to the community at large (for tax-supported debt);
 - c) growth related projects;
 - d) emerging needs to support corporate priorities and approved strategic plans; and
 - e) major rehabilitation of existing assets.

- 1.4 Short-term debt can be considered for interim financing for capital expenditures.
2. Debt Approval
 - 2.1 A multi-year debt guideline and corresponding debt service funding strategies, consistent with the capital planning and budget cycle, will be developed. The guideline will be segregated by debt categories as identified under clause 5.1.
 - 2.2 Capital projects for debt financing will proceed through the budget process.
 - 2.3 New debt issues will:
 - a) be affordable, sustainable and maintain the City's financial flexibility;
 - b) identify sources of funding for debt repayment; and
 - c) align with the City's capital plans and Strategic Plan.
3. Debt Planning & Management
 - 3.1 All issuance of debt requires an authorized bylaw.
 - 3.2 Internal processes and systems will be developed and maintained to ensure sound debt management.
4. Debt Limits
 - 4.1 The City has established an internal Municipal debt limit equal to 75% of the debt limit established by provincial regulation.
 - 4.2 Total debt service costs will not exceed 75% of the debt service limit established by provincial regulation.
 - 4.3 Debt service costs for tax-supported debt will not exceed 20% of the taxes available for municipal purposes.
5. Debt Categories
 - 5.1 To support debt planning, management and reporting, debt is categorized into two groups based on the funding source for debt service as follows:
 - a) Tax-Supported Debt;
 - b) Self-Liquidating Debt.
6. Debt Amortization Term
 - 6.1 Debt term shall not exceed the probable lifetime of the underlying asset.
 - 6.2 The following elements should be considered when establishing the debt term: cost minimization, availability of debt servicing funding, fair distribution of costs between periods, capital life cycle implications.
7. Debt Structure
 - 7.1 Alternative Debt repayment structures can be utilized to issue debt. Examples are fixed and variable rates.
 - 7.2 Alternative borrowing techniques and strategies such as lease financing shall be considered if benefits can be demonstrated.
8. Debt Repayment Funding
 - 8.1 New Debt Service costs will be funded by long-term sustainable revenue.
 - 8.2 New Debt Service costs for Utilities, local improvements and community revitalization levy financing will be funded through corresponding revenues.

Council Policy

9 Debt Prepayment or Refinancing

9.1 Procedures will be developed to review and consider cost saving opportunities through prepayment or refinancing of existing debt.

10 Reporting

10.1 For benchmarking, the City's debt will be monitored and reported in the Capital Plan, at a minimum, against the limits and guidelines identified in section 4.

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Mayor

Norma MacQuarrie
Chief Administrative Officer

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