REGIONAL MUNICIPALITY OF WOOD BUFFALO

DEBT AND DEBT MANAGEMENT SUMMARIES
2008 - 2012

INDEBTEDNESS

Authority to incur debt for municipalities in Alberta is granted through Alberta Regulation (AR) 255/2000 and the Alberta Municipal Government Act (MGA) and in special cases, variation can be granted through a Ministerial Order. Sections 251 through 274 of the MGA provide guidance regarding indebtedness for operating and capital purposes. These sections provide instructions related to process and levels of indebtedness.

The general debt limits for municipalities in Alberta allow for debt of 1.5 x revenue and .25 x revenue for debt service. Regional Municipality of Wood Buffalo's debt limit is set at 2 x Revenue and debt service limit is set at .35 x revenue through AR255/2000. Three other Alberta municipalities; Calgary, Edmonton and Medicine Hat have similar limitations. AR 255/2000 is due for review on December 31, 2015. The regulation may be re-passed in its present or amended form based on deemed necessity and relevance.

Council in turn, through policy, has set its limits at 75% of AR 255/2000.

The Regional Municipality of Wood Buffalo's debt policy is rooted in best practices that include the following deliberate choices:

- promotes attainment of financial planning and management objectives;
- takes a comprehensive approach to affordability;
- reflects the community's attitudes and Council philosophy towards indebtedness;
- sets limits but preserve flexibility; and
- requires periodic review of indebtedness guidelines.

The Regional Municipality of Wood Buffalo uses debt to finance its capital budget through the capital budget process. Use of debt in this regard is based on the principle of *'inter-generation equity'*; which states that each generation that benefits from an asset must pay or be financially responsible for an equitable share based on benefits derived or received. This approach is also known as *'pay-as-you-use'*. The Municipality employs a best practice debt mix strategy that utilizes reserve or cash financing for assets with shorter useful lives and long-term debt for assets with longer useful lives. This approach is in keeping with the inter-generational equity principle.

Long term debt falls under two categories; *general obligation debt* and *revenue or secured debt*. General obligation debt also falls into two categories; *limited general tax debt* and *unlimited general tax debt*. Unlimited general tax debt is secured by a pledge of a municipality's full faith and credit and unlimited taxing power. In this instance, the municipality promises to use its power to levy property tax to pay the debt. Since property tax revenue is from all property owners in a community, such type of financing is appropriate for projects benefiting the community as a whole. A variation of this type of debt is where statutory limitations are placed such as limiting the debt and debt service to set percentages of property values or of total revenue or some other variation thereof. Such is the case for Alberta municipalities where levels of indebtedness are specified through the MGA or a Ministerial Order. On the other hand revenue or secured debt is secured by resources generated from fees and charges paid by users of the financed facilities or from dedicated revenue streams. The Regional Municipality of Wood Buffalo utilizes general obligation debt limited by statutory provisions of the Alberta Municipal Government Act as amended through a ministerial order or by an act of the provincial legislature.

Further, the Regional Municipality of Wood Buffalo's debt policy directs that Alberta Capital Finance Authority (ACFA) is the Municipality's lender of choice. ACFA was established in 1956 to provide inexpensive capital finance to local authorities in Alberta. ACFA pools capital finance requirements from various local authorities and by virtue of size of the pool, the authority is able to secure lower interest rates which would otherwise not be available to a single jurisdiction acting independent or alone in the capital markets. This is critical to understand as borrowing through ACFA determines subsequent debt management options available. Since ACFA borrows in the open market as a cohort of various organizations, refinancing or prepayment of such debt would incur penalties.

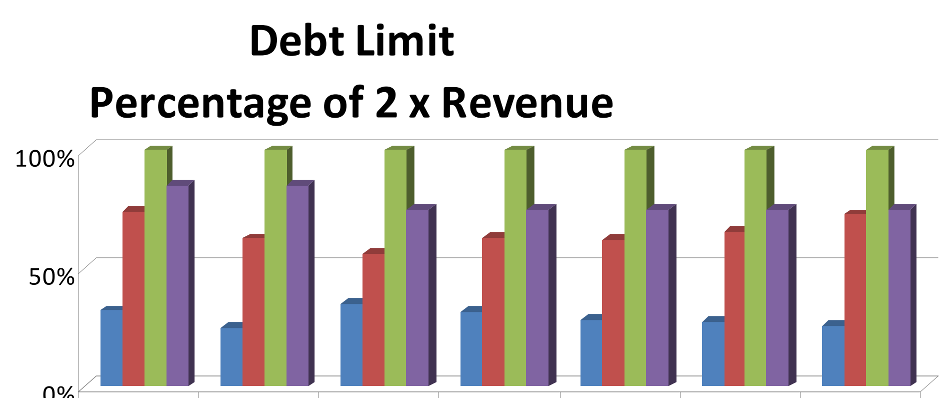
DEBT OVERVIEW

In discussing levels of debt and debt service for the Regional Municipality of Wood Buffalo, an understanding of two terms is imperative; *actual debt and committed debt*. *Actual debt* refers to amounts that the Municipality has borrowed and is now paying debt service for. These are amounts that would have been drawn for completed capital projects commissioned and in use. On the other hand, *committed debt* is a total of actual debt and amount of debt that Council has approved through the capital budget process but has not been drawn.

The following chart and graph depict actual and projected debt levels for the Regional Municipality of Wood Buffalo:

	Actual Debt	Committed Debt
2008	244,859,584	563,936,643
2009	237,228,752	588,343,811
2010	377,259,054	611,375,616
2011	362,307,370	714,567,814
2012	347,379,785	756,121,029
2013	332,257,623	795,098,867
2014	317,030,588	889,321,802

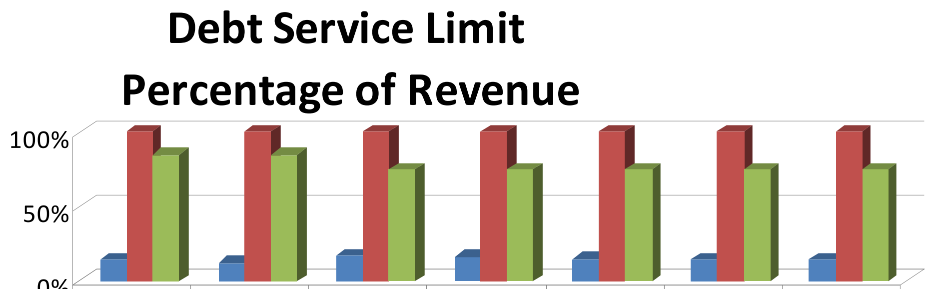
The difference between actual debt and committed debt is a function of project delivery and scheduling. Actual debt will increase as capital projects are undertaken or completed.



	2008	2009	2010	2011	2012	2013	2014
Actual Debt	32%	25%	35%	32%	29%	27%	26%
Committed Debt	74%	63%	56%	63%	62%	65%	73%
AR 255/2000 Limit	100%	100%	100%	100%	100%	100%	100%
Council Limit	85%	85%	75%	75%	75%	75%	75%

Review for legal and policy compliance from 2008 to date indicates responsible and conservative use of debt. The Municipality's debt levels are within legal and policy limits.

Another limitation is placed on debt service; level of principal and interest payments as a percentage of revenue. The Municipality's debt service level is under both legal and policy limits:



	2008	2009	2010	2011	2012	2013	2014
Actual Debt Service	14%	12%	17%	17%	15%	15%	14%
AR 255/2000 Limit	100%	100%	100%	100%	100%	100%	100%
Council Limit	85%	85%	75%	75%	75%	75%	75%

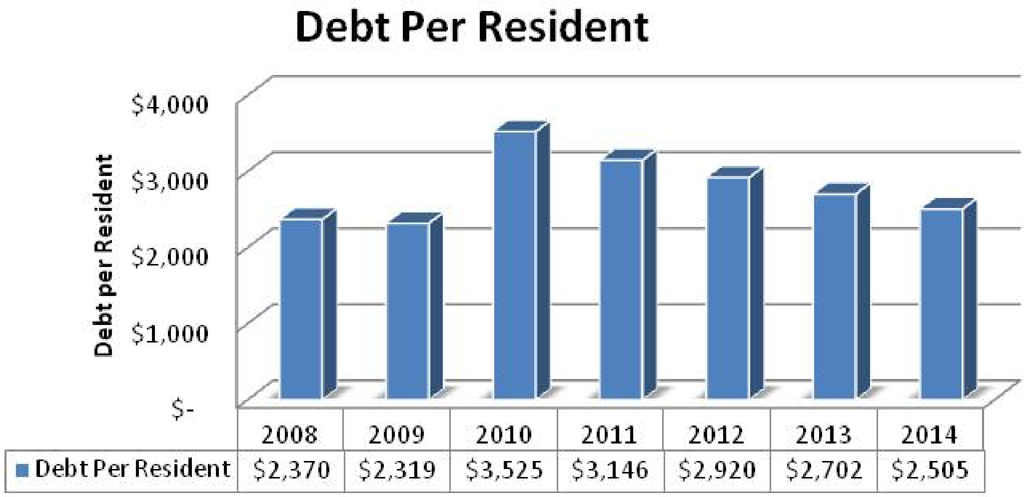
In both limits; debt amount and debt service, the Regional Municipality of Wood Buffalo has committed to levels significantly lower that legal limits. The debt the Municipality has incurred has all been invested in tangible capital assets. Over time, once the infrastructure gap is significantly reduced, less debt financing will be required. More resources at that point will be required for asset maintenance.

2012 DEBT & DEBT SERVICE CHANGES

The approved 2012 capital budget requires $56,480,800 in debenture financing. All of this is for continuing projects with approved debenture bylaws in place.

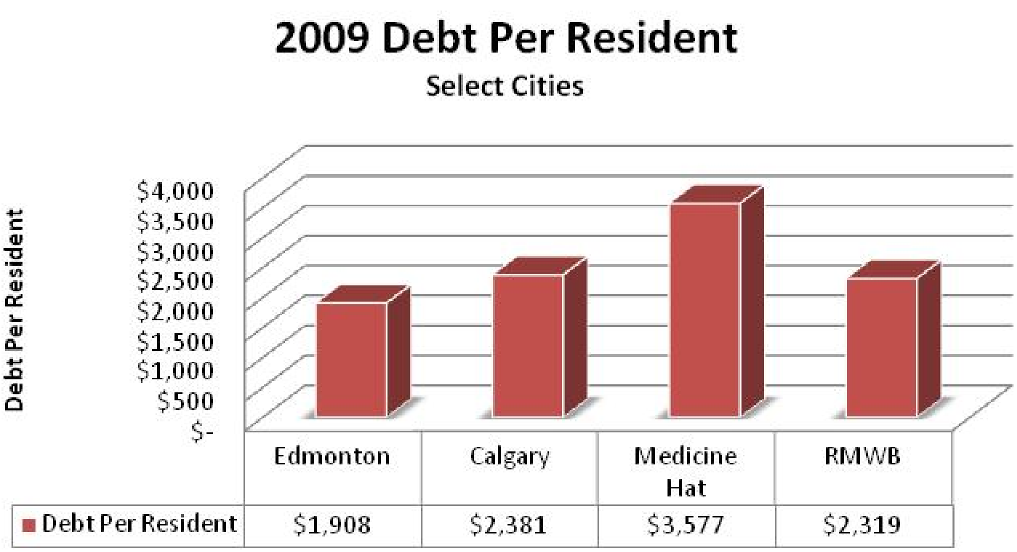
DEBT BURDEN

Debt financing requires recurring payments of principal and interest over the term. Debt service funding is levied through property taxes on an annual basis. Two measures are used to gauge the financial weight on residents as well as on available resources; debt per resident and debt service as a percentage of total expenses.



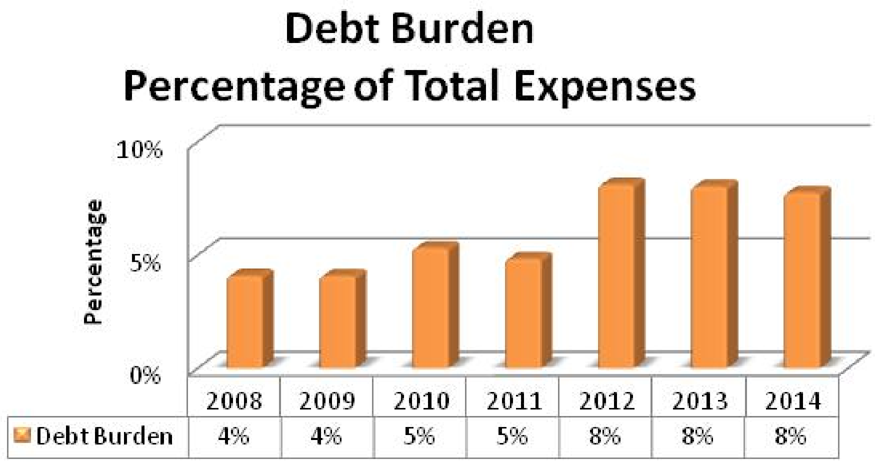
Debt per resident is a ratio of debt to total population. Between 2008 and 2009 debt per resident is shown as decreasing which is a function of population growth and debt repayment. Debt per resident is projected to decrease in 2012 and 2014 in line with major capital projects that are scheduled over those years.

Comparatively, in 2009 the graph below compares a select group of municipalities' debt per capita.



Debt service payments as a percentage of total expenditure indicates how much of available resources are directed towards debt service payments.

Best practice is to limit debt service payments to 25% of total expenses.



Actual debt burden has averaged 4.5% of total expenses between 2008 and 2011 and is projected to increase to 8% in 2012 onwards.

This is in line with assumptions that with increasing interest rates, the municipality will have to drawdown debt that was previously approved and major projects coming online.