

# Council Policy

Policy Name: Debt Management Policy  
Department: Financial Services  
Policy No.: FIN-120  
Effective Date: June 23, 2015

Review Date: June 23, 2018

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## **STATEMENT:**

The Regional Municipality of Wood Buffalo will acquire and repay debt while adhering to established debt and debt service limits.

## **PURPOSE AND OBJECTIVE:**

The objective of this policy is to establish maximum debt and debt service limit thresholds that satisfy the following objectives:

1. Ensures the maximum debt and debt service limit is lower than the debt and debt service limit established under the *Municipal Government Act* and regulations;
2. Provides flexibility during changing economic conditions;
3. Effectively manages debt with ability to pay;
4. Effectively supports initiatives as identified in the Corporate Strategic Plan, Departmental Business Plans, and budgets and financial plans;
5. Establishes thresholds for acquiring debt versus other funding sources.

## **1. Definitions**

- 1.1. Acceptable Debt Instruments - Debentures, mortgages, agreements for sale, or leases are deemed acceptable debt instruments.
- 1.2. Actual Debt Percentage - At a specific date, actual principal amounts owing on outstanding loans made by the Municipality plus actual principal amounts owing on debt guaranteed by the Municipality divided by Debt Limit per *Municipal Government Act*.
- 1.3. Annual Budget Debt - Actual principal amounts owing on outstanding loans made by the Municipality plus actual principal amounts owing on debt guaranteed by the Municipality plus annual budgeted principal amounts based on Capital Budget and Financial Plan information. Calculation performed for budgetary/planning purposes.
- 1.4. Annual Budget Debt Percentage - Annual Budget Debt divided by Debt Limit per *Municipal Government Act*. Calculation performed for budgetary/planning purposes.

- 1.5. Committed Debt - Principal amounts owing on outstanding loans plus principal amounts owing on debt guaranteed by the Municipality plus future budgeted/planned debt on multi-year projects in progress based on Capital Budget and Financial Plan information. Calculation performed for budgetary/planning purposes.
- 1.6. Committed Debt Percentage - Committed Debt divided by Debt Limit per *Municipal Government Act*. Calculation performed for budgetary/planning purposes.
- 1.7. Debt - Principal amounts owing on outstanding loans made by the Municipality plus principal amounts owing on debt guaranteed by the Municipality. Includes lease/purchase agreements that meet the definition of a capital lease per the CICA Handbook – Accounting.
- 1.8. Debt Limit per *Municipal Government Act* - The legislated debt limit is calculated as 2.0 times revenue of the Municipality as defined by applicable provincial legislation and any amendments thereto. Referred to as 100% of allowable debt limit.
- 1.9. Debt Service - Annual principal and interest amounts owing on outstanding loans made by the Municipality plus annual principal and interest amounts that the Municipality will be liable to pay on loans guaranteed by the Municipality.
- 1.10. Debt Service Limit per *Municipal Government Act* - The legislated debt service limit is calculated at 0.35 times revenue of the Municipality as defined by applicable provincial legislation and any amendments thereto.
- 1.11. Municipal Debt Limit Percentage - A percentage of the Debt Limit per *Municipal Government Act* approved by Regional Council. The Municipal Debt Limit Percentage cannot exceed the Debt Limit per *Municipal Government Act* (100%).
- 1.12. Controlled Corporation - An entity incorporated under the *Companies Act* (Alberta) as a Controlled Corporation, wholly owned by the Municipality.

## 2. Responsibilities

### 2.1. Council to:

2.1.1. Approve Debt Management Policy;

2.1.2. Approve Municipal Debt Limit Percentage as incorporated in Debt Management Policy;  
and

2.1.3. Approve Capital Budget and Financial Plan incorporating anticipated debt requirements.

### 2.2. Audit and Budget Committee to recommend to Council:

2.2.1. The approval of Debt Management Policy;

2.2.2. The approval of Municipal Debt Limit Percentage as incorporated in Debt Management Policy; and

2.2.3. *Approval* of Capital Budget and Financial Plan incorporating anticipated debt requirements.

2.3. Chief Administrative Officer to:

2.3.1. Support Debt Management Policy revisions and recommend to Audit and Budget Committee (ABC);

2.3.2. Support Capital Budget and Financial Plan incorporating anticipated debt requirements and forward to Audit and Budget Committee;

2.3.3. Support a Capital Budget and Financial Plan that adheres to the Municipal Debt Limit Percentage threshold; and

2.3.4. Maximize the use of alternative sources of funding such as grants, developer contributions, off-site levies, donations, user fees, or reserves for capital asset acquisition or construction to minimize the requirement for debt.

2.4. Chief Financial Officer to:

2.4.1. Recommend Debt Management Policy revisions to Chief Administrative Officer; and

2.4.2. Incorporate a repayment term shorter than the expected life of the asset in the Capital Budget and Financial Plan, if it is financially advantageous to the Municipality or if required pursuant to the *Municipal Government Act*.

### 3. General Procedures

3.1. Total Municipal Debt Limit Percentage shall not exceed 85% of the debt limit per *Municipal Government Act* and regulations.

3.2. Total Debt Service shall not exceed 85% of the Debt Service Limit per *Municipal Government Act* and regulations.

3.3. The Municipality will maximize the use of alternative sources of funding such as grants, developer contributions, off-site levies, donations, user fees, or reserves for capital asset acquisition or construction to minimize the requirement for debt.

3.4. The Municipality will not include the revenue, total Debt and Debt Service of Controlled Corporations in the calculation of debt, debt limit, and debt service.

3.5. Capital asset acquisition or construction for utility operations shall be financed by utility operations to allow repayment from utility rates to the extent possible.

3.6. The repayment term of the debt will match the expected life of the asset acquired, where possible, however, in no case will the maximum repayment term exceed the expected life of the asset or guidelines established by Alberta Capital Finance Authority (ACFA) or is required pursuant to the *Municipal Government Act*.

- 3.7. Authorization to bring forward the borrowing bylaw for the funds, if required, will be made as part of the adoption of the annual capital budget.
- 3.8. Investment interest earned on funds borrowed, until required to offset expenditures, will normally be credited to the applicable capital project, and will serve to minimize the final amount that will be required via borrowing. At no time will investment interest on funds borrowed increase the applicable capital project budget without approval of Council.
- 3.9. The Municipality will not secure debenture financing for amounts of \$100,000 or less.
- 3.10. The Alberta Capital Finance Authority (ACFA) will be used as the lender of choice unless a more attractive loan arrangement is available from another acceptable lender.

**MANAGEMENT, REFERENCES AND APPROVAL:**

This policy shall be reviewed in three (3) years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority: Council  
 Approval Date: March 27, 2001

Revision Approval Dates: March 13, 2007; July 13, 2010; November 27, 2012; June, 2015  
 Review Due: June, 2018

Policy Manager: Director, Financial Services  
 Department Contact: Manager, Financial Planning

Legal References:  
 Cross References:

  
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 Melissa Blake, Mayor

  
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 David Leflar, Chief Legislative Officer

July 9, 2015  
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 Date