Policy:	C38 – Debt Strategy
Policy Department(s):	Financial and Business Planning Services
Adoption Date:	December 15, 2023
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Policy Purpose
To establish financial guidelines for making decisions of when the County should borrow funds, or use reserves, to finance capital projects.

Policy Statement
This policy outlines the factors considered when determining the source of funding for capital projects. Council recognizes that, properly applied, debt can be an affordable source of financing that complements the sustainability of the County and helps to achieve service provision and growth objectives.

Definitions
“County” means the municipality of the County of Grande Prairie No. 1 having jurisdiction under the Municipal Government Act (MGA) and other applicable legislation.

“Debenture” means an unsecured loan, usually borrowed upon completion of the capital project. The County will not borrow for operating expenditures.

“Debt Limit” means the Debt Limit for the County, in respect of the County’s total Debt and Debt Service, as determined in accordance with the MGA Debt Limit Regulation Alberta Regulation 255/2000, as amended.

“Debt Servicing” means annual required Debt Repayments for principal plus the interest amount to be paid on the outstanding debt.

“Interest rate variance” means the difference between the highest and lowest interest rates over a given period.

“Loans to Local Authorities Office” means the loans authority as designated by The Province of Alberta.

“Long Term Debt” means borrowings from third parties scheduled for repayment for a term exceeding 5 (five) years.

"Short-Term Debt" means borrowings from third parties scheduled for repayment for a term of 5 (five) or less.

Policy Guidelines

To ensure financial responsibility, borrowing funds to finance capital projects needs to occur under appropriate conditions. The following are general guidelines that will be used by Financial and Business Planning Services when making these decisions:

Debt Use

1. The County will only incur and carry long-term debt to support capital projects pursuant to approved capital budgets. Long-term debt will not be incurred for operating purposes.
2. New capital projects of significant value or replacement of capital projects previously debt funded shall be considered for debt funding.
3. New capital projects that may have externally supported revenue, like rental income, that represents approximately 20% or more of the total servicing of the debt shall be considered for debt funding.
4. Borrowing will usually be incurred after completion of the capital project. However, in some instances it may be more beneficial to incur debt prior to or during the completion of the capital project.
5. From time to time, the County may 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).

Supported Debt

6. Supported Debt is categorized into three groups based on the nature of the Capital Expenditure and the financing source for Debt Servicing.
7. Tax-Supported Debt
   - 7.1 Issued for Capital Expenditures related to tax supported operations.
   - 7.2 This 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.
8. Utility User-Rate Debt
   - 8.1 Issued for Capital Expenditures related to Utilities.
   - 8.2 This Debt will be repaid, including interest, using Utility user rates.

9. Non-Tax Supported Debt

   9.1 Issued to fund Capital Expenditures by activities or programs which are self-funded, including but not limited to Local Improvements or Developer Levies.

   9.2 Local Improvement Supported Debt, which is issued for capital improvements that benefit specific properties pursuant to an approved Local Improvement plan.

   9.3 Developer Levy Supported Debt are issued for Capital Expenditures that are related to new development such as arterial roadways or utility infrastructure. This Debt will be repaid, including interest, from current and future developer levies.

Debt Limits

10. Debt Limits are set in Section 276(2) of the MGA, however, incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs.

11. Council may set debt limits which are lower than what is set under the MGA, which may be more appropriate to the County's risk threshold under current market conditions.

Debt Term

12. The amortization period of new long term debt incurred shall not exceed the estimated life of the capital project being financed.

13. The County may incur short-term debt to fund an activity that is expected to benefit the County's operations for a period of 2 (two) to 5 (five) years.

Debt versus Reserves

14. Consideration shall be given to reserve balances when deciding how to fund a capital project. If County reserves are underfunded in comparison to the reserve policy, Financial and Business Planning Services may recommend the project be funded by debenture. If County reserves are adequately funded (and will continue to be after funding the project) in comparison to the reserve policy, it may be recommended that the project be funded by reserves.

15. Market conditions will be assessed to determine if these conditions present a better opportunity to borrow by debenture or fund internally by reserve.

   15.1 The Local Authorities Office lending rates must be used to review historical lending rates. The lending rates of 10-year loans over the past 20 years are to be used to determine the lowest and highest interest rates (interest rate variance).

   15.2 When interest rates on borrowing are or expected to be in the top third of the interest rate variance, it may be recommended to fund capital projects by reserve.

15.3 When interest rates on borrowing are below or expected to be in the bottom third of the interest rate variance, it may be recommended to fund capital projects by debenture.

15.4 Prior to any recommendation, Financial and Business Planning Services will consult with market experts to get an understanding of market conditions and the expected impact on interest rates.

15.4.1 If rates are expected to decrease, Financial and Business Planning Services may recommend deferring borrowing until such time and in the interim fund the project from reserves.

15.4.2 If rates are expected to increase, Financial and Business Planning Services may recommend borrowing at the beginning of the project instead of the end, to secure lower financing rates.

16. Financial and Business Planning Services shall be consulted, in a timely manner, to provide funding advice for capital projects.

Attachments

N/A

References

Legal Authorities	Municipal Government Act, RSA 2000, c M-26
Related Plans, Bylaws, Policies, Etc.	Policy B1 – Policy Development policy C27 – Financial Reserves
Other	Not applicable

Revision History

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December 15, 2023	Adoption Date BM20231213.014