Debt Strategy

Financial and Business Planning Services – Analysis and Reporting
Policy C38

Policy:	C38 – Debt Strategy
Policy Department(s):	Financial and Business Planning Services – Analysis and Reporting
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Policy Purpose

To establish guiding principles and controls for the use of Debt, ensuring borrowing decisions support long term sustainability, affordability and responsible infrastructure funding.

Policy Statement

The County will evaluate and manage Debt to finance capital infrastructure in a manner that is affordable, sustainable, and aligned with the County's strategic and legislative requirements.

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.

"Capital Expenditures" means expenditures incurred to acquire, develop, renovate or replace capital assets as defined by the Chartered Professional Accountants Canada Public Sector Accounting Handbook section 3150.

"Debenture" means a loan to pay specific sums on certain dates. Debentures are unsecured and backed by general credit rather than by specific assets.

"Debt" means borrowing as defined under the MGA. In the case of the County, this is generally in the form of a Debenture that varies in Debt terms. Other forms of Debt may include, but are not limited to, the borrowing of money, refinancing of existing Debt, long-term leases of capital property as defined under the MGA, other long-term financial commitments, and any loans or loan guarantees issued under the MGA.

"Debt Limit" means a limit on the amount of money the County can borrow, as determined in accordance with the MGA Debt Limit Regulation Alberta Regulation 255/2000, as amended.

"Debt Servicing" means annual required debt repayments including interest and principal as determined in accordance with the MGA Debt Limit Regulation Alberta Regulation 255/2000, as amended.

"Debt Term" means the period of time during which Debt payments are made. Debts must be repaid in full by the end of the Debt Term.

“Internal Borrowing” means borrowing from County reserves to finance capital projects. Funds borrowed from reserves are to be repaid once the Debt proceeds have been received.

“Long-term Debt” means borrowings from third parties scheduled for repayment for a term exceeding 5 (five) years as defined under the MGA.

“Short term Debt” means borrowings from third parties scheduled for repayment for a term of 5 (five) years or less as defined under the MGA.

Policy Guidelines

General Principles

1. All borrowing decisions will align with the County’s strategic objectives, long-term financial plans, capital planning priorities, and legislative requirements.
2. Decisions surrounding Debt must be made in a way that promotes financial sustainability and affordability.
3. The issuance of all new debt must be authorized by Council through a borrowing bylaw in accordance with the MGA.
4. Debt may be used so that costs are shared fairly between current and future taxpayers.

Long-term Debt

5. The County will only incur and carry Long-term Debt to support capital projects pursuant to approved capital budgets.
6. Long-term Debt will not be incurred for operating purposes.
7. Long-term Debt will be used where it aligns the cost of infrastructure with its useful life and supports long-term financial sustainability.
8. The County may incur borrowing relating to financing loans for non-profit organizations for capital purposes.

Short-term Debt

9. The County may incur Short-term Debt (e.g. bank line of credit financing) to bridge short-term cash flow requirements but will not be used to fund ongoing operating activities or structural operating deficits.
10. Short-term Debt must have a funding source identified to repay the Short-term Debt.

Internal Borrowing

11. The County may temporarily borrow funds from reserves to fund Capital Expenditures before the Debt has been received.

11.1 Internal Borrowings must be repaid back to the reserve once the Debt proceeds related to the Capital Expenditure have been received.

Criteria for the Use of Debt

12. When funding sources are being identified for capital projects, issuance of Debt will be considered when:

    12.1 Borrowing interest rates are favorable relative to the return earned on investments;

    12.2 Borrowing interest rates are low compared to historical levels;

    12.3 Debt financing provides a more favorable cash flow solution than drawing on long-term investments.

Long Term Debt Support

13. Debt is categorized based on the primary source of revenue used to repay the Debt Servicing requirements.

14. Tax-Supported Debt

    14.1 Issued for Capital Expenditures related to tax supported operations.

    14.2 Debt will be repaid using tax-supported revenues such as property taxes, non-utility user fees, fines, permits, investment income and transfers from reserves.

16. Utility-Supported Debt

    16.1 Issued for Capital Expenditures related to utility infrastructure.

    16.2 Debt will be repaid using utility rates and charges.

17. Self-Supported Debt

    17.1 Issued to fund Capital Expenditures related to self-funded activities, programs or operations.

    17.2 Debt will be repaid from project revenues, user fees, development levies, partnership revenues, or other non-tax revenues.

18. Local Improvement Debt

    18.1 Issued for Capital improvements that benefit specific properties pursuant to an approved Local improvement plan and bylaw.

    18.2 Debt will be repaid through local improvement taxes or charges levied against the benefiting properties.

Debt Limits

15. Debt Limits are to be followed in accordance with the MGA Debt Limit Regulation Alberta Regulation 255/2000, as amended.

16. 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

17. The amortization period of new Long-term Debt incurred shall not exceed the estimated life of the capital asset being financed.

Debt Refinancing

18. Administration will review and consider refinancing existing Debt only if cost saving opportunities exist or if deemed necessary for cash flow management.

Attachments

N/A

References

Legal Authorities	Municipal Government Act, RSA 2000, c M-26 MGA Debt Limit Regulation Alberta Regulation 255/2000
Related Plans, Bylaws, Policies, Etc.	Policy B1 – Policy Development Policy C27 – Financial Reserves and Levies
Other	Chartered Professional Accountants Canada Public Sector Accounting Handbook

Revision History

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