

## Mackenzie County

<b>Title</b>	<b>Debt Management Policy</b>	<b>Policy No:</b>	<b>FIN030</b>
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<b>Legislation Reference</b>	<b>Municipal Government Act</b>
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### **Purpose**

To establish a systematic decision-making process for the use of long and short term debt funding that will ensure the fiscal sustainability.

### **Policy Statement:**

The County Council recognizes and places great emphasis on sound management of the County's financial resources. Debt is a key factor in this management process and must remain within the ability of taxpayers to pay the net cost of debt, while continuing the quality services provision to the residents.

Through its Debt Management Policy, the County intends to manage the County's debt in a responsible and prudent manner, by enacting a formal framework for borrowing rules, while ensuring stable access to capital funds, particularly at advantageous rates.

### **Guidelines/Procedures**

#### **Definitions:**

1. **Business Case** refers to an analysis that demonstrates the necessity for and viability of a new project. A business case will include a financial analysis and a financial plan that identifies and confirms sources of funding to provide for the financing of the capital and operating costs of a new project.
2. **Debt Limit** refers to the Province of Alberta Debt Limit regulation and guidelines that provides that a municipality's total debt outstanding cannot exceed 1.5 times its annual operating revenues (excluding provincial or federal grants).
3. **Debt Repayment** refers to the regular and/or special repayment of debt principle that has been incurred to finance capital projects.
4. **Developer Levy Supported Debt** means debt incurred for capital projects that are related to new development (i.e. arterial roadways, utility infrastructure). The debt incurred is paid, together with interest, from current and future development levies.

5. **Internal Borrowing** means a borrowing made from the County's restricted surplus (reserves) to finance a capital project. When an internal borrowing occurs, it is planned that the reserve will be repaid the principal amount borrowed plus interest (at current rate of return on long term investments).
6. **Municipal Tax Supported Debt** refers to debt incurred that will be repaid, together with interest, through municipal property taxes. The establishment of annual property tax rates will be sufficient to provide for the annual debt servicing requirement and the orderly repayment of the debt.
7. **Long Term Debt** refers to borrowings from third parties scheduled for repayment for a term exceeding 5 (five) years.
8. **Local Improvement Supported Debt** refers to debt incurred to support capital improvements that benefit specific properties pursuant to an approved local improvement plan. Local improvement tax levies on the benefiting properties will be sufficient to provide for the annual debt servicing requirements and the orderly repayment of the debt.
9. **Other Supported Debt** refers to non-municipal tax supported debt that will be repaid, together with interest, from user fees.
10. **Short Term Debt** refers to borrowings from third parties scheduled for repayment for a term of 5 (five) or less years.

**Guidelines:**

1. Mackenzie County will only incur and carry long-term debt to support priority capital projects pursuant to approved capital budgets. Long term debt will not be incurred for operating purposes.
2. Mackenzie 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 (i.e. gravel crushing program).
3. The amortization period of new long term debt incurred shall not exceed the estimated life of the capital project being financed. The amortization period shall generally be 15 (fifteen) years unless the estimated useful life of the project and the projected cash flow of the payment support demonstrates a term of 20 (twenty) to 25 (twenty five) years to be more appropriate and beneficial.

4. The annual debt service payments shall not exceed the Province of Alberta Debt Service Limit regulations and guidelines. At the time of this policy establishment, these provide that a municipality's total annual debt servicing payments cannot exceed 25% of its annual operating revenue.
5. When sufficient funds available, the County may internally borrow from its restricted reserve funds to provide for the financing of projects. Reserves shall be repaid with interest within a period of 5 (five) years or less, with the interest rate equivalent to the average current rate of return the County receives on its long term investments.
6. When the incurrence of long-term debt is deemed to be an appropriate method to finance capital projects, then Alberta Capital Finance Authority (ACFA) will be initially considered. ACFA long-term debt rates are generally more favorable than conventional bank financing. Where it is not attractive and advantageous, a long term financing arrangement with another acceptable lender will be considered.
7. In each case where the incurrence of debt is considered, a business case will be prepared to confirm the necessity for and viability of the project and the financial plan in place shall identify the revenue stream that will provide for the repayment.
8. Annual non-municipal tax supported (i.e. local improvement levy, developer levy, and other external) debt service payments shall be supported by confirmed sources of revenue prior to the incurrence of new debt.
9. Chief Administrative Officer shall be responsible for compliance with this Policy.
10. This Policy will be subject to annual review during the annual business plan and/or budget process.

	<b>Date</b>	<b>Resolution Number</b>
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