

**Policy statement**

Leduc County commits to utilizing debt to manage its fiscal position in a prudent and sustainable manner. This policy guides the processes that govern the County’s borrowing as it pertains to the overall levels of indebtedness, structure of the debt and annual debt servicing limits.

**Definitions**

*Affordable* means the County’s ability to pay for debt servicing costs.

*Capital asset* means any object purchased for use by the County whose individual cost exceeds the threshold set out in the Tangible Capital Asset Administrative Directive and has a life span of greater than one year.

*Capital expenditure* means costs incurred to acquire, develop, rehabilitate, or replace capital assets.

*County revenue* means Leduc County’s total revenue excluding contributed assets, developer’ agreements and levies, insurance proceeds and government transfer revenues.

*Debenture borrowing application* means an application by the County to apply for new debt.

*Debt* means money that is borrowed from a party in exchange for compensation in the form of interest payment. It represents an obligation that must be repaid within a predetermined time horizon under conditions that both parties agree to.

*Debt limits* mean the County’s maximum debt limits and debt service costs.

*Debt servicing* means the annual debt repayments including interest and principal.

*Debt term* means the period of time during which debt payments are made.

*Funding source* means funds that are earmarked for the repayment of debt that is either capital or operating in nature. May refer to a variety of sources such as the County’s investment portfolio, operations (sales of goods and services), user fees and levies, tax revenue, grants, reserves or other revenue sources.

*Long-term capital debt* means borrowing made for the purpose of financing a capital assets when the term of the borrowing exceeds five years.

*Long-term operating debt* means borrowing made for long-term operating expenditure commitments.

*Municipal Government Act (MGA) revenues* mean Leduc County total revenue less contributed assets and capital government transfers.

*Probable lifetime* means the expected useful life-span of an asset.

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*Self-sufficient* means a funding source that is self-funded by revenues or cash flows from a dedicated funding source.

*Self-supported debt* means debt that is for the County’s Utility services which is not funded by tax revenues but by revenues generated by the Utility, including rates charged directly to users and other cash flows generated from operations.

*Short-term debt* means debt issued to manage cash flows of the County. The primary purpose is to bridge the gap between cash outflows and cash inflows.

*Sustainable* means meeting debt-servicing needs without compromising the ability to meet current and future financial obligations.

*Tax supported debt* means debt issued for capital expenditures that is funded in whole or in part from tax revenues.

*Utilities* means self-funded operations that provide a service to its customers.

**Policy authority**

*Legislative implications:*

- *Municipal Government Act (MGA), Sections 251 to 268*
- *Alberta Regulation 255/2*
- *Public Sector Accounting Standards, Section 3150*

*Other implications:*

- *Tangible Capital Asset Administrative Directive FS-D03.*

**Policy standards**

1. The County uses debt prudently and efficiently in accordance with best practices. This includes, but is not limited to the following considerations:
  - a) The issuance of new debt must be approved by Council and authorized by adopting a borrowing bylaw.
  - b) Debt must be structured in a way that can reasonably be considered fair and equitable to those who pay and benefit from the underlying assets over time.
  - c) Debt repayment funding:
    - i) New indebtedness service cost funding will be identified as being funded by either:
      - (1) Tax-supported revenue.
      - (2) Self-sufficient revenue.
      - (3) Self-supported revenue.
    - ii) The funding source for new indebtedness service costs will be identified within the borrowing bylaw.

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d) Debt amortization term:

- i) Debt terms shall not exceed the probable lifetime of the asset.
- ii) The following elements will be considered when establishing the debt term: cost minimization, availability of sustainable debt servicing funding and capital life cycle implications.

e) New debt will:

- i) Be affordable and sustainable.
- ii) Align with the County’s budgeting process and long-term financial considerations.

2. Debt will be considered for use in the following situations:

a) Capital asset debt

- i) Alternative financing sources will be researched and considered before looking at debt as a funding source.
- ii) Long-term debt will be considered for capital assets that meet one or more of the following parameters:
  - (1) Projects with long-term benefits.
  - (2) Projects with benefits to County residents or utility customers.
    - (a) Long-term debt for utility projects will consider self-supported debt as the primary funding source.
  - (3) Growth related projects.
  - (4) Emerging needs to support corporate priorities and the strategic plan.
  - (5) Major rehabilitation of existing assets.

b) Operating debt

- i) Long-term debt will be considered for operating expenditures that meet one or more of the following parameters:
  - (1) Projects with long-term benefits involving assets the County does not own but has a self-sufficient funding source.
  - (2) Projects with benefits to County residents.
- ii) The County will not agree to long-term debt obligations to finance current operating expenditures with the exception of point 2.b.i. above.

c) Short-term debt will be considered when required to bridge the gap between cash and outflows and inflows when it meets one or more of the following parameters:

- i) Is not issued as a financing source for any capital projects and/or capital asset purchases.
- ii) Short-term debt issued for cash management purposes shall not exceed a term of 365 days.
- iii) Debt issued shall not exceed \$2,000,000 for the purposes of managing cash flows.

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3. Debt Limit

- a) Leduc County will not exceed debenture borrowing in excess of the debt limit established by the Municipal Government Act.
- b) Debt limit includes all debt incurred by the County including tax-supported, self-sufficient and self-supported debt.
- c) For the purposes of determining Leduc County’s debt limit, the revenues received from contributed assets, developer’s agreements and levies, insurance proceeds and government transfers will be excluded.

4. Reporting

- a) The County’s utilization of debt will be reported through annual audited financial statements in accordance with MGA standards.

**Policy responsibilities**

*Council responsibilities:*

Council will:

- Approve a debt management policy.

*Administration responsibilities:*

The County Manager, or designate, will:

- Direct Administration to develop the necessary administrative directive and procedures to implement this policy.
- Approve related administrative directives.
- Approve debenture borrowing applications as needed.

Director of Finance will:

- Prepare and bring debenture bylaws forward for Council approval.
- Identify and verify appropriate resources are available to meet current and future debt obligations.
- Review and evaluate cost saving opportunities through prepayment or refinancing of existing debt.
- Oversee the daily operational obligations for debt management.
- Monitor and review the MGA for changes at established intervals.
- Maintain and update this policy.

**Monitoring and updating**

- This policy shall be available for public inspection and will be posted on the Leduc County’s website.
- This policy shall be reviewed at least once every four years.

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