



TOWN OF THREE HILLS

POLICY # 580 - DEBT MANAGEMENT POLICY

Adopted by Council on: February 12, 2024

Resolution No.: 029-2024

1. PURPOSE

- 1.1. The purpose of this Policy is to establish a systematic decision-making process for the use of Long and Short Term Debt funding that will ensure the fiscal sustainability of the Town.

2. AUTHORITY

- 2.1. The authority for this Policy is by resolution of the Council of the Town of Three Hills.
- 2.2. The Chief Administrative Officer (CAO) is accountable and responsible for the development, evaluation and implementation of this Policy.
- 2.3. The CAO reserves the right to exercise appropriate managerial judgement to take such actions as may be necessary to achieve the intent of this Policy.

3. DEFINITIONS

- 3.1. Whenever the singular masculine gender is used in this Policy, the same shall include the feminine and neutral gender whenever context requires.
- 3.2. In this Policy, unless the context otherwise requires:
 - 3.2.1. "Debt" shall mean borrowing as defined in the MGA.
 - 3.2.2. "Debt Limit" shall refer 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).
 - 3.2.3. "Debt Repayment" shall refer to the regular and/or special Repayment of Debt principle that has been incurred to finance capital projects.
 - 3.2.4. "Debt Servicing" shall mean annual required Debt Repayments including interest and principle.
 - 3.2.5. "Debt Term" shall mean the period of time which Debt payments are made. At the end of the Debt Term, the Debt must be paid in full.
 - 3.2.6. "Interim Financing" shall mean borrowing made for the purpose of temporarily financing a capital project as defined in the MGA.
 - 3.2.7. "Long Term Debt" shall refer to borrowings from third parties scheduled for Repayment for a term exceeding 5 (five) years.

- 3.2.8. “MGA” shall refer to the *Municipal Government Act*, RSA 2000, C. M-26, as amended.
- 3.2.9. “Rate Supported Debt” shall refer to Debt incurred that will be repaid, together with interest, through local or regional utility billings. The establishment of annual utility rates will be sufficient to provide for the annual Debt Servicing requirement and the orderly Repayment of the Debt.
- 3.2.10. “Short-Term Debt” shall refer to borrowings from third parties scheduled for Repayment for a term of 5 (five) or less years.
- 3.2.11. “Tax Supported Debt” shall refer 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.

4. DEBT PRINCIPLES

- 4.1. Debt is an ongoing component of the Town's funding structure and is integrated into the Town's long-term plans and strategies.
- 4.2. Debt must be affordable and sustainable.
- 4.3. The Town must maintain flexibility to take Debt in response to emerging financing needs.
- 4.4. Debt must be structured in a way that is fair and equitable to those who pay and benefit from the underlying assets acquired by taking the Debt over time.
- 4.5. Debt decisions must contribute to a sustainable and vibrant Town by balancing quality of life and financial considerations.
- 4.6. The Town 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.
- 4.7. Long Term Debt can only be used to fund projects with long-term community benefits, for infrastructure needed to support or in the anticipation of population growth, that advance Council priorities, are major rehabilitations of existing assets, or to refinance Debt originally taken for these reasons.
- 4.8. The issuance of new Debt must be approved by Council.
- 4.9. Debt must be managed, monitored, and reported upon.

5. USE OF DEBT

- 5.1. When making a decision about the use of Debt, alternative financing sources shall be considered.
- 5.2. Long Term Debt may be considered for capital expenditures for:
 - 5.2.1. large projects with long-term benefits;

- 5.2.2. projects with benefits for the community at large;
 - 5.2.3. emerging needs to support the Town’s priorities and approved strategic plans;
 - 5.2.4. major rehabilitation of existing assets; and
 - 5.2.5. other priorities as determined by direction of Council from time to time.
- 5.3. Short Term Debt may be considered for Interim Financing of capital expenditures.

6. INTERNAL BORROWING

- 6.1. When the Town’s reserve position allows, and based on cash flow analysis, the Town may internally borrow from its reserve funds to provide for the financing of capital projects. Reserves will be repaid with interest (generally over a period of five (5) years or less), with the interest rate equivalent to the average rate of return the Town receives on the Town’s investments. This interest rate is intended to offset the investment interest not earned by the Town on funds utilized to interim finance capital projects.

7. DEBT APPROVAL

- 7.1. Debt financing is considered as part of the Town’s budget process.
- 7.2. During the budget process, capital budget approvals for the upcoming year will incorporate Debt Servicing costs within the operating budget.
- 7.3. New Debt issues must:
- 7.3.1. be approved by Council;
 - 7.3.2. have an approved borrowing bylaw;
 - 7.3.3. be affordable, sustainable and maintain the Town’s financial flexibility;
 - 7.3.4. be structured in a way that is fair and equitable;
 - 7.3.5. identify sources of funding for Debt Repayments;
 - 7.3.6. align with the Town’s long-term plans and strategies;
 - 7.3.7. balance quality of life and financial considerations; and
 - 7.3.8. be managed, monitored and reported upon on a regular basis.

8. DEBT LIMITS

- 8.1. The Town must comply with both criteria under the MGA and the Debt Limit Regulation in regard to Debt Limit Calculation, including:
- 8.1.1. in respect of the Town’s total Debt, 1.5 times the revenue of the Town; and
 - 8.1.2. in respect of the Town’s Debt service, 0.25 times the revenue of the Town.

9. DEBT PLANNING AND MANAGEMENT

- 9.1. All issuance of Debt requires an authorized bylaw and shall be subject to the specific provisions of the MGA and other regulations.
- 9.2. Internal processes and systems shall be developed and maintained to ensure sound Debt management and reported to Council.

10. DEBT STRUCTURE AND TERM

- 10.1. The following elements may be considered when establishing the Debt Term:
 - 10.1.1. cost minimization;
 - 10.1.2. availability of Debt Servicing funds;
 - 10.1.3. capital life cycle implications;
 - 10.1.4. Debt Term;
 - 10.1.5. affordability of Debt load over proposed term;
 - 10.1.6. impact of Debt Term on the Town’s financial flexibility; and
 - 10.1.7. other case specific considerations.

11. DEBT PREPAYMENT OR REFINANCING

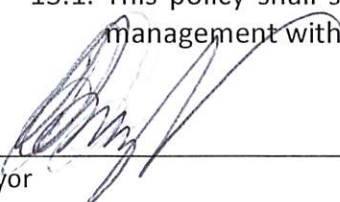
- 11.1. Cost saving opportunities through prepayment or refinancing of existing Debt shall be considered whenever possible.

12. DEBT REPORTING


- 12.1. The Town’s Debt shall be monitored and reported on to Council and the public on a bi-annual basis.

13. PRIOR POLICY

- 13.1. This policy shall supersede and replace all prior policies, oral or written, regarding Debt management within the Town of Three Hills.



Mayor



Chief Administrative Officer

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