Debt Management

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Lead Role: CFO		**Replaces**:	N/A
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Policy Statement

Beaver Municipal Solutions/Beaver Regional Waste Management Services Commission (BMS/BRWMSC) will only incur new long term debt when it is consistent with the Strategic Plan direction and annual Board approved budget. This policy provides the framework and guiding principles for the management of long-term debt. Long-term debt is a source of funding used to support the approved capital project expenditures and is incurred to allow the BRWMSC to address:

1. The protection of existing facility, vehicles, equipment and capital infrastructure.

2. The addition of new capital equipment and infrastructure resulting from growth, pursuit of business opportunities to support the Board's mandate towards its municipal members and/or changes in service levels.

3. Emergent capital initiatives as they arise.

Debt will be subject to a management plan and policies that will establish guidelines to address the management of long-term debt. The following elements are integral to an effective debt management plan:

1. Effective debt management is critical to the overall financial management of the BRWMSC; incurring new debt must be affordable and manageable.

2. The use of debt management is a useful and effective tool in the achievement of the overall growth and service provision objectives of the BRWMSC.

3. The ability to meet debt service requirements acts as the overall ceiling on capital program expansion.

4. The focus of an effective debt management plan should be on debt "management" as opposed to debt "reduction". Debt reduction is a component but should not be viewed as the sole driver of an effective debt management policy.

5. An effective debt management plan should also focus on debt "avoidance" as a component of an effective debt management policy. In this regard, the link to and management of reserves is an important factor in debt management.

An effective debt management plan needs to be flexible in order to address emergent initiatives and take advantage of (special) debt principal repayment opportunities.

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. **Capacity** refers to the difference between the amounts of projected year-end debt as calculated by applying the ceiling percentage to the projected annual total operating revenues less the amount of current year-end debt based on current approved debt levels.

3. **Ceiling** is stated as a percentage and refers to the maximum percentage that the annual year-end debt outstanding can be of the debt limit in accordance with provincial legislation.

4. **Debt Avoidance** refers to the setting aside of funds for the purpose of having funds on hand in reserve to finance capital projects that would otherwise be financed by incurring new debt.

5. **Debt Limit** refers to the Province of Alberta Debt Limit regulation and guideline that provides that a municipality's (Commission's) total debt outstanding cannot exceed 2 times its annual operating revenue.

6. **Debt Repayment** refers to the regular and/or special repayment of debt principal that has been incurred to finance capital projects.

7. **Internal Borrowing** refers to borrowing from BRWMSC reserves to finance a capital project. When an internal borrowing occurs, it is planned that the reserve is repaid the principal amount borrowed plus interest.

8. **Long-term Debt** refers to borrowings from third parties scheduled for repayment (i.e. generally amortized over a period of one or more years).

Guidelines

1. BRWMSC 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. The BRWMSC may, from time to time, incur short-term debt (i.e. bank line of credit funding) to bridge short-term cash flow requirements (the primary source of bridging is reserves). Use of operating credit line will be reported to the Board quarterly. Generally, long-term debt will only be incurred after all other funding sources have been explored.

2. Total debt outstanding shall not exceed the Province of Alberta Debt Limit regulations and guidelines. These provide that a municipality's (Commission's) total debt outstanding cannot exceed 2 times its annual operating revenue.

3. Total annual debt service payments shall not exceed the Province of Alberta Debt Service Limit regulations and guidelines. These provide that a municipality's (Commission's) total annual debt servicing payments cannot exceed 25% of its annual operating revenue.

4. The amortization period of new debt incurred shall not exceed the estimated life of the capital project being financed. The amortization period shall generally not exceed 15 years unless the estimated useful life of the capital project and the projected cash flow of the payment support demonstrates a term of 20 or 25 years to be more appropriate and beneficial.

5. When sufficient funds are available, the BRWMSC may internally borrow from its reserve funds (i.e. debt avoidance) 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 current rate of return the BRWMSC receives on the investment of surplus funds.

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 interest rates are generally 0.50% to 0.75% more favorable than conventional bank financing. Where it is more attractive and advantageous, a long-term financing arrangement with another acceptable lender will be considered.

7. The BRWMSC will take advantage of opportunities to retire outstanding debt early if it appears to be financially beneficial to do so. High interest debt will be given priority consideration for debt prepayment.

8. The Debt Management Plan will establish a tolerance or capacity to absorb and manage new debt. This will coincide with the approved business plan.

9. Year-end total debt outstanding shall not exceed a ceiling of 100% of the debt limit. The ceiling percentage guideline will have the effect of limiting new total debt that can be incurred in any given year.

10. The established ceiling percentage guidelines will be reviewed annually during the budget process to take advantage of opportunities to protect, increase or reduce the ceiling and, therefore, the capacity.

11. Annual debt service payments are supported by budgeted sources of revenues prior to the incurrence of new debt. 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 capital project and the financial plan in place will identify the distinct revenue stream that will provide for the repayment.

12. Each Long Term Debt instrument must be specifically approved by Board Resolution. When a collateral or asset security is required, the details will be highlighted to the Board.

Roles and Responsibilities, Procedures, Forms and Related Policies

1. The CFO is responsible for the administration of this Policy through the GM.
2. Attachments:
3. Related Policies: FIN-003 Tangible Capital Assets