

Town of Morinville Policy

TITLE:	ADOPTED BY:	NUMBER
CAPITAL FINANCING POLICY	COUNCIL	184/2005

PREPARED BY:	DATE:	SUPERSEDES:
FINANCE MANAGER	July 12, 2005	

Policy Statement:

The Town will try to anticipate capital needs and to the extent possible build up reserves and manage, without incurring long-term debt. It is the objective of this policy that the Town incurs long-term debt when it is the only available funding source after other possible sources have been exhausted. Whenever possible, long-term debt will continue to be reduced.

Long-term debt will only be considered for major capital purposes. It will not be incurred for operating purposes.

Guidelines:

This policy is designed to place a priority on maintenance of existing infrastructure with an overall objective of building up reserves to provide for full funding of future maintenance requirements on existing infrastructure.

Definitions:

Local improvements – capital improvements that benefit specific properties and are financed by a special tax on the benefiting properties.

Long-term debt – borrowings from third parties scheduled for repayment over a period of five or more years.

New Infrastructure – The basic structural foundation of a Community. Large scale public systems, services and facilities of the Town that are necessary for economic activity in the Community, including power, gas, water and wastewater supplies, public transportation, roads and buildings/facilities.

Pay-as-you-go – the financing of a capital expenditure directly from operating revenues.

Tax supported debt – long-term debt repaid through property tax levies.

Utility supported debt – long-term debt repaid through utility revenues.

Cost Recovery - Users fees, Off-sites & Grants over time.

Purposes for which long-term debt may be issued:

The Town may borrow by debenture, mortgage or other acceptable debt instrument to finance the construction, purchase or major restoration of infrastructure with an individual project value exceeding \$100,000. The projects will appear in the approved Ten-Year Capital Plan or as approved by Council. Long-term debt will not be used to finance operating expenditures or routine infrastructure maintenance.

Identification of legal long-term debt limits or limitations established by policy

The ceiling for borrowing purposes and the target for debt reduction will be the debt limits established by Provincial regulation through the Municipal Government Act and the debt limits established by Town Council.

A. Provincial debt limits for total debt:

The Town may not incur debt if the borrowing will cause the municipality to exceed its debt limit as determined in accordance with the regulations under section 271 of the Municipal Government Act.

B. Town Council debt limits:

Long-term debt will only be incurred as a last resort when other alternative funding sources have been exhausted and the capital expenditure is required for one or more of the following purposes:

1. For environmental or safety related regulatory standard upgrades/new development.
2. For an unexpected emergency or disaster, such as a tornado, requiring a significant capital expenditure to replace damaged infrastructure.
3. To provide for servicing that is a pre-requisite for any further Town growth; eg. Funding required for deep trunk services.
4. For discretionary purposes related to economic development opportunities or quality of life issues in the community, where an intensive public input process has been part of the decision-making process.

C. Other limitations on incurring long-term debt are:**1. On tax supported debt:**

Additional debt repayments that result from growth capital requirements may be allowed to increase existing debt repayment levels. As this will result in expenditure increases, Council may have to approve special tax increases to provide funding for the repayments. Before additional debt is incurred, it should be confirmed that no other funding source is available.

2. For utility supported debt:

Debt may need to be considered when regulated or competitive rates are an issue and a major capital expenditure needs to be recovered over a long period of time. In setting utility rates it is the objective for the utility services to be self-sustaining and to provide for a return on equity not to exceed nine percent (9%).

Maximum term of debt

The repayment term (amortization) in respect of long-term debt is dependent on the useful life of the asset being financed by the Town and should not exceed 10 years except for:

- a) Local improvement borrowings where the term can be up to 20 years.
- b) Major capital construction of utilities or public facilities.

Approved source of long-term debt

When sufficient funds are available, the Town's reserve funds may be used as a source of long-term financing. The reserves will be repaid with interest at the Alberta Municipal Financing Corporation (AMFC) current lending rate at the time the project is approved. If sufficient funds are not available in reserves to provide long-term financing, then the AMFC will be used as the lender of choice unless a more attractive loan arrangement is available from another acceptable lender.

Performance measurement

It is the intent of this policy to benchmark using debt ratios and other debt related affordability targets on an annual basis and report on the results.

Early repayment of debt

Borrowings will only be repaid before the scheduled repayment date if it appears to be financially beneficial to do so. In considering whether it is financially beneficial, any additional administrative costs involved will be considered.

Integration of the Ten Year Capital Plan Budget and debt issues

When reviewing the Ten-Year Capital Plan, Council will consider the need for any long-term financing.

It is the intention of this policy to have the Ten-Year Capital Plan use funding sources other than additional long-term debt to finance major capital expenditures. Incurring debt will only be used as a last resort after reducing the proposed capital plan has been considered. Should any long-term borrowing be required in the Ten-Year Capital Plan, Council will be specifically advised.

Use of debt borrowing proceeds until required for the purpose the debt was issued

Investment interest earned on funds borrowed, until required to offset expenditures, will normally be credited to the New Infrastructure Reserve. Exceptions may be made for large borrowings or where regulations require specific procedures to be followed.

Strategy for financing capital requirements in lieu of issuing debt

- Capital projects with a life expectancy of less than five years will be funded on a pay-as-you-go basis.
- Priority is on the maintenance of existing infrastructure with an overall objective of building up reserves to provide for full funding of future maintenance requirements on existing infrastructure.
- Council's priority is to use existing available funds to finance major capital expenditures in lieu of long-term debt.
- In order to provide a source of available funding for new infrastructure/facilities, the Town shall maintain a New Infrastructure Reserve (NIR). The purpose of the NIR will be to provide as much of the long-term financing required for tax supported major capital projects as possible.

New Infrastructure Reserve

The objective for the NIR will be to provide a source of available funding for new infrastructure or new facility financing. The annual transfer to this reserve will be determined through the annual budget process as approved by Council.

Frequency for review of this Policy

This policy will be subject to an annual review by Senior Management. This will include a review with the Town departments of the adequacy of the reserves. If any changes are deemed necessary, Senior Management will make the appropriate recommendations to Council.

The Director of Finance will comment to Council regarding the Town's compliance with this policy in the Town's budgets. An annual report on year-end reserves will also be submitted to Council by May 15th of the following year.