



**City of  
Lloydminster**

***Policy***

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| <b>Policy Title:</b>         | Debt Management for Capital Expenditures | <b>Policy Number:</b> | 134-07   |
| <b>Date of Adoption:</b>     | December 14, 2020                        | <b>Motion Number:</b> | 389-2020 |
| <b>Date of Amendment:</b>    | August 22, 2022                          | <b>Motion Number:</b> | 316-2022 |
| <b>Sponsoring Department</b> | Finance                                  |                       |          |

**1. Purpose:**

- 1.1. To establish parameters of debt financing for capital expenditures and to maintain long-term viability of the City.
- 1.2. To establish guiding principles and appropriate controls for the issuance and use of new debt and to ensure an acceptable financial position while supporting the City’s long-term capital plan.

**2. Definitions:**

|                                 |  |
|---------------------------------|--|
| <b>Administration</b>           | An employee or contract employee of the City of Lloydminster.  |
| <b>City</b>                     | The corporation of the City of Lloydminster.   |
| <b>LACFA</b>                    | Local Authorities Capital Financing Act is the legislating act providing local authorities with financing for capital expenditures with the Government of Alberta.                       |
| <b>Debenture</b>                | Is a medium to long-term financial instrument that is used to issue debt. Debentures are for a fixed term, established with a payment schedule for principal and interest for that term. |
| <b>Intergenerational Equity</b> | Means the fair and equitable distribution of long-term capital expenditures across the generations that benefit from the underlying assets.  |
| <b>Member of Council</b>        | An individual elected pursuant to <i>The Local Government Election Act</i> (Saskatchewan) as a Member of Council.  |

**3. Scope:**

- 3.1. This policy applies to all Members of Council and Administration.

#### **4. Guiding Principles:**

- 4.1. The City may leverage debt as a financial tool to support the City's long-term financial plan and pursuit of Council's strategic priorities.
- 4.2. The City may leverage lease financing agreements as a financial tool. It is subject to an analysis that assesses the financial cost as well as other risks associated with a proposed lease. Upon completing the analysis proving leasing is a viable option, leasing is not subject to the requirements of this policy.
- 4.3. To maintain a sound debt position, the following shall be adhered to:
  - 4.3.1. The City shall only consider debt to finance the construction, purchase, replacement or major restoration of infrastructure where the capital expenditure value exceeds \$1,000,000 unless otherwise approved by Council.
  - 4.3.2. The capital expenditure shall appear in the approved capital plan or as approved by Council.
  - 4.3.3. With the exception of specialized capital equipment with a useful life more than 10 years such as emergency equipment, the City shall not finance the purchase of machinery and equipment, such as vehicles, through debt.
  - 4.3.4. The term of debt financing shall not exceed the probable lifetime of the capital expenditure.
  - 4.3.5. Cost of debt financing associated with growth related capital expenditures shall be considered in calculations for future development levies where allowed by the *Lloydminster Charter*.

#### **5. Debt Categories**

- 5.1. For purposes of debt planning, management and reporting, debt is categorized into three (3) groups based on the nature of the capital expenditure and the funding source or combination of sources for debt servicing as follows:
  - 5.1.1. Tax supported debt - is issued for capital expenditures where the debt servicing payments shall be repaid from tax-supported revenues such as property taxes, non-utility user fees, rent/lease, sponsorships, fines, licenses, permits and investment income.
  - 5.1.2. Local improvement supported debt - is issued for capital expenditures that benefit specific properties pursuant to an approved local improvement plan. Debt servicing payments shall be repaid from a combination of local improvement tax levies on the benefitting properties and municipal revenue sources where the municipal portion does not exceed 49%.
  - 5.1.3. User fee supported debt - is issued for capital expenditures where debt servicing, or a portion of, shall be repaid from user fees.

## **6. Debt Restrictions**

- 6.1. The City shall further restrict the debt limit of the municipality to seventy-five percent (75%) of the amount established by the Debt Limit Regulation established by the *Municipal Government Act*, unless the capital expenditure is required for one or more of the following purposes:
  - 6.1.1. Legislative or regulatory requirements related to environmental or safety matters; or
  - 6.1.2. Unexpected emergency or disaster, requiring a capital expenditure to replace damaged critical infrastructure.

## **7. Debt Issuance, Terms and Repayment:**

- 7.1. Unless more advantageous interest rates can be obtained elsewhere, the City shall issue debt under LACFA from the Government of Alberta unless otherwise approved by Council.
- 7.2. When establishing debt terms, consideration shall be given to the following factors:
  - 7.2.1. cost minimization;
  - 7.2.2. availability of debt servicing funding;
  - 7.2.3. Intergenerational Equity;
  - 7.2.4. capital life cycle implications;
  - 7.2.5. long-term financial sustainability; and
  - 7.2.6. financial flexibility.
- 7.3. When a Debenture is fully paid and retired, the City shall assess the viability of maintaining equivalent or a percentage of payments into capital reserves.
- 7.4. Debt shall only be repaid before the scheduled repayment date if it appears to be financially beneficial to do so.

## **8. Reporting**

- 8.1. Quarterly, the City shall report the debt limit, existing debt, and debt service limit to Council. Periodically, the City may report on debt related financial ratios which may include: debt to capital; debt to taxable property value; debt service payments as a percentage of tax supported revenue or expenditures, etc.
- 8.2. A multi-year debt guideline, corresponding debt servicing schedule, and funding strategy shall be maintained and consistent with the City's long-term capital plan and various master servicing plans.

## **9. Penalty:**

- 9.1. Any staff member found to be in violation of this Policy may be subjected to a disciplinary action. Such action may be dependent upon the nature of the breach of this policy; discipline may range from a verbal warning to dismissal with cause.
- 9.2. Any Member of Council found to be in violation of this Policy may be dealt with utilizing the "*Code of Conduct Bylaw*" or provisions of "*The Lloydminster Charter*."

## **10. Responsibility:**

- 10.1. City Council shall review and approve all policies.
- 10.2. City Administration shall administer this Policy through the use of a supporting procedure.
- 10.3. Sponsoring Department shall be responsible for creating and amending a supporting procedure.