

POLICY #224C

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Policy Title:	Debt Management
Policy Number:	224C
Approval:	Town Council
Effective Date:	July 14, 2025
Approved Date:	July 14, 2025, Motion 25-221
Supersedes Policy No.:	New

Policy Statement

The Town acknowledges that the use of debt is an essential financial tool to support capital investments. This policy is established to ensure that debt is managed in a manner that balances the Town's infrastructure and capital financing needs with the goal of maintaining long-term fiscal sustainability and avoiding excessive future revenue burdens.

Purpose

To provide a framework for the responsible use of debt to support capital investment in infrastructure and long-term community priorities.

Definitions

Debt: Money borrowed by the Town through loans or other instruments to finance capital expenditures.

Debt Servicing: The total annual costs of a loan, including both the principal (the original amount borrowed) and the interest charges.

Net Operating Fund Revenue: Total revenue in the general operating fund net of requisitions and internal transactions.

Provincially Mandated Debt Limits: The *Municipal Government Act* defines limits to the amount of total debt a municipality can take on and the amount of debt service. The debt limit is calculated at one and a half (1.5) times revenue of the municipality (as defined by Alberta Regulation 255/00) and the debt service limit is calculated at one quarter (0.25) times such revenue.

Self-Imposed Debt Limit: A debt limit adopted by the Town that is more restrictive than the limit established under provincial legislation.

Tax-Supported Debt: Debt that is repaid from general property tax revenues.

Utility-Supported Debt: Debt that is repaid from utility user fees or rate revenue

Non-Tax Supported Debt: Debt repaid from special levies or third-party contributions, such as local improvement or developer levies.

Standards

To maintain a sound debt position, the following standards will be incorporated into long-term plans, capital strategies, and annual budgets.

- Debt financing will only be used for major capital projects.
- The cost of financing vehicles and small equipment will be funded through the tax base and will not be financed with debt.
- Operational needs will not be financed with the use of debt.
- Adherence to the *Municipal Government Act* including debt limitations, bylaw and advertising requirements for the debt and tax requisition obligations for annual debt servicing will be maintained.
- Long term capital planning will guide the use of debt financing.
- Debt terms will not exceed the useful life of the asset being financed.
- Debt will be managed within three distinct categories; tax supported, utility supported, and non-tax supported.

Monitoring and Reporting

- The Finance Department will monitor debt levels regularly and ensure compliance with both statutory and self-imposed limits.
- A debt status report will be presented to Council at least annually. This report will include:
 - Outstanding debt by category
 - Debt servicing costs
 - Compliance with debt limits
 - Trends and forecasts related to future debt needs

Risk Management and Refinancing

- Fixed-rate debt instruments will be preferred to mitigate interest rate volatility.
- The Town will periodically evaluate refinancing or early repayment opportunities when financially beneficial.
- Any refinancing must be approved by Council and supported by a financial analysis.

Self Imposed Debt Limits

Total Debt Outstanding: Shall not exceed 75% of the Provincially Mandated Debt Limit.

Tax-Supported Debt: Annual Debt Servicing will not exceed 10% of net operating fund revenue.

Utility-Supported Debt: Annual Debt Servicing will not exceed 10% of utility revenues generated through the rate structure.

Non-Tax Supported Debt:

- Local Improvement Levy Supported
 - Issued for improvements benefiting specific properties under an approved Local Improvement Plan.
 - Repaid from local improvement levies on benefiting properties, including interest.
- Developer Levy Supported
 - Issued for infrastructure related to new development (e.g., roads, utilities).
 - Repaid from current and future developer contributions, including interest.

Council may by motion, in an emergency situation, exceed the self-imposed debt limit.