



**City of Kingston
Information Report to Council
Report Number 16-105**

To: Mayor and Members of Council
From: Desirée Kennedy, Chief Financial Officer and City Treasurer
Resource Staff: Stephen Dickey, Director of Financial Services
Lana Foulds, Manager of Financial Planning
Date of Meeting: March 22, 2016
Subject: 2016 Municipal Debt Limits

Executive Summary:

The report on Municipal Debt Limits, based on the latest Annual Repayment Limit (ARL) provided by the Ministry of Municipal Affairs and Housing (MMAH), is presented to Council annually. This report provides Council with information with respect to the municipality's existing levels of long-term debt as well as the additional long term borrowings that could be available as per the provincial guidelines. In addition to these guidelines, the City's ability to repay debt as well as future interest rate projections are considered when staff recommendations on debt funding strategies are presented to Council.

Recommendation:

This report is for information purposes only.

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Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF FINANCIAL OFFICER AND CITY TREASURER

**Desirée Kennedy, Chief Financial Officer and
City Treasurer**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Cynthia Beach, Corporate & Strategic Initiatives	Not required
Lanie Hurdle, Community Services	Not required
Denis Leger, Transportation, Facilities & Emergency Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required

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Options/Discussion:**Municipal Debt Limit Calculation**

As outlined by regulation, a municipality's Annual Repayment Limit (ARL), as provided by the Ministry of Municipal Affairs and Housing (MMAH), represents the maximum amount that a municipality has available to commit to additional payments relating to debt and financial obligations. The limit is based on a 25% calculation of annual operating fund revenues excluding certain revenues such as government grants and transfers from reserves and reserve funds. The MMAH determines the municipality's ARL under Ontario Regulation 403/02 of the *Municipal Act, 2001* based on the second previous year's Financial Information Return, as prepared by the municipality and submitted annually to MMAH.

Attached to this report is a copy of the 2016 Annual Repayment Limit, provided by MMAH in February 2016. The 2016 ARL is based on information from the 2014 Financial Information Return. The ARL is then adjusted by the City Treasurer to reflect debt commitments and transactions that have occurred subsequent to December 31, 2014, which ultimately impact the adjusted ARL as of January 1, 2016.

The calculation for the City of Kingston's 2016 ARL effective January 1, 2016, as provided by the MMAH, is as follows:

**A) January 1, 2016 Annual Repayment Limit as provided by the MMAH
(Based on 2014 Financial Information Return)**

2014 Net Revenue Fund Revenues	\$ 365,588,248
25% of Net Revenue Fund Revenues	91,397,062
Less 2014 Net Debt Charges	<u>(23,414,932)</u>
Unadjusted Annual Repayment Limit	\$ 67,982,130

The following calculations reflect the City Treasurer's adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2014. The calculations reflect adjustments for Council-approved long-term debt that has been approved but not yet financed as of January 1, 2016 in the amount of \$279.8 million as well as adjustments for annual debt payments (new and expired) that are not included in the MMAH unadjusted ARL calculation, including payments related to new debt issued in 2014 and 2015.

Assumptions have been made, where required, in calculating adjustments using an effective interest rate of 5% and loan periods of 15 to 25 years. The rate of interest and term is provided for illustration purposes only. The actual rate of interest will fluctuate depending on market conditions and the length of the debenture related to the life expectancy of the assets financed.

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B) Municipal Treasurer’s Adjustments

Unadjusted Annual Repayment Limit – January 1, 2016	\$ 67,982,130
1. Approved in 2015 and prior years but not yet financed as of January 1, 2016 (\$279.8 million @ 5% for 25 years)	(19,852,498)
2. Annual Debt Payments resulting from 2014 Issue of \$2.8 million	(324,444)
3. Annual Debt Payments resulting from 2015 Issue of \$50.6million	(2,929,111)
4. Debt Payments expiring in 2014 and 2015	<u>1,157,129</u>
Total Municipal Treasurer’s Adjustments	<u>(21,948,924)</u>
Adjusted Annual Repayment Limit – January 1, 2016	\$ 46,033,206

The adjusted annual repayment limit as at January 1, 2016 would allow the municipality to undertake additional long-term borrowings as outlined in the table below based on assumptions for anticipated rates of interest over varying terms. These amounts reflect the maximum amount of new debentures that may be issued according to provincial guidelines.

C) Maximum Long-Term Borrowings Available based on Adjusted ARL

Annual Debt Charges	Interest Rate	Term	Debenture Amount
\$46,033,206	5.0%	15 years	\$478 million
\$46,033,206	5.0%	25 years	\$649 million

Long-Term Debt Position and Total Debt Capacity at December 31, 2015

At December 31, 2015, the City has \$313.5 million of issued debt as well as \$279.8 million of debt approved but not yet issued. Additional debt capacity available to the City, based on the adjusted annual debt repayment limit above, is approximately \$478 million to \$649 million (based on a 5% interest rate) resulting in maximum debt capacity available to the City based on provincial guidelines of approximately \$1.0 billion to \$1.2 billion.

Projected Balance of Debt Repayment by Source at December 31, 2015

The table below provides summary information on the approved debt repayment categorized by the nature of the repayment obligations. It should be noted that the balances as presented below also contain the debt commitment of \$128.4 million, approved by Council as part of the 2015 - 2018 multi-year capital budget approvals as well as debt funding in the amount of \$24.3 million approved in the 2016 capital budget.

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Approved Debt Repayment by Source

	Tax Supported (\$M)	Utility Rates (\$M)	User Charges (\$M)	Total (\$M)
Debt issued at Dec 31, 2015	120.1	105.9	87.5	313.5
Debt approved but not yet issued at Dec 31, 2015	110.2	140.5	29.1	279.8
Total approved debt at December 2015	230.3	246.4	116.6	593.3
Estimated Annual Debt Repayments (2016-2018)	(29.4)	(16.3)	(8.9)	(54.6)
Projected balance at Dec 31, 2018	200.9	230.1	107.7	538.7
Percentage by source	37%	43%	20%	100%

Capital Lease Financing Agreements

In accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001* and the City's Capital Leasing Policy, the City Treasurer is required to report annually on material capital lease financing agreements. As at December 31, 2015 and for the purpose of this report the City has no material capital lease financing agreements that would impact the City's borrowing capacity.

Existing Policy/By-Law:

City of Kingston annual budget by-laws

City of Kingston Capital Leasing Policy

O. Reg. 403/02, of the *Municipal Act, 2001*

O. Reg. 653/05, of the *Municipal Act, 2001*

Notice Provisions:

There are no notice requirements under the *Municipal Act, 2001* for this report.

Accessibility Considerations:

This report may be available in alternative formats upon request.

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Financial Considerations:

The debt limits as well as the City's ability to repay are carefully considered when staff recommendations on debt financing are presented to Council. The City continues to utilize strategies that plan and prioritize capital expenditure requirements and that coordinate the timing of approved debt issuance with debt repayments in order to maintain desired debt levels through cash flow management.

Council was presented with long-term debt information as part of the 2016 budget deliberations, including a graph that reflected both the provincial maximum as well as a Council endorsed debt capacity level that was significantly below the provincial ceiling. The 2015 Council endorsed debt capacity level of approximately \$425 million is escalated annually at 2% in line with projected inflation.

At that time, it was reported that the level of debt could marginally exceed recommended parameters between 2019 and 2021 as a result of some significant road and utility projects planned within that time period; however, it was projected that debt levels would fall back below desired levels as early as 2022 and thereafter be below the parameter ceiling. Conservative assumptions have been used in projecting future debt and it is likely that the actual timing of projects will provide the opportunity to reduce debt levels in order to remain closer to the desired level.

Contacts:

Stephen Dickey, Director of Financial Services, Extension 2370

Lana Foulds, Manager of Financial Planning, Extension 2209

Other City of Kingston Staff Consulted:

No other City of Kingston staff were consulted.

Exhibits Attached:

Exhibit A: Ministry of Municipal Affairs & Housing Annual Repayment Limit Report

2016 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	46102	FIR CLEAN FLAG:	C
MUNID:	10005		
MUNICIPALITY:	Kingston C		
UPPER TIER:	N/A		
REPAYMENT LIMIT:		\$	67,982,130

The repayment limit has been calculated based on data contained in the 2014 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2014 to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. The limit is effective January 01, 2016.

FOR ILLUSTRATION PURPOSES ONLY,

The additional long-term borrowing which a municipality could undertake over a 5-year, a 10-year, a 15-year and a 20-year period is shown.

If the municipalities could borrow at 5% or 7% annually, the annual repayment limits shown above would allow it to undertake additional long-term borrowing as follows:

5% Interest Rate			
	(a)	20 years @ 5% p.a.	\$ 847,207,604
	(a)	15 years @ 5% p.a.	\$ 705,631,262
	(a)	10 years @ 5% p.a.	\$ 524,939,988
	(a)	5 years @ 5% p.a.	\$ 294,327,046
7% Interest Rate			
	(a)	20 years @ 7% p.a.	\$ 720,203,654
	(a)	15 years @ 7% p.a.	\$ 619,175,394
	(a)	10 years @ 7% p.a.	\$ 477,478,033
	(a)	5 years @ 7% p.a.	\$ 278,740,155

DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

Kingston C

MMAH CODE:

46102

Debt Charges for the Current Year

		1 \$
0210	Principal (SLC 74 3099 01)	11,061,309
0220	Interest (SLC 74 3099 02).	12,380,538
0299	Subtotal	23,441,847
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	23,441,847

Amounts Recovered from Unconsolidated Entities

		1 \$
1010	Electricity - Principal (SLC 74 3030 01)	0
1020	Electricity - Interest (SLC 74 3030 02)	0
1030	Gas - Principal (SLC 74 3040 01)	0
1040	Gas - Interest (SLC 74 3040 02)	0
1050	Telephone - Principal (SLC 74 3050 01)	0
1060	Telephone - Interest (SLC 74 3050 02)	0
1099	Subtotal	0
1410	Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02)	26,915
1411	Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02).	0
1412	Lump sum (balloon) repayments of long term debt (SLC 74 3110 01 + SLC 74 3110 02).	0
1420	Total Debt Charges to be Excluded	26,915
9920	Net Debt Charges	23,414,932

Excluded Revenue Amounts

		1 \$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01).	455,508,418
2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04)	0
2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC10 0815 01)	60,910,644
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	3,733,367
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	2,030,575
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	6,135,340
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	3,757,786
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	-3,243,887
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	3,949,703
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	11,511,382
2253	Other Deferred revenue earned (SLC 10 1814 01)	1,135,260
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	0
2299	Subtotal	89,920,170
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	365,588,248
2620	25% of Net Revenues	91,397,062
9930	ESTIMATED ANNUAL REPAYMENT LIMIT (25% of Net Revenues less Net Debt Charges)	67,982,130

* SLC denotes Schedule, Line Column.