



**City of Kingston
Information Report to Council
Report Number 18-094**

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: April 17, 2018
Subject: 2018 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 (MMA), 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.

April 17, 2018

Page 2 of 7

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:

Lanie Hurdle, Commissioner, Community Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required
Denis Leger, Commissioner, Corporate & Emergency Services	Not required

April 17, 2018

Page 3 of 7

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 (MMA), 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 MMA 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 MMA.

Attached to this report as Exhibit A is a copy of the 2018 Annual Repayment Limit, provided by the MMA in February 2018. The 2018 ARL is based on information from the 2016 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, 2016, which ultimately impact the adjusted ARL as of January 1, 2018.

The calculation for the City of Kingston's 2018 ARL effective January 1, 2018, as provided by the MMA, is as follows:

**A) January 1, 2018 Annual Repayment Limit as provided by the MMA
(Based on 2016 Financial Information Return)**

2016 Net Revenue Fund Revenues	\$ 374,938,257
25% of Net Revenue Fund Revenues	93,734,564
Less 2016 Net Debt Charges	<u>(25,945,321)</u>
Unadjusted Annual Repayment Limit	\$ 67,789,243

The following calculations reflect the City Treasurer's adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2016. The calculations reflect adjustments for Council-approved long-term debt that has been approved but not yet financed as of January 1, 2018 in the amount of \$211.7 million as well as adjustments for annual debt payments (new and expired) that are not included in the MMA unadjusted ARL calculation, including payments related to new debt issued in 2017.

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.

April 17, 2018

Page 4 of 7

B) City Treasurer’s Adjustments

Unadjusted Annual Repayment Limit – January 1, 2018	\$ 67,789,243
Annual debt payments on debt approved in 2017 and prior years but not yet issued as of January 1, 2018 (\$211.7 million @ 5% for 25 years)	(15,018,507)
Annual debt payments resulting from 2017 Issue of \$87.6 million	<u>(5,285,251)</u>
Total City Treasurer’s Adjustments	<u>(20,303,758)</u>
Adjusted Annual Repayment Limit – January 1, 2018	\$ 47,485,485

The adjusted ARL as at January 1, 2018 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
\$47,485,485	5.0%	15 years	\$493 million
\$47,485,485	5.0%	25 years	\$669 million

Long-Term Debt Position and Total Debt Capacity at December 31, 2017

At December 31, 2017, the City has \$375.7 million of issued debt as well as \$211.7 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 \$493 million to \$669 million (based on a 5% interest rate) resulting in maximum debt capacity available to the City based on provincial guidelines of approximately \$1.1 billion to \$1.3 billion.

Total Approved Debt by Source at December 31, 2017

The table below provides summary information on the total approved debt, both issued and not yet issued, categorized by the nature of the repayment obligations. It should be noted that the balances as presented below contain the total 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 \$7.0 million approved in 2017 for 2018 capital projects.

April 17, 2018

Page 5 of 7

Total Approved Debt by Source

Debt	Tax Supported (\$M)	Utility Rates (\$M)	User Charges (\$M)	Total (\$M)
Debt issued at December 31, 2017	140.3	141.9	93.5	375.7
Debt approved but not issued at December 31, 2017 (projected to be issued 2018 - 2021)	84.8	99.2	27.7	211.7
Total approved debt at December 31, 2017	225.1	241.1	121.2	587.4
Percentage by source	38%	41%	21%	100%

Projected Debt Balances

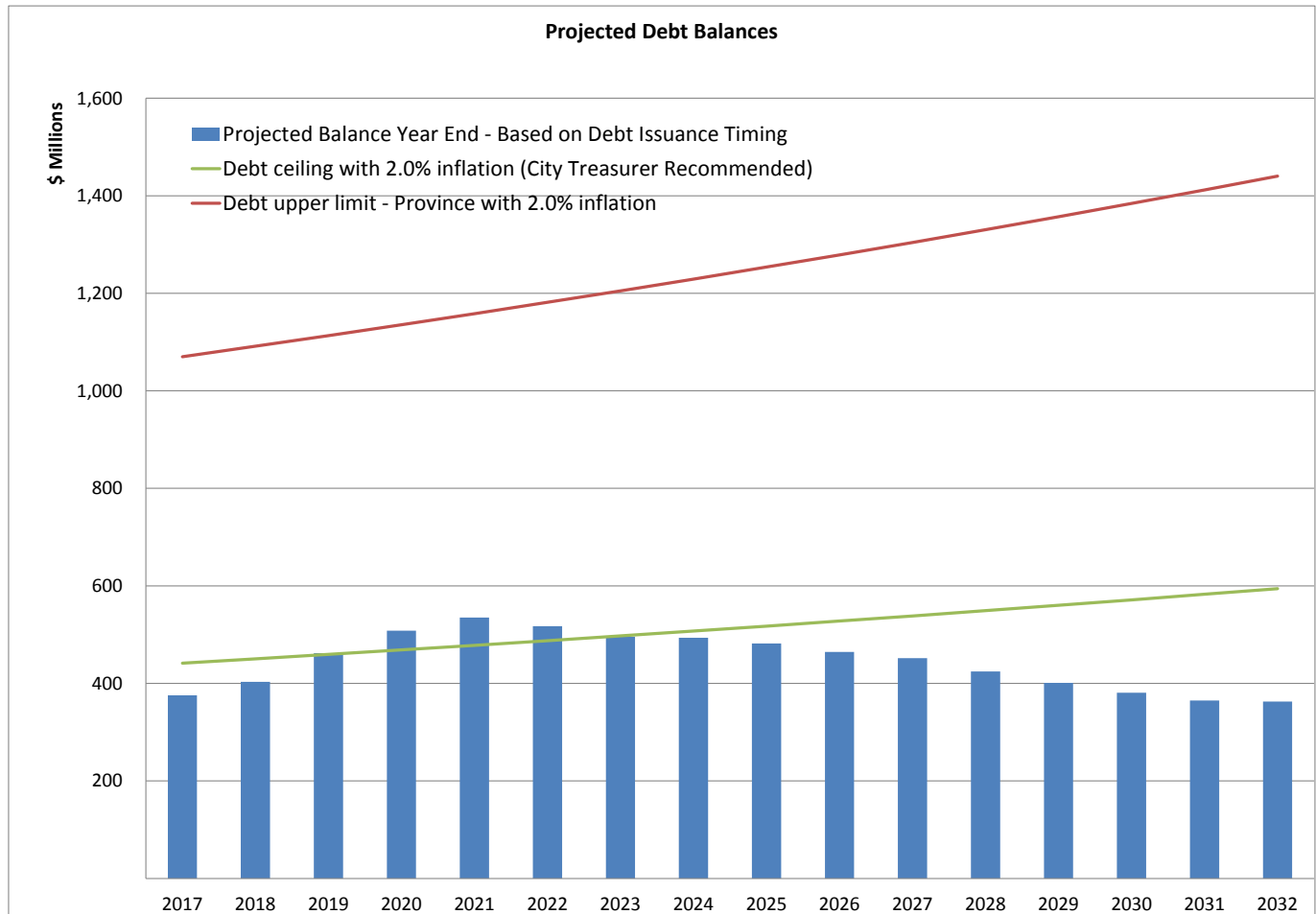
The graph below, provided during the 2018 budget deliberations, projects debt balances by year and reflects updated assumptions for the expected timing of debt issuance as well as estimated annual principal repayments.

The vertical bars in the following table depict the level of debt over time based on the cash flow analysis of the approved and future planned debt financing for the capital expenditure requirements over the 15 year projection period as well as projected annual principal repayments. The graph includes a line that reflects the provincial ceiling indexed at the rate of 2% to which the City could borrow and be within its debt capacity level. However, Council has endorsed the City Treasurer's recommendation to remain substantially below the provincial ceiling using a maximum capacity level in 2018 of approximately \$450 million, escalated at 2% for future years in line with projected inflation. The projected debt balances reflect ongoing debt management strategies that include coordination of the timing of debt issuance and principal repayments in order to stay within desired parameters.

The graph illustrates that the level of debt could marginally exceed recommended parameters between 2020 through to 2022 as a result of some significant road and utility project funding projected within that time period. 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.

April 17, 2018

Page 6 of 7



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, 2017 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

Ontario Regulation 403/02 made pursuant to the *Municipal Act, 2001*, S.O. 2001, C. 25, as amended

Ontario Regulation 653/05 made pursuant to the *Municipal Act, 2001*, S.O. 2001, C. 25, as amended

April 17, 2018

Page 7 of 7

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.

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.

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 consulted.

Exhibits Attached:

Exhibit A: Ministry of Municipal Affairs 2018 Annual Repayment Limit

2018 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	46102	FIR CLEAN FLAG:	Updated Under Review
MUNID:	10005		
MUNICIPALITY:	Kingston C		
UPPER TIER:			
REPAYMENT LIMIT:		\$	67,789,243

The repayment limit has been calculated based on data contained in the 2016 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2016 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, 2018

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.	\$ 844,803,808
	(a)	15 years @ 5% p.a.	\$ 703,629,164
	(a)	10 years @ 5% p.a.	\$ 523,450,567
	(a)	5 years @ 5% p.a.	\$ 293,491,947
7% Interest Rate			
	(a)	20 years @ 7% p.a.	\$ 718,160,209
	(a)	15 years @ 7% p.a.	\$ 617,418,598
	(a)	10 years @ 7% p.a.	\$ 476,123,278
	(a)	5 years @ 7% p.a.	\$ 277,949,281

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)	12,887,905
0220	Interest (SLC 74 3099 02)	13,073,815
0299	Subtotal	25,961,720
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	25,961,720

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)	16,399
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	16,399
9920	Net Debt Charges	25,945,321

Excluded Revenue Amounts

		1 \$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01)	480,363,783
2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04)	8,239
2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC 10 0815 01)	71,495,884
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	3,672,283
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	0
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	11,703,188
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	5,155,664
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	-2,621,235
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	7,455,842
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	6,261,392
2253	Other Deferred revenue earned (SLC 10 1814 01)	611,393
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	1,682,876
2299	Subtotal	105,417,287
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	374,938,257
2620	25% of Net Revenues	93,734,564
9930	ESTIMATED ANNUAL REPAYMENT LIMIT (25% of Net Revenues less Net Debt Charges)	67,789,243

* SLC denotes Schedule, Line Column.