



CITY OF KINGSTON
INFORMATION REPORT TO COUNCIL

Report No.: 12-110

TO: Mayor & Members of Council
FROM: Desirée Kennedy, City Treasurer
RESOURCE STAFF: Lana Foulds, Manager of Financial Planning
DATE OF MEETING: April 17, 2012
SUBJECT: 2012 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.

RECOMMENDATION:

This report is for information purposes only.

AUTHORIZING SIGNATURES:

ORIGINAL SIGNED BY DIRECTOR OF FINANCIAL SERVICES
Desirée Kennedy, City Treasurer

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER
Gerard Hunt, Chief Administrative Officer

CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

Cynthia Beach, <i>Sustainability & Growth</i>	N/R
Lanie Hurdle, <i>Community Services</i>	N/R
Denis Leger, <i>Transportation, Properties & Emergency Services</i>	N/R
Jim Keech, <i>President and CEO, Utilities Kingston</i>	N/R

(N/R indicates consultation not required)

OPTIONS/DISCUSSION:

Municipal Debt Limit Calculation

Attached to this report is a copy of the 2012 Annual Repayment Limit (ARL), which was provided by the Ministry of Municipal Affairs and Housing (MMAH) on March 5, 2012. This limit represents the maximum amount that the municipality had available as of December 31, 2010 to commit to additional payments relating to debt and financial obligations. As outlined by regulation, a municipality’s ARL is based on a 25% calculation of annual revenue 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 (FIR). The 2012 ARL is based on information from the 2010 FIR as prepared by the municipality. The ARL is then adjusted by the Treasurer to reflect debt commitments and transactions that have occurred subsequent to December 31, 2010, which ultimately impact the adjusted ARL as of January 1, 2012.

The calculation for the City of Kingston’s 2012 ARL effective January 1, 2012, as provided by the MMAH, is as follows:

A) Annual Repayment Limit as provided by the MMAH (Based on 2010 FIR)	
2010 Net Revenue Fund Revenues	\$ 317,046,373
25% of Net Revenue Fund Revenues	79,261,593
Less 2010 Net Debt Charges	(19,676,422)
Unadjusted ARL – January 1, 2012	\$ 59,585,171

The following table reflects the Treasurer’s adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2010. The table reflects adjustments for Council-approved long-term debt that has been approved but not yet financed as of January 1, 2012 in the amount of \$219.4M as well 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 2010 and 2011.

Assumptions have been made, where required, in calculating adjustments using an effective interest rate of 5.5% 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.

B) Municipal Treasurer's Adjustments	
Unadjusted Annual Repayment Limit – January 1, 2012	\$ 59,585,171
1. Approved in 2011 and prior years but not yet financed as of January 1, 2012 Municipal debentures \$219.4M @ 5.5% for 25 years	(16,356,128)
2. Annual Debt Payments resulting from 2010 Issue of \$38.5M	(2,505,419)
3. Annual Debt Payments resulting from 2011 Issue of \$9.5M	(721,220)
4. Debt payments expiring in 2011	664,343
Total Municipal Treasurer's Adjustments	(18,918,424)
Adjusted Annual Repayment Limit – January 1, 2012	\$ 40,666,747

The adjusted annual repayment limit as at January 1, 2012 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
\$ 40,666,747	5.50%	15 Years	\$ 408M
\$ 40,666,747	5.50%	25 Years	\$ 546M

Long-Term Debt Position and Total Debt Capacity at December 31, 2011

At December 31, 2011, the city has \$217.6M of issued debt as well as \$219.4M 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 \$408M to \$546M (5.5% rate) resulting in a total debt capacity available to the city based on provincial guidelines of \$845M to \$983M.

Projected Balance of Debt Repayment by Source at December 31, 2014

The table below provides summary information on the approved debt repayment categorized by the nature of the repayment obligations. Because multi-year capital budget approvals have included debt financing up to and including 2014, the table provides information on debt payments and projected debt balances to December 31, 2014. Therefore, it should be noted that the balances as presented contain total debt approval of \$60.8M which was approved by Council in 2011 as part of the 2011 - 2014 capital budget approvals as well as \$11.9M which

was approved by Council in 2011 as part of the 2012 capital budget approvals. The table also incorporates the estimated principal repayments over the same three year period to December 31, 2014, which, at a minimum, is calculated to be approximately \$39M.

Approved Debt Repayment By Source				
	Tax Supported (\$M)	Utility Rates (\$M)	User Charges (\$M)	Total (\$M)
Debt issued at Dec 31, 2011	96.3	74.6	46.7	217.6
Debt approved but not yet issued	121.2	63.3	34.9	219.4
Total approved debt at April 2012	217.5	137.9	81.6	437.0
Estimated Annual Debt Repayments (2012-2014)	(23.5)	(11.1)	(4.7)	(39.3)
Projected balance at Dec 31, 2014	194.0	126.8	76.9	397.7
Percentage by source	49%	32%	19%	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 Treasurer is required to report annually on material capital lease financing agreements. As at December 31, 2011 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:

There are no accessibility considerations.

FINANCIAL CONSIDERATIONS:

The debt limits and the city's ability to repay are carefully considered when staff recommendations on debt financing are presented to Council. Council received information as part of the 2012 capital budget on the long term financial strategies of the city. These strategies continue to target debt level ceilings in the \$400M range with a view of moving more aggressively to a pay-as-you-go approach for capital funding requirements. The uncertainty of

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future interest rates and the corporation's ability to fund debt principal and interest payments are considerations in determining optimum levels of debt issuance. Strategies that coordinate the timing of approved debt issuance with debt repayments will continue to be important in maintaining the desired debt levels. The continuation of the one percent incremental tax policy for capital purposes and appropriate allocation of other revenue sources for asset management and rehabilitation purposes are also important elements of the city's long-term financial strategies.

CONTACTS:

Stephen Dickey, Deputy Treasurer

Extension 2370

Lana Foulds, Manager of Financial Planning

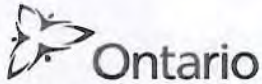
Extension 2209

OTHER CITY OF KINGSTON STAFF CONSULTED:

No other City of Kingston staff have been consulted.

EXHIBITS ATTACHED:

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



Ministry of Municipal Affairs and Housing
777 Bay Street,
Toronto, Ontario M5G 2E5

Ministère des affaires municipales et du logement
777 rue Bay,
Toronto (Ontario) M5G 2E5

2012 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:		\$	59,585,171

The repayment limit has been calculated based on data contained in the 2010 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2010 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, 2012.

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 show.

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.	\$	742,562,937
(a)	15 years @ 5% p.a.	\$	618,473,702
(a)	10 years @ 5% p.a.	\$	460,100,898
(a)	5 years @ 5% p.a.	\$	257,972,609
7% Interest Rate			
(a)	20 years @ 7% p.a.	\$	631,246,153
(a)	15 years @ 7% p.a.	\$	542,696,616
(a)	10 years @ 7% p.a.	\$	418,501,309
(a)	5 years @ 7% p.a.	\$	244,310,966

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),	10,072,032
0220	Interest (SLC 74 3099 02),	9,604,390
0299	Subtotal	19,676,422

Ontario Clean Water Agency Provincial Projects

0410	Water projects - For this Municipality only (SLC 74 2810 03),	0
0420	Water projects - Share of integrated project(s) (SLC 74 2820 03),	0
0430	Wastewater projects - For this Municipality only (SLC 74 2830 03),	0
0440	Wastewater projects - Share of integrated project(s) (SLC 74 2840 03),	0
0499	Subtotal	0

0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
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0810	Debt Charges for Lease Purchase Agreements (Tangible Capital Leases) (SLC 74 3140 03)	0
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9910	Total Debt Charges	19,676,422
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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)	0
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1411	Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02),	0
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1420	Total Debt Charges to be Excluded	0
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9920	Net Debt Charges	19,676,422
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		1 \$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01),	424,849,336

Excluded Revenue Amounts

2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04)	0
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Grants from Government of Ontario, Canada and Other Municipalities

2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC 10 0815 01)	73,829,303
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	18,404,230
2230	Revenue from other municipalities (SLC 10 1099 01)	4,135,004
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	1,147,771
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	3,316,798
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	97,500
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	6,872,357
2299	Subtotal	107,802,963

2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
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2610	Net Revenues	317,046,373
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2620	25% of Net Revenues	79,261,593
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9930	ESTIMATED ANNUAL REPAYMENT LIMIT (25% of Net Revenues less Net Debt Charges)	59,585,171
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* SLC denotes Schedule, Line Column.