



**City of Kingston
Information Report to Council
Report Number 19-098**

To:	Mayor and Members of Council
From:	Desirée Kennedy, Chief Financial Officer and City Treasurer
Resource Staff:	Lana Foulds, Manager of Financial Planning
Date of Meeting:	April 16, 2019
Subject:	2019 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.

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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

**Lanie Hurdle, Acting Chief Administrative
Officer**

Consultation with the following Members of the Corporate Management Team:

Peter Huigenbos, Acting Commissioner, Community Services	Not required
Jim Keech, President & CEO, Utilities Kingston	Not required
Gary Dyke, Commissioner, Corporate & Emergency Services	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 (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 2019 Annual Repayment Limit, provided by the MMA in March 2019. The 2019 ARL is based on information from the 2017 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, 2017, which ultimately impact the adjusted ARL as of January 1, 2019.

The calculation for the City of Kingston's 2019 ARL effective January 1, 2019, as provided by the MMA, is as follows:

**A) January 1, 2019 Annual Repayment Limit as provided by the MMA
(Based on 2017 Financial Information Return)**

2017 Net Revenue Fund Revenues	<u>\$ 395,205,166</u>
25% of Net Revenue Fund Revenues	98,801,292
Less 2017 Net Debt Charges	<u>(25,746,117)</u>
Unadjusted Annual Repayment Limit	<u>\$ 73,055,175</u>

The following calculations reflect the City Treasurer's adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2017. The calculations reflect adjustments for Council-approved long-term debt that has been approved but not yet financed as of January 1, 2019 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 the last half of 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 corresponding assets.

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B) City Treasurer’s Adjustments

Unadjusted Annual Repayment Limit – January 1, 2019	\$ 73,055,175
Annual debt payments on debt approved in 2018 and prior years but not yet issued as of January 1, 2019 (\$193.6 million @ 5% for 25 years)	(13,736,396)
Annual debt payments resulting from 2017 Issue of \$87.6 million	(5,285,251)
Debt Payments expiring in 2017 and 2018	<u>1,226,561</u>
Total City Treasurer’s Adjustments	<u>(17,795,086)</u>
Adjusted Annual Repayment Limit – January 1, 2019	<u>\$ 55,260,089</u>

The adjusted ARL as at January 1, 2019 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
\$55,260,089	5.0%	15 years	\$574 million
\$55,260,089	5.0%	25 years	\$779 million

Maximum Debt Capacity at December 31, 2018

At December 31, 2018, the City has an outstanding long term debt balance of \$360.3 million. After taking into consideration debt that has been approved but not yet issued of \$193.6 million, additional debt capacity available to the City, based on the adjusted annual debt repayment limit above, is approximately \$574 million to \$779 million (based on a 5% interest rate). This results in a maximum debt capacity available to the City based on provincial guidelines of approximately \$1.1 billion to \$1.3 billion.

Total Outstanding Debt by Source at December 31, 2018

The table below provides summary information on the total outstanding debt categorized by the nature of the repayment obligations.

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Repayment source	Outstanding Debt at December 31, 2018 (\$M)	Repayment Source (%)
Tax Supported	\$ 132.0	37%
Utility Rates	137.4	38%
User Charges	90.9	25%
Total Debt Issued at December 31, 2018	\$ 360.3	100%

Projected Debt Balances

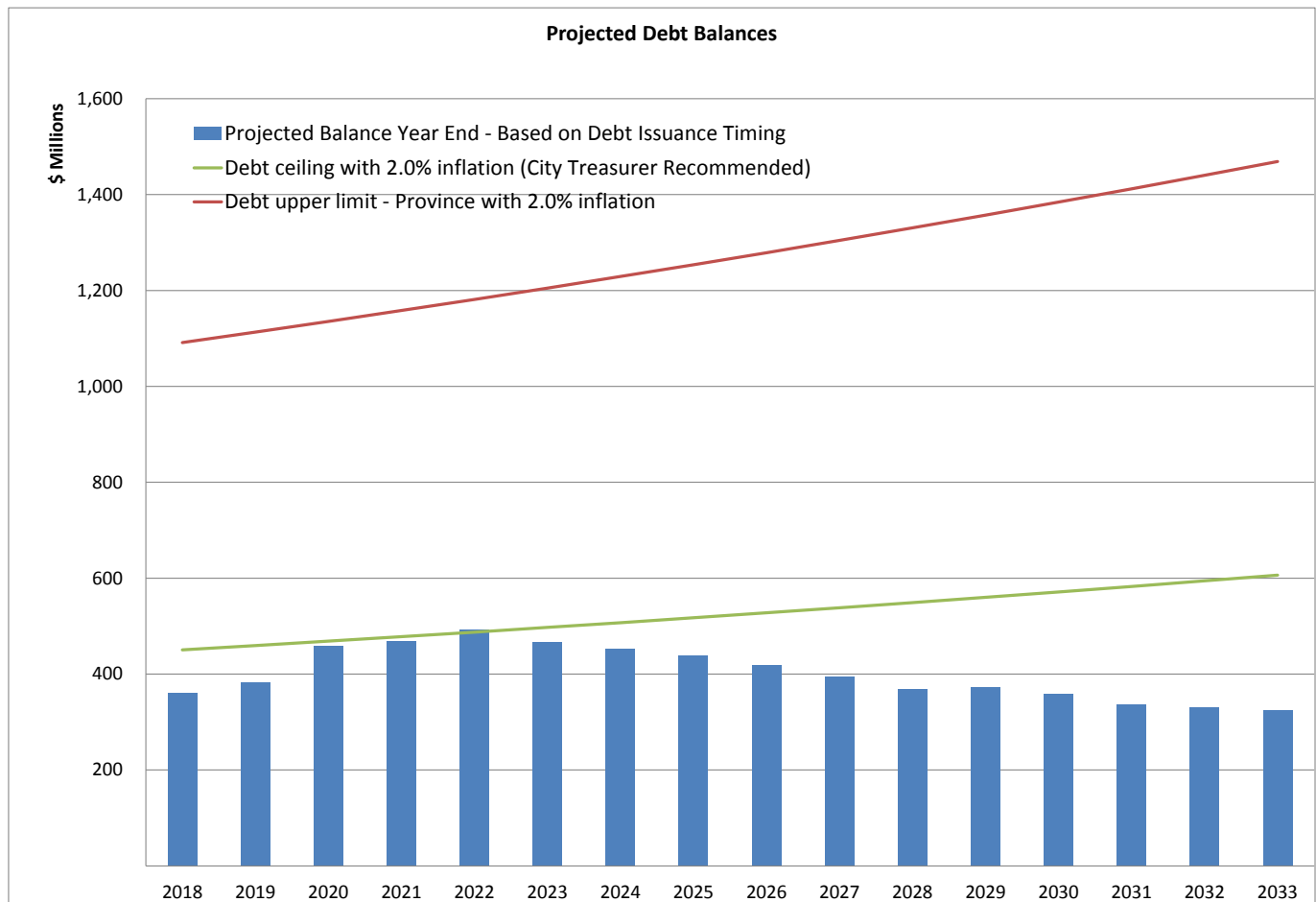
Cash flow and appropriate cost recovery structures are considerations in determining the use of debt as a capital funding source. As part of the long-term capital funding strategies, the incremental 1% capital levy has allowed the City the opportunity to move towards a debt strategy that limits the use of debt funding to large replacement and growth related projects. It is important to note that the 2019 approved capital budget represented primarily ongoing asset management requirements and as a result, there was no new debt requested as part of the 2019 capital funding recommendations.

The graph below, provided during the 2019 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 still 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 2019 of approximately \$460 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 in 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.

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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, 2018 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

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Notice Provisions:

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

Accessibility Considerations:

Exhibit A to 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:

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 2019 Annual Repayment Limit

2019 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	46102		
MUNID:	10005		
MUNICIPALITY:	Kingston C		
UPPER TIER:			
REPAYMENT LIMIT:		\$	73,055,175

The repayment limit has been calculated based on data contained in the 2017 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2017 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, 2019

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.	\$ 910,428,951
	(a)	15 years @ 5% p.a.	\$ 758,287,729
	(a)	10 years @ 5% p.a.	\$ 564,112,693
	(a)	5 years @ 5% p.a.	\$ 316,290,674
7% Interest Rate			
	(a)	20 years @ 7% p.a.	\$ 773,947,559
	(a)	15 years @ 7% p.a.	\$ 665,380,247
	(a)	10 years @ 7% p.a.	\$ 513,108,975
	(a)	5 years @ 7% p.a.	\$ 299,540,639

DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

Kingston C

MMAH CODE:

46102

		1
		\$
Debt Charges for the Current Year		
0210	Principal (SLC 74 3099 01)	12,352,265
0220	Interest (SLC 74 3099 02)	13,413,145
0299	Subtotal	25,765,410
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	25,765,410

		1
		\$
Amounts Recovered from Unconsolidated Entities		
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)	19,293
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	19,293
9920	Net Debt Charges	25,746,117

		1
		\$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01)	513,659,075
Excluded Revenue Amounts		
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)	76,776,229
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	7,809,378
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	2,571,761
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	7,057,021
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	4,869,434
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	2,932,556
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	5,858,237
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	964,141
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	8,058,859
2253	Other Deferred revenue earned (SLC 10 1814 01)	33,401
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	1,522,892
2299	Subtotal	118,453,909
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	395,205,166
2620	25% of Net Revenues	98,801,292
9930	ESTIMATED ANNUAL REPAYMENT LIMIT (25% of Net Revenues less Net Debt Charges)	73,055,175

* SLC denotes Schedule, Line Column.