



**City of Kingston
Information Report to Council
Report Number 21-104**

To: Mayor and Members of Council
From: Desiree Kennedy, Chief Financial Officer & City Treasurer
Resource Staff: Lana Foulds, Director, Financial Services
Scarlet Eyles, Manager of Financial Planning
Date of Meeting: April 20, 2021
Subject: 2021 Municipal Debt Limits

Council Strategic Plan Alignment:

Theme: Financial measures/budget

Goal: See above

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. The ARL provides for annual debt charges that are no more than 25% of net revenue fund revenues. The City's 2020 annual debt service costs as a proportion of net revenue fund revenues were approximately 7.3%.

The City's ARL as well as the City's ability to repay debt are carefully considered when staff present recommendations on debt financing 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.

Recommendation:

This report is for information only.

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Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF FINANCIAL
OFFICER & CITY TREASURER

**Desiree Kennedy, Chief
Financial Officer & City
Treasurer**

ORIGINAL SIGNED BY CHIEF
ADMINISTRATIVE OFFICER

**Lanie Hurdle, Chief
Administrative Officer**

Consultation with the following Members of the Corporate Management Team:

Paige Agnew, Commissioner, Community Services	Not required
Peter Huigenbos, Commissioner, Business, Environment & Projects	Not required
Brad Joyce, Commissioner, Corporate Services	Not required
Jim Keech, President & CEO, Utilities Kingston	Not required
Sheila Kidd, Commissioner, Transportation & Public Works	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 as Exhibit A is a copy of the 2021 Annual Repayment Limit, provided by the MMAH in February 2021. The 2021 ARL is based on information from the 2019 Financial Information Return. The ARL is then adjusted by the City Treasurer to reflect debt commitments and transactions that have occurred after December 31, 2019, which ultimately impact the adjusted ARL as of January 1, 2021.

The calculation for the City of Kingston's 2021 ARL effective January 1, 2021, as provided by the MMAH, is as follows:

**A) January 1, 2021 Annual Repayment Limit as provided by the MMAH
(Based on 2019 Financial Information Return)**

2019 Net Revenue Fund Revenues	<u>\$ 418,060,160</u>
25% of Net Revenue Fund Revenues	104,515,040
Less 2019 Debt Charges (Principal and Interest)	<u>(30,385,519)</u>
Unadjusted Annual Repayment Limit	<u>\$ 74,129,521</u>

The following calculations reflect the City Treasurer's adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2019. The calculations reflect adjustments for Council approved long-term debt that has been approved but not yet financed as of January 1, 2021 as well as adjustments for annual debt payments (new and expired) that are not included in the MMAH unadjusted ARL calculation.

Assumptions have been made, where required, in calculating adjustments using an effective interest rate of 5% and loan periods of 15 to 25 years. While the City's current borrowing rates are currently in the range of 2% to 3%, the rate of interest and debt terms used for calculating the adjustments reflect the assumptions utilized within the ARL and are 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, 2021	\$ 74,129,52
Annual debt payments resulting from 2020 issue of \$53.2M	(2,660,334)
Annual debt payments on debt approved in 2020 and prior years but not yet issued as of January 1, 2021 (\$136.2 million @ 5% for 25 years)	<u>(9,662,469)</u>
Adjusted Annual Repayment Limit – January 1, 2021	<u>\$ 61,806,718</u>

The adjusted ARL as at January 1, 2021 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 additional debentures that could be issued according to provincial guidelines.

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

Annual Debt Charges	Interest Rate	Term	Additional Debt Capacity
\$61,806,718	5.0%	15 years	\$642 million
\$61,806,718	5.0%	25 years	\$871 million

Maximum Debt Capacity at December 31, 2020

At December 31, 2020, the City has an outstanding long term debt balance of \$383.8 million. After taking into consideration debt that has been approved but not yet issued of \$136.2 million, additional debt capacity available to the City, based on the adjusted annual debt repayment limit above, is approximately \$642 million to \$871 million (based on a 5% interest rate). This results in a maximum debt capacity available to the City based on provincial guidelines of approximately \$1.2 billion to \$1.4 billion.

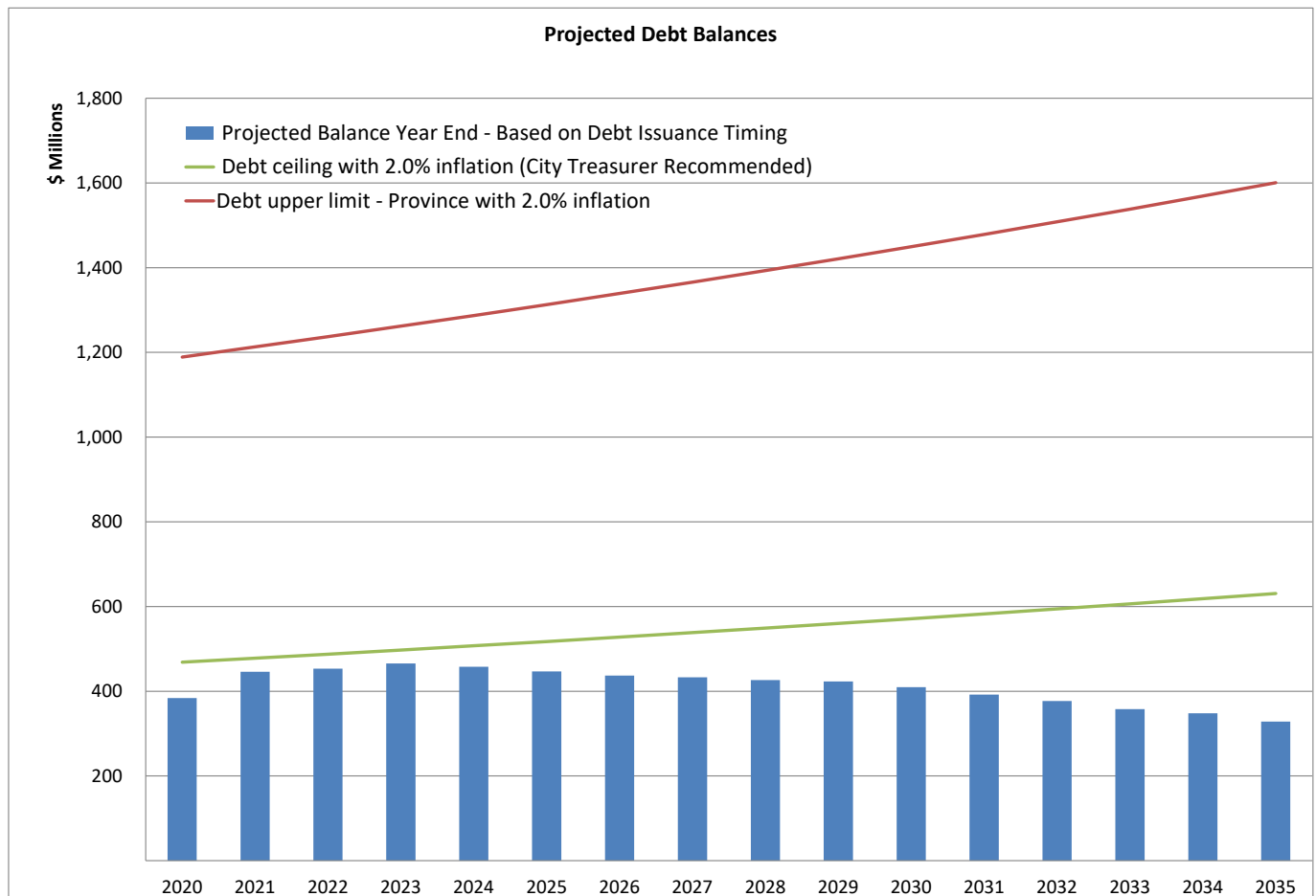
Projected Debt Balances

The graph below, provided during the 2021 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 approved debt to be issued over the next three to four years as large scale projects are completed, future planned debt financing for the capital expenditure requirements over the 15 year projection period and projected annual principal repayments.

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The graph includes a line that reflects the provincial ceiling based on the adjusted ARL discussed above. This ceiling is indexed at the rate of 2% and represents the maximum that the City could borrow and still be within its debt capacity level as prescribed by the Province. Council has endorsed a debt strategy that provides for the balance of outstanding debt to remain substantially below the provincial ceiling with a maximum capacity level in 2021 of approximately \$478 million, escalated at 2% annually in line with projected inflation. The graph illustrates that the level of debt does not exceed recommended parameters. Conservative assumptions have been used in projecting future debt and it is likely that the actual timing of projects will provide further opportunity to reduce debt levels.



Debt Management Strategies

The debt balances projected in the graph above reflect ongoing debt management strategies that include coordination of the timing of debt issuance and principal repayments in order to stay within desired parameters.

As part of the long-term capital funding strategies, the incremental 1% capital levy continues to allow the City the opportunity to move closer towards a debt strategy that limits the use of debt

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funding to large replacement and growth-related projects. The 2021 approved capital budget did not contemplate adding any new debt over the remaining term of Council.

Projected Balance of Approved Debt Repayment by Source at December 31, 2020

The table below provides summary information on the total long-term debt issued and outstanding (\$383.8M) as well as the total long-term debt approved by Council but not yet issued (\$136.2M) at December 31, 2020 categorized by the nature of the repayment obligations.

Approved Debt	Tax Supported (\$M)	User Charges (\$M)	Utility Rates (\$M)	Total (\$M)
Debt issued at Dec 31, 2020	156.2	101.0	126.6	383.8
Debt approved but not yet issued, Dec 31, 2020	40.0	18.2	78.0	136.2
Total approved debt at Dec 31, 2020	196.2	119.2	204.6	520.0
Percentage by source	37.7%	22.9%	39.4%	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, 2020 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

Notice Provisions:

None

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Accessibility Considerations:

The City's [Accessibility Standards Policy](#) indicates that the City of Kingston shall, upon request, and in consultation with the person making the request, provide or make arrangements to provide accessible formats and communication supports for persons with disabilities.

Exhibit A to this report has been provided by a third party and cannot be altered; we will provide the exhibit in an alternate format upon request.

Financial Considerations:

Staff recommendations with respect to debt funding strategies are presented to Council with consideration for the Annual Repayment Limit as well as other indicators including the City's ability to repay debt and future interest rate projections.

Contacts:

Lana Foulds, Director, Financial Services, 613-546-4291 extension 2209

Scarlet Eyles, Manager, Financial Planning, 613-546-4291 extension 2262

Other City of Kingston Staff Consulted:

None

Exhibits Attached:

Exhibit A - Ministry of Municipal Affairs 2021 Annual Repayment Limit



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

2021 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	46102	
MUNID:	10005	
MUNICIPALITY:	Kingston C	
UPPER TIER:		
REPAYMENT LIMIT:		\$ 74,129,521

The repayment limit has been calculated based on data contained in the 2019 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2019 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, 2021

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.	\$ 923,817,683
(a)	15 years @ 5% p.a.	\$ 769,439,079
(a)	10 years @ 5% p.a.	\$ 572,408,512
(a)	5 years @ 5% p.a.	\$ 320,942,032
7% Interest Rate		
(a)	20 years @ 7% p.a.	\$ 785,329,201
(a)	15 years @ 7% p.a.	\$ 675,165,303
(a)	10 years @ 7% p.a.	\$ 520,654,735
(a)	5 years @ 7% p.a.	\$ 303,945,672

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)	15,058,971
0220	Interest (SLC 74 3099 02)	15,337,486
0299	Subtotal	30,396,457
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	30,396,457

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)	10,938
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	10,938
9920	Net Debt Charges	30,385,519

		1
		\$
1610	Total Revenue (SLC 10 9910 01)	577,238,759
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)	91,515,159
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	10,071,533
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	3,102,165
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	9,741,784
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	5,019,101
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	-1,640,512
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	16,029,499
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	50,000
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	20,107,027
2253	Other Deferred revenue earned (SLC 10 1814 01)	-622,986
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	1,741,149
2255	Other Revenue (SLC 10 1890 01 + SLC 10 1891 01 + SLC 10 1892 01 + SLC 10 1893 01 + SLC 10 1894 01 + SLC 10 1895 01 + SLC 10 1896 01 + SLC 10 1897 01 + SLC 10 1898 01)	4,064,680
2299	Subtotal	159,178,599
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	418,060,160
2620	25% of Net Revenues	104,515,040
9930	ESTIMATED ANNUAL REPAYMENT LIMIT	74,129,521
		(25% of Net Revenues less Net Debt Charges)

* SLC denotes Schedule, Line Column.