



**City of Kingston  
Report to Council  
Report Number 24-091**

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**To:** Mayor and Members of Council  
**From:** Desirée Kennedy, Chief Financial Officer & City Treasurer  
**Resource Staff:** Lana Foulds, Director, Financial Services  
Christa Walsh, Manager, Financial Planning  
**Date of Meeting:** April 2, 2024  
**Subject:** 2024 Municipal Debt Limits

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**Council Strategic Plan Alignment:**

Theme: Financial measures/budget

Goal: See above

**Executive Summary:**

The Ministry of Municipal Affairs and Housing (MMAH) provides municipalities with an Annual Repayment Limit (ARL) under [Ontario Regulation 403/02](#): Debt and Financial Obligation Limits, made pursuant to the [Municipal Act, 2001](#), that is used to determine the maximum amount that the municipality has available to commit to additional payments relating to long-term debt and other financial obligations. Municipalities in Ontario are responsible for ensuring that they do not exceed their ARL.

This report provides Council with information regarding the City'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 2024 annual debt service costs, as a proportion of net revenue fund revenues, are currently 8.4%.

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, that utilize debt funding for appropriate

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capital investment 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  
p.p.

ADMINISTRATIVE OFFICER

**Lanie Hurdle, Chief  
Administrative Officer**

**Consultation with the following Members of the Corporate Management Team:**

Paige Agnew, Commissioner, Growth & Development Services	Not required
Jennifer Campbell, Commissioner, Community Services	Not required
Neil Carbone, Commissioner, Corporate Services	Not required
David Fell, President & CEO, Utilities Kingston	Not required
Peter Huigenbos, Commissioner, Major Projects & Strategic Initiatives	Not required
Brad Joyce, Commissioner, Infrastructure, Transportation & Emergency Services	Not required

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**Options/Discussion:****Background****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, capital revenues and transfers from reserves and reserve funds. In accordance with [Ontario Regulation 403/02](#), made pursuant to the [Municipal Act, 2001](#), the MMAH determines the City's ARL based on the second previous year's Financial Information Return, as prepared by the City and submitted annually to MMAH.

A copy of the 2024 ARL, received from the MMAH in March 2024, is attached to this report as Exhibit A. The 2024 ARL is based on information from the 2022 Financial Information Return. The City Treasurer adjusts the ARL to reflect debt commitments and transactions that have occurred after December 31, 2022, which ultimately impact the adjusted ARL as of January 1, 2024.

The calculation for the City of Kingston's 2024 ARL effective January 1, 2024, as provided by the MMAH, is as follows:

**A) January 1, 2024 Annual Repayment Limit as provided by the MMAH  
(Based on 2022 Financial Information Return)**

2022 Net Revenue Fund Revenues	<u>\$ 465,913,955</u>
25% of Net Revenue Fund Revenues	116,478,489
Less 2022 Debt Charges (Principal and Interest)	<u>(31,531,022)</u>
Unadjusted Annual Repayment Limit	<u>\$ 84,947,467</u>

The following calculations reflect the City Treasurer's adjustments for debt commitments and transactions that have occurred subsequent to December 31, 2022. The calculations reflect 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 4.5% to 4.8%, 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 (MMAH) – January 1, 2024	\$ 84,947,467
Annual debt payments resulting from 2022 debt issue of \$134.9M	(8,798,806)
Annual debt payments on debt approved but not yet issued as of January 1, 2024 (\$3.5 million @ 5% for 25 years)	(248,334)
Debt payments expiring in 2023	<u>1,151,941</u>
Adjusted Annual Repayment Limit – January 1, 2024	<u>\$ 77,052,268</u>

The adjusted ARL as at January 1, 2024 would allow the municipality to undertake additional long-term borrowings, as outlined in the table below, based on an assumption of 5% interest over varying terms. These amounts reflect the maximum amount of additional debentures that could be issued according to provincial guidelines only and do not take into account other.

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

Annual Debt Charges	Interest Rate	Term	Additional Debt Capacity
\$77,052,268	5.0%	15 years	\$801 million
\$77,052,268	5.0%	25 years	\$1.1 billion

**Maximum Debt Capacity at December 31, 2023**

At December 31, 2023, the City had an outstanding long term debt balance of \$462.1 million. After taking into consideration debt that has been approved but not yet issued of \$3.5 million, additional debt capacity available to the City, based on the adjusted annual debt repayment limit above, is approximately \$801 million to \$1.1 billion (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 \$1.5 billion.

**Projected Debt Balances**

The graph below, provided during the 2024 budget deliberations, illustrates projected debt balances by year. The graph reflects assumptions for the expected timing of future planned debt financing for the capital expenditure requirements over the 15-year projection period, as well as estimated annual principal repayments.

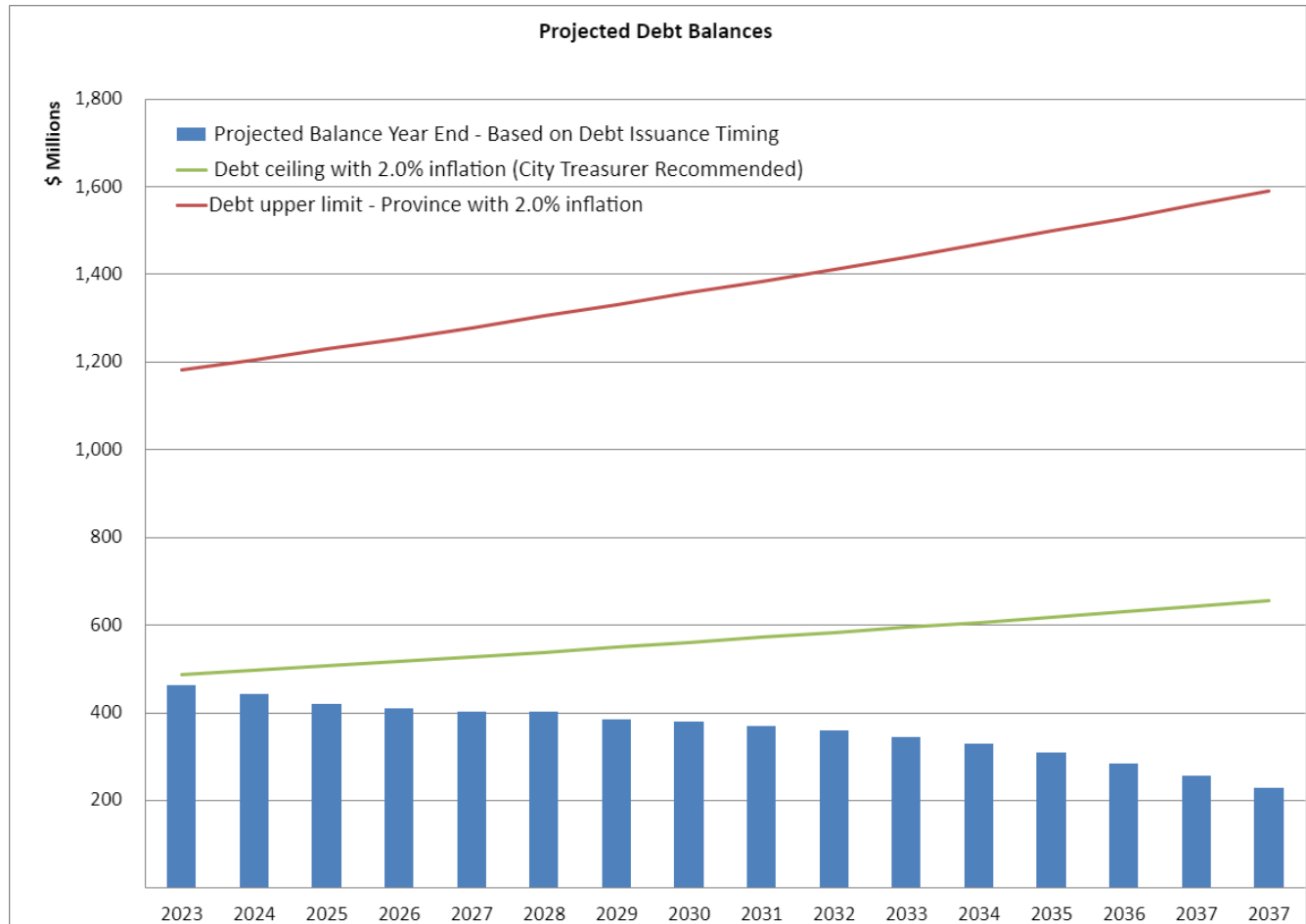
The vertical bars in the following table depict the level of debt over time. The graph includes a line that reflects the provincial ceiling of approximately \$1.2 billion to \$1.5 billion, based on the adjusted ARL discussed above. This ceiling is indexed in future years at the rate of 2% and represents the maximum that the City could borrow and still be within its debt capacity level as

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prescribed by the Province. Council has previously endorsed a debt strategy that provides for the balance of outstanding debt to remain substantially below the provincial ceiling with a maximum capacity level of approximately \$500 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.



**Projected Balance of Approved Debt Repayment by Source**

The table below provides summary information on the total long-term debt issued and outstanding (\$462.1M), as well as total long-term debt approved by Council but not yet issued (\$3.5M) at December 31, 2023, categorized by the nature of the repayment obligations.

The table also reflects an additional \$15.0M of debt recently approved by Council in 2024 for the Culligan Waterpark enclosure, as per [Report Number 24-002](#), Aquatic Facilities Options.

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<b>Long-Term Debt Issued</b>	<b>Tax Supported (\$M)</b>	<b>User Charges (\$M)</b>	<b>Utility Rates (\$M)</b>	<b>Total (\$M)</b>
Debt issued at December 31, 2023	166.2	108.7	187.2	462.1
Debt to be issued at December 31, 2023	0.0	0.0	3.5	3.5
<b>Total Debt at December 31, 2023</b>	<b>166.2</b>	<b>108.7</b>	<b>190.7</b>	<b>465.6</b>
New debt approved in 2024	15.0	0.0	0.0	15.0
2024 principal repayments	(9.4)	(4.2)	(7.7)	(21.3)
<b>Projected Debt – December 31, 2024</b>	<b>171.8</b>	<b>104.5</b>	<b>183.0</b>	<b>459.3</b>
Percentage by source	37.4%	22.8%	39.8%	100%

### Debt Management Strategies

The last debenture issue was approved by Council in August 2022, and included all previously approved debt. No debt funding was recommended as part of the approved 2023 or 2024 municipal capital budgets. Approved debt funding of \$3.5M was recommended as part of the multi-year capital budgets for municipal utilities for 2024 and is incorporated into the analysis above as debt to be issued at December 31, 2023.

Council recently endorsed the concept of a future aquatic facility at the INVISTA Centre, which is expected to include a debt funding component as part of the final project funding strategy. The debt funding related to this is not considered in the 15-year projection period above.

The graph above reflects a net decline in the debt balance over the 15-year projection period. In order to support the declining debt level, and remain well below the threshold over time, a future strategy that considers new debt issuance that is equal to or less than the level of principal repayments, as well as the continuance of the one percent incremental capital levy, will be necessary to ensure that we continue to show this downward trend.

### Other Financial Commitments and Contractual Obligations

[Ontario Regulation 403/02](#) under [Municipal Act, 2001](#), S.O. 2001, c. 25 requires consideration for other financial commitments and contractual obligations. This includes financial commitments to hospitals and lease financing agreements that could materially impact the City's borrowing capacity. On November 16, 2021, Council directed staff to include a separate hospital

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levy on the annual property tax billing, beginning in the 2022 taxation year, to provide \$25.0M over ten years to the University Hospitals Kingston Foundation.

[Ontario Regulation 653/05](#), under [Municipal Act, 2001](#), S.O. 2001, c. 25, and the City's Capital Lease Financing Policy, require the City Treasurer to report annually on material capital lease financing agreements. As at December 31, 2023, for the purpose of this report, the City has entered into lease financing agreements in accordance with the Capital Lease Financing Policy as approved by Council in [Report Number 22-093](#). This pilot project authorized the Director, Corporate Asset Management & Fleet, to enter into capital financing agreements for up to 25 light duty vehicles for terms of up to 60 months. The financing obligation at December 31, 2023 under these lease financing agreements is \$977K.

The commitments noted above do not materially impact the City's borrowing capacity or the ability to meet servicing requirements.

### **Existing Policy/By-Law**

City of Kingston annual budget by-laws

[Capital Lease Financing Policy and Agreements](#)

[Municipal Act, 2001](#), S.O. 2001, c. 25

[Ontario Regulation 403/02: Debt and Financial Obligation Limits](#)

[Ontario Regulation 653/05: Debt-Related Financial Instruments and Financial Agreements](#)

### **Financial Considerations**

Any staff recommendation with respect to debt funding is presented to Council with consideration for the Annual Repayment Limit, as well as other indicators, including the City's ability to repay debt and capital reserve fund balances.

### **Contacts:**

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

Christa Walsh, Manager, Financial Planning, 613-546-4291 extension 2262

### **Other City of Kingston Staff Consulted:**

None

### **Exhibits Attached:**

Exhibit A - Ministry of Municipal Affairs and Housing 2024 Annual Repayment Limit (Under Ontario Regulation 403 / 02)



## 2024 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

<b>MMAH CODE:</b>	<b>46102</b>	
<b>MUNID:</b>	<b>10005</b>	
<b>MUNICIPALITY:</b>	<b>Kingston C</b>	
<b>UPPER TIER:</b>		
<b>REPAYMENT LIMIT:</b>		<b>\$ 84,947,467</b>

### 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.	\$ 1,058,633,199
(a)	15 years @ 5% p.a.	\$ 881,725,656
(a)	10 years @ 5% p.a.	\$ 655,941,821
(a)	05 years @ 5% p.a.	\$ 367,778,076
7% Interest Rate		
(a)	20 years @ 7% p.a.	\$ 899,934,673
(a)	15 years @ 7% p.a.	\$ 773,694,222
(a)	10 years @ 7% p.a.	\$ 596,635,459
(a)	05 years @ 7% p.a.	\$ 348,301,385

# DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

**Kingston C**

MMAH CODE:

**46102**

		1
		\$
<b>Debt Charges for the Current Year</b>		
0210	Principal (SLC 74 3099 01)	17,286,789
0220	Interest (SLC 74 3099 02)	14,251,611
0299	<b>Subtotal</b>	<b>31,538,400</b>
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	<b>Total Debt Charges</b>	<b>31,538,400</b>
<b>Amounts Recovered from Unconsolidated Entities</b>		
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	<b>Subtotal</b>	<b>0</b>
1410	Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02)	7,378
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	<b>Total Debt Charges to be Excluded</b>	<b>7,378</b>
9920	<b>Net Debt Charges</b>	<b>31,531,022</b>
1610	Total Revenue (SLC 10 9910 01)	628,686,459
<b>Excluded Revenue Amounts</b>		
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)	107,280,375
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	26,385,930
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	1,847,700
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	7,164,850
2230	Revenue from other municipalities including revenue for Tangible Capital Assets ( SLC 10 1098 01 + SLC 10 1099 01)	4,783,496
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	-8,236,028
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	17,500,449
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	0
2256	Deferred revenue earned (Community Benefits) (SLC 10 1815 01)	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	3,359,044
2253	Other Deferred revenue earned (SLC 10 1814 01)	0
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	2,386,563
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)	300,125
2299	<b>Subtotal</b>	<b>162,772,504</b>
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	<b>Net Revenues</b>	<b>465,913,955</b>
2620	<b>25% of Net Revenues</b>	<b>116,478,489</b>
9930	<b>ESTIMATED ANNUAL REPAYMENT LIMIT</b>	<b>84,947,467</b>
	(25% of Net Revenues less Net Debt Charges)	

\* SLC denotes Schedule, Line Column.