



City of  
**Peterborough**

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**To:** **Members of the General Committee**

**From:** **Richard Freymond**  
**Commissioner of Corporate and Legislative Services**

**Meeting Date:** **July 5, 2021**

**Subject:** **Report CLSFS21-024**  
**Debt Management and Capital Financing Plan**

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## **Purpose**

A report to provide information about the history and financial impacts that the Debt Management and Capital Financing Plan has had on the Capital Program and recommend changes to the Capital Financing Plan.

## **Recommendation**

That Council approve the recommendation outlined in Report CLSFS21-024 dated July 5, 2021, of the Commissioner of Corporate and Legislative Services, as follows:

That the Debt Management Policy, as set out in Appendix A to Report CLSFS21-024 dated July 5, 2021, be amended to:

- i. Increase the City's maximum Annual Debt Repayment Limit from 15% to 16.5% of the City's consolidated own-purpose Net Revenues; and
- ii. Eliminate the distinguishment between tax-supported and non-tax-supported debt.

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## **Budget and Financial Implications**

Increasing the debt capacity threshold from 15% to 16.5% will allow the City to take on an additional \$48 million of debt at interest rates currently available. When the existing residual debt capacity is considered, the increase would be sufficient to provide the estimated debt financing required in the 2022-2025 forecasted Capital Budgets, as shown in the 2021 Capital Budget and allow the New Arena and Aquatics Complex Phase 1 to proceed, should Council wish to move forward with that specific project.

Approval to issue debt will continue to be by By-law, following the normal budget process or through specific staff Reports.

## **Background**

At its meetings of November 23-25, 2020 in deliberation of the 2021 Budget, Council resolved:

That staff bring a report to Council in June 2021 as part of the 2022 Budget Guidelines Report on the history and financial impacts that the Debt Management and Capital Financing Plan (Report CPFS12-011) has had on the Capital Program, including recommendations for moving forward with a new or renewed Debt Management and Capital Financing Plan;

This Report responds to Council's request.

### **The Existing Debt Management and Capital Financing Plan**

For many years prior to 2012 there had been insufficient funding to carry out the desired level of capital works for the City. Staff at that time undertook a fulsome analysis of the City's financial situation, existing debt policy, options available and consequences of those options. Report CPFS12-011, dated April 4, 2012, was approved by Council including the following recommendations:

- a) That the Debt Management Policy which will increase the maximum amount of debt the City of Peterborough can issue, as set out in Appendix B to Report CPFS12-011 dated April 4, 2012, be approved.
- b) That the annual draft operating budget include a 5% increase in the capital levy provision as a means of providing more capital levy to support the capital budget requirements.
- c) That, to phase-in the new maximum debt limit, the total annual amount of new tax-supported debt charges and any increase in the capital levy provision be limited so that the impact on the residential all-inclusive tax increase does not exceed 1% per year

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The resulting Debt Management Policy, included as Appendix A of this Report, established a new threshold to manage debt with the following criteria:

- The City's maximum Annual Debt Repayment will be 15% of the City's consolidated, own-purpose revenues (Net Revenues), inclusive of the tax-supported current year Debt payment, which is limited to 8% of Net Revenues; and
- The City's total annual amount of new Tax-Supported Debt charges and any increase in the Base Capital Levy provision will be limited so that the impact on the All-Inclusive Tax Increase does not exceed 1%; and
- That, in addition to the debt charges for the current year, provision is made for any:
  - Debenture financing approved through by-law but for which no debt has yet been issued,
  - Debenture financing approved through the Capital Budget, but for which no by-law has yet been established,
  - Outstanding financial commitments beyond the normal course of business,
  - Loan guarantees and significant lease obligations,
  - Any debt issued by, or on behalf of, the City's local boards, excluding COPHI, including mortgages, debenture, or demand loans.

The advantages of this Debt Management and Capital Financing Plan, as outlined in Report CPFS12-011 are:

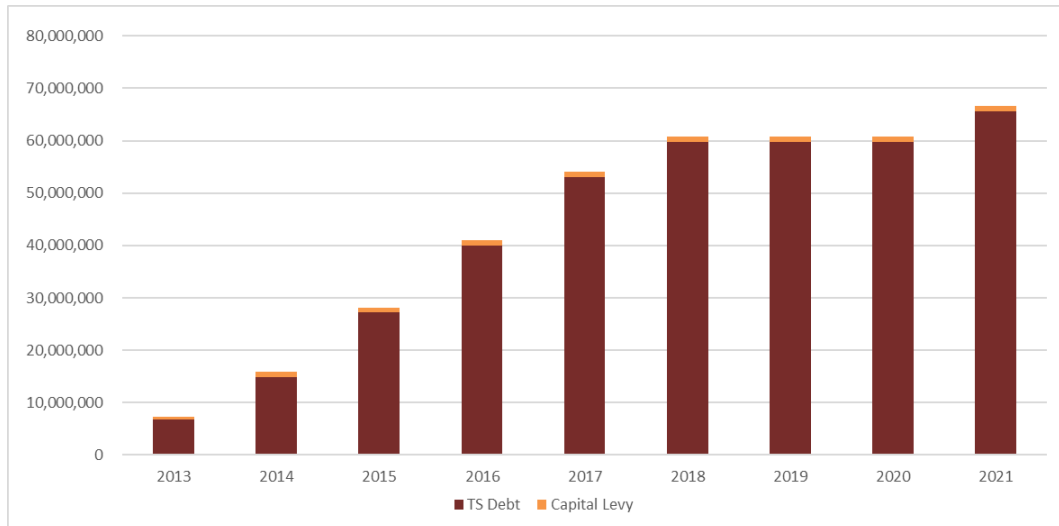
- An acceleration of the pace capital construction can occur that otherwise may not be able to occur,
- The City will gain some ground on its backlog of capital projects,
- It will allow the City to take advantage of the attractive interest rates presently available in the marketplace, and
- The financing plan does not completely rely on increased debt but also provides for continuing to increase the base capital levy.

Staff would suggest that all of the advantages as identified in 2012 continue to be present today. As well, the City is getting closer to benefitting from the initial additional debt maturing and freeing up the committed dollars in the Operating budget to pay the principal and interest payments so they can be repurposed to new debt without an increase in the municipal tax levy.

### **The Impact of the Existing Debt Management and Capital Financing Plan on the Capital Program**

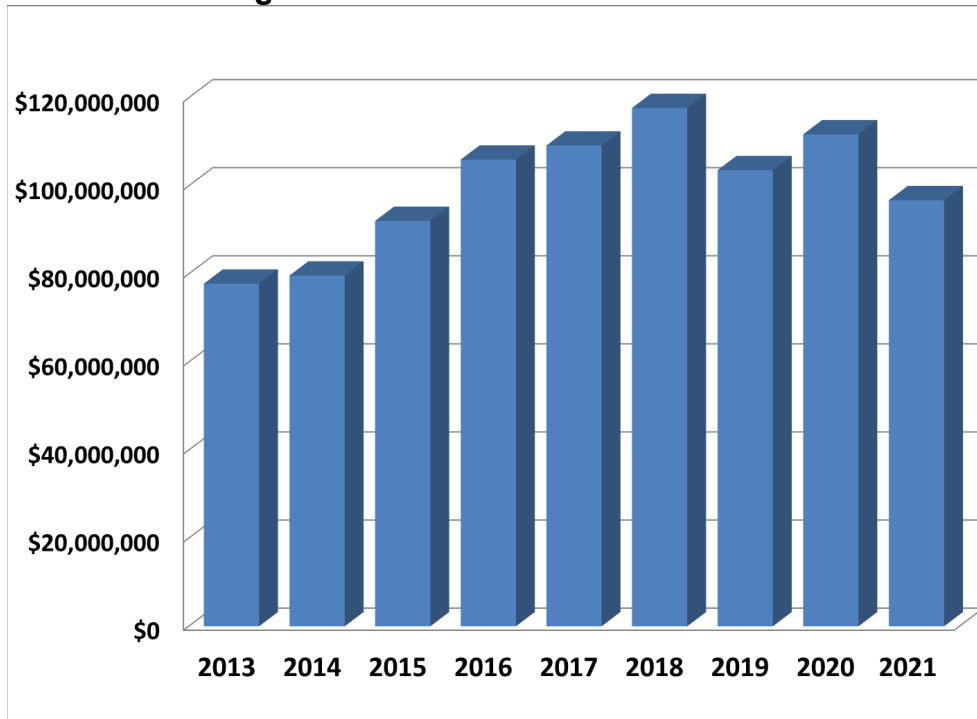
Since the adoption of the existing Debt Management and Capital Financing Plan in 2013 through 2021, as shown in Graph 1, an additional \$996,000 has been added to the

Capital Levy base and \$7.7 million in tax-supported debt financing costs which increased debt capacity by \$65.7 million. Although no increases were approved in 2019 - 2020, Council did approve an increase in 2021.

**Graph 1****2013 – 2021 Cumulative Tax Supported Debt and Capital Levy**

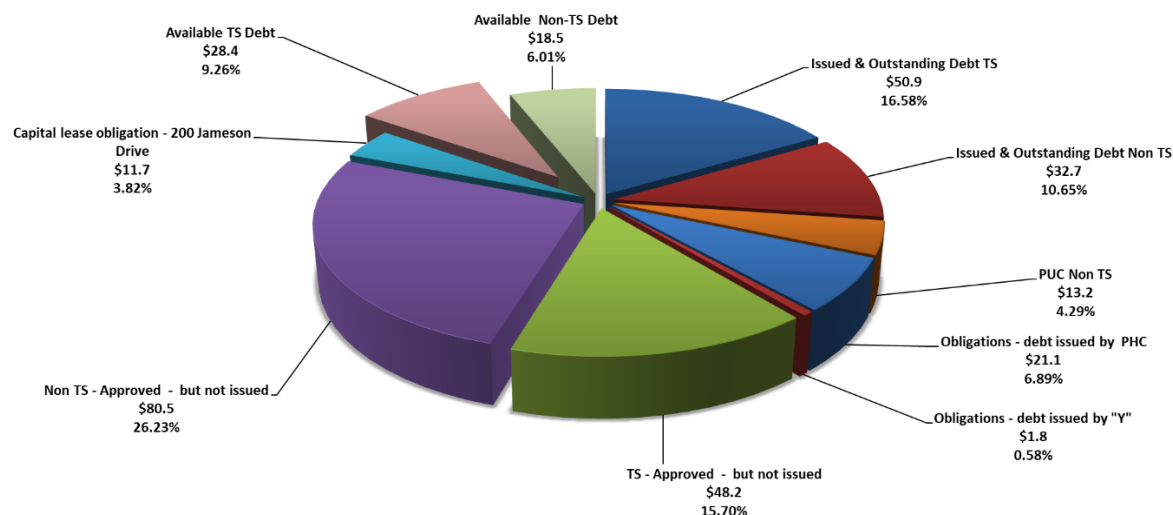
Since approval of the plan, outstanding debt has increased from \$77.8 million in 2013 to \$96.8 million in 2021, with a peak level in 2018 of \$117.7 million. Debt outstanding in the years from 2013 to 2021 is shown in Graph 2.

**Graph 2**  
**Debt Outstanding 2013 – 2021**



In 2021, the City has \$307 million of Debt Capacity. The amount consists of Debt Issued and Outstanding and Approved but not Issued, Other Financial Commitments and tax supported and non-tax supported capacity that is still available, as shown in Graph 3.

### Graph 3 Debt Capacity - \$307M



The debt capacity available at December 31, 2021, will be \$28.4 million of tax-supported (TS) debt, and \$18.5 million of non-tax-supported (Non-TS) debt for a total of \$46.9 million, based on assumptions with respect to the term (TS = 10 years, Non-TS = 15 years) of the debt and the expected interest rates available in the marketplace. With Council's approval of a new Government Business Enterprise (GBE) for housing, approximately \$35-\$40 million of debt associated with housing will be removed from the City's capacity.

## Considerations in Changing the Debt Management and Capital Financing Plan

### Provincial Annual Debt Repayment Limit

As stipulated in the **Municipal Act, 2001**, long-term debt can only be used to finance capital assets. The overall limit of debt the City can issue, as established by **Ontario Regulation 403/02**, is for the entire Corporation of the City of Peterborough not only the City and so debt includes long-term debt and certain lease obligations of the City for entities that are both owned and controlled by the City of Peterborough. This limit is the Annual Debt Repayment limit.

Each year the Province calculates the City's Annual Debt Repayment Limit (ARL). This limits the amount the City can pay in principal and interest payments on the debt issued. The Province stipulates that a municipality may not commit more than 25 per cent of its total own-purpose revenues (Net Revenues) to service debt and other long-term obligations without obtaining prior approval from the Local Planning Appeal Tribunal.

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## **Credit Rating**

Each year Standard & Poor's (S&P) assigns a credit rating to the City based on its qualitative and quantitative analysis of a range of financial, economic, managerial, and institutional factors. The analysis centres around eight major components: institutional framework, economy, financial management, budgetary flexibility, budgetary performance; liquidity; debt burden; and contingent liabilities.

In their report issued in November 2020, S&P confirmed the City's credit rating of AA, which is the third highest available rating from S&P and reflects that the City is in a strong financial position.

S&P stated in their report that the City's rating could be weakened "if additional borrowing resulted in tax-supported debt increasing to more than 60% of operating revenue in the next two years." If, as a result of increasing debt, the City's credit rating of AA was downgraded, the City may incur a higher cost to borrow money.

## **Impact on the Operating Budget**

Increased debt issuance will increase the amount of principal and interest to be paid and included in the operating budget annually. The amount of these operating budget costs depends on the amount of debt, the length of term for new debt issued and conditions of the market when debt is issued.

## **Other Municipalities**

The problem of seemingly unlimited capital program needs, and limited funding is one that all municipalities in Ontario are facing. Staff researched the debt management and capital financing policies, or equivalent, to understand the approach other municipalities have implemented. Staff found that some municipalities implemented their own criteria as the City has with its own internal debt limit that is below the Provincial ARL, and others issue debt using the provincial ARL as the only limit.

## **Recommended Updates to Existing Plan**

Under the existing Debt Management Policy and as shown in Graph 3, the City has \$46.9M of debt capacity available. With the forecasted capital program as included in the 2021 budget, the City will have limited capacity for additional debt as shown in Graph 4. More specifically, if Council wants to move forward with building Phase 1 of the New Arena and Aquatics Complex now, which in and of itself will require \$56.5 million of debt issuance, an update to the existing plan is required.

If no change is made to the policy at this time, beginning in 2022, as debt matures that debt capacity will be repurposed to issue new debt, but only at the pace that existing debt matures. This will significantly limit the City's ability to issue debt and fund future capital program requirements. Given this circumstance, as well as the current favourable interest rates in the market, staff are recommending changes to the Debt Management

Policy to increase debt capacity.

Staff are recommending two key updates: Increasing the debt capacity threshold from 15% to 16.5% of own purpose revenues and eliminating the policy distinction of tax-supported debt and non-tax-supported debt. The current Debt Management Policy states:

The City's maximum Annual Debt Repayment Limit will be 15% of the City's Net Revenues, inclusive of the tax-supported current year Debt payment, which is limited to 8% of Net Revenues.

The amendments which staff recommend will change the Debt Management Policy to state:

The City's maximum Annual Debt Repayment Limit will be 16.5% of the City's Net Revenues.

Eliminating the policy distinction between tax-supported debt and nontax-supported debt will not eliminate the practical requirement to track those components of debt as the budget process will demand those elements be accounted for. It will, however, give additional flexibility to determine the quantum of each and is consistent with the approach used by both Standard & Poor's and the Province, in that 'debt' is debt.

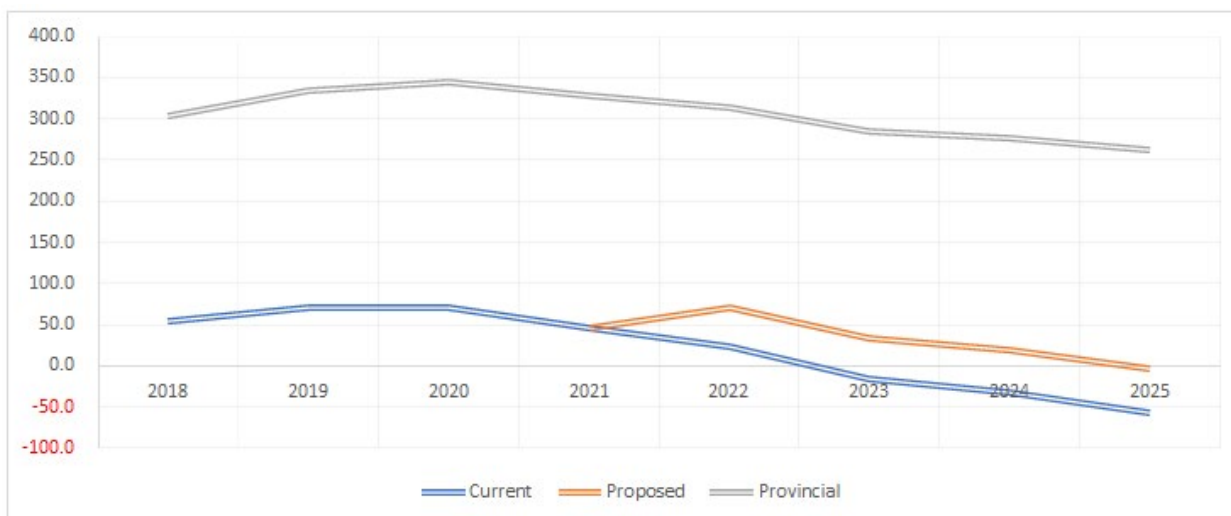
The recommended updates will allow two key outcomes to occur:

- 1) As previously approved by Council through Report CSSS21-003 dated February 16, 2021, it will allow the necessary time for the housing debt to be transferred to the new Government Business Enterprise; and
- 2) It will allow Phase 1 of the New Arena and Aquatics Complex to move forward now, should Council wish to proceed.

Graph 4 illustrates the difference in forecasted available debt capacity with the proposed changes and the current policy as well as the Provincial Annual Repayment Limit.

#### Graph 4

#### Comparison of Available Debt Capacity – Current Policy vs. Proposed Policy



If the Debt Management Policy remains unchanged at this time, this will require even more of a critical review of capital program budgets for 2022 and future years to determine the priority projects that can be accommodated within the limited debt capacity.

Eliminating the distinction between tax-supported and non-tax-supported debt will permit staff to determine the optimal mix of tax-supported and non-tax-supported debt and leverage any increased non-tax-supported revenues.

As a means of limiting how quickly the new capacity could be used, the impact to the all-inclusive tax rate as a result of increased principal and interest repayments on new debentures will continue to not exceed 1% per year. As in the past, any new debt financing will continue to be approved by Council.

#### Next Review of the Debt Management and Capital Financing Plan

If Council is supportive of the recommendation in this Report, staff would suggest that the policy be next reviewed mid 2023, in anticipation of the City's 2024 Budget. There are a few factors that will change between now and then. Some of the debt will be transferred to the GBE, each year the ARL from the Province is updated and there will be more certainty regarding other types of revenue that is used for capital projects, such as Casino revenue, COPHI dividends and interest/return from the proceeds of the sale of PDI.

## Summary

The affordability of debt for the taxpayer must remain a consideration as well as the demand on the capital program by the City's residents. Approval of the recommendation in this report will allow the City to continue to move forward with its capital program while maintaining a reasonable annual debt repayment limit.

Submitted by,

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Commissioner of Corporate and Legislative Services

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Attachment:

Appendix A - Amended Debt Management Policy



# POLICY

## DEBT MANAGEMENT

**Department:** Corporate & Legislative Services **Effective Date:** 2021-07-27  
**Division:** Financial Services Capital **Approval Level:** Council  
**Section/Facility:** Financing and Debt **Policy #:** 0029  
**Revision #:** 2

### 1.0 PURPOSE

**1.1** This Policy establishes:

- .1 The goals that must be adhered to before entering into any Debt.
- .2 The Annual Debt Repayment Limits for the Corporation of the City of Peterborough.
- .3 The authority for Temporary Borrowing.

**1.2** This Policy facilitates compliance with the Municipal Act, 2001, s.401-s.417 and related Ontario Regulations, as listed in Section 5.1 of this Policy.

### 2.0 POLICY STATEMENT(S)



# POLICY

## DEBT MANAGEMENT

### 2.0 POLICY STATEMENT(S)

- 2.1 Before entering into any Debt, including Lease Financing Agreements, the following goals must be adhered to:**
- .1 The Debt will be managed in a manner consistent with other long-term planning, financial and management objectives.
  - .2 Consideration will be given to its impact on future ratepayers as a means to achieve an appropriate balance between Debt and other forms of funding.
  - .3 Debt will be managed in a manner to limit financial risk exposure.
  - .4 The timing, type, and term of Debt will be determined with a view to minimizing long-term cost.
  - .5 The term of Debt will be limited to the term of the useful life of the particular asset, but no greater than 40 years.
  - .6 Debt will be managed in a manner to maintain the best possible credit rating by a bond-rating agency used by the City.
  - .7 A category of Lease Financing Agreements may be relied upon for non-material or operational leases where in the opinion of the Treasurer, as delegated by Council through this Policy, will not result in a Material Impact for the City.
- 2.2 The City's maximum Annual Debt Repayment Limit will be 16.5% of the City's Net Revenues.**
- .1 Further, the City's total annual amount of new Tax-Supported Debt charges and any increase in the Base Capital Levy provision will be limited so that the impact on the All Inclusive Tax Increase does not exceed 1%.
- 2.3 City Council authorizes the Mayor and Treasurer to borrow funds on a temporary basis, in accordance with the definition for Temporary Borrowing under this Policy and sections 405-407 of the Act, under the following conditions:**
- .1 To meet the current expenditures of the City until taxes are collected or other revenues received.
  - .2 To meet expenditures of a project until Long-Term Debt has been secured.



# POLICY

## DEBT MANAGEMENT

### 3.0 APPLICATION

- 3.1** This Policy and its related Procedure apply to all Debt, including Lease Financing Agreements, and Debt payments entered into by the City.
- 3.2** This Policy and its related Procedure apply to all persons responsible for overseeing, developing, administering, processing, and/or entering into Debt agreements on behalf of the City, its agencies, boards, or commissions.

### 4.0 DEFINITIONS/ACRONYMS (As Required)

**Act** - The Municipal Act, 2001, as amended.

**All Inclusive Tax Increase** - The annual increase in the combined municipal and education tax, plus the sewer surcharge rates.

**Annual Debt Repayment Limit** - The maximum amount of annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board.

**Capital Levy** - The amount of money raised through taxation that appears in the current year Operating Budget that is transferred to the capital fund to be used to help pay for capital projects.

**City** - The Corporation of the City of Peterborough, its agencies, boards and commissions, and in accordance with the City's Consolidated Financial Statements, those organizations accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City.

**Debenture** - A formal written obligation to repay specific sums of money on certain dates. Debentures are direct, unsecured and unsubordinated obligations of a municipality and must rank equally in respect of payment of principal and interest.

**Debt** - Any obligation for the payment of money. The City considers debt to consist of Debentures, cash loans from financial institutions, capital leases, debenture financing approved through by-law but for which no debt has yet been issued, debenture financing approved through the Capital Budget but for which no by-law has yet been established, outstanding financial commitments, loan guarantees, and any debt issued by, or on behalf of the City, including mortgages, Debentures or demand loans.



# POLICY

## DEBT MANAGEMENT

### 4.0 DEFINITIONS/ACRONYMS (As Required)

**Lease Financing Agreement** - A financial agreement, in accordance with Ontario Regulation 653/05 of the Act, that a municipality may enter into for the purpose of obtaining long-term financing of a capital undertaking of the municipality.

**Long-Term Debt** - Any Debt for which the repayment of any portion of the principal is due beyond one year.

**Material Impact** - Under Ontario Regulation 653/05 of the Act, a Lease Financing Agreement has a material impact on a municipality if the costs or risks associated with the agreement significantly affect the municipality's Debt and financial limit determined in accordance with Ontario Regulation 403/02 made under the Act, or would reasonably be expected to have a significant effect on that limit.

**Net Revenues** - Total City consolidated revenues less grants from other levels of government less sales of land less development charges earned. These revenues also do not include donations of tangible capital assets.

**Tax-Supported Debt** - Debt that is to be recovered from general tax revenues.

**Temporary Borrowing** - Debt for which the repayment of the entire principal is due within one year or in the case of funding for a capital project, borrowing until Long-Term Debt to cover the costs is obtained or issued.



# POLICY

## DEBT MANAGEMENT

### 5.0 APPENDIX, RELATED POLICIES, PROCEDURES & LINKS

#### 5.1 Pertinent Resources

Municipal Act, 2001

Ontario Regulation 247/01 - Variable Interest Rate Debentures and Foreign Currency Borrowing

Ontario Regulation 276/02 - Bank Loans

Ontario Regulation 278/02 - Construction Financing

Ontario Regulation 403/02 - Debt and Financial Obligation Limits

Ontario Regulation 653/05 - Debt Related Financial Instruments and Financial Agreements

Purchasing Policy By-Law (By-Law No. 10-132)

#### 5.2 Related Policies

N/A

#### 5.3 Related Procedures

Debt Management Procedure

#### 5.4 Related Forms

N/A

#### 5.5 Miscellaneous

Purchasing By-law

### 6.0 AMENDMENTS/ REVIEWS

Next Review Date

2014-01-01

Date  
(yyyy-mm-dd)

Section(s) Amended

Comments

2012-04-04

Budget Committee Report No. 1 of a Meeting April 4, 2012 recommending:

a) That the current 'Financing Policy, as set out in Appendix A to Report CPFS12-011 dated April 4, 2012, be rescinded.

b) That the Debt Management Policy, which will increase the maximum amount of debt the City of Peterborough can issue, as set out in Appendix B to Report CPFS12-011 dated April 4, 2012, be approved.



# POLICY

## DEBT MANAGEMENT

2013-01-01

N/A

Revision #1 - No changes were made to the content of the Policy. Policy was revised to move to new Policy Template (i.e. Policy Statements moved to Section 2.0, Application Section moved to Section 3.0, Definitions moved to Section 4.0) and to move to new protocol for showing defined terms (i.e. capitalizing the first letters).