



City of
Peterborough

To: Members of the General Committee

From: Richard Freymond, Commissioner, Corporate and Legislative Services

Meeting Date: August 14, 2023

Subject: Debt Management and Capital Financing Plan, Report CLSFS23-033

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 Debt Management Policy.

Recommendation

That Council approve the recommendation outlined in Report CLSFS23-033, dated August 14, 2023 of the Commissioner of Corporate and Legislative Services as follows:

That the Debt Management Policy, as set out in Appendix A to Report CLSFS23-033 dated August 14, 2023, be amended to increase the City's maximum Annual Debt Repayment Limit from 16.5% to 20% of the City's consolidated own-purpose Net Revenues.

Budget and Financial Implications

Increasing the debt capacity threshold from 16.5% to 20% would increase the available Debt Capacity in 2024 from the current \$22.5 million to \$ 102.2 Million, allowing the City to take on an additional \$79.7 million of debt at interest rates currently available. The increase would be sufficient to provide the estimated debt financing required in the 2024 and future forecasted Capital Budgets.

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

Background

In 2012 staff undertook an analysis of the City's financial situation, existing debt policy, options available and consequences of those options and recommended a capital financing plan. Council approved Report CPFS12-011, dated April 4, 2012, with recommendations to establish a Debt Management Policy. This policy permitted the issuance of debt to provide increased funding levels for capital works that otherwise may not have been able to occur.

In 2020, Council requested a report with recommendations for moving forward with a new or renewed Debt Management and Capital Financing Plan. With approval of Report CLSFS21-024 dated July 5, 2021, Council approved amendments to the City's Debt Management Policy to increase the City's maximum Annual Debt Repayment Limit from 15% to 16.5% of the City's consolidated own-purpose Net Revenues and eliminated the distinguishment between tax-supported and non-tax supported debt.

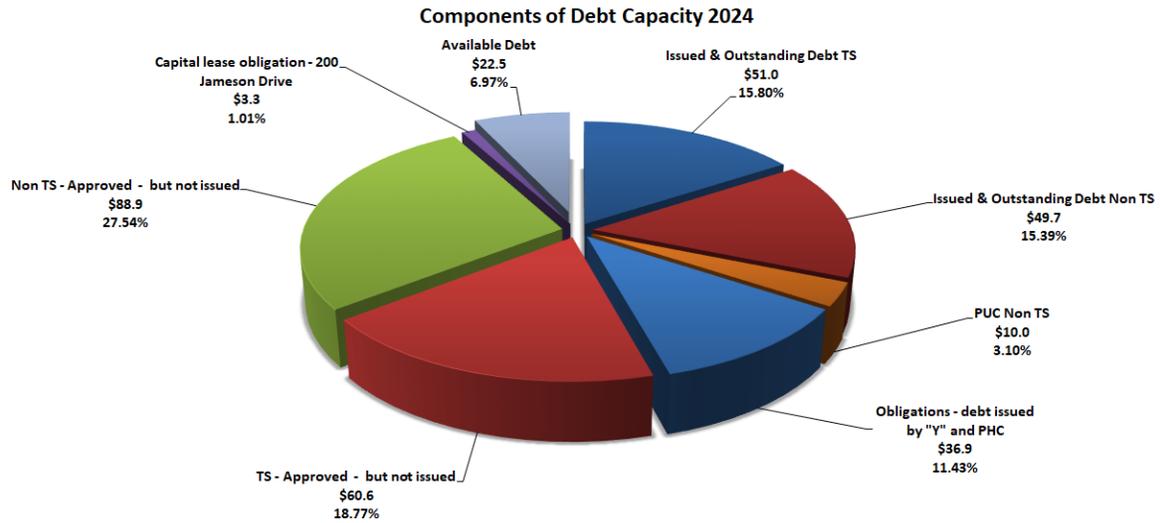
In Report CLSFS21-024, staff noted that the increase to 16.5% would be sufficient to increase debt capacity for 2022 and 2023, including the new arena and aquatics complex, but it would be necessary to review the policy again mid-2023 in anticipation of the 2024 budget.

Current Debt Capacity

For the 2024 budget, the City currently has \$322.9 million of total Debt Capacity. This amount consists of Debt Issued and Outstanding, Debt Approved but Not Issued, Other Financial Commitments, and capacity that is still available, as shown in the following graph.

With a limit of 16.5%, the debt capacity available for the 2024 budget is currently \$22.5 million and is based on assumptions with respect to the term (tax-supported = 10 years, non-tax supported = 15 years) of the debt and the expected interest rates available in the marketplace.

Current 2024 Debt Capacity - \$322.9M



The use of Debt Capacity is managed through the Budget process or through specific report to Council. However, several consequential factors resulting from the Covid-19 pandemic have had a negative impact the City’s Debt Capacity. For instance, debt capacity is based on the City’s own-source revenues, such as user fees and investment income. These revenues were significantly impacted during the pandemic, and some have not fully returned to pre-pandemic levels, resulting in a lower base for the debt capacity calculations. In addition, rising inflation has increased the costs for capital projects and rising interest rates have resulted in increased debt financing costs. Altogether, these factors have negatively impacted the City’s Debt Capacity.

Pre-Committed 2024 Capital Projects

The approved pre-committed capital projects for 2024 total \$33.6 million with \$27.05 million to be funded by debt for the New Arena and Aquatics Complex and Lansdowne Street Rehabilitation – Park St to Otonabee River, as shown in Table 1.

Table 1
2024 Capital Pre-Commitments

	Project name	Report Reference / Council Approval Date	Development Charge Supported Debt	Canada Community Build Fund	Tax Supported Debt	Capital Levy	Other Non Tax-Supported	Total 2024 Commitment
1	Additional Hydro Excavation Truck	2023 budget recommendation					\$ 885,000	\$ 885,000
2	Canadian Canoe Museum - Capital Build	CLSFS21-021				\$ 500,000		\$ 500,000
3	Healthy Planet Arena - Phase 2 of project	2023 budget recommendation		\$ 4,000,000				\$ 4,000,000
4	New Arena and Aquatics Complex	CSD21-009	\$ 15,240,000		\$ 8,760,000			\$ 24,000,000
5	Lansdowne Street Rehabilitation - Park Street to Otonabee River	IPSENG23-008			\$ 3,050,000			\$ 3,050,000
6	Curtis Creek Watershed Improvements	IPSENG23-010				\$ 1,000,000		\$ 1,000,000
7	Temporary Traffic Signals at intersection of Brealey Drive and Cherryhill Road	IPSENG23-013				\$ 160,000		\$ 160,000
8	Total		\$ 15,240,000	\$ 4,000,000	\$ 11,810,000	\$ 1,660,000	\$ 885,000	\$ 33,595,000
9	Tax Supported				\$ 11,810,000	\$ 1,660,000		\$ 13,470,000
10	Non-Tax Supported		\$ 15,240,000	\$ 4,000,000			\$ 885,000	\$ 20,125,000

Given the existing pre-commitments already approved by Council for 2024, unless an amendment to the policy is made, the City will not have enough remaining debt capacity available for the remainder of the 2024 capital program.

Considerations in Changing the Debt Management Policy

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 reporting entity of the Corporation of the City of Peterborough and includes the City as well as 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 referred to as the Annual Debt Repayment limit (ARL).

Each year the Province calculates the City's ARL. This limits the amount the City can pay in principal and interest payments on 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.

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 2022, S&P confirmed the City's credit rating of AA+, which is the second 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 lowered 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.

The impact to the all-inclusive tax rate as a result of increased principal and interest repayments on new tax supported debentures will continue to be to a maximum of 1% per year.

Other Municipalities

The problem of capital program needs greater than the available funding is faced by all municipalities in Ontario. Some municipalities have implemented their own criteria as the City has with its own internal debt limit that is below the provincial ARL, others issue debt using the provincial ARL as the limit, and others manage their capital projects on a pay-as-you-go basis and do not issue debt at all.

Recommended Update to the Debt Management Policy

Staff are recommending changes to the Debt Management Policy to increase debt capacity.

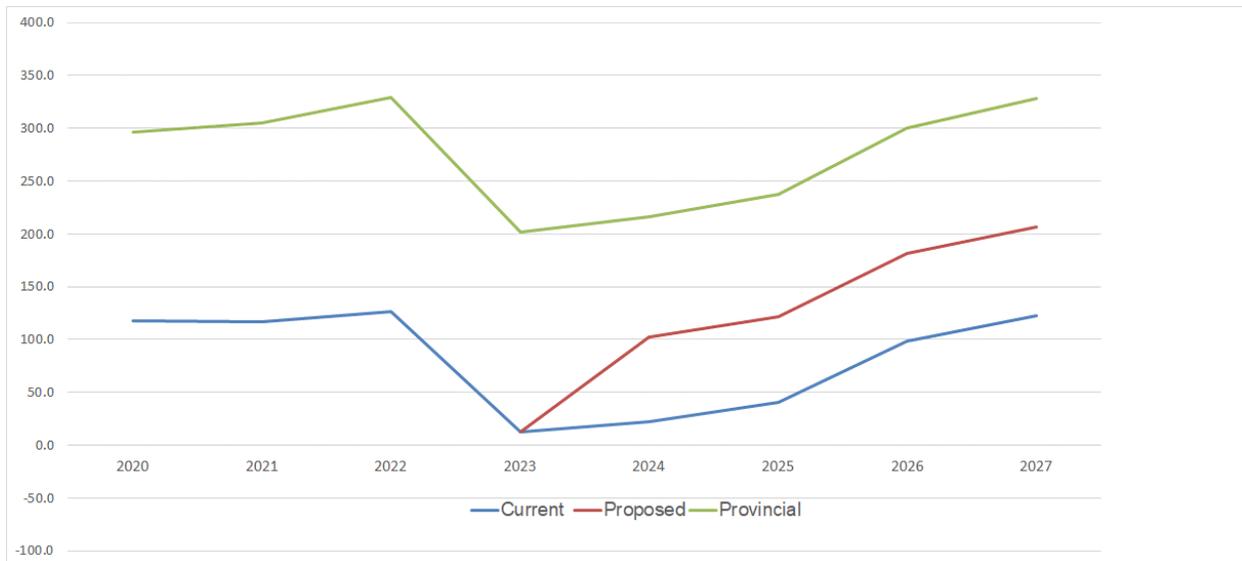
The amendment staff recommend will change the Debt Management Policy to state:

The City's maximum Annual Debt Repayment Limit will be 20% of the City's Net Revenues.

The recommended change will provide the City with \$102.2 million in available debt capacity for 2024. 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



Next Review of the Debt Management and Capital Financing Plan

If Council is supportive of the recommendation in this Report, staff suggest that the policy be reviewed next in 2027.

Summary

Balancing the affordability of debt for the taxpayer and the demands on the capital program by the City’s residents remains a priority for the City. Approval of the amended Debt Management Policy recommended in this report will allow the City to move forward with its capital program while maintaining a reasonable annual debt repayment limit.

Submitted by,

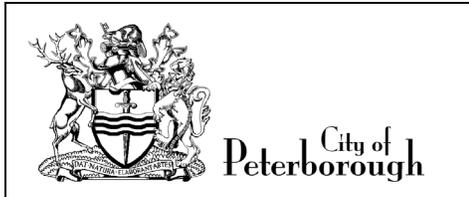
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Attachments:

Appendix A – Amended Debt Management Policy



Debt Management Policy

Department:	Corporate & Legislative Services
Division:	Financial Services
Section/Function:	Financing and Debt
Approval Level:	Council
Effective Date:	2021-07-27
Revision #:	3

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 Application

2.1. This Policy and its related Procedure apply to all Debt, including Lease Financing Agreements, and Debt payments entered into by the City.

2.2. 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.

3.0 Definitions/Acronyms

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.

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.

4.0 Policy Statement(s)

- 4.1.** 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.
- 4.2.** The City's maximum Annual Debt Repayment Limit will be ~~16.5~~20% 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 of the All-Inclusive Tax Increase does not exceed 1%.
- 4.3.** 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 section 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.

5.0 Appendix, Related Documents & Links

Note: All references refer to the current version, as may be amended from time to time.

5.1. Pertinent Resources:

- Municipal Act, 2001
<https://www.ontario.ca/laws/statute/01m25>
- Ontario Regulation 247/01 – Variable Interest Rate Debentures and Foreign Currency Borrowing
<https://www.ontario.ca/laws/regulation/r01247>
- Ontario Regulation 276/02 – Bank Loans
<https://www.ontario.ca/laws/regulation/020276>
- Ontario Regulation 278/02 – Construction Financing
<https://www.ontario.ca/laws/regulation/020278>
- Ontario Regulation 403/02 – Debt and Financial Obligation Limits
<https://www.ontario.ca/laws/regulation/020403>
- Ontario Regulation 653/05 – Debt Related Financial Instruments and Financial Agreements
<https://www.ontario.ca/laws/regulation/050653/v3>
- Procurement By-law ~~18-08422-070~~

5.2. Related Policies:

- N/A

5.3. Related Procedures:

- Debt Management Procedure

5.4. Related Forms:

- N/A

5.5. Miscellaneous:

- N/A

6.0 Amendments/Reviews

Date (yyyy-mm-dd)	Section # Amended	Comments
2012-04-04		Budget Committee Report No. 1 of a Meeting April 4, 2012 recommending: <ul style="list-style-type: none"> 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.
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).
2021-07-26	4.2	Revision #2 – General Committee Report of a meeting of July 5, 2021 – Report CLSFS21-024 recommending: <ul style="list-style-type: none"> 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.
2021-12-01		Revision #3 – No changes were made to the content of the Policy. Policy moved to updated Policy Template; (Section 2.0 moved to Section 4.0, Section 3.0 moved to Section 2.0, Section 4.0 moved to Section 3.0). Links in Section 5.1 - Pertinent Resources have been updated. Policy document format has been updated to become compliant with the Accessibility for Ontarians with Disabilities Act (AODA) Regulation 191/11 Integrated Accessibility Standards.

Next Review Date:
~~2025-01-01~~ 2027-01-01