City of Peterborough

To:	**Members of the Budget Committee**
From:	**Sandra Clancy, Director of Corporate Services**
Meeting Date:	**July 27, 2015**
Subject:	**Report CPFS15-040 Options to Enhance Capital Financing**

Purpose

An information report on the options to enhance capital financing.

Recommendation

That Council approve the recommendation outlined in Report CPFS15-040, dated July 27, 2015, of the Director of Corporate Services, as follows:

That Report CPFS15-040 on the options to enhance capital financing be received for information.

Budget and Financial Implications

The report is presented for information purposes only.

Background

At the meeting of February 2, 2015, Council resolved that staff provide a report on the various options under 1% to enhance capital financing. The motion read as follows:

That staff bring a report forward to Budget Committee in the second quarter evaluating various capital tax increases under 1%.

This report responds to that request and is being brought forward at the same Budget Committee meeting that the 2016 Budget Guideline will be discussed (Report CPFS15-036 dated July 27, 2015) due to its significance to the recommendations being made in that report.

Options under Capital Financing Policy

At its meeting held April 23, 2012, based on recommendations in Report CPFS12-011, dated April 4, 2012, Council approved a new Capital Financing Policy. The new policy identified additional capital levy and created additional capacity to issue new debt, but increased the amount of annual principal and interest to be repaid that has to be budgeted in the annual operating budget.

The following motions were included in Report CPFS12-011 and were approved:

c) 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.

d) 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.

The Province calculates the City’s Annual Debt Repayment Limit by comparing debt servicing costs, which is the amount of principal and interest payments made during the year, to the amount of the City’s own-purpose revenues. The Provincial cap is 25% of own-purpose revenues. According to the Provincial limit, this equates to annual debt principal and interest payments for 2015 of approximately $47.6 million, which is $33.8 million above 2014 debt servicing costs.

The City’s more stringent internal debt limit adopted by Council is 15% of own-purpose revenues, or $28.5 million. The 15% is further split between tax supported debt of 8% and non-tax supported debt of 7%. For 2015, according to the internal limit, the City has used, or has made commitments to use 77% ($21.9 million / $28.5 million = 77%) of its debt capacity.

2016 represents the fourth year of implementing the new policy. The policy effectively created capacity to issue debt and move important capital works forward. The amount of debt that can be issued depends largely on the term of the debt and the interest rates available in the market place. Assuming all Tax Supported debt was issued for a term of 10 years and non-tax-supported for 20 years, the policy would allow another $31.1 million in tax-supported debt and $46.1 million in non-tax-supported debt, for a combined amount of $77.2 million, to be issued.

However, the policy also limited the impact by establishing a cap on how quickly debt could be incurred. The impact cannot exceed 1% per year on the all-inclusive tax increase.

Chart 1 shows how much tax-supported debt can be issued at various levels up to 1%.

Chart 1
Tax-Supported Debt that can be issued

Ref	Percentage of All-Inclusive Tax Increase	Amount of Additional Tax-supported Debt that can be issued (millions)
1	1%	$13.0
2	0.75%	$9.7
3	0.5%	$6.5
4	0.25%	$3.2

Recommendation of 0.5% for 2016

Due to the volume of capital work that needs to be done, an additional 1% for capital financing has been implemented for the past three years. The list of capital projects still far exceeds available financing. However, staff have heard the concerns that implementing a 1% increase drives up the all-inclusive tax increase beyond what Councillors and citizens are comfortable with. With this in mind, as well as the fact that there are several debentures retiring in 2016, it is recommended in Report CPFS15-036 that the 2016 Draft Budget only include additional capital financing at a level of 0.5% of the all-inclusive tax increase.

Submitted by,

Sandra Clancy
Director of Corporate Services

Contact Name:

Sandra Clancy
Director of Corporate Services
Phone: 705-742-7777 Ext. 1863
Toll Free: 1-855-738-3755 Ext 1863
Fax: 705-876-4607
E-mail: sclancy@peterborough.ca