



City of
Peterborough

To: Members of the Budget Committee

From: Sandra Clancy, Director of Corporate Services

Meeting Date: November 27, 2017

Subject: Report CPFS17-049
Update on the City's Debt Capacity Limit

Purpose

A report to provide an update on the City's Debt Capacity limit.

Recommendation

That Council approve the recommendation outlined in Report CPFS17-049 dated November 27, 2017, of the Director of Corporate Services, as follows:

That Report CPFS17-049, providing an update on the City's Debt Capacity limit, be received for information.

Budget and Financial Implications

Assuming the Draft 2018 Capital Budget is approved, and the 2018 payments of debt principal are paid throughout the year, the Tax Supported debt capacity available at December 31, 2018, will be \$13.7 million and the Non-Tax Supported debt capacity available becomes \$5.2 million for a total of \$18.9 million that could be issued under the current City policy.

The City will continue to limit the new tax-supported debt and additional base capital levy to no more than 1% of the All-Inclusive tax increase in any year. For instance in 2018, by increasing the provision for new tax-supported debt by 0.5% of the All-inclusive tax rate increase, \$6.7 million of new debt will be issued.

Chart 1 and 2 on pages 7 and 8 of Report CPFS17-049 outline the estimated debt capacity available for the next five years for tax-supported debt and non-tax supported debt respectively.

Background

During the July 24, 2017 Committee of the Whole deliberations on the \$24.4 million request of Peterborough Housing Corporation (PHC) for the financing of the McRae Construction project, Councillor Haacke asked that staff provide an updated report on the City’s non-tax supported debt financing limits.

This report responds to this request and provides an update to Report CPFS17-031, 2018 Debt Capacity Limit dated June 19, 2017, that provided an in-depth look at debt capacity limits at that point in time. That Report focused on:

- a. Debt Limits – the provincial limit and the City’s self imposed policy limit that parallels the provincial calculation but is more stringent
- b. The impact of the New Debt Management Plan approved by Council in 2012
- c. Debt Outstanding – Issued and Approved Plus Approved but Not Issued, and
- d. The potential for a Self Financing Tax Supported Debt Management Plan.

This Report complements the previous report from June and provides Council with:

- i. A revised, updated debt capacity limit available, inclusive of all recent approvals, and assuming the 2018 budget is approved ‘as is’.
- ii. Quantifies all of the various elements that are included in the Debt Capacity calculation, including debt issued by local boards such as the PUC and PHC.

Debt Capacity Policy

The policy states that the maximum current year annual debt repayment can be no more than 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 the Corporation’s own purpose revenues.

In addition to the known debt charges for the current year, the uncommitted debt capacity is also determined by subtracting:

1. Debenture financing approved by Council,
2. Loan guarantees and significant lease obligations, and
3. Any debt issued by, or on behalf of, the City’s local boards (excluding COPHI) including mortgages, debentures or demand loans.

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 is limited so that the impact on the residential all-inclusive tax increase does not exceed 1% per year.

For 2017, 15% represents \$30.8 million in debt principal and interest costs that could be incurred by the Corporation and is within the policy, with the tax supported portion of 8% amounting to \$16.4 million and non-tax supported of 7% amounting to \$14.4 million.

By using a percentage of own-purpose revenues (Net Revenues), the policy permits the City to take on additional debt as the Corporation grows.

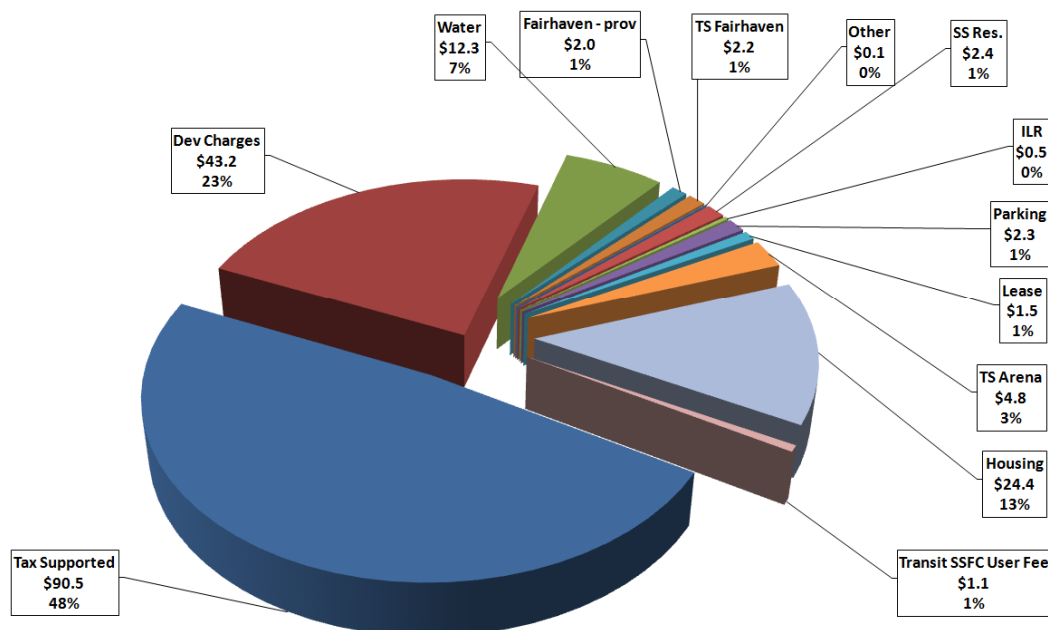
Debt Outstanding - Issued and Approved Plus Approved but Not Issued

At the present time, there is \$109.2 million of debt issued and outstanding (the City is locked into paying principal and interest repayments until maturity). The numbers shown in the following graphs represent outstanding principal only and do not include any interest cost.

In addition to debt issued and outstanding, \$78.1 million debenture financing has been approved in previous years’ budgets and through reports, but has not yet been issued. Reasons may be the project has not been fully completed or the project has been delayed.

When both “Issued and Approved” and “Approved but Not Issued” types of debt are added together, the total debt load on the Municipality is \$187.3 million. The first graph indicates the source that is funding the debt servicing costs.

Debt Issued & Outstanding Plus Approved but Not Issued at December 31, 2017 (\$187.3 Million)

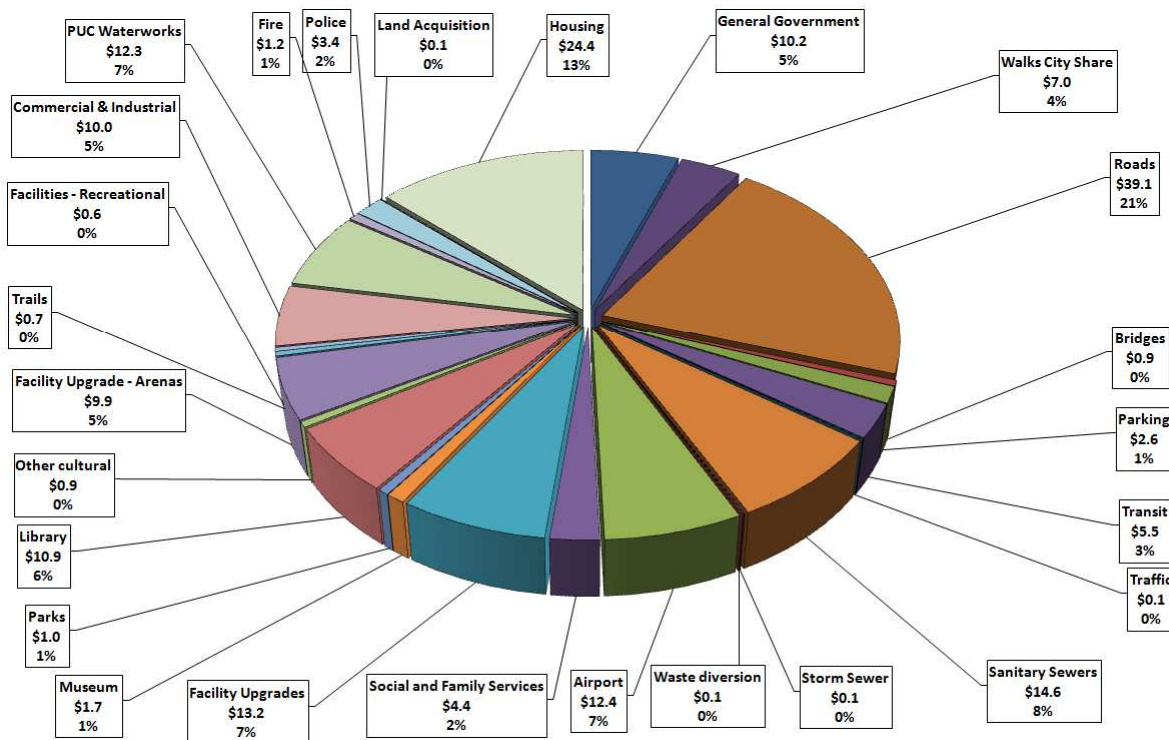


The next graph takes the same \$187.3 million “Issued and Approved” and “Approved but Not Issued” and presents the breakdown by project type, where the money was spent. As shown, the largest single area of debt is Roads, followed by Housing (PHC – McRae), Sanitary Sewers, Facility Upgrades and the Airport.

The key projects that have been approved are:

- a. Peterborough Housing Corporation - \$24.4 million
- b. Various Airport Development projects - \$20.7 million
- c. Public Works Relocation Project - \$8.9 million
- d. Ashburnham Drive –Lansdowne Street to Maria Street – \$5.9 million
- e. Parkhill Sewage Pumping Station - \$4.7 million
- f. WWTP - Phase III - \$6.0 million

Debt Issued and Outstanding Plus Approved but Not Issued - By Object. As at Dec. 31 2017 (187.3 Million)



Capital Works Accomplished – 2012 to 2016

Approving the new Debt Management Plan in 2012 has had a significant impact on the amount of capital work that has been completed over the past five years from 2012 to 2016. For instance, in 2012, the historical gross cost of tangible capital assets on the City's books (excluding all local boards and agencies) amounted to \$656.0 million and included various types of physical assets such as land, buildings, machinery, roadways and storm and sewer networks. In 2016, the historical cost for these same categories of assets had grown to \$822.0 million, inclusive of \$48 million in capital works in-progress, altogether an increase of \$166.0 million.

During that same period of time, the amount of long term debt that the City has issued increased from an amount of \$64.6 million in 2012, to \$89.0 million in 2016, an increase of \$24.4 million. Usually the work is completed or is nearing completion when the debt is issued. Debt issued during that period of time was at varying rates of interest ranging from a low of 2.13% to 3.97%.

Apart from the timing issue, other direct sources of capital revenue account for the difference between the value of the capital works completed and the debt incurred. This includes revenue sources such as infrastructure grants, reserve financing, development charges and capital levy.

The Various Elements of Debt Capacity Forecast as of December 31, 2018

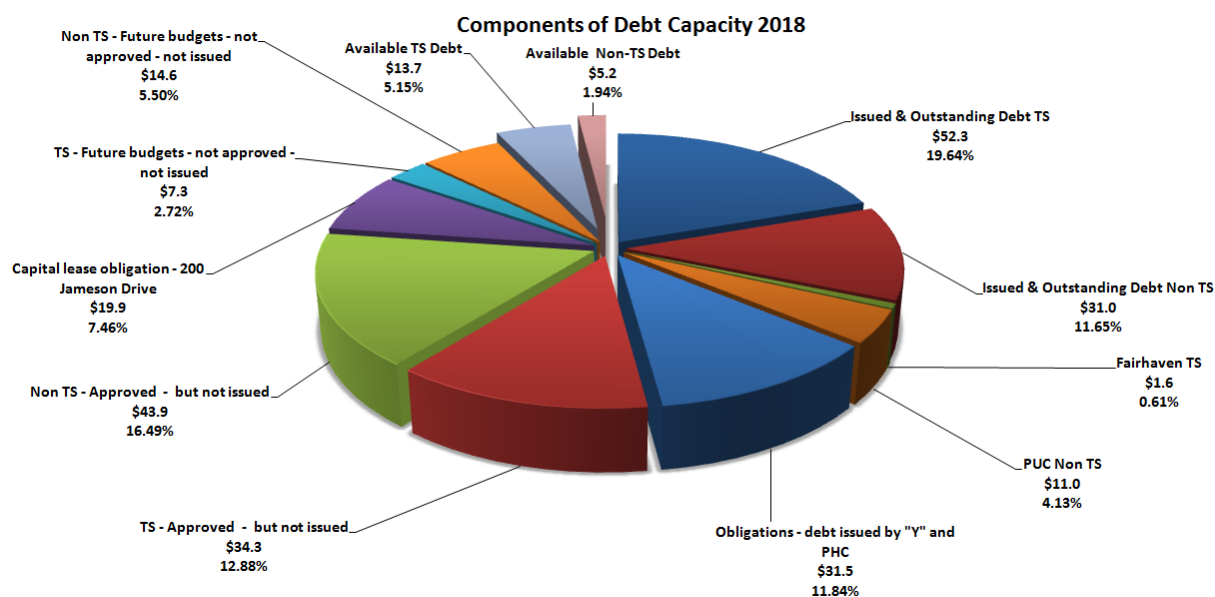
According to the provincial regulations, the following obligations of the City must be considered when calculating the uncommitted debt capacity:

1. Debt issued - \$95.9 million
2. Debenture financing approved through by-law but for which no debt has yet been issued - \$78.1 million
3. Debenture financing approved through the Capital Budget, but for which no by-law has yet been established - \$21.8 million
4. Outstanding financial commitments beyond the normal course of business - None
5. Loan guarantees and significant lease obligations:
 - 200 Jameson Drive – \$19.9 million
 - YMCA - \$3.8 million
6. Any debt issued by, or on behalf of, the City's local boards (excluding COPHI) including mortgages, debentures or demand loans:

- Peterborough Housing Corporation – \$27.7 million (representing all other PHC debt/mortgages with the exception of the McRae project, which is being financed by the City on behalf of PHC)

Remaining Debt Capacity

The debt capacity available at December 31, 2017, and assuming the 2018 Draft Budget is approved, is \$13.7 million of tax-supported (TS) debt, and \$5.2 million of non-tax-supported (Non-TS) debt for a total of \$18.9 million. To derive these amounts, assumptions are made with respect to the term (TS = 10 years, Non-TS = 20 years) of the debt and the expected interest rates available in the market place.



Note: the graph on page 261 of the 2018 Highlights Book should, in fact, reflect Available Non-TS Debt of \$5.2 million, not \$6.8 million.

Forecasting Debt Capacity in Future Years

Forecasting Debt Capacity in future years involves numerous elements including debt that will mature, the reduction in debt servicing costs, an estimate of how much the City’s net revenues will increase and an assumption on how much debt will be approved in future budgets.

Tax-Supported Debt

For illustrative purposes, Chart 1 below provides a potential scenario which forecasts a fairly consistent amount of available tax-supported debt for the next five years. In 2019, because \$10 million will mature (Line 2), the scenario assumes that no additional debt will be budgeted (Line 5). The remaining years assume Council will increase tax-supported debt by 0.5% of the all-inclusive tax rate increase per year plus re-issue any debt that has matured. Line 8 shows the available tax supported debt for each year.

Chart 1**Estimated Debt Costs to be Issued and Available Tax Supported Debt Capacity – 2019 to 2023 (in \$millions)**

Ref	Tax Supported	2019	2020	2021	2022	2023
	Description					
1	Opening Debt Capacity prior year	13.7	16.6	12.8	8.9	5.0
2	Prior year Debt costs available (Matured & Reduced in Annual)	10.7	0.9	6.0	3.9	8.5
3	Additional Debt Capacity available due to Net Revenue increase	2.9	3.0	3.1	3.2	3.3
4	Total Debt Capacity Available Prior to Budget Approval	27.3	20.5	21.9	16.0	16.8
5	Additional Debt (Max. 0.50 % of All-inclusive Rate)	0.0	-6.8	-7.0	-7.1	-7.2
6	Matured Debt re-issued	-10.7	-0.9	-6.0	-3.9	-8.5
7	Total available for Budget	-10.7	-7.7	-13.0	-11.0	-15.7
8	Available Tax supported Debt Capacity	16.6	12.8	8.9	5.0	1.1

Non-Tax Supported Debt Maturing

Non-tax supported debt is funded from various sources such as Development Charges or User Fees and amounts maturing are not necessarily reissued like tax supported debt as it depends on the projects and funding available how much non-tax supported debt is issued. For illustrative purposes, the analysis in Chart 2 assumes the amount available each year is re-issued for a non-tax supported purpose. For instance, within the current Policy, \$10.2 million could be issued in non-tax supported debt in 2019 (Line 8). If all \$10.2 million was issued in 2019, an additional \$5.5 million would be available in 2020 (Line 5). If none of the \$10.2 were issued, the total for 2020 would be \$15.7 million.

Chart 2**Estimated Debt Costs to be Issued and Available Non tax Supported Debt Capacity – 2019 to 2023 (in \$millions)**

Ref	Non Tax Supported	2019	2020	2021	2022	2023
1	Description					
2	Opening Debt Capacity prior year	5.2	0.0	0.0	0.0	0.0
3	Prior year Debt costs available (Matured & Reduced in Annual)	0.8	1.2	9.6	3.6	1.0
4	Additional Debt Capacity available due to Net Revenue increase	4.3	4.4	4.5	4.6	4.7
5	Total Debt Capacity Available Prior to Budget Approval	10.3	5.6	14.1	8.2	5.7
6	Additional Debt	-9.5	-4.4	-4.5	-4.6	-4.7
7	Matured Debt re-issued	-0.8	-1.2	-9.6	-3.6	-1.0
8	Total available for Budget	-10.3	-5.6	-14.1	-8.2	-5.7
9	Available Non-Tax supported Debt Capacity	0.0	0.0	0.0	0.0	0.0

Managing Debt Capacity

As the available debt capacity limits get lower and interest rates rise, it will be prudent for Council to look to other revenue sources rather than debt to maintain its capital program. This would mean a more “pay-as-you go” philosophy with funding from other sources such as capital levy, reserves, Casino revenues and Development Charges directly versus issuing Development Charges funded debt.

Summary

Staff will continue to monitor debt capacity closely and ensure that any new debt recommended for approval by Council is within the existing debt management policy.

Submitted by,

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