2021 Annual Repayment Limit

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Report Summary

This report provides an update on the City's 2021 annual debt repayment limit as determined by the Province.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan.

Financial Implications

There are no financial implications associates with this report.

Background

Each year, the Province calculates an Annual Repayment Limit (ARL) for every municipality in the Province as of January 1st. The 2021 Annual Repayment Limit for the City of Greater Sudbury has been received and is attached to this report. It is based on information extracted from the 2019 Financial Information Return (FIR). The 2020 FIR, which was filed in May, will form the basis for the calculation of the 2022 Annual Repayment Limit.

Under Provincial guidelines, no municipality should spend more than 25% of its net revenues on debt repayment. Based on this percentage, the ARL indicates the maximum debt repayment a municipality could support. Under the Provincial formula of 25%, the City of Greater Sudbury has the capacity to increase annual debt repayments by $101.7 million.

For illustrative purposes, the Province indicates that based upon the stated $101.7 million annual repayment limit at a 5% and 7% interest rate over an amortization period of 20 years, the City could undertake a further **$1.3 billion** or **$1.1 billion** respectively in long-term borrowing. Of course, if this were done, the operating budget would need to fund the repayment of this debt, which would involve discussions about service adjustments and/or property tax level changes.

However, Council's own debt limit is more conservative. Its self-imposed annual repayment limit is no more than 10% of the City's own purpose revenue. Using this Council-approved threshold, the City had the capacity to increase annual debt repayments by $35.4 million as of January 1, 2021. This means the City could borrow $695 million over 30 years at 3.0% and remain within its own policy guidelines.

Considering the bond issuance of $200 million in 2020 to fund the large projects and Municipal Road 35 construction at a very favorable interest rate of 2.416%, $9 million of the $35 million limit is currently in use. Plans approved in 2021 for additional debt financing will increase the annual debt repayment to $22.4 million, which incorporates planned debt financing of $55 million for the Pioneer Manor Bed Redevelopment project and debt to be issued for projects approved in prior periods of $43 million. The City still has approximately $425 million of available borrowing capacity at current interest rates.

At 2020 year-end, the total long-term liabilities of the City of Greater Sudbury were approximately $261.8 million (2019-$70.3 million) with debt repayments and interest of $14.6 million recorded in 2020. As contained in the 2020 BMA Study, the City of Greater Sudbury's tax debt charges as a percentage of own source revenues was 2.0% at December 31, 2019, well below the survey average of 5.2%. Also, the City of Greater Sudbury's debt to reserve ratio at December 31, 2019 was 0.5, which is below the BMA survey average of 0.8. Based on the recently submitted 2020 FIR, the debt to reserve ratio is 1.7 due to the increase in total long-term liabilities.

Conclusion

Based on the current Council approved limit of 10% of net revenues and taking into account debt currently incurred, projects approved in current and prior budgets, the City continues to have sufficient financial flexibility to address current and planned future financing requirements.