

2020 Annual Repayment Limit

Background

Each year, the Province calculates an Annual Repayment Limit (ARL) for every municipality in the Province as of January 1st. The 2020 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 2018 Financial Information Return (FIR). The 2019 FIR, which was filed in May, will form the basis for the calculation of the 2021 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 debt repayments to \$94.9 million.

For illustrative purposes, the Province indicates that, based upon the stated \$94.9 million annual repayment limit at a 5% and 7% interest rate over an amortization period of 20 years, the City could undertake a further \$1.2 billion or \$1.0 billion respectively in long-term borrowing. Of course, if this were done, the operating budget would have to increase by the \$94.9 million necessary for the debt repayments. However, Council has approved setting a limit of 10% of the City's own purpose revenue for annual debt repayment. Using the Council approved 10% threshold of net revenues the City had the capacity to increase annual debt repayments by \$31.9 million as of January 1, 2020, which would enable the City to borrow \$625 million over 30 years at 3.0% and remain within Council guidelines. However, the City did issue a bond of \$200 million in 2020 to fund the large projects and Municipal Road 35 construction. The bond was issued at a very favorable interest rate of 2.416%, which translates into annual debt repayments of \$9.0 million dollars.

At 2019 year-end, the total long-term liabilities of the City of Greater Sudbury were approximately \$70.3 million (2018 - \$76.5 million) with debt repayments and interest of \$8.8 million recorded in 2019. As contained in the 2019 BMA Study, the City of Greater Sudbury's tax debt interest as a percentage of own source revenues was 0.3% at December 31, 2018, well below the survey average of 1.2%. Also, the City of Greater Sudbury's debt to reserve ratio at December 31, 2018 was 0.5, which is below the BMA survey average of 0.9. Based on the recently submitted 2019 FIR these ratios are 0.3 and 0.5 respectively.

As of January 1st, 2020, the annual debt repayment for the City was \$10.9 million. The \$200 million debt secured increases the debt repayments to \$19.9 million from \$10.9 million. In addition, the 2020 capital budget contains \$33 million of debt financing, which will increase the City's annual debt repayment to \$21.6 million. This represents a debt repayment of 5.1% of the City's net revenue. The City's borrowing capacity

maintains a robust \$400 million at current interest rates. However the tax debt interest as a percentage of own source revenues is estimated to increase to 1.7% from 0.3% and will be above the average of 1.2% from the BMA Study.

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 does have the capacity to incur more debt.