

For Information Only

2018 Annual Repayment Limit

Presented To: Finance and
Administration
Committee

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Type: Correspondence for
Information Only

Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides an update on the City's 2018 annual debt repayment limit as determined by the Province.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

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2018 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 2018 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 2016 Financial Information Return (FIR). The 2017 FIR, which was filed in May, will form the basis for the calculation of the 2019 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 \$90.9 million.

For illustrative purposes, the Province indicates that, based upon the stated \$90.9 million annual repayment limit at a 5% and 7% interest rate over an amortization period of 20 years, the City could undertake a further \$1.1 billion or \$962 million respectively in long-term borrowing. Of course, if this were done, the operating budget would have to increase by the \$90.9 million necessary for the debt repayments. However, Council has approved setting a limit of 10% of the City's net revenue for annual debt repayment. Using the Council approved 10% threshold of net revenue, the City has the capacity to increase annual debt repayments by \$30.9 million. The City could borrow \$533 million over 30 years at 4% and remain within Council guidelines.

At 2017 year-end, the total long-term liabilities of the City of Greater Sudbury was approximately \$77.5 million (2016 - \$82.6 million) with annual debt repayments including interest, of \$9.1 million. As contained in the 2017 BMA Study, the City of Greater Sudbury's tax debt interest as a percentage of own source revenues was 0.3% at December 31, 2016, well below the survey average of 1.3%. Also, the City of Greater Sudbury's debt to reserve ratio at December 31, 2016 was 0.5, which is below the BMA survey average of 1.0. Based on the recently submitted 2017 FIR these ratios are 0.3% and 0.5 respectively.

Council has approved a number of projects that will be paid for using external debt financing. The approved amount and forecasted annual payment follow:

| Project | Long Term Borrowing | Annual Payment | Budget Year Approved |
|----------------------------------|----------------------------|-----------------------|-----------------------------|
| Place Des Arts | \$5.0 Million | \$350,000 | 2017 |
| Event Centre | \$90.0 Million | \$5.2M | 2018 |
| MR 35 | \$30.8 Million | \$1.9M | 2018 |
| Playground Revitalization | \$2.3 Million | \$150,000 | 2018 |
| Total | \$128.1 Million | \$7.6 Million | |

The above projects increase the debt repayments to \$16.7 million from \$9.1 million and the City borrowing capacity maintains a robust \$401 million. However the tax debt interest as a percentage of own source revenues is estimated to increase to 1.6% from 0.3% and will be above the average of 1.3% from the BMA Study. The debt to reserve ratio increases to 1.4 from 0.5 which is also above the 1.0 average from the BMA Study.

The remaining large project, The Junction, has an estimated budget of approximately \$110 million and would require an annual debt payment of \$6.3 million based on estimated rates. The City would still have \$291 million of borrowing capacity, under current policy, however the tax debt interest to own source revenue increases 2.8% and the debt to reserve ratio 2.2. Both of these ratios are significantly above the averages in 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 and the remaining large project the City does have the capacity to incur more debt. As the City ratios move higher than our comparators there may be an impact on our debt rating and may increase the cost of borrowing.

2018 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

| | | | |
|-------------------------|-------------------|------------------------|----------------------|
| MMAH CODE: | 23103 | FIR CLEAN FLAG: | Updated Under Review |
| MUNID: | 53005 | | |
| MUNICIPALITY: | Greater Sudbury C | | |
| UPPER TIER: | | | |
| REPAYMENT LIMIT: | | \$ | 90,872,865 |

The repayment limit has been calculated based on data contained in the 2016 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2016 to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. The limit is effective January 01, 2018

FOR ILLUSTRATION PURPOSES ONLY,

The additional long-term borrowing which a municipality could undertake over a 5-year, a 10-year, a 15-year and a 20-year period is shown.

If the municipalities could borrow at 5% or 7% annually, the annual repayment limits shown above would allow it to undertake additional long-term borrowing as follows:

| 5% Interest Rate | | | |
|------------------|-----|--------------------|------------------|
| | (a) | 20 years @ 5% p.a. | \$ 1,132,476,758 |
| | (a) | 15 years @ 5% p.a. | \$ 943,229,264 |
| | (a) | 10 years @ 5% p.a. | \$ 701,696,176 |
| | (a) | 5 years @ 5% p.a. | \$ 393,431,949 |
| 7% Interest Rate | | | |
| | (a) | 20 years @ 7% p.a. | \$ 962,708,426 |
| | (a) | 15 years @ 7% p.a. | \$ 827,662,240 |
| | (a) | 10 years @ 7% p.a. | \$ 638,252,977 |
| | (a) | 5 years @ 7% p.a. | \$ 372,596,688 |

DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

Greater Sudbury C

MMAH CODE:

23103

| Debt Charges for the Current Year | | 1 \$ |
|--|--|------------------|
| 0210 | Principal (SLC 74 3099 01) | 5,907,022 |
| 0220 | Interest (SLC 74 3099 02) | 3,202,582 |
| 0299 | Subtotal | 9,109,604 |
| 0610 | Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01) | 0 |
| 9910 | Total Debt Charges | 9,109,604 |

| Amounts Recovered from Unconsolidated Entities | | 1 \$ |
|---|---|------------------|
| 1010 | Electricity - Principal (SLC 74 3030 01) | 0 |
| 1020 | Electricity - Interest (SLC 74 3030 02) | 0 |
| 1030 | Gas - Principal (SLC 74 3040 01) | 0 |
| 1040 | Gas - Interest (SLC 74 3040 02) | 0 |
| 1050 | Telephone - Principal (SLC 74 3050 01) | 0 |
| 1060 | Telephone - Interest (SLC 74 3050 02) | 0 |
| 1099 | Subtotal | 0 |
| 1410 | Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02) | 0 |
| 1411 | Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02). | 0 |
| 1412 | Lump sum (balloon) repayments of long term debt (SLC 74 3110 01 + SLC 74 3110 02). | 0 |
| 1420 | Total Debt Charges to be Excluded | 0 |
| 9920 | Net Debt Charges | 9,109,604 |

| | | 1 \$ |
|---------------------------------|--|--------------------|
| 1610 | Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01). | 555,880,976 |
| Excluded Revenue Amounts | | |
| 2010 | Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04) | 0 |
| 2210 | Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC10 0815 01) | 128,192,466 |
| 2220 | Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01) | 1,826,211 |
| 2225 | Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01) | 3,868,950 |
| 2226 | Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01) | 2,765,931 |
| 2230 | Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01) | 114,088 |
| 2240 | Gain/Loss on sale of land & capital assets (SLC 10 1811 01) | -630,966 |
| 2250 | Deferred revenue earned (Development Charges) (SLC 10 1812 01) | 3,699,692 |
| 2251 | Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01) | 376,498 |
| 2252 | Donated Tangible Capital Assets (SLC 53 0610 01) | 3,158,223 |
| 2253 | Other Deferred revenue earned (SLC 10 1814 01) | 1,811,170 |
| 2254 | Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01) | 10,768,837 |
| 2299 | Subtotal | 155,951,100 |
| 2410 | Fees and Revenue for Joint Local Boards for Homes for the Aged | 0 |
| 2610 | Net Revenues | 399,929,876 |
| 2620 | 25% of Net Revenues | 99,982,469 |
| 9930 | ESTIMATED ANNUAL REPAYMENT LIMIT (25% of Net Revenues less Net Debt Charges) | 90,872,865 |

* SLC denotes Schedule, Line Column.