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.