St. Catharines

Corporate Report
Budget Standing Committee

Deferred by the Budget Standing Committee at the meeting of November 6, 2017

Report from Financial Management Services, Director

Date of Report: September 28, 2017 **Date of Meeting:** November 6, 2017

Report Number: FMS-B046-2017 **File:** 10.57.99

Subject: Debt Management Strategy – Additional Information Requested

Recommendation

That this report be received for information.

Summary

This report provides additional information requested at the August 28th Budget Standing Committee (BSC) meeting.

Background

Report FMS-B035-2017 was received by the BSC on August 28, 2017. At the meeting, Councillor Garcia made a motion referring the report back to staff for further information, including:

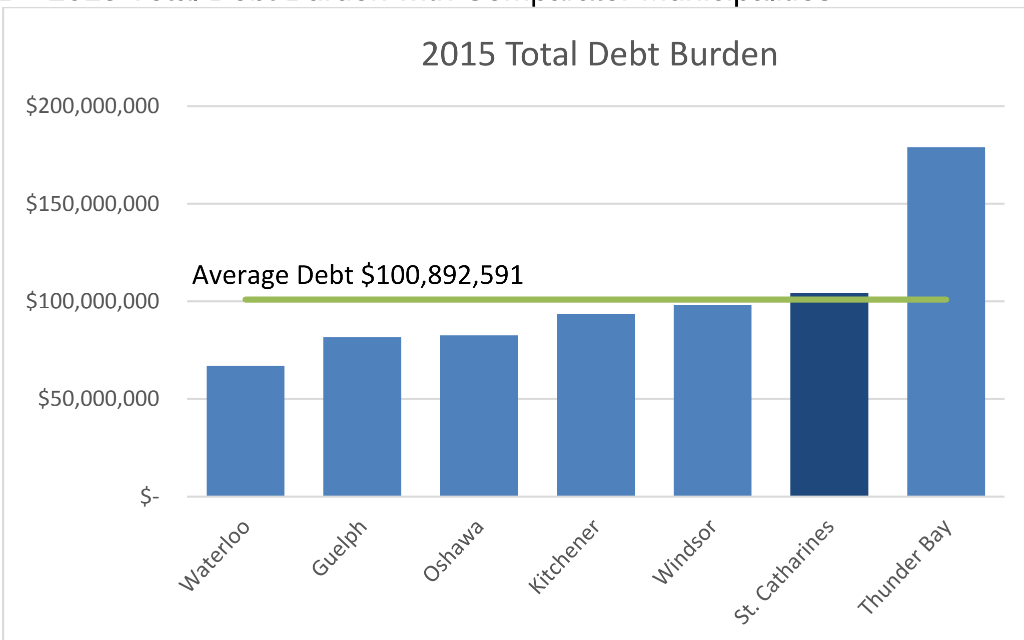
> Reworking of all charts with Comparator Municipalities to show the impact of removing the top and bottom two comparators;
>
> The actual Debt Servicing Cost as a % of Operating Revenue for 2016 and projected for 2017 through 2026;
>
> Staff's recommended strategy or option for better managing our debt, addressing specifically what can be done about Meridian Centre debt; and
>
> That the revised report be ready for the FMS departmental presentation and/or next BSC meeting.

Report

Updated Charts – Comparator Municipalities

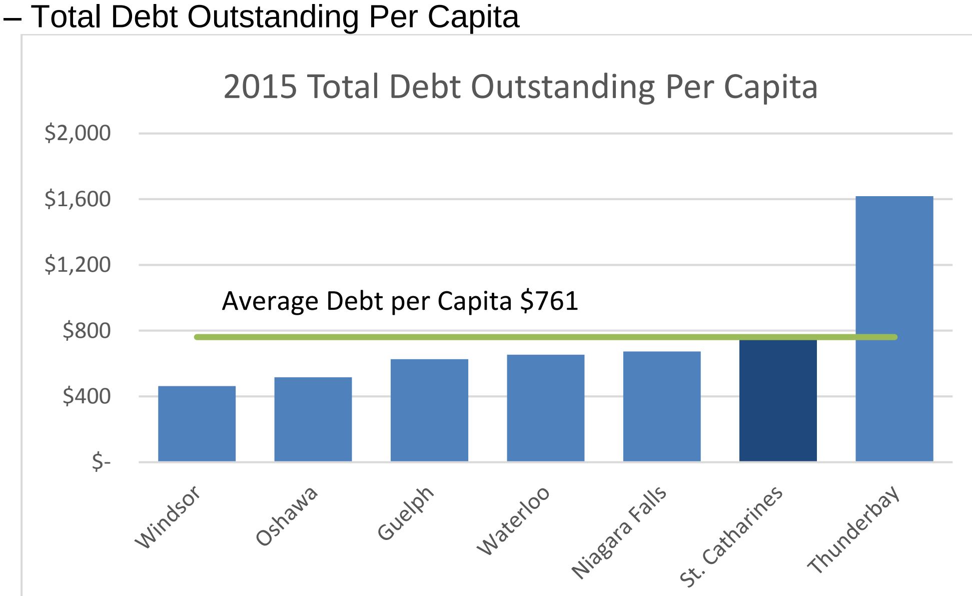
The Total Debt Burden and Total Debt Outstanding Per Capita charts have been updated by removing the top and bottom two comparator on each. A brief explanation of the impact on each can be found following the respective chart.

Figure 1 – 2015 Total Debt Burden with Comparator Municipalities



After removing the top and bottom two comparator municipalities, the average debt decreases from $125 Million to $101 Million. This results in the City of St. Catharines moving from below the average to just above the average with its total debt burden of $104.3 Million.

Figure 2 – Total Debt Outstanding Per Capita

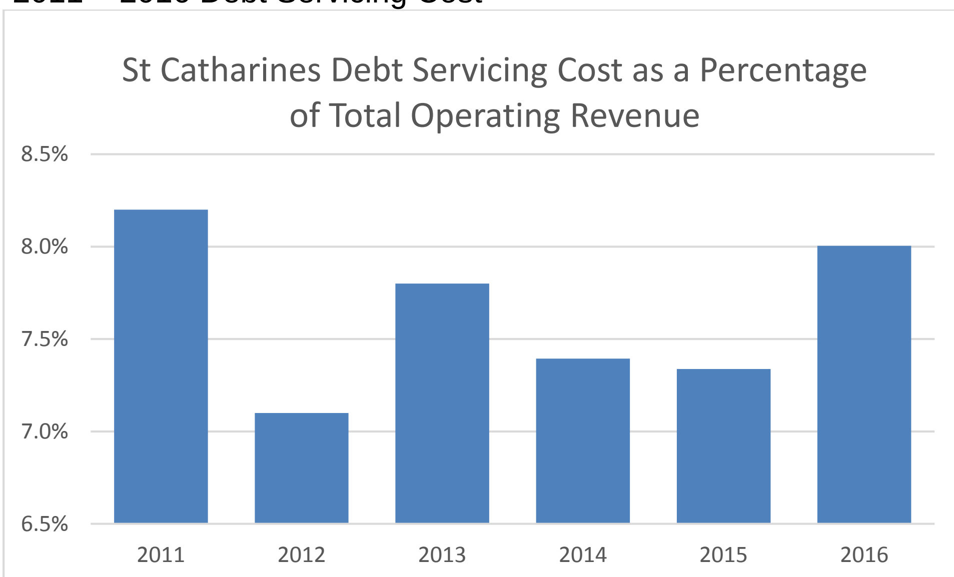


After removing the top and bottom two comparator municipalities for the Total Debt Outstanding Per Capita, the average debt decreases from $935 to $761. This puts the City of St. Catharines slightly above this average with its debt per capita for 2015 of $776.

Updated Chart – Debt Servicing Cost

The total debt servicing cost as a percentage of total operating revenue has been updated to include the 2016 actuals.

Figure 3 – 2011 – 2016 Debt Servicing Cost

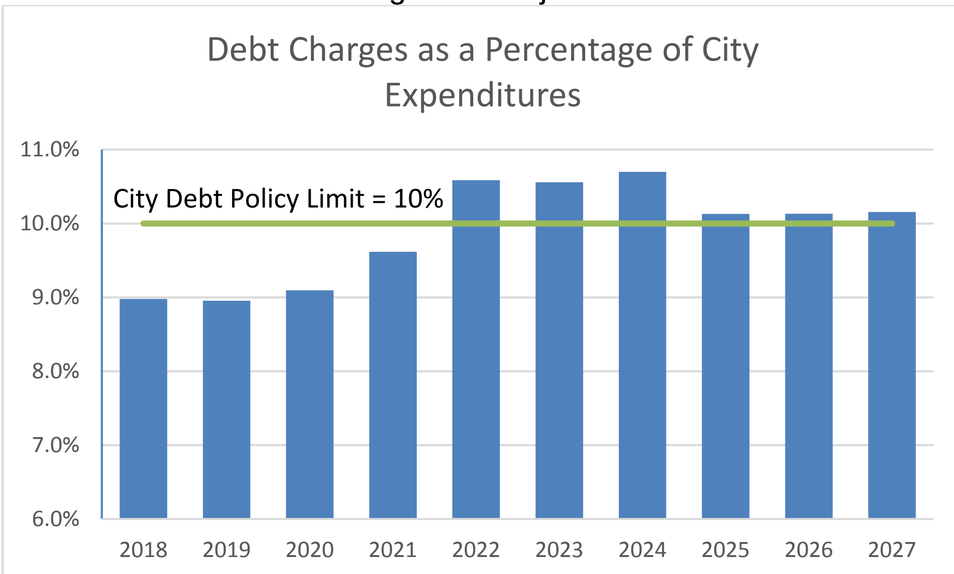


The 2016 debt servicing cost as a percentage of total operating revenue has increased to 8.0% as a result of the first full year of payments for debt issued in 2015 (Meridian Centre).

Debt Servicing Cost Projection for 2017 to 2026

The debt servicing cost as a percentage of operating revenue is calculated by the Province, and includes a number of factors which the staff do not have available for future years (such as Federal and Provincial grants) in order to perform the calculations. In order to provide a guide to Council and the public, staff do prepare a calculation based on the debt servicing cost as a percentage of total City (including City departments and Agencies, Boards and Commissions) expenditures. The projected debt servicing cost as a percentage of total City expenditures has been provided in the following chart.

Figure 4 – 2017 – 2026 Debt Servicing Cost Projection

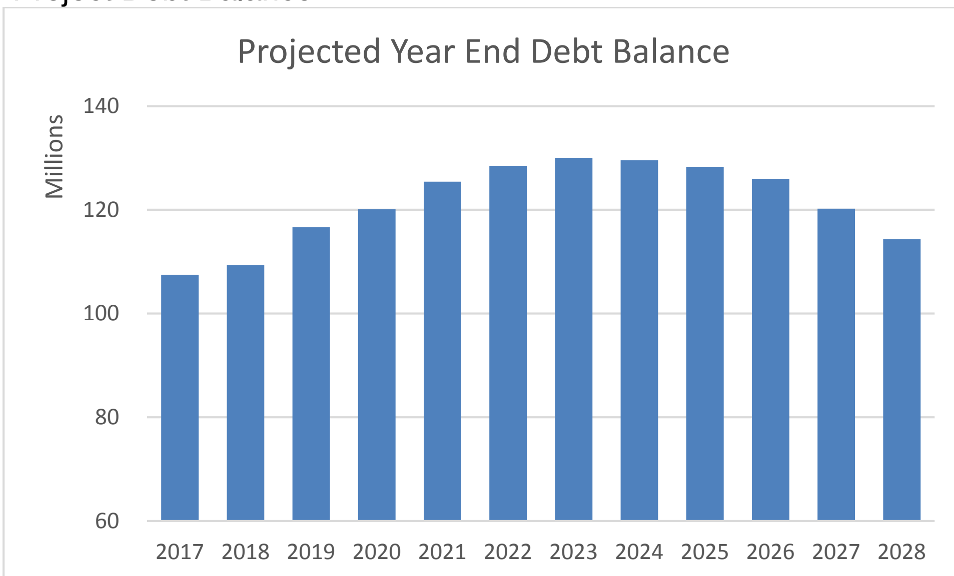


The current forecast will put the City above its self-approved debt policy limit of 10% starting in 2022, with a peak in 2024 of 10.7%. In order to project these debt charges, staff have had to make a number of assumptions, including the amount of debt to be issued, timing of the debt issuances and total amount of expenditures. This projection assumes all future debt being issued for a period of 10 years at an interest rate of 4%.It should be noted that this forecast assumes that debt funding in the capital budget will be reduced to $12 million annually beginning in 2022. The City needs to continue to refine its Asset Management Plan in order to better understand and forecast its future capital spending needs.

The assumptions made are conservative. Any changes made to any of the assumptions – whether that is timing, term or interest rate for debt issuances, or the level of capital spending supported by debt, will have an impact on the debt charges as a percentage of expenditures, projected debt balance, and future tax levy impacts.

A revised debt balance forecast has been provided reflecting these same assumptions. The change in assumptions results in a lower peak than indicated in report FMS-B035-2017, however the peak is reached later in the forecast and the drop following the peak is not as steep.

Figure 5 – Project Debt Balance



Staff Recommended Option for Debt Management

Report FMS-B035-2017 (attached as an Appendix to this report) provided the option of four strategies for managing debt moving forward.

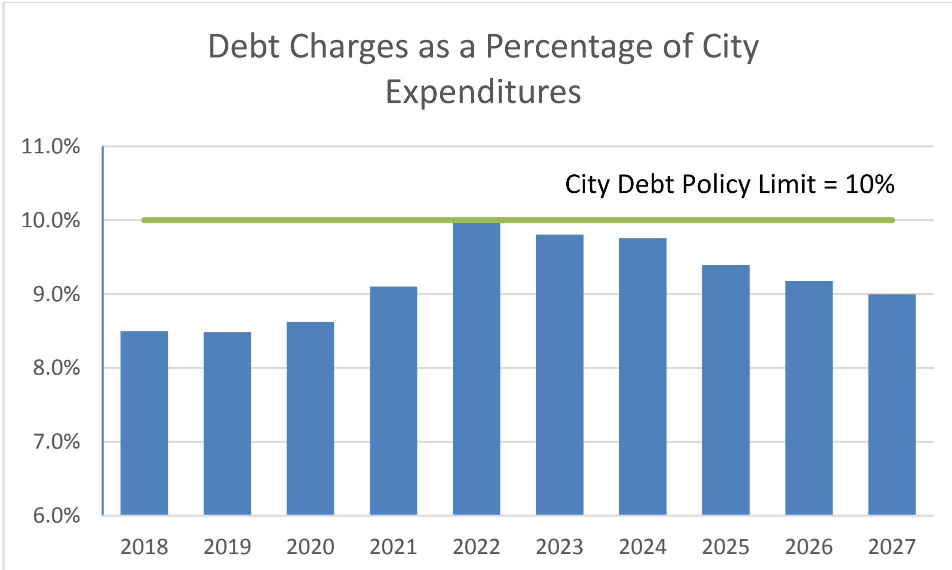
In order to reduce debt charges as a percentage of City expenditures and keep the level below 10%, there are three options:

1) Increase the level of Capital out of Revenue funding to reduce the need for debt funding
2) Increase the infrastructure levy to reduce the need for debt funding
3) Decrease the capital program spending

Staff do not recommend the third option due to the existing infrastructure deficit and gas tax funding requirements. The first two options are comparable and have the same impact on the tax payer, however increasing the infrastructure levy is the more transparent option and has been accepted taxpayers.

The resulting debt charges as a percentage of City expenditures for increasing either the Capital out of Revenue or Infrastructure levy amounts by 1% ($1 million) annually for 4 years are shown in Figure 6.

Figure 6 – 2017 – 2026 Debt Servicing Cost Projection with Increased Capital out of Revenue or Infrastructure Levy



This approach results in a peak of the debt charges as a percentage of expenditures in 2022 of just below the City's approved debt limit of 10%.

Based on this information, **the staff recommendation would be option 2 – to increase the Infrastructure levy by 1% (approximately $1 million) annually**, bringing it to an estimated $5 million annually in 2021. This will ensure the increased funding is transparent and based on the existing forecasts will allow the City's debt servicing cost to continue to be in the moderate range, below the current City approved debt limit. The estimated annual impact this will have on the average residential household is annual increases of $14.53 starting in 2018, resulting in a cumulative increase of $58.12 by 2021, and maintained at that level thereafter.

Meridian Centre Debt

The Meridian Centre debt is a debenture with Infrastructure Ontario. Debenture payments are fixed for the entire loan period (until 2045), which means that we cannot make any changes to the Meridian Centre debt.

Financial Implications

The financial implications of the staff recommendations are outlined within options included herein as well as in report FMS-B035-2017.

Relationship to Strategic Plan

Reviewing the City's debt management strategy aligns with the Economic Sustainability pillar with the goal of being an affordable city for young people, families and retired older adults.

Conclusion

The City's existing capital forecast, along with its existing unfinanced debt, is likely to result in debt charges being slightly above the debt policy limit of 10% of expenditures by 2022. Increasing the levy funded share of capital as recommended in this report in order to reduce debt funding would allow the City to invest in infrastructure at planned levels without exceeding the debt policy limit.

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