



STAFF REPORT
Financial Planning & Purchasing

Title: 2019 Annual Debt and Financial Obligation Limit Calculation
 Report Number: CORP2018-074
 Author: Julie Koppeser
 Meeting Type: Council Meeting
 Council/Committee Date: December 10, 2018
 File: NA
 Attachments: NA
 Ward No.: All

Recommendation:

That Council receives the report CORP2018-074 for information.

A. Executive Summary

The Municipal Act permits a maximum of 25% of net operating revenues to be used to fund principal and interest charges for debt. In 2017, the City of Waterloo paid principal and interest charges totalling \$7.6 million. As a percentage of net operating revenues as defined under the Provincial regulation this represents 4.85%, which is under the limit.

B. Financial Implications

The 2019 Proposed Capital Budget and 2020-2028 Proposed Capital Forecast includes the proposed 10 year debentures as listed in Table 1. These debentures are a mix of tax-based debt, as well as debt projected to be fully recovered from parking enterprise revenue.

Table 1: Projected Debentures

Project	\$	Year
Waterloo Memorial Recreation Complex Addition and Repurposing	2,784,000	2019
Re-Purposing of the Carnegie Library - Interior	669,000	2019
Uptown Parking Expansion General (Structure & Surface Spaces)	1,811,000	2020
Fire Rescue Expansion	4,322,000	2023

As shown in Tables 4 and 5, with the inclusion of the debt charges related to these proposed debentures, the City of Waterloo will remain under the provincial limit.

C. Technology Implications

None.

D. Link to Strategic Plan

(Strategic Priorities: Multi-modal Transportation, Infrastructure Renewal, Strong Community, Environmental Leadership, Corporate Excellence, Economic Development)

Corporate Excellence – Ensure balanced consideration of social, cultural, economic and environmental factors when making fiscally responsible practices/policies

E. Previous Reports on this Topic

CORP2017-095 2018 Annual Debt and Financial Obligation Limit Calculation Update

CORP2016-110 2017 Annual Debt and Financial Obligation Limit Calculation Update

CORP2015-116 2016 Annual Debt and Financial Obligation Limit Calculation Update

CORP2014-089 2015 Annual Debt and Financial Obligation Limit Calculation Update

F. Approvals

Name	Signature	Date
Author: Julie Koppeser		
Director: Filipa Reynolds		
Commissioner: Keshwer Patel		
Finance: Keshwer Patel		

CAO



2019 Annual Debt and Financial Obligation Limit Calculation CORP2018-074

The annual long term financial obligation and debt limit for all municipalities is determined under the Municipal Act, Regulation 403/02, and the Annual Debt Repayment Limit (ARL) is sent to municipalities by the Ministry at the beginning of each year. The debt limit is calculated based on data in the Financial Information Return (FIR) that is submitted each year to the Ministry by the City of Waterloo.

Although the Ministry reviews and regulates the debt levels of a municipality, it is the responsibility of the municipality to calculate whether it is within its limit. Debt capacity calculations have been provided as part of the debt analysis schedules in the capital budget and debt monitoring is undertaken annually as part of the capital budgeting process.

The Municipal Act prescribes that the Debt Limit is to be calculated before authorizing any specific work or class of work, or any increase in expenditure for a previously authorized specific work or class of work, that would require a long-term debt or financial obligation beyond the term for which Council was elected. Prior to the authorization by Council of long-term debt or financial obligations, this limit must be updated by the Treasurer in the prescribed manner. The current limit was effective January 1, 2018, and was based on the 2016 FIR.

The limit calculation that will be effective January 1, 2019 is to be based on information from the last submitted Financial Information Return, the 2017 FIR.

Included for further reference are excerpts from the Capital Budget Document: Provincial Debt Policy Calculation, (updated for 2017 FIR actuals) which demonstrate the proposed capital budget and forecast as planned to include projects requiring debenture issues.

The Municipal Act regulation permits a maximum of 25% of net operating revenues to be used to fund principal and interest charges for debt. In 2017, the City of Waterloo paid principal and interest charges totalling \$7.6 million. As a percentage of net operating revenues as defined under the Provincial regulation this represents 4.85%, which is under the limit.

Waterloo's net debt charges as a percentage of net operating revenues, at 4.85% for 2017, is also lower than the provincial average for similar size cities which for 2017 was 7.26%.

The following tables provide step by step information on the calculation required under the Municipal Act. As shown in Table 2, the 2017 net operating revenue calculation is \$155.8 million. Table 3 depicts the existing and proposed debt charges

The updated repayment limit as established by the Ministry guidelines is estimated to be \$31.4 million. This is depicted in Table 4, which calculates the difference between the maximum 25% allowable, and the existing and proposed debt charges, to determine the remaining debt charges capacity. The City has not, at this point, received the final limit that will be in effect for January 1, 2019. This notification from the Ministry is usually received in the first or second quarter of each year.

The annual principal and interest costs associated with our long-term financial obligations and debt have been included in both the proposed capital and operating budgets.

Chart 1: Debt Charges as compared to Net Revenues and Provincial Limit

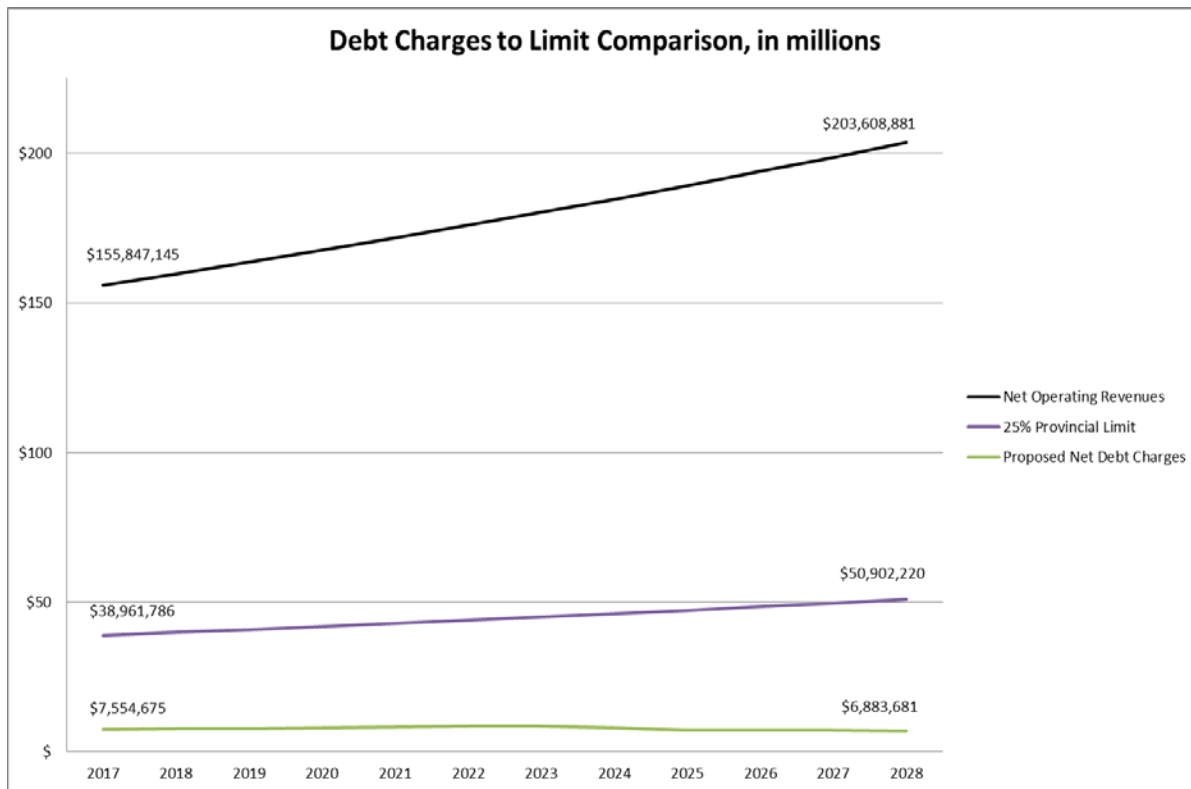


Table 2: 2017 Net Revenue Calculation

	Actuals 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
Total Revenue Fund Revenues	\$ 194,333,899											
Less: Deferred Revenue	(20,623,046)											
Less: Ontario Conditional Grants	(8,317,362)											
Gain or Loss: Sale of Land and Capital Assets	(248,871)											
Less: Business Enterprise Equity	(6,601,726)											
Less: Other Municipalities	(2,695,749)											
Net Revenue Fund Revenues*	\$ 155,847,145	\$ 159,680,985	\$ 163,609,137	\$ 167,633,922	\$ 171,757,716	\$ 175,982,956	\$ 180,312,137	\$ 184,747,815	\$ 189,292,612	\$ 193,949,210	\$ 198,720,360	\$ 203,608,881

* Budgeted Net Revenue Fund Revenues based on 2.5% increase annually.

Table 3: 2017 Debt Charges and 10 Year Projection

	Actuals 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
Existing RIM Park Capital Lease Payment	5,063,707	5,111,490	5,160,228	5,209,941	5,260,648	5,312,369	5,365,125	5,418,935	5,473,822	5,529,807	5,586,911	5,645,158
Existing DC Fire Hall Debenture	162,440	-	-	-	-	-	-	-	-	-	-	-
Existing Waterloo Square Debenture	347,070	345,056	-	-	-	-	-	-	-	-	-	-
Silver Lake Study - EA Addendum	35,901	455,582	454,925	454,920	455,445	454,188	454,122	454,300	453,691	454,357	453,264	-
Maple Hill Creek Rehab-Westvale Pond to University Ave		13,366	111,872	113,011	112,895	113,558	113,040	113,358	114,479	114,422	115,181	114,752
Development Charges-Road Projects	979,686	985,212	988,396	989,024	988,492	985,128	979,750	559,646	-	-	-	-
Development Charges-Sanitary Projects	861,135	866,175	869,052	869,763	869,357	866,420	861,775	403,800	-	-	-	-
Development Charges-Stormwater Projects	104,736	105,236	105,538	105,526	105,439	105,068	104,453	103,634				
(Future) Other Proposed Debt Charges	\$ -	\$ -	\$ -	\$ 404,797	\$ 617,101	\$ 617,101	\$ 617,101	\$ 1,123,772	\$ 1,123,772	\$ 1,123,772	\$ 1,123,772	\$ 1,123,772
Total Existing & Proposed Debt Charges for City of Waterl	\$ 7,554,675	\$ 7,882,116	\$ 7,690,011	\$ 8,146,981	\$ 8,409,377	\$ 8,453,833	\$ 8,495,365	\$ 8,177,445	\$ 7,165,763	\$ 7,222,357	\$ 7,279,128	\$ 6,883,681

Table 4: Remaining Debt Charges Capacity

	Actuals 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
Net Revenue Fund Revenues	\$ 155,847,145	\$ 159,680,985	\$ 163,609,137	\$ 167,633,922	\$ 171,757,716	\$ 175,982,956	\$ 180,312,137	\$ 184,747,815	\$ 189,292,612	\$ 193,949,210	\$ 198,720,360	\$ 203,608,881
Maximum Allowable Under Regulation For Total Debt Charges (25% of Net Revenue Fund Revenues)	\$ 38,961,786	\$ 39,920,246	\$ 40,902,284	\$ 41,908,480	\$ 42,939,429	\$ 43,995,739	\$ 45,078,034	\$ 46,186,954	\$ 47,323,153	\$ 48,487,302	\$ 49,680,090	\$ 50,902,220
Total Existing & Proposed Debt Charges for City of Waterloo	\$ 7,554,675	\$ 7,882,116	\$ 7,690,011	\$ 8,146,981	\$ 8,409,377	\$ 8,453,833	\$ 8,495,365	\$ 8,177,445	\$ 7,165,763	\$ 7,222,357	\$ 7,279,128	\$ 6,883,681
Remaining Debt Capacity	\$ 31,407,111	\$ 32,038,130	\$ 33,212,273	\$ 33,761,500	\$ 34,530,052	\$ 35,541,906	\$ 36,582,669	\$ 38,009,509	\$ 40,157,390	\$ 41,264,945	\$ 42,400,963	\$ 44,018,539

Table 5: Debt Charges as a % of Net Operating Revenues

Based on FIR for Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Provincial Calculation	Effective 2019	Effective 2020	Effective 2021	Effective 2022	Effective 2023	Effective 2024	Effective 2025	Effective 2026	Effective 2027	Effective 2028	Effective 2029	Effective 2030
(Proposed) Debt Charges shown as a Percentage of Net Revenue Fund Revenues	4.85%	4.94%	4.70%	4.86%	4.90%	4.80%	4.71%	4.43%	3.79%	3.72%	3.66%	3.38%
(Existing) Debt Charges shown as a Percentage of Net Revenue Fund Revenues	4.85%	4.94%	4.70%	4.62%	4.54%	4.45%	4.37%	3.82%	3.19%	3.14%	3.10%	2.83%

* FIR = Financial Information Returns from Annual Financial Statements