



STAFF REPORT
Finance

Title: 2021 Annual Debt and Financial Obligation Limit Calculation
 Report Number: CORP2020-057
 Author: Julie Koppeser
 Meeting Type: Council Meeting
 Council/Committee Date: December 7, 2020
 File: N/A
 Attachments: N/A
 Ward No.: City-wide

Recommendations:

That Council received the report CORP2020-057 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 debt charges. In 2019, the City of Waterloo paid principal and interest charges totalling \$7.95 million. As a percentage of net operating revenues as defined under the Provincial regulation this represents 4.68%, which is under the limit. Under the Municipal Act municipalities are required to confirm available debt capacity exists within the limit before Council approval of any debt funded project, or expenditure increase to a previously approved debt funded project, that will require repayment beyond the current term of Council.

B. Financial Implications

The 2020-2022 Approved Capital Budget and 2023-2029 Capital Forecast includes the proposed 10 year debentures as listed in Table 1. These debentures are a mix of development charge debt and enterprise debt, both projected to be fully recovered over time through user fees.

Table 1: Projected Debentures

Project	\$	Year
Clair Creek North Reach 1	1,621,000	2021
Keatsway Storm Bypass & Creek Bank Stabilization	1,483,000	2021
Laurel Crk Study Implementation - Hillside Park to HWY 85	393,000	2021
Uptown Parking Expansion General (Structure & Surface Spaces)	3,264,000	2022
Fire Rescue Expansion	6,886,000	2024
Forwell Creek Industrial Lands	1,917,000	2024
Westmount Rd - University Ave to Columbia St.	548,000	2024
Mini Operation Centre on the West Side	2,292,000	2025

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.

It is important to note that over the 10 year projection it is expected that the debt charges as a percentage of revenue will decline.

For additional debt comparator information, please see the City of Waterloo Financial Dashboard at www.waterloo.ca/financial-reports

C. Technology Implications

None.

D. Link to Strategic Plan

(Strategic Objectives: Equity, Inclusion and a Sense of Belonging; Sustainability and the Environment; Safe, Sustainable Transportation; Healthy Community & Resilient Neighbourhoods; Infrastructure Renewal; Economic Growth & Development)

(Guiding Principles: Equity and Inclusion; Sustainability; Fiscal Responsibility; Healthy and Safe Workplace; Effective Engagement; Personal Leadership; Service Excellence)

Fiscal Responsibility

E. Previous Reports on this Topic

CORP2019-085 Annual Debt and Financial Obligation Limit Calculation

CORP2018-074 Annual Debt and Financial Obligation Limit Calculation

CORP2017-095 Annual Debt and Financial Obligation Limit Calculation

CORP2016-110 Annual Debt and Financial Obligation Limit Calculation

CORP2015-116 Annual Debt and Financial Obligation Limit Calculation

F. Approvals

Name	Signature	Date
Author: Julie Koppeser		
Director: Filipa Reynolds		
Commissioner: Olga Smith		
Finance: Paul Hettinga		

CAO



2021 Annual Debt and Financial Obligation Limit Calculation CORP2020-057

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. Therefore, with each budget process and 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, 2020, and was based on the 2018 FIR.

The limit calculation that will be effective January 1, 2021 is to be based on information from the last submitted Financial Information Return, the 2019 FIR. As the current operating year is still underway at the time the debt limit is calculated and issued by the Province, the Financial Information Return from the prior year is used for the calculation.

Included for further reference are excerpts from the Capital Budget Document: Provincial Debt Policy Calculation, (updated for 2019 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 debt charges. In 2019, the City of Waterloo paid principal and interest charges for a total of \$7.95 million. As a percentage of net operating revenues as defined under the Provincial regulation this represents 4.68%, which is under the limit.

Waterloo's net debt charges as a percentage of net operating revenues, at 4.68% for 2019, is also lower than the provincial average for similar size cities which for 2019 was 5.94%.

The following tables provide step by step information on the calculation required under the Municipal Act. As shown in Table 2, the 2019 net operating revenue calculation is \$169.8 million. Table 3 illustrates both the existing and the proposed debt charges.

The updated repayment limit as established by the Ministry guidelines is estimated to be \$34.5 million as shown 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, 2021. This notification from the Ministry is usually received in the first or second quarter of each operating year, and is therefore anticipated to be received early in 2021.

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

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

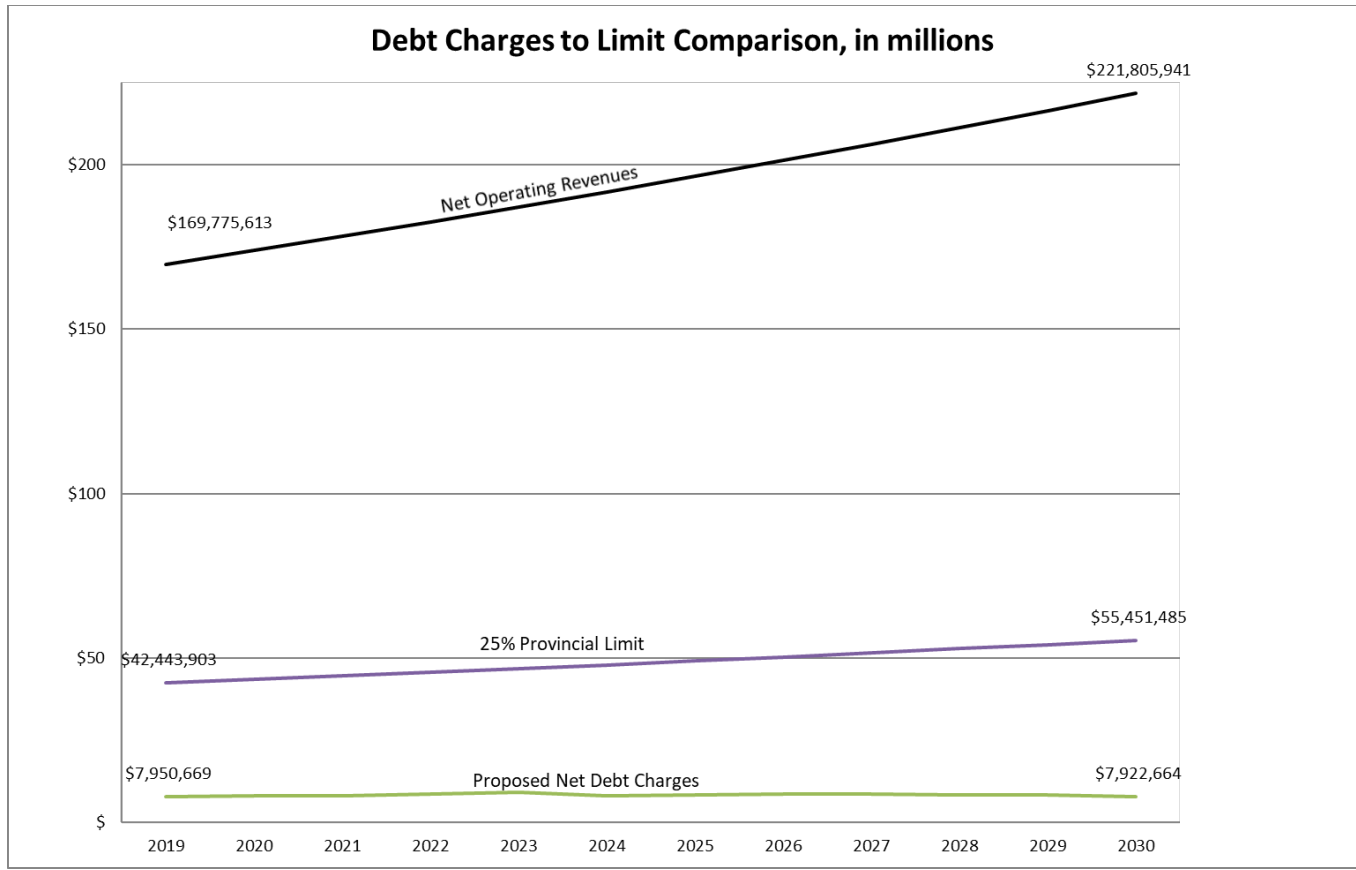


Table 2: 2019 Net Revenue Calculation

2019 Net Revenue Calculation:

	Actuals 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030
Total Revenues	\$ 216,891,423											
Less: Deferred Revenue	-7,838,201											
Less: Ontario Conditional Grants	-6,924,854											
Gain or Loss: Sale of Land and Capital Assets	405,156											
Less: Business Enterprise Equity	-4,959,598											
Less: Donated TCA	-24,775,663											
Less: Other Revenue	-1,322,354											
Less: Other Municipalities	-1,700,296											
Net Operating Revenues*	\$ 169,775,613	\$ 173,952,093	\$ 178,231,315	\$ 182,615,805	\$ 187,108,154	\$ 191,711,014	\$ 196,427,105	\$ 201,259,212	\$ 206,210,189	\$ 211,282,959	\$ 216,480,520	\$ 221,805,941

* Budgeted Net Operating Revenues based on 2.5% increase annually.

Table 3: 2019 Debt Charges and 10 Year Projection*

2019 Actual, 2020-2030 Proposed Debt Charges:

	Actuals 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030
Existing RIM Park Capital Lease Payment	5,420,886	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	5,704,569	5,765,169
Silver Lake Study - EA Addendum	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	111,872	113,011	112,895	113,558	113,040	113,358	114,479	114,422	115,181	114,752	-	-
Re-Purposing of the Carnegie Library - Interior	-	75,268	75,241	75,191	75,280	75,148	75,154	75,258	75,295	75,263	75,353	-
Waterloo Memorial Recreation Complex Addition and Repurpo	-	313,225	313,110	312,900	313,271	312,723	312,747	313,182	313,335	313,200	313,577	-
Development Charges-Road Projects	988,396	989,024	988,492	985,128	979,750	559,646	-	-	-	-	-	-
Development Charges-Sanitary Projects	869,052	869,763	869,357	866,420	861,775	403,800	-	-	-	-	-	-
Development Charges-Stormwater Projects	105,538	105,526	105,439	105,068	104,453	103,634	-	-	-	-	-	-
(Future) Other Proposed Debt Charges	\$ -	\$ -	\$ -	\$ 409,955	\$ 792,595	\$ 792,595	\$ 1,888,803	\$ 2,157,495	\$ 2,157,495	\$ 2,157,495	\$ 2,157,495	\$ 2,157,495
Total Existing & Proposed Debt Charges for City of Waterloo	\$ 7,950,669	\$ 8,130,677	\$ 8,180,626	\$ 8,634,778	\$ 9,059,410	\$ 8,234,140	\$ 8,318,695	\$ 8,644,521	\$ 8,701,482	\$ 8,305,868	\$ 8,250,995	\$ 7,922,664

*Based on the budget approved February 10, 2020

Table 4: Remaining Debt Charges Capacity

Remaining Debt Charges Capacity:

	Actuals 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030
Net Operating Revenues	\$ 169,775,613	\$ 173,952,093	\$ 178,231,315	\$ 182,615,805	\$ 187,108,154	\$ 191,711,014	\$ 196,427,105	\$ 201,259,212	\$ 206,210,189	\$ 211,282,959	\$ 216,480,520	\$ 221,805,941
Maximum Allowable Under Regulation For Total Debt Charges (25% of Net Revenue Fund Revenues)	\$ 42,443,903	\$ 43,488,023	\$ 44,557,829	\$ 45,653,951	\$ 46,777,038	\$ 47,927,754	\$ 49,106,776	\$ 50,314,803	\$ 51,552,547	\$ 52,820,740	\$ 54,120,130	\$ 55,451,485
Total Existing & Proposed Debt Charges for City of Waterloo	\$ 7,950,669	\$ 8,130,677	\$ 8,180,626	\$ 8,634,778	\$ 9,059,410	\$ 8,234,140	\$ 8,318,695	\$ 8,644,521	\$ 8,701,482	\$ 8,305,868	\$ 8,250,995	\$ 7,922,664
Remaining Debt Capacity	\$ 34,493,234	\$ 35,357,346	\$ 36,377,203	\$ 37,019,174	\$ 37,717,628	\$ 39,693,614	\$ 40,788,081	\$ 41,670,282	\$ 42,851,065	\$ 44,514,872	\$ 45,869,135	\$ 47,528,821

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

Debt Charges as a % of Net Operating Revenues:

Based on FIR for Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Provincial Calculation	Effective 2021	Effective 2022	Effective 2023	Effective 2024	Effective 2025	Effective 2026	Effective 2027	Effective 2028	Effective 2029	Effective 2030	Effective 2031	Effective 2032
(Proposed) Debt Charges shown as a Percentage of Net Operating Revenues	4.68%	4.67%	4.59%	4.73%	4.84%	4.30%	4.24%	4.30%	4.22%	3.93%	3.81%	3.57%
(Existing) Debt Charges shown as a Percentage of Net Operating Revenues	4.68%	4.67%	4.59%	4.50%	4.42%	3.88%	3.27%	3.22%	3.17%	2.91%	2.81%	2.60%

* FIR = Financial Information Returns from Annual Financial Statements