

September 4, 2018

To: Members  
Finance & Administration Committee

Re: Annual Debt Report

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**RECOMMENDATION**

That this report be forwarded to the September 24, 2018 City Council meeting for information.

**CONCLUSION**

The 2018 Annual Debt Report (Appendix A) provides information regarding the City of Regina's (City) debt profile. This report shows that the City is in a strong, stable financial position as it relates to debt as of December 31, 2017. Selected indicators used to inform debt-related decisions can identify areas that require enhanced and careful monitoring, if necessary. The debt report also shows the methods in which the City's consolidated debt is assessed to arrive at a decision of its reasonableness. All benchmarks and targets that are modelled after best practices have been met and are projected to be met for 2018.

The City received an AA+ credit rating with a positive outlook from the rating agency S&P Global in May 2018, which is an improvement from the prior year. This rating along with comparisons to other cities and the performance ratio indicators used in this report, shows that the City maintains a strong capacity to meet current financial commitments and obligations. While debt has increased in recent years due to investments in large capital projects (stadium, Wastewater Treatment Plant (WWTP), and Buffalo Pound Water Treatment Plant), the thoughtful and planned approach taken by the City has allowed its debt to remain at a reasonable level.

The current debt limit for the City is \$450 million. Currently, the City of Regina is using 71 per cent of its debt limit. There are potential large capital projects, such as the Buffalo Pound Water Treatment Plant Renewal Project that will likely require debt funding in the next few years. Balancing these and other capital needs over the next ten years will require strong financial management, decision making, and prioritization of community priorities to achieve long-term financial viability. Any increase to the City's debt limit must be approved by the Saskatchewan Municipal Board (SMB).

**BACKGROUND**

The City's Debt Management Policy (Administration policy) requires the Director of Finance to provide an annual report to Council on the status of City debt in the context of its debt limit and debt ratios to help determine the reasonability and affordability of debt.

## DISCUSSION

The Annual Debt Report (Appendix A) provides details on the current and projected debt of the City. Due to strong financial practices, such as the City's Financial Policies Framework, planned and sustainable debt issuances continue to be maintained. The City uses a conservative approach in issuing debt and will continue to reserve debt mainly for large capital projects, such as the Stadium, Wastewater Treatment Plant (WWTP), and the Buffalo Pound Water Treatment Plant Electrical Upgrade Project. The City's consistent and strong credit rating of AA+ with a positive outlook, reflects a strong commitment by the City to prudent fiscal planning through positive budgetary performance as well as strong financial management.

Key highlights from the Annual Debt Report include:

- The total debt outstanding at December 31, 2017 is \$319.6 million (71 per cent of debt limit);
- The current debt is planned debt;
- The projected debt for 2018 is \$311.2 million (69 per cent of debt limit);
- All debt ratios fall within the Debt Management Policy targets at current and projected debt levels; and
- There are potential large capital projects that will likely require debt funding in the next few years, including Buffalo Pound Water Treatment Plant Renewal Project, as identified in the corporation's 2017 Annual Report.

Historically, the City has used a traditional approach to issuing debt for large capital projects. This approach put the City of Regina in a good position relative to the management of its debt in comparison to its peers across Canada. While debt has increased over the last two years, this has been consistent with the plan for funding major capital projects.

The attached 2018 Annual Debt Report reviews the current debt position as at December 31, 2017 and provides information on known future debt. Administration continues to review and assess the need for debt and other forms of financing to meet City needs in the long-term.

## RECOMMENDATION IMPLICATIONS

### Financial Implications

Over the years, the City of Regina has demonstrated strong financial management, balancing service level sustainability with affordability. Maintaining long-term financial viability and service sustainability is a key challenge facing the City. Financial practices and policies already in place including those related to debt will support this work.

The analysis completed by Administration and presented in the attached report confirms that all past debt issuances and obligations are affordable and allow the City to meet its current needs as per the criteria identified in the Debt Management Policy. The repayment of external debt and the related interest costs are budgeted for in the annual operating budget of the Utility and General Operating Funds. The external financing requirements for the Utility Fund are

accommodated within the long-term utility financial model and funded through water rates. Principal and interest payments of debt undertaken for General Fund capital is included in annual operating budgets.

The City has a number of service partners whose financial results are consolidated with the City's financial reporting, such as Buffalo Pound Water Treatment Corporation (BPWTC) and Regina Exhibition Association Limited (REAL). Although these entities are responsible for the repayment of the debt they take on, the debt they borrow counts against the City's overall debt limit and may limit the ability of the City to access debt as a funding source for future capital projects.

This report does not result in any new debt being issued or approved. As new debt is considered in the future, it will require City Council approval. For each new debt issue, Administration will review and analyze the financial capacity to service new debt as part of the decision-making process. Also, it is important to note that City Council always retains the ability to adjust mill rates and utility rates to accommodate new debt servicing requirements from time to time.

#### Environmental Implications

None related to this report.

#### Policy and/or Strategic Implications

Debt management provides a long-term view of the City's debt, with a focus on addressing the future funding requirements of the City of Regina. It responds directly to "Achieve long-term financial viability" Community Priority and Financial Policies section in *Design Regina: The Official Community Plan* (OCP) and is intended to ensure the City can deliver on all the Community Priorities in a financially responsible way.

Periodic reviews of debt levels and related policies are required to ensure the City's debt is effectively managed. The current Debt Management Policy and other financial policies were recently reviewed and updated.

#### Other Implications

None related to this report.

#### Accessibility Implications

None related to this report.

#### COMMUNICATIONS

None related to this report.

DELEGATED AUTHORITY

This report must be forwarded to City Council as an information item.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "June Schultz", with a long, sweeping horizontal line extending to the right.

June Schultz, Director  
Finance

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Barry C. Lacey", with a long, sweeping horizontal line extending to the right.

Barry Lacey, Executive Director  
Financial & Corporate Services

Report prepared by:  
Curtis Smith, Manager, Policy & Risk Management