IR19-8

September 30, 2019

To: His Worship the Mayor
And Members of City Council

Re: Finance and Administration Committee: Annual Debt Report

RECOMMENDATION

RECOMMENDATION OF THE FINANCE AND ADMINISTRATION COMMITTEE - SEPTEMBER 10, 2019

That this report be received and filed.

FINANCE AND ADMINISTRATION COMMITTEE – SEPTEMBER 10, 2019

The Committee adopted a resolution to concur in the recommendation contained in the report.

Councillors: Sharron Bryce (Chairperson), Bob Hawkins, Jason Mancinelli and Barbara Young were present during consideration of this report by the Finance and Administration Committee.

The Finance and Administration Committee, at its meeting held on September 10, 2019, considered the following report from the Administration:

RECOMMENDATION

That this report be forwarded to the September 30, 2019 City Council meeting for information.

CONCLUSION

The 2019 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 related to debt as of December 31, 2018. Select 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 2019.

The City received a AAA credit rating from the rating agency S&P Global in May 2019, which is an improvement from the prior year. This rating, along with comparisons to other cities and the performance ratio indicators, 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 at December 31, 2018. 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.

BACKGROUND

The City's Debt Management Policy (Administration policy) requires the Director of Financial Services to provide an annual report to City 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 Debt Management Policy, 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. The City's consistent and strong credit rating of AAA 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, 2018 is $317.7 million (71 per cent of debt limit);
- The current debt is planned debt;
- Since December 31, 2018, $12 million in debt was issued with a 6-year term to refinance a $12.8 million balloon payment;
- The projected debt for 2019 is $302 million (67 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 2018 Annual Report. However, because of the government grant received for the electrical upgrade project, some of the debt borrowed for this project can be used to fund a portion of the Buffalo Pound Water Treatment Plant Renewal Project.
    - ICIP (Investing in Canada Infrastructure Program) was announced in November 2016, and all projects will be required to be completed by March 31, 2028. The total estimated costs of the top 15 City projects for potential funding under the ICIP is $730.35 million, as indicated in the March 25, 2019 report to Council (CR19-23). It is unlikely that the City will receive funding for all the projects.

Some of the City's share of these projects would likely be funded by debt (City share is expected to be 26.7% for most projects) if they proceed.

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 2019 Annual Debt Report reviews the current debt position as at December 31, 2018 and provides information on future debt. Administration continues to review and assess the need for debt and other forms of financing to meet the needs in the long-term. One area of concern is the current condition of the City's assets, which if not mitigated appropriately, could present a significant risk and increase the reliance on debt financing in the future. The City's capital program is under considerable pressure including the points noted below:

- Need to replace aging infrastructure. Age of infrastructure and lack of adequately funded asset maintenance programs in the past are starting to catch up on the City (like recreation facilities, some of which are reaching the end of their life span).
- New infrastructure required to support a growing population and advance the community's vision of being Canada's most vibrant, inclusive, attractive, sustainable community, where people live in harmony and thrive in opportunity (like maintenance of new roads, parks, and fire and police stations).
- Shortfall in facility asset maintenance program. This program is intended to preserve existing City facility assets through prudent facility maintenance (like roof replacements, structural maintenance, mechanical systems replacement, etc.).
- Capital needs exceeding capital funding sources.

This challenge is not unique to the City of Regina and will require strong financial management and a prioritization of capital projects.

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 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 the "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 Procedure were recently reviewed and updated in November 2016. The recommended time for the next review is November 2020.

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,

FINANCE AND ADMINISTRATION COMMITTEE

Ashley Thompson, Secretary 9/19/2019