

2019 Annual Debt Report

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BACKGROUND

The City of Regina (City) maintains and follows an Executive Director, Financial Strategy & Sustainability approved Debt Management Policy with authority under section 25 (k) & (l) of the *Regina Administration Bylaw, Bylaw No. 2003-69*. The Debt Management Policy provides formal guidance regarding authorities, debt structural features, target debt ratios and other conditions and strategies related to the use of debt. This policy reinforces the commitment by the City to manage its financial affairs in a manner that will minimize risk and ensure transparency while still meeting the capital needs of the City.

In addition, the City's financial policies establish proper and effective financial management and control of the day-to-day activities. They set out principles and benchmarks to help guide Administration in making recommendations to City Council on decisions related to debt.

DEBT OVERVIEW

The City funds a variety of programs and services as well as invests in infrastructure to support these programs and services. While programs and services are funded from revenues generated through property taxes, user fees and grants from other levels of governments, investments in capital assets are funded from reserves, development charges, grants and debt.

The City uses a traditional approach in issuing debt. Debt is not issued for ongoing operating expenditures but is mainly reserved for large capital projects. In this way, the City maintains the overall objective of the use of debt to:

- Smooth the effect of spending decisions on property taxation and user fees;
- Finance unexpected/emergency spending requirements; and
- Enhance liquidity

To date, these strategies have benefited the City by providing consistently strong credit ratings. Positive and strong credit ratings, as determined by credit rating agencies, reflect the City's debt management ability and provide the following benefits:

- Facilitate borrowing and competitive rates for the City;
- Enable ease of and more access to debt; and
- Provide increased negotiating power with lenders.

Various strategies are employed to assess the trends, costs and affordability associated with the current and projected debt including the use of policies, established debt limits and ongoing monitoring of various ratios. Debt ratios are often used to assess a City's debt burden and debt trends. The affordability of debt is examined annually using the City's debt limit and four measures, including:

- Debt per Capita
- Debt Interest Payment Ratio
- Debt Service Ratio
- Tax-and-Rate Supported Debt Ratio

It is important to note that all debt taken on is planned debt. 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.

Typically, the City borrows simple types of debt with fixed term and fixed scheduled payments, like a mortgage. In securing debt, the City tries to find the most favourable interest rate and negotiates the loan period. *The Cities Act* specifies that The Saskatchewan Municipal Board (SMB) has the authority to establish a debt limit a city may incur. City Council has the authority to issue debt within this limit as per *The Cities Act*.

Analysis contained in the report is based on consolidated financial information and includes the following entities: City of Regina, Regina Downtown Business Improvement District, Regina Public Library, Economic Development Regina, Regina's Warehouse Business Improvement District, Buffalo Pound Water Treatment Corporation (BPWTC) and Regina Exhibition Association Limited (REAL).

ANALYSIS

CREDIT RATING

S&P Global affirmed the City's credit rating of AAA in May 2019. In affirming the City's credit rating, S&P Global identified the following strengths:

- A superior budgetary performance helps to mitigate the needs for additional debt
- A robust financial management practices, built on a broadly supportive institutional framework and solid economic base, bolster the ratings

A credit rating of AAA is the highest credit rating and signals that the City is a low credit risk. Therefore, access to capital markets and favourable interest rates would be relatively more available to the City compared to organizations with lower credit ratings.

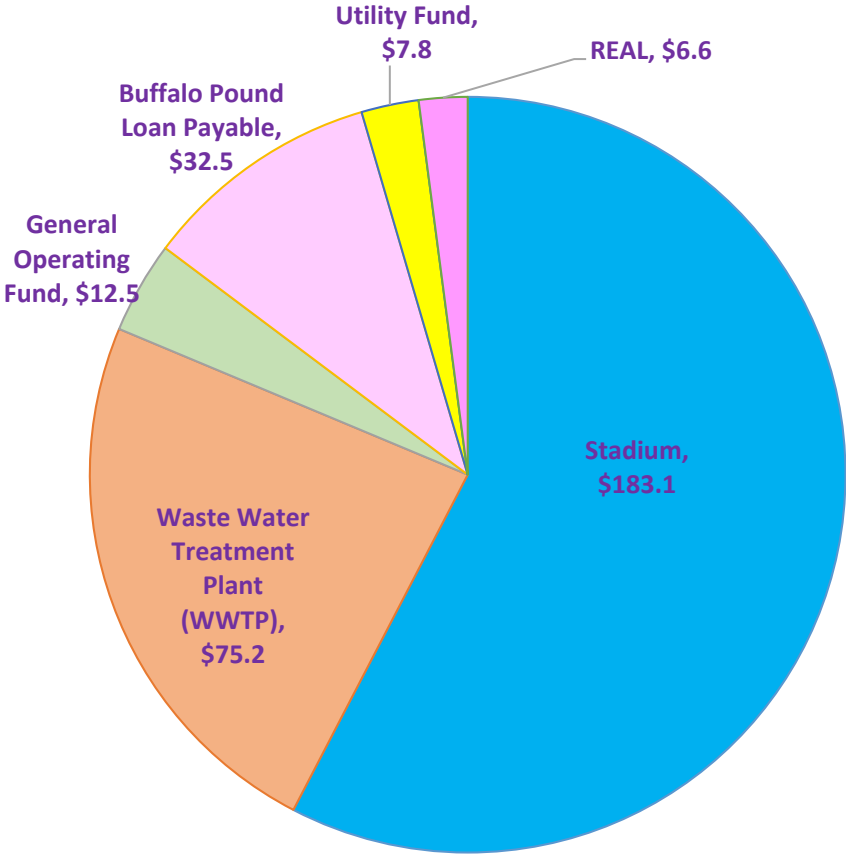
S&P Global noted that in next two years, the City will continue to implement strong long-term financial planning policies such that its budgetary performance remains very strong, generating after-capital surpluses in line with those of similarly rated peers. In addition, we expect only modest additional borrowing that will not push the city's debt burden beyond 60% of consolidated operating revenues.

Conversely the City's credit rating could be worse in the next two years if there is a softness in the regional economy that resulted in materially lower tax revenue generation or provincial grants to the city, driving after-capital deficits that necessitated significantly higher-than-expected borrowing.

DEBT LIMIT AND DEBT BALANCE

The City's current debt limit approved by SMB is \$450 million. Any increase to the debt limit must be approved by SMB. As of December 31, 2018, Graph 1 below shows that the total outstanding debt for the City was \$317.7 million, 71% of the debt limit. This debt is made up of multiple issuances relating to general and utility capital funding, major projects funding and debt of subsidiaries.

Graph 1: 2018 Consolidated Debt by Type (in \$ millions)



The December 2018 outstanding debt decreased by \$1.9 million from December 2017. The decrease is mainly due to repayments of all debt over the year, offset by the new loans incurred by REAL.

Graph 2 below provides detail on the changes from 2017 to 2018.

Graph 2: Debt Comparison for 2017-2018 (\$ in millions)

Debt	2017	2018	Change
Stadium	\$187.0	\$183.1	\$ -3.9
Waste Water Treatment Plant (WWTP)	\$76.4	\$75.2	\$ -1.2
General Operating Fund	\$13.9	\$12.5	\$ -1.4
Buffalo Pound Loan Payable	\$33.3	\$32.5	\$ -0.8
Utility Fund	\$8.8	\$7.8	\$ -1.0
REAL Debt	\$0.2	\$6.6	\$6.4
TOTAL	\$319.6	\$317.7	-\$1.9

Notes:

- Stadium project has a total debt financing of \$200.4 million, borrowed in 2014 and will be paid off in 2045. The total payments per year on this debt is \$11.4 million.
- WWTP is not a typical loan, but a 30-year repayment stream obligation to the company that constructed the WWTP. It will be paid off in 2043.
- General Operating Fund will be paid off in 2025 with a refinance.
- Buffalo Pound Loan is a 25-year City guaranteed loan with BMO and will be paid off in 2042.
- Utility Fund was paid off in June 2019.
- REAL debt is guaranteed by the City, and it counts against the City’s overall debt limit.

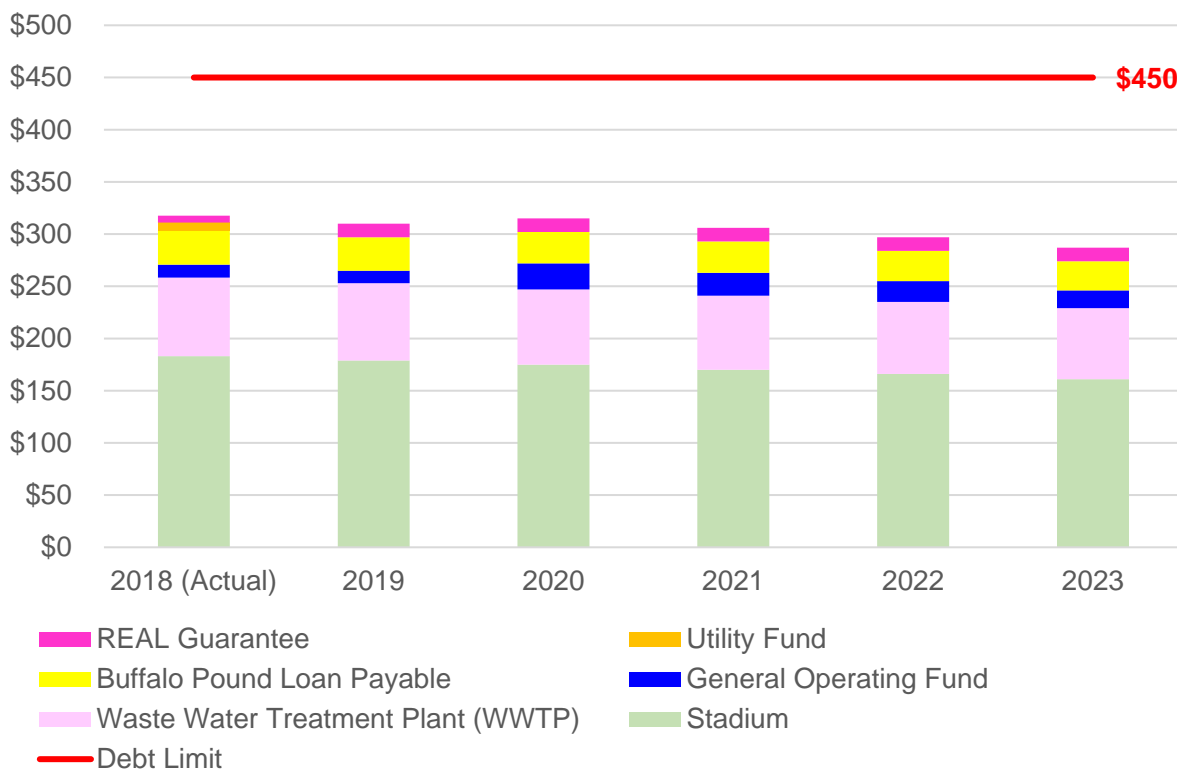
DEBT PROJECTION

Graph 3 below shows the current level of debt and the projected debt out to 2023 based on the five-year Capital Plan in the 2019 Budget. The debt balance is expected to decrease in 2019 to \$301.7 million, 67% of the debt limit. In March 2015, Council granted approval to REAL to issue up to \$13.0 million in debt (CR15-23).

At the end of 2018, REAL had approximately \$6.6 million in debt. However, this guarantee does count against the City’s debt limit, therefore, the entire guarantee amount has been added as a place holder.

In 2019, a new debt of \$12 million will be borrowed, and it will be paid off over 6 years. This debt is to pay off the balloon debt payment due June 2019.

Graph 3: Consolidated Debt Projections for 2019-2023 (\$ in millions)

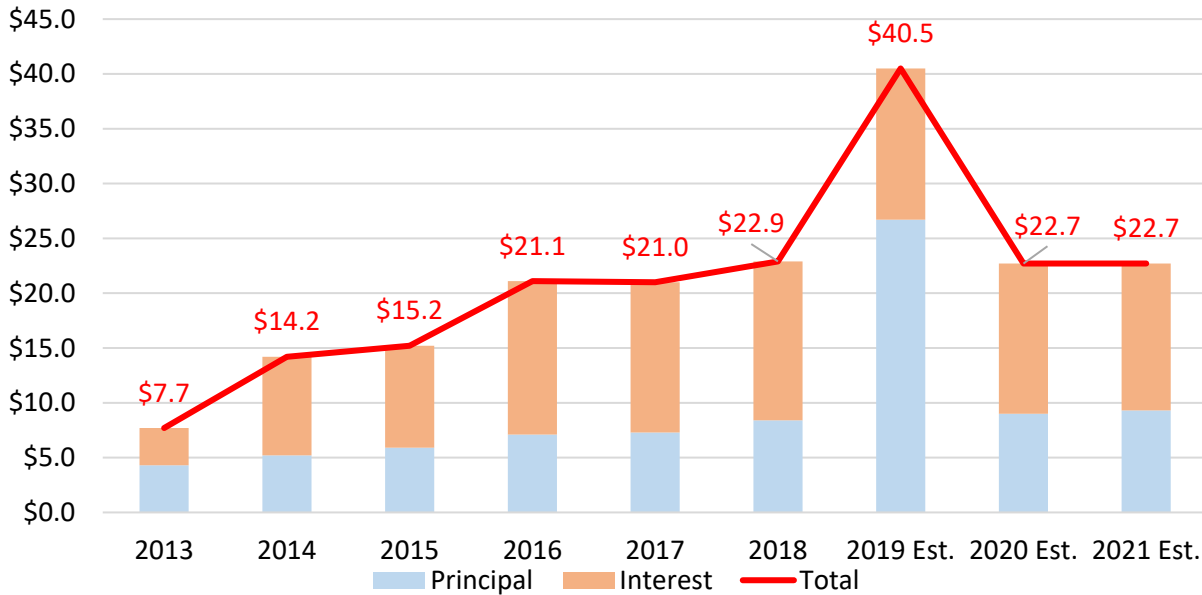


The table above includes known and approved debt. There is the potential for increased debt in the future for the City and its related entities, such as BPWTC, to finance capital plans. Addressing these needs may limit the ability to access debt as a source of financing without applying to the Saskatchewan Municipal Board for an increase in the limit. Prior to such an application, a full analysis and review would be undertaken to describe the opportunities, options, and risks for City Council consideration and approval.

In addition to the absolute level of debt, debt servicing (the annual principal and interest payments on debt) is an important indicator for the City. It illustrates the extent to which past borrowing decisions present a constraint on a City's ability to meet its financial and service commitments in the current period. Since the principal and interest payments are paid from the operating budgets, generally low debt servicing costs provide municipalities

with an increased financial flexibility since they are not encumbered by fixed financial obligations.

Graph 4: Debt Service Costs for 2013-2021 (\$ in million)



Graph 4 above shows that, an increase from 2018 to 2019, primarily due to a one-time \$13 million balloon debt repayment in the General Fund and \$8 million balloon debt repayment in the Utility Fund in 2019. After 2019, the annual debt service costs will decrease to an estimated \$22.7 million.

Within the graph, from 2013 through 2019, the City of Regina's debt service costs are increasing. It means that the City has increased borrowing payments to meet its financial and service commitments. This impacts its flexibility because once a City borrows, its first commitment must be to service its debt. While it has been increasing, the Debt Servicing to Total Revenue Ratio is still below the target maximum of 5% as noted later in this report.

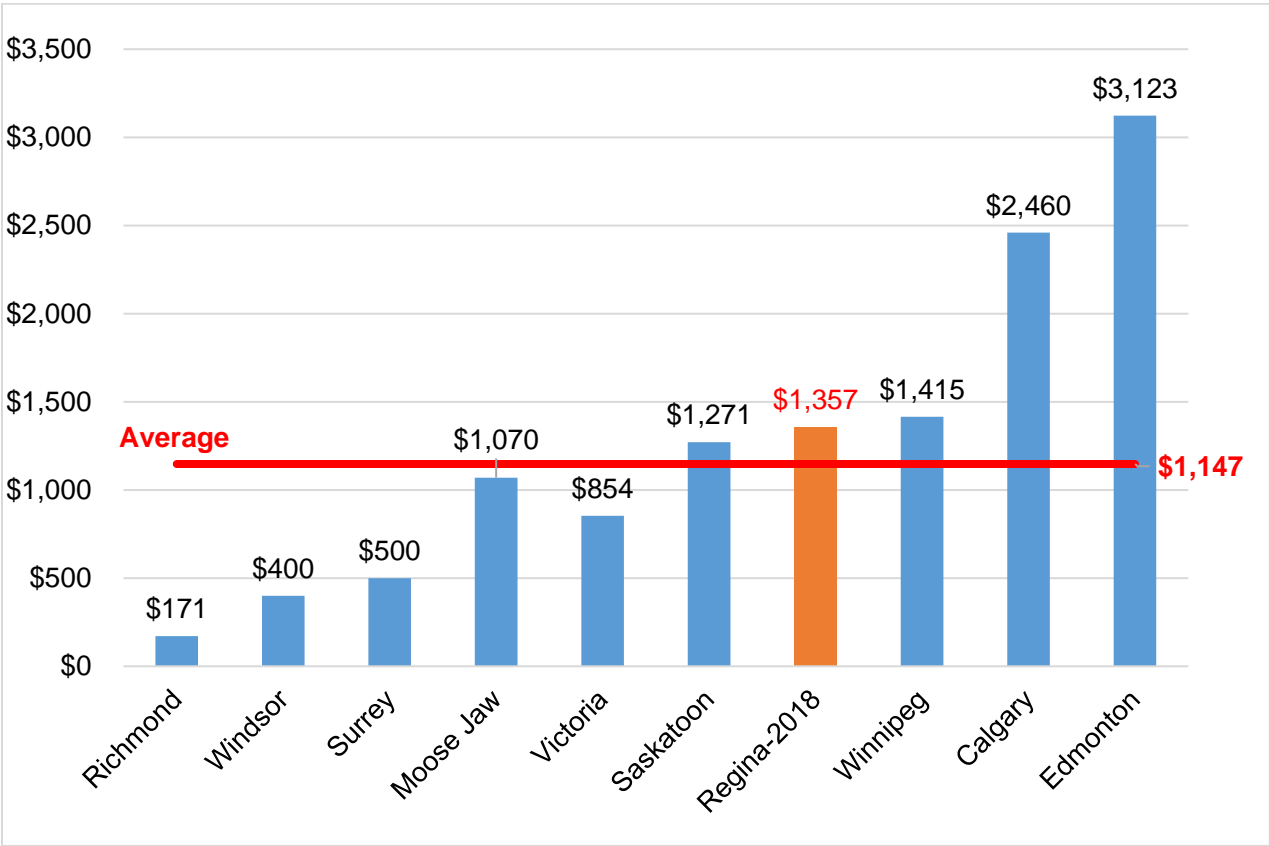
DEBT PER CAPITA

Debt per capita is simply how much it will cost per person living in Regina, for example, if the City of Regina were to pay off its debt today. In the past few years, the City has taken

on debt to fund several large capital projects. The City has and continues to be conservative in the issuance of debt and the debt level has historically compared favourably to those of other Canadian cities.

Graph 5 below shows that, of the selected cities, the City of Regina debt per capita (\$1,357) is slightly above the average.

Graph 5: Debt per Capita Comparison to Other Cities



Notes: All other cities show 2017 ratios.

DEBT INTEREST PAYMENT RATIO

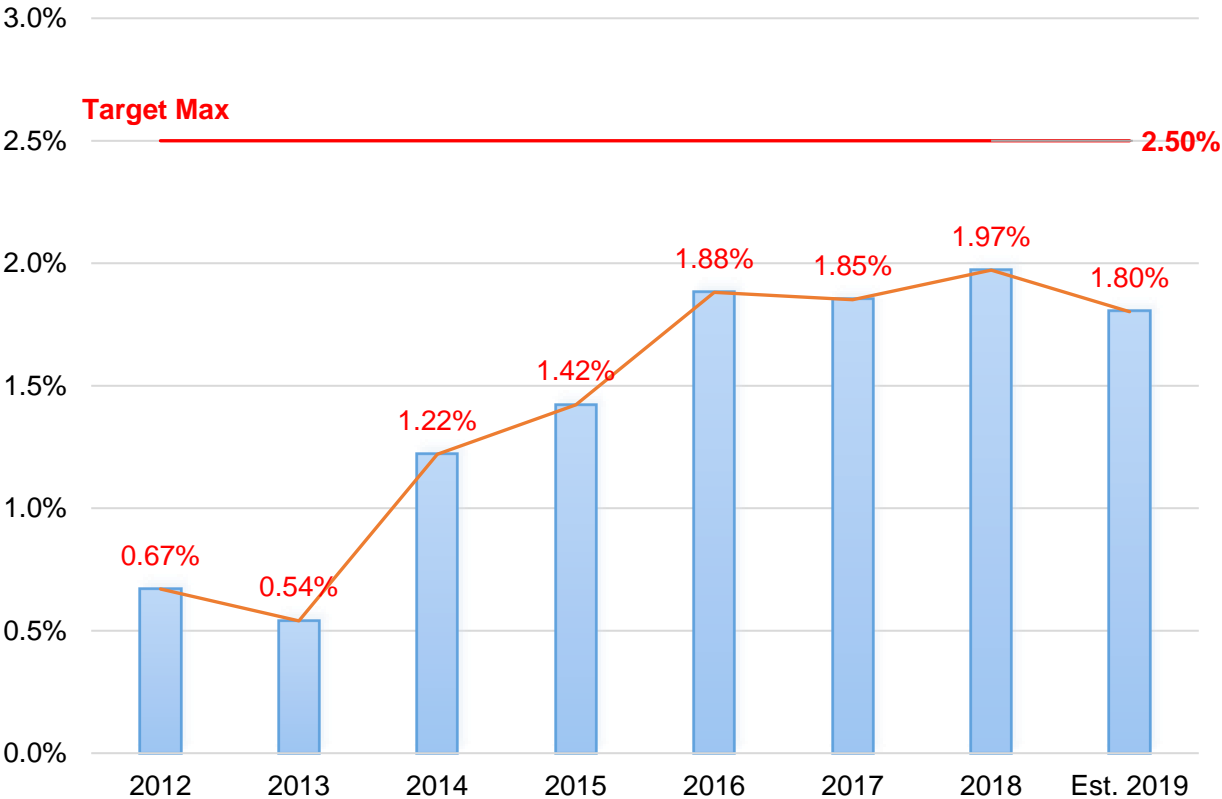
Calculation: Consolidated Debt Interest / Consolidated Revenues

The debt interest payment ratio (financial flexibility) measures the percentage of the City’s total revenue that is used for debt interest payments. It is a measure of the degree to

which an organization can change its debt and still meet its existing financial and service obligations. The more an organization uses revenues to meet the interest costs of past borrowing, the less that will be available for current program spending.

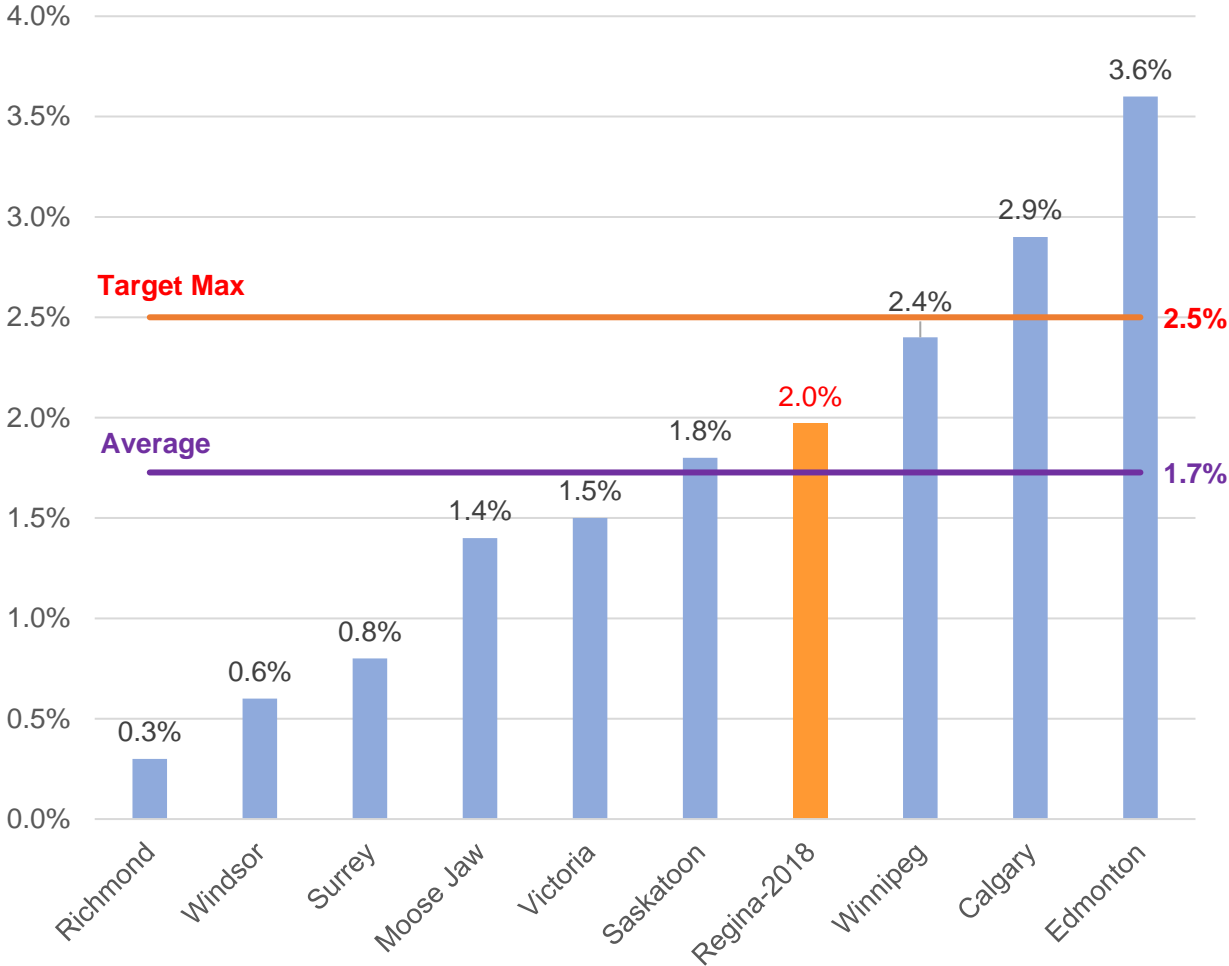
This ratio is an indicator used by S&P Global, with a benchmark of 0% to 5% being the desirable range. Through the City’s debt management policy, a target of 2.5% or less has been set and is being used for monitoring, reporting and future debt considerations.

Graph 6: Regina Multi-Year Debt Interest Payment Ratio



Graph 6 above indicates the City of Regina’s multi-year ratio comparison. The graph shows an increasing ratio but still below the target. The ratio increased to 1.22% in 2014 due to the stadium construction; increased to 1.85% in 2017 and 1.97% in 2018 primarily due to the increased annual interest payment of WWTP construction and Buffalo Pound term loan; and is projected to be 1.80% in 2019 due to \$12 million in new debt.

Graph 7: Debt Interest Payment Ratio Comparison to Other Cities



Notes: All other cities show 2017 ratios.

Graph 7 above indicates that, amongst the cities selected, the City is slightly above the average but below the target maximum. Regina’s ratio means that 2.0% of its revenues in 2018 was utilized for debt interest payments. A ratio more than 2.5% is considered high by credit rating agencies such as S&P Global. This illustrates that Regina’s debt management policy allows the City to keep debt levels and debt servicing costs as low as possible, thereby limiting financial pressures on its operating budget and taxpayers.

DEBT SERVICE RATIO

Calculation: Consolidated Debt Interest & Principal Payments / Consolidated Revenue

The debt service ratio measures the percentage of revenue which is required to cover debt servicing costs (interest and principal payments). This ratio indicates the amount of total revenue that is being used to service the municipality's debt. A high debt service ratio indicates that there is less revenue available for providing services.

This is a key indicator used by S&P Global when assessing the overall debt burden of a municipality. A ratio in excess of 10% is seen to be where debt servicing costs tend to crowd other operating priorities out of the budget. Through the City's debt management policy, a target of 5% or less has been set and is used for monitoring, reporting and considering future debt considerations.

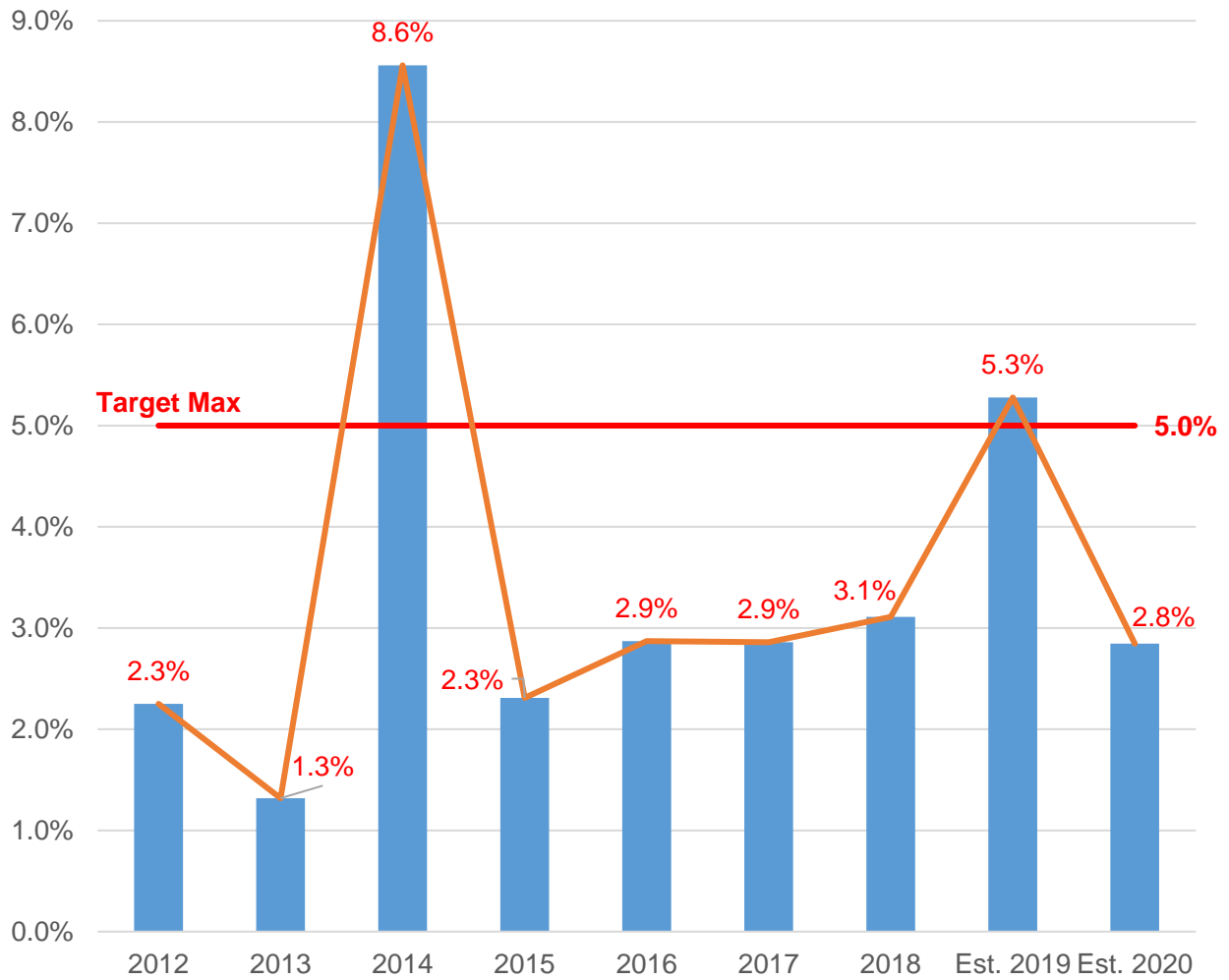
Graph 8 below shows that the City of Regina's debt service ratio was 3.1% at December 31, 2018, below the target. From 2012 to 2013 the ratio fluctuated slightly in the range of 1.3% to 2.3% with a large spike in 2014 at 8.6% due to a \$43.1 million balloon payment¹ on Utility debt. This spike did not affect the credit rating analysis as it was an infrequent occurrence. The ratio is projected to peak in 2019 to 5.3%, due to an approximately \$12.8 million one-time balloon debt repayment in General Operating Fund, and an approximately \$8.0 million one-time balloon debt repayment in Utility Fund.

The City of Regina debt service ratio is presented in Graph 8 below and expected to remain below the 5% target set in policy, other than in 2019, which is one-time occurrence. Several factors influence this ratio such as the term of debt obligations, interest rate(s) payable and consolidated municipal revenue levels. This illustrates that Regina's debt management policy allows the City to keep debt levels and debt servicing

¹ A repayment of the outstanding principal sum made at the end of a loan period, interest only having been paid to that point.

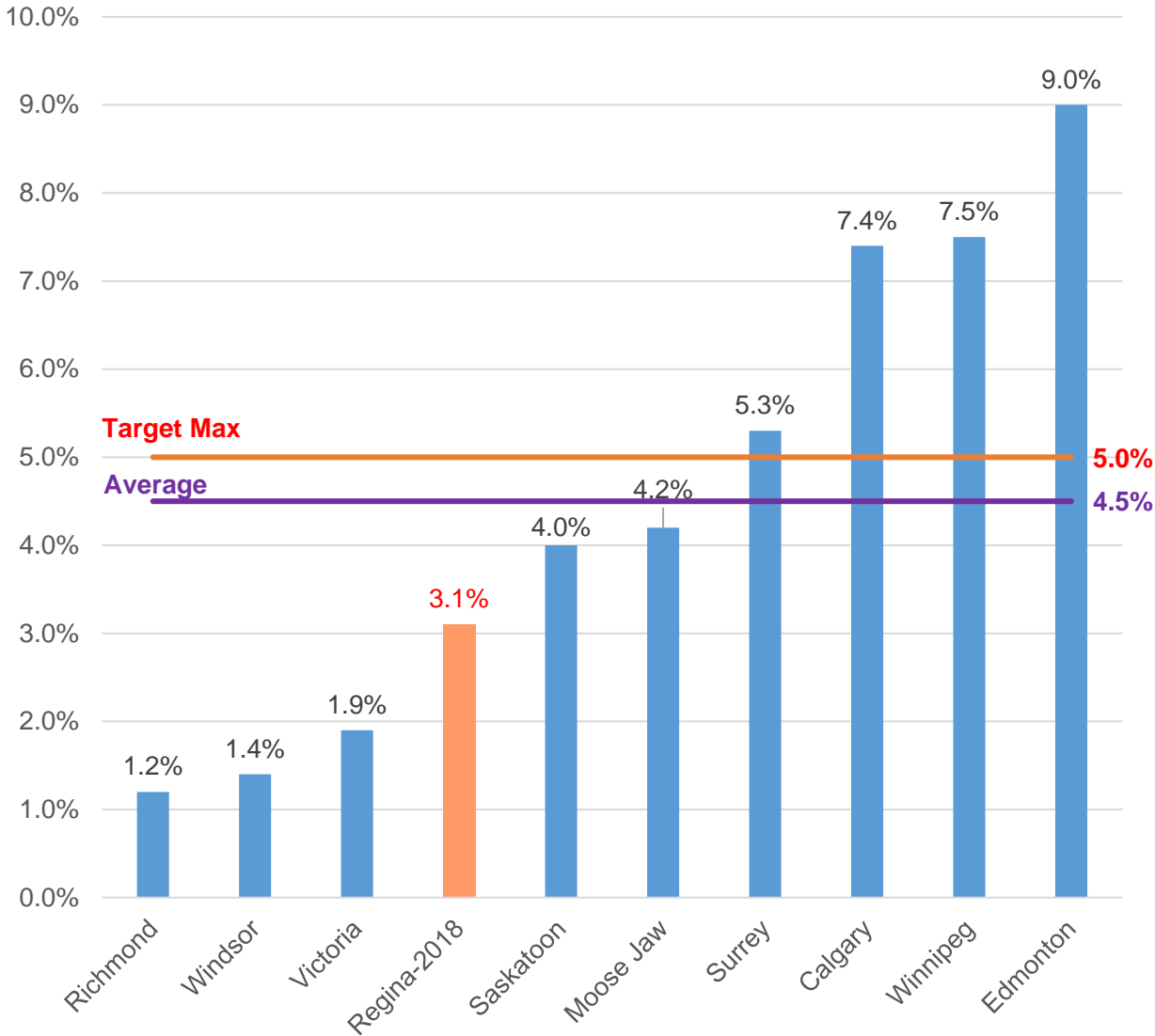
costs as low as possible, thereby limiting financial pressures on its operating budget and taxpayers.

Graph 8: Regina Multi-Year Debt Service Ratio



Graph 9 below indicates that the City of Regina has the fourth lowest debt service ratio of the cities selected. Regina's ratio means that 3.1% of its revenues in 2018 was utilized for debt principal and interest payments. Regina's ratio is lower than the average ratio of 4.5%.

Graph 9: Debt Service Ratio Comparison to Other Cities



Notes: All other cities show 2017 ratios.

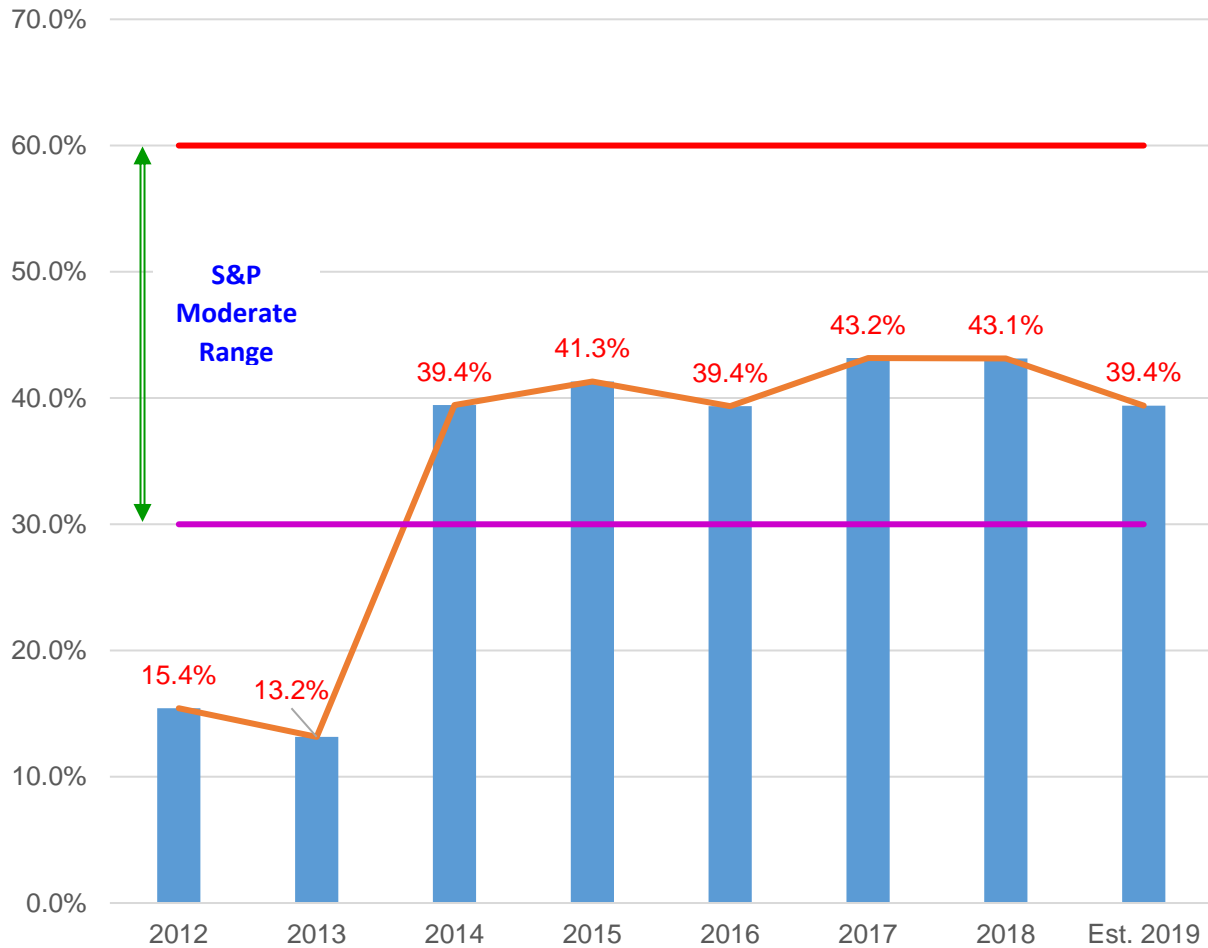
TAX AND RATE SUPPORTED DEBT RATIO

Calculation: Consolidated Debt / Consolidated Revenue

The tax and rate supported debt ratio is used to assess the amount of debt that is repaid with consolidated operating revenues. This is a key measure of the City’s debt

affordability because typically debt service costs are funded out of the general operating budget and thus compete directly with other public services for limited operating dollars.

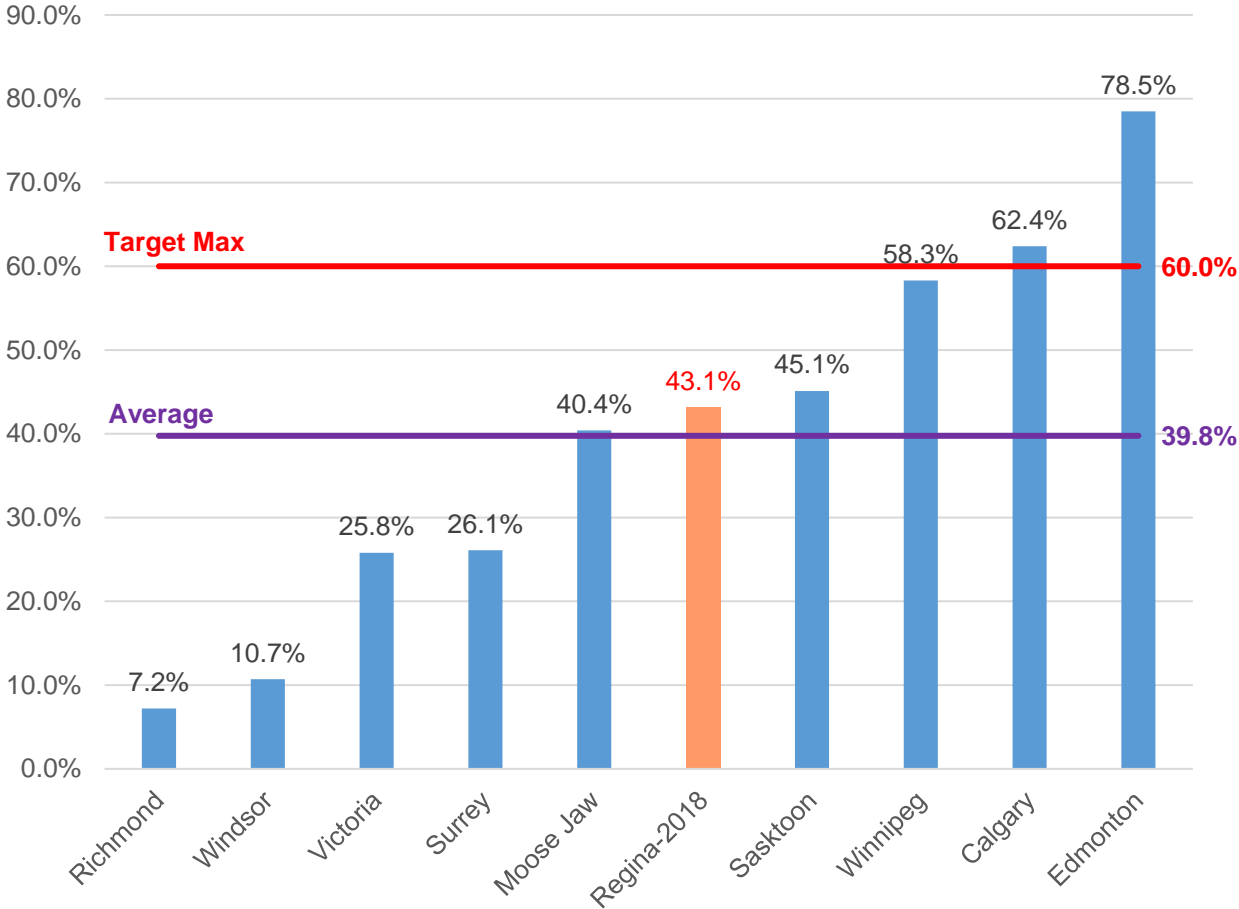
Graph 10: Regina Multi-Year Tax and Rate Supported Debt Ratio



As a key indicator used by S&P Global, a ratio in the range of 30% to 60% is considered moderate in the overall debt assessment of a municipality. Through the City’s debt management policy, a target of 60% or less has been set and is used for monitoring, reporting and future debt considerations. This ratio can be impacted largely by consolidated municipal revenue levels. At a level above 60% S&P Global may consider reducing the current credit rating.

Graph 10 above shows that the City’s rate is below the 60% moderate upper limit but has been increasing. The 2014 increase in the ratio is due to the Stadium. The ratio is projected to decrease after the 2019, primarily due to a one-time balloon debt repayment.

Graph 11: Tax and Rate Supported Debt Ratio Comparison to Other Cities



Notes: All other cities show 2017 ratios.

As presented in Graph 11 above, the City of Regina has the fifth highest tax and rate supported debt ratio in comparison to other cities across Canada. Regina’s debt to revenue ratio is 43.1% in 2018 just above the average ratio of 39.8%.

CONCLUSION

Overall, the comparison shows the City of Regina maintains a reasonable debt level, as Regina ranks closer to the average for most of the debt ratios considered. The City of Regina is using 71% of its \$450 million debt limit at December 31, 2018. There are potential large capital projects that will likely require debt funding in the next few years, such as the Buffalo Pound Water Treatment Plant Renewal Project and Investing in Canada Infrastructure Program (ICIP) projects. Future debt may limit the City's ability to use debt as a financing option without prioritizing access to debt or analyzing the need to request an increase to the current debt limit.

The City of Regina will continue to manage its debt through financial policies that emphasize long range financial management. These policies are supported by the development of various asset management and financial models that enable the City to analyze the effects of decisions with a focus on long term financial health and the ability to sustain existing programs and services. This approach demonstrates a commitment to long term planning and fiscal management.