

## 2019 Annual Debt Report

<b>Date</b>	June 10, 2020
<b>To</b>	Finance and Administration Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Financial Services
<b>Item No.</b>	FA20-11

### RECOMMENDATION

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The Finance and Administration Committee recommends that City Council:  
Receive and file this report at its June 24, 2020 meeting.

### ISSUE

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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 the 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.

The City's 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. The policy also 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.

### IMPACTS

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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 City uses a traditional approach in issuing debt. Debt is not used for ongoing operating expenditures but is mainly reserved for large capital projects.

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.

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 OPTIONS**

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None with respect to this report.

## **COMMUNICATIONS**

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None with respect to this report.

## **DISCUSSION**

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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'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, 2019 is \$302.6 million (67 per cent of debt limit).
- The current debt is planned debt.
- \$12 million in debt was issued in 2019 to repay a balloon payment on General Fund Capital debt.
- The projected debt for 2020 is \$315 million (70 per cent of debt limit).
  - The projected increase includes planned debt included in the 2020 Budget and the full amount of the REAL loan guarantee.
- With the exception of the debt servicing ratio, all ratios fall within the Debt Management Policy targets at current and projected debt levels.
  - Debt servicing increased over 5 per cent in 2019 due to a balloon payment on General Operating debt. Debt servicing ratios are forecast to be within target in 2020.
- There are potential large capital projects that will 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.
  - 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 was noted in a March 25, 2019 report to City Council (CR19-23). It is unlikely that the City will receive funding for all the projects. The City's share of some of these projects if approved under ICIP will likely be funded by debt (City share is expected to be 26.7 per cent for most projects).

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 in recent 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, 2019 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). To mitigate this pressure, City Council has approved capital funding programs such as the Residential Road Renewal Program in the past and two new programs in the 2020 Budget (Recreation/Culture Capital Program and Recreation Infrastructure Program).

- 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.). Funding allocated to the Facilities Asset Management Program has been increasing over the years but remains below the required level to support repairs and maintenance of existing facilities.
- Capital needs exceeding capital funding sources. The City invests some of its General Operating Budget to support general capital investments to help address this issue.

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

The financial impacts of COVID-19 on the City are expected to be significant and potentially extend into 2022. Current financial impacts are being managed through expense reductions and use of reserves. Administration continues to analyze and monitor the situation, including possible impacts and opportunities as it relates to the City's debt. While debt can be used for operating purposes (within set limitations as outlined in *The Cities Act*), generally it should be used as a last resort, given the City's limited revenue generation abilities to repay debt, and the City's historical strategic use of debt to fund large infrastructure projects where the debt is paid by current and future users who benefit from the use of that infrastructure.

**DECISION HISTORY**

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None with respect to this report.

This report is to be forwarded to City Council for informational purposes only.

Respectfully Submitted,

Respectfully Submitted,

  
June Schultz, Director

5/24/2020

  
Barry Lacey, Exec. Director, Financial Strategy & Sustainability

6/2/2020

Prepared by: Jonathan Barks, Risk Management Advisor

**ATTACHMENTS**

2019 Appendix A Annual Debt Report