

March 6, 2013

To: Members,
Executive Committee

Re: Debt Limit and Future Considerations

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- FEBRUARY 13, 2013**

1. That the Deputy City Manager & CFO be authorized to make an application to the Saskatchewan Municipal Board (SMB), requesting the SMB to exclude \$100 million in debt from the City's debt limit.
2. If the \$100 million provincial loan is not exempted by the SMB, that the SMB approve increasing the City's debt limit from \$350 million to \$450 million to accommodate this future provincial loan.

EXECUTIVE COMMITTEE – FEBRUARY 13, 2013

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

Mayor Michael Fougere, Councillors: Sharron Bryce, Bryon Burnett, John Findura, Jerry Flegel, Shawn Fraser, Bob Hawkins, Mike O'Donnell and Barbara Young were present during consideration of this report by the Executive Committee.

The Executive Committee, at the **PRIVATE** session of its meeting held on February 13, 2013, considered the following report from the Administration:

RECOMMENDATION

1. The Deputy City Manager & CFO be authorized to make an application to the Saskatchewan Municipal Board (SMB), requesting the SMB to exclude \$100 million in debt from the City's debt limit.
2. If the \$100 million provincial loan is not exempted by the SMB, that the SMB approve increasing the City's debt limit from \$350 million to \$450 million to accommodate this future provincial loan.

CONCLUSION

As part of the Regina Revitalization Initiative, the City will be receiving a \$100 million loan from the Province of Saskatchewan (Province) toward the capital cost of building a new stadium (Stadium). This loan will be repaid through new revenue streams to the City, including facility fee revenues from ticket sales at the Stadium. Based on the new revenue streams, it is prudent to request the exclusion of the \$100 million loan from the Province, from the City's debt limit, or an equivalent increase in the debt limit, to ensure there is no unintended impact on other capital priorities before this debt is issued.

It is important to be in a position to arrange financing for capital projects when the markets are receptive and rates are viewed as being reasonable. An important first step is to ensure that the City's debt limit, as approved by the SMB, is adequate to allow for the required financing. On September 26, 2012, the SMB approved the City's application to increase its debt limit to \$350 million from its previous \$200 million.

With the SMB approval of this application, the City's other capital priorities that may require debt financing can proceed as planned. Other expected significant capital projects would result in a projected debt of \$301 million by the end of 2017, which is below the City's current debt limit of \$350 million.

The final authority for issuing new debt rests with City Council through the passage of the necessary bylaw. This would only happen in the future when cash flows dictate that new debt will be required.

BACKGROUND

On May 14, 2012, Council provided approval for Administration to apply to increase the debt limit to \$350 million. The Administration made application and the SMB approved a revised debt limit of \$350 million for the City.

The long-term debt of the City is subject to the provisions of *The Cities Act* and the debt limit as authorized by the SMB. The following are the applicable sections of *The Cities Act*:

"101(1) No Council shall delegate:

- (f) its power to borrow money, lend money or guarantee the repayment of a loan pursuant to section 133 to 153;

133(1) The Saskatchewan Municipal Board may establish a debt limit for each city, taking into account the factors set out in subsection 23(2) of *The Municipal Board Act*.

(2) No city shall borrow money if the borrowing will cause the city to exceed its debt limit, unless the borrowing is approved by the Saskatchewan Municipal Board.

134(1) A city may only borrow moneys if the borrowing is authorized by a borrowing bylaw.

(2) A borrowing bylaw must contain details of:

- (a) the amount of money to be borrowed and, in general terms, the purpose for which the money is to be borrowed;
- (b) the rate or rates of interest, the term and the terms of repayment of the borrowing; and
- (c) the source or sources of money to be used to pay the principal and interest owing under the borrowing."

Legislation allows for cities to incur long-term debt without application to the SMB, providing the debt does not exceed the amount authorized by the SMB pursuant to Section 133(2).

Any specific borrowing requires approval of a borrowing bylaw by City Council. The SMB requires the following information to support an application related to the City's debt limit:

- (i) **Resolution:** Signed, certified and sealed copy of council's resolution requesting the board to establish a debt limit and the requested amount of the debt limit
- (ii) **Financial Statements:** Copy of the latest audited financial statement. Additional information identifying any significant changes in the financial health of the municipality since the latest audited financial statement, include information on any new debt incurred, cash or reserve changes, and contingencies.
- (iii) **Budget:** Copy of the current year budget including an indication if it is draft or approved.
- (iv) **Financial Update:** Copy of the latest monthly trial balance. If the financial statement for the prior calendar year is not available, provide the trial balance as of December 31st for that year, plus the trial balance to date for the current calendar year.
- (v) **Capital works plan:** If no capital works plan, itemize a listing of proposed works for the next 5 years, with estimated costs and financing.
- (vi) **Explanation of dollar amount requested to be the debt limit:** Provide a break down of how the debt is and is proposed to be used. Include information on future projects and debt related to those projects.
- (vii) **Economic Indicators:** Provide information that will assist the committee in understanding the overall economic conditions of the municipality.
- (viii) **Contact information.**

DISCUSSION

In the near future, the Stadium and other capital projects will require debt financing. The debt requirements for the Stadium are estimated at \$200 million (including the \$100 million provincial loan discussed in this report). In addition to the new debt that is contemplated, the City will also receive several new revenue streams, including facility fees and lease revenues, which will increase the City's total revenue available to repay debt obligations.

In this report, Administration is requesting that the Deputy City Manager & CFO be authorized to make application to the SMB to exclude the \$100 million provincial loan from the City's debt limit, or increase the City's debt limit to \$450 million from its current debt limit of \$350 million. The City is requesting that this application be considered, as the \$100 million loan from the Province will be repaid through new revenues to the City from the Stadium.

The SMB has previously approved a debt limit of \$350 million for the City of Regina. The SMB approves debt limits on the basis of several factors related to the municipality's financial strength, however a general rule of thumb is that it be an amount equal to one times operating revenues. Regina's annual consolidated operating revenues for the last audited year (2011) are \$494 million, which is significantly higher than the current debt limit, based on a one times operating revenues calculation.

The 2013 to 2017 proposed capital budgets, together with the Stadium financing plan, identify that as capital plans are approved, the City is projected to reach a total debt of \$301 million by the end of 2017, as compared to its debt limit of \$350 million (excluding the \$100 million loan from the Province). If the debt limit increases or exemption is not received, the Province has committed to working with the City on developing other financing alternatives for the Stadium. The borrowing for the Stadium and other capital projects is expected to begin in 2013, and new issues will continue into 2015, dependent on the City's cash position and final capital plans.

There are always a number of uncertainties regarding the requirements and timing of the cash flows related to the City's future capital projects, as both priorities and needs change over time. Currently, the City has the ability to issue new debt at historically low interest rates; however these rates are expected to increase in the coming years. It will be essential for the City to be able to react quickly to cash flow requirements and changing market conditions. As a result, it is important to ensure that the debt limit does not become an unintended constraining factor during the financing stage. As well, by pursuing an exemption/ increase by the SMB immediately, the City can ensure the Stadium and other capital projects are able to proceed to Council for approval with a full understanding of the City's current debt limits and conditions.

The period of 2013 to 2017 has been identified as the primary timeframe where the City expects to issue significant new debt. In addition, 2017 is also the year where the Stadium interim P3 financing is expected to be fully assumed by the City. In addition, debt financing is anticipated to support both Water and Wastewater projects, the renewal of the Municipal Justice Building, and the development of the North Central Shared Facility, along with the inclusion of Regina Exhibition Authority Limited (REAL) debt in the calculation of the City's debt limit, once it is converted to a municipal corporation. At this time, these projects are being finalized to be brought to City Council for approval in future budgets.

As noted in the table below, Administration has included \$15 million of general debt and \$23 million in utility debt within the total debt projected. While this debt has been approved in previous budgets, the City's cash position to date has not required this debt to be issued. However, it is prudent to include these amounts in the total projected debt, as it may be issued in the timeframe identified.

The total projected debt to December 31, 2017 is as follows:

Debt, December 31, 2012

General	\$ 23,968,000
Utility (Water & Wastewater)	57,582,000
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	81,550,000

Previously Approved General Capital Debt (not issued)	15,000,000
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Previously Approved Utility Capital Debt (not issued)	23,000,000
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	119,550,000

Potential New Debt Issues - 2013-2017

RRI New Stadium (City Issued Debt)	100,400,000
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Water and Wastewater Utility Debt (multiple projects)	149,000,000
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North Central Shared Facility	7,860,000
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RPS Facility Renewal	20,000,000
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Assumed REAL Debt	2,000,000
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Projected Repayments on above Debt 2013-2017	<hr/>
	(96,850,000)

*Projected 2017 Debt before RRI Provincial Loan	<hr/>
	\$ 301,960,000

Anticipated Debt to be Included in New Debt Limit:

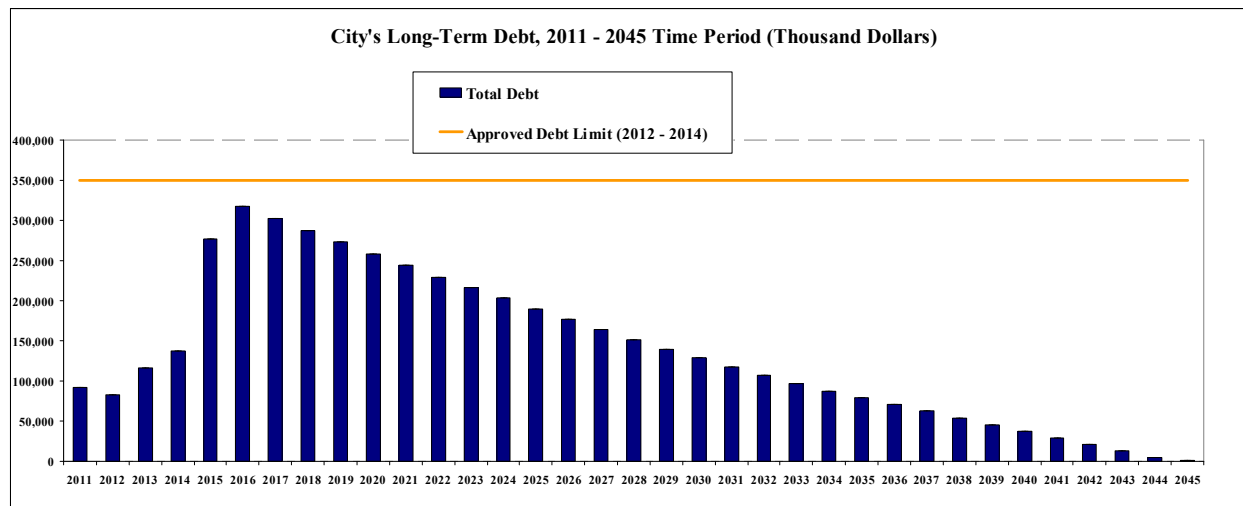
RRI (Provincial Loan)	\$ 100,000,000
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Projected Repayment on RRI Provincial Loan (2013-2017)	<hr/>
	(15,000,000)

Outstanding Provincial Loan at December 31, 2017	<hr/>
	\$ 85,000,000

*Within the current model, debt is projected to peak at \$316.9 million in 2016, assuming all approved debt is actually issued.

The projected debt expected to be subject to a \$350 million debt limit is indicated in the graph below (excluding the provincial loan of \$100 million):



A debt limit of \$350 million was previously requested on the basis that it meets the City's projected maximum debt requirement for the foreseeable future. An exemption of the \$100 million provincial loan, or an increase of the City's debt limit to \$450 million accomplishes the

same purpose, and both methods reflect that the City will have a new external revenue stream to repay this debt. The \$301 million in projected debt is below City's current debt limit, and is manageable from a financial standpoint. As required, the SMB will review all debt limit requests from the City, as the current \$350 million limit is not established as an absolute maximum.

RECOMMENDATION IMPLICATIONS

Financial Implications

The repayment of external debt and the related interest costs are budgeted in the annual operating budget of the Utility and the General Operating Fund. The external financing requirements for the Utility are accommodated within the financial model, and funded through incremental water rates. As debt is planned for General Capital requirements, the resulting principal and interest payments will also need to be included in future operating budgets.

An overall 30 year debt model for General and Utility capital has been developed to manage the debt capacity and future debt obligation requirements. The additional costs of debt related to General Operating and Utility Operating will be included in the 2013 and future Operating budgets.

In addition to the review of the City's debt limit by the SMB, any new debt will be reviewed by the primary credit rating agencies. The City's current credit rating is AA+ with a stable outlook. The two main ratios that credit rating agencies use for evaluation are the Debt Service Ratio (Debt principal and interest payments/Revenue) and the Debt Burden Percentage (Debt principal and interest payments/ Expenses).

While there are no absolute limits, credit rating agencies generally use a benchmark of 5% for these ratios. If the City borrows as planned, it is expected that both these ratios would be above the benchmark of 5% in the peak debt year of 2016. It is estimated that the Debt Service Ratio would be between 5% and 7%. The Debt Burden Percentage is estimated to be between 7% and 9%. As these levels represent a debt peak for the City, they are expected to decline as debt is repaid over time. Since it is expected that these ratios will be above the benchmark, it is important that the City manages debt appropriately and may have to periodically limit additional borrowing until the debt is repaid. Any adjustments to the City's credit rating are not expected to limit the City's ability to issue the debt identified in this report.

It is important to note that the recommendation in this report does not result in any new debt being issued. As new debt is being considered in the future, it will require City Council approval. For each new debt issue, the Administration will review and analyze the financial capacity as part of the decision making process. Further, 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.

If additional capital projects are identified that could require debt funding above the levels noted in this report, the City will need to identify financing options that are within its debt limit, consider applying for an increase to the debt limit, identify new revenue streams to service debt, and/or scale each project to fit within the limits identified.

Environmental Implications

None related to this report.

Strategic Implications

The Administration's request to increase debt limit falls within the general Debt Management Policy statement approved in 2011:

1. Debt is a part of the City's financial structure and is integrated into a broader long-term financial management plan.
2. Debt repayment will be structured so it is fair and equitable to those who pay and benefit from the underlying assets over time.
3. Debt is to be affordable, sustainable and adaptable to encompass any emerging need to support corporate priorities and approved long-term capital plans.
4. All new debt must be approved by Council and managed, monitored and reported upon by Administration.
5. All debt service requirements will be reviewed annually and used to calculate overall annual debt affordability (prior to committing to any capital program expansion).

Other Implications

If an exemption/increase is not approved by the SMB, the City will need to enter into further discussion on financing options with the Province, and the timing of construction of the Stadium may need to be delayed.

Accessibility Implications

None related to this report.

COMMUNICATIONS

Public Notice will be required for actual borrowing by Section 101 and 102 of *The Cities Act* and Bylaw 2003-8. This notice will be provided prior to the Council meetings when the Utility and General Capital Budgets for the relevant years are considered. In addition, notification regarding the Utility and General Capital Budgets, and the Committee and the City Council meetings when they are to be considered has been included in the City Page of the local newspaper and posted on Regina.ca.

DELEGATED AUTHORITY

The recommendation in this report requires the approval of City Council.

Respectfully submitted,

EXECUTIVE COMMITTEE



Joni Swidnicki, Secretary