APPENDIX A

2020 Annual Debt Report

Contact: June Schultz, Director, Financial Services

Prepared By: Jonathan Barks,

Financial Analysis & Support

BACKGROUND

The City of Regina (City) maintains and follows a Debt Management Policy approved by the Executive Director, Financial Strategy & Sustainability 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 while investing in infrastructure to support these programs and services. Programs and services are funded from revenues generated through property taxes, user fees and grants from other levels of governments, and investments in capital assets are funded from reserves, development charges, grants and debt.

The City uses a conservative 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:

- 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 the 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 confirmed the City's credit rating of AAA in May 2021. In confirming the City's credit rating, S&P Global identified the following strengths:

- Recognized the City's ability to implement adequate actions in 2020 to offset the revenue loss and increased expenses due to the COVID-19 pandemic without resulting in a deterioration in budgetary performance
- A robust financial management practices, built on a broadly supportive institutional framework and solid economic base, bolster the ratings
- Sustainable capital spending and strong operating cash flows provide the city with significant internal financing capacity, mitigating its need for debt

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.

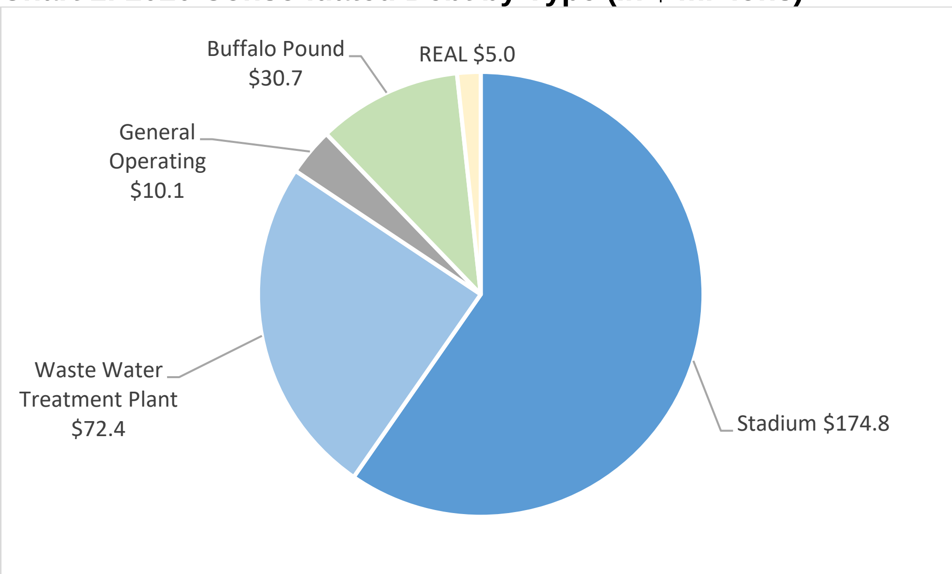
S&P Global noted that "in the next two years, the City of Regina will continue to implement strong long-term financial planning policies such that its budgetary performance remains very strong, generating after-capital surpluses on a five-year average. In addition, we expect that the planned additional borrowing will not push the city's debt burden beyond 60% of operating revenues."

Conversely the City's credit rating could be worse in the next two years if budgetary performance deteriorates, leading to sustained after-capital deficits that necessitate significantly higher-than-expected borrowing.

DEBT LIMIT AND DEBT BALANCE

The City's current debt limit approved by the Saskatchewan Municipal Board (SMB) is $450 million. Any increase to the debt limit must be approved by SMB. As of December 31, 2020, as shown in Chart 1 below, the City's total outstanding debt was $293.0 million, 65 per cent 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.

Chart 1: 2020 Consolidated Debt by Type (in $ millions)



The December 2020 outstanding debt decreased by $9.6 million from December 2019. The decrease is due to schedule debt repayments over the year.

The table below provides detail on the changes from 2019 to 2020.

Debt Comparison for 2019-2020 ($ in millions)

Debt	2019	2020	Change
Stadium	$179.0	$174.8	$ -4.2
Wastewater Treatment Plant (WWTP) Repayment Obligation	$73.8	$72.4	$ -1.4
Buffalo Pound Loan Payable	$31.6	$30.7	$ -0.9
General Operating Fund	$12.0	$10.1	$ -1.9
REAL Debt	$6.2	$5.0	$-1.2
TOTAL	**$302.6**	**$293.0**	**-$9.6**

Notes:

- Stadium project has a total debt financing of $200.4 million, borrowed in 2014 which will be paid off in 2045. The total payments per year on this debt total $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.
- Buffalo Pound Loan is a 25-year City guaranteed loan with BMO and will be paid off in 2042.
- General Operating Fund will be paid off in 2025.
- REAL debt is guaranteed by the City, and it counts against the City's overall debt limit.

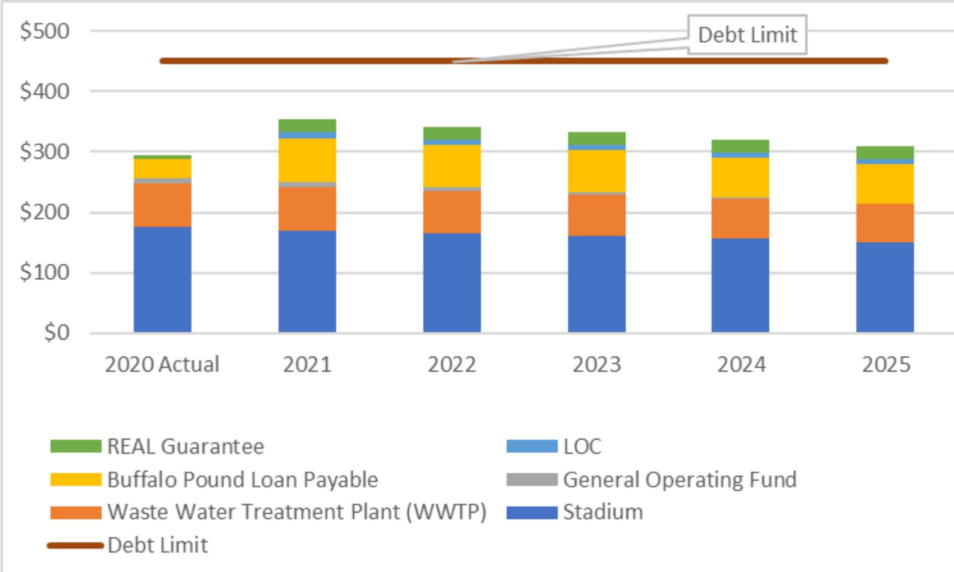
DEBT PROJECTION

Chart 2 below shows the current level of debt and the projected debt to 2024 based on the five-year capital plan in the 2020 Budget. The debt balance is expected to increase in 2021 to $353 million, 78 per cent of the debt limit.

The increase is the result of the following items:

- In February 2021, Council granted approval Buffalo Pound to negotiate for the borrowing of up to $60 million in debt to fund Buffalo Pound's plant renewal (CR21-21). The City's guarantee will be for $44.4 million based on 74% proportional ownership.
- In December 2020, Council approved REAL increasing their guaranteed credit facility maximum to $21 million, an increase of $8 million compared to their previous facilities totalling $13 million (CR20-96).
- The chart below includes known and approved debt. There is the potential for increased debt in the future for the City and its related entities, such as the Library, 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. Further, additional debt could impact the City's credit rating, which in turn, can increase future borrowing costs.

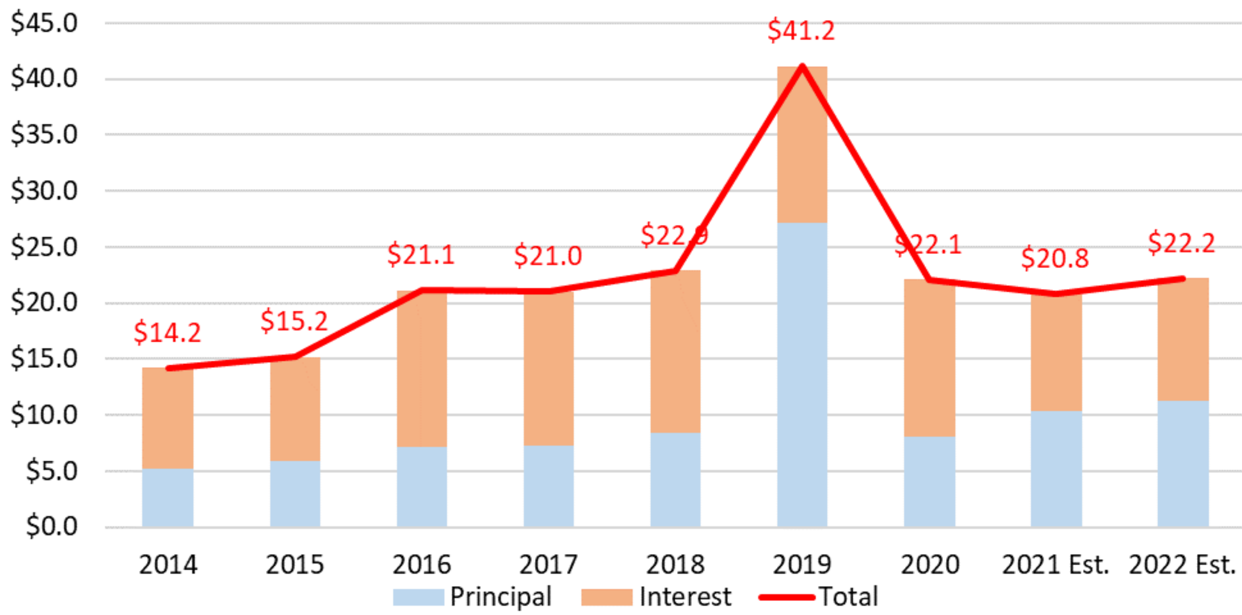
Chart 2: Consolidated Debt Projections for 2020-2025 ($ in millions)



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

Chart 3 shows a decrease from 2019 to 2020, 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. For 2021 and 2022, the annual debt service costs will be between $21 million and $22 million per year.

Chart 3: Debt Service Costs for 2014-2022 ($ in million)



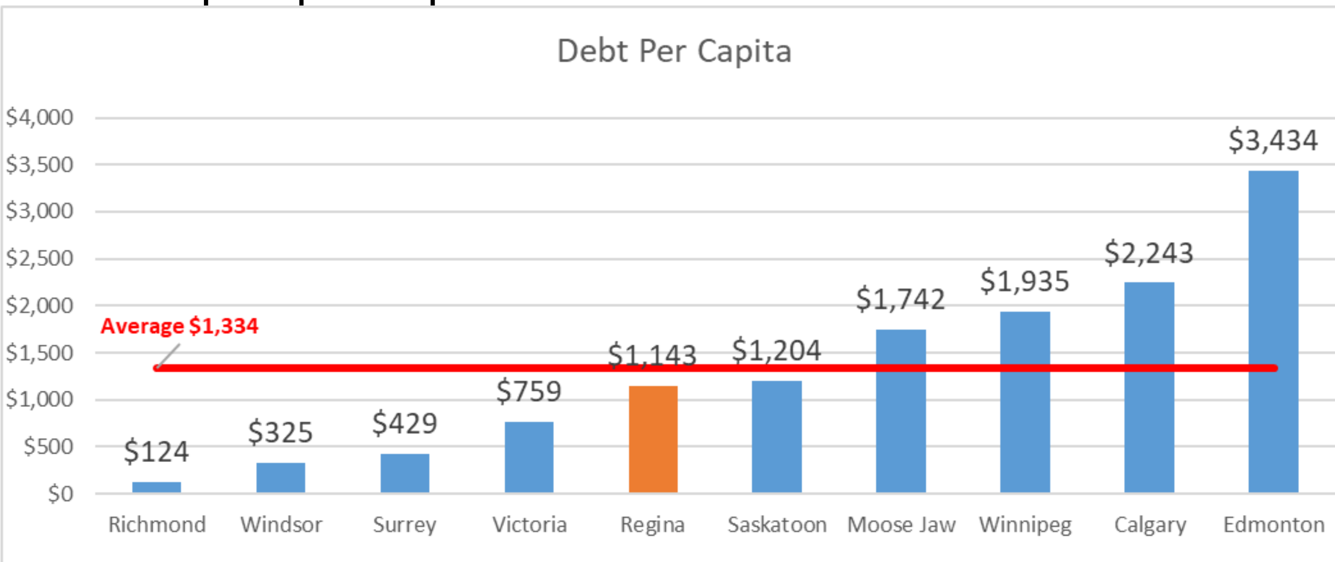
Within the chart, from 2014 through 2020, the City of Regina's debt service costs are generally stable. Stable debt service costs indicate that the City maintains flexibility in financing as annual servicing payments are consistent. While it has been gradually increasing, the forecast 2021 Debt Servicing 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 resident if the City of Regina paid off its debt immediately. 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.

Chart 4 below shows that, of the selected cities, the City of Regina debt per capita ($1,143) is average.

Chart 4: Debt per Capita Comparison to Other Cities



Notes: All other Cities are based on 2019 figures.

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 per cent to 5 per cent being the desirable range. Through the City's debt management policy, a target of 2.5 per cent or less has been set and is being used for monitoring, reporting and future debt considerations.

Chart 5 outlines the City of Regina's multi-year ratio comparison. The chart shows an increasing ratio but still below the target. The ratio increased to 1.22 per cent in 2014 due to the stadium construction; increased to 1.85 per cent in 2017 and 1.97 per cent in 2018 primarily due to the increased annual interest payment of WWTP construction and Buffalo Pound term loan. The ratio decreased in 2020 as the City was able to fund the Wascana Pool project without the use of debt. The debt interest payment ratio is expected to gradually increase through 2021 and 2022 due to planned borrowing for the Buffalo Pound plant renewal.

Chart 5: Regina Multi-Year Debt Interest Payment Ratio

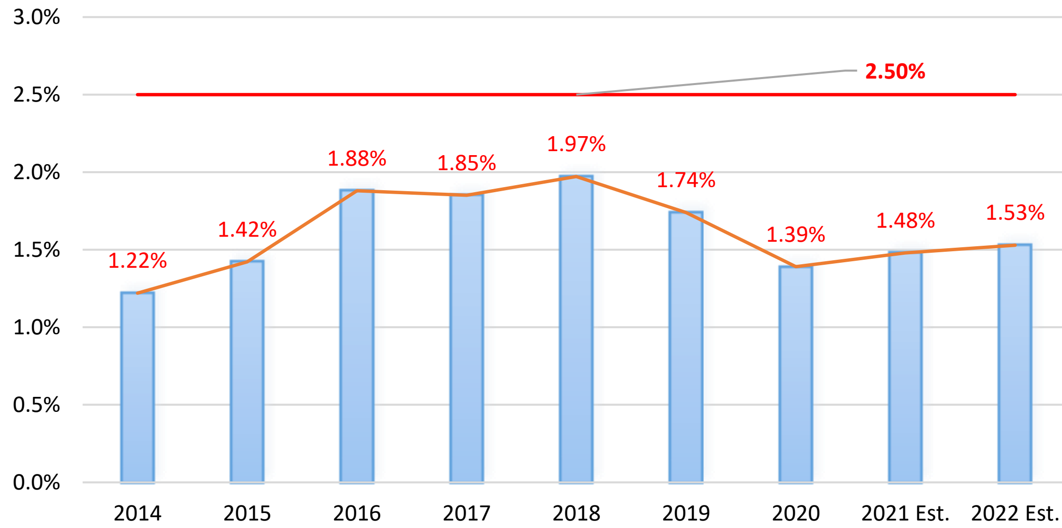
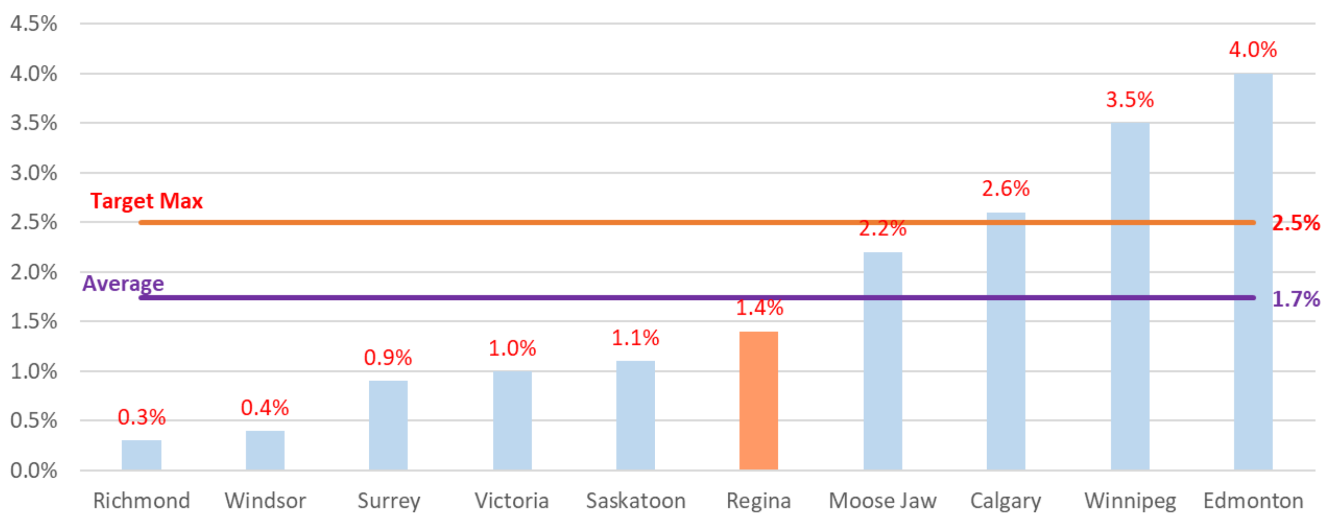


Chart 6 indicates that, among the cities selected, the City has an average debt interest payment ratio and is below the maximum. Regina's ratio means that 1.4 per cent of its revenue in 2020 was utilized for debt interest payments. A ratio more than 2.5 per cent is considered high by credit rating agencies 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.

Chart 6: Debt Interest Payment Ratio Comparison to Other Cities



Notes: All other Cities are based on 2019 figures.

DEBT SERVICE RATIO

Calculation: Consolidated Debt Interest & Principal Payments / Consolidated Revenue

The debt service ratio measures the percentage of revenue that 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 per cent typically results in debt servicing costs crowding other operating priorities out of the budget. Through the City's Debt Management Policy, a target of 5 per cent or less has been set and is used for monitoring, reporting and considering future debt considerations.

Chart 7 below shows that the City of Regina's debt service ratio was 2.8 per cent on December 31, 2020. Following a spike in 2014 due to a $43.1 million balloon payment on Utility debt, the ratio saw a gradual increase until 2019 when it spiked again due to a $12 million one-time balloon debt repayment in the General Operating Fund and an approximately $8 million one-time balloon debt repayment in the Utility Fund. The City has no balloon payments required by any existing debt.

For 2021 and beyond, the City of Regina debt service ratio is expected to remain below the five per cent target set in policy. 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 costs as low as possible, thereby limiting financial pressures on its operating budget and taxpayers.

Chart 7: Regina Multi-Year Debt Service Ratio

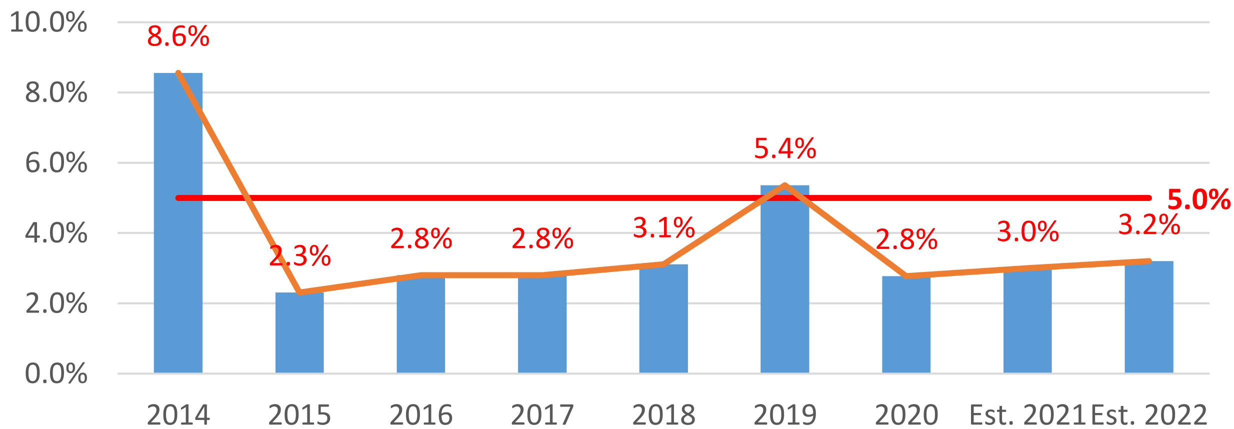
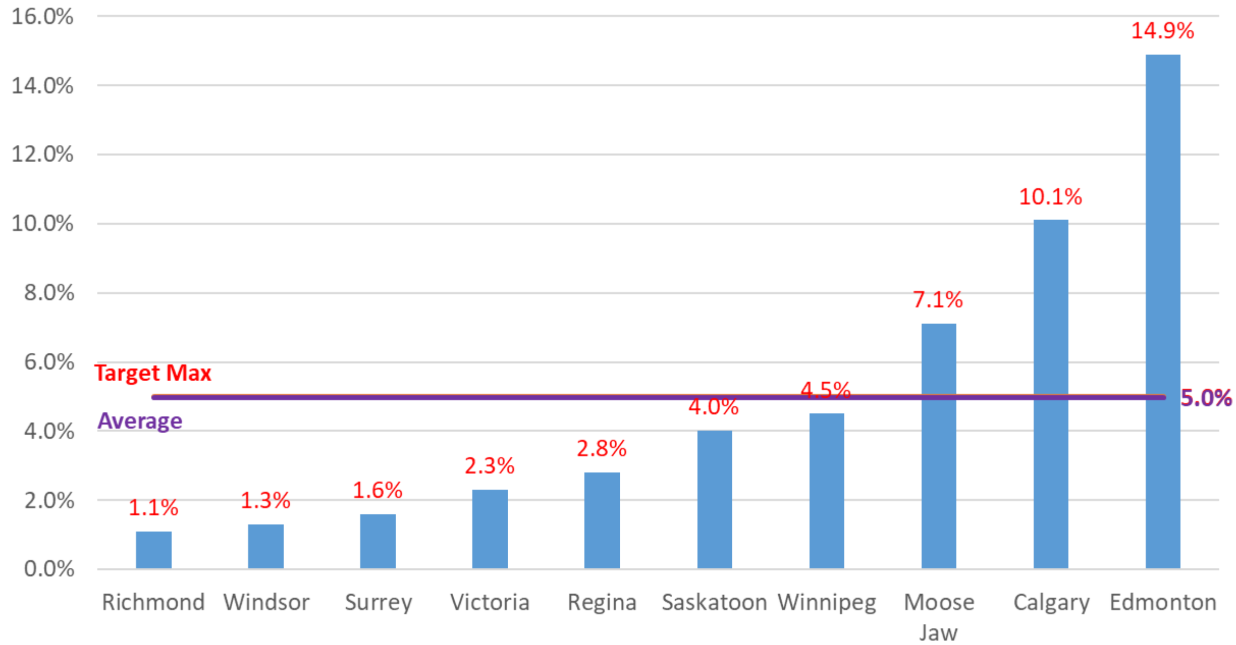


Chart 8 indicates that the City of Regina has the fifth lowest debt service ratio of the cities selected. Regina's ratio means that 2.8 per cent of its revenues in 2020 was utilized for debt principal and interest payments.

Chart 8: Debt Service Ratio Comparison to Other Cities



Notes: All other Cities are based on 2019 figures.

TAX AND RATE SUPPORTED DEBT RATIO

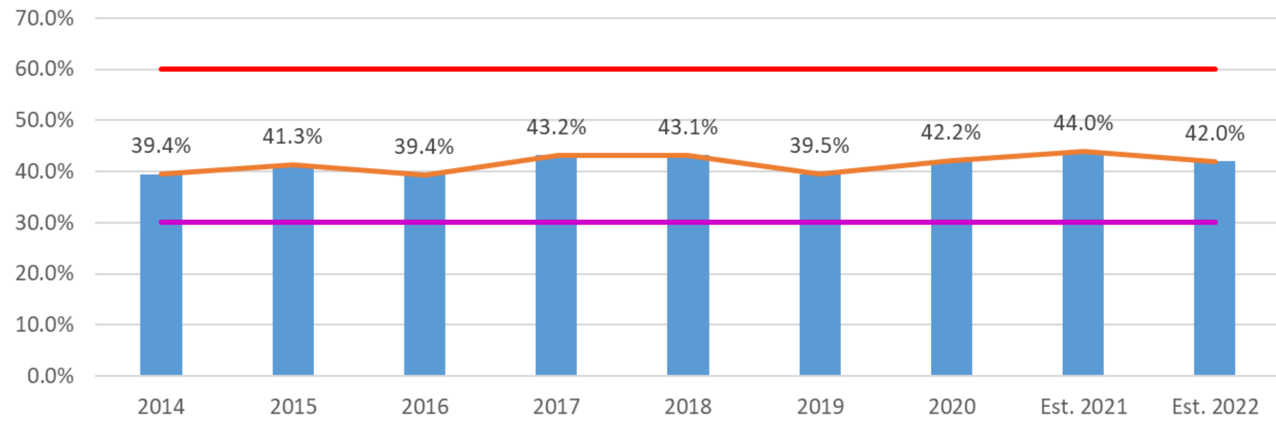
Calculation: Consolidated Debt / Consolidated Revenue

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.

As a key indicator used by S&P Global, a ratio in the range of 30 per cent to 60 per cent is considered moderate in the overall debt assessment of a municipality. Through the City's Debt Management Policy, a target of 60 per cent 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 per cent, S&P Global may consider reducing the current credit rating.

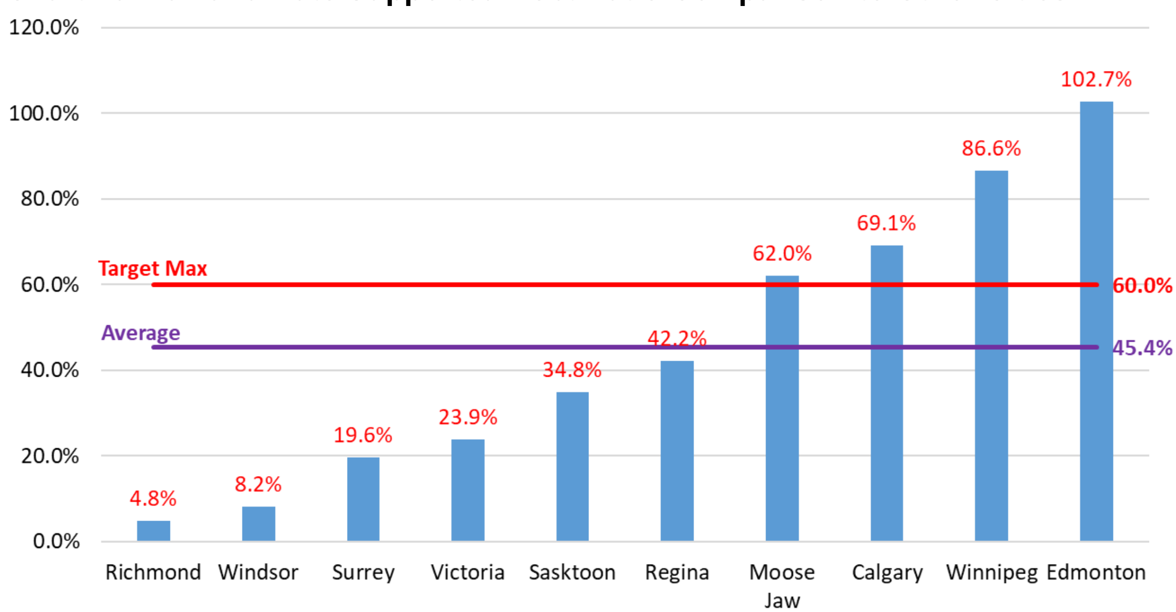
Chart 9 shows that the City's rate has stayed between 40 and 50 percent since 2014 and is expected to remain in this range in 2021. This range is considered healthy and the debt to revenue ratio could decrease in 2021 as consolidated revenues move toward pre-pandemic levels.

Chart 9: Regina Multi-Year Tax and Rate Supported Debt Ratio



As presented in Chart 10, the City of Regina has a below average tax and rate supported debt ratio in comparison to other cities across Canada. Regina's debt to revenue ratio is 39.5 per cent in 2020, below the average ratio of 43.8 per cent.

Chart 10: Tax and Rate Supported Debt Ratio Comparison to Other Cities



Notes: All other Cities are based on 2019 figures.

CONCLUSION

Overall, the comparison with other municipalities shows the City of Regina maintains a reasonable debt level, as Regina ranks near the peer group average for most of the debt ratios considered. The City of Regina is using 65 per cent of its $450 million debt limit as at December 31, 2020. There are potential large capital projects that will likely require debt funding in the next few years, such as projects eligible for funding under the Investing in Canada Infrastructure Program (ICIP). 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. Increasing debt burden can result in a City’s credit rating being downgraded. If downgraded, the City would likely pay higher interest costs on future borrowing.

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.