APPENDIX A

2018 Annual Debt Report

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BACKGROUND

The City of Regina maintains and follows an Executive Director, Financial & Corporate Services 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 Framework establishes proper and effective financial management and control to the day-to-day activities of the City. It sets out principles and benchmarks to help guide Administration in making recommendations to City Council on decisions related to debt issuance. The framework, which is being used as the foundation in the development of the long range financial plan, will continue to place the City's finances on a sound and sustainable footing so that financial, service and infrastructure standards can be met without resorting to unplanned or excessive increase in rates, fees and service charges or disruptive cuts to services.

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, such as the stadium and waste water treatment plant (WWTP). 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, similar to 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

Standard & Poor's (S&P Global) affirmed the City's credit rating of AA+ with a positive outlook in May 2018. In affirming the City's credit rating, S&P Global identified the following strengths:

- A strong budgetary performance, bolstered by steady growth, to allow for internal financing of capital expenditures
- A solid economic base, grounded by a large public-sector presence, and strong financial management practices bolster the ratings while institutions remain broadly supportive
- Very predictable and well-balanced institutional framework
- Strong financial management with capable and experienced administration

A credit rating of AA+ is considered very high 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.

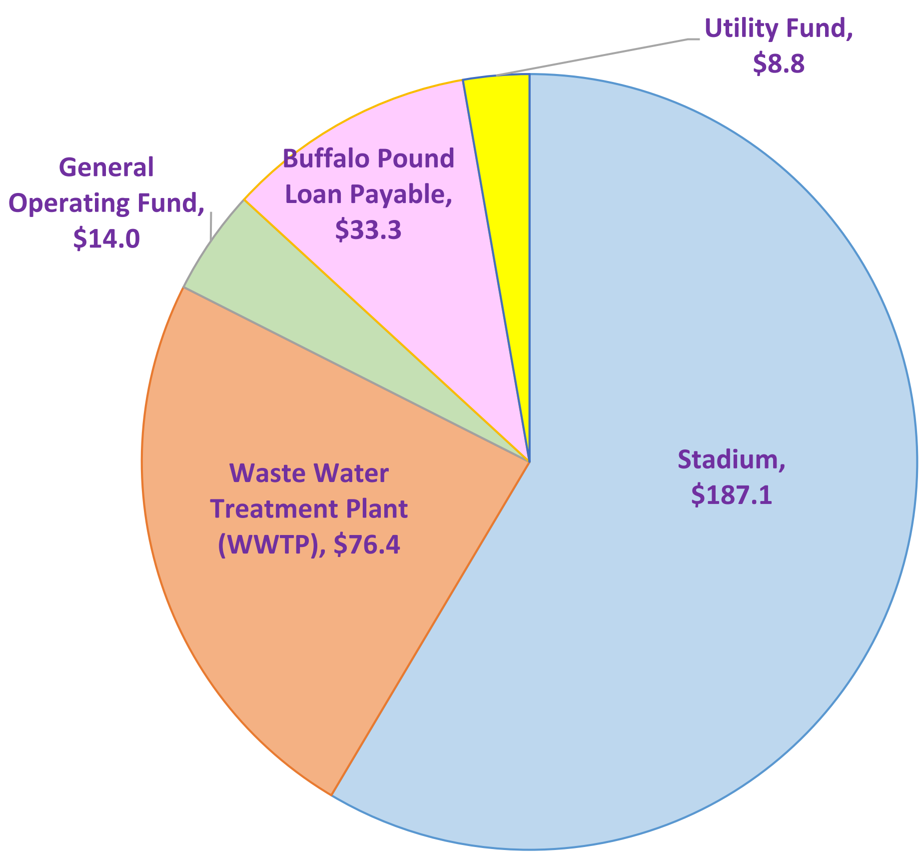
S&P Global noted that the City's credit rating could be better in the next two years if the City continues to refine its financial management practices, promoting fiscal sustainability as demonstrated by budgetary performance metrics in line with those of 'AAA' rated peers and if provincial grants stabilized and do not materially affect the City's budgeting process.

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 weaker tax revenue generation or materially lower provincial grants, weakening surplus and necessitating significant debt borrowing to finance its capital expenditures.

DEBT LIMIT AND DEBT BALANCE

The City's current debt limit approved by SMB is $450 million. As of December 2017, Graph 1 below shows that the total outstanding debt for the City was $319.6 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. Any increase to the debt limit must be approved by SMB.

Graph 1: 2017 Consolidated Debt by Type (in $ millions)



The December 2017 outstanding debt increased by $26.1 million from December 2016. The increase is mainly due to a new loan taken on by PBWTC, offset by decreases in other debt over the year. In November 2017, the City of Regina and the City of Moose Jaw approved BPWTC to enter into a term loan of $45 million with the Bank of Montreal. Related to the term loan, BPWTC entered into an interest rate swap agreement for a 25-year term with a fixed interest rate. The City of Regina has guaranteed its proportionate share of the term loan, which is $33.3 million (74%). This is the only new debt issued in 2017.

The remaining debt balance accounts for general and utility capital funding, major projects funding (WWTP and Stadium), all of which are decreasing. Graph 2 below provides detail on the change from 2016 to 2017.

Graph 2: Debt Comparison for 2016-2017 ($ in millions)

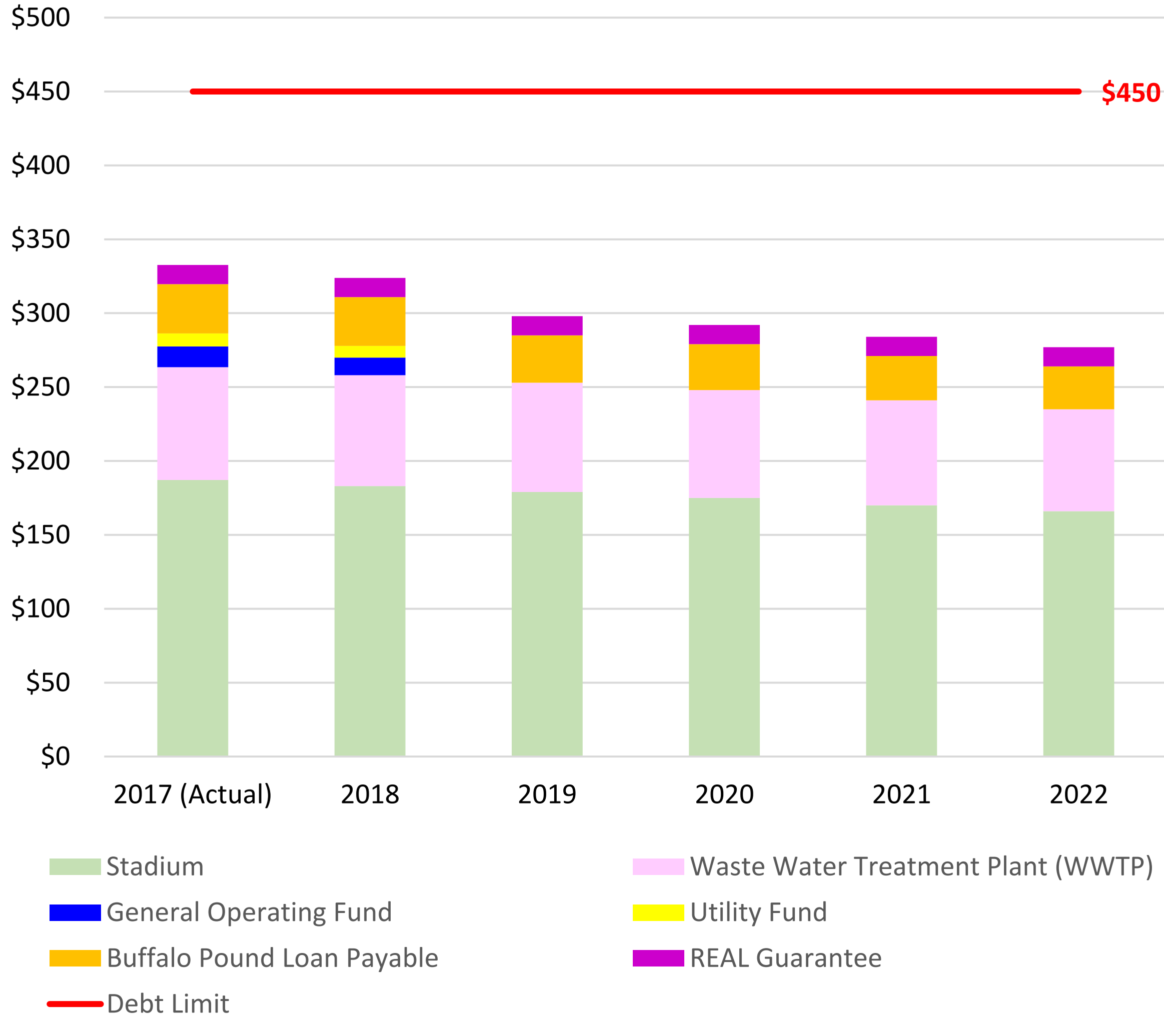
Debt	2016	2017	Change
Stadium	$190.8	$187.1	$ -3.7
Waste Water Treatment Plant (WWTP)	$77.6	$76.4	$ -1.2
General Operating Fund	$15.4	$14.0	$ -1.4
Buffalo Pound Loan Payable	$0.0	$33.3	$33.3
Utility Fund	$9.7	$8.8	$ -0.9
TOTAL	**$293.5**	**$319.6**	**$26.1**

Notes:
• WWTP is not a typical loan, but a 30-year repayment stream obligation to the company that constructed the WWTP.

DEBT PROJECTION

Graph 3 below shows the current level of debt and the projected debt out to 2022 based on the five-year Capital Plan in the 2018 Budget. The debt balance is expected to decrease in 2018 to $311.2 million, 69% of the debt limit.

Graph 3: Consolidated Debt Projections for 2018-2022 ($ in millions)

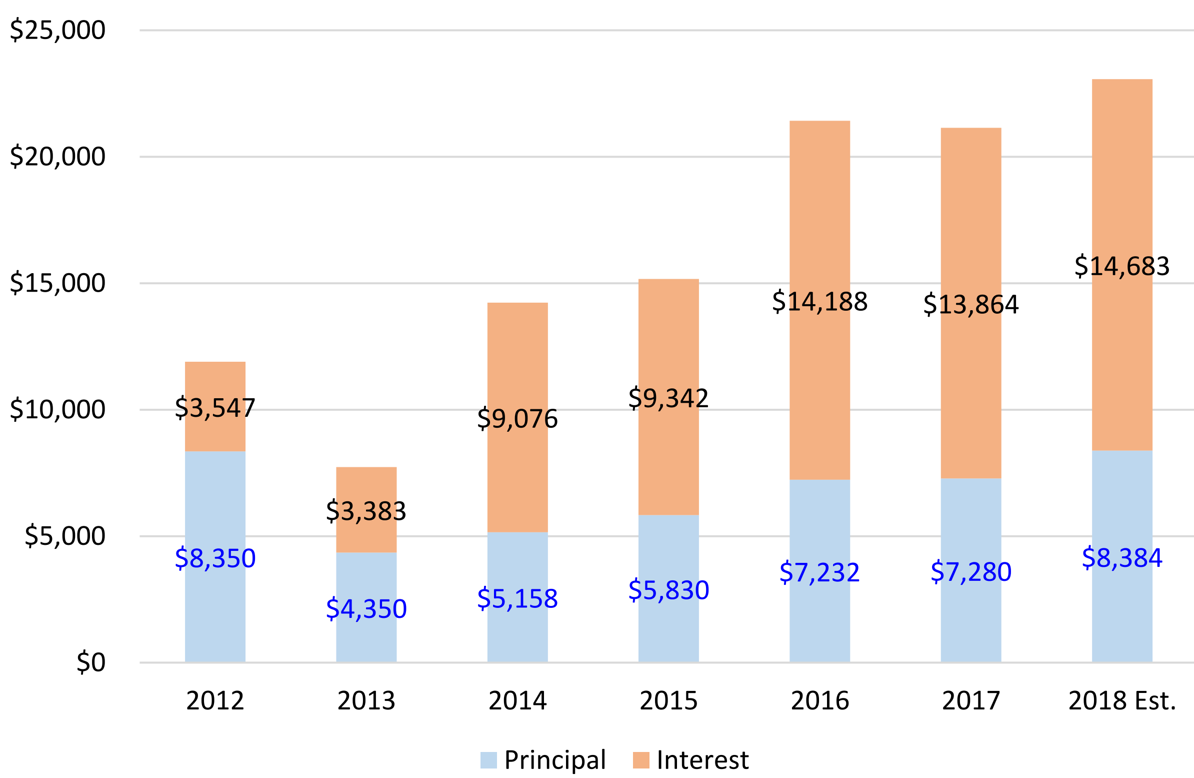


In March 2015, Council granted approval to REAL to issue up to $13.0 million in debt (CR15-23). At the end of 2017, REAL had less than 1% of this amount outstanding. However, this guarantee does count against the City's debt limit, therefore, the entire guarantee amount has been added as a place holder.

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 2012-2018 ($ in thousands)

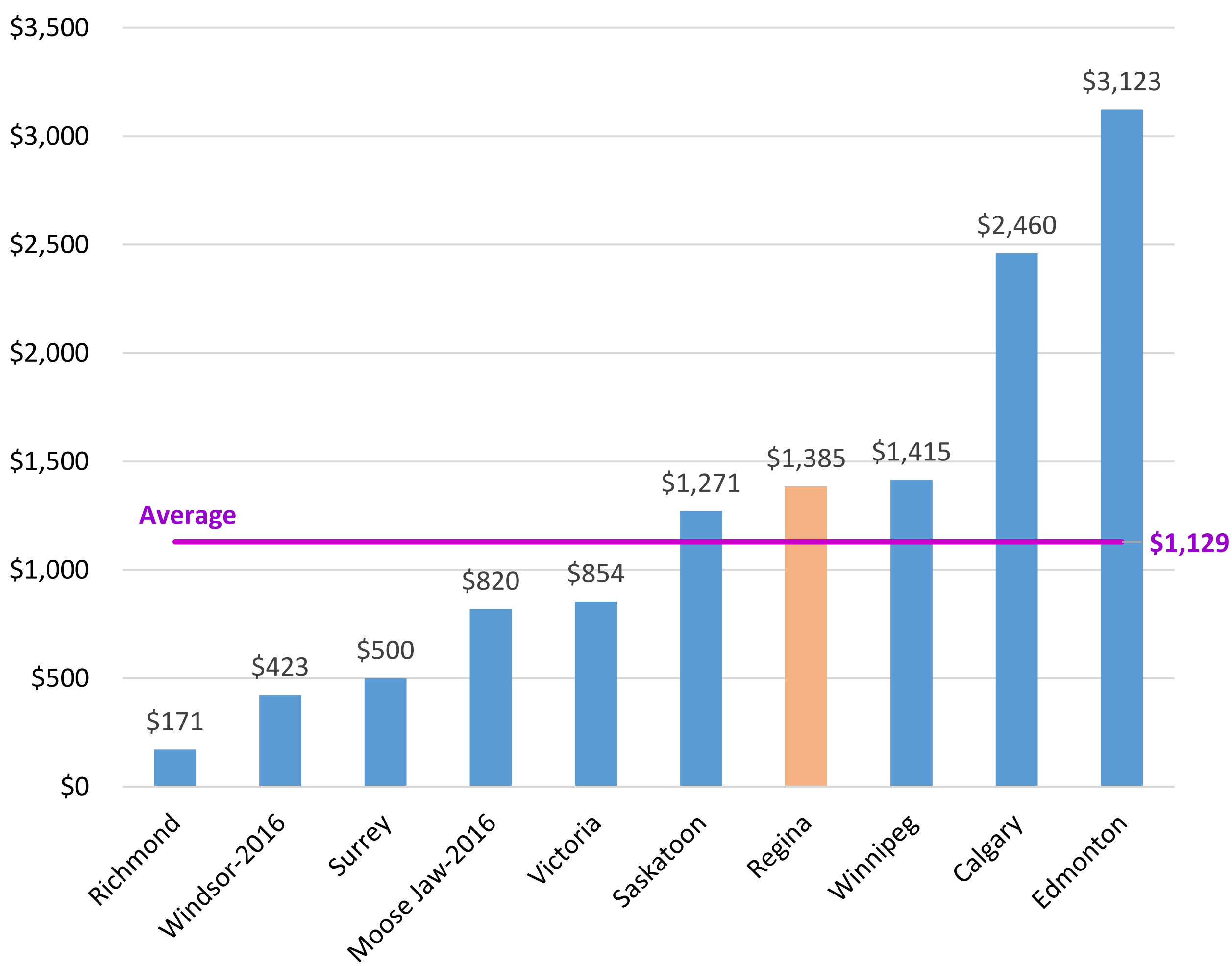


Graph 4 above shows that, from 2012 through 2018, the City of Regina's debt service costs are increasing. It means that the City has increased borrowing payments to meet its financial and service commitments. This impacts its flexibility because once a City borrows; its first commitment must be to service its debt. While it has been increasing, the Debt Servicing to Total Revenue Ratio is still below the benchmark 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 a number of 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: Debt per Capita Comparison to Other Cities (2017)



Graph 5 above shows that, of the selected cities, the City of Regina debt per capita ($1,385) is slightly above the average.

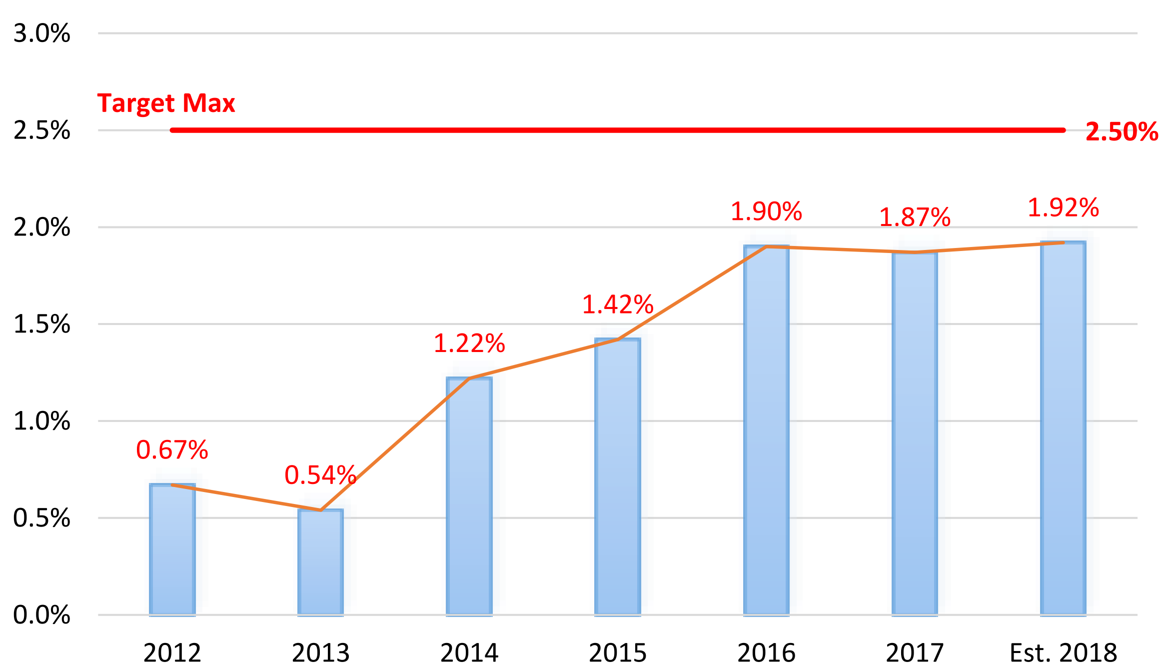
DEBT INTEREST PAYMENT RATIO

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.

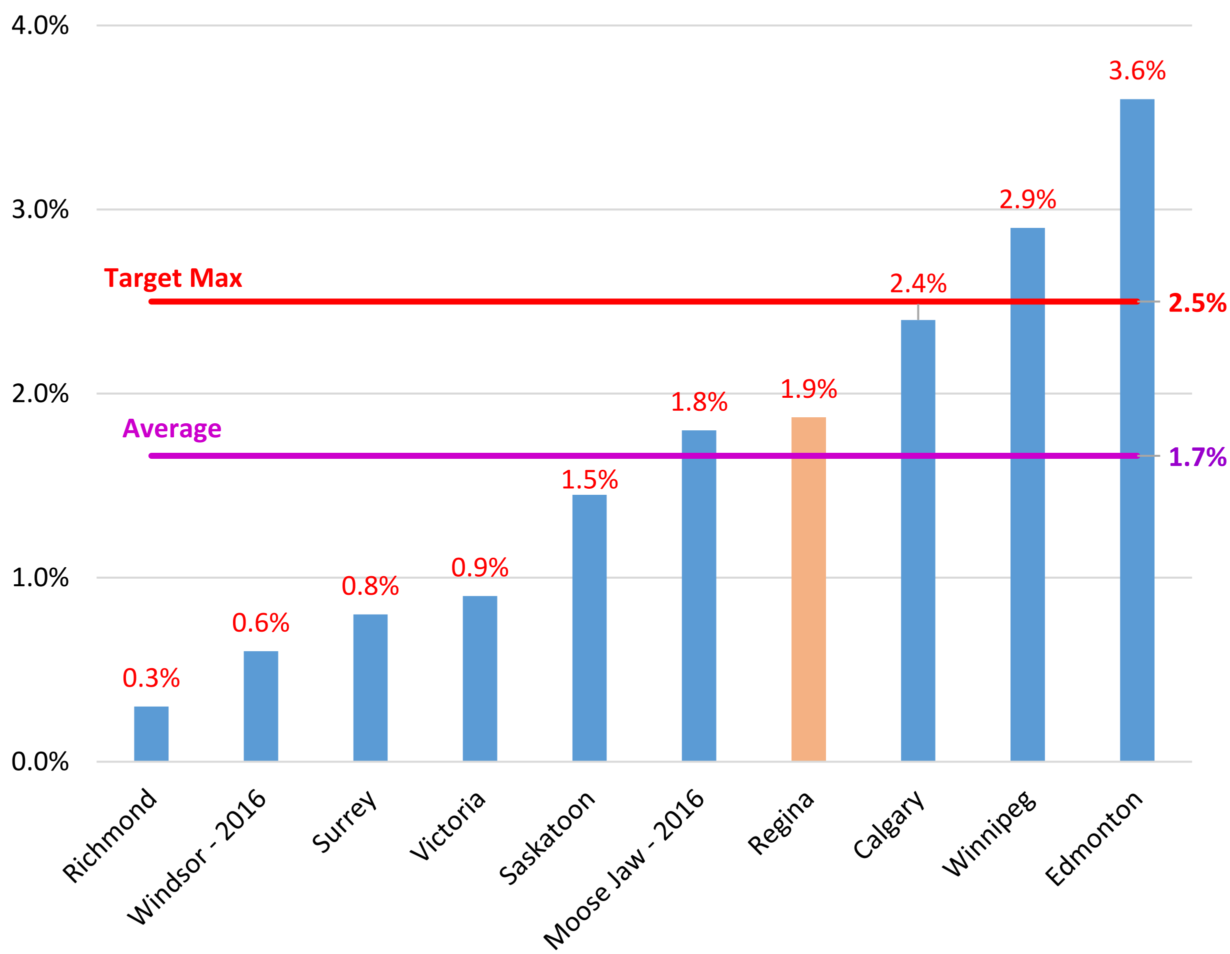
This ratio is an indicator used by S&P Global, with a benchmark of 0% to 5% being the desirable range. Through the City's debt management policy, a target of 2.5% or less has been set and is being used for monitoring, reporting and future debt considerations.

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 1.90% in 2016 and 1.87% in 2017 primarily due to the increased annual interest payment of WWTP construction; and is projected to be 1.92% in 2018 due to new debt repayments related to the Buffalo Pound Water Treatment Plant Electrical Upgrade Project.

Graph 7: Debt Interest Payment Ratio Comparison to Other Cities (2017)



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 1.9% of its revenues in 2017 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.

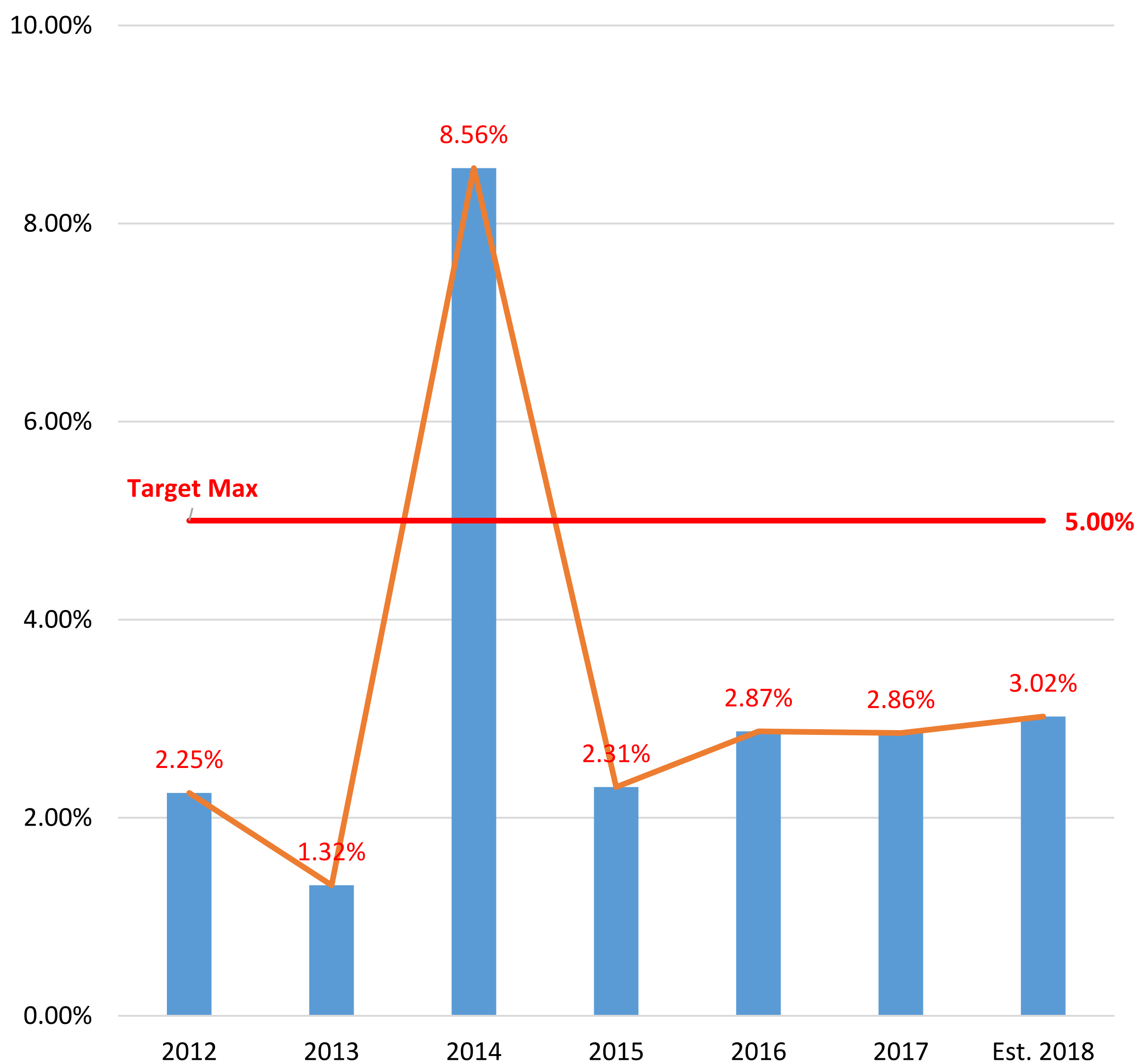
This is a key indicator used by S&P Global when assessing the overall debt burden of a municipality. A ratio in excess of 10% is seen to be where debt servicing costs tend to crowd other operating priorities out of the budget. Through the City's debt management policy, a target of 5% or less has been 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 2.86% at December 31, 2017, below the target. From 2012 to 2013 the ratio fluctuated slightly in the range of 1.3% to 2.5% with a large spike in 2014 at 8.56% due to a $43.1 million balloon payment[1] on Utility debt. This spike did not affect the credit rating analysis as it was an infrequent occurrence. The ratio increased in 2016 and 2017 primarily due to the increased annual debt payment related to WWTP construction. The ratio is projected to increase in 2018 to

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

3.02%, due to the new debt repayments related to the Buffalo Pound Water Treatment Plant Electrical Upgrade Project Loan of $33.3 million.

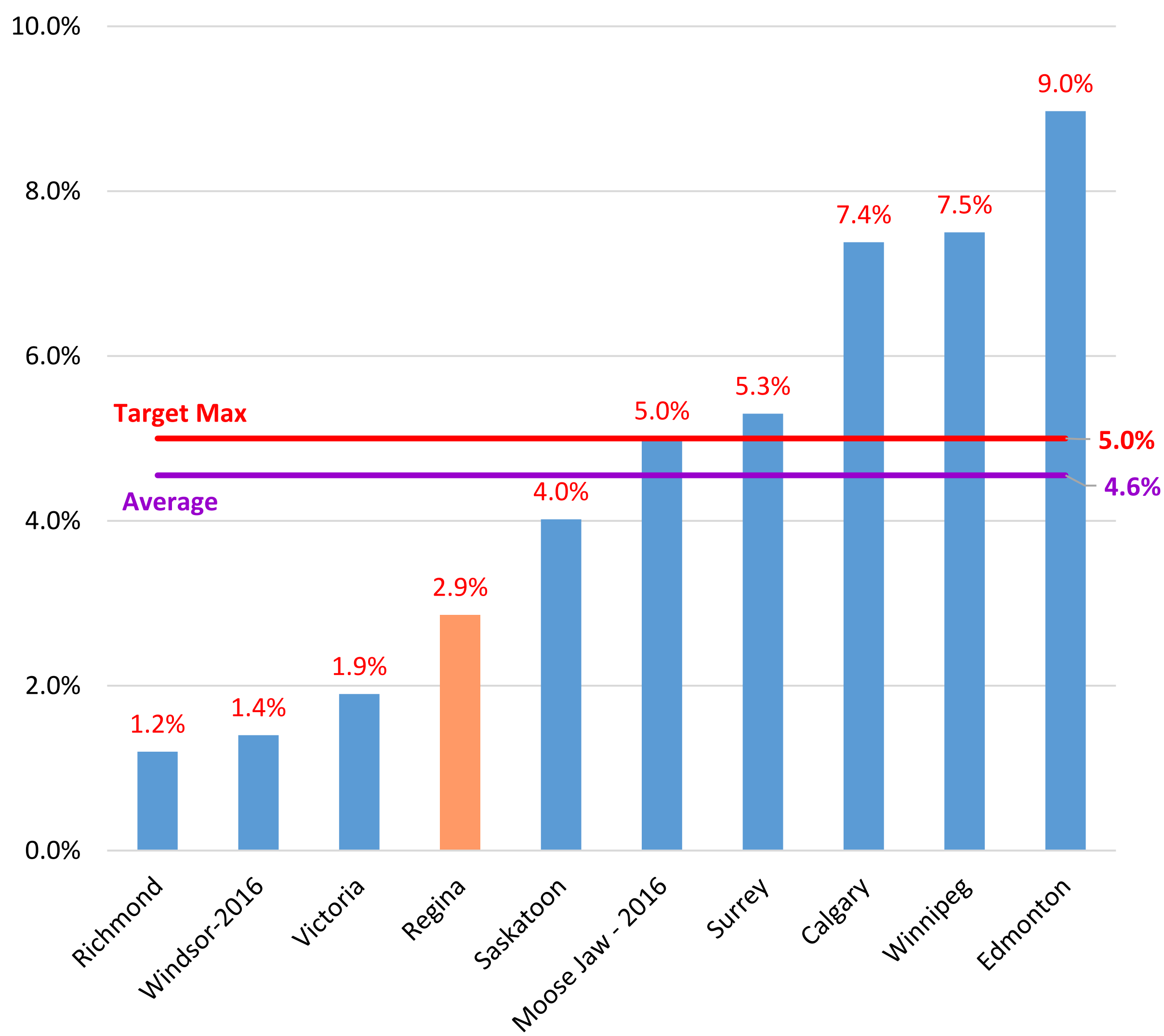
Graph 8: Regina Multi-Year Debt Service Ratio



The City of Regina debt service ratio is presented in Graph 8 above and expected to remain below the 5% 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.

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 2.9% of its revenues in 2017 was utilized for debt principal and interest payments. Regina's ratio is lower than the average ratio of 4.6%.

Graph 9: Debt Service Ratio Comparison to Other Cities (2017)

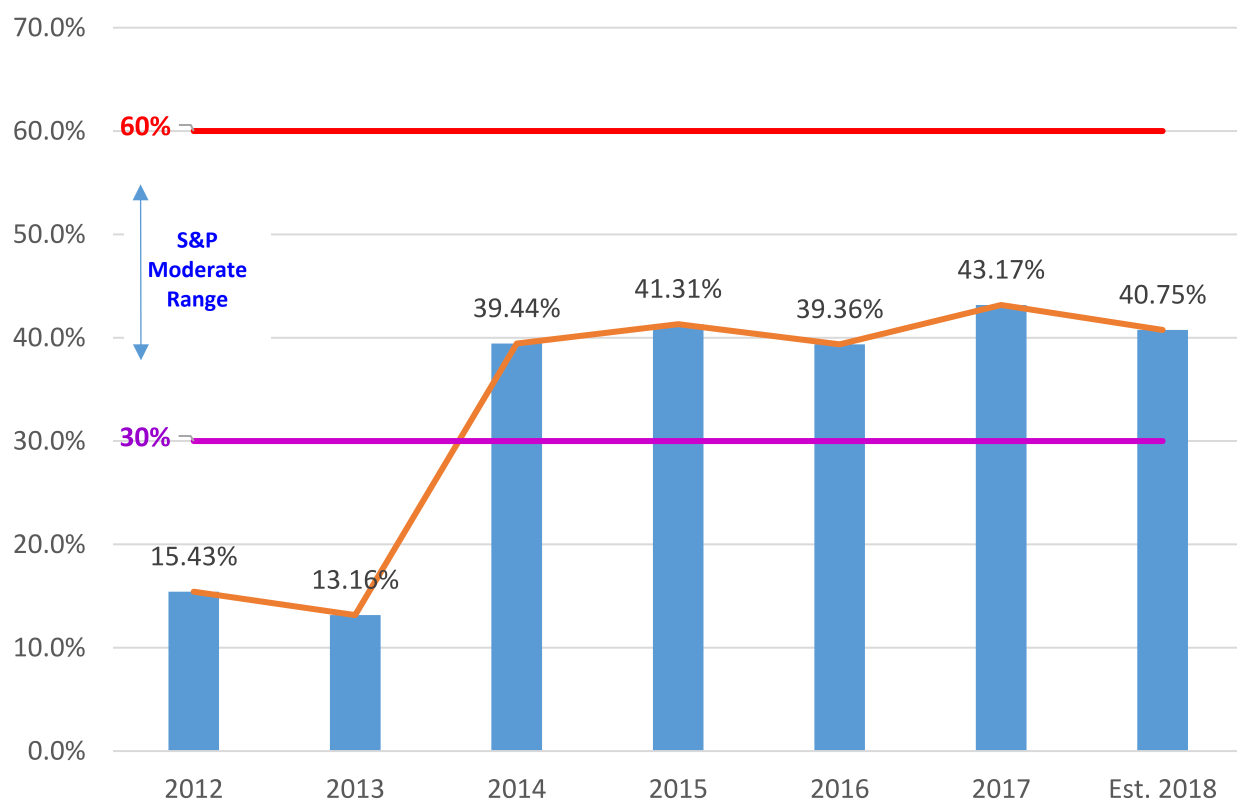


TAX AND RATE SUPPORTED DEBT RATIO

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.

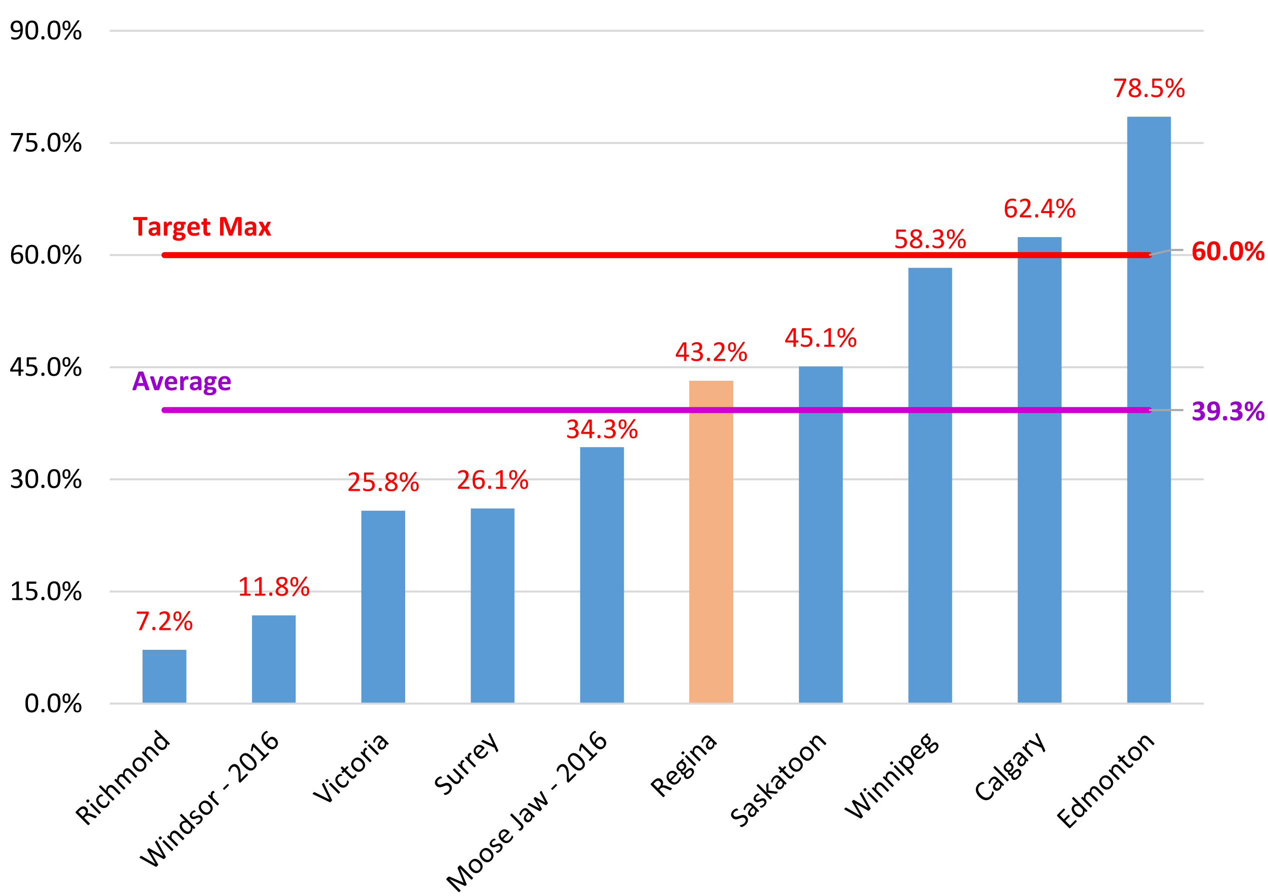
Graph 10: Regina Multi-Year Tax and Rate Supported Debt Ratio



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 ratio is projected to decrease slightly after the 2017 peak. The 2014 increase in the ratio is due to the Stadium.

Graph 11: Tax and Rate Supported Debt Ratio Comparison to Other Cities (2017)



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 in 2017. Regina's debt to revenue ratio is 43.2% just above the average ratio of 39.3%.

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. 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. 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 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.