

MANAGEMENT REPORT

Date: March 18, 2025
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: FIN25-007
Attachments: Target Metric Calculations-2022
Annual Debt Repayment Limit (Schedule 81 from FIR 2022 used for 2024 borrowing limits)

Title: Municipal Debt Updates and Limits

Objective: To provide Sub-committee and Council with an update on the City's borrowing capacity (annual repayment limits), as well as current debt levels, the status of current debt-financed projects and to seek approval for next steps regarding previously authorized debt-financed projects.

Background:

Borrowing Capacity (Annual Repayment Limits (ARL))

Annually, the Ministry of Municipal Affairs & Housing (MMAH) authorizes the maximum amount available to commit to payments relating to debt and financial obligations for municipalities based on the municipality's Financial Information Return (FIR). The limit is calculated as 25% of certain annual operating fund revenues.

The ARL is prepared in accordance with Ontario Regulation 403/02 based on the second previous year's Financial Information Return (FIR) that is submitted annually to MMAH.

This report is to provide Council with information with respect to the City's existing levels of long-term debt based on the 2022 FIR (for 2024), as well as some additional analysis regarding the impact of previous borrowing decisions on borrowing capacity based on the provincial limits.

Current Debt Levels and Compliance with Debt Policy

The City’s Long-term debt policy requires an annual review of total debt and an analysis of certain financial metrics to identify any areas of concern with respect to financial health and debt levels. These are attached to this report.

Analysis:

Borrowing Capacity / Annual Repayment Limits (ARL)

Attached to this report is a copy of the 2022 Annual Debt Repayment Limit, which governs limits effective January 1, 2024.

The calculation for the City of Stratford’s 2024 ARL effective 1st January 2022, as provided by MMAH, is as follows:

2022 Net Revenues	\$110,916,614
25% of Net Revenues	\$27,729,154
Less 2022 Net Debt Charges	(\$8,161,777)
Unadjusted 2024 Annual Repayment Limit	\$19,567,377

Assumptions have been made, where required, in calculating adjustments using an effective interest rate of 3% and loan periods of 15 years that match cash flow receipt of development charge funds and / or appropriate borrowing terms for the underlying assets. The actual rate of interest and terms are determined based on the purpose of the borrowing.

Note that the above figures do not include the loans yet to be incurred which reduce this available limit by an estimated \$1.5 million to a revised limit of \$18 million.

Current Debt Levels and Compliance with Debt Policy

Based on these adjusted limits, the City has legislated capacity to undertake additional long-term borrowings of approximately \$200 million, depending on loan terms, rates and amortization periods. It is important to note that incurring debt at this level would result in significant impact to the tax levy unless alternative repayment sources could be secured and is not recommended.

The City is currently paying down existing debt at the rate of around \$7 million in principal payments per year. Not all of this comes from the tax levy, however, as some is funded by user fees (water, sanitary) and development charges.

The table below provides summary information on the total approved debt, both issued and pending, categorized by the nature of the repayment obligations.

		Tax Supported	From User Fees	From DCs	Total
Debt Issued at Dec 31, 2024		\$ 31,339,321	\$ 14,016,332	\$ 4,058,412	\$ 49,414,065
To be repaid 2025		\$ 3,126,444	\$ 2,187,116	\$ 1,820,283	\$ 7,133,843
Debt Approved but not issued		\$ 17,796,698	\$ -	\$ -	\$ 17,796,698
Total Projected at Dec 31, 2025		\$ 46,009,575	\$ 11,829,215	\$ 2,238,130	\$ 60,076,920
Percentage by Source		77%	20%	4%	100%

Status of Previously Authorized Projects

Britannia Phase II

At the November 29, 2021, Special Council meeting, Council authorized the Britannia Project proceed with the understanding that long-term debt would be required to finance the portion of the project that was not funded from the province. The build project was financed in the interim from existing reserves intended for regular capital programs that now require replenishment from a borrowed source. The amount to be financed is \$4,508,690.

The recommended repayment period is proposed as 15 years, to reflect the reduced balances since 2021 from tax repayments. Using an estimated current borrowing rate of 4.50% for the first five years, the annual payments of principal and interest are estimated at \$450,000.

Cooper /Grand Trunk Site

The status of the current indebtedness loans is outlined below. Since 2020, there have been additional expenses that were cash-flowed from existing bank funds but were not specifically assigned a funding source. Staff are highlighting for awareness now and once the outcome from the Ontario Land Tribunal is known, we will advise the amount to be financed and recommended actions at that time.

Loan #	Original Amt	Origin Year	End Date	Annual P&I	Current
14,15,17,18,19	\$14,050,000	2015	2040	\$680,720	\$7,348,617
Internal	\$5,897,975	2019	2029	\$691,423	\$3,166,513
Total loans	\$19,947,975	-	-	\$1,372,143	\$10,515,131
Unfinanced	\$3,672,398	2025/2026?	TBD	TBD	\$3,672,398
Total to be financed	\$23,620,373	-	-	TBD	\$14,187,529

398 Erie Street

This housing project is expected to require \$4.5 million once completed, and a subsequent report will come forward to seek approval for the specific dollars and repayment term when the project is complete.

9 Fulton (Milverton, Perth Stratford Housing Corporation) -shared service

This housing project is expected to require \$4.6 million once completed, and a subsequent report will come forward to seek approval for the specific dollars and repayment term when the project is complete. This project will be shared with County of Perth and St. Marys based on weighted assessment and as such the final financial structure may differ, depending on whether partners have available reserves, or wish to borrow for their contributions.

Capital Lease Financing Agreements

In accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001*, and the City's Lease Financing policy (F.1.10), the City Treasurer is required to report annually on capital lease financing agreements.

The City has contractual lease agreements for vehicles; the amount is not a material component of the City's total long-term financing and is limited to a couple of vehicles within the Stratford Police Service.

In the Treasurer's opinion, all financing leases were made in accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001*, and the City's Lease Financing policy (F.1.10).

Current Debt Levels and compliance with Long-Term Debt and Borrowing Policy (the "Policy")

The Policy states: The Municipal Treasurer must ensure that the Municipality is financially viable and able to access the capital markets and borrowing instruments. Before entering any borrowing arrangements, the Municipal Treasurer will complete a financial analysis of at least the following ratios and the achievement of the following targets / norms and comment on the actual results as compared to industry norms and/or common practices, any variances therein, and the financial implications of same.

Attached, calculations are performed for the audited year-ended December 31, 2022, and a conclusion for each is noted.

Approved Debt Requiring Council Resolution

Britannia Phase II

In 2022, when the project was approved for building it was done so based on receiving provincial funding, with the balance to be funded via long-term debt. As is typical, whenever possible, these expenditures were cash-flowed from existing reserves in the short-term, with the intent that the debt would replenish the City's cash reserves when the project was completed. Due to timing delays in completing the financial audits, the finalization of the long-term debt figures was also delayed. The repayment of the debt was included in the City's tax levy from the first year the final amounts were known, so this has had the effect of reducing the total loan required, as these levied amounts have been applied to the unfinanced liabilities as noted below.

Financial Implications:

Financial impact to current year operating budget:

None. It is noted that the Britannia II project has been factored into the City's annual budgets and therefore, obtaining this loan has the effect of replenishing cash earmarked for other purposes but does not have an incremental impact to the tax levy.

Financial impact on future year operating budget:

Once the projects noted above are closer to completion and amounts known, further Council decisions will be required around financing these projects and impact on future operating budgets will be identified at that time.

Alignment with Strategic Priorities:

Enhance our Infrastructure

This report aligns with this priority using long-term debt as a financial tool has allowed the City to further investments in current infrastructure by borrowing for various things like stormwater infrastructure, fire trucks and recreational facilities.

Build Housing Stability

This report aligns with this priority as continuing to balance the use of long-term debt with grants and taxation as a direct financing tool, the City is able to invest strategically in housing initiatives that benefit the community by adding to the available supply.

Work Together For Greater Impact

This report aligns with this priority as the historic investment in readying the Grand Trunk site for development has allowed the City to get to a point where meaningful progress can continue.

Alignment with One Planet Principles:

Not applicable: This report is administrative and does not directly align with One Planet Principles.

Staff Recommendation: THAT the report titled, "Municipal Debt Updates and Limits" (FIN25-007), be received;

THAT Council authorize long-term borrowing for Britannia II in an amount not to exceed \$4,550,000;

AND THAT staff be authorized to proceed with finalizing the applicable documentation and rate negotiation with RBC and preparing any required by-laws to be brought to a subsequent meeting for Council approval.

Prepared by:	Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Recommended by:	Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer Joan Thomson, Chief Administrative Officer