



The Corporation of the City of Cornwall
Regular Meeting of Council
Report

Department: Financial Services
Division: Finance
Report Number: 2020-307-Financial Services
Prepared By: Paul Scrimshaw, Accounting Manager and Deputy Treasurer
Meeting Date: June 29, 2020
Subject: **2019 Annual Report on Municipal Debt Limits**

Purpose

This report is being presented to Council in order to meet the requirements of Regulation 403/02 under the *Municipal Act, 2001*. This report contains information related to the current status of the City's Municipal Debt Limits.

Recommendation

That Council adopt Report 2020-307-Financial Services as required under the *Municipal Act, 2001*, Ontario Regulation 403/02.

Financial Implications

This report provides Council with information with respect to the municipality's existing levels of long-term debt as well as the additional long-term borrowings that would be available as per the provincial guidelines.

Strategic Priority Implications

There is no relationship to the strategic plan as this is a compliance report under the *Municipal Act*.

Background / Discussion

The Ministry of Municipal Affairs and Housing (MMAH) determines the municipality's Annual Repayment Limit (ARL) under Ontario Regulation 403/02 of the *Municipal Act, 2001*.

Attached to this report is a copy of the City's 2020 ARL provided to the municipality by the MMAH in March 2020. The 2020 ARL is based on information from the 2018 Financial Information Return (FIR). As outlined by the regulation, a municipality's ARL is based on a 25% calculation of annual operating revenues excluding certain revenues such as government grants and transfers from reserves and reserve funds.

MMAH calculates the City's estimated annual repayment limit as follows:

	<u>2020 ARL</u>
Net Revenues	<u>\$123,452,219</u>
25% of Net Revenues	30,863,055
Less: Current Total Debt Charges	<u>(5,896,140)</u>
Estimated Annual Repayment Limit	<u><u>\$24,966,915</u></u>

Debt Balances at December 31, 2019

To calculate the City's Municipal Debt Limits, the ARL is adjusted to reflect debt commitments and transactions that have occurred subsequent to December 31, 2018.

The long-term liabilities at December 31, 2019 represented on the consolidated statement of financial position total \$41,166,216 (2018 \$42,973,390) and are reported in the following table:

Bank Loans	2019	2018
<u>City of Cornwall</u>		
Benson Centre, interest at 3.41%, repayable in monthly blended payments of \$59,951, due November 2032	\$7,509,794	\$7,963,273
Emergency Medical Service building, interest at 3.09%, repayable in monthly blended payments of \$10,820, due October 2027	902,421	1,002,778
Post-employment payments, interest at 3.32%, repayable in monthly blended payments of \$20,099, due December 2023	902,414	1,109,905
Municipal yard redevelopment, interest at 2.375%, repayable in monthly blended payments of \$8,846, due November 2022	298,884	396,634
Capital loans, interest between 1.57% and 4.35%, repayable in blended monthly payments between \$4,571 and \$16,822, due dates between June 2020 and November 2027	17,900,009	17,806,772
Wastewater Treatment Plant, interest at 3.26%, repayable in blended monthly payments of \$64,707, due November 2036	10,088,587	10,529,547
	\$37,602,109	\$38,808,909
<u>Cornwall and Area Housing Corporation</u>		
Annual debt payments are funded by MMA. Terms and conditions range from 1.12% to 6.13% with maturity dates due between February 2020 and April 2024	3,564,107	4,164,481
Total Long-Term Liabilities	\$41,166,216	\$42,973,390

Total Approved Debt by Source

The following table provides summary information on the total approved debt, both issued and not yet issued.

	Payable from the following sources					Total Approved Debt
	General Taxation Revenue	Wastewater Billings	Provincial Grant Revenue	Reserves	Progress Fund Reserve	
Debt issued at Dec 31, 2019	\$11,865,205	\$15,116,733	\$5,760,501	\$913,983	\$7,509,794	\$41,166,216
Debt approved but not issued at Dec 31, 2019	18,701,500	7,436,000	-	-	-	26,137,500
	\$30,566,705	\$22,552,733	\$5,760,501	\$913,983	\$7,509,794	\$67,303,716

The calculations reflect adjustments for long-term debt that has been approved but not yet borrowed as of January 1, 2020 in the amount of \$26,137,500. The calculations include adjustments for debt (new and expired) that are not included in the MMAH unadjusted ARL calculation.

Total Debt Capacity at December 31, 2019

At December 31, 2019, the City has \$41.2 million of issued debt as well as \$26.1 million of debt approved but not yet issued.

The maximum long-term borrowings available to the City based on the adjusted ARL limit is approximately \$311.1 million resulting in debt capacity available to the City of approximately \$243.8 million based on provincial guidelines.

However, a financial policy recommendation through the City's Long Term Financial Plan (LTFP) is to remain substantially below the provincial limit using a maximum capacity ceiling that would not exceed 10% of net own-source revenue (approximately \$12.3 million in principal and interest payments annually). Based on this recommendation, the adjusted ARL ceiling is approximately \$153.8 million resulting in debt capacity available to the City of approximately \$86.5 million.

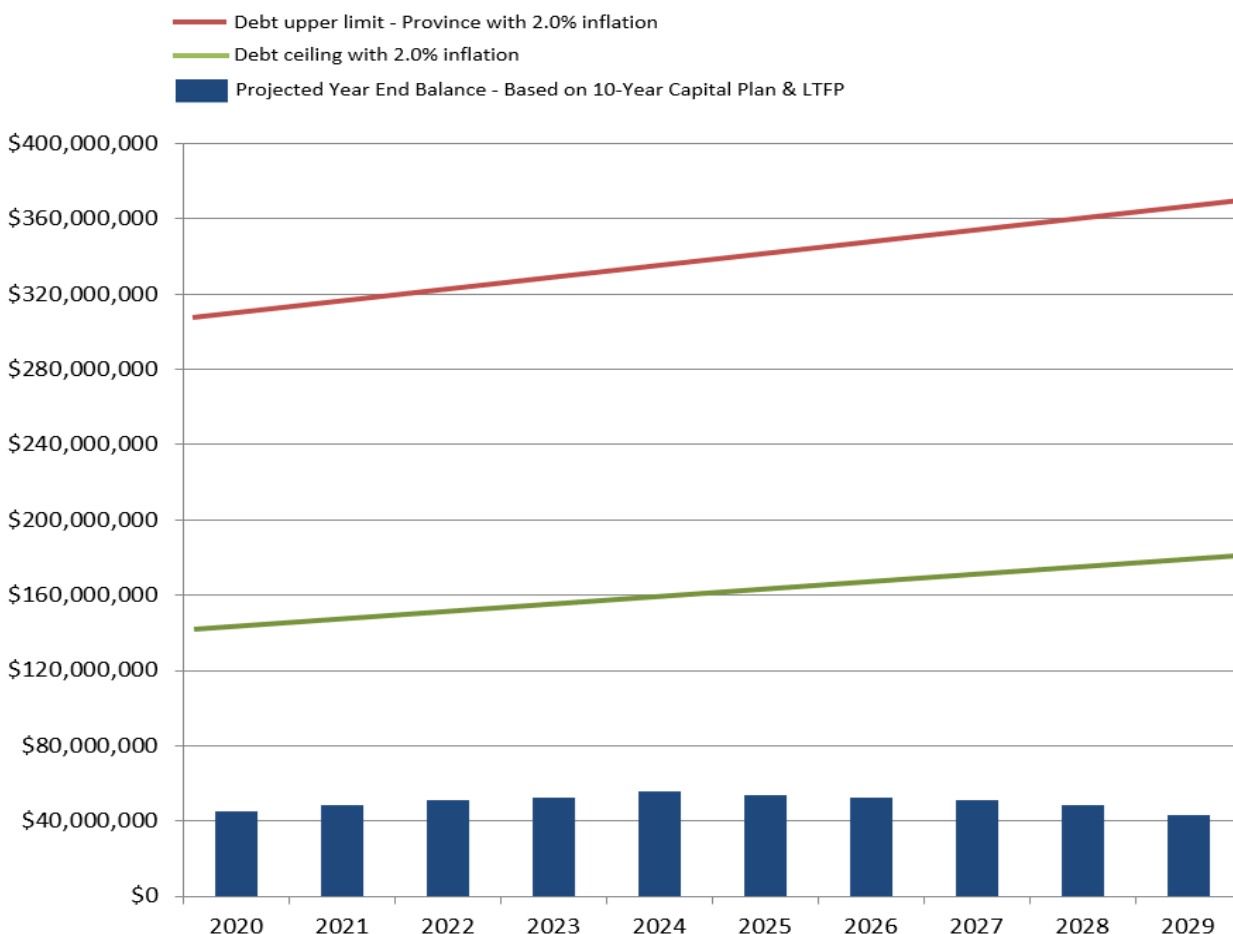
Projected Debt Balances

The graph below provides forecasted information regarding the Province's upper debt limit for the City, the City's recommended debt ceiling, and the City's projected long-term borrowing from 2020 to 2029.

The graph includes a line (red) that reflects the provincial upper limit indexed at the rate of 2% to which the City could borrow and be within its provincial debt capacity level. This limit represents the maximum amount that the municipality has available to commit to additional payments relating to debt and financial obligations.

Also indicated on the graph, is the recommended debt ceiling (green line - indexed at 2% for future years in line with projected inflation) based on the City's LTFP.

The vertical bars depict the level of debt based on the City's 10-Year Capital Plan and the LTFP, which includes assumptions for the expected timing of debt issuance as well as estimated annual repayments.



Assumptions have been made in calculating the estimated debt levels using interest rates and loan periods reflective of the type of borrowing. The rate of interest and term is used for illustration purposes only. The actual rate of interest will fluctuate depending on market conditions and the actual term of the loan.

Capital Lease Financing Agreements

In accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001*, the City is required to report annually on material capital lease financing agreements. As at December 31, 2019 and for the purpose of this report the City has no material capital lease financing agreements that would impact the City's borrowing capacity.

Capital Lease Obligations	2019	2018
Capital lease obligations are for computer equipment that bear an interest rate of 2.9% and are due October 2020	\$46,733	\$101,375



Document Title:	Annual Report on 2019 Municipal Debt Limits - 2020-307-Financial Services.docx
Attachments:	- 2020 ARL.pdf
Final Approval Date:	Jun 25, 2020

This report and all of its attachments were approved and signed as outlined below:

No Signature found

Paul Scrimshaw - Jun 24, 2020 - 11:46 AM

Tracey Bailey - Jun 24, 2020 - 8:29 PM

Maureen Adams - Jun 25, 2020 - 7:46 AM