



# City of Moose Jaw

**COMMUNICATION # CC-2019-0113**

**TITLE:** Debt Limit Renewal

**TO:** City Council

**FROM:** Department of Financial Services

**DATE:** July 15, 2019

**PUBLIC:** PUBLIC DOCUMENT

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## **RECOMMENDATION**

THAT pursuant to Section 133 of *The Cities Act*, City Council requests that the Saskatchewan Municipal Board maintain the debt limit for the City of Moose Jaw at \$95,000,000.

## **TOPIC AND PURPOSE**

The purpose of this communication is to request City Council authorization to request the Saskatchewan Municipal Board to maintain the City's debt limit at \$95 million.

## **BACKGROUND**

The City of Moose Jaw is governed by *The Cities Act* and this act under section 133 outlines the authorities granted cities in respect to debt limits. The applicable section of the act reads as follows:

### **"Establishment of debt limits**

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 moneys if the borrowing will cause the city to exceed its debt limit, unless the borrowing is approved by the Saskatchewan Municipal Board.

(3) No city shall lend money or guarantee the repayment of a loan if making the loan or guarantee would cause the city to exceed its debt limit."

Section 23(2) of *The Municipal Board Act* sets out the guidelines that the Saskatchewan Municipal Board utilizes in making a decision on an application for a debt limit. The applicable section of that Act follows:

"23(2) The board shall, in arriving at its decision, consider and take into account the following factors:

- (a) the period over which the indebtedness may be spread, not to exceed the lifetime of the work or undertaking in respect of which the application is made;
- (b) any provincial or other financial assistance that may be available in support of the work or undertaking for which the application is made, as may be estimated by the board;
- (c) the economic and assessment bases on which the loan can be supported and the present and contemplated economic conditions in the community, with due allowance being given for change in the economic and assessment bases or conditions;
- (d) the impact of the work or undertaking and of borrowing and other sources of financing for it on the total financial and budgetary position of the local authority;
- (e) the impact of the work or undertaking and of borrowing for it on the revenue demands and taxation levels of the local authority;
- (f) the level of services which the local authority is committed to provide and the estimated impact of the provision of those services on its ability to repay the loan over the period of repayment;
- (g) any outstanding long-term financial commitments of the local authority and, in particular but without restricting the generality of the foregoing, any outstanding debentures and existing obligations of the local authority with respect to superannuation plans;
- (h) the nature, necessity and priority of the proposed work or undertaking in relation to planned future capital works or undertakings;
- (i) the impact of the work or undertaking on annual operating and maintenance costs and the ability of the local authority to assume those costs in relation to the level of existing services and projected revenues; and
- (j) any other matters that, in the opinion of the board, relate to the local authority's ability to assume the liability of the proposed loan."

The City of Moose Jaw currently has an approved debt limit of \$95 million dollars, which was established by the Saskatchewan Municipal Board on November 6, 2017. The debt limit was established for an approximate two-year period ending December 31, 2019.

## **DISCUSSION**

The City of Moose Jaw's debt limit established by the Saskatchewan Municipal Board at \$95 million dollars is subject to review by December 31, 2019.

The City of Moose Jaw currently has the following outstanding debt at June 30, 2019:

Sanitary Sewer Utility Borrowing	\$ 5,645,000
BPWTC Borrowing	11,272,040
Water Infrastructure Borrowing	28,981,000
Multiplex Borrowing	14,877,000
Multiplex Interim Borrowing	798,705
	<u>\$ 61,573,745</u>

The following table illustrates the planned borrowing as reflected in the City's Capital Budget as well as Buffalo Pound Water Treatment Corp. (BPWTC) financial plans:

### **Debt Projection**

Note: This model does not take into account any potential federal/provincial funding.

	2019	2020	2021	2022	2023
<b>Current Debt(as at June 30th)</b>	61,573,745	59,038,938	54,601,680	50,405,140	46,039,900
<b>Principal repayment</b>	(2,534,807)	(4,437,258)	(4,196,540)	(4,365,240)	(3,629,460)
<b>New Debt:</b>					
<b>Waterworks Borrowing \$20M</b>	-	20,000,000	19,507,000	18,491,223	17,434,408
<b>Principal repayment</b>		(493,000)	(1,015,777)	(1,056,815)	(1,099,510)
<b>Waterworks Meter Project \$5M</b>	-	5,000,000	4,670,975	4,000,535	3,313,230
<b>Principal repayment</b>		(329,025)	(670,440)	(687,306)	(704,596)
<b>Buffalo Pound Water Treatment Corporation #1</b>	-	-	20,000,000	19,763,535	19,276,323
<b>Principal repayment</b>			(236,465)	(487,212)	(506,896)
<b>Buffalo Pound Water Treatment Corporation #2</b>				20,000,000	19,763,535
<b>Principal repayment</b>				(236,465)	(487,212)
<b>Buffalo Pound Water Treatment Corporation #3</b>					18,240,000
<b>Principal repayment</b>					(215,655)
<b>( Assumption 224 Million required - MJ Share \$58.24 M)</b>					
<b>Principal repayment</b>					
<b>Projected Debt</b>	<b>59,038,938</b>	<b>78,779,655</b>	<b>92,660,433</b>	<b>105,827,395</b>	<b>117,424,066</b>

The City's current debt level is \$61.6 million as at June 30, 2019. Anticipated future borrowings include \$20.0 million for Waterworks Infrastructure funding in 2020 and \$5.0 million for Automated Water Meter Infrastructure also in 2020. The remainder of the anticipated borrowing relates to BPWTC's refurbishment project. The City has applied for Federal/Provincial infrastructure funding for waterworks and if successful this would reduce or eliminate the need to borrow in 2020.

Based on this projection, the current debt limit of \$95 million dollars will provide for future anticipated borrowing through to the end of 2021. The borrowing required for the BPWTC project will drive the need for a higher debt limit in the future. However, the uncertainty around the amount of borrowing required for the BPWTC project due to the need to refine cost estimates and also the potential of federal and provincial funding make it very difficult to accurately project our debt levels past 2021.

The table below shows the City of Moose Jaw debt and reserve levels as compared to some of the larger Cities in Saskatchewan for 2018:

	<b>Debt Limit</b>	<b>Debt</b>	<b>Reserves</b>	<b>Difference Reserves less Debt</b>	<b>Per Capita</b>
Moose Jaw	\$ 95,000,000	\$ 63,692,269	\$ 107,327,967	\$ 43,635,698	\$ 1,287.57
Prince Albert	\$ 55,000,000	\$ 23,521,049	\$ 15,226,155	\$ (8,294,894)	\$ (230.89)
Saskatoon *	\$ 558,000,000	\$ 358,983,000	\$ 250,508,000	\$ (108,475,000)	\$ (440.28)
Regina	\$ 450,000,000	\$ 317,692,000	\$ 217,815,000	\$ (99,877,000)	\$ (464.32)
Swift Current *	\$ 110,000,000	\$ 82,649,653	\$ 20,477,893	\$ (62,171,760)	\$ (3,744.38)

\*Note: These Cities have electrical utilities and when consulted indicated that their electrical utilities are debt free.

The amount of the debt limit to be requested is a product of the City's projected future capital requirements as laid out in its capital plan and the borrowing needs of the Buffalo Pound Water Treatment Corporation which counts towards the City's debt limit.

The current approved and future anticipated capital plans require a debt limit of \$95 million through 2021. There is some hope that Federal and Provincial Grant funding may provide some funding in the future. If this is the case, it would reduce future borrowings. Also, by 2021 the debt requirements of the BPWTC project will be known as well as potential federal and provincial funding which may offset borrowing needs.

City Administration would recommend that the City submit an application for our debt limit to be maintained at \$95 million. The City has the opportunity to review further its debt needs and then at that point (2021) make an application for the appropriate debt level.

## **OPTIONS TO RECOMMENDATION**

- Authorize City Administration to apply for a different level of debt limit.

## **FINANCIAL IMPLICATIONS**

The cost of borrowing is the interest that one must pay in respect to the debt borrowed. A \$95 million debt level at a 4% interest rate borrowed over 15 years would result in annual interest payments to the lender of on average about \$2.1 million. The City utilizes borrowing for major capital expenditures where saving the funds is not feasible due to time constraints or where borrowing is cheaper than self-financing. The City's reserves and working capital generated \$3.8 million in 2018 and that is expected to increase materially with the new Investment Policy. Therefore, self-funding rather than external borrowing only makes financial sense if the cost of borrowing is higher than future anticipated investment earnings.

## **PRESENTATION**

VERBAL: X The Director of Financial Services will be in attendance at the meeting to present the report.

## **REPORT APPROVAL**

Written by: Brian Acker, B.Comm., CPA, CMA, Director of Financial Services  
Reviewed by: Tracy Wittke, Assistant City Clerk  
Approved by: Jim Puffalt, City Manager

### **CITY MANAGER COMMENTS**

There was a question at the last Council Meeting as to whether Saskatoon or Swift Current debt included any amounts for their electrical utility as the figures reported may not be accurate. That was confirmed with those two cities that their electrical utility do not have any debt and therefore the debt limits noted above are an accurate representation. The City of Moose Jaw has by far the best financial reserves and position in the Province.

As was discussed during the Institutional Investing Program, Cities have a long-term view and will be in existence for hundreds of years. The City of Moose Jaw is fortunate that there such a large reserve balance as it enables the City to be financially secure and are an essential part of sound financial planning and management. In our case, the Reserves are used to gain interest revenue in excess of any long-term debt interest paid with potential for more. This helps to stabilize the municipal property tax rate.

The Reserves are a huge asset that should be maintained as it would be next to impossible to replenish if the funds were spent. The City will be in existence for hundreds of years, it is important that the reserves are kept as an asset for current and future taxpayers and the funds allowed to work for the City.

*To be completed by the Clerk's Department only.*

Presented to Regular Council or Executive Committee on \_\_\_\_\_.

No. \_\_\_\_\_ Resolution No. \_\_\_\_\_

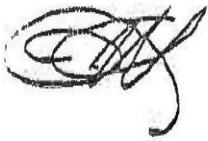
## Report Approval Details

Document Title:	Debt Limit Renewal - CC-2019-0113.docx
Attachments:	
Final Approval Date:	Sep 3, 2019

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

**No Signature - Task assigned to Tracy Wittke was completed by assistant Maureen Latta**

Tracy Wittke

A handwritten signature in black ink, appearing to be 'JP' or similar initials, with a large loop and a trailing flourish.

Jim Puffalt

A handwritten signature in black ink, appearing to be 'Fraser Tolmie', written in a cursive style.

Fraser Tolmie