Agenda – Executive Policy Committee – June 15, 2011

REPORTS

Item No. 6 Debt Strategy

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

That the Debt Strategy (Appendix A) be approved and the following debt-limitation ratios be adopted:

Debt Ratios	Debt-Limitation Ratios		
	Tax supported And Other Funds	**Self Supporting Utilities**	**Total City[1]**
Measure of Sustainability: - Net debt as a percent of revenue not to exceed	60%	220%	85%
Measures of Affordability: - Debt servicing as a percent of revenue not to exceed - Debt per capita not to exceed	10% $1,050	20% $950	11% $2,050

[1]Includes other consolidated entities

ADMINISTRATIVE REPORT

Issue: **Debt Strategy**

Critical Path: **Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Ferrier, City Treasurer	M. Ruta Deputy CAO/ Chief Financial Officer	M. Ruta Deputy CAO/ Chief Financial Officer	P Sheegl CAO

RECOMMENDATIONS

1. That the Debt Strategy (Appendix A) be approved and the following debt-limitation ratios be adopted:

	Debt-Limitation Ratios		
Debt Ratios	**Tax supported And Other Funds**	**Self Supporting Utilities**	**Total City[1]**
Measure of Sustainability: - Net debt as a percent of revenue not to exceed	60%	220%	85%
Measures of Affordability: - Debt servicing as a percent of revenue not to exceed - Debt per capita not to exceed	10% $1,050	20% $950	11% $2,050

REASON FOR THE REPORT

A review of the City's forecasted net debt and debt servicing costs, including the financial implications of public private partnerships, was conducted. The purpose of the review was to determine a debt strategy and to establish a prudent level of debt to support the City's capital infrastructure program, while maintaining an appropriate credit rating, long-term financial flexibility, and sustainability.

Credit rating agencies are supportive of long-range planning, as well as debt-limitation ratios as they result in a greater awareness of debt affordability. The Government Finance Officers'

[1] Includes other consolidated entities

Association of the United States and Canada recommends that governments should define specific debt limits or acceptable ranges for debt.

The City's Financial Management Plan approved by Council on March 23, 2011 sets out a target for the City to have "a manageable level of debt". The measurement for this target states that the City should: "Develop a debt strategy, including maximum debt limits". Approval of this report would satisfy this requirement.

IMPLICATIONS OF THE RECOMMENDATIONS

Within the City's current revenue structure, forecasted net debt and debt servicing costs will be approaching the high level of what would be considered acceptable for a municipality with an AA credit rating in the next 6 years. The following table summarizes three key debt ratios as follows:

- Where we are now, that is, what was the ratio at December 31, 2010;
- What is the forecasted peak in this ratio in the next 6 years; and
- What limits are being recommended with respect to these financial ratios.

These proposed limits will provide a framework for future decision-making with respect to new debt authorizations.

Debt Ratios	Where we are now	Forecasted Peak	Recommended Limits
Measure of Sustainability:			
Net debt as a percent of revenue:			
Tax-supported and other funds	26.1%	52.7%	60%
Self supporting utilities	67.7%	192.4%	220%
Total City, including other entities	34.3%	74.6%	85%
Measures of Affordability:			
Debt servicing as a percent of revenue:			
Tax-supported and other funds	5.2%	8.0%	10%
Self supporting utilities	9.6%	14.6%	20%
Total City, including other entities	6.1%	9.0%	11%
Debt per capita:			
Tax supported and other funds	$ 452	$ 887	$1,050
Self supporting utilities	$ 277	$ 787	$ 950
Total City, including other entities	$ 744	$1,602	$2,050

Note: These ratios do not forecast new capital projects other than what is currently contemplated.

Recommended ratios for operations funded by general taxation have been set with a modest amount of room for growth from the forecasted peak. Self supporting utilities are generally capital intensive and, therefore, may have higher ratios. These utilities are rate-supported and

are not dependent on general taxation. The recommended limits for self supporting utilities will allow some flexibility as the capital program unfolds for major water and sewer projects. It should be noted that the above forecast is an estimate at this time, based on assumptions with respect to revenue and population growth, and debt financing. The forecasted amounts will change as plans evolve and new initiatives are undertaken.

A guide to determining how new tax supported borrowing in 2011 would impact the debt metrics (all things being equal) follows:

For every $10 million in new tax-supported debt:	Debt Metrics	
	Total City	Tax Supported & Other Funds
Net debt as a percent of revenue would increase by	0.7 %	0.8%
Debt servicing as a percent of revenue would increase by	0.1%	0.1%
Debt per capita would increase by	$14.47	$14.47
Annual debt servicing costs would increase by	$764,000	$764,000

HISTORY

During the late 1980s and the early 1990s, the City of Winnipeg incurred significant debt for capital purposes. In the mid-1990s, the cost to service the debt was becoming burdensome. At that time, the City's property taxes were considered high relative to other municipalities and increased debt servicing costs conflicted with the City's goal of having competitive taxes. In 1996, Council capped the amount of new capital projects authorized each year and in 1999 and in subsequent years, Council approved capital budgets without any new tax-supported debt and focused on a pay-as-you-go approach. As a result, net tax-supported debenture debt was reduced from $529.9 million to $163.0 million between 1995 and 2008, a reduction of 69%.

In more recent years, the City's taxes have become much more competitive relative to other municipalities. More attention has been given to the City's infrastructure deficit. The cost to raise the average condition of the City's infrastructure to an appropriate asset management condition has most recently been estimated at $3.5 billion growing to $7.4 billion over the next 10 years. The City has been unable to make major improvements to its infrastructure primarily due to the financial structure of municipal governments and their limited sources of revenue. Municipalities continue to raise the important issue of infrastructure deficits with the provincial and federal governments.

To address some of the City's infrastructure deficit, the City has undertaken several public private partnerships to advance capital projects. These public private partnership arrangements constitute long term financial obligations. Also, regulatory requirements are necessitating large capital investment in wastewater treatment facilities over the next several years. Council has authorized new borrowing authority for the Fleet Management Agency and for the Southwest Rapid Transit Corridor over the past few years. Other large projects are planned such as renovation of the former Post Office Building to serve as new Police Headquarters, replacement/renewal of fire stations, etc. These commitments and plans will increase the debt load.

FINANCIAL IMPACT

Financial Impact Statement

Date: April 6, 2011

Project Name: Debt Strategy

	2011	2012	2013	2014	2015
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: **The debt strategy is based on forecasted net debt and debt servicing costs, including the financial implications of public private partnerships. It should be noted that this forecast is an estimate at this time and the forecasted amounts will change as these plans evolve and new initiatives are undertaken. There are no direct financial implications of this report as the report is policy in nature.**

Original signed by R Abeysekera

R Abeysekera Campus Controller

CONSULTATION

In preparing this Report there was consultation with:

Water and Waste Department
Casgrain & Company
CIBC World Markets Inc.

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Jo-Anne Ferrier, City Treasurer
Date: April 6, 2011
File No.

Appendix A