Agenda – Council – October 28, 2015

Report – Executive Policy Committee – October 21, 2015

Item No. 5 Debt Strategy

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 21, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the Debt Strategy (attached Appendix A) be approved and the following financial limits with respect to debt and capital financing be adopted:

Financial Limits – Debt and Capital Financing	**Tax Supported and Other Funds[1]**	**Utilities and Other**	**Total City[2]**
Debt Capacity: ▪ Net debt as a percent of revenue not to exceed	80%	220%	90%
Affordability:			
▪ Debt servicing as a percent of revenue not to exceed	10%	20%	11%
▪ Debt per capita not to exceed	$1,500	$1,500	$2,800
Flexibility: ▪ Maintain cash to capital component of tax-supported capital financing plan			

[1] Other Funds include Fleet Management and Municipal Accommodations

[2] Includes other consolidated entities

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report – Executive Policy Committee – October 21, 2015

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 21, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Debt Strategy**

Issue:

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

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
R Provencher Manager of Financial Services	Mike Ruta	Mike Ruta	M. Jack COO

RECOMMENDATIONS

1. That the Debt Strategy (attached Appendix A) be approved and the following financial limits with respect to debt and capital financing be adopted:

Financial Limits – Debt and Capital Financing	Tax Supported and Other Funds[1]	Utilities and Other	Total City[2]
Debt Capacity: ▪ Net debt as a percent of revenue not to exceed	80%	220%	90%
Affordability:			
▪ Debt servicing as a percent of revenue not to exceed	10%	20%	11%
▪ Debt per capita not to exceed	$1,500	$1,500	$2,800
Flexibility: ▪ Maintain cash to capital component of tax-supported capital financing plan			

[1] Other Funds include Fleet Management and Municipal Accommodations.
[2] Includes other consolidated entities

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.

The Government Finance Officers' Association of the United States and Canada recommend that governments should define specific limits or acceptable ranges for debt.

EXECUTIVE SUMMARY

On June 22, 2011, Council adopted the initial Debt Strategy which imposed limits for tax supported, utilities and total city borrowing. The City is approaching the approved limits of this policy and as a result a review of the Debt Strategy and associated recommendations for revised financial limits is required.

With the current and historically low interest rate environment, the Public Service believes it is prudent to increase the current limits to take advantage of interest rates. This will increase the City's borrowing capacity by approximately $250 million and will allow the City of Winnipeg to match the funds for Building Canada or fund other priority projects.

Based on discussions with the credit rating agencies the recommended financial limits appear to be at the upper limits associated with the City's current AA credit rating. Credit rating agencies will not provide further guidance on the maximum level of debt appropriate for the City's credit rating.

There is no amendment to the debt servicing as a percent of revenue metric, which we consider an affordability measure. Changes to this metric are not required as maturing debt has interest rates considerably higher than the current borrowing environment and interest rates are presently at historic lows.

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 10 years. At the high point, it is forecasted that our debt metrics will be approaching the following percentages and amounts:

	Forecasted Peak		Council Approved Limits [3]
	Year	Ratio	
Net debt as a percent of revenue:			
• Tax supported and other funds[4]	2017	58.0%	60%
• Utilities and other[5]	2023	137.2%	220%
• Total City[6]	2021	78.7%	85%
Debt servicing as a percent of revenue:			
• Tax supported and other funds[4]	2015	5.5%	10%
• Utilities and other[5]	2020	18.2%	20%
• Total City[6]	2020	9.2%	11%
Debt per capita as a percent of revenue:			
• Tax supported and other funds[4]	2017	960	1,050
• Utilities and other[5]	2023	1,249	1,300
• Total City[6]	2021	2,217	2,400

It should be noted that this forecast is an estimate and the forecasted amounts will change as capital plans evolve and new initiatives are undertaken. Estimates are based on the 2015 capital budget, projections to accommodate Rapid Transit, and do not include the recently announced Waverly Underpass. The timing of capital project expenditures, associated debt issuance and interest rates will also impact the above debt ratios.

If revenue increases beyond what is currently forecasted, the City may be able to take on more debt and debt servicing costs. The debt strategy will be monitored on an ongoing basis to facilitate capital decision making.

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.

[3] On June 22, 2011, Council adopted the initial Debt Strategy which imposed limits for tax supported, utilities and total city borrowing. On June 24, 2014, Council approved changes to the Utilities and other and Total City debt per capita limits to accommodate Rapid Transit.
[4] Other funds include Fleet Management, and Municipal Accommodations.
[5] Utilities and other include Water and Waste Department and Transit.
[6] Total City includes other entities such as Assiniboine Park Conservancy, CentreVenture and the Convention Centre.

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 faced with numerous challenges 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 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 a public-private partnership solution for the Southwest Rapid Transit Corridor and new borrowing authority for regional and local streets, recreation facilities, fire stations, libraries and wastewater treatment over the last several years. These commitments will increase the debt load which, on a consolidated basis in 2014, was $943 million. The City's debt load is projected to grow to $1.72 billion in 2023 based on projected capital spending.

FINANCIAL IMPACT

Financial Impact Statement

Date: October 2, 2015

Project Name: Debt Strategy

First Year of Program 2015

	2015	2016	2017	2018	2019
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. Hodges

R. Hodges, Campus Controller

CONSULTATION

In preparing this Report there was consultation with:

OURWINNIPEG POLICY ALIGNMENT

Section 02 of OurWinnipeg (A Sustainable City) provides policy guidance and states social, environmental and economic sustainability are essential to Winnipeg's long-term well-being. The Debt Strategy aligns with economic sustainability goals to ensure the long-term economic well-being of the City.

SUBMITTED BY

Department: Corporate Finance
Division: Financial Services
Prepared by: Rob Provencher, Manager of Financial Services
File No. n/a
Date: October 2, 2015

Appendix A – Debt Strategy

History and Background

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 faced numerous challenges 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 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 a public-private partnership solution for the Southwest Rapid Transit Corridor and new borrowing authority for regional and local streets, recreation facilities, fire stations, libraries and wastewater treatment over the past few years. These commitments will increase the debt load which, on a consolidated basis in 2014, was $943 million. The City's debt load is projected to grow to $1.72 billion in 2023 based on projected capital spending.

On June 22, 2011, Council adopted the initial Debt Strategy which imposed limits for tax supported, utilities and total City borrowing. The City is approaching the approved limits of this policy and as a result, a review of the Debt Strategy and associated recommendations for revised borrowing limits is required.

Purpose of Review

The purpose of the review is to determine a debt strategy and set debt limits 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.

How does the City's Existing Debt Management Policy fit it?

The Debt Strategy is distinct from the City's Debt Management Policy approved by Council on February 23, 2005. The City's Debt Management Policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued and the types of debt and structural features that may be incorporated. It does not set out a specific debt strategy or outline debt limits.

Leading Practices

Leading practices incorporate the following concepts:

- Debt Capacity: the ability to sustain debt service costs over the long term.
- Affordability: the ability to pay debt service costs as well as life-cycle costs to maintain the asset.
- Flexibility: the ability to respond, in the short term, to emerging capital needs.

Debt Capacity is the ability to service debt over the long term and revenue growth has been used as an indicator to determine a municipality's ability to service debt. The City's major revenue source is property taxes which equates to fifty three (53%) percent of the 2015 operating budget. On a consolidated basis, the City's revenue has increased from $1.388 million in 2009 to a projection of $2.3 billion in 2024, which equates to a projected future revenue growth of 65.7% over this period.

Affordability is not a measure of the total debt outstanding. It is a measure of both the City's and the citizens' ability to pay for debt. Debt per capita offers a universal and comparable measure of affordability across municipalities. Debt per capita as a percent of household income provides some indication of affordability for citizens.

There are two basic financial models to determine affordability of debt – an expenditure-based model and a revenue-based model.

(1) *Expenditure-based Model* – An expenditure-based measure of affordability limits annual debt service costs (interest and principal payments) to a specific dollar limit or to a specified percentage of expenditure. Limiting debt service to a certain dollar amount may not be an effective methodology as inflation will cause a decline in purchasing power and less and less capital work will be undertaken over time. A model based on a percentage of expenditure can overestimate the City's debt service capacity because as the City spends more, then the model will assume it can afford more debt and spending is not an indication of ability to pay.

(2) *Revenue-based Model* – A revenue-based measure of affordability is debt service as a percent of revenue. This links the source of funding to the requirement to service debt and implies sustainability of debt service costs. Debt service as a percent of revenue implies that, as revenue grows, debt service can grow proportionately. This assumes that growth in other expenditures is not outpacing growth in debt service costs. This methodology would indicate that if revenue is growing, new debt issues may be an ongoing part of the capital plan.

A revenue-based model was utilized during this review process as it was deemed to be a more appropriate model. The City of Winnipeg Charter also states that: "In adopting an operating budget, Council must ensure that the estimated expenditures for a fiscal year do not exceed the estimated revenues for the year." For that portion of the City's budget, the expenditure-based model and the revenue-based model would yield the same or similar results.

Financial flexibility is the financial capacity reserved for emerging capital needs. This reserved capacity would provide a contingency for replacement, construction or purchase of an asset to ensure a partnership or investment opportunity is not missed, to ensure the safety of an asset, to take advantage of new technology, to address capital compliance costs with respect to emerging legislation, to address extraordinary price increases/capital construction inflation, or to approve any project of importance not previously considered in the capital plan. This flexibility could also be used to finance an urgent capital project in the event the market was not receptive to municipal debenture issues, which could occur during economic downturns. The amount of financial flexibility that should be maintained is subjective and may vary depending on the volatility of other revenue and expenditures, and existing provisions for contingency and risk in the organization.

The City's cash to capital component of its capital financing plan provides an element of flexibility for emerging capital needs.

The Government Finance Officers' Association of the United States and Canada recommends that governments should define specific debt limits or acceptable ranges for debt. Public policy limits can include the purposes for which debt proceeds may be used or prohibited. Appropriate debt limits can positively impact bond ratings if the government demonstrates adherence to such policies over time.

Financial limits are often expressed as ratios customarily used by credit analysts, for example:

- Debt as a percent of operating revenue.
- Debt service payments as a percent of operating revenue.
- Debt per capita.

When may Debt Issuance be Advisable?

Depending on the interest rate environment, debt issuance may be advisable where a capital project is:

- intergenerational in nature (i.e.: a large project with long-term benefits);
- benefiting the community at large;
- growth related;
- a major rehabilitation; and/or
- financed by a dedicated revenue stream.

A historically low interest rate environment has created a very favourable environment to issue debt. However, issuance of debt must consider growth in the City's revenues and remain affordable to the citizens of Winnipeg.

Current Debt Limits

Currently, the City of Winnipeg's enabling legislation permits debt for capital purposes. Debt cannot be issued to support operating budget deficits. The City of Winnipeg Charter does not impose a specific debt limit on the City of Winnipeg; however, new borrowing must be approved by the Minister of Finance. The City has the authority to enter into contractual agreements with respect to public-private partnerships.

On June 22, 2011, Council adopted the Debt Strategy report which established limits for tax supported, utilities and total City borrowing.

The following table documents the present and projected debt metrics.

Financial Ratios (Debt)	Where are we Now?	Forecasted Peak	Debt Limits
Measure of Debt Capacity: Net Debt as a percent of revenue			
Tax supported and other funds	49.9%	58.0%	60%
Utilities and other	48.1%	137.2%	220%
Total City, including other entities	54.9%	78.7%	85%
Measure of Affordability: Debt servicing as a percent of revenue			
Tax supported and other funds	5.0%	5.5%	10%
Utilities and other	6.0%	18.2%	20%
Total City, including other entities	5.6%	9.2%	11%
Debt per capita:			
Tax supported and other funds	$ 902	$ 960	$ 1,050
Utilities and other	$ 335	$ 1,249	$ 1,300
Total City, including other entities	$ 1,329	$ 2,217	$ 2,400

Note: These ratios do not forecast "new" capital projects that are not approved in the 2015 Capital Budget or subsequent Administrative Reports

Debt Financing of Capital Assets

While it is true that the use of debt increases the overall cost of assets due to interest costs, this is a simplistic view of capital financing. It does not take into account the opportunity cost of delaying the project due to construction cost escalation or general inflation in the case of non-construction capital projects, nor does it consider interest rate risk due to changing borrowing costs if borrowing occurs at a later date. Debt financing also provides a mechanism to spread costs over the life of the asset as well as distribute costs over generations.

Inflation is one element to consider; however, affordability is the over-riding concern and must be balanced in moderation with reference to the upper debt-limit maximums to achieve financial flexibility.

Comparative Information with other Municipalities

Credit rating comparison: Credit rating agencies use past financial performance and management practices to predict trends for future performance. The following is a list of recent credit ratings from Standard & Poor's for Winnipeg and other Canadian cities as well as their respective province's ratings. Credit ratings of the provinces have been disclosed as there is a very high likelihood of provincial support (as regulators of municipalities) to prevent reputational damage in the event of municipal default. The provincial credit rating is a factor in determining the credit rating of a municipality.

	Municipal Credit Rating	**Provincial Credit Rating**
Winnipeg	AA	AA
Calgary	AA+	AAA
Edmonton	AA+	AAA
Hamilton	AA	A+
Montreal	A+	A+
Mississauga	AAA	A+
Ottawa	AA+	A+
Regina	AA+	AAA
Saskatoon	AAA	AAA
Toronto	AA	A+
Vancouver	AA+	AAA
Windsor	AA	A+

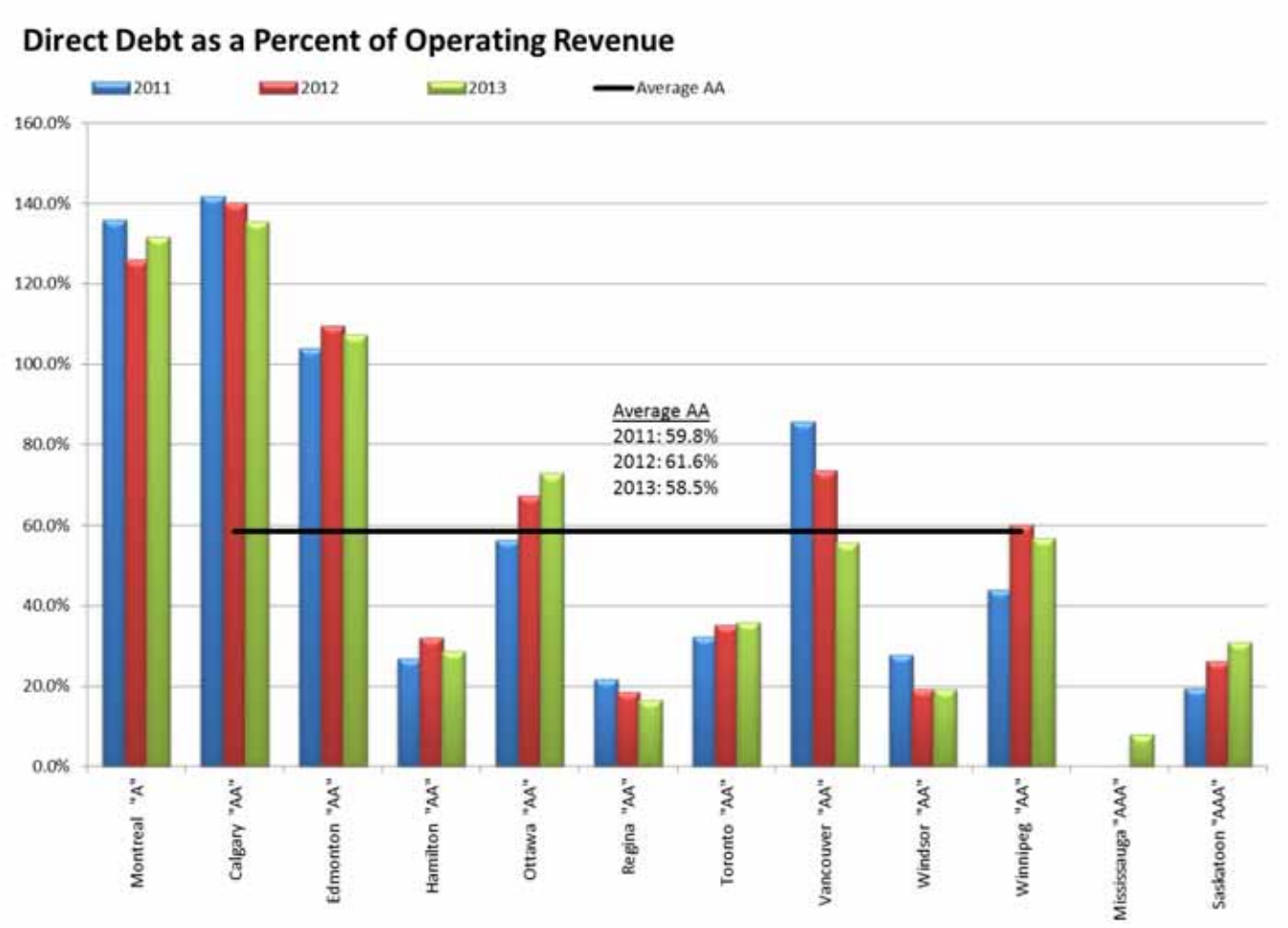
In its recent report on Winnipeg, Standard and Poor's indicated: We expect consolidated debt levels to rise notably in the next several years as Winnipeg finances its capital plan. At fiscal year-end 2013 (Dec. 31), tax-supported debt (Standard & Poor's defined) was 56.6% of consolidated operating revenues, up from 43.9% in 2011. Net of sinking fund balances, based on our conservative forecasts, we expect consolidated debt to peak at about 75% of consolidated operating revenues by fiscal year-end 2016 as the city issues debt to help fund its sizable capital plan. We expect that Winnipeg's interest costs will remain at less than 5% of operating revenues. In our opinion, the city has a very low level of contingent liabilities.

In its latest report on Winnipeg, Moody's downgraded the City of Winnipeg credit rating to Aa2-stable from Aa1-negative following the downgrade of the Province of Manitoba's rating. Moody's indicated: The City of Winnipeg's Aa2 senior unsecured ratings benefits from (1) the city's disciplined fiscal planning and track record of solid operating surpluses; (2) a diverse economy; and (3) access to stable and predictable own source revenues in the form of property taxes and user rates. The rating is constrained by Winnipeg's debt burden that has increased over the last three years to around 67% of operating revenues in 2014 (56% of total revenue) as the city undergoes significant capital projects. We expect Winnipeg's debt burden to peak at close to 80% of total revenue in the next 5 years as the city continues to invest in infrastructure.

Key indicators: Following are a series of graphs that compare key indicators that influence credit ratings for selected Canadian cities as rated by Standard and Poor's for 2013. This is the most recent comparative information available from Standard and Poor's. Information is on a consolidated basis for these municipalities and is summarized in the following table:

City	Direct Debt (% of Operating Revenues)	Debt Servicing (% of Operating Revenues)	Direct Debt per Capita	Operating Balance (% of Operating Revenues)	Liquid Assets (% of Debt Service)	Capital Expenditures (% of Total Expenditures)
A Credit Rating						
Montreal	131.5	19.1	3,878	10.0	93.0	17.8
AA Credit Rating						
Calgary	135.2	9.8	4,007	15.3	256.0	22.9
Edmonton	107.1	10.8	3,066	15.2	474.0	37.9
Hamilton	28.4	4.1	722	11.8	1,125.0	18.7
Ottawa	72.6	6.7	2,108	6.9	570.0	23.7
Regina	16.3	1.7	332	26.5	315.0	27.4
Toronto	35.8	6.8	1,190	9.7	280.0	20.9
Vancouver	55.4	17.2	1,128	13.2	2,800.0	21.2
Windsor	19.0	1.9	522	8.9	1,700.0	15.3
Winnipeg	56.6	12.0	1,130	14.2	310.0	31.2
Average AA	58.5	7.9	1,578	13.5	870.0	24.4
AAA Credit Rating						
Mississauga	7.6	0.1	1,089	7.7	6,500.0	24.6
Saskatoon	30.7	3.7	945	28.7	828.0	41.0

Direct Debt[1] – as a Percent of Operating Revenues[2]: Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average direct debt as a percent of operating revenues was 58.5% in 2013. Winnipeg's direct debt as a percent of operating revenues in 2013 was slightly below average when compared to these other Canadian municipalities.

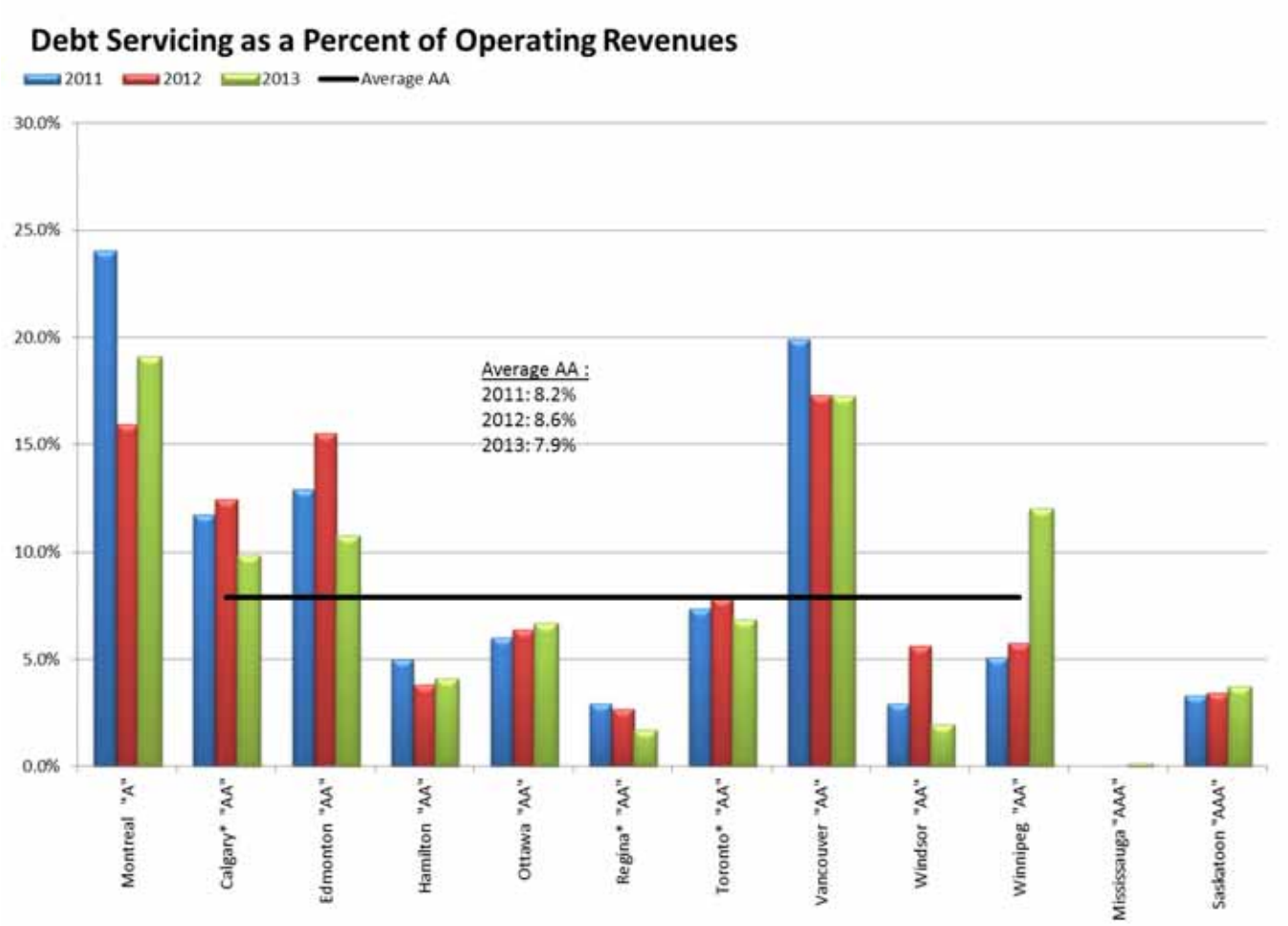


*Source: Standard & Poor's, Ratings Direct

[1] Definition of Direct Debt: Long-and short-term financial debt assumed directly by the borrower (loans, bonds, credits, and capitalized lease obligations) that a local and regional government (LRG) is obliged to pay to another entity in accordance with an express agreement or for any other legally binding reason. This excludes guaranteed debt and the debt of government-related entities, unless serviced by the LRG on an ongoing basis. It includes debt serviced via subsidies from other levels of government unless the legal obligation to service this debt is transferred to the other government. Standard & Poor's

[2] Definition of Operating Revenues: Recurrent revenues received by an LRG. Operating revenues are comprised of taxes and non-tax revenues such as grants, operating subsidies, fines, and fees for services, tariffs, rents, and other sources levied by the LRG. They exclude capital revenues such as capital subsidies and sales of assets, and any revenues from borrowed funds. Standard & Poor's

Debt Servicing[3] – as a Percent of Operating Revenues: Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average cost of debt servicing as a percent of operating revenues was 7.9% in 2013. Winnipeg's debt servicing costs were 12.0% of revenue in 2013.

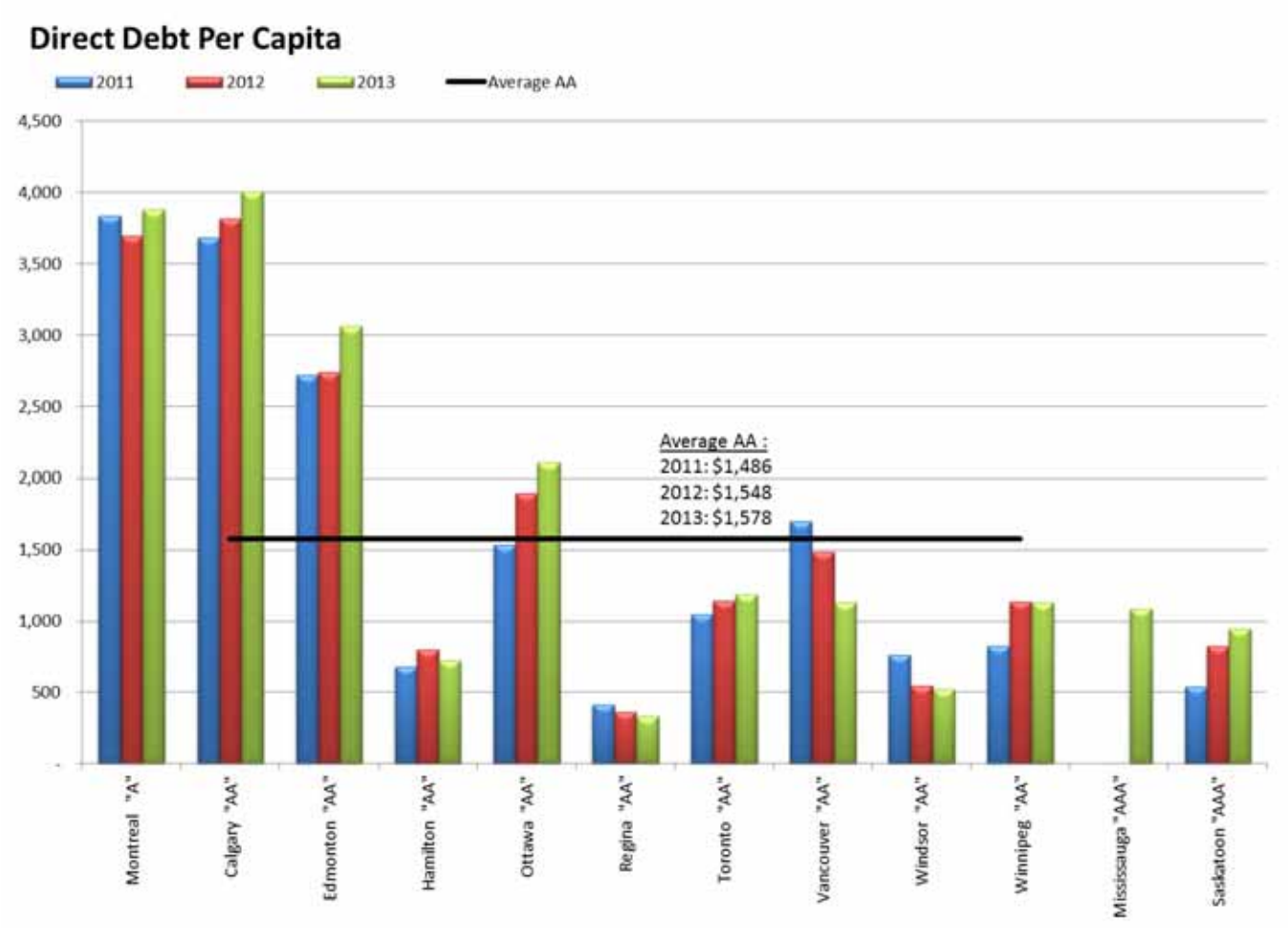


*Source: Standard & Poor's, Ratings Direct

Financial statements for Calgary indicate a 10% limit for tax-supported debt servicing costs as a percent of operating revenues; Edmonton recently raised this limit from 6.5% to 15%.

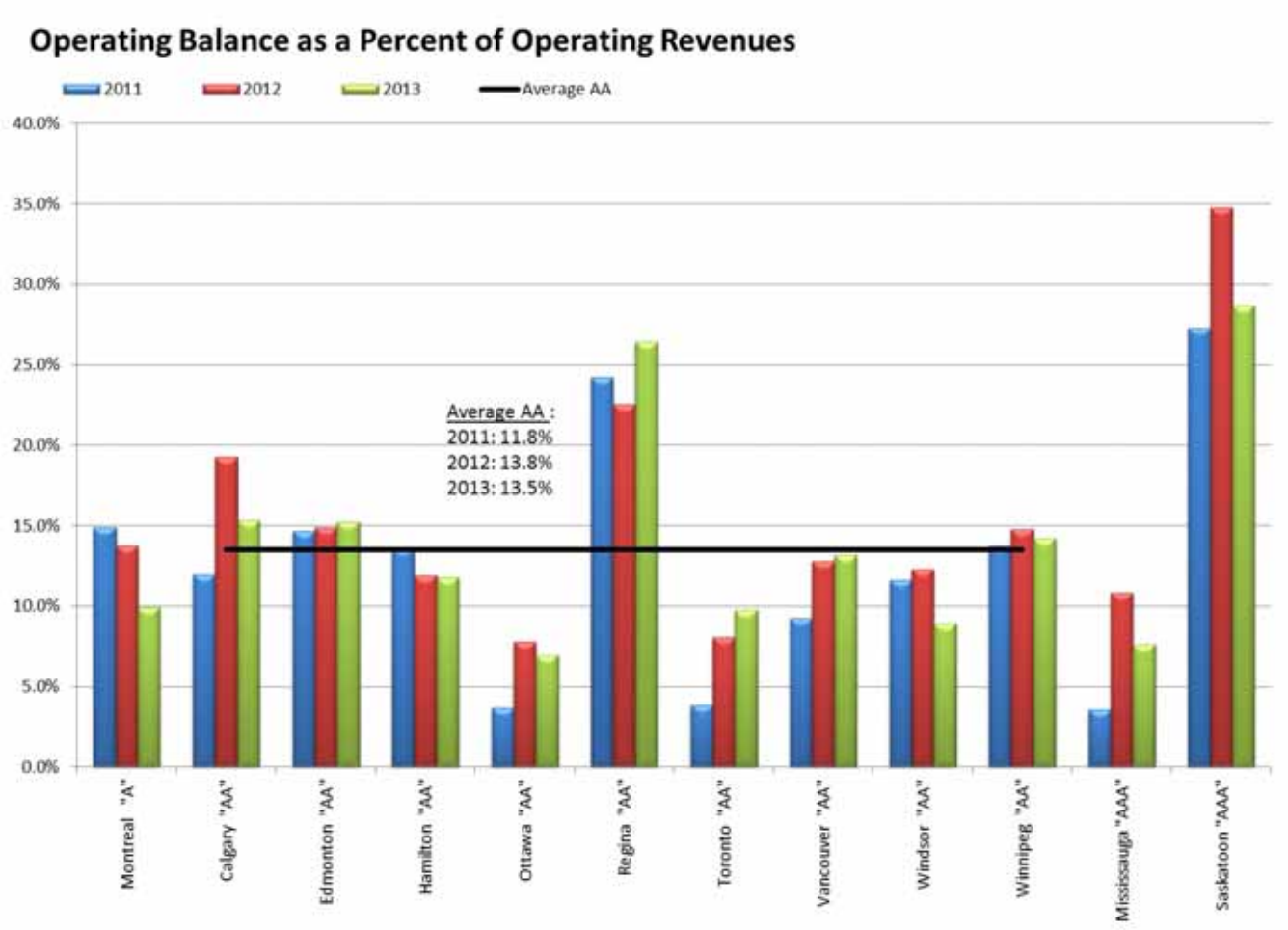
[3] Definition of Debt Service: Interest payments plus the amount of principal repaid during the year, including, the capital component of financial leases and including one-off short-term debt fully repaid during the period. We believe that debt service on a revolving (rollover) credit line would be exaggerated if the full amount of turnover on the revolving line is recorded as repayment. Therefore, repayment under the revolving line should include only the maximum amount drawn under the line during the year, minus debt outstanding under the revolving line at year end. Standard & Poor's

Direct Debt Per Capita: Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average debt per capita in 2013 was $1,578. Winnipeg was below this average at $1,130.



*Source: Standard & Poor's, Ratings Direct

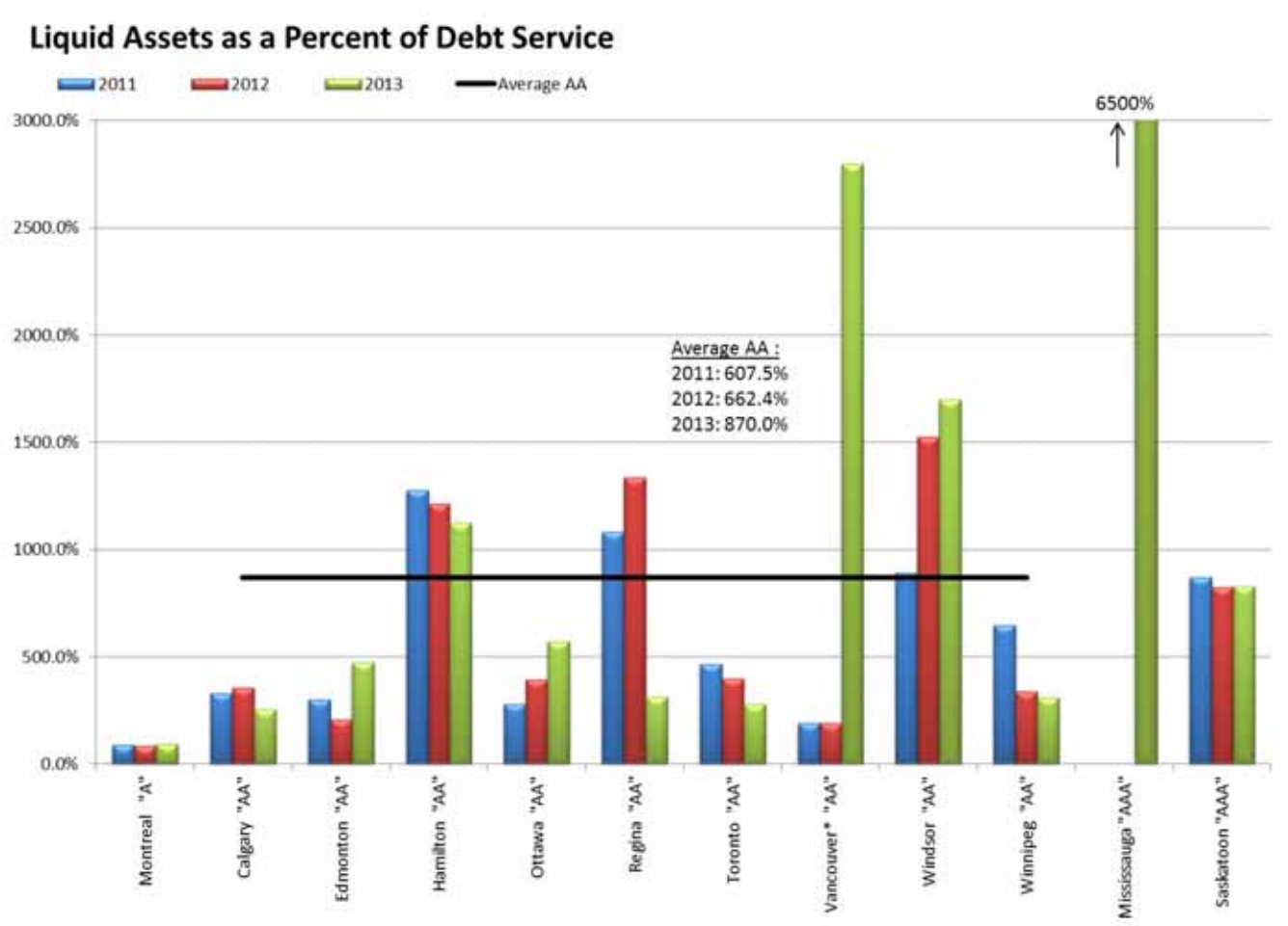
Operating Balance[4] as a Percent of Operating Revenues: Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average operating balance as a percent of operating revenues was 13.5% in 2013, which is a measurement of operating performance. Winnipeg had a higher than average operating balance as a percent of operating revenues in 2013 when compared to these other Canadian municipalities. Winnipeg's operating balance as a percent of operating revenues decreased from 14.8% in 2012 to 14.2% in 2013.



*Source: Standard & Poor's, Ratings Direct

[4] Definition of Operating Balance: The difference between operating revenues and operating expenditures; measures an entity's ability to finance investments from recurrent revenues. Standard & Poor's

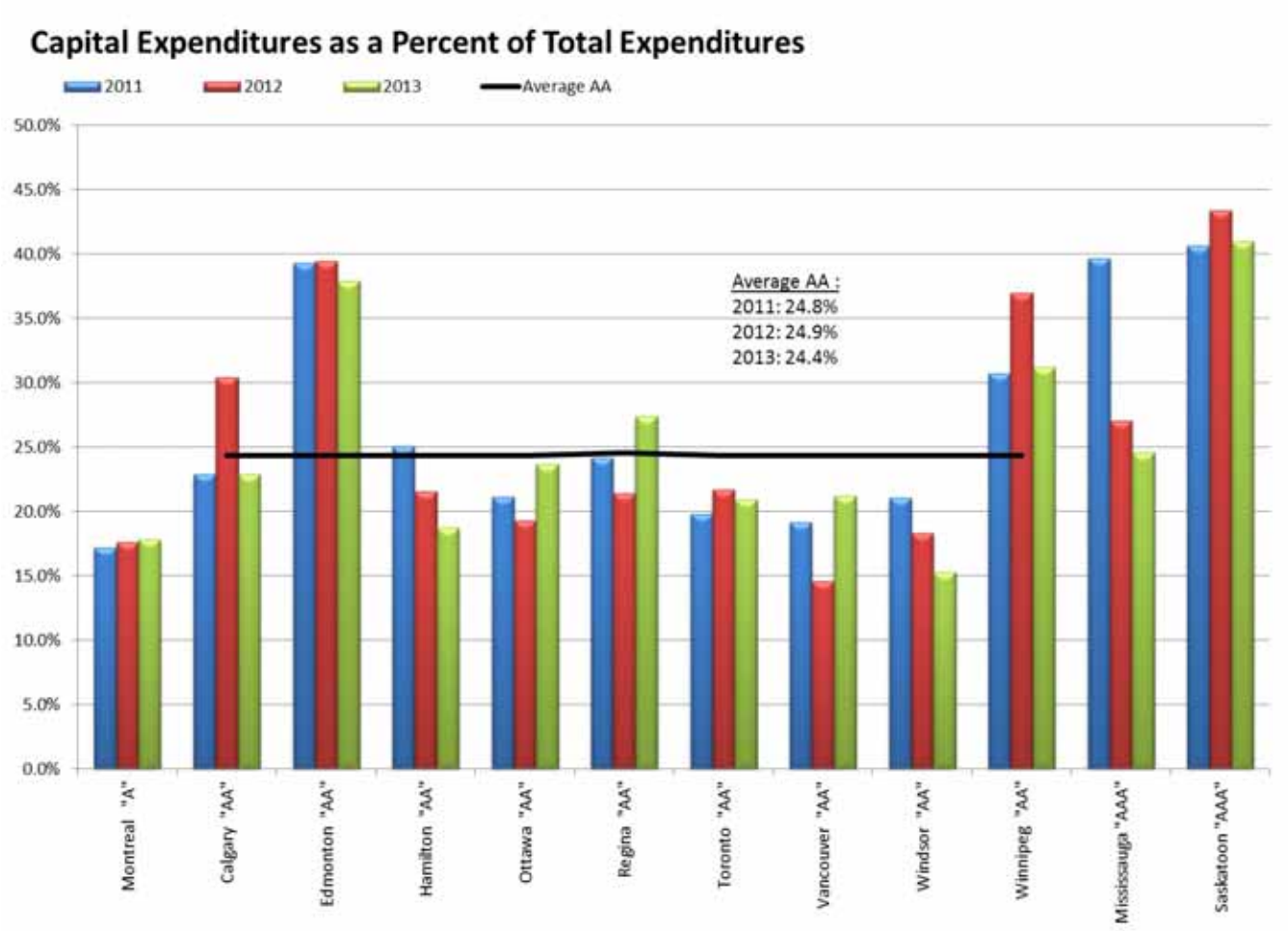
Liquid Assets[5] as a Percent of Debt Servicing: Of the following Canadian cities rated by Standard & Poor's in the AA- to AA+ category, the average liquid assets as a percent of debt servicing in 2013 was 870.0%. Winnipeg was lower than average at 310%.



*Source: Standard & Poor's, Ratings Direct

[5] Definition of Liquid Assets: Cash and short-term investments. Standard & Poor's

Capital Expenditures[6] as a Percent of Total Expenditure[7]: Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, average capital expenditures as a percent of total expenditure in 2013 was 24.4%. Winnipeg was above the average in 2013 when compared to these other Canadian municipalities. Winnipeg's capital expenditures as a percent of total expenditure increased from 30.7% in 2011 to 31.2% in 2013.



*Source: Standard & Poor's, Ratings Direct

[6] Definition of Capital Expenditures: Typically cover the repair and replacement of existing infrastructure and the development of new infrastructure. Standard & Poor's

[7] Definition of Operating Expenditure: Correspond to the costs of an LRG's operations, its administration, and its provision of services to the population, directly or through other public bodies. Standard & Poor's

[8] Definition of Total Expenditure: The sum of capital and operating expenditures. Standard & Poor's

Winnipeg Information – Debt Metrics

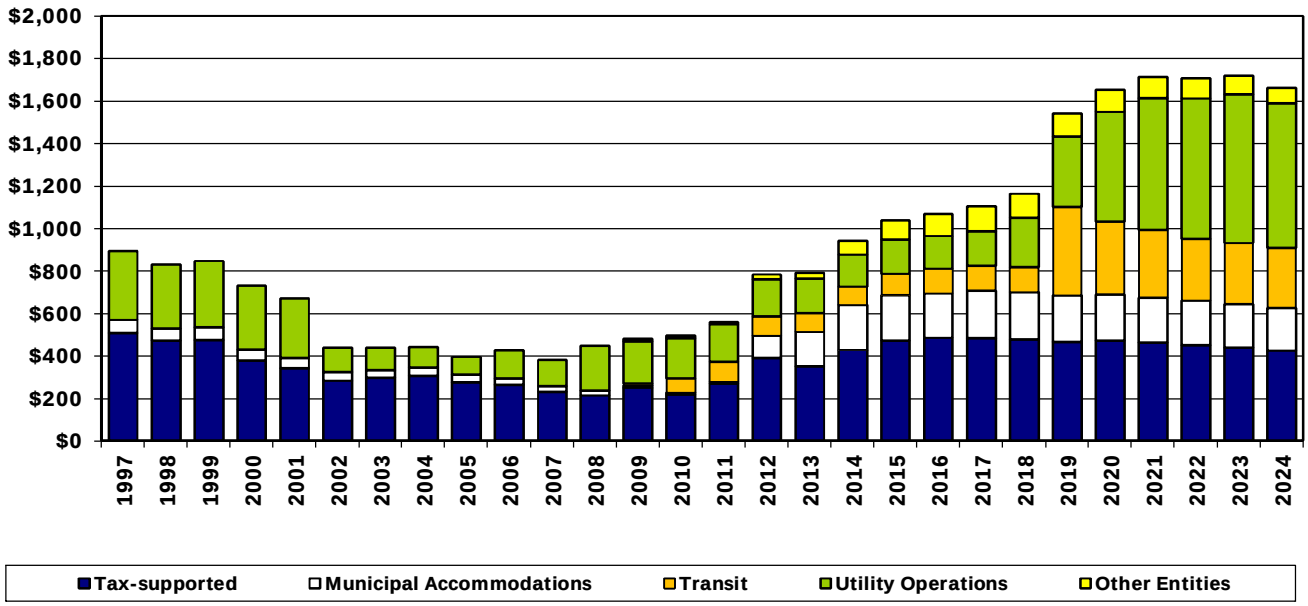
The previous graphs were based on consolidated operations. The following several graphs include the City's tax-supported operations, Municipal Accommodations, Utilities and other operations. Other consolidated entities have been included only for 2009 to 2024. Net debt includes P3 obligations.

The City also has several loan guarantees with external organizations that would become the City's responsibility if the external organization defaulted on the loan. As at December 31st, 2014, the amount of these outstanding loans totaled $66 million. In recent memory, there has never been a default by an organization and, therefore, loan guarantees have not been included in the debt metrics in this report nor are they included in the financial ratios or recommended limits.

Historical net debt for the City of Winnipeg is presented below in millions of dollars. The significant decrease in utility operations debt in 2002 is due to the sale of Winnipeg Hydro.

However, forecasted net debt to 2024, which includes planned capital financing for major wastewater upgrades, the approved Southwest Rapid Transit Corridor, Disraeli Bridge and Overpass Facility, Chief Peguis Trail, Police Headquarters, one additional Police District Station, and renewal of fire stations shows a substantial increase, peaking in 2023 at just over $1.7 billion. New debenture debt has been forecasted over a 30-year period at an average interest rate of 5%. The recent low interest rate environment provided an opportunity to accelerate capital infrastructure rehabilitation and renewal. No new debt has been included after 2020 as the City only has an approved capital investment plan up to that year. 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.

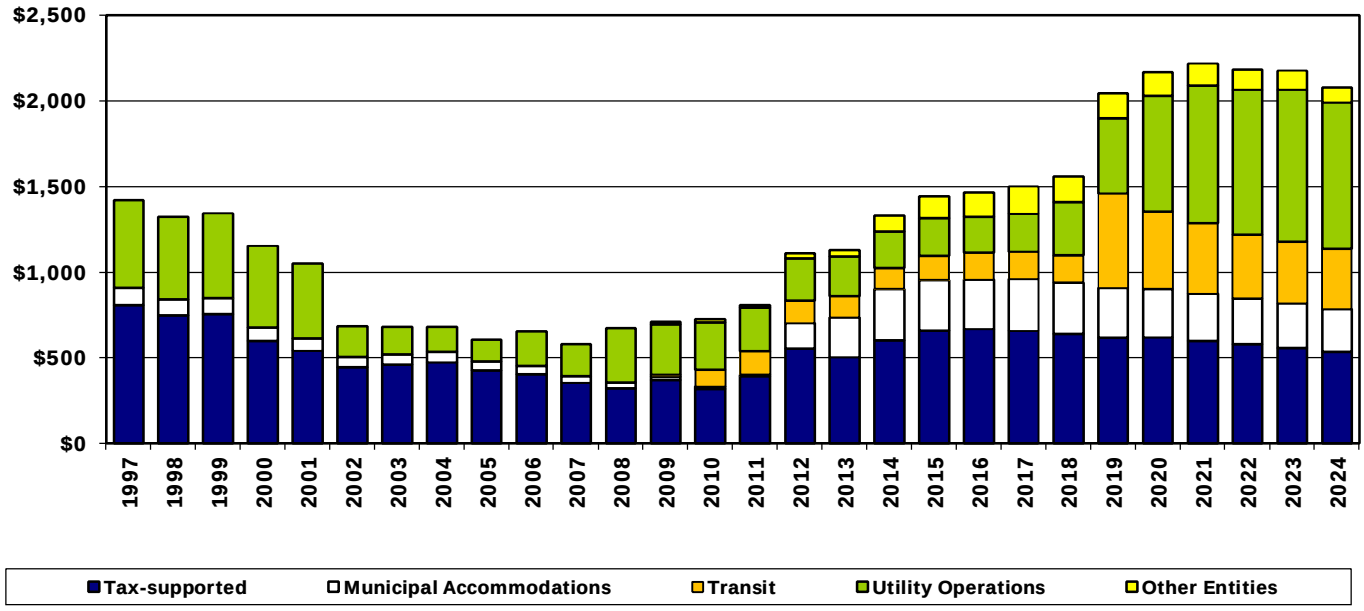
City of Winnipeg Net Debt
(in millions of dollars)



*Debenture debt and P3 obligations included.
*Other Entities included in 2009 and subsequent years.
*Transit included with Municipal Accommodations in years prior to 2009

Forecasted net debt per capita to 2024 is highlighted in the following graph and reflects the trend noted in the previous graph. At the high point in 2021, net debt per capita is anticipated to peak at $2,217.

City of Winnipeg Net Debt Per Capita



*Debenture debt and P3 obligations included.
*Other Entities included in 2009 and subsequent years.
*Transit included with Municipal Accommodations in years prior to 2009

A table outlining the forecasted net debt as a percent of operating revenue follows. Revenue from the tax supported 2014 operating budget process has been used as a base with estimated revenue increases thereafter. Similarly, operating budgets and the 10-year rate plan have been used as a base for revenue estimates for utilities. Capital grants from other levels of government have also been factored in from the most recent budget information available with inflationary increases in the future.

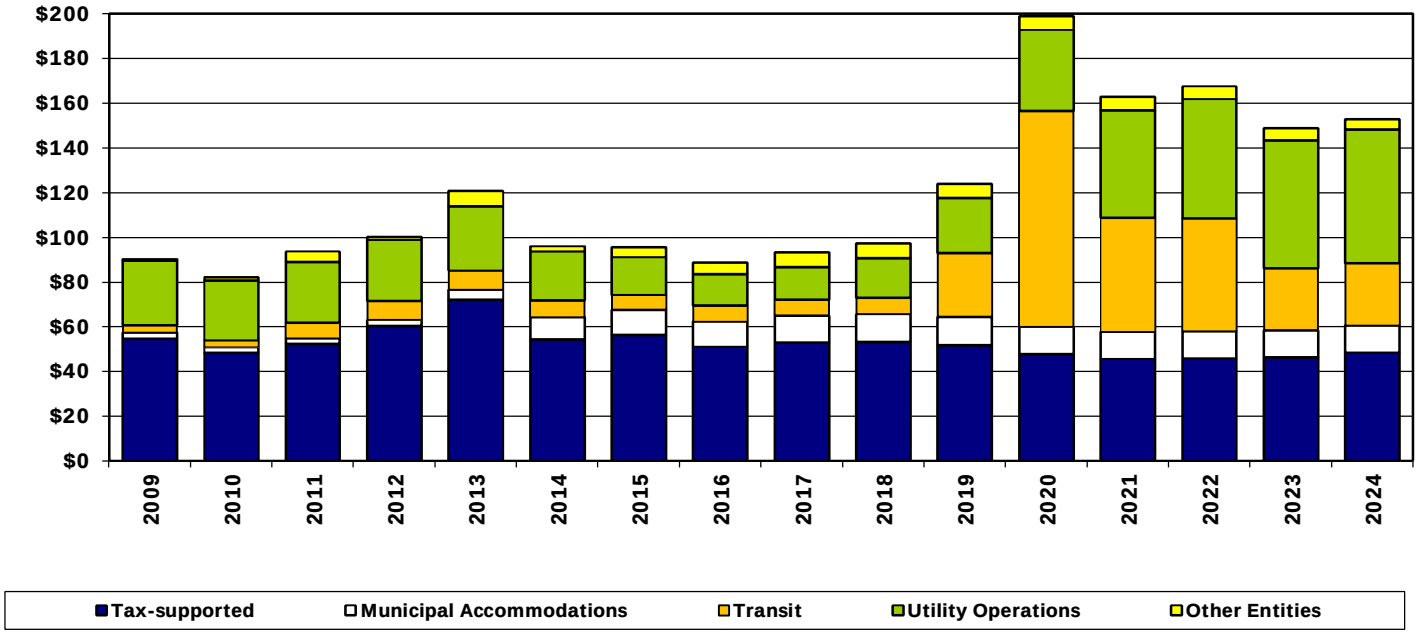
City of Winnipeg Forecasted Net Debt
as a Percent of Forecasted Revenue

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Tax supported and Other Funds	42.8	49.9	56.2	57.5	58.0	55.8	53.1	52.0	49.5	47.1	44.7	42.3
Utilities and other	49.4	48.1	44.3	43.1	41.2	54.9	101.3	117.5	132.9	131.5	137.2	130.7
Total City (includes other entities)	48.8	54.9	54.3	55.1	55.1	58.3	72.3	76.4	78.7	76.4	75.8	71.3

*Source: Debt Strategy 2015 – V6a

The following graph outlines forecasted debt servicing payments.

City of Winnipeg Debt Servicing Costs
(in millions of dollars)



*Debenture debt and P3 obligations included.

Summary

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

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 10 years. The following table summarizes three key debt ratios as follows:

- Where we are now; that is, what was the ratio at December 31, 2014;
- What is the forecasted peak in this ratio in the next 10 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.

Financial Ratios (Debt)	Where we are Now	Forecasted Peak	Recommended Limits
Measures of Sustainability: Net debt as a percent of revenue			
Tax supported and other funds	49.9%	58.0%	80%
Utilities and other	48.1%	137.2%	220%
Total City, including other entities	54.9%	78.7%	90%
Measures of Affordability: Debt servicing as a percent of revenue			
Tax supported and other funds	5.0%	5.5%	10%
Utilities and other	6.0%	18.2%	20%
Total City, including other entities	5.6%	9.2%	11%
Debt per capita:			
Tax supported and other funds	$ 902	$ 960	$ 1,500
Utilities and other	$ 335	$ 1,249	$ 1,500
Total City, including other entities	$ 1,329	$ 2,217	$ 2,800

Note: These ratios do not forecast "new" capital projects that were not approved in the 2015 Capital Budget or subsequent Administrative Reports.

Recommended ratios for operations funded by general taxation have been set with a modest amount of room for growth from the forecasted peak. Utilities are generally capital intensive and, therefore, may have higher ratios. The recommended limits for utilities will allow 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.

Measure of Flexibility: The City should continue its plan to increase the annual cash to capital contribution to partially finance the capital budget, in order to maintain the necessary capacity and flexibility required for emerging capital needs.

How does New Borrowing Impact the Debt Metrics?

A general guide to determining how new borrowing will impact the debt metrics follows:

For every $10 million in new tax supported debt:	
Net debt as a percent of revenue would increase by	0.80%
Debt servicing as a percent of revenue would increase by	0.05%
Debt per capita would increase by	$13.57
Annual debt servicing costs would increase by	$664,000.00

Based on 30 year debt issuance at an interest rate of 5% and sinking fund contribution rate of 1.64%

October, 2015