

To: SPECIAL COUNCIL

Meeting Date: 6/28/2022

Subject: Debt By-law Amendments

Submitted By: Sheryl Ayres, Chief Financial Officer

Prepared By: Katie Fischer, Deputy Treasurer

Report No.: 22-035-CRS

File No.: C1101

Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 22-035-CRS Debt By-law Amendments be received;

AND THAT the by-law attached as Appendix A to report 22-035-CRS to amend debt By-law 19-145 be enacted;

AND FURTHER THAT the by-law attached as Appendix B to report 22-035-CRS to amend debt By-law 21-065a be enacted.

EXECUTIVE SUMMARY:

Purpose

- Certain projects were approved for debt financing at their budget creation, but subsequently required additional funding which Council has approved through separate staff reports and forecasting. In order for the Region of Waterloo to issue this increased amount of debt on the City's behalf, the originating by-law must be amended.

Key Findings

- The overall increase required to By-law 19-145 is \$398,000, resulting from Council-approved forecast changes for projects A/00431-40 East-West Collector Road and A/00432-40 North-South Collector.
- The overall increase required to By-law 21-065a is \$19,242,595 resulting from Council-approved forecast changes for projects A/00431-42 North Cambridge

Railway Grade Separation, A/00420-40 Preston Auditorium Construction, and A/00471-40 Fountain St Soccer Facility Construction.

- The City's current ratio of debt to own source revenues is 3.4 per cent for debt issued to-date, based on the 2021 Financial Information Return submitted to the Ministry of Municipal Affairs & Housing, well within the Province's annual repayment limit of 25 per cent and the City's own policy of 10 per cent. This ratio is forecasted to increase as the City issues additional debt that has been approved but not yet issued, plus the additional debt required on these projects identified in this report and other projects in the ten-year capital plan. The additional debt required on projects identified in this report will increase the City's debt ratio by an estimated 0.7 per cent. Rising interest rates may further drive the City's debt ratio higher.

Financial Implications

- The combined increase of debt financing between the two by-laws is \$19,640,595, which consists of:
 - \$12,646,695 of growth debt, for which the annual principal and interest payments will be funded through development charge revenues collected in the future;
 - \$6,993,900 of tax-supported debt, for which the annual principal and interest payments will be funded through property taxes and has been incorporated in the 2022 Operating Budget.

STRATEGIC ALIGNMENT:

- ☐ Strategic Action; or
☒ Core Service

Objective(s): Not Applicable

Strategic Action: Not Applicable

Program: Finance

Core Service: Financial Planning

Debenture financing provides sustainable financial management and cash flows to support the development and rehabilitation of City infrastructure.

BACKGROUND:

Through the Capital Budget and forecasting processes, Council approves certain capital projects to be funded through debenture or debt financing as part of an overall financial management strategy. As per section 401 of the Municipal Act, 2001, municipalities may incur debt for municipal purposes through the issuance of debentures. A lower-tier municipality in a regional structure does not have the power to issue debentures and must work with the upper-tier municipality to secure debt financing. By-laws are enacted to formalize Council approval of issuance of debt for capital projects, and the Region of Waterloo utilizes these by-laws to enact their own and issue the debt on the City's behalf as required by the Municipal Act.

Certain projects were approved for debt financing at their budget creation, but subsequently required additional funding which Council has approved through separate staff reports and forecasting. In order for the Region of Waterloo to issue this increased amount of debt on the City's behalf, the originating by-law must be amended.

ANALYSIS:

On October 19, 2021, Council received an update and additional funding request through report 21-266(CD) North Cambridge Business Park - Capital Projects Additional Funding Request. Through this report, Council approved an additional \$1,248,000 in debt funding for A/00431-40 East-West Collector Road. This project originally had debt funding authorized for issuance through By-law 19-145 which now needs amended to accommodate this Council-approved budget increase.

Partially offsetting this increase to By-law 19-145 is forecasted savings realized at time of tendering A/00432-40 North-South Collector in the amount of \$850,000. The overall increase required to By-law 19-145 is therefore \$398,000.

Debt By-law 19-145

Project	Original Approved Debt Funding	Revised Debt Funding	Increase / (Decrease)	Reference
A/00431-40 East-West Collector Rd (NS Collector to Municipal Boundary)	\$2,692,000	\$3,940,000	\$1,248,000	21-266(CD) Oct 19, 2021
A/00432-40 North-South Collector (Allendale to	\$14,029,000	\$13,179,000	(\$850,000)	20-189(CRS) Jul 28, 2020

Project	Original Approved Debt Funding	Revised Debt Funding	Increase / (Decrease)	Reference
EW Collector)				
A/00433-40 East Side Lands Stage 1 Interim Pumping Station	\$2,778,000	\$2,778,000	\$0	n/a
Total	\$19,499,000	\$19,897,000	\$398,000	

Also included within report 21-266(CD) North Cambridge Business Park - Capital Projects Additional Funding Request, there was an additional \$4,311,700 in debt funding required for project A/00431-42 North Cambridge Railway Grade Separation. This project's original debt funding was authorized under By-law 21-065a which now needs amended to accommodate this Council-approved budget increase.

Other projects with debt financing under this By-law 21-065a have also had their budgets increased. This includes Preston Auditorium Construction which had its scope and associated debt funding increased in the amount of \$13,195,400 via Council report 21-292(CD) Preston Auditorium - Design Program Approval on December 2, 2021. Additionally, the Fountain Street Soccer Facility Construction project A/00471-40 has had its debt funding increased by \$1,735,495 via report 21-134(CD) Fountain Street Soccer Complex - Schematic Design Approval and Conestoga College License Agreement on August 10, 2021.

The overall increase required to By-law 21-065a is \$19,242,595.

Debt By-law 21-065a

Project	Original Approved Debt Funding	Revised Debt Funding	Increase	Reference
A/00431-42 North Cambridge Railway Grade Separation	\$5,803,800	\$10,115,500	\$4,311,700	21-266(CD) Oct 19, 2021
A/00420-40 Preston Auditorium Construction	\$13,015,600	\$26,211,000	\$13,195,400	21-292(CD) Dec 2, 2021

Project	Original Approved Debt Funding	Revised Debt Funding	Increase	Reference
A/00471-40 Fountain St Soccer Facility Construction	\$8,071,100	\$9,806,595	\$1,735,495	21-134(CD) Aug 10, 2021
A/00481-30 North-South Collector Road Design (Allendale to Middle Block Rd)	\$350,000	\$350,000	\$0	n/a
Total	\$27,240,500	\$46,483,095	\$19,242,595	

The Ministry of Municipal Affairs and Housing regulates the amount of debt that municipalities may carry by setting an annual repayment limit of 25 per cent of a municipality's net own source revenues. To ensure financial sustainability and minimize risk, the City of Cambridge's debt policy further limits its debt capacity to 10 per cent of own source revenues for tax-supported debt and 15 per cent of own source revenues for rate-supported debt charges.

The City's current ratio of debt to own source revenues is 3.4 per cent for debt issued to-date, based on the 2021 Financial Information Return submitted to the Ministry of Municipal Affairs & Housing. This ratio is forecasted to increase as the City issues additional debt that has been approved but not yet issued due to timing needs of cashflow on projects, plus the additional debt required as noted above and on other projects in the ten-year capital plan. The additional debt required on projects identified in this report will increase the City's debt ratio by an estimated 0.7 per cent. Rising interest rates may further drive the City's debt ratio higher.

EXISTING POLICY / BY-LAW(S):

The existing debt by-laws that are to be amended to incorporate Council-approved changes are:

- 19-145: authorizing the issuance of debentures for designated North Cambridge Business Park capital projects;
- 21-065a: authorizing the issuance of debentures for North Cambridge Railway Grade Separation, Preston Auditorium Construction and Fountain Street Soccer projects.

FINANCIAL IMPACT:

The combined increase of debt financing between the two by-laws is \$19,640,595. This consists of \$12,646,695 of growth debt, for which the annual principal and interest payments will be funded through development charge revenues collected in the future. The remaining \$6,993,900 of additional debt financing is the tax-supported portion on the Preston Auditorium Construction project, for which the annual principal and interest payments will be funded through property taxes and has been incorporated in the 2022 Operating Budget.

PUBLIC VALUE:

Debenture financing provides sustainable financial management and cash flows to support the development and rehabilitation of City infrastructure.

ADVISORY COMMITTEE INPUT:

Not Applicable.

PUBLIC INPUT:

Posted publicly as part of the report process.

INTERNAL / EXTERNAL CONSULTATION:

There was no internal/external consultation undertaken.

CONCLUSION:

Certain projects were approved for debt financing at their budget creation, but subsequently required additional funding which Council has approved. In order for the Region of Waterloo to issue this increased amount of debt on the City's behalf, the originating by-law must be amended. The overall increase required to By-law 19-145 is \$398,000, resulting from Council-approved forecast changes for projects A/00431-40 East-West Collector Road and A/00432-40 North-South Collector. The overall increase required to By-law 21-065a is \$19,242,595 resulting from Council-approved forecast changes for projects A/00431-42 North Cambridge Railway Grade Separation, A/00420-40 Preston Auditorium Construction, and A/00471-40 Fountain St Soccer Facility Construction.

REPORT IMPACTS:

Agreement: **No**

By-law: **Yes**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager

Chief Financial Officer

City Solicitor

City Manager

ATTACHMENTS:

1. 22-035-CRS Appendix A – Draft Amending By-law to By-law 19-145
2. 22-035-CRS Appendix B – Draft Amending By-law to By-law 21-065a