Limits on the amount of new debt that the Town is allowed.

Page 8 of the Town's Strategic Financial Plan (SFP) – available on the Town's website under "Finance & Administration", indicates that we should be keeping debt charges to a maximum of 18% of the local expenses. Additional debt charges for the $11,124,646 of new debt for the rec center project end up violating this condition.

	2023 Debt charges	Additional debt charges at 5%	Additional debt charges at 4.54%
	1,531,897	639,183	599,945
Total debt charges	1,531,897	2,171,080	2,131,842
% of local expenses	13.5	19.2	18.8
	Total 2023 local expenses =		11,329,509

The **5%** interest rate over 40 years is being used by TMR for their revised rec center project. **4.54%** is the rate that the Town refinanced debt as announced at the January 30th council meeting.

What's also interesting is that on page 3, below, our ministry of municipal affairs (MAMOT) seems to be giving a figure of 16% – though I could be misinterpreting.

From the Strategic Financial Plan on the Town website:

The Challenge:

The Town must continue to invest in its infrastructure while using debt responsibly and being prepared to respond to any increase in interest rates.

Strategy:

- incur debt only for long-term capital items
- determine acceptable net debt load
- limit debt servicing costs to 18% of local operating budget to maintain future financial flexibility (Appendix H)
- consider accelerated debt repayment at times of renewal
- provide for a contingency amount in the appropriated surplus to manage risk for potential interest rate hike
- establish adequate reserves to help fund major projects, limiting the need for debt in the future (see section on Infrastructure Renewal for more detail)

[3] C-27.1: Municipal Code of Quebec: 1061

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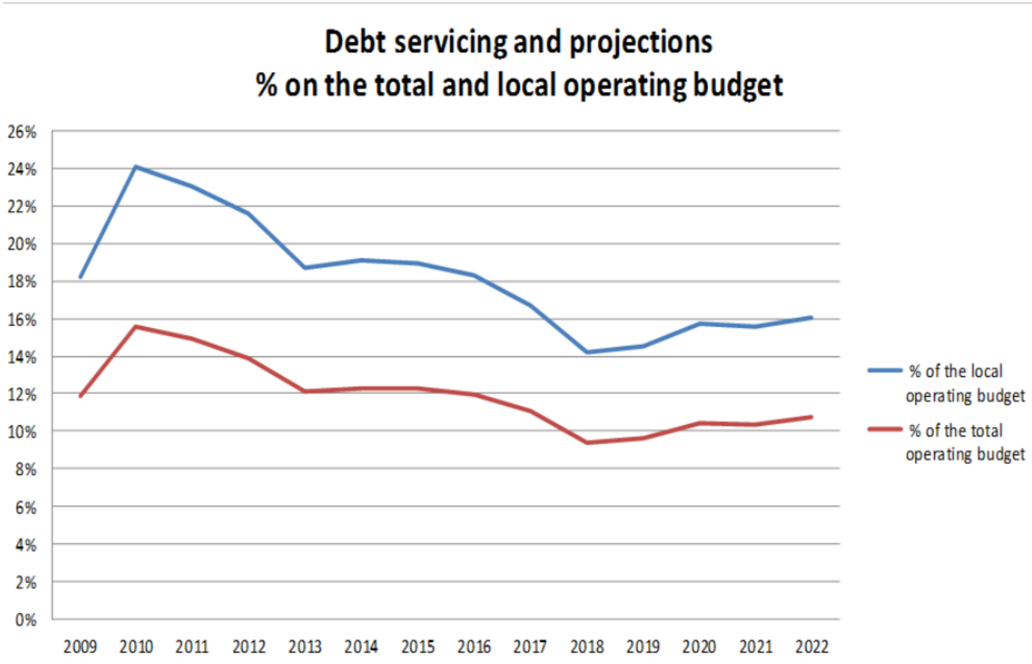
APPENDIX H – Debt servicing and projections 2009-2022



<u>From the 2023 Budget on the Town website</u>:

DÉPENSES TOTALES / TOTAL EXPENSES	2023	2022
PAR SERVICE / BY DEPARTMENT		
Conseil / Council	194,266	188,071
Administration	1,733,358	1,689,935
Sécurité publique / Public Security	526,181	507,963
Travaux publics / Public Works	3,238,451	3,097,065
Hygiène du milieu / Environmental Health	1,100,927	1,004,847
Inspections et permis / Inspections & permits	231,637	199,714
Loisirs et culture / Recreation and Culture	2,742,792	2,671,623
Dépenses en capital à même les revenus / Capital expenditures out of revenue	30,000	0
Service de la dette / Debt service	1,531,897	1,457,921
Dépenses locales totales / Total local expenses	**11,329,509**	**10,817,139**
Quote-part agglomération / Agglomeration remittance	**7,269,000**	**6,483,200**
DÉPENSES TOTALES / TOTAL EXPENSES	**18,598,509**	**17,300,339**

City of Toronto Debt Limit
https://www.toronto.ca/legdocs/mmis/2021/cc/bgrd/backgroundfile-164272.pdf

Debt management policies of major Canadian municipalities have different debt ceiling limit measures which are often derived from the different financial regulation mandated by their respective provinces, as demonstrated in Table 3 below.

Table 3: Municipal Debt Management Policy

	Self-imposed Key Debt Service Limits	Derived based on Provincial Regulation
City of Vancouver	Annual Debt Service Cost as a % of Operating Expenditure < 10%	Province of B.C. Vancouver Charter: Total debt < 20% of total assessed value of such real property calculated upon the average assessment for the two year prior
City of Toronto	Annual Tax-supported Debt Service Cost as a % of Property Tax Revenue < 15%	Province of Ontario (No debt limit for the City of Toronto)
City of Montreal	Annual Debt Service Cost as a % of City All Expenditure < 16%	Province of Quebec Supervised by the Ministère des Affaires Municipales et de l'occupation du Territoire (MAMOT). Any request for new debt must be analyzed and approved by the MAMOT and submitted to the MFQ.
City of Ottawa	Annual Tax-supported Debt Service Cost as a % of tax revenue < 7.5%	Province of Ontario - debt service payments were limited to 25% of a municipality's own-source revenue

I believe that we use local expenses because the Agglom taxes just flow through us and are not a measure of the Town's operating capabilities.

For comparison purposes, the Total Debt Service Cost as a percentage of Property Tax Levy ratio of the four major Canadian municipalities are compared in Table 4 below. Total Debt Service Cost is used here because data for tax-supported debt service cost is not publicly available for the other municipalities.

Table 4: Estimated Debt ratio

Credit Rating	Total Debt Service Cost as a % of Property Tax Levy	2019	2018
AAA	City of Vancouver	4.6%	4.6%
AA	City of Toronto*	13.7%	13.4%
AA-	City of Montreal	31.9%	31.2%

Credit Rating	Total Debt Service Cost as a % of Property Tax Levy	2019	2018
AA	City of Ottawa	8.5%	8.9%

*Unconsolidated debt (e.g exclude CMHC),

Overall, it is not recommended to increase the City's debt level to a point that would trigger a credit rating downgrade. With an "A" rating, the City of Toronto will be the lowest rated Canadian municipality. Currently the lowest rated Canadian municipality is St John's which is rated A+. As a reference, City of Montreal is rated AA-.

It is very rare to see Canadian municipalities get credit rating downgrades and in fact most are looking to have their rating increased as it results in lower borrowing costs.

Other risk factors to consider:

- Reputational risk – the current credit rating of "AA" has been in place for 20 years and has given the City a reputation of a "solid credit" with investors, however a drop in rating would indicate to investors that the City is "weaker" and has some serious

[BMA Municipal Study – Financial Indicators Analysis (wellington.ca)]

II. **Debt Charges as a % of Own Source Revenues (Debt Service Ratio)**

- Debt Service is the amount of principal and interest that a municipality must pay each year to service the debt. As debt service increases it reduces expenditure flexibility. This shows the % of total debt expenditures, including interest as a % of own source revenue. It is a measure of the municipality's ability to service its debt payments. Credit rating agencies consider that principal and interest should be below 10% of own source revenue.