

Tax-Supported Debt Analysis

Recommendation:

That the October 22, 2012, Financial Services report 2012CA3131, be received for information.

Report Summary

This report provides information on tax-supported debt and how the tax dollars have been allocated over the past 7 years. Allocation within the 2012 to 2014 capital budget is also outlined.

Previous Council/Committee Action

At the November 5, 2012, Executive Committee meeting, the October 22, 2012, Financial Services and Utilities report 2012CA3131, was postponed to the November 19, 2012, Executive Committee meeting.

At the October 22, 2012, Executive Committee meeting, the October 22, 2012, Financial Services and Utilities report 2012CA3131, was postponed to the November 5, 2012, Executive Committee meeting.

At the August 29, 2012, City Council meeting, the following motion was passed:

That Administration provide a report for the October 22, 2012, Executive Committee meeting outlining the following information: an analysis of tax-supported debt and how the tax dollars have been allocated over the past 7 years as well as use within the current capital plan.

Report

In 2002, Council reintroduced tax-supported debt as a financing source for capital projects. The strategy entailed taking on additional tax-supported debt to finance priority capital up to \$50 million annually for each of 2003 through 2007 (a five-year \$250 million debt strategy), with debt servicing being funded from an incremental 1% or 0.75% tax levy increase annually.

As a result of this debt strategy, the City was able to move forward capital priorities such as the southeast police station, the Whitemud Drive/34 Street interchange, fire stations, the Lois Hole library and improvements to arterial roadways.

As part of the tax supported debt strategy introduced in 2002, annual operating budgets were prepared on the basis of balancing the additional tax levy generated with the anticipated debt servicing required based on the premise that capital projects typically span multiple years. The difference was budgeted as pay-as-you-go to fund additional capital on a pay-as-you-go basis.

In addition, annual variances to debt servicing cost due to interest rate fluctuation or timing of expenditures/borrowing occurred. A Tax Supported Debt Reserve was created to manage these annual variances. Amounts in the Tax-Supported Debt Reserve are applied to augment pay-as-you-go funding or for other priorities approved by City Council.

Over time, funds in the Tax-Supported Debt Reserve have enabled the City to

advance additional capital priorities such as:

- \$2.2 million to fund transportation roadway and waste collection vehicles in 2007
- \$2.95 million was appropriated in 2009 for North Central Field House – Joe Clarke (\$2.2 million) and the Jasper Avenue Main Street Design (\$0.75 million)
- City Council utilized \$7.5 million from the Tax-Supported Debt Reserve to address priorities in the 2010 budget deliberations.

In 2007, with interest rates at an all time low and rapid growth in the economy, a decision was made to continue to use debt to finance additional tax-supported capital projects such as the Terwillegar Recreation Centre and the Whitemud Drive/Quesnell Bridge Rehabilitation.

Unlike the \$250 million debt program, differences between budget and actual debt servicing expenditures associated with this new borrowing remained in operations, utilized to offset other financial challenges or falling to general surplus.

As part of the 2012 to 2014 capital budget deliberations, Council approved three additional projects (Walterdale Bridge, SE to West LRT land acquisition and Northwest Police Campus), to be funded by tax-supported debt. A tax rate increase for 2012 of 0.67% was approved, with the expectation of increases in each of 2013 (0.70%) and 2014 (0.67%) to cover the future cost of servicing the debt. Understanding that project expenditures straddle multiple years, any excess anticipated between the budgeted tax dollars raised and debt servicing on these three projects was

approved to augment pay-as-you-go funded projects as part of the 2012 to 2014 Capital budget.

City Council will be reviewing the 2012 Reserves Review report 2012CA1773, on October 31, 2012. Administration will be recommending that all timing differences between the budgeted and actual debt servicing expenditures for tax-supported debt be transferred to the Tax-Supported Debt Reserve. This change would provide for consistent treatment of all tax funding related to debt servicing. With approval of the recommendation, additional amounts will become available to fund capital on a pay-as-you-go basis or for other priorities as approved by Council.

Attachment 1 to this report provides an analysis of the tax levy related to debt, the annual debt servicing charges, the amounts allocated to pay-as-you-go based on the expected project and borrowing cash flows, with the residual transfer to the Tax-Supported Debt Reserve or amounts flowing to annual operations or surplus.

Policy

This Bylaw is consistent with Edmonton's *Debt Management Fiscal Policy* (C203C) and applicable sections of the *Municipal Government Act*.

Corporate Outcomes

This report supports the corporate goal of ensuring Edmonton's financial sustainability by contributing to the following corporate outcomes:

- The City has well managed and sustainable assets and services
- The City has a resilient financial position

Tax-Supported Debt Analysis

- The City has balanced revenue streams that are sustainable

Attachments

1. Tax Revenue and Debt Servicing Analysis