Financial Considerations for the Proposed New Central Library

City of Saskatoon Debt Limit

The City of Saskatoon's (City) debt limit of $558 million was approved in October 2014 by the Saskatchewan Municipal Board (SMB). The debt limit is to be reviewed by the SMB every three years. In September 2017, the City requested that the debt limit remain at $558 million, which was approved by the SMB. After this approval, the City was informed that the debt limit will remain at the established level until a change is requested by the City, or the SMB Local Government Committee requests a review.

The debt limit is the maximum amount the City can borrow without seeking further approval from the SMB. The City can request a change to the debt limit based on its own-source revenue from the previous year. The City's 2018 own-source revenue was $761 million, which would allow for an application to SMB to increase the debt limit if City Council desired.

As at December 31, 2018, the City's actual debt was $354 million. As the priorities of City Council are set or changed, the debt projection can be changed and adjusted as required to meet these priorities. The current debt is projected to peak at approximately $439 million in 2025, based on a number of assumptions.

The debt projection is a working tool that is primarily used by the Administration for its own benefit in planning and projecting potential projects as they become closer to reality. The debt projection has not, and never was intended to, have formal approval. The intent has been focused on forecasting, planning and scenario planning for the Administration as various, but probable projects are being considered. The projection changes constantly based on new priorities and existing debt. These estimates are periodically reported to interested parties such as the Bond Raters who have a keen interest in the City's debt outlook based on probable projects and scenarios.

Projecting debt levels requires Administrative estimates. The current debt projection assumptions include the borrowing of $87.5 million for the New Central Library project, future estimated borrowing of $31.4 million required for the Bus Rapid Transit Funding Plan, and future borrowing for utility projects. Examples of projects not included in current debt projections are the Arena/Entertainment District project, TCU Place refurbishment, City Yards relocation, and a second Water Treatment Plant.

Therefore, the addition of the borrowing for the New Central Library alone will not put the City over the debt limit. Rather, it is the cumulative impact of all projects requiring borrowing that will impact the City's debt. As City Council evolves its capital project priorities, the debt projections will be amended.

The City's 2019 estimated total debt per capita is $1,197 (including utility debt). If the population grew by an average of 1.5% between now and 2025, the total debt per capita at the peak of the projection is $1,474. To provide a comparison, the total debt per capita in 2018 for other municipalities was as follows:

- Winnipeg - $1,391;
- Regina - $1,357; and
- Calgary - $2,279 (not including debt attributed to the City from ENMAX).

City of Saskatoon Credit Rating

The City currently has a "AAA" credit rating. Many factors are taken into account to determine the City's credit rating. Each year S&P Global Ratings reviews documents and reports, and interviews the City Manager, Director of Finance and Chief Financial Officer to find out information specific to the City's economic and operating updates. The methodology used to establish credit ratings also incorporates country and region specifics in addition to global comparisons. Rating rationale includes:

- Saskatoon economic and demographic factors
- Budgetary and financial performance
- Management and governance (e.g., departures of senior staff; council priorities)
- Debt burden
- Stable revenue sources to fund expenditures
- Liquidity (cash) reserves

The determination of the City's credit rating takes into account many more factors in addition to the amount of debt that a City has. Thus, there is no set borrowing limit that would reduce the credit rating from the current "AAA" status.

While "AAA" is the highest credit rating available, the "AA" credit rating is considered a very good rating and is within the investment grade category with low risk to investors. However, a decrease in the credit rating to "AA" would mean that the City's borrowing costs would likely be higher. An estimate in today's market could mean a difference of 0.05% on borrowing costs between a "AAA" rated municipality and a "AA" rated municipality. For example, if the City borrowed $50 million over 10 years at 2.418% ("AAA" rated), the total interest would be $6.9 million compared to the interest at 2.466% ("AA" rated) of $7.0 million.

During times of heightened market risk, such as the global financial crisis of 2008, the demand for higher rated safer investments will rise. This means that lower rated investments would have to offer a higher interest rate to entice investors towards their debt issuance. It is necessary for lower rated municipalities to compensate investors for the additional perceived risk during uncertain times.

Based on discussions with the City's bond raters and financial best-practice principles, the Administration's view is that investment decisions should not be based on the impact to the City's credit rating alone. Investment decisions should focus on the strategic direction, priorities and needs of citizens within a particular municipality. Potentially dropping to the "AA" rating may be necessary for a given municipality in order for it to complete projects that will benefit citizens in the long term.

New Central Library Property Tax Impact

The proposed New Central Library funding plan currently has an annual operating phased-in increase of:

- $640,000 in 2020 to 2022;
- $650,000 in 2023 to 2024; and
- $715,000 in 2025.

This funding will be used to finance the project until borrowing happens and then will be used towards debt repayment. The 2020 increase of $640,000 in the budget represents a 2.57% increase to the Library portion of property taxes, equivalent to $4.95 per household per year (average assessed value).
The Library started phasing in funds in 2009 to their budget so that by the end of 2019 the operating base includes $3.35 million per year. To date, $13.04 million exists in the New Central Library reserve.

The funding plan has phase-ins expected until 2026. According to this plan, $2.37 million is for increased operating costs of running a new library and the remaining $5.1 million in base funding will go towards principle and interest on a series of three 30 year loans, projected at a 4.1% interest rate.