City of Mississauga
Corporate Report

Date: January 17, 2023 To: Chair and Members of Budget Committee From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Originator's files: Meeting date: January 23, 2023

Subject

Capital Infrastructure and Debt Repayment Levy Options

Recommendation

That Budget Committee provide direction on the capital infrastructure and debt repayment levy options to be incorporated into the 2023 budget.

Executive Summary

- The 2023 budget includes a 3 per cent infrastructure levy to fund priority capital projects, and includes $90 million in debt to be issued in 2023.
- At the January 16, 2023 Budget Committee meeting, staff were directed to review and consider the options available to reduce the levy but maintain the capability to fund capital projects.
- This report outlines an additional option where $100 million in debt would be issued, with the transfer to the tax capital reserve fund eliminated for one year, reducing the infrastructure levy to 2 per cent.

Background

The capital infrastructure and debt repayment levy (infrastructure levy) is a critical tool in maintaining the $14.2 billion of City infrastructure in a state of good repair, and supports the City's investments in new infrastructure. Historically, the infrastructure levy funding includes sufficient funding for principal and interest payments on debt issued, with the remaining levy amount transferred from the operating budget to the tax-funded Capital Reserve Fund. The 2023 proposed budget includes a 3 per cent infrastructure levy of $17.5 million.

The 2023 budget assumes that this 3 per cent infrastructure levy will fund $90 million in debt through the Region of Peel with the following terms:

- $40 million issued through a 10-year serial debenture at a budgeted annual interest rate of 5.0%
- $50 million issued through a 20-year sinking fund debenture at a budgeted annual interest rate of 5.0%

The total annual principal and interest payments are projected to be $11.5 million per year for the first 10 years of this debt issue, and $5 million per year for an additional 10 years. The remaining $6 million would be transferred to the tax capital reserve fund to fund capital projects.

The terms above align with the expected useful lives of the capital assets being financed with the term of the debt, and minimizes the amount of principal being repaid annually. The *Municipal Act* also only allows municipalities to issue debt for capital projects that is equal to or shorter than the useful life of the projects are issued for.

Comments

At the January 16, 2023 Budget Committee meeting, staff were directed to review the infrastructure levy to consider the options available to reduce the levy but maintain the capability to fund priority capital projects. A number of factors were considered in the evaluation:

Credit Rating Considerations

The City continues to maintain a “AAA” credit rating, the highest rating, from Standard and Poor’s Rating Services (S&P) for the last 19 years, an indicator of the City’s strong financial management practises and budgeting process. The 2022 credit rating report earned the strongest scores on debt burden, economy, financial management, budgetary performance and liquidity. None of the recommended proposals in this report are expected to detrimentally affect the City’s credit rating.

Annual Debt Repayment Limits

The Province limits the amount of debt that can be held by a municipality to remain within 25 per cent of own-source revenues. The City’s Debt Management Policy is even more conservative than the provincial limits, and requires annual debt repayment to be limited to 15 per cent of own-source revenues. The projected debt charges in 2023 are assumed to be 6.2% of own source revenues, well within both limits. Careful and conservative spending in the short run ensures that funds are available for longer-term capital projects while keeping tax rates manageable.

Forecasted Debt Issuance

As outlined in the 2023-2026 Business Plan and 2023 budget, the City is planning to issue approximately $968 million in debt over the next 10 years, with principal and interest payments expected to be funded from a 3 per cent infrastructure levy from 2023 to 2027, and a 2 per cent infrastructure levy from 2028 to 2032.

Options

Staff have proposed two options to consider for the infrastructure levy:

Option #1: Status Quo

Staff continue to support a 3% infrastructure levy that finances $90 million in debt to be issued in 2023, and an annual contribution of approximately $6 million to the tax capital reserve fund. This option maintains the current budget increase to be 8.2%, and establishes a base transfer to the tax capital reserve fund of $60 million over a 10 year period.

Option #2: Eliminate Transfer to Capital in 2023

Staff have assessed an alternative option that does not impact the 2023 capital budget program, while reducing the infrastructure levy. The option is available to increase the 2023 debt issuance to $100 million to offset the elimination of the transfer to capital. In doing so, the infrastructure levy could be reduced to $11.5 million annually or 2 per cent, a reduction of $6 million to the 2023 operating budget. A revised listing of proposed debt-funded projects is outlined in Appendix 1. This measure would be a one-year solution, and does not change the 2024-2026 operating budget outlook which would continue to propose a 3 per cent infrastructure levy.

Financial Impact

A summary of the proposed options for the infrastructure levy is outlined below:

	Option 1	Option 2
Infrastructure Levy (%)	3.0%	2.0%
Infrastructure Levy ($ Millions)	$17.5	$11.5
2023 Forecasted Debt Issue ($ Millions)	$90.0	$100.0
Annual Transfer to Capital Reserve Fund ($Millions)	$6.0	$0
2023 Budget Increase	8.2%	7.1%
2023 Residential Tax Bill Increase City Portion	3.0%	2.6%

Option 2 does not impact the 2023 capital budget program however it foregoes the $6 million transfer to capital in that year, which has a compounding effect for future years, and is recommended as a one year solution only at this time. The remainder of the capital program (2024-2032) would need to be re-prioritized in the 2024 budget to mitigate this funding gap. An additional $10 million in debt issued in 2023 would not have a material impact on the annual debt repayment charges (currently 6.2% of own source revenues).

Conclusion

The 2023 budget includes a 3 per cent infrastructure levy to fund priority capital projects, and includes $90 million in debt to be issued in 2023. An alternative option to issue $100 million in debt in 2023 but forego the transfer to the tax capital reserve fund would reduce the infrastructure levy from 3 per cent to 2 per cent, but would reduce the capital budget program funding by $6 million annually from the current plan beginning in 2024.

Attachments

Appendix 1: Revised List of 2023 Debt Funded Capital Projects Under Option 2.

Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer

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