



# MUNICIPALITY OF CHATHAM-KENT

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## FINANCIAL SERVICES

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## FACT SHEETS ABOUT MUNICIPAL DEBT

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Discussions centred on municipal debt and reserve funds can be complex in nature and sometimes intimidating. This document has been put together in a question and answer format to address the questions most frequently asked about Chatham-Kent's debt.

### 1. Why does Chatham-Kent need to borrow?

Borrowing is a way to finance capital projects and maintain major infrastructure over the longer term. Like businesses, municipalities borrow a portion of their capital requirements and pay it back over the life of the project being financed. Municipalities do not borrow for day-to-day operations.

In our personal lives, we are familiar with debt for big-ticket items such as the mortgage on our home or the loan on our car. Chatham-Kent has divided its infrastructure into approximately 31 categories including roads, bridges, storm sewers, buildings, sidewalks, fleet, arenas, parks, etc. The annual amount required to maintain this infrastructure is \$47 million. Current budgets include only \$32 million. Council has a 6-year plan to phase-in this annual funding shortfall which is reviewed annually as part of the municipal budget.

### 2. Are there any alternatives to borrowing?

The alternative to Council's above strategy would be to either raise taxes immediately to have the annual funds necessary to maintain infrastructure (would require a 13% increase) or make a decision not to maintain our infrastructure to a level required by our residents and businesses. Both of these options are not sustainable.

### 3. How much debt does Chatham-Kent currently have?

Here are the details. The figures show Chatham-Kent's current outstanding debt of \$136 million broken down into four categories. The numbers are based on the audited financial statements for the year ended December 31, 2009:

|  | <u>Municipal</u> | <u>PUC</u>     | <u>Total</u>   |
|--|------------------|----------------|----------------|
| <u>Municipal Debt:</u>                             |                  |                |                |
| Paid by taxes                                      | \$19 M           |                |                |
| Paid by non tax revenues                           | \$47 M           |                |                |
| <br><u>Public Utilities Commission (PUC) debt:</u> |                  |                |                |
| Paid by water/wastewater rates                     |                  | \$63 M         |                |
| Paid by non rate revenue                           |                  | <u>\$7 M</u>   |                |
| Total, December 31, 2009                           | <u>\$66 M</u>    | <u>\$70 M</u>  | <u>\$136 M</u> |
| <br><u>April, 2010 authorized debenture issue:</u> |                  |                |                |
| <u>Municipal Debt:</u>                             |                  |                |                |
| Paid by taxes                                      | <u>\$13 M</u>    |                |                |
| <br><u>Public Utilities Commission (PUC) debt:</u> |                  |                |                |
| Paid by water/wastewater rates                     |                  | <u>\$24 M</u>  |                |
| Total, April 2010                                  | <u>\$79 M</u>    | <u>\$ 94 M</u> | <u>\$173 M</u> |

**4. What is the decision making process surrounding the use of debt and what is Chatham-Kent's debt projected to be?**

Each year, as part of the annual budget deliberations, Council reviews its long-term lifecycle, capital and debt strategies. Under the current plan, no further debt is projected to be issued for municipal operations. The PUC plans call for a further \$2M.

Currently, funds are borrowed from senior governments and Canadian Chartered banks, depending upon the best available interest rates and terms. The issuance of any debt is approved by Council.

**5. Who pays for this debt?**

A unique feature of municipal debt is that not everyone pays towards each category of debt held by Chatham-Kent. Here's who pays for each of the above four categories:

**A) Debt paid by the municipality through taxes:**

This is the debt we all pay for through the general tax levy. As of April 2010, this tax-supported debt sits at \$32 million. It includes debt incurred for bridges, roads, municipal buildings and a portion of the new long-term care facility.

**B) Debt paid by the municipality through non-tax revenues:**

This is the debt that is paid by specific users of services or benefiting property owners. It is not included in the general tax levy. It totals \$47 million. This debt includes:

- i) \$8 million for the development of the Bloomfield Business Park that is recoverable by the sale of lots and the resulting new tax revenues generated
- ii) \$23 million for the Province's share of the long-term care facility that is completely recovered through annual provincial funding
- iii) an amount for drainage work that is recovered by the benefiting landowner
- iv) \$6.4 million for Social Housing, a service that was downloaded to the Municipality in 2001. The payments on this debt are funded entirely by senior levels of government

**C) Debt paid by the PUC through water/wastewater rates:**

This is the debt paid by customers of the PUC through their general water/wastewater rates. It has nothing to do with taxes. Its current balance is \$87 million. Since the Walkerton tragedy, the legislation regarding water treatment has changed dramatically. Municipal water treatment plants must meet the stringent guidelines set out by the Ministry of the Environment under the Safe Drinking Water Act. Along with several other projects, the PUC has completed upgrades or construction to water treatment facilities in Chatham, Erieau, Highgate, Ridgetown, Tilbury and Wheatley.

**D) Debt paid by the PUC through non-rate revenue:**

Lastly, there is the debt that is funded by the PUC through revenues other than water/wastewater rates. This debt totals \$7 million and includes installation of waterlines and other local improvement projects. This debt is not part of the general tax rate or the water rates. It is paid by benefiting property owners. The charges are property specific and collected through the property tax bill as a local improvement.

**6. Does Chatham-Kent have significant debt?**

First, let's talk about the tax funded debt. To put this into perspective, Chatham-Kent has annual tax revenues of \$120 million and outstanding debt that is financed by that revenue of \$32 million. That's 27% of annual revenue. If the same percentage were to apply to an average family in Chatham-Kent earning \$70,000 (most recent census data), that family would have \$19,000 in total debt.

Second, let's talk about Chatham-Kent's overall debt. The Ministry of Finance annually calculates the Municipality's debt capacity and its ability to repay the debt. Council is not allowed to approve any debt that will result in total annual debt payments that are more than 25 percent of Chatham-Kent's annual revenue. Based on that, our limit for principal and interest payments is \$45 million. Currently, our annual payments after the April 2010 issuance will be \$19million.

Chatham-Kent is assessed annually by an independent public finance firm, *Standard and Poor's*, and receives a credit rating. In August 2010, Standard and Poor's reaffirmed Chatham-Kent's "A/Stable" rating and stated that the "outlook is positive" related to Chatham-Kent's "relatively good liquidity, manageable debt and reasonable economic prospects".

**7. How do other municipalities view debt?**

It is well documented that municipalities in Ontario are facing infrastructure maintenance challenges. Like Chatham-Kent, most municipalities are also choosing to borrow money to finance their funding shortfall until they can achieve the required annual budgets.

**8. So, what's the bottom line on Chatham-Kent's debt strategy?**

Yes, there is a need for debt. It is a worthwhile strategic investment and it is being managed wisely. There is a plan in place to eliminate the long-term need for debt. Chatham-Kent's infrastructure requirements continue to be met..

Further information please contact:

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