



**April 14, 2026**

## **City Council Committee Report**

**To: Mayor and Council**

**Fr: Ryan Marsh, City Treasurer**

**Re: Amended Debt Management Policy #AF-4-1**

### **Recommendation:**

That Council hereby approves an amended Debt Management Policy #AF-4-1; and further

That the Council establish an annual repayment limit of 8% of own-source revenues, replacing reliance on the Provincial limit of 25%; and further

That three readings be given to a by-law to amend the Debt Management Policy #AF-4-1 which forms part of the City's Comprehensive Policy Manual; and further

That by-law number 80-2013 be hereby repealed.

### **Background:**

The Debt Management Policy establishes the City's framework for the use and management of debt, supporting decision making by Administration and Council, and demonstrates a commitment to long-term financial planning considering impacts to ratepayers.

The City recognizes that debt will remain an ongoing component of its long-term funding strategy. Debt repayment should be structured in a fair and equitable manner in order for costs to be shared by those who benefit from the underlying assets over time. While debt can support major capital investment, excessive reliance can compromise the City's financial sustainability and flexibility.

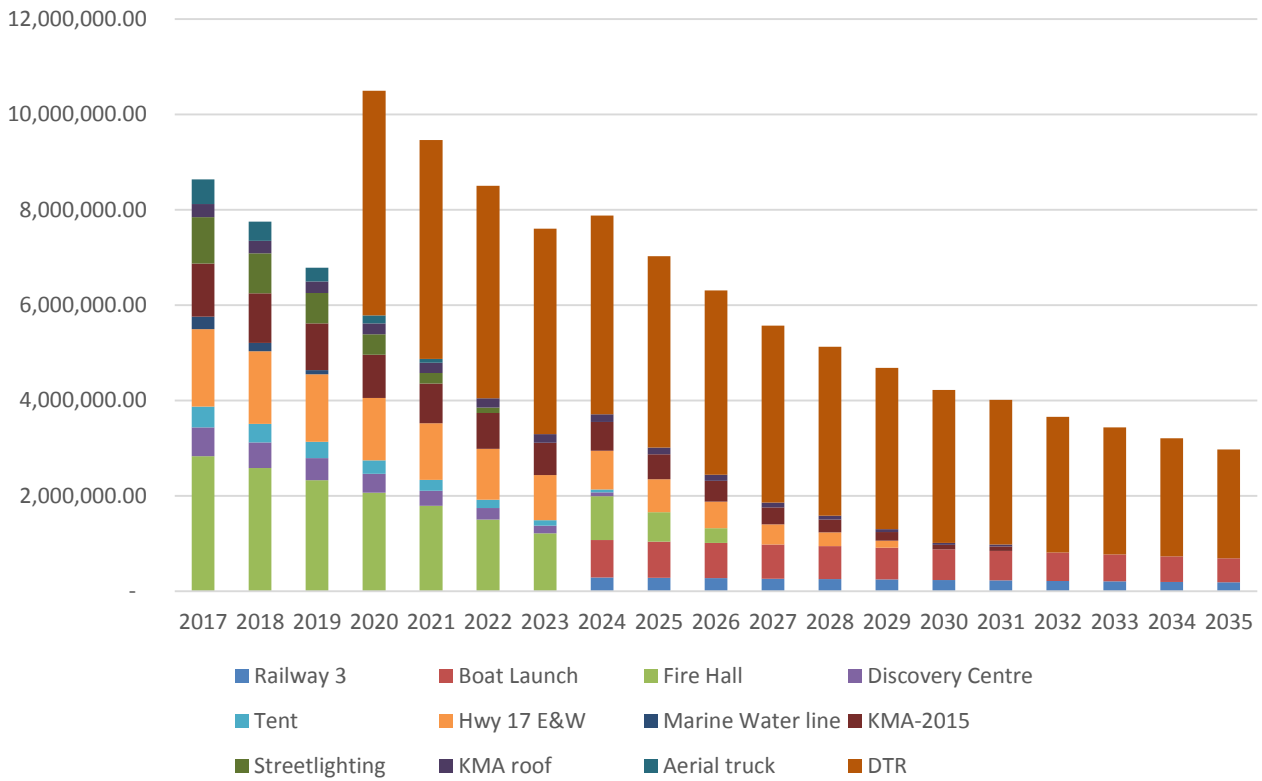
This review is to establish a prudent debt strategy and local debt limit to support the City's capital infrastructure program while maintaining long-term financial flexibility, security and sustainability.

### **Analysis:**

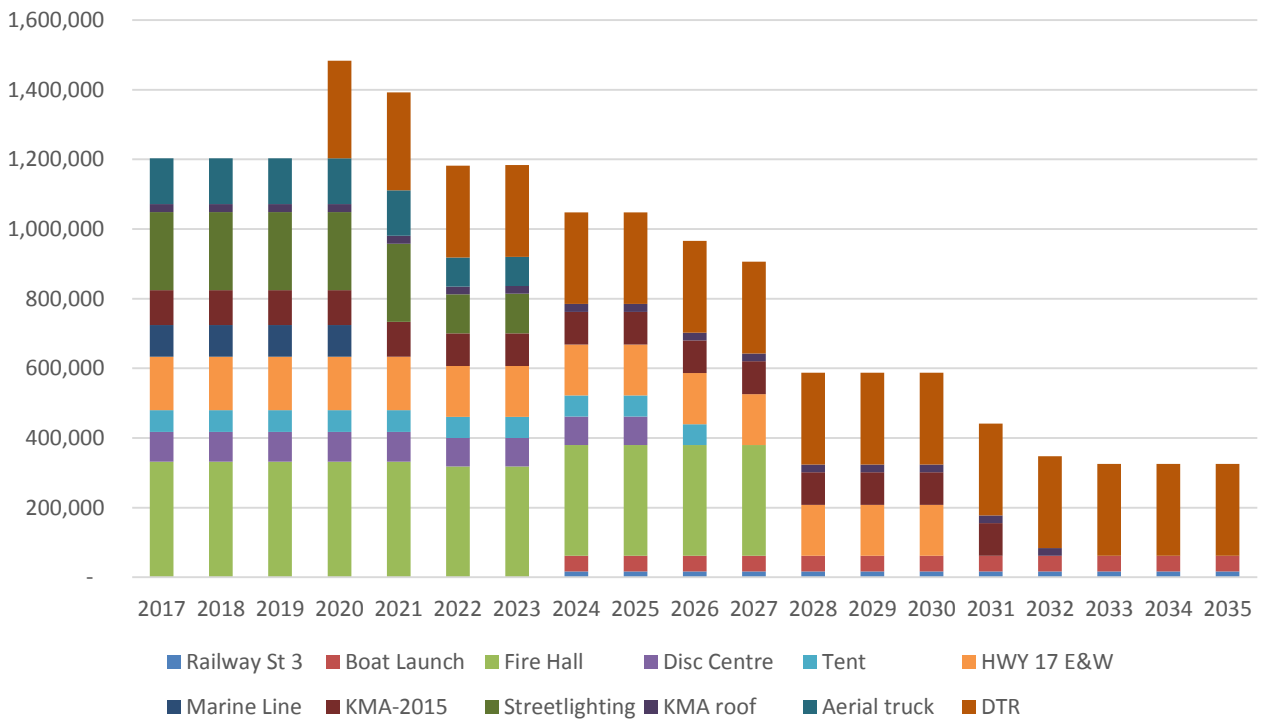
#### **Existing and Forecasted Debt**

The City's existing debt and annual debt servicing costs (principal and interest) are summarized by project below. The balances below do not reflect any prospective Provincial grant funding. The City will pursue all government funding where available.

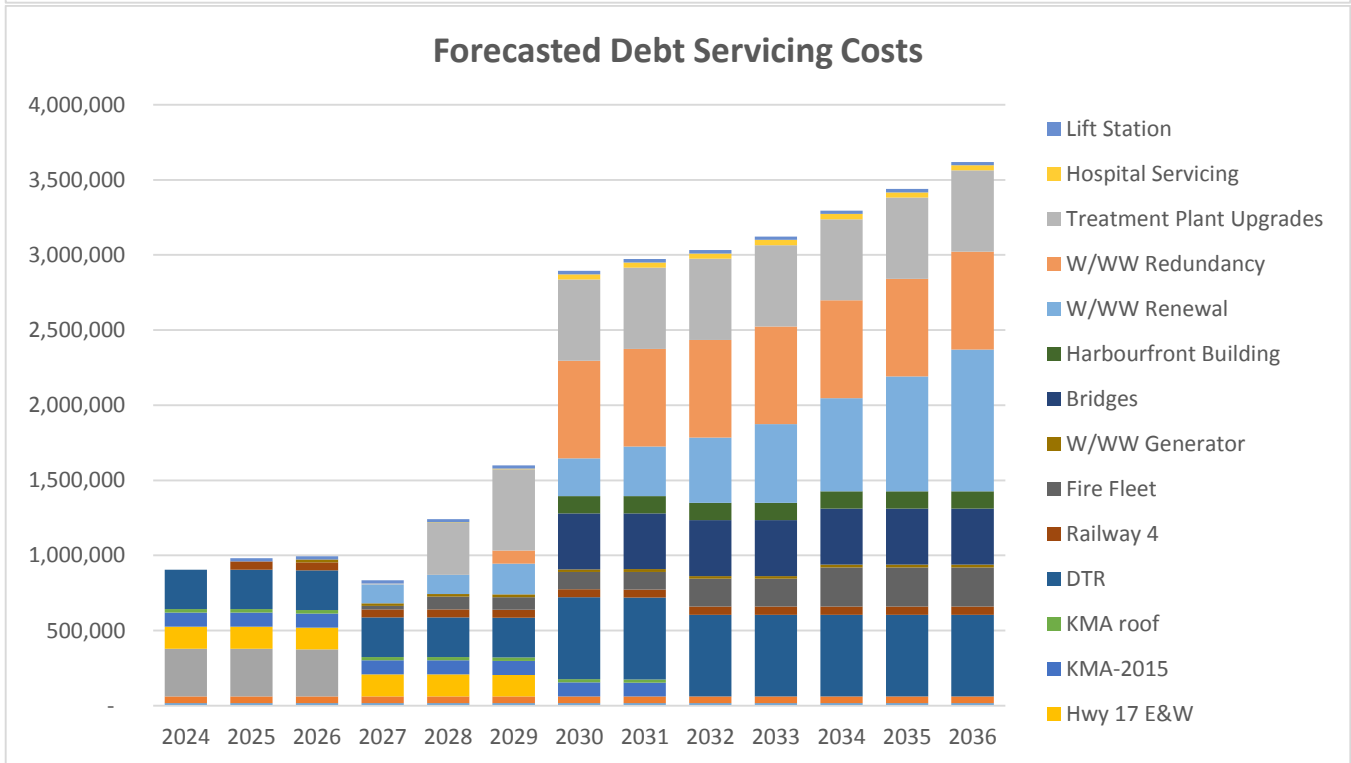
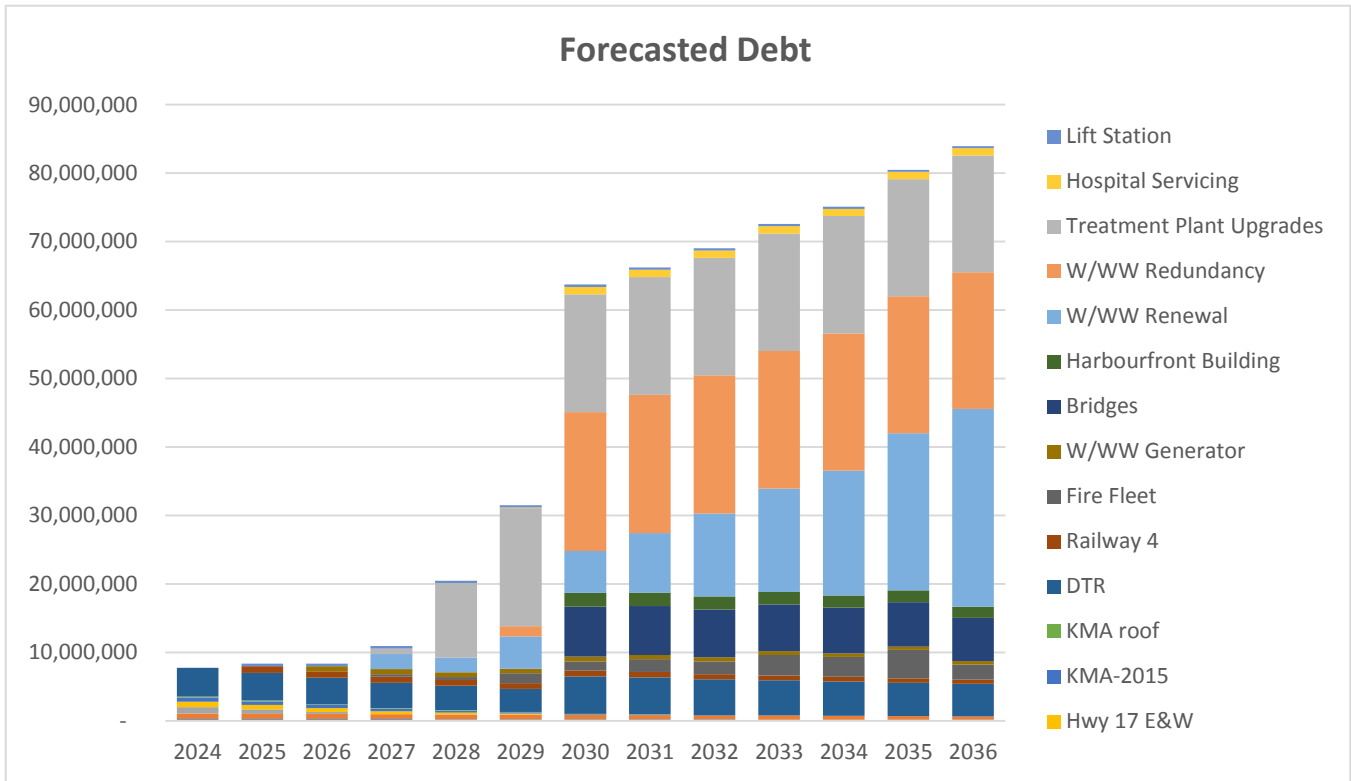
### Existing Debt - 2026



### Existing Annual Debt Servicing Cost



The debt requirements based on the 2026 Capital Budget forecast are expected to increase significantly due to planned capital projects in the late 2020's, primarily in water and wastewater.



## 2025 BMA Study Debt Metrics

Debt indicators identify the use of debt and the extent to which a municipality's operating revenues are committed to interest expense. The following indicators assist in determining the municipalities' financial condition and provide context for the City's current financial position relative to the Provincial averages.

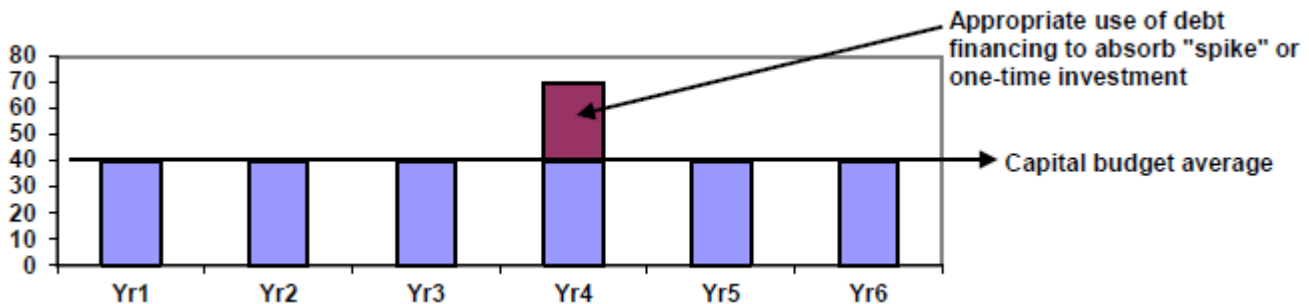
2025 BMA Study (Results for 2024)	City of Kenora	Provincial Avg.
<b>Financial Sustainability Indicators</b>		
Financial Position Per Capita	\$4,895	\$1,013
Net Financial Liabilities Ratio	(1.40)	(0.61)
<b>Financial Flexibility (Debt) Indicators</b>		
Tax Debt Interest as a % of Own Source Revenue	0.4%	1.0%
2024 Tax Debt Charges as a % of Own Source Revenues	1.9%	4.4%
2024 Total Debt Outstanding per Capita	\$484	\$848
2024 Debt Outstanding as a % of Own Source Revenues	13.9%	32.5%
Debt to Reserve Ratio	0.2	0.5
Debt Outstanding per \$100,000 of Unweighted Assessment	\$392	\$496

The BMA study concludes, Kenora compares favourably on several indicators, including lower debt as a percentage of own-source revenues and lower debt outstanding per capita than the provincial average.

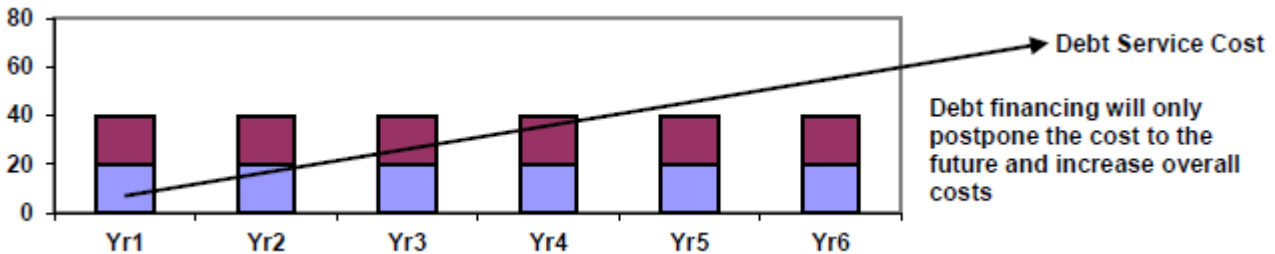
**Key Considerations:**

**Debt Financing Principles**

Debt is best used to manage spikes in capital spending, allowing cost to be spread over time. This helps avoid sharp short-term tax increases and can better align repayment with the life of the asset.

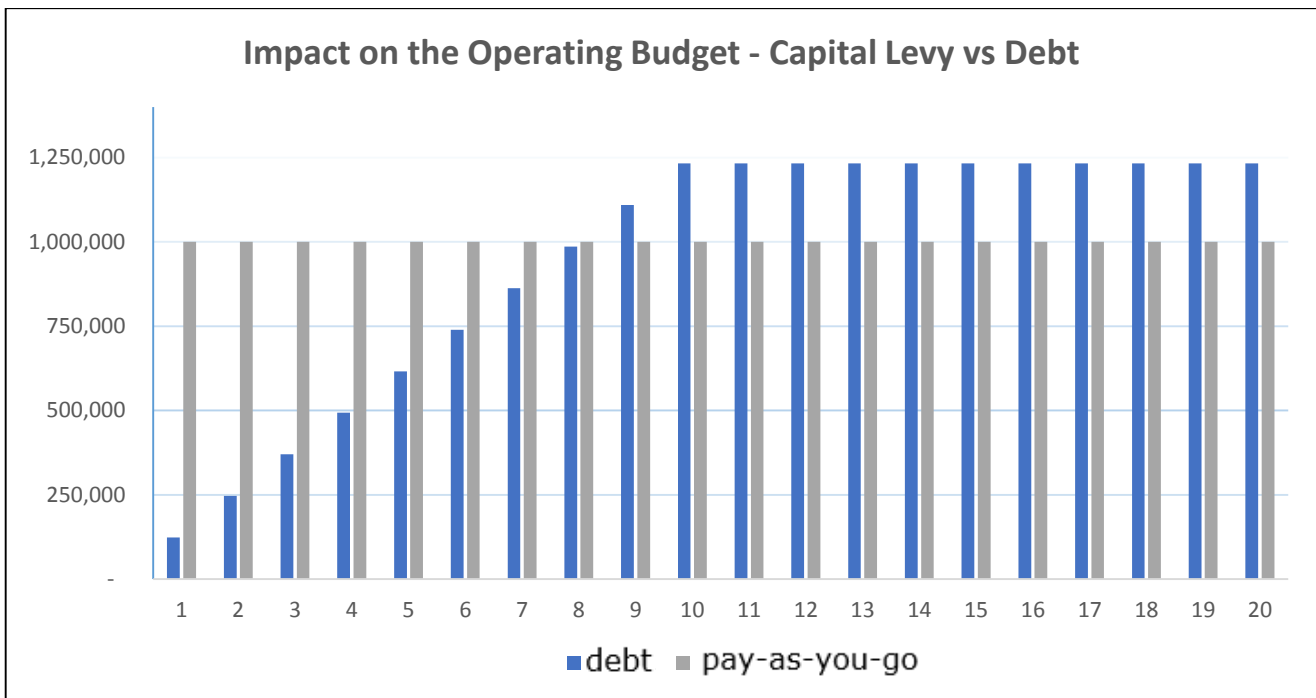


Using debt to fund an ordinary lifecycle program does not reduce the costs; it merely defers the impact to future budgets and increases the overall costs of the asset through interest and financing charges.



The following example highlights the long-term impact of financing a lifecycle program through debt rather than a pay-as-you-go funding model:

- Example assumes \$1 million of capital work is required annually over a 20-year period to maintain an Asset Management lifecycle. Two funding approaches are compared: an annual infrastructure levy on a pay-as-you-go basis, and debt financing with annual borrowing repaid over 10 years at an assumed rate of 4%.



The cumulative impact of debt financing becomes evident in year 9, when annual financing costs begin to compound. Under this scenario, debt financing will require approximately \$1.250 million per year compared to \$1 million under a pay-as-you-go approach. After the initial 20-year period the debt repayments will require an additional nine years at an additional cost of approximately \$5.5 million. As a result, a pay-as-you-go approach will allow for approximately 23% more capital work completed over the same period.

**Internal Debt**

Internal financing is a funding option that can support capital investment over the **short to medium term** through the use of City funds such as reserves or investment, including the Citizen Prosperity Trust Fund. Internal borrowing offers advantages such as increased flexibility in setting loan terms, lower interest costs, and avoidance of external legal and agency fees.

The Municipal Act permits internal borrowing from reserve funds, provided the amount is repaid with interest for no less than the prescribed minimum rate. The prescribed rate is set out in Ontario Regulation 82/98. In general, the rate is tied to the Bank of Canada rate in effect on the date of the by-law.

**External Debt**

External Debt is a financing option the City may use to support major capital initiatives. It is an effective means to spread the cost of significant long-term assets over their useful life, with repayment managed through future operating budgets over the term.

Although debt increases the overall cost of assets through interest costs, that is only one factor in the financing decision. Delaying the project may result in construction cost escalation or general inflation and less favourable borrowing conditions in the future.

Debt financing can also support the intergenerational equity by spreading the costs over the useful life of the asset. However, affordability remains the overriding consideration and must be balanced against the City’s long-term debt capacity and financial flexibility.

**Loan Guarantee**

The City currently has a loan guarantee with an external organization that would become the City’s obligation in the event of default. As of December 31, 2024, the outstanding

guaranteed balance was \$4.8 million. There has been no default to date, the loan guarantee has not been included in the debt metrics presented in this report or in the recommended local debt limits.

**Recommended Local Debt Limit:**

The appropriate debt limit is primarily influenced by affordability and the City’s capacity to support future growth and capital investment.

Revenue-based Model – A common measure of debt affordability is annual debt repayment as a percentage of revenues. This approach links the City’s repayment obligations to its own-source revenue base and supports an assessment of long-term sustainability. As revenues grow, debt servicing capacity may grow, provided other operating pressure remain unchanged.

Council direction is required to establish a local debt limit as a percentage of own-source revenues. While the Province regulates the Annual repayment Limit at 25% of own-source revenues, many municipalities adopt a lower internal/local limit to better align to affordability and preserve future financial flexibility. Establishing a local cap helps ensure that debt obligations remain manageable and do not place undue pressure on ratepayers.

Administration recommends a local limit of 8% of own-source revenues for annual debt repayment limit. This is a prudent rate that will preserve flexibility and long-term affordability, support and maintain the current BMA metrics, and provide an internal governance cap for future decisions.

**Repayment Limits as a Percentage of Tax & Utility Revenue**

	Total Revenue <sup>1</sup>	Options			Provincial Annual Repayment Limit <sup>2</sup>	Current Foreasted Debt
		8%	10%	15%		
2022	55,199,120	4,415,930	5,519,912	8,279,868	13,799,780	1,182,099
2023	49,210,876	3,936,870	4,921,088	7,381,631	12,302,719	1,183,603
2024	42,392,852	3,391,428	4,239,285	6,358,928	10,598,213	1,048,303
2025	52,263,828	4,181,106	5,226,383	7,839,574	13,065,957	1,132,659
2026	54,093,062	4,327,445	5,409,306	8,113,959	13,523,265	1,206,893
2027	55,986,319	4,478,906	5,598,632	8,397,948	13,996,580	2,272,943
2028	57,945,840	4,635,667	5,794,584	8,691,876	14,486,460	2,005,782
2029	59,973,945	4,797,916	5,997,394	8,996,092	14,993,486	2,005,782
2030	62,073,033	4,965,843	6,207,303	9,310,955	15,518,258	3,417,788
2031	64,245,589	5,139,647	6,424,559	9,636,838	16,061,397	3,271,181
2032	66,494,185	5,319,535	6,649,418	9,974,128	16,623,546	3,177,388

**Assumptions:**

- 1. Tax & Utility Revenue increases by 3.5% annually.
- 2. Provincial Repayment Limit increases by 3.5% annually, ARL is Calculated at 25% of net revenues

The attached policy provides a formal debt management framework for Council consideration.

**Budget:** There is no immediate budget impact from adopting the policy. The policy will guide future capital financing and debt capacity decisions.

**Risk Analysis:**

The following risks should be considered in establishing a local debt limit:

- Affordability Risk – If debt limits are set too high, debt servicing may place pressure on core service delivery, require higher tax levy increases or user fees, and reduce the City’s flexibility to respond to unforeseen costs.
- Flexibility and Capacity Risk – Over-reliance on debt reduces future borrowing capacity, limits the City’s ability to respond to emergency capital needs, and constrains future council’s capital financing options.
- Intergenerational Inequity Risk – Poorly structured debt can shift a disproportionate financial burden to future ratepayers, particularly where repayment terms exceed the useful life of the asset, where debt is used for assets with limited long-term benefit, or where operating costs are inappropriately financed through debt.
- Interest Rate Risk – Rising interest rates increase the cost of borrowing and debt servicing, which may reduce the amount of capital renewal the City can fund or place additional pressure on the tax levy or user fees.

**Communication Plan/Notice By-law Requirements:** Notice will be provided in accordance with the notice provisions of the City’s notice by-law.

**Strategic Plan or Other Guiding Document:**

Charting Our Course 2027 – Strategic Plan  
Corporate Values