

FACT SHEET ON MUNICIPAL DEBT

January 2022

This document discusses some common questions asked about Chatham-Kent's use of debt to finance various projects.

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 most businesses, municipalities may 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.

2. Are there any alternatives to borrowing?

When faced with the decision to build a major capital structure, Council has to make a decision on how to finance the project. It could either raise taxes that year to pay for it, reduce spending on other capital projects to make room in the current capital budget, use money saved up in reserves, or borrow the funds and repay the debt using tax revenue over a period of time. Chatham-Kent has adopted a pay-as-you-go philosophy on most lifecycle projects. It considers debt financing when a new or one-time type of project comes along, and occasionally when major reconstruction is needed on large expensive assets.

3. Who does Chatham-Kent borrow from and can residents purchase municipal debentures as investments?

The majority of borrowing is through Infrastructure Ontario (a crown corporation of the Province of Ontario) as rates are more competitive than local lending institutions or private debenture issues, thus lowering costs to taxpayers of Chatham-Kent. There is no direct way for local residents to invest other than by purchasing Infrastructure Renewal Bonds from the Province.

4. How much debt does Chatham-Kent currently have?

The details below demonstrate Chatham-Kent's current \$47.9 million of debt broken down into three major categories as of December 31, 2021

	December 31, 2021 Debt Outstanding
Debt paid by all Property taxpayers	\$8.9 Million
Debt paid by Water and Sewer ratepayers	\$28.5 Million
Debt paid by other sources of revenue (not paid from Property tax or Water and Sewer rates)	\$10.5 Million
TOTAL	\$47.9 Million

The \$10.5 million of other source revenue debt is funded by industrial park land purchasers and by the Province on subsidized services such as a portion of Riverview Gardens Long Term Care facility and Social Housing projects.

5. How much principal does Chatham-Kent pay off annually?

In 2021 Chatham-Kent paid out \$9.2 million of principal and \$2.2 million of interest payments.

6. Will Chatham-Kent be borrowing in the near future?

There are no projects approved for borrowing by Council at this time.

7. Does Chatham-Kent have a significant amount of debt?

It may seem too many that \$47.9 million of debt is a lot. To put it in perspective Chatham-Kent has annual taxation revenues of \$170 million and tax funded debt payments of \$1.6 million or approximately 0.94% of tax income, which is a very manageable level.

The Province monitors municipal debt levels and annually calculates Chatham-Kent's debt capacity and ability to repay the debt. Council is restricted by the Ministry of Finance to approve any debt that will result in total annual debt payments that will be more than 25% of Chatham-Kent's own source annual revenues. For

2021, the limit for Chatham-Kent would be \$51 million in payments. To reach this limit at current interest rates, Chatham-Kent is allowed to borrow \$633+ million of additional debt and repay it over 20 years. Of course that is not desirable, but merely illustrates that the current debt levels are not a concern to the Province.

Chatham-Kent has reduced its debt levels from a high of \$162 million in 2010. If Council does not approve the use of debt for any new projects the debt level will fall to \$7.9 million by December 31st, 2027.

8. Could Chatham-Kent raise taxes or use reserves to pay off the current debt early?

Chatham-Kent has taken advantage of several Provincial and Federal programs that provided subsidized interest rates. 44% of the outstanding debt is at interest rate below 3%. To obtain such historically low rates there are no options for early repayment offered by the issuing agencies.

9. How do other municipalities view and use debt?

Chatham-Kent is not unique in its use of debt. Infrastructure deficits exist in most, if not all municipalities and the Provincial and Federal governments as well. Most municipalities are also choosing to borrow a portion of their capital construction needs to finance long term assets and pay for them over the lifespan of the asset.

In conclusion, there is a need for the Municipality of Chatham-Kent to strategically use debt to invest in new assets that improve the community. It is only used on significant assets where annual lifecycle funding is not fully in place and significant tax increases would otherwise be required. As funding to shrink the infrastructure deficit increases, there will be less need for future debt issuances. If no new debt is issued, Chatham-Kent plans on paying off \$40.0 million of debt by December 31st, 2027.

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