Appendix A
Debt Strategy

History and Background

During the late 1980s and the early 1990s, the City of Winnipeg incurred significant debt for capital purposes. In the mid-1990s, the cost to service the debt was becoming burdensome. At that time, the City's property taxes were considered high relative to other municipalities and increased debt servicing costs conflicted with the City's goal of having competitive taxes. In 1996, Council capped the amount of new capital projects authorized each year and in 1999 and in subsequent years, Council approved capital budgets without any new tax-supported debt and focused on a pay-as-you-go approach. As a result, net tax-supported debenture debt was reduced from $529.9 million to $163.0 million between 1995 and 2008, a reduction of 69%.

In more recent years, the City's taxes have become much more competitive relative to other municipalities. More attention has been given to the City's infrastructure deficit. The cost to raise the average condition of the City's infrastructure to an appropriate asset management condition has most recently been estimated at $3.5 billion growing to $7.4 billion over the next 10 years. The City has been unable to make major improvements to its infrastructure primarily due to the financial structure of municipal governments and their limited sources of revenue. Municipalities continue to raise the important issue of infrastructure deficits with the provincial and federal governments.

To address some of the City's infrastructure deficit, the City has undertaken several public private partnerships to advance capital projects. These public private partnership arrangements constitute long term financial obligations. Also, regulatory requirements are necessitating large capital investment in wastewater treatment facilities over the next several years. Council has authorized new borrowing authority for the Fleet Management Agency and for the Southwest Rapid Transit Corridor over the past few years. Other large projects are planned such as renovation of the former Post Office Building to serve as new Police Headquarters, replacement/renewal of fire stations, etc. These commitments and plans will increase the debt load.

Purpose of Review

The purpose of the review is to determine a debt strategy and set debt limits to establish a prudent level of debt to support the City's capital infrastructure program while maintaining an appropriate credit rating, long-term financial flexibility, and sustainability.

The City's Financial Management Plan approved by Council on March 23, 2011 sets out a target for the City to have "a manageable level of debt". The measurement for this target states that the City should: "Develop a debt strategy, including maximum debt limits". Approval of this report would satisfy this requirement.

How does the City's Existing Debt Management Policy fit it?

The debt strategy is distinct from the City's Debt Management Policy approved by Council on February 23rd, 2005. The City's Debt Management Policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued and the types of debt and structural features that may be incorporated. It does not set out a specific debt strategy or outline debt limits.

Leading Practices

Leading practices incorporate the following concepts:

- Sustainability: the ability to sustain debt service costs over the long-term
- Affordability: the ability to pay debt service costs as well as life cycle costs to maintain the asset
- Flexibility: the ability to respond, in the short-term, to emerging capital needs

Sustainability is the ability to service debt over the long term and revenue growth has been used as an indicator to determine a municipality's ability to service debt. The City's major revenue source is property taxes. While the City's taxable property assessment base increased by 137% from 1998 to 2010, more recently fueled by growth in new construction and a general rise in the market value of real estate within Winnipeg, the majority of this growth has not been captured as revenue. Property tax revenue from the taxable assessment base projected for 2010 is only 8.4% higher than it was in 1998.

Affordability is not a measure of the total debt outstanding. It is a measure of both the City's and the citizens' ability to pay for debt. Debt per capita offers a universal and comparable measure of affordability across municipalities. Debt per capita as a percent of household income provides some indication of affordability for citizens.

There are two basic financial models to determine affordability of debt – an expenditure-based model and a revenue-based model.

> *Expenditure-based Model -* An expenditure-based measure of affordability limits annual debt service costs (interest and principal payments) to a specific dollar limit or to a specified percentage of expenditure. Limiting debt service to a certain dollar amount may not be an effective methodology as inflation will cause a decline in purchasing power and less and less capital work will be undertaken over time. A model based on a percentage of expenditure can overestimate the City's debt service capacity because as the City spends more, then the model will assume it can afford more debt and spending is not an indication of ability to pay.
>
> *Revenue-based Model* **-** A revenue-based measure of affordability is debt service as a percent of revenue. This links the source of funding to the requirement to service debt and implies sustainability of debt service costs. Debt service as a percent of revenue implies, as revenue grows, debt service can grow proportionately. This assumes that growth in other expenditures is not outpacing growth in debt service costs, however. This methodology would indicate that if revenue is growing, new debt issues can be an ongoing part of the capital plan.

A revenue-based model was utilized during this review process as it was deemed to be a more appropriate model. The City of Winnipeg Charter also states that: "In adopting an operating budget, council must ensure that the estimated expenditures for a fiscal year do not exceed the estimated revenues for the year." For that portion of the City's budget, the expenditure-based model and the revenue-based model would yield the same or similar results.

Financial flexibility is the financial capacity reserved for emerging capital needs. This reserved capacity would provide a contingency for replacement, construction or purchase of an asset to ensure a partnership or investment opportunity is not missed, to ensure the safety of an asset, to take advantage of new technology, to address capital compliance costs with respect to emerging legislation, to address extraordinary price increases/capital construction inflation, or to approve any project of importance not previously considered in the capital plan. This flexibility could also be used to finance an urgent capital project in the event the market was not receptive to municipal debenture issues, which could occur during economic downturns. The amount of financial flexibility that should be maintained is subjective and may vary depending on the volatility of other revenue and expenditures and existing provisions for contingency and risk in the organization.

The City's cash to capital component of its capital financing plan provides an element of flexibility for emerging capital needs.

The Government Finance Officers' Association of the United States and Canada recommends that governments should define specific debt limits or acceptable ranges for debt. Public policy limits can include the purposes for which debt proceeds may be used or prohibited. Appropriate debt limits can positively impact bond ratings if the government demonstrates adherence to such policies over time.

Financial limits are often expressed as ratios customarily used by credit analysts, for example:

- Debt as a percent of operating revenue
- Debt service payments as a percent of operating revenue
- Debt per capita
- Debt to personal income
- Debt to taxable property value

When may debt issuance be advisable?

Depending on the interest rate environment, debt issuance may be advisable where a capital project is:

- Intergenerational in nature (i.e. a large project with long-term benefits);
- Benefiting the community at large;
- Growth related
- A major rehabilitation, and/or
- Financed by a dedicated revenue stream.

> "*Smart debt recognizes that borrowing is a valid form of infrastructure financing, and seeks to build consensus around the usage of debt by emphasizing its role as part of any long-term capital plan. Smart debt realizes that "pay-as-you-go" cannot accommodate all infrastructure needs, nor should it.*"

"*Delivering The* Goods", Canada West Foundation, June, 2008

Low interest rates create a more favourable environment to issue debt. However, issuance of debt must consider growth in City revenues and remain affordable to the citizens of Winnipeg.

What is the current debt limit?

Currently, the City of Winnipeg's enabling legislation permits debt for capital purposes. Debt cannot be issued to support operating budget deficits. The City of Winnipeg Charter does not impose a specific debt limit on the City of Winnipeg; however, new borrowing must be approved by the Minister of Finance. The City has the authority to enter into contractual agreements with respect to public private partnerships.

Debt Financing of Capital Assets

While it is true that the use of debt increases the overall cost of assets due to interest costs, this is a simplistic view of capital financing. It does not take into account the opportunity cost of delaying the project due to construction cost escalation or general inflation in the case of non-construction capital projects. Nor does it consider interest rate risk due to changing borrowing costs if borrowing occurs at a later date. Debt financing also provides a mechanism to spread costs over the life of the asset as well as distribute costs over generations.

Illustrated in the following table, is an example of a $100 million capital project and some of the opportunity costs in delaying, namely construction cost escalation from supply shortages, general inflation, and interest rate risk if debt financing is delayed.

Cost to build now (financed by cash)	$100 million
Cost to build now (financed by external debt) $100 million at 6% for 30-year term (discounting cash outflows on a net present value basis). Note: Total payments (not on a net present value basis) would be $229 million over the 30 years.	$105 million
Cost to build later (financed by cash) for construction projects due to impact of construction inflation [1] - In 5 years - In 10 years	 $134 million $179 million
Cost to buy later (financed by cash) for non-construction projects due to impact of general inflation [2] - In 5 years - In 10 years	 $110 million $122 million
Interest Rate Risk Impact of every 1% change in interest rates on $100 million in debt (net present value of extra cost incurred over a 30-year term)	+ or - $14 million

1. Assumes construction inflation of 6% per annum and is based on sufficient construction competition in the market in future years.
2. Assumes general inflation of 2% per annum.

Inflation is one element to consider; however, affordability is an over-riding concern and must be balanced in moderation with reference to the upset limits established.

Comparative information with other municipalities

Credit rating comparison. Credit rating agencies use past financial performance and management practices to predict trends for future performance. Following are recent credit ratings from Standard & Poor's for Winnipeg and other Canadian cities as well as their respective province's ratings. Credit ratings of the provinces have been disclosed as there is a very high likelihood of provincial support (as regulators of municipalities) to prevent reputational damage in the event of municipal default. The provincial credit rating is a factor in determining the credit rating of a municipality.

	Municipal Credit Rating	**Provincial Credit Rating**
Winnipeg	AA	AA
Hamilton	AA	AA-
Ottawa	AA+	AA-
Regina	AA+	AA+
Vancouver	AA	AAA
Windsor	AA	AA-
Toronto	AA	AA-
Edmonton	AA+	AAA
Calgary	AA+	AAA
Montreal	A+	A+
Mississauga	AAA	AA-
Saskatoon	AAA	AA+
Halifax	A+	A+

In its recent report on Winnipeg, Standard and Poor's indicated: "*We expect debt levels to rise significantly in the next four years as Winnipeg undertakes its capital plan. Direct debt was a moderate 41.7% of operating revenues at the end of fiscal 2008. Net of sinking fund balances, we expect debt to peak at about 65%-70% of operating revenues by fiscal year-end 2014. While these are unprecedented levels for the city, we still expect Winnipeg's debt levels to remain at levels appropriate for the rating, albeit at the higher end.*"

They also indicated that: "*A significant increase in debt or decline in cash and investment balances could exert downward pressure on the ratings. Falling debt would be a necessary precondition for an upgrade.*"

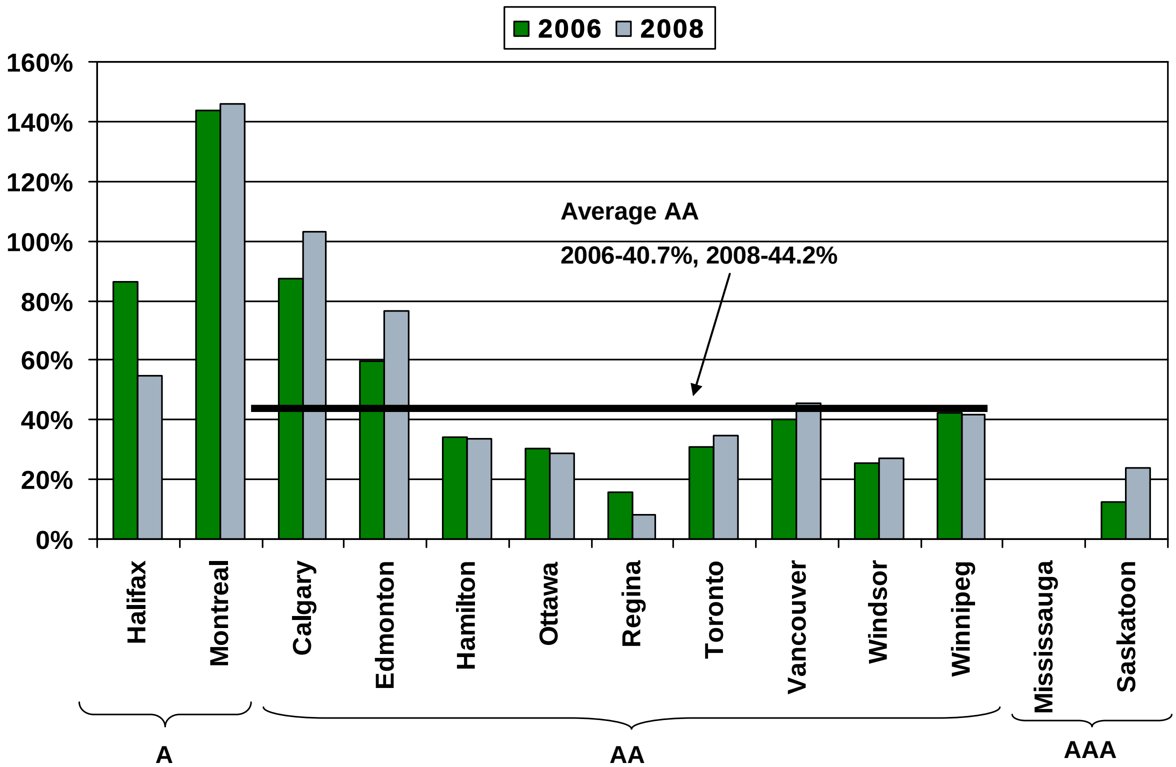
In its latest report on Winnipeg, Moody's indicated: "*Interest costs as a percent of operating revenue have fallen markedly in recent years to 4.5% in 2008 from 6.8% in 2003, and while new debt issuance is being considered, Moody's anticipates that both debt and associated debt servicing costs will remain manageable within the current fiscal plan and consistent with the high investment grade rating. If debt issuance were to proceed as outlined in the preliminary capital plan, interest payments and debt servicing costs would be expected to rise over the next few years. Moody's estimates that net direct debt as a percent of revenue could rise to over 60%. However, past experience has suggested that capital plans are not always rolled out fully as planned and, consequently, debt levels may not rise to the same extent to finance these capital expenditures*."

Key indicators. Following are a series of graphs that compare key indicators that influence credit ratings for selected Canadian cities as rated by Standard and Poor's for 2008. This is the most recent comparative information available from Standard and Poor's. Information is on a consolidated basis for these municipalities and is summarized in the following table:

2008 Metrics							
City	**Direct Debt as a % of Operating Revenues**	**Debt Servicing as a % of Operating Revenues**	**Direct Debt per Capita**	**Operating Balance as a % of Operating Revenues**	**Liquid Assets as a % of Debt Servicing**	**Capital Expenditures as a % of Total Expenditure**	**Direct Debt as a % of Taxable Assessment**
A Credit Rating							
Halifax	55.0	Not known	1,024	25.1	Not known	Not known	1.37
Montreal	146.0	23.7	3,459	13.9	49.4	17.1	3.97
AA Credit Rating							
Calgary	102.9	11.1	1,959	22.6	327.7	37.5	1.12
Edmonton	76.4	5.4	1,637	14.9	1,757.9	39.3	0.94
Hamilton	33.5	3.7	794	12.8	1,759.8	19.9	1.03
Ottawa	28.8	5.2	777	12.8	305.7	20.9	0.73
Regina	7.9	2.7	137	15.4	1,420.3	17.2	0.44
Toronto	34.5	Not known	1,007	10.1	404.9	21.0	0.83
Vancouver	45.4	6.1	765	16.7	725.0	22.8	0.30
Windsor	27.0	2.6	839	16.4	528.4	21.6	1.06
Winnipeg	41.7	5.7	723	18.8	656.1	26.0	1.41
AAA Credit Rating							
Mississauga	No debt	No debt	No debt	10.3	No debt	32.9	No debt
Saskatoon	23.9	4.3	Not known	18.9	Not known	41.6	Not known

Direct Debt[1] as a Percent of Operating Revenues[2]. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average direct debt as a percent of operating revenues was 44.2% in 2008. Winnipeg's direct debt as a percent of operating revenues in 2008 was slightly below average when compared to these other Canadian municipalities.

Direct Debt as a Percent of Operating Revenues – 2006 and 2008



Source: 2006 Standard & Poor's, Ratings Direct, July 8, 2008 – Canadian Municipalities. Selected Statistics
Source: 2008 Standard & Poor's, Global Credit Portal, Ratings Direct
Note: 2008 figures not available for Vancouver; 2007 figures used

According to the most recent Standard & Poor's report, Winnipeg's direct debt as a percent of operating revenues follows:

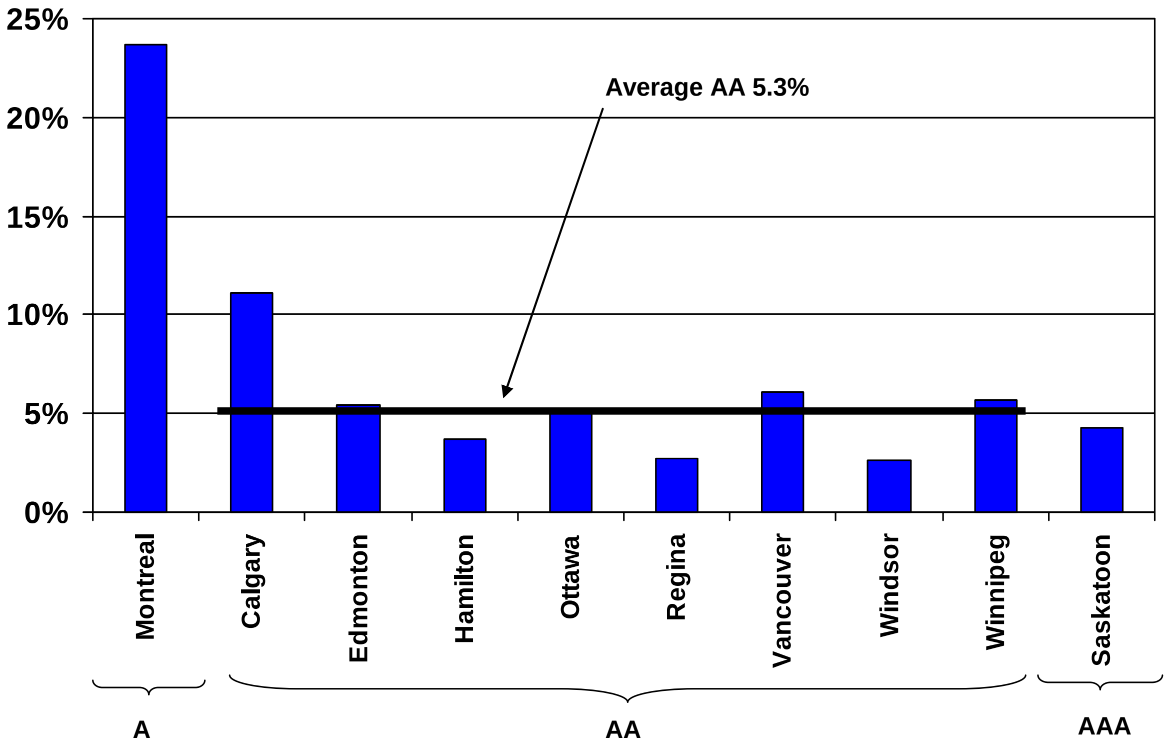
2006 – 42.1%
2007 – 36.2%
2008 – 41.7%

[1] Definition of Direct Debt: Long-and short-term financial debt assumed directly by the borrower (loans, bonds, credits, and capitalized lease obligations) that a local and regional government (LRG) is obliged to pay to another entity in accordance with an express agreement or for any other legally binding reason. This excludes guaranteed debt and the debt of government-related entities, unless serviced by the LRG on an ongoing basis. It includes debt serviced via subsidies from other levels of government unless the legal obligation to service this debt is transferred to the other government. Standard & Poor's | RatingsDirect on the Global Credit Portal | January 5, 2009.

[2] Definition of Operating Revenues: Recurrent revenues received by an LRG. Operating revenues are comprised of taxes and non-tax revenues such as grants, operating subsidies, fines, and fees for services, tariffs, rents, and other sources levied by the LRG. They exclude capital revenues such as capital subsidies and sales of assets, and any revenues from borrowed funds. Standard & Poor's May 21, 2010

Debt Servicing[3] as a Percent of Operating Revenues. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average cost of debt servicing as a percent of operating revenues was 5.3% in 2008. Winnipeg's debt servicing costs were 5.7% of revenue in 2008, slightly higher than average.

Debt Servicing as a Percent of Operating Revenues 2008



Source: Standard & Poor's, Global Credit Portal, Ratings Direct

Note: 2008 figures not available for Vancouver; 2007 figures used

Financial statements for Calgary indicate a 10% limit for tax supported debt servicing costs as a percent of operating revenues; Edmonton recently raised this limit from 6.5% to 15%. Toronto has a debt ratio limit of < 15% of tax-supported levies. Ottawa has a target where principal and interest for tax and rate supported debt is not to exceed 7.5% of the city's own source revenues.

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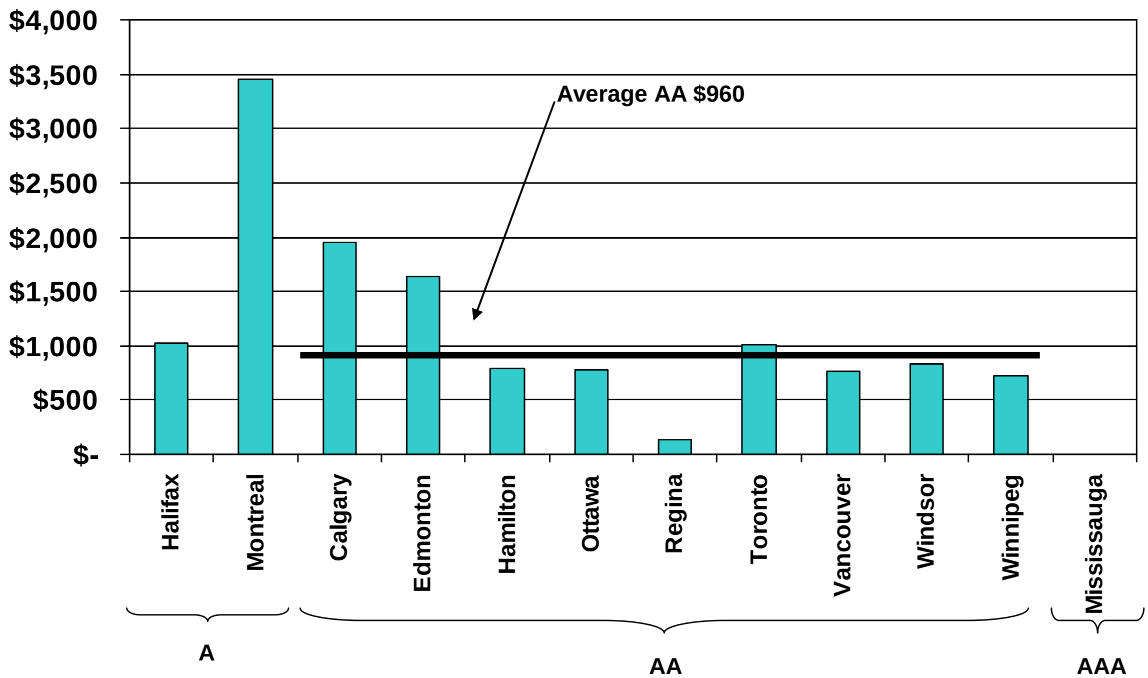
[3] Definition of Debt Service: Interest payments plus the amount of principal repaid during the year, including, the capital component of financial leases and including one-off short-term debt fully repaid during the period. We believe that debt service on a revolving (rollover) credit line would be exaggerated if the full amount of turnover on the revolving line is recorded as repayment. Therefore, repayment under the revolving line should include only the maximum amount drawn under the line during the year, minus debt outstanding under the revolving line at year end. Standard & Poor's | RatingsDirect on the Global Credit Portal | January 5, 2009.

Direct Debt Per Capita. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average debt per capita in 2008 was $960. Winnipeg was below this average at $723.

Direct Debt per Capita 2008

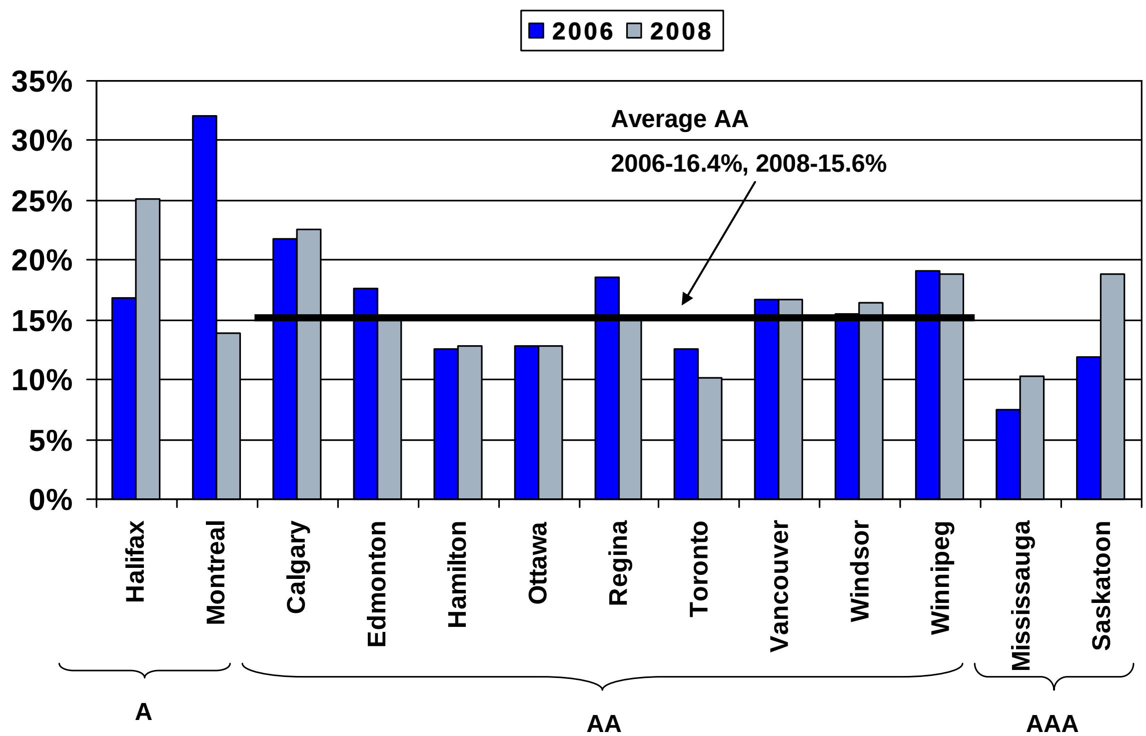


Source: Standard & Poor's, Global Credit Portal, Ratings Direct

Note: 2008 figures not available for Vancouver; 2007 figures used

Operating Balance[4] as a Percent of Operating Revenues. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, the average operating balance as a percent of operating revenues was 15.6% in 2008, which is a measurement of operating performance. Winnipeg had a higher than average operating balance as a percent of operating revenues in 2008 when compared to these other Canadian municipalities. Winnipeg's operating balance as a percent of operating revenues decreased from 19.1% in 2006 to 18.8% in 2008.

Operating Balance as a Percent of Operating Revenues - 2006 and 2008



Source: 2006 Standard & Poor's, Ratings Direct, July 8, 2008 – Canadian Municipalities. Selected Statistics

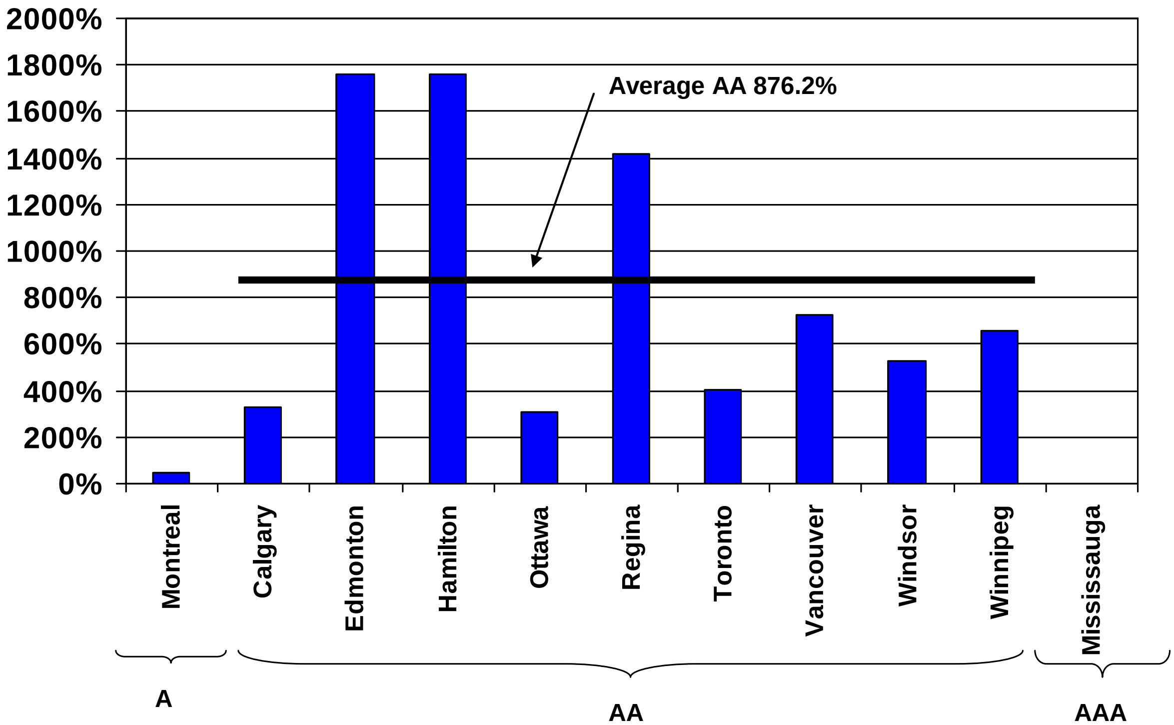
Source: 2008 Standard & Poor's, Global Credit Portal, Ratings Direct

Note: 2008 figures for Vancouver, Calgary, Edmonton, Ottawa & Regina use Three-year averages, using actual results only

[4] Definition of Operating Balance: The difference between operating revenues and operating expenditures; measures an entity's ability to finance investments from recurrent revenues. Standard & Poor's May 21, 2010

Liquid Assets[5] as a Percent of Debt Servicing. Of the following Canadian cities rated by Standard & Poor's in the AA- to AA+ category, the average liquid assets as a percent of debt servicing in 2008 was 876.2%. Winnipeg was lower than average at 656.1%.

Liquid Assets as a Percent of Debt Servicing 2008



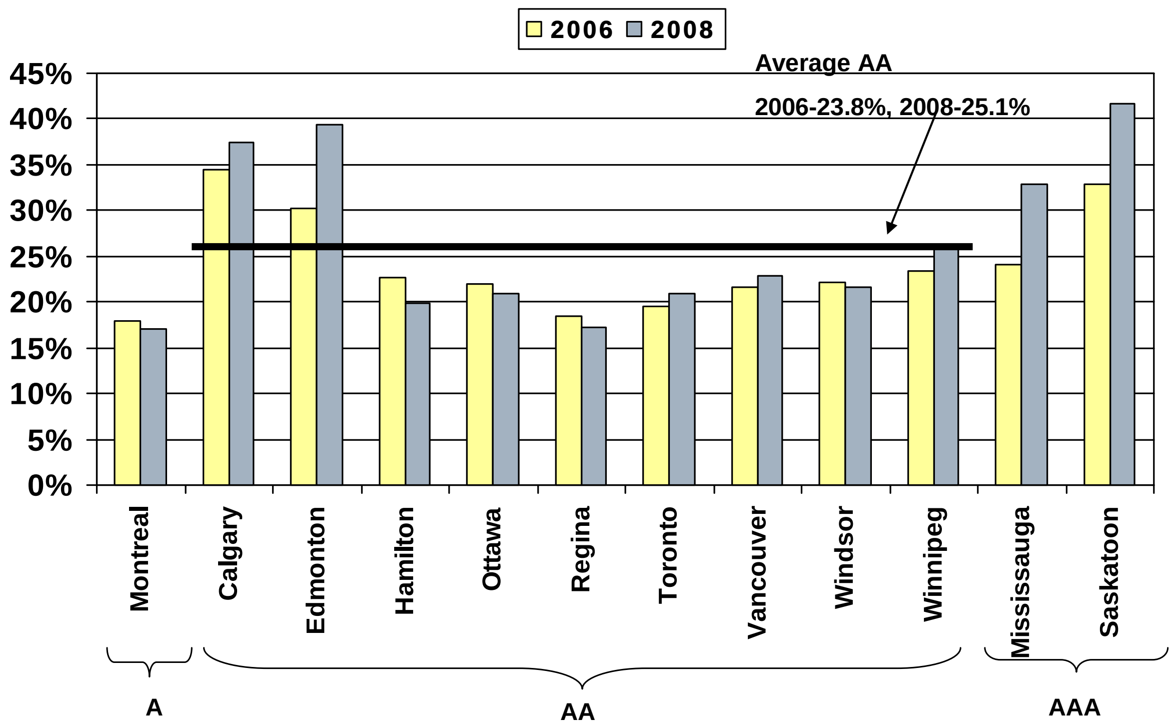
Source: Standard & Poor's, Global Credit Portal, Ratings Direct

Note: 2008 figures not available for Vancouver; 2007 figures used. Mississauga has no debt

[5] Definition of Liquid Assets: Cash and short term investments. Standard & Poor's May 21, 2010

Capital Expenditures[6] as a Percent of Total Expenditure[7]. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, average capital expenditures as a percent of total expenditure in 2008 was 25.1%. Winnipeg was slightly above the average in 2008 when compared to these other Canadian municipalities. Winnipeg's capital expenditures as a percent of total expenditure increased from 23.4% in 2006 to 26.0% in 2008.

Capital Expenditures as a Percent of Total Expenditure – 2006 and 2008



Source: 2006 Standard & Poor's, Ratings Direct, July 8, 2008 – Canadian Municipalities. Selected Statistics

Source: 2008 Standard & Poor's, Global Credit Portal, Ratings Direct

Note: 2008 figures for Vancouver, Calgary, Edmonton, Ottawa & Regina use Three-year averages, using actual results only

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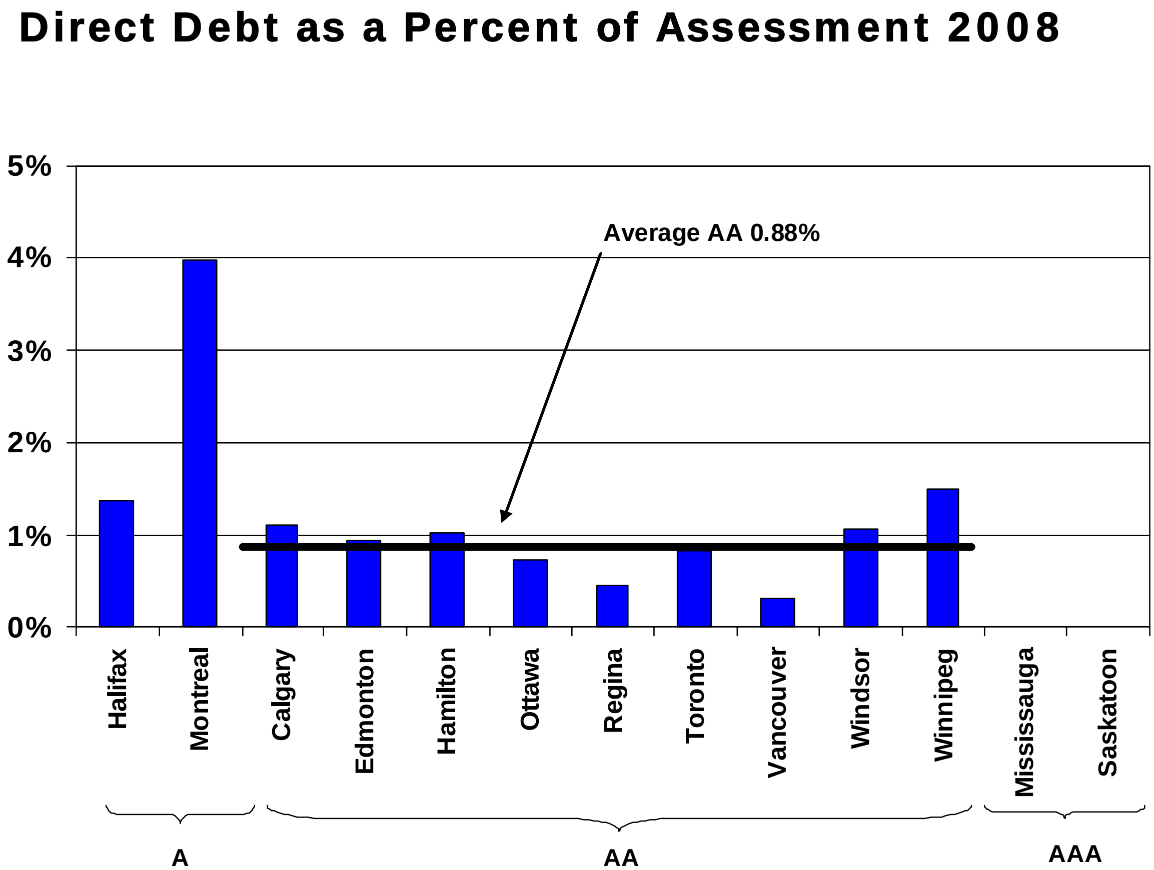
[6] Definition of Capital Expenditures: Expenditures dedicated to create/rehabilitate infrastructure. They usually include durable goods purchase, construction and repair works. Standard & Poor's May 21, 2010

[7] Definition of Total Expenditure: The sum of capital and operating expenditures (which are recurrent expenditures intended for the conduct of day-to-day operations; they usually include personnel spending, goods and services purchase, interest payment on the government's debt). Standard & Poor's May 21, 2010

Direct Debt as a Percent of Assessment 2008. Of the following Canadian municipalities rated by Standard & Poor's in the AA- to AA+ category, direct debt as a percent of assessment in 2008 was 0.88%. Winnipeg was above the average in 2008 when compared to these other Canadian municipalities.



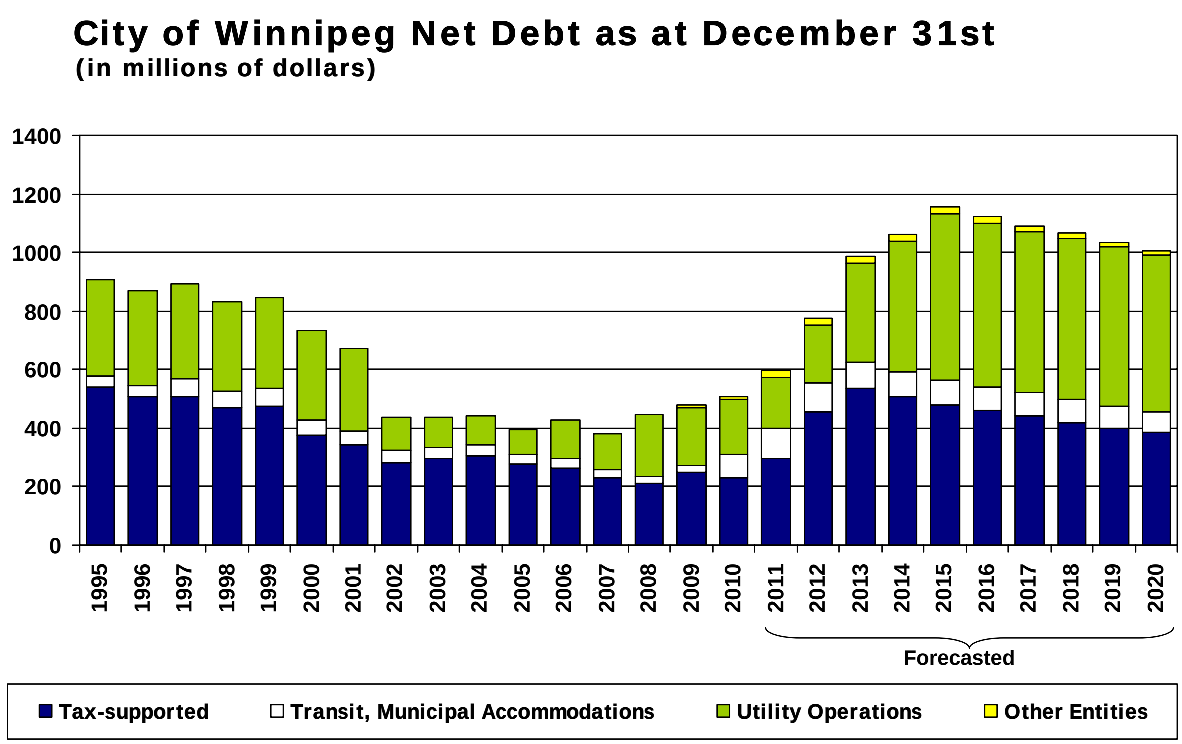
Winnipeg information - debt metrics

The previous graphs were based on consolidated operations. The following several graphs include the City's tax-supported operations (including the Fleet Management Agency), Transit, Civic Accommodations, Facilities Maintenance and utility operations. Other consolidated entities have been included only for 2009 to 2020. Net debt includes P3 obligations.

The City also has several loan guarantees with external organizations that would become the City's responsibility if the external organization defaulted on the loan. As at December 31st, 2009, the amount of these outstanding loans totaled $6.3 million for 15 organizations. In recent memory, there has never been a default by an organization and therefore, loan guarantees have not been included in the debt metrics in this report nor are they included in the financial ratios or recommended limits.

Historical net debt for the City of Winnipeg is presented below in millions of dollars. Please note the decline in tax-supported net debt from $541.1 million in 1995 to $249.5 million in 2009, a reduction of 53.9%. The significant decrease in utility operations debt in 2002 is due to the sale of Winnipeg Hydro.

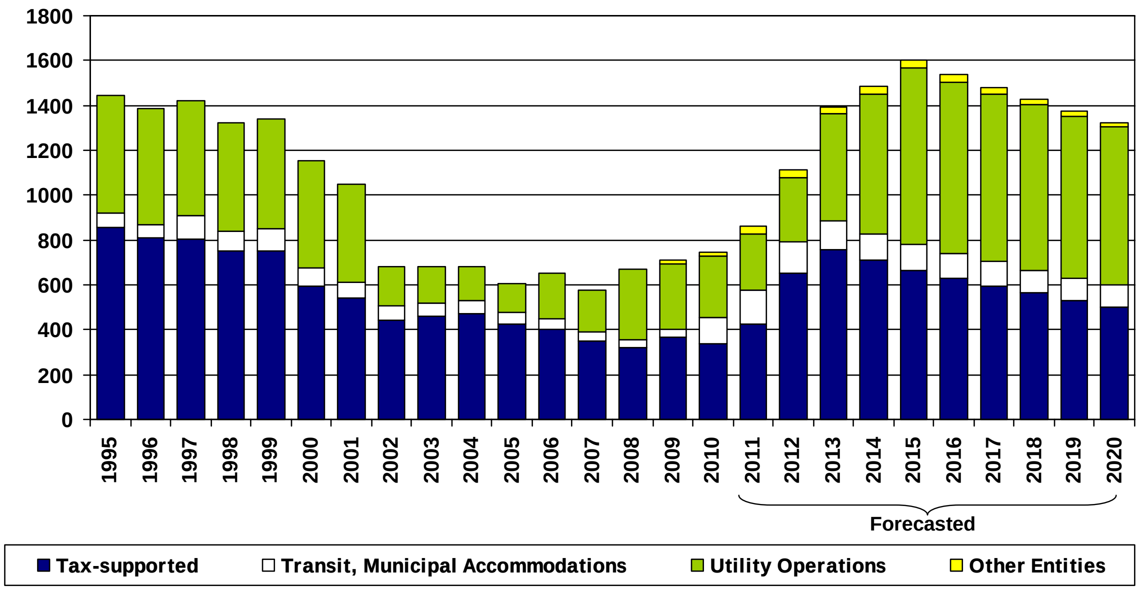
However, forecasted net debt to 2020, which includes planned capital financing for major wastewater upgrades, the approved Southwest Rapid Transit Corridor, Disraeli Bridge and Overpass Facility, Chief Peguis Trail, the newly acquired Canada Post Building, two additional Police District Stations, and renewal of fire stations shows a substantial increase, peaking in 2015 to almost $1.2 billion. New debenture debt has been forecasted over a 30-year period at an interest rate of 6%. Information used to forecast debt is at March, 2011. The recent low interest rate environment provided an opportunity to accelerate capital infrastructure rehabilitation and renewal. No new debt has been included after 2016 as the City only has an approved capital investment plan up to that year. It should be noted that this forecast is an estimate at this time and the forecasted amounts could change as these plans evolve and new initiatives are undertaken.



Historical net debt per capita for the City of Winnipeg is presented below, reflecting the trend noted in the previous graph. Net debt per capita was $710 in 2009, with $370 relating to tax-supported, $31 for transit, municipal accommodations, and facilities maintenance, $294 related to the City's Water and Waste utility operations, with the balance attributable to other entities.

Forecasted net debt per capita to 2020 is also highlighted in the following graph and also reflects the trend noted in the previous graph. At the high point in 2015, net debt per capita is anticipated to peak at $1,603.

City of Winnipeg Net Debt Per Capita as at December 31st



Historical net debt per capita as a percent of personal income is noted below. As noted in the following table, the City of Winnipeg's net debt per capita was 2.4% of personal income in 2006, down from 2.9% in 2002.

City of Winnipeg Net Debt Per Capita as a Percent of Personal Income

	2002	2003	2004	2005	2006
Median total family income	56,200	57,300	59,400	61,600	64,700
Estimated per capita income (based on 2.4 average family size for Winnipeg)	23,417	23,875	24,750	25,667	26,958
Total net debt per capita as a percent of personal income	**2.9%**	**2.8%**	**2.7%**	**2.4%**	**2.4%**

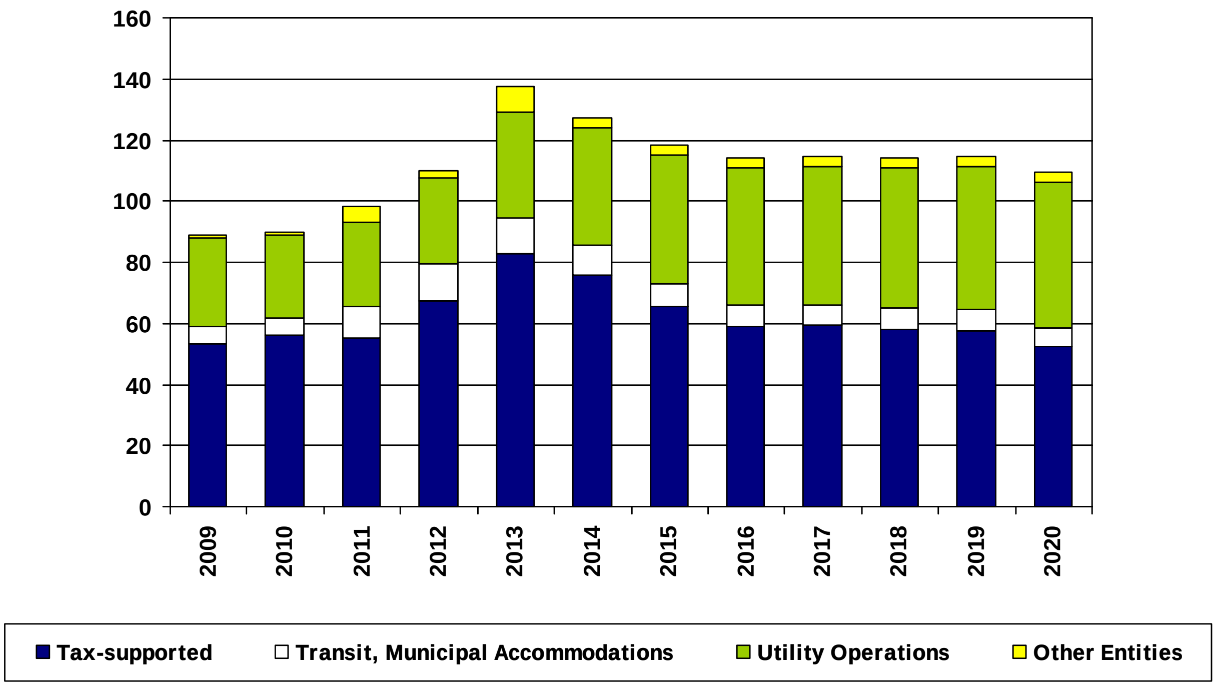
A table outlining the forecasted net debt as a percent of operating revenue follows. Revenue from the tax supported 2011 to 2013 operating budget process has been used as a base with estimated revenue increases thereafter. Similarly, operating budgets and the 10-year rate plan have been used as a base for revenue estimates for self-supporting utilities. Capital grants from other levels of government have also been factored in from the most recent budget information available with inflationary increases in the future.

City of Winnipeg Forecasted Net Debt as a Percent of Forecasted Revenue

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Tax supported and Other Funds	24.3	26.1	33.3	47.3	52.7	48.9	45.7	43.1	40.5	38.0	35.6	33.7
Self supporting utilities	78.0	67.7	56.0	64.2	103.5	132.5	192.4	180.0	170.1	165.4	159.9	154.1
Total City (includes other entities)	34.5	34.3	38.9	51.8	64.2	67.8	74.6	70.6	67.0	64.1	61.1	58.4

The following graph outlines forecasted debt servicing payments.

Forecasted Debt Servicing Costs
(in millions of dollars)



Forecasted debt servicing costs as a percent of forecasted revenue follow. As noted above, no new debt servicing costs have been included after 2016 as the City only has an approved capital investment plan up to that year.

City of Winnipeg Forecasted Debt Servicing Costs as a Percent of Forecasted Revenue

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Tax supported and Other Funds	5.3	5.2	5.5	6.8	8.0	7.1	5.9	5.2	5.2	5.0	4.8	4.3
Self supporting utilities	11.3	9.6	8.7	9.1	10.7	11.4	14.2	14.6	14.0	13.9	13.8	13.7
Total City (including other entities)	6.4	6.1	6.4	7.3	9.0	8.1	7.6	7.2	7.0	6.9	6.8	6.3

Summary:

Credit rating agencies are supportive of long-range planning, as well as debt-limitation ratios as they result in a greater awareness of debt affordability. The Government Finance Officers' Association of the United States and Canada recommends that governments should define specific debt limits or acceptable ranges for debt.

Within the City's current revenue structure, forecasted net debt and debt servicing costs will be approaching the high level of what would be considered acceptable for a municipality with an AA credit rating in the next 6 years. The following table summarizes three key debt ratios as follows:

- Where we are now, that is, what was the ratio at December 31, 2010;
- What is the forecasted peak in this ratio in the next 6 years; and
- What limits are being recommended with respect to these financial ratios.

These proposed limits will provide a framework for future decision-making with respect to new debt authorizations.

Financial Ratios (Debt)	**Where we are now**	**Forecasted Peak**	**Recommended Limits**
Measures of Sustainability:			
Net debt as a percent of revenue:			
Tax-supported and other funds	26.1%	52.7%	60%
Self supporting utilities	67.7%	192.4%	220%
Total City, including other entities	34.3%	74.6%	85%
Measures of Affordability:			
Debt servicing as a percent of revenue:			
Tax-supported and other funds	5.2%	8.0%	10%
Self supporting utilities	9.6%	14.6%	20%
Total City, including other entities	6.1%	9.0%	11%
Debt per capita:			
Tax supported and other funds	$ 452	$ 887	$1,050
Self supporting utilities	$ 277	$ 787	$ 950
Total City, including other entities	$ 744	$1,602	$2,050

Note: These ratios do not forecast new capital projects other than what is currently contemplated.

Recommended ratios for operations funded by general taxation have been set with a modest amount of room for growth from the forecasted peak. Self supporting utilities are generally capital intensive and, therefore, may have higher ratios. These utilities are rate-supported and are not dependent on general taxation. The recommended limits for self supporting utilities will allow some flexibility as the capital program unfolds for major water and sewer projects. It should be noted that the above forecast is an estimate at this time, based on assumptions with respect to revenue and population growth, and debt financing. The forecasted amounts will change as plans evolve and new initiatives are undertaken.

Measure of Flexibility: The City should continue its plan to increase the annual cash to capital contribution to partially finance the capital budget, in order to maintain the necessary capacity and flexibility required for emerging capital needs.

How does new borrowing impact the debt metrics?

A guide to determining how new tax supported borrowing in 2011 would impact the debt metrics (all things being equal) follows:

For every $10 million in new tax-supported debt:	Debt Metrics	
	Total City	Tax Supported & Other Funds
Net debt as a percent of revenue would increase by	0.7 %	0.8%
Debt servicing as a percent of revenue would increase by	0.1%	0.1%
Debt per capita would increase by	$14.47	$14.47
Annual debt servicing costs would increase by	$764,000	$764,000

April 6, 2011