City debt has more than doubled since 2010 to $1.7B

City treasurer says we shouldn't freak out over that huge number

By Joanne Chianello, CBC News

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Since Jim Watson was elected mayor in 2010, the City of Ottawa's total net debt has more than doubled — and is likely to top $1.7 billion by the end of 2016.

The city has issued debt for everything from blue-ribbon projects, like the Lansdowne Park renewal and the LRT expansion, to considerably less sexy infrastructure, like water mains and sewers.

Is Ottawa swimming in too much red ink? Debt-watching institutions don't seem worried. Ottawa is among the least indebted major cities in Canada, according to the Dominion Bond Rating Services.

Moody's Investors Service rates Ottawa's debt as AAA, its highest rating for debt "judged to be of the highest quality, subject to the lowest level of credit risk."

So what does the city do with all that money? And can we afford it? CBC Ottawa sat down with city treasurer Marian Simulik to get an explanation of all things debt.

First things first: How much money do we owe again?

The city ended 2010 with $824 million in net debt (that the's long-term debt, minus money saved up to pay off some of that same debt at certain times), Simulik said.

By the end of this year, we were expecting to borrow $175 million, bringing our long-term tab to a whopping $1.69 billion.

But that total may edge up over $1.7 billion.

Why? Interest rates are lower than the city had projected, so the treasurer's office is now expecting to issue an additional $15 million without paying more to service the debt.

Isn't that a lot of money?

Simulik agrees that $1.69 billion sounds like a big number.

But she puts it this way: "During those six years, the debt increased by $866 million, but at the same time the capital assets that the city either purchased or built in that time was worth $10.4 billion. There was Lansdowne Park. The increase in the roads network. The increase in the sewer network. New libraries. New community centres. The new recreation centres. So not even 10 per cent is funded from debt."

'We say that the amount of debt the city has as a percentage of its assets would be the equivalent of a homeowner who has a $300,000 home having a $26,400 mortgage. It's so small.'- *city treasurer Marian Simulik.*

The treasurer uses an homeowner's analogy to show how reasonable the debt is.

"We say that the amount of debt the city has as a percentage of its assets would be the equivalent of a homeowner who has a $300,000 home having a $26,400 mortgage," says Simulik. "It's so small."

However, a city isn't really like a home. A house might increase in market value over time, but what about roads and sewers and parks? They don't have market values. And most people hope to pay down their debt over the years. The city's has doubled.

"The analogy to homes only works so far," concedes Simulik. "Because eventually as a homeowner, you will pay off your mortgage and you will own your home. At the same time, you get older, your family gets smaller, you may have fewer expenses.

"But our family never gets smaller — it only gets bigger. The city keeps growing, and we need to renew it and we need to replenish it and we need to expand it in order to keep that service standard that taxpayers expect."

Is that how the debt got so big?

Pretty much. Run-of-the-mill city infrastructure is expensive.

But there were some blue-ribbon projects that added substantially to the debt. Refurbishing the stadium and building the "urban park" accounted for $154 million of new debt.

The first phase of LRT will eventually account for $405 million of debt, but so far, only $52 million of that has been issued. In 2012, council approved "Ottawa On the Move," a three-year program that included hundreds of city infrastructure projects — it was funded with $125 million of debt. The combined sewage storage tunnel project will be funded with $69 million of debt, although only $6 million is on the books so far.

How much is this all costing us?

This year, taxpayers shelled out $168 million to service the debt (that's the repayment of principal and interest).

But there are firm limits as to how much the city can borrow. According to provincial legislation, a maximum of 25 per cent of the money the city brings in can go toward servicing the debt. "That's a pretty high cap," says the treasurer, which is why council has set its own limits.

'We don't assume [interest rates will] stay low forever."- *Marian Simulik.*

For tax revenue, it's 7.5 per cent; for "rate" revenue (that's water and sewer fees), it's 15 per cent. But we're not at those limits yet. Right now, 5.7 per-cent of your property taxes go toward serving the debt, while 11.3 per cent of what you pay for water and sewer goes to servicing debt in that area.

Simulik has already warned council that based on current projects for Phase 2 of LRT, "we'd be slightly above 7.5 per cent somewhere around 2027. We'd breach it in that year, and then it'd go down after that."

The treasurer's office is currently updating the long-range financial plan for water and sewer now. I don't think at this point and time that we'll be recommending a change to the 15 per cent, which means we're expecting to stay under it.

What happens if interest rates go up?

The city's debt is issued in large decades-long chunks at a set interest rate. It's not re-negotiated at intervals like a home mortgage. So the treasurer's office knows exactly what it will pay over the coming years. As for future debt, Simulik says the city takes a "conservative view" of where interest rates are going.

"We don't assume they'll stay low forever," she says.

The city uses a 10-year average of interest rates to predict what taxpayers will have to shell out for future debt. And, she adds, interest rates don't usually skyrocket overnight.

"If rates do, for some reason, rise sharply, we will revisit our future plans about what we can afford," she said.

What is debt used for?

By law, municipalities in Ontario cannot borrow for operating costs. So when Ottawa found itself with a whopping $41-million deficit recently, officials had to find money from other sources to cover it. As Simulik bluntly puts it: "You can't borrow to plug your budget."

Maintenance to fix potholes is something that should be paid in cash, says Simulik. 'If it's maintained this year, who's benefiting from it? Today's users of it,' she said. (courtesy of Alex Liculescu)

Cities can only borrow for capital costs, those city assets you can see and feel (at least in theory, as many of us have never seen a sanitary sewer). Simulik says capital should go toward something she calls "intergenerational equity," infrastructure or city assets that will last for many decades and used by future generations.

"A good example is light rail," says Simulik. "Is it fair to ask today's taxpayers to pay for that in cash, while future taxpayers benefit from it? Or is that something you want to issue debt for that generations will pay for over a number of years?"

But Simulik says there are some capital projects that we should pay for in cash.

"I don't think maintenance should be financed from debt. Because if it's maintained this year, who's benefiting from it? Today's users of it."

But the city still does issue debt for renewal, although that's on the wane. In 2016, we spent $32.7 million on road resurfacing and renewal, of which $12.5 million was funded from debt. Simulik says by 2020, road maintenance is likely to cost $40 million, but the debt portion will fall to $8 million.