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# HALDIMAND COUNTY

## Report FIN-06-2019 Debt Issuance - 2019

For Consideration by Council in Committee on May 7, 2019

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### OBJECTIVE:

To obtain Council approval to secure debenture financing for specific projects and to carry out applicable processes to authorize the long term debt issuance.

### RECOMMENDATIONS:

1. THAT Report FIN-06-2019 Debt Issuance – 2019 be received;
2. AND THAT the Borrowing By-law included as Attachment #1 to Report FIN-06-2019 be passed;
3. AND THAT the Treasurer and Mayor be authorized to confirm acceptance of the offer by Infrastructure Ontario;
4. AND THAT the Mayor, Clerk and Treasurer be authorized to execute the documents required to complete the debenture issuance with Infrastructure Ontario, as outlined in Report FIN-06-2019;
5. AND THAT the necessary by-laws authorizing the issuance of a debenture be presented for consideration at the June 24, 2019 Council meeting.

**Prepared by:** Charmaine Corlis, Treasurer

**Respectfully submitted:** Mark Merritt, CPA, CA, General Manager of Financial & Data Services

**Approved:** Donald G. Boyle, Chief Administrative Officer

### EXECUTIVE SUMMARY:

During the annual review of capital budgets (both tax supported and rate supported), certain projects are approved by Council to be funded, in whole or in part, from the issuance of long term debt. The County has the ability to either issue debentures directly in the capital markets, through the County's fiscal agent, or utilize the Provincial agency (Infrastructure Ontario) established to provide infrastructure financing to municipalities.

The purpose of this report is to initiate the process to issue debt on projects that are substantially completed and have a debenture financing funding component. These projects include three Tax Supported capital projects and two Rate Supported capital projects, as detailed in this report.

In total, the County needs to issue approximately \$32.7 million in debt, with the first payment estimated to commence in January, 2020. These debenture payments have been included in the County's long term capital financing plan.

After analyzing both the capital markets and Provincial agency options (detailed below), staff recommend that the debenture issuance for 2019 be completed through Infrastructure Ontario.

## BACKGROUND:

In 2001, the Province created the Ontario Strategic Infrastructure Financing Authority (OSIFA), subsequently Ontario Infrastructure Projects Corporation (OIPC) and currently Ontario Infrastructure and Lands Corporation (IO), to assist municipalities in raising funds through low interest loans for capital projects through a broad scope of services related to infrastructure renewal.

The County's fiscal agent of record is National Bank Financial Inc. (NBF) and our agent is David Berner who is the Managing Director of Fixed Income. As provided in our fiscal agency agreement, although we deal specifically with NBF, they have an affiliation agreement with RBC Dominion Securities Inc. and CIBC World Markets Inc. under which they share any fiscal agent fees equally. As a result, the County receives the best rates available from all three fiscal agents through the affiliation agreement.

This report proposes five (5) specific capital projects to be funded through the issuance of long term debentures, three of which contain a growth related (development charges) portion. Staff have evaluated the various options available to the County to finance these projects and recommend proceeding with the required debenture process as outlined in this report.

## ANALYSIS:

The Ministry of Municipal Affairs and Housing has regulated the level of long term debt that may be incurred by municipalities to be no more than 25% of total own purpose revenue. Haldimand County has taken a more prudent approach and, through capital financing policies, has set the limit at 10%. Adherence to these financial principles, on a long term basis, is reviewed annually during the capital budget process. The proposed amount of new debt outlined in this report is within the County's internal debt limit and as such, is within the Annual Repayment Limits (ARL) established by the Province.

Through both the Tax and Rate Supported Capital Budget deliberations, Council approved the following projects to be financed from debentures:

**Table 1: Proposed Debenture Issuance**

<b><u>Project</u></b>	<b><u>Non-Growth Related</u></b>	<b><u>Growth Related</u></b>	<b><u>Total Debt</u></b>	<b><u>Term</u></b>
<b>Tax Supported Debt</b>				
Cayuga Library	\$1,624,000	\$675,800	\$2,299,800	10
Central Administration Facility	\$19,450,000	\$0	\$19,450,000	20
Conversion of CNR Train Bridge (*)	\$1,160,000	\$0	\$1,160,000	10
<b>Total Tax Supported Debt</b>	<b>\$22,234,000</b>	<b>\$675,800</b>	<b>\$22,909,800</b>	
<b>Rate Supported Debt</b>				
Dunnville WWTP Replacements	\$8,720,000	\$458,950	\$9,178,950	10
Townsend Lagoon Upgrades	\$0	\$562,500	\$562,500	10
<b>Total Rate Supported Debt</b>	<b>\$8,720,000</b>	<b>\$1,021,450</b>	<b>\$9,741,450</b>	
<b>Total 2019 Debt Issuance</b>	<b>\$30,954,000</b>	<b>\$1,697,250</b>	<b>\$32,651,250</b>	

(\*) – future principle and interest payments to be funded from Ward 2 Community Vibrancy payments

As there are various options to be considered in order to issue the required debt, staff have evaluated the following options and present recommendations:

- Debenture Financing Options: Issuing debt through IO or through our fiscal agent directly in the capital markets;
- Debenture Term.

## Debenture Financing Options

The County has two main avenues to consider when determining how to issue debentures: through the County's fiscal agent in the capital markets or IO. Staff have met with representatives from both sources and have summarized a comparison of the overall cost associated with each option. The draft repayment schedules for the above noted terms have been received from both the fiscal agent and IO. The rates indicated below are as at April 25, 2019 for comparison purposes. As these rates are constantly changing, the impacts of any subsequent revisions will need to be re-evaluated up to the point that final debenture repayment schedules are available for inclusion in the Debenture By-law to be approved by Council on June 24<sup>th</sup>.

Notable considerations of the two methods of marketing include:

- No fiscal agent fees associated with IO issuances;
- Market and IO rates will fluctuate over time – it takes longer to finalize the process with IO than with the capital markets issuance; thereby providing more time for rate fluctuations with an IO issuance.

Staff is recommending utilizing IO for the required debt issuance outlined in this report. The basis for this recommendation is summarized as follows:

- There is currently no available market for a 20 year debenture, per our fiscal agent (mainly due to the fact that interest rates are expected to increase in the near future);
- The other options proposed by the fiscal agent add an additional interest rate "risk" component that would likely cause the County to incur higher interest rates than could be currently obtained through IO (for example, a 10 year issuance with a balloon payment of approximately \$11 million that would be subject to a interest rate available at the end of the 10 year term);
- Based on a comparison of current 10 year term rates; IO rates are competitive with market rates and less than 50% of the debenture requirements are proposed to be issued with a 10 year term;
- IO has streamlined their process for applying and issuing debentures, which has reduced the time it takes to receive funds. Some of these efficiencies include:
  - Debentures can now close on any business day: Debenture issuances through IO no longer need to close on the 1<sup>st</sup> or 15<sup>th</sup> of the month (although these days are preferred).
  - When going direct to debenture (i.e. not a construction loan), there is no longer the requirement to complete a financing agreement. The elimination of the financing agreement trims down the time required to complete the review and approval of the application, and ultimately the final settlement date of the debentures.

This is an opportune time to take advantage of low borrowing rates as any interest rate applied to a loan agreement is in place for the entire life of the loan (i.e. fixed rate versus a variable rate loan). Despite the current low interest rate environment, it is important to maintain a prudent approach to long term financing as any debt that is issued will require County revenue sources to repay the interest over the term of the loan. Such impacts are built into the long range capital financing that is approved by Council through the annual capital budget process. Based on these principles, the County has had favourable Credit Rating improvements, primarily based on strong operating performance, liquidity of assets and relatively low debt burdens.

Staff have been monitoring the rates provided by IO in preparation for the debt issuance. Below is a summary of the rates over the last month:

**Table 2: Infrastructure Ontario Rates**

	10 Year Term	20 Year Term
<b><u>Per FIN-06-2019 (as of April 25, 2019)</u></b>	2.56%	2.94%
April 17, 2019	2.70%	3.07%
April 8, 2019	2.61%	2.95%
April 2, 2019	2.66%	3.01%
March 22, 2019	2.61%	2.97%

### **Debenture Term**

The number of years over which the principal will be repaid is based on the term approved by Council. All of the projects recommended for debenture financing contained within this report fall under the 10 year debenture financing term based on the County's previously approved capital financing principles, with the exception of the Central Administration Facility, which falls under the 20 year debenture financing term.

### **Infrastructure Ontario Debenture Process**

The key steps involved in executing the required debenture are outlined below:

**Table 3: Debenture Issuance Process with Infrastructure Ontario**

<b><u>Step</u></b>	<b><u>Timeline</u></b>
Update Council on Debentures to be issued (FIN-06-2019)	May 7, 2019
Passing of Borrowing By-law	May 13, 2019
Final approval of application by IO	June 5, 2019
Interest Rate Offer received and returned to IO	June 17, 2019
Memo to Council outlining final interest rate	June 24, 2019
Council meeting to approve Debenture By-law	June 24, 2019
Legal counsel to contact IO by 10am of closing day	July 2, 2019

## **FINANCIAL/LEGAL IMPLICATIONS:**

Based on the Council meeting schedule, it is anticipated that the final debenture issuance by-laws will be presented at the June 24<sup>th</sup> Council meeting. This would result in an estimated debenture date of July 2<sup>nd</sup>, 2019, with the first principal and interest payment due in January, 2020.

Based on the estimated interest rates of 2.56% for 10 years and 2.94% for 20 years, the debenture issuance proposed in this report would result in an estimated \$2.8 million of annual debt repayment expense being added to the 2020 Tax Supported and Rate Supported Operating Budgets. The growth related component of the debt charges must be funded from Development Charges (estimated at approximately \$193,000 annually).

The non-growth related share equates to approximately \$2,572,000. The applicable principle and interest payments have been budgeted to be funded from the Tax Supported or Rate Supported operations respectively. The one exception is the debt related to the CNR Train Bridge Conversion project (now known as the Grand Vista Trail) which will be funded from Ward 2 Community Vibrancy Funding (CVF). As the CVF fund has borrowed funds from future payments to fund current infrastructure projects, any new substantial projects will need to be funded from debenture proceeds with applicable principle and interest payments to be recovered from future CVF payments.

A summary of the proposed debt is shown below:

**Table 4: Summary of Proposed Debt**

<u>Project</u>		<b>Debt to be Issued</b>	<b>Repayment Terms</b>	<b>Estimated Annual Repayment (average)</b>
Cayuga Library	Non-Growth Related	\$1,624,000	10 years	\$184,254
	Growth Related	\$675,800	10 years	\$76,674
	<b>Total</b>	<b>\$2,299,800</b>	<b>10 years</b>	<b>\$260,928</b>
Central Administration Facility	Non-Growth Related	\$19,450,000	20 years	\$1,265,847
	<b>Total</b>	<b>\$19,450,000</b>	<b>20 years</b>	<b>\$1,265,847</b>
Conversion of CNR Train Bridge (*)	Non-Growth Related	\$1,160,000	10 years	\$131,610
	<b>Total</b>	<b>\$1,160,000</b>	<b>10 years</b>	<b>\$131,610</b>
Dunnville Wastewater Treatment Plant Upgrades	Non-Growth Related	\$8,720,000	10 years	\$989,344
	Growth Related	\$458,950	10 years	\$52,071
	<b>Total</b>	<b>\$9,178,950</b>	<b>10 years</b>	<b>\$1,041,415</b>
Townsend Lagoon Upgrades	Growth Related	\$562,500	10 years	\$63,819
	<b>Total</b>	<b>\$562,500</b>	<b>10 years</b>	<b>\$63,819</b>
<b>Total Impact of New Debt</b>		<b>\$32,651,250</b>	<b>10 years</b>	<b>\$2,763,619</b>

(\*) – future principle and interest payments to be funded from Ward 2 Community Vibrancy payments

## **STAKEHOLDER IMPACTS:**

Not applicable.

## **REPORT IMPACTS:**

Agreement: No

By-law: Yes

Budget Amendment: No

Policy: No

## **ATTACHMENTS:**

1. Draft IO Borrowing By-law