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# HALDIMAND COUNTY

## Report FIN-08-2021 Debt Issuance for 2021

For Consideration by Council in Committee on June 1, 2021

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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-08-2021 Debt Issuance for 2021 be received;
2. AND THAT the Borrowing By-law included as Attachment #1 to Report FIN-08-2021 be presented for enactment;
3. AND THAT the Treasurer and Mayor be authorized to confirm acceptance of the interest rate offered 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-08-2021;
5. AND THAT the necessary by-laws authorizing the issuance of a debenture be presented for consideration at the September 20, 2021 Council meeting.

**Prepared by:** Heather Love, Senior Financial Analyst

**Reviewed by:** Charmaine Corlis, Treasurer

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

**Approved:** Craig Manley, MCIP, RPP, 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 where the tender has been awarded, and they have an approved debenture financing funding component. This approach is new for 2021, as in the past projects were not debt financed until substantially completed. This revised approach eliminates the need for the County to incur carrying costs for debt financed projects as they await substantial completion. The projects in the 2021 debt financing application include one Tax Supported capital project and three Rate Supported capital projects, as detailed in this report. At the time of this report, two of the projects are currently out to tender, but the tenders are anticipated to be awarded by the time this report is presented to Council.

In total, the County needs to issue approximately \$8.3 million in debt, with the first payment estimated to commence in April, 2022. The estimated annual 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 2021 be completed through Infrastructure Ontario. It is anticipated at this time that the anticipated, all in interest rate for a 10-year debenture issuance is 2.01%. This estimated rate is the lowest the County has seen in the last eight years, with historical debt issuances incurring interest rates ranging from 2.07% to 3.36%. Also, the issuance of debt has been planned for in the County's capital budgeted process. The rate utilized in calculated the impact of debentures through this process is 3.00%.

## **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 four (4) specific capital projects to be funded through the issuance of long term debentures, all of which are growth related (development charges). 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>Project</b>	<b>Total Debt</b>	<b>Term</b>
<b>Tax Supported Debt</b>		
Dunnville - Alder Street - Cedar to West - Storm Portion - Growth Related	\$524,140	10
<b>Total Tax Supported Debt</b>	<b>\$524,140</b>	
<b>Rate Supported Debt</b>		
Caledonia Nairne Street Forcemain - Growth Related	\$1,233,500	10
Caledonia WWTP - Aeration Diffuser Head Upgrades - Growth Related	\$591,010	10
Jarvis - Additional Wastewater Treatment Capacity - Growth Related	\$6,000,000	10
<b>Total Rate Supported Debt</b>	<b>\$7,824,510</b>	
<b>Total 2021 Debt Issuance</b>	<b>\$8,348,650</b>	

The projects listed for issuance in 2021 as noted above are projects that have debt financing along with the related tender being awarded. This approach is new for 2021, as in the past projects were not debt financed until substantially completed. This revised approach eliminates the need for the County to incur carrying costs for debt financed projects as they await substantial completion. The projects in the 2021 debt financing application include one Tax Supported capital project and three Rate Supported capital projects, as detailed in this report. At the time of this report, two of the projects are currently out to tender, but the tenders are anticipated to be awarded by the time this report is presented to Council. These projects are the Caledonia Nairne Street Forcemain Rehabilitation and Phase 2 of the Jarvis Additional Wastewater Treatment Capacity project. The debt amount listed for these projects is the maximum amount that can be issued. Should further financing be required for any reason, a further report to Council will be required outlining the funding source recommendations (as the project are all being financed from DC debt, if further debt is required, a subsequent application will need to be put forth).

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 results of the two schedules were very similar, with the cost of borrowing being slightly less through IO, mainly due to the fiscal agent fees associated with a capital market debt issuance. The rates indicated below are as at April 21, 2021 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 September 20<sup>th</sup>. It should be noted that staff have been monitoring, and will continue to monitor, the rates as the debenture process continues. Since the timing of the initial analysis, the IO rate has fluctuated within a couple of basis points.

Notable considerations of the two methods of marketing include:

- No fiscal agent fees associated with IO issuances;
- Legal fees pertaining to the issuance of debt are the same regardless of whether the debt is issued through IO or the capital market;
- 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:

- Based on a comparison of current 10 year term rates; IO rates are competitive with market rates;
- 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 since January, 2021:

**Table 2: Infrastructure Ontario Rates**

	<b>10 Year Term</b>
<b><u>Estimated Rate per FIN-08-2021 (as of April 21, 2021)</u></b>	<b>2.01%</b>
April 1, 2021	2.06%
March 1, 2021	1.97%
February 1, 2021	1.46%
January 1, 2021	1.29%

## 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.

## 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>Step</b>	<b>Timeline (estimate)</b>
Update Council on Debenture to be issued	June 22, 2021
Passing of Borrowing By-law	June 28, 2021
Final approval of application by IO	Summer, 2021
Interest Rate Offer received and returned to IO	September, 2021
Memo to Council outlining final interest rate	September 20, 2021
Council meeting to approve Debenture By-law	September 20, 2021
Legal counsel to contact IO by 10am of closing day	October 1, 2021

## FINANCIAL/LEGAL IMPLICATIONS:

Based on the Council meeting schedule, it is anticipated that the final debenture issuance by-law will be presented at the September 20<sup>th</sup> Council meeting. This would result in an estimated debenture date of October 1<sup>st</sup>, 2021, with the first principal and interest payment due in April, 2022.

Based on the estimated interest rates of 2.01% for 10 years, the debenture issuance proposed in this report would result in an estimated \$923,000 million of annual debt repayment expense being added to the 2022 Tax Supported and Rate Supported Operating Budgets. As all of the debt being brought forward is growth related, these charges must be funded from Development Charges. The actual debt repayment expenses will vary slightly depending on the final debenture rate received.

A summary of the proposed debt is shown below:

**Table 4: Summary of Proposed Debt**

<b>Project</b>	<b>Debt to be Issued</b>	<b>Repayment Terms</b>	<b>Estimated Annual Repayment (average)</b>
Dunnville - Alder Street - Cedar to West - Storm Portion - Growth Related	\$524,140	10 years	\$57,948
Caledonia Nairne Street Forcemain - Growth Related	\$1,233,500	10 years	\$136,373
Caledonia WWTP - Aeration Diffuser Head Upgrades - Growth Related	\$591,010	10 years	\$65,341
Jarvis - Additional Wastewater Treatment Capacity - Growth Related	\$6,000,000	10 years	\$663,346
<b>Total Impact of New Debt</b>	<b>\$8,348,650</b>	<b>10 years</b>	<b>\$923,008</b>

Legal fees associated with the 2021 debt issuance have been budgeted in each of the projects noted above, with funding from the applicable development charges reserve fund.

## STAKEHOLDER IMPACTS:

Not applicable.

## **REPORT IMPACTS:**

Agreement: No

By-law: Yes

Budget Amendment: No

Policy: No

## **ATTACHMENTS:**

1. Draft Borrowing By-law