
HALDIMAND COUNTY

Report FIN-09-2022 Debt Issuance for 2022

For Consideration by Council in Committee on June 21, 2022



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-09-2022 Debt Issuance for 2022 be received;
2. AND THAT the Borrowing By-law included as Attachment #1 to Report FIN-09-2022 be presented for enactment;
3. AND THAT the Treasurer and Mayor be authorized to confirm acceptance of an interest rate offered either by Infrastructure Ontario or through capital markets;
4. AND THAT the Mayor, Clerk and Treasurer be authorized to execute the documents required to complete the debenture issuance, as outlined in Report FIN-09-2022;
5. AND THAT a Delegation By-law be presented for enactment;
6. AND THAT the necessary by-laws authorizing the issuance of a debenture be presented for consideration.

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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. Prior to 2021, projects were not debt financed until substantially completed. This alternative approach benefits the County, as it eliminates the need to incur carrying costs for debt financed projects as they await substantial completion. The 2022 debt financing application includes one Rate Supported capital project, as detailed in this report.

In total, the County needs to issue approximately \$4.5 million in debt, with the first payment estimated to commence in Spring of 2023. The estimated annual debenture payments have been included in the County's long term capital financing plan.

After an initial analysis of both the capital markets and Provincial agency options (detailed below), staff recommend that, while an application for the debenture issuance for 2022 be initiated through Infrastructure Ontario, an interest rate offer not be accepted until further analysis of both IO and capital market rates is completed. It is anticipated at this time that the anticipated all in interest rate for a 10-year debenture issuance is 3.81%, however Bank of Canada interest rates continue to increase, and it is expected that the offered rates will be higher. In addition, the current estimated rate is already the highest the County has seen in the last decade, with the previous high of 3.36% occurring in 2013. Further, this rate is significantly higher than the 2021 issuance at 1.85%, which for contrast, was the lowest the County has seen in the last decade. With the ongoing impacts of increasing inflation, as well as Bank of Canada interest rate increases, debenture interest rates are also expected to increase. Choosing to delay debt issuance on this project may result in an even higher rate in 2023. Staff will continue to monitor the rates available through both IO and the capital market through the summer in order to ensure the optimal avenue for this debt issuance is executed.

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 one specific rate-supported capital project to be funded through the issuance of long term debentures, which happens to be growth related (development charges). Staff have evaluated the various options available to the County to finance this project 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 well within the Annual Repayment Limits (ARL) established by the Province.

Through the 2022 Rate Supported Budget deliberations, Council approved the Caledonia Nairne Street Forcemain capital project, with growth-related debt financing in the amount of \$4,416,500. The tender for this project has been awarded, which eliminates the need for the County to incur carrying costs for this project as it awaits substantial completion. The debt amount listed for this project 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 is 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 been in contact 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 June 1, 2022 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 August 29th. It should be noted that staff have been monitoring, and will continue to monitor, the rates as the debenture process continues.

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.

Based on interest rates received at June 1, 2022, staff is recommending proceeding with an application through IO for the required debt issuance outlined in this report, while continuing to monitor capital market rates. 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 1st or 15th 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.

Considering the current environment of increasing interest rates, 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 2022:

Table 1: Infrastructure Ontario Rates

	10 Year Term
Estimated Rate per FIN-09-2022 (as of June 1, 2022)	3.81%
May 1, 2022	3.72%
April 1, 2022	3.23%
March 1, 2022	2.93%
February 1, 2022	2.22%
January 1, 2022	2.09%

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 2: Debenture Issuance Process with Infrastructure Ontario

Step	Timeline (estimate)
Update Council on Debenture to be issued	June 21, 2022
Passing of Borrowing By-law	June 27, 2022
Final approval of application by IO	July/August 2022
Interest Rate Offer received and returned to IO	August 2022
Memo to Council outlining final interest rate	August 29, 2022
Council meeting to approve Debenture By-law	August 29, 2022
Legal counsel to contact IO by 10am of closing day	September 1, 2022

Capital Markets Debenture Process

While the current analysis shows that a debt issuance through Infrastructure Ontario is slightly more favourable, staff are recommending the continued monitoring of interest rates throughout the application period, in the event that capital market interest rates become more advantageous over time. Should that be the case, any interest rate offer through IO would not be accepted, and staff would proceed with a capital market debenture issuance through National Bank. The key steps involved for that process are outlined below:

Table 3: Debenture Issuance Process through Capital Markets

Step	Timeline (estimate)
Update Council on Debenture to be issued	June 21, 2022
Memo to Council outlining final interest rate	August 29, 2022
Council meeting to approve Debenture By-law	August 29, 2022
Debt Issued (estimated)	September 1, 2022

FINANCIAL/LEGAL IMPLICATIONS:

Based on the Council meeting schedule, it is anticipated that the final debenture issuance by-law will be presented at the August 29th Council meeting. This would result in an estimated debenture date of September 1st, 2022, with the first payment due in the spring of 2023.

Based on the estimated interest rates of 3.81% for 10 years, the debenture issuance proposed in this report would result in an estimated \$530,000 of annual debt repayment expense being added to the 2023 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.

Legal fees associated with the 2022 debt issuance have been budgeted in the Nairne St. Forcemain Replacement project above, with funding from the applicable development charges reserve fund. Given the upcoming election and the possibility of a lame duck, based on the request of our legal representation, this debenture issuance will also include the passing of a by-law to delegate authority to issue the debenture in the fall. This by-law will be presented at the following Council meeting on June 27, 2022 and will only be required if the Council is in lame duck for the August meeting.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: Yes

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Draft Borrowing By-law