



CITY OF HAMILTON
COPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 20, 2016
SUBJECT/REPORT NO:	Authority to Negotiate and Place a Debenture Issue(s) (FCS16048) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Marcin Zukowski (905) 546-2424 Ext. 2162
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That the General Manager, Finance and Corporate Services be authorized to negotiate the terms and placement of a debenture issue(s) in an amount not to exceed \$130 million Canadian currency;
- (b) That the General Manager, Finance and Corporate Services be authorized to engage the services of a fiscal agent(s) and/or Infrastructure Ontario's Loan Program, and outside legal counsel; and enter into all agreements necessary, including Letter(s) of Representation with The Canadian Depository for Securities Ltd., to secure the terms and issuance of a debenture issue(s);
- (c) That a By-Law be passed authorizing the debenture issue(s) negotiated and placed in accordance with recommendation (a) above.

EXECUTIVE SUMMARY

Report FCS16048 is requesting the authority to negotiate the issuance of up to \$130 million in debentures for the purpose of financing approved Capital projects. The City of Hamilton issues debt instruments (debentures), when the need exists and market conditions are right, to attain funds to finance Capital projects in accordance with the City's Debt Management Policy and Lease Financing Policy (Report FCS13074).

With interest rates currently at historically low levels, it is an opportune time to issue debentures, as the City will benefit from the lower borrowing costs.

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The funds will be used to finance \$129.328 million in Capital projects that were approved for debenture financing in 2015 and prior years' tax and rate supported Capital budgets included in Appendix "A" to Report FCS16048. The associated debt financing costs for the planned debenture issue are included in the approved 2016 Tax and Rate Budgets and assume a 15 year term at a borrowing rate of 5.0%. As the City's current borrowing rate for a 15 year serial debenture is approximately 2.76%, the City will realize favourable financing costs compared to budget.

The City of Hamilton's estimated consolidated annual debt financing costs (including City Housing Hamilton) will increase by approximately \$10.7 million to \$64 million and will represent 5.3% of City own source revenues. It is well below the Province of Ontario's guideline for our 2016 annual repayment limit (ARL) of \$251 million.

Council approved a Debt Management Policy and Lease Financing Policy (Report FCS13074) in October 2013, which contains the City-internal goals on debt levels, statutory limits on debt and financial ratios related to debt. Collectively, these financial indicators for the past five years (2010 to 2014), estimates for 2015 and estimates for 2016 are provided in Appendix "B" to Report FCS16048. With issuance of new debt of \$130 million, these financial ratios will generally increase in 2015 and 2016 but remain well within the affordability range and acceptable levels of prudent financial management.

Table 1: Proposed Debt Issue by Program area

<u>Tax Supported</u>	(\$000's)
Parks	1,762
Forestry	2,500
Corporate Facilities	5,147
McMaster Health Campus	3,500
Roads & Bridges	24,387
Waste Management	4,024
Paramedic Services	77
Recreation Facilities	20,506
	<hr/> 61,903
<u>Rate Supported</u>	
Storm	6,304
Water	23,533
Wastewater	37,079
Total Rate Capital	<hr/> 66,916
<u>Rates DC</u>	<hr/> 509
	509
Total	<hr/> <hr/> 129,328

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The City’s Capital Financing Plan takes into account borrowing to finance Capital projects with the associated debt charges included in the Tax Supported Operating Budget and the Rate Supported Water, Wastewater, Storm Water Operating Budget.

Staff will approach the underwriters for the Capital markets and Infrastructure Ontario for the placement of debenture issue(s) up to \$129.328 million for a 15 year term.

The City’s total outstanding debt was \$318 million as of December 31, 2015 for Tax, Rate and DC supported debt. Taking into consideration 2016 debt repayments, the total outstanding debt will be approximately \$405 million at the end of 2016, including the debenture issues of \$129.328 million being authorized in this Report.

Table 2: Outstanding Debt as at December 31, 2015

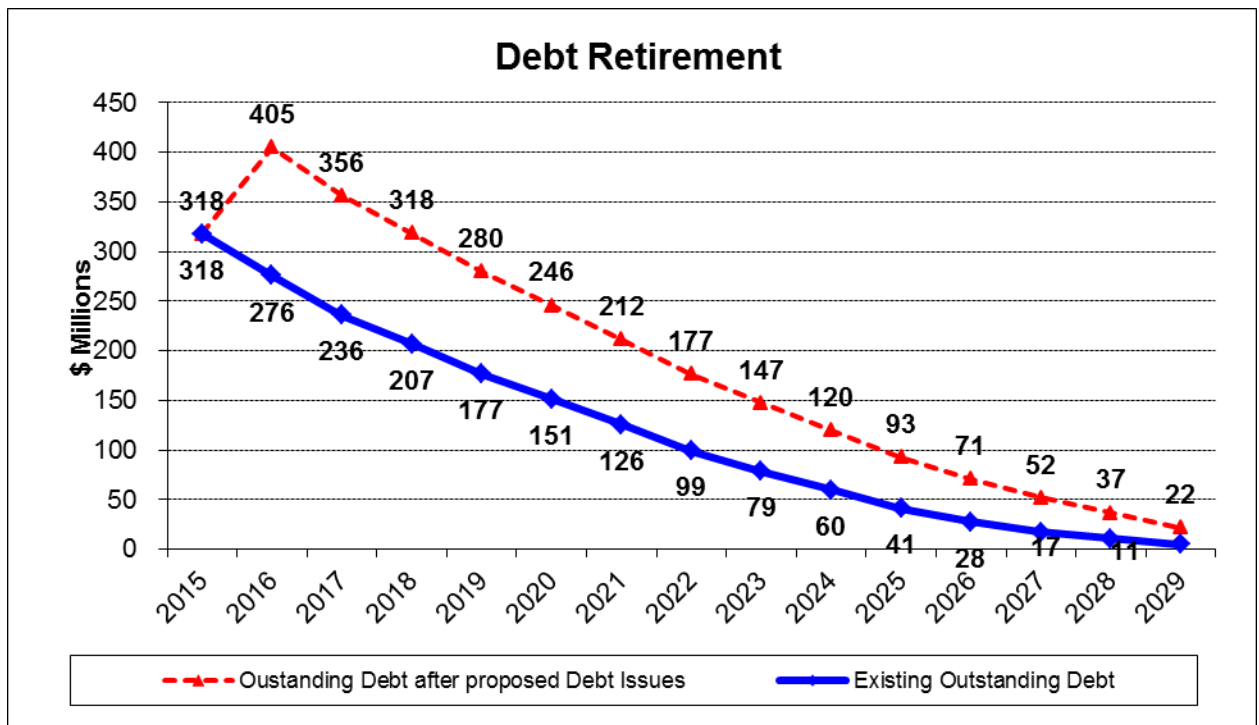
Issue Year	Bylaw	Issue Amount	Term (Years)	Outstanding Debt (\$) Dec. 31, 2015	Maturity Date
2001	01-165	33,959,395	15	\$ 3,249,674	July 19, 2016
2002	02-193	60,000,000	15	11,181,000	July 12, 2017
2004	04-066	50,000,000	15	17,082,000	March 31, 2019
2005	05-230	60,000,000	20	30,000,000	September 1, 2025
	05-341	25,000,000	12	5,090,000	November 30, 2017
2006	06-145	40,000,000	20	22,000,000	July 2, 2026
2007	07-174	35,000,000	15	19,510,000	June 19, 2022
2008	08-120	50,000,000	15	29,336,620	June 3, 2023
2010	10-109 (CMHC)	25,000,000	15	18,119,343	June 1, 2025
	10-195 (FCM)	2,493,420	10	1,296,772	August 30, 2020
2012	12-051 (Infra Ontario)	42,000,000	15	32,200,000	March 1, 2027
	12-094 (Int'l Swaps)	38,000,000	15	30,401,000	May 10, 2027
	12-094 (Int'l Swaps)	14,740,000	5	5,896,000	May 8, 2017
2014	14-110		20	9,500,000	May 8, 2034
2014	14-199		15	83,066,667	July 21, 2029
Total Existing Debt Outstanding				\$ 317,929,076	

Note: City Housing Hamilton Debt is not included in Table 2

The City of Hamilton’s estimated consolidated annual debt financing costs will increase by approximately \$10.7 million to \$64 million and will represent 5.3% of City own source revenues. It is well below the Province of Ontario’s guideline for our annual repayment limit (ARL) of \$251 million.

The City’s total outstanding debt supported from Tax, Rate and Development Charge revenues is projected to increase to \$405 million in 2016 with the proposed debt issue, which is also well below the City’s Debt Policy limit of \$1.296 billion.

The following graph provides the existing debt balances and the projected debt balances from 2016 to 2029.



Staffing: N/A

Legal: Outside legal counsel is required in order to execute the issuance of debentures.

HISTORICAL BACKGROUND

Council approval is required to authorize the issuance of debentures in accordance with the City’s Debt Management Policy and Lease Financing Policy (Report FCS13074). Report FCS16048 requests authorization for the General Manager, Finance and

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Corporate Services to negotiate the terms and issuance of a debenture(s) up to \$130 million to finance Capital projects.

Council has approved proceeds from debt as a source of Capital projects with the approval of the annual tax supported and rate supported Capital Budgets.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Report FCS16048 meets the requirements of the City of Hamilton's Debt Policy, whereby Council authority is required to issue debt.

RELEVANT CONSULTATION

N/A

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Currently, there is approximately \$553.9 million in approved unissued debt, as shown in Table 3. \$134.9 million in unissued Tax Supported Debt required to fund Capital projects approved in 2016 and prior years' Tax Supported Capital Budgets. There is an additional \$207.2 million in budget approved but unissued Rate Supported Debt and \$211.7 million in approved debt to be recovered from Development Charges that was approved in 2016 & prior years' rate supported capital budgets. The proposed debenture issue will be used to fund capital projects on which funds have been expended and, therefore, require funding.

Table 3: Approved unissued Debt by program

Approved Unissued Debt	(\$000's)
<u>Tax Supported</u>	
Roads & Bridges	40,684
Waste	13,460
Health Services	2,506
Airport	2,500
Recreation	23,301
City Hall	3,677
POA Administration Building	7,677
Randle Reef	2,500
Parks / Forestry	9,027
Downtown / Waterfront	18,037
Social Housing	1,500
McMaster Health Center	4,500
Other	5,573
Total Tax Supported	134,942
<u>Rate Supported</u>	
Water	78,292
Wastewater	89,709
Storm	39,253
Total Rate Supported	207,254
<u>DC Supported</u>	
Water	52,248
Wastewater	104,656
Storm	54,790
Total DC Supported	211,694
Total	553,890

Council has approved debt as a source of funding of Capital projects with approval of the annual tax supported and rate supported Capital Budgets. A number of financial ratios are considered and a comparison of some financial ratios to other municipalities is provided during the budget process. In addition, Council approved a Debt Management Policy and Lease Financing Policy (Report FCS13074) in October 2013, which contains the City-internal goals on debt levels, statutory limits on debt and financial ratios related to debt. Collectively, these financial indicators for the past five years (2010 to 2014), estimates for 2015, and estimates for 2016 are provided in Appendix "B" to Report FCS16048. Any debt estimates for 2016 include the issuance of debt of \$130 million included in Report FCS16048.

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The debt related financial indicators include the following items:

I. City-internal Goals on Debt Levels:

1. Total tax and rate-supported debt as a percentage of City Own-Source revenues, not to exceed 60%, unless approved by Council.

The City's debt ratios of 21.0% in 2015 and 28.2% in 2016 are well within the limit.

2. Total Development Charge (DC) supported debt as a percentage of the total DC Eligible Costs for the forecast period of the latest DC Background Study, not to exceed 25%, unless approved by Council.

The City considers the limit of 25% to be an appropriate balance between two competing uses of revenues generated by development charges: i) to sustain and ensure adequate infrastructure (capital), services and resources to support the City's growth plans and (ii) to repay the debt issued for development.

The City's debt ratios of 2.6% in 2015 and 2.3% in 2016 are well within the limit.

II. Statutory Limits:

1. The annual debt and financial obligation limit for the City is calculated in accordance with section 3 of Ontario Regulation 403/02 as amended.

The City's debt service charges as a percentage of City Own Source Revenue of 5.5% in 2015 and 7.4% in 2016 are well within the limit of 25%.

2. Outstanding variable interest rate bank loan agreements and variable interest rate debentures, in total, cannot exceed 15% of the total outstanding debt of the City as set out in Ont. Reg. 276/02 s(2).

The City's debt ratios are below the limit at 11.4% for 2015 and 6.7% for 2016.

III. Financial ratios

With issuance of \$130 million of debt in 2016 as per Report FCS16048, the debt related financial ratios will generally increase but remain well within the affordability range and acceptable levels of prudent financial management.

Appendix "B" to Report FCS16048 provides the results of the following ratios:

- Debt and debt service charges per capita;
- Debt service charges as a percentage of City Own Source Revenue;
- Debt service charges as a percentage of the municipal levy;
- Debt to operating revenues;
- Debt to reserves and reserve funds; and,
- Cash and liquid assets to debt service; cash and liquid assets minus debt.

Table 4 provides a summary of the funding status of the Capital Programs. As indicated in the table, the Tax supported capital programs are in an over-funded position of about \$30.5 million and the Rate capital programs are in an under-funded position of about \$64.2 million as of April 22, 2016. It is proposed that the \$129.3 million debenture issue being authorized in Report FCS16048 be used to fund both Tax and Rate capital projects.

Table 4: Capital Program Funding Status

Revenues Over (Under) Expenditures	
(\$000's)	
Tax Programs	
Roads	8,612
Transit	(16,683)
Parks	7,230
Planning & Ec. Development	29,365
Corporate Services	(19)
Community Services	7,332
Recreation	(6,628)
Corporate Facilities	2,656
Waste	(4,290)
Other	2,898
	30,473
Rate Programs	
Water	(17,742)
Wastewater	(36,410)
Storm	(10,145)
	(64,297)
Total	(33,824)

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.3 Enhance customer service satisfaction.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.1 Engage in a range of inter-governmental relations (IGR) work that will advance partnerships and projects that benefit the City of Hamilton.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS16048 – Projects to be Financed from Debt Issue

Appendix "B" to Report FCS16048 – City of Hamilton Debt Policy Financial Indicators

SB/JS/dkm