



**CITY OF HAMILTON**  
**COPORATE SERVICES DEPARTMENT**  
*Financial Planning, Administration and Policy Division*

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	April 9, 2018
<b>SUBJECT/REPORT NO:</b>	Authority to Negotiate and Place a Debenture Issue(s) (FCS18011) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Marcin Zukowski (905) 546-2424 Ext. 2162
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance and Corporate Services
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That the General Manager, Finance and Corporate Services, be authorized to negotiate the terms and placement of a debenture issue(s), and / or private placement debenture issue(s), in either a public or private market and / or bank loan agreement and debenture issue(s) and / or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$543,881,942 Canadian currency, as attached in Appendix "A" to Report FCS18011, which includes \$148,065,409 in Tax Supported municipal debt, \$39,168,831 in Development Charges Tax Supported municipal debt, \$137,243,479 in Rate Supported municipal debt and \$219,404,223 in Development Charges Rate Supported municipal debt;
- (b) That the General Manager, Finance and Corporate Services, be authorized to negotiate the terms and placement of a debenture issue(s), and / or private placement debenture issue(s) in either a public or private market and / or bank loan agreement and debenture issue(s) and / or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$24,539,000 Canadian currency of CityHousing Hamilton debt, as attached in Appendix "A" to Report FCS18011;
- (c) i) That the General Manager, Finance and Corporate Services, be authorized to engage the services of all required professionals to secure the terms and issuance of the debenture issue(s) described in subsections (a) and (b), including but not limited to: external legal counsel, fiscal agents and Infrastructure Ontario's Loan Program;

- ii) That the General Manager, Finance and Corporate Services, Mayor and City Clerk are each authorized and directed to enter into and / or execute, on behalf of the City of Hamilton, all agreements and necessary ancillary documents requiring their respective signatures to secure the terms and issuance of the debenture issue(s) described in subsections (a), (b) and (c), in a form satisfactory to the City Solicitor;
- (d) That all necessary By-Law(s) be passed to authorize the debenture issue(s) negotiated, placed and secured in accordance with subsections (a), (b) and (c).

## **EXECUTIVE SUMMARY**

During the 2018 Budget process, all of the necessary approvals were received from Council to issue municipal debt up to \$62,584,000 as per Report FCS17099, as amended. During 2017 and 2018, Council approved additional debt to finance capital projects including:

- Council, at its meeting on June 14, 2017, approved General Issues Committee (GIC) Report 17-013 which included debt of \$5,500,000 for the Lister Annex (Report PW17042 / PED17095).
- Council, at its meeting on March 28, 2018, approved GIC Report 18-007 which included all of the necessary approvals to issue debt up to \$35,388,000 for the 50 Main Street East Construction (Provincial Offences Administration Building, Courtrooms and Offices - Report PW18021 / FCS18024).

Moreover, on March 27, 2018, the Board of Directors of CityHousing Hamilton passed resolutions that allow CityHousing Hamilton debt of \$24,539,000 for a Development Strategy to renovate, rebuild and build new social and affordable housing. These resolutions of the Board of Directors will be ratified on April 11, 2018 during the CityHousing Hamilton Shareholder Meeting.

Prior to June 2017, Council approved debt as a source of financing of capital projects in the Tax and Rate Supported Capital budget reports and through in-year reports, but this debt has not been issued in the amount of up to \$543,881,942.

The purpose of Report FCS18011 is to:

- request the authority to negotiate debenture issues of approved and not yet issued municipal debt up to \$543,881,942;
- request the authority to negotiate, secure and guarantee debenture issues, where required, for CityHousing Hamilton debt of \$24,539,000;
- provide Council with an updated Annual Debt Repayment Limit, and
- provide Council with the debt-related financial indicators of the City Debt Management and Lease Financing Policy.

A list of the Capital Projects approved for municipal debt financing and CityHousing Hamilton debt financing is included in Appendix “A” to Report FCS18011. The City of Hamilton issues or secures debt instruments (debentures or loans) 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).

The Provincial Government of Ontario establishes an Annual Repayment Limit representing the maximum amount which a municipality can commit to payments for debt obligations. Before authorizing any capital project or class of work or any increase in expenditure for a previously authorized capital project or class of work that would require a long-term debt or financial obligation, the municipal treasurer shall calculate an updated repayment limit.

The City of Hamilton’s adjusted annual repayment limit (ARL) is \$211,242,811 in annual debt charge which corresponds to total debt of \$2,192,628,145. In comparison, the City’s Debt Policy limit is \$1,296,000,000. The City’s total consolidated municipal and housing corporation outstanding debt as at December 31, 2017 was \$415,917,316 which is far below the two mandated limits.

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 (2012 to 2016), estimates for 2017 and estimates for 2018, are provided in Appendix “B” to this Report FCS18011. The financial indicators assume an estimated \$90,000,000 of new debt will be issued or secured in 2018 and \$140,000,000 in 2020. With new debt issues over several years, these financial ratios will generally increase but remain well within the affordability range and acceptable levels of prudent financial management.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

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

The City’s total consolidated municipal and housing corporation outstanding debt as at December 31, 2017 was \$415,917,316 which is below the statutory limits of \$2,192,628,145 and City of Hamilton debt limit of \$1,296,000,000.

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).

Prior to June 2017, Council approved debt as a source of financing of capital projects in the Tax and Rate Supported Capital budget reports and through in-year reports but this debt has not been issued in the amount of up to \$543,881,942.

During 2017 and 2018, Council approved additional debt to finance capital projects including:

- Council, at its meeting on June 14, 2017, approved GIC Report 17-013 which included debt of \$5,500,000 for the Lister Annex (Report PW17042 / PED17095).
- During the 2018 Budget process, all of the necessary approvals were received from Council to issue debt up to \$62,584,000 as per Report FCS17099, as amended.
- Council, at its meeting on March 28, 2018, approved GIC Report 18-007 which included all of the necessary approvals to issue debt up to \$35,388,000 for the 50 Main Street East Construction (Provincial Offences Administration Building, Courtrooms and Offices - Report PW18021 / FCS18024).

On March 27, 2018, the Board of Directors of CityHousing Hamilton passed resolutions that allow CityHousing Hamilton debt of \$24,539,000 for a Development Strategy to renovate, rebuild and build new social and affordable housing. These resolutions of the Board of Directors will be ratified on April 11, 2018 during the CityHousing Hamilton Shareholder Meeting.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Report FCS18011 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 RECOMMENDATIONS**

Council has approved debt as a source of financing of capital projects in the Tax and Rate Supported Capital budget reports and through in-year reports, but this debt has not been issued in the amount of up to \$543,881,942.

CityHousing Hamilton’s approved, but not yet issued debt, is \$24,539,000.

Recommendations in Report FCS18011 will allow the General Manager, Finance and Corporate Services, to negotiate the terms and issuance of a municipal debenture(s) up to \$543,881,942 and CityHousing Hamilton a debenture(s) up to \$24,539,000 over several years to finance Capital projects listed in Appendix “A” to Report FCS18011.

Figure 1 provides a summary of these projects.

**Figure 1: City of Hamilton Municipal and City Housing  
Hamilton Approved Unissued Debt**

Tax Supported Municipal Debt	\$148,065,409
Tax Supported Municipal DC Debt	<u>39,168,831</u>
Total Tax Supported Debt	187,234,240
Rate Supported Municipal Debt	137,243,479
Rate Supported Municipal DC Debt	<u>219,404,223</u>
Total Rate Supported Debt	356,647,702
Total Municipal Debt	\$543,881,942
CityHousing Hamilton Debt	\$24,539,000

The City’s total consolidated municipal and housing corporation outstanding debt as at December 31, 2017 was \$415,917,316 with municipal debt of \$355,657,908 and housing corporation debt of \$60,259,408.

Figure 2 shows the details of the outstanding municipal debt.

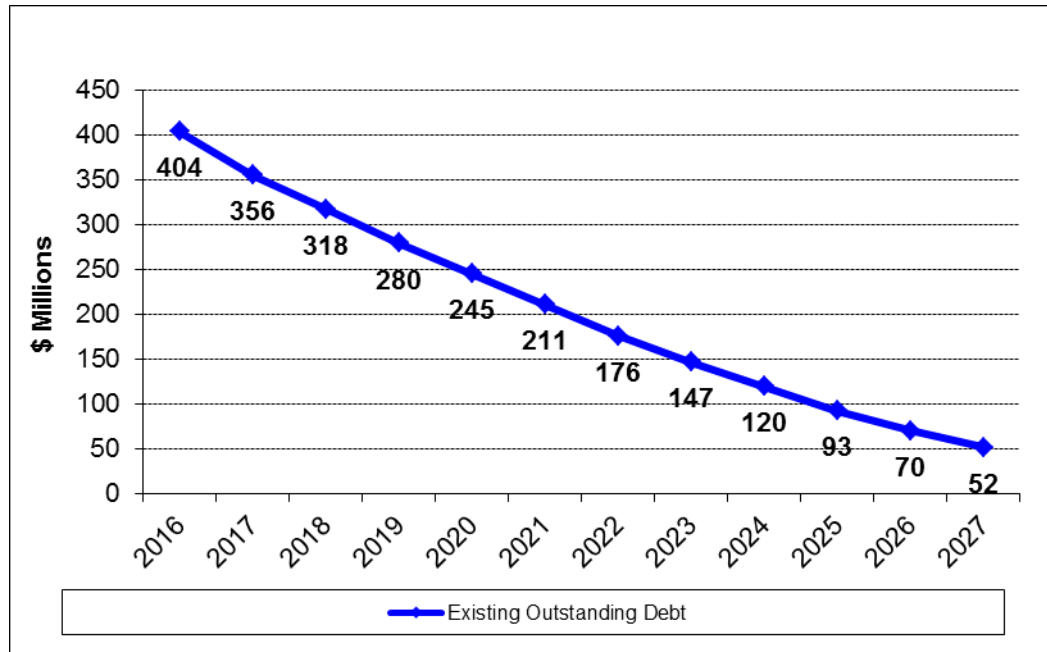
**Figure 2: City of Hamilton Outstanding Municipal Debt  
as at December 31, 2017**

Issue Year	Bylaw	Issue Amount (\$)	Term (Years)	Outstanding	
				Debt (\$) Dec. 31, 2017	Maturity Date
2004	04-066	50,000,000	15	8,958,000	March 31, 2019
2005	05-230	60,000,000	20	24,000,000	September 1, 2025
2006	06-145	40,000,000	20	18,000,000	July 2, 2026
2007	07-174	35,000,000	15	14,598,000	June 19, 2022
2008	08-120	50,000,000	15	22,489,524	June 3, 2023
2010	10-109 (CMHC)	25,000,000	15	14,999,546	June 1, 2025
	10-195 (FCM)	2,493,420	10	790,506	August 30, 2020
2012	12-051 (Infra Ontario)	42,000,000	15	26,600,000	March 1, 2027
	12-094 (Int'l Swaps)	38,000,000	15	25,335,000	May 10, 2027
2014	14-110	9,166,667	20	8,833,333	May 8, 2034
2014	14-199	77,133,333	15	71,199,999	July 21, 2029
2016	16-277 OILC	128,415,000	15	119,854,000	Oct 17, 2031
<b>Total Existing Debt Outstanding</b>				<b>\$ 355,657,908</b>	

Note: City Housing Hamilton consolidated outstanding debt (mortgages and loans) as at December 31, 2017 of \$60,259,408 and unconsolidated debenture debt of \$14,035,635 is not included in Figure 2.

Figure 3 shows the City of Hamilton existing municipal debt as it retires over the next ten years.

**Figure 3: City of Hamilton Municipal Debt Retirement**



The Provincial Government of Ontario establishes an Annual Repayment Limit representing the maximum amount which a municipality can commit to payments for debt obligations. Before authorizing any capital project or class of work or any increase in expenditure for a previously authorized capital project or class of work that would require a long-term debt or financial obligation, the municipal treasurer shall calculate an updated limit.

After adding the approved debt, the City of Hamilton's adjusted annual repayment limit (ARL) is \$211,242,811 in annual debt charge which corresponds to total debt of \$2,192,628,145. In comparison, the City's Debt Policy limit is \$1,296,000,000. The City's total consolidated municipal and housing corporation outstanding debt as at December 31, 2017 was \$415,917,316 which is far below the two mandated limits.

The City of Hamilton's Updated ARL is attached as Appendix "C" to Report FCS18011.

When new debt is being considered, a number of financial ratios are calculated and a comparison of some financial ratios to other municipalities is provided during the budget process. The City-internal goals on debt levels, statutory limits on debt and financial ratios related to debt were approved by Council at its meeting in October 2013 in the Debt Management Policy and Lease Financing Policy (Report FCS13074). Collectively, these financial indicators for the past five years (2012 to 2016), estimates for 2017 and estimates for 2018, are provided in Appendix "B" to Report FCS18011. The financial indicators assume estimated new debt of \$90,000,000 in 2018 and \$140,000,000 in 2020.

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*OUR Vision: To be the best place to raise a child and age successfully.*

*OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.*

*OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.*

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 for 26.7% in 2016, estimated 23% in 2017 and forecasted 23.5% for 2018 are well within the limit of 60%.
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 2.3% in 2016 and estimated 2% in 2017 and forecasted 3.7% for 2018 are well within the limit of 25%

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 4.7% in 2016 and estimated 6% in 2017 and forecasted 4.1% for 2018 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 6.5% and estimated 6.2% in 2017 and forecasted 5% for 2018 are well within the limit of 15%.

III. Financial Ratios

The debt related financial ratios will remain well within the affordability range and acceptable levels of prudent financial management. Appendix "B" to Report FCS18011 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.

## **ALTERNATIVES FOR CONSIDERATION**

N/A

## **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

### **Community Engagement and Participation**

*Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.*

### **Economic Prosperity and Growth**

*Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.*

### **Clean and Green**

*Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.*

### **Built Environment and Infrastructure**

*Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.*

### **Culture and Diversity**

*Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.*

### **Our People and Performance**

*Hamiltonians have a high level of trust and confidence in their City government.*

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” – City of Hamilton Municipal and CityHousing Hamilton Approved Projects Funded from Debt

Appendix “B” – City of Hamilton Debt Policy: Financial Measures, Goals and Statutory Limits

Appendix “C” – City of Hamilton Treasurer's Updated 2018 Annual Repayment Limit

MZ/dt