



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 17, 2018
SUBJECT/REPORT NO:	\$110,820,000 Serial Debentures Dated October 1, 2018 and Due October 1, 2019 to 2033 (FCS18095) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Rosaria Morelli (905) 546-2424 Ext. 1390
SUBMITTED BY:	Brian McMullen Acting General Manager Finance and Corporate Services Corporate Services Department
SIGNATURE:	

Council Direction:

Not Applicable

Information:

Pursuant to the following Council resolutions on October 1, 2018, the City of Hamilton issued, in the public market, one to 15-year serial debentures in the principal amount of \$110,820,000 (the “Debentures”). On September 26, 2018, the Debentures were given effect when Council enacted By-Law No. 18-286 to authorize the Debentures.

The City issued the Debentures for the purposes of paying part of the cost of previously authorized capital works (the “Capital Works”) described in Schedule “A” to By-Law No. 18-286, attached as Appendix “A” to Report FCS18095.

At an average net borrowing cost of 3.317% per annum, interest payments over the 15-year term total \$28,477,046. The capital financing costs of the Debentures (principal and interest) are included in the City’s operating budget with recoveries from development charges, where applicable. Any capital financing surplus will be reported to Council through operating budget variance reports.

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.

Council Resolutions

Item 7 of Audit, Finance and Administration Committee Report 18-004, respecting Report FCS18011 – Authority to Negotiate and Place a Debenture Issue(s), approved by City Council by enacting By-Law No. 18-099 at its meeting held on April 11, 2018.

Item 15 of General Issues Committee Report 18-007, respecting PW18021 / FCS18024 – 50 Main Street East Finance Update, approved by City Council by enacting By-Law No. 18-080 at its meeting held on March 28, 2018.

Item 7.2, A Motion, approved by City Council by enacting By-Law No. 18-273 at its meeting held on September 12, 2018.

Highlights

The City's average net borrowing cost for the Debentures is at an interest rate of 3.317% per annum, including dealer commission costs, for a 15-year term. Settlement of the Debentures took place on October 1, 2018.

The Debentures mature in equal amounts of principal (\$7,388,000) on October 1 in each of the years 2019 to 2033 and bear interest payable semi-annually commencing on April 1, 2019, as set out in Schedule "B" to By-Law No. 18-286, attached as Appendix "B" to Report FCS18095. To be paid by the City, the total annual payment of principal and interest associated with the Debentures is \$10,756,928 in 2019 and is \$9,286,470 on average in the years 2019 to 2033.

This issue of serial debentures marks the City's first return to the public market for its long-term borrowing since 2008. It also marks the City's first debenture issue since June 16, 2017 when the City's credit rating was raised from AA to AA+ by S&P Global Ratings. A testament to the positive interest from investors in this City of Hamilton issue of serial debentures, the Debentures represent the largest municipal issue of serial debentures in the Canadian public market, surpassing Region of Waterloo's \$105 M serial debenture, issued in 2016.

History of Borrowing Requirement and Authorities

By mid-year in 2018, after consultation with the Mayor and Senior Leadership Team, the Acting General Manager of Finance and Corporate Services deemed it necessary to carry out the City's requirement for long-term borrowing for 2018 in the amount of:

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- \$81,480,452.96 to finance part of the costs of the substantially completed Capital Works excluding 50 Main Street East or the court rooms and offices of the Provincial Offences Administration Building (“POA Building”); and
- \$29,339,547.04 to finance part of the costs of POA Building, also substantially completed.

This borrowing would be undertaken by way of the City issuing a potential debenture in the principal amount of \$110,820,000 in accordance with the authorities found as parts of the aforementioned Council Resolutions in this Report FCS18095. These specific authorities are rephrased in this Report FCS18095 as follows:

Subject to the restriction for a debenture issue(s) in an amount not to exceed \$543,881,942 for capital works attached in Appendix “A” to Report FCS18011; and not to exceed \$35,388,000 related to POA Building included in Report PW18021 / FCS18024,

- Council empowers the General Manager of Finance and Corporate Services to negotiate the terms and placement of a debenture issue(s), as well as to engage the services of all required professionals such as legal counsel, fiscal agents and Infrastructure Ontario Loan Program to implement the debenture issue(s);
- Council empowers the General Manager of Finance and Corporate Services, the Mayor and City Clerk to enter into and sign City-Solicitor approved agreements and/or documents necessary to implement the debenture issue(s); and
- Council approves that a by-law be passed to authorize the debenture issue(s), negotiated and placed.

Significantly, the Capital Works excluding POA Building were included in the capital works attached in Appendix “A” to Report FCS18011.

Preparation

Prior to and during the month of August 2018, staff closely monitored the indicative interest rates of the permitted structures and sources of financing for the potential debenture. Under the City’s debt policy (Report FCS13074) and the *Municipal Act, 2001*, debentures may be issued in the public market, through Infrastructure Ontario’s Loan Program and by way of bank loans from prescribed financial institutions. Based on their findings, staff recommended that the City access the public market for the potential debenture to achieve the lowest net borrowing cost.

Subsequently, the Acting General Manager of Finance and Corporate Services engaged the City's Fiscal Agent, CIBC World Markets Inc. and RBC Dominion Securities Inc. The City's Fiscal Agent provided advice, including advice on timing, on the issuance of the potential debenture and acted as lead to the investment brokers who purchased the City of Hamilton debentures and offered them to investors.

Pricing of the Debentures

With the advice of the City's Fiscal Agent, the potential debenture issue was timed for mid-September to precede any actions by the Bank of Canada at its meeting on October 24, 2018 and to follow the period in early September when some heavy, competing provincial and municipal issuance was expected. This timing was in advance of Council's final meeting on September 26, 2018 and accommodated the necessary time to prepare the debenture by-law that would be enacted by Council at its meeting.

On September 17, 2018, the Acting General Manager of Finance and Corporate Services on behalf of the City executed the Fiscal Agent's Purchase Letter securing the final terms and pricing of the potential debenture issue (i.e. now the "Debentures"). The Debentures were subsequently sold by the Fiscal Agent to investors (or buyers). There were 10 high quality buyers, comprised of insurance companies (40%), asset managers (44%) and government sinking funds (16%) and located in Quebec (63%), Manitoba (21%), U.S. (11%) and Ontario (5%).

Indicative Borrowing Rates for Other Permitted Structures and Sources of Financing

The Debentures achieved the lowest net borrowing cost at an average interest rate of 3.317% per annum for a 15-year term relative to other structures and sources of financing permitted under the City's debt policy and *Municipal Act, 2001*. The indicative borrowing rates of interest for these other structures and sources of financing, as at September 17, 2018, are shown in Table 1, below:

Table 1
Indicative Borrowing Rates
Other Permitted Structures and Sources of Financing
as at September 17, 2018

Source	Structure	Indicative Borrowing Rate
Public market	Bullet	3.45%
Public market	Amortizer	3.57%
Infrastructure Ontario	Amortizer	3.40%
Infrastructure Ontario	Serial	3.38%
Bank Loan	Variable Rate	3.33% (swapped)

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On October 24, 2018, the Bank of Canada increased the overnight rate from 1.50% to 1.75%, the third interest rate increase this year (2018) and fifth interest rate increase since the Bank of Canada began raising rates in 2017 and is expected to raise interest rates by 0.25% three more times in 2019.

Appendices and Schedules Attached

Appendix “A” – Schedule “A” to By-Law No. 18-286

Appendix “B” – Schedule “B” to By-Law No. 18-286

RM/dt