



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

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	August 15, 2019
<b>SUBJECT/REPORT NO:</b>	Authority to Negotiate and Place a Debenture Issue(s) for CityHousing Hamilton Corporation (CHH) Projects (FCS19068) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Marcin Zukowski (905) 546-2424 Ext. 2162 Brian McMullen (905) 546-2424 Ext 4549
<b>SUBMITTED BY:</b>  <b>SIGNATURE:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

**Discussion of this Confidential Appendix “A” to this Report in Closed Session is subject to the following requirement(s) of the City of Hamilton’s Procedural By-law and the *Ontario Municipal Act, 2001*:**

- a proposed or pending acquisition or disposition of land for City purposes; and,
- a trade secret or scientific, technical, commercial, financial or labour relations information, supplied in confidence to the municipality or local board, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

**RECOMMENDATION(S)**

- (a) That the General Manager, Finance and Corporate Services, be authorized to enter into and execute any necessary agreements, including any agreements with Infrastructure Ontario’s Loan Program, to secure the capital funding required for CityHousing Hamilton Corporation (CHH) projects as attached in Appendix “A” to Report FCS19068;

- (b) That the General Manager, Finance and Corporate Services, be authorized and directed to enter into and execute any necessary agreements to engage the services of all required persons, agencies and companies to negotiate and confirm the terms and issuance of all necessary debenture issue(s) including, but not limited to, external legal counsel, fiscal agents and financial professionals, to secure the capital funding required for CityHousing Hamilton Corporation (CHH) projects as attached in Appendix “A” to Report FCS19068;
- (c) That the General Manager, Finance and Corporate Services, be authorized to negotiate and confirm the terms and placement of all debenture issue(s), and / or private placement debenture issue(s), in either a public or private market and / or bank loan agreements and debenture issue(s) and / or variable interest rate bank loan agreements and debenture issue(s), in an amount not to exceed \$24,741,020 Canadian currency of CityHousing Hamilton for projects as attached in Appendix “A” to Report FCS19068;
- (d) That the Mayor and City Clerk be authorized and directed to enter into and / or execute, on behalf of the City of Hamilton, all agreements and necessary ancillary documents required for CityHousing Hamilton Corporation (CHH) projects as attached in Appendix “A” to Report FCS19068 including those required to secure and confirm the terms and issuance of any required debenture issue(s), with content acceptable to the General Manager, Finance and Corporate Services, and in a form satisfactory to the City Solicitor;
- (e) That staff be directed to prepare all necessary By-Law(s) to authorize and implement CityHousing Hamilton Corporation (CHH) projects as attached in Appendix “A” to Report FCS19068 including those By-laws necessary to negotiate, place and secure all required capital funding;
- (f) That confidential Appendix “A” to Report FCS19068, respecting Authority to Negotiate and Place a Debenture Issue(s) for CityHousing Hamilton Corporation (CHH) Projects, remain confidential and not be released as a public document until the completion of the negotiation of the construction contracts and the completion of the purchase and sale agreement for projects as attached in Appendix “A” to Report FCS19068.

## **EXECUTIVE SUMMARY**

The Board of Directors of CityHousing Hamilton Corporation (CHH) have passed resolutions for debt financing of \$24,741,020 for CityHousing Hamilton Corporation (CHH) projects as attached in Appendix “A” to Report FCS19068 as follows:

- CHH Board meeting of June 10, 2019 through Confidential report CHH Report #17029(d) respecting Roxborough Park Development Project
- CHH Board meeting of July 18, 2019 through Confidential report CHH Report #18012(c) respecting 500 MacNab Tower Renewal Update

The purpose of Report FCS19068 is to:

- request the authority to negotiate, secure and guarantee debenture issues, where required, for CHH debt of \$24,741,020;
- provide Council with an updated Annual Debt Repayment Limit as required by Ontario Regulation 403/02 of the *Municipal Act*, and
- provide Council with the debt-related financial indicators of the City Debt Management and Lease Financing Policy.

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 (ARL) 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.

Since the last Annual Repayment Limit (ARL) update, adjustments have been made to the City of Hamilton's debt including debt maturity and annual debt payments. The City's adjusted ARL is \$220,254,135 in annual debt charge which corresponds to total debt of \$2,286,162,606. In comparison, the City's Debt Policy limit is \$1,376,882,730. The City's total consolidated municipal and housing corporation outstanding debt as at December 31, 2018 was \$484,891,359 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 (2014 to 2018) and estimates for 2019 are provided in Appendix "C" to Report FCS19068. 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 (CHH) outstanding debt as at December 31, 2018 was \$484,891,359 which is below the statutory limits of \$2,286,162,606 and City of Hamilton debt limit of \$1,376,882,730.

Negotiating, securing and guaranteeing debenture issues, where required, for CHH debt of \$24,741,020 does not impact the City's Tax Supported or Rate Supported Operating Budgets as the debt and related debt servicing costs will be reported by CHH. Financial details on CHH's development strategy were approved at the CHH Board meeting of June 10, 2019 (confidential report CHH Report #17029(d)) and CHH Board meeting of July 18, 2019 (confidential report CHH Report #18012(c)).

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).

On March 27, 2018, the Board of Directors of CHH passed resolutions through confidential Report #17021(b) requesting CHH debt of \$24,539,000 for a Development Strategy to renovate, rebuild and build new social and affordable housing.

On April 11, 2018, Council approved CHH debt of \$24,539,000 through Report FCS18011 respecting Authority to Negotiate and Place a Debenture(s) in Audit, Finance and Administration Committee Report 18-004 which included debt for the following locations:

- \$9,750,000 500 MacNab
- \$8,533,000 Bay-Cannon
- \$1,656,000 Wellington-King William
- \$4,600,000 Macassa

On June 10, 2019, the Board of Directors of CHH passed resolutions through Confidential Report#17029(d), as an update to Report #17029(c), respecting Roxborough Park Development Opportunity.

On July 18, 2019, the Board of Directors of CHH passed resolutions through confidential Report #18012(c) respecting 500 MacNab Tower Renewal Update.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Report FCS19068 meets the requirements of the City of Hamilton's Debt Policy, whereby Council authority is required to issue debt.

## **RELEVANT CONSULTATION**

Legal and Risk Management Services Division, Corporate Services Department

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

The Recommendations in Report FCS19068 will allow the General Manager, Finance and Corporate Services, to negotiate the terms and issuance of a debenture(s) up to \$24,741,020 over several years to finance CityHousing Hamilton Corporation (CHH) projects as attached in Appendix "A" to Report FCS19068.

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.

Since the last Annual Repayment Limit (ARL) update, adjustments have been made to the City of Hamilton's debt including debt maturity and annual debt payments. The City's adjusted ARL is \$220,254,135 in annual debt charge which corresponds to total debt of \$2,286,162,606. In comparison, the City's Debt Policy limit is \$1,376,882,730. The City's total consolidated municipal and housing corporation outstanding debt as at December 31, 2018 was \$484,891,359 which is far below the two mandated limits.

The City of Hamilton's updated ARL is attached as Appendix "B" to Report FCS19068.

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 (2014 to 2018) and estimates for 2019 are provided in Appendix "C" to Report FCS19068.

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 23.2% in 2017, 29.4% in 2018 and forecasted 24.4% for 2019 are well within the limit of 60%.

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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.

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% in 2017, 1.4% in 2018 and forecasted 1.1% for 2019 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 5.1% in 2017, 4.2% in 2018 and forecasted 4.8% for 2019 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 6.1% in 2017, 4.7% in 2018 and forecasted 4.7% for 2019 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 FCS19068 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**

### **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.

### **Our People and Performance**

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

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS19068 – CityHousing Hamilton Projects Recommended for Debt Financing

Appendix “B” to Report FCS19068 – City of Hamilton Treasurer's Updated 2019 Annual Repayment Limit

Appendix “C” to Report FCS19068 – City of Hamilton Debt Policy: Ratios

MZ/dt