



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 10, 2020
SUBJECT/REPORT NO:	\$51,705,000 Serial Debentures Dated November 3, 2020 and Maturing November 3, 2021 to 2035 (FCS20100) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not Applicable.

INFORMATION

Pursuant to the following Council resolutions, on November 3, 2020 the City of Hamilton issued, in the public bond market, one to 15-year serial debentures in the principal amount of \$51,705,000 (hereinafter called the "Debentures"). On October 28, 2020, the Debentures were given effect when Council enacted By-law No. 20-232 to authorize the Debentures.

The City issued the Debentures for the purposes of paying part of the cost of previously authorized capital works (hereinafter called the "Capital Works") described in Schedule "A" to By-law No. 20-232, attached as Appendix "A" to Report FCS20100.

At an average net borrowing cost of 1.627% per annum, interest payments over the 15-year term total \$6,375,227. 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 12 of General Issues Committee Report 17-022, respecting Report FCS17099, “2018 Tax Supported Capital Budget”, approved by City Council by enacting By-law No. 17-284 at its meeting held on December 8, 2017.

Highlights

The City’s average net cost of borrowing for the Debentures was at an interest rate of 1.627% per annum, including dealer commission costs, for a 15-year term. Settlement of the Debentures took place on November 3, 2020.

The Debentures mature in equal amounts of principal (\$3,447,000) on November 3 in each of the years 2021 to 2035 and bear interest payable semi-annually on November 3 and May 3, commencing on May 3, 2021, as set out in Schedule B to By-law No. 20-232, attached as Appendix “B” to Report FCS20100. To be paid by the City, the total annual payment of principal and interest associated with the Debentures is \$4,110,548 in 2021 and is \$3,872,015 on average in the years 2021-2035.

The Debentures were officially launched on October 20, 2020 on the strength of notable expressions of interest from investors for a security issued by City of Hamilton. S&P Global Ratings recently maintained the City’s credit rating of AA+/Stable on October 14, 2020.

The Debentures transaction represents the City’s return to the public bond market to raise external funding following its \$110.82 M serial debentures offering in 2018, details of which can be found in Report FCS18095 respecting \$110,820,000 Serial Debentures dated October 1, 2018 and due October 1, 2019 to 2033.

Having already contemplated potentially purchasing a tranche of the Debentures should an opportunity arise, City Investments staff opted to make an investment in the City’s own securities by purchasing the 12-year tranche of the Debentures (the serial debenture with a principal amount of \$3,447,000, maturing November 3, 2032 and bearing interest at the rate of 1.75%) for the City’s Reserve Fund.

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Such an opportunity arose when, soon after the official launch, it was noted that the 12-year tranche of the Debentures was not placed with an external buyer at its offered price. The relatively attractive investment in the 12-year tranche, at a cost of \$3,446,341.66, with yield to maturity of 1.752% and term to maturity of 12 years, was made in accordance with the investment policy for the Reserve Fund and deployed some monies of the Reserve Fund generally not immediately required for operations and earmarked for future capital projects.

Borrowing Requirements and Authorities

In mid-September 2020, after consultation with the Mayor and the Senior Leadership Team, and under the authorities granted by Council in the Council Resolutions above, the General Manager of Finance and Corporate Services initiated the process to borrow external funds through the issuance of a potential debenture in the amount of \$51,705,000 to finance part of the costs of the Capital Works.

The Capital Works comprise 37 capital projects from City programs in the following categories: culture, recreation and parks (eight projects); housing and public health (two projects); transit (four projects); waste management (four projects); roads, bridges and traffic (six projects); water (eight projects); storm water (four projects); and harbour (one project).

The issuance of the Debentures for the Capital Works was authorized under the Council Resolutions above: A total debenture amount to be issued of \$43,969,000 corresponding to 32 of the Capital Works was authorized under the first Council Resolution; a total debenture amount to be issued of \$7,736,000 corresponding to five of the Capital Works was authorized under the second Council Resolution.

Preparation

In mid-September, staff 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*, a debenture may be issued variously 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 bond market for the potential debenture issue to achieve the lowest net borrowing cost.

Accordingly, the General Manager of Finance and Corporate Services engaged the City's fiscal agents, RBC Dominion Securities Inc. and CIBC World Markets Inc. to act as lead manager and co-lead manager, respectively, on the potential debenture issue.

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Pricing of the Debentures

With the lead and co-lead managers' advice, the General Manager of Finance and Corporate Services, on behalf of the City, officially launched the potential debenture issue on October 20, 2020. The timing of the launch took advantage of prevailing stable market conditions, good investor demand for municipal debentures and avoiding the week before the U.S. Presidential election.

Relatively soon after the official launch, also on October 20, 2020, the General Manager of Finance and Corporate Services, on behalf of the City, secured the final terms and pricing of the potential debenture issue (i.e. now the Debentures). The transaction represented an average net cost of borrowing of 1.627% to the City and offered an average interest rate of 1.548% to investors.

The Debentures were fully placed among 12 high quality buyers (investors) comprising insurance companies (23%), asset managers (4%) and eight Canadian municipal governments (73%), variously geographically located in Ontario (57%), Saskatchewan and Manitoba (together 30%) and the U.S. (13%). The debentures were delivered to investors on November 3, 2020, following Council's authorization of the issuance with the enactment of debenture By-law No. 20-232 on October 28, 2020.

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 1.627% 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 of October 20, 2020, are shown in Table 1.

Table 1
Indicative Borrowing Rates
Other Permitted Structures and Sources of Financing
as of October 20, 2020

Source	Structure	Indicative Borrowing Rate
Public Market	Bullet	2.02%
Public Market	Amortizer	1.75%
Infrastructure Ontario	Amortizer	1.76%
Infrastructure Ontario	Serial	1.74%
Bank Loan	Variable Rate	2.12% (swapped)

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Since early in March of 2020, interest rates on underlying Government of Canada bonds have been at extraordinarily low levels due to the actions by policymakers in order to support the economy from the COVID-19 pandemic. In March of 2020, with three separate rate cuts of 0.50% each, the Bank of Canada aggressively slashed the policy interest rate from 1.75% to 0.25%, its current value.

The Debentures average net cost of borrowing to the City of 1.627% represents the lowest borrowing cost that the City was able to achieve for a serial debentures issue of 15-year term and is less than one-half of the average net cost of borrowing to the City of 3.317% achieved for the serial debentures offering of 15-year term in September of 2018.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – Schedule “A” to By-Law No. 20-232

Appendix “B” – Schedule “B” to By-Law No. 20-232

RM/dt