



INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: June 11, 2012	
SUBJECT/REPORT NO: Placement of \$52,740,000 in Variable Rate Loans and \$42,000,000 in Debentures (FCS12047) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	PREPARED BY: Gerald T. Boychuk 905-546-4231
SIGNATURE:	

Council Direction:

N/A

Information:

On September 8, 2011, the Audit, Finance and Administration Committee approved Report FCS11079, requesting authority to issue \$80 million in 15 year debentures, plus a potential \$14,740,000 in remaining debt from By-law 01-245 for a 5 year term.

On January 18, 2012, the Audit, Finance and Administration Committee approved Report FCS11079(a), requesting authority to issue \$38,000,000 and \$14,740,000 (Canadian) in variable rate loans swapped to fix the interest rate and repayment schedule for 15 years and 5 years, respectively. As well, authority to issue a 15 year debenture issue for \$42,000,000 was sought and approved. Due to the financing market limitations, regulatory requirements, policy restrictions, and higher cost of the Public Debt Market, Infrastructure Ontario Loans Corporation and the Variable Rate Loan Swap financing markets were chosen as the best mechanism to issue new debt.

The Public Debt Market does not accommodate loans over 10 years in term and is less cost efficient in general (i.e. higher interest rates). Infrastructure Ontario does accommodate loans over 10 years and generally is more cost efficient than the Public

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Market. Variable Rate Loans are restricted in issuing an amount of 15% of all outstanding loans, including the Variable Rate loan(s) to be issued but are the most cost efficient. In order to meet the Municipal Act, 2001 Ontario Regulation 276/02 a Serial Debenture loan of \$42,000,000 (By-law 12-024) dated March 1, 2012 to mature March 1, 2027 was placed with Infrastructure Ontario at a rate of **3.17%**. The rate was set on February 17, 2012 and comparable rates on that date were as follows:

February 17, 2012 -	Public Market (est.)	3.34%
	Infrastructure Ontario	3.17%
	Swapped (est.)	2.99%

The Infrastructure Ontario loan realized a rate savings of approximately 17 basis points versus a public market issue. This translates into an average annual interest savings of \$38,080 and a total interest savings of \$571,200 over the full 15 year term.

The Variable Rate Loans (By-law 12-094) of \$38,000,000 dated May 8, 2012 maturing May 10, 2027 and \$14,740,000 dated May 8, 2012 maturing May 8, 2017 were entered into, resulting in swapped rates of **3.16%** and **2.13%** respectively modelling Serial Debentures. The swapped rates were set on May 4, 2012 and comparable rates on that date were as follows:

		<u>15 Year Term</u>	<u>5 Year Term</u>
May 4, 2012	Public Market (est.)	3.39%	2.29%
	Infrastructure Ontario	3.27%	2.21%
	Swapped	3.16%	2.13%

The swapped variable rate loans are modelled as Serial Debentures and are deemed debentures under Ontario Regulation 276/02. The 15 year deemed Serial Debenture realized a savings of approximately 23 basis points versus a public market issue. This translates into an average annual interest savings of \$46,613 and a total interest savings of \$699,200 over the full 15 year term.

The 5 year deemed Serial Debenture realized a savings of approximately 15 basis points versus a public market issue. This translates into an average annual interest savings of \$13,266 and a total interest savings of \$66,330 over the full 5 year term.

In summary, the City has saved over the full terms of the financings outlined a total of \$1,336,700 in interest expenses. The absolute rates achieved are the longest in term and lowest in rates achieved over past 40 years by the City. While both Infrastructure Ontario and Variable Rate Loans are subject to market and policy restrictions, they are both cost efficient. The variable rate loans are specifically very flexible in creating deemed debentures through a swap arrangement subject to Ontario Regulation 276/02.