

Date: October 27, 2021

To: Chair and Members of Budget Committee

From: Shari Lichterman, CPA, CMA, Commissioner of
Corporate Services and Chief Financial Officer

Originator's files:

Meeting date:
November 22, 2021

Subject

Borrowing Authority for 2023 Capital Debentures

Recommendation

1. That the report entitled “Borrowing Authority for 2023 Capital Debentures”, dated October 27, 2021 from the Commissioner of Corporate Services and Chief Financial Officer be received for information.
2. That the Director of Finance and Treasurer be authorized to issue debentures for debt-eligible 2023 projects in 2022, subject to capital market conditions.
3. That the all necessary bylaws be enacted.

Executive Summary

- 2022 is a municipal election year which will lead to a delay in the 2023 Budget Approval.
- Finance has identified debt eligible capital projects for the 2023 Capital Budget.
- The Bank of Canada has indicated that Policy interest rates will be rising in the next 12 to 18 months.
- Securing borrowing authority now for debt eligible 2023 capital projects ensures liquidity for working capital throughout any black-out period related to municipal election, while providing the Treasurer flexibility to issue debentures in mid 2022, based on capital market conditions.

Background

2022 is a Municipal election year. In previous municipal elections years, due to regular delays in that electoral process, the City usually does not pass a budget until January or February of the

budget year. The bylaw authority to issue debentures for capital projects is regularly included in the budget process.

The City's Debt Policy requires that it provide the Region of Peel with at least 75 days notice of the intention to borrow. The City must provide a bylaw to the Region to substantiate any request. It is conceivable that, if the City follows normal course events, it will be unable to raise debt financing for the 2023 capital program before June 2023.

Independent to these uniquely municipal processes, the Bank of Canada has indicated that its easy monetary policy stance, as reflected in its very low overnight policy rate (currently at 0.25%), will likely be coming to an end over the next 12 to 18 months. Given this, were the City to wait to issue debentures for the 2023 Capital Program until June of 2023, it would be doing so during, or after, the Bank of Canada has embarked on a higher interest rate regime.

Comments

As per the Municipal Act and the City's Debt Policy, only certain Capital Projects are eligible to be debt financed. Throughout the last 6 months, Finance has completed a medium term identification of projects that would be legally eligible for debt financing, and has refined a list of projects for the 2023 capital program, included in Appendix 1 of this Report, and to be subsequently included in the respective 2023 Capital Debenture bylaw.

While the Bylaw will contain an Appendix of proposed projects, under Municipal Act regulations, the City retains the flexibility to switch out any project before it begins, with another project that has not begun. As long as the same Ratepayer Class supports the new project's debt-servicing costs and it has a similar or shorter economic life, the City retains the right to use the debenture proceeds for a different 2023 project.

Financial Impact

Depending on distribution of the principal repayment schedule, a 0.50% increase in the average rate of interest on \$50 million of 10 Year serial debentures could equal an extra \$1.5 million of borrowing costs over the life of the debt.

Given that the City's investment portfolio has a longer "term-to-maturity" than its debt portfolio, the City's average rate of return on its investment portfolio (which includes unspent debt proceeds) is slightly greater than the average interest it pays on its debt portfolio. Therefore, there would be a small net financial benefit to issuing debentures early, particularly with rising interest rates.

Conclusion

In order to ensure smooth capital project financing, and to protect overall liquidity during, and after, the municipal election cycle, while also providing a small net financial benefit during rising

interest rates, Budget Committee should authorise that the 2023 Capital Debenture Bylaw be enacted.

Attachments

Appendix 1: 2023 Debenture Eligible Capital Projects



Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer

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