

**Report to
Rapport au:**

**Debenture Committee
Comité sur les débetures
30 November 2023 / 30 novembre 2023**

**Submitted on November 15, 2023
Soumis le 15 novembre 2023**

**Submitted by
Soumis par :**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2023-FSD-FIN-0012

SUBJECT: BY-LAW TO AUTHORIZE A \$200 MILLION DEBENTURE ISSUE

**OBJET : RÈGLEMENT VISANT À AUTORISER L'ÉMISSION D'OBLIGATIONS
TOTALISANT 200 MILLIONS DE DOLLARS**

REPORT RECOMMENDATION

**That the Debenture Committee enact a Debenture By-law substantially in the form
attached as Document 1 to authorize the issuance of a debenture in the total
principal amount of \$200 million.**

RECOMMANDATION DU RAPPORT

Que le Comité sur les débetures adopte un Règlement sur les débetures, essentiellement sous la forme du Document 1 ci-joint, en vue d'autoriser l'émission de débetures pour un montant nominal de 200 millions de dollars.

BACKGROUND

Section 401(1) of the Municipal Act, 2001, as amended (the "Act") provides that a municipality may incur debt for municipal purposes and may issue debentures and prescribed financial instruments and enter prescribed financial agreements for or in relation to the debt.

Section 408(2.1) of the Act provides that a municipality may issue a debenture or other financial instrument for long-term borrowing only to provide financing for capital work.

On December 9, 2020, Council delegated authority to the Debenture Committee to enact debenture by-laws to authorize the issuance of debentures where the capital work authority has been previously approved by Council.

On April 11, 2007, the City of Ottawa adopted a Capital Financing and Debt Policy (the "Policy") which was subsequently amended and which establishes the administrative framework and guidelines for issuing short and long-term debt.

The Interim Treasurer has, in accordance with Section 12 of Schedule "B" of the Delegation of Authority By-law, and pursuant to the Policy, authorized a debenture issue by entering into a letter agreement dated November 20, 2023 with the Principals described therein for the issue and sale of sinking fund debentures in the principal amount of \$200 million, on the credit of the City of Ottawa (the "November 20, 2023 Purchase Letter") for the capital works, payable at the time and bearing interest as hereinafter set forth. Debt financing was previously approved by Council for each of the capital work receiving financing from the proceeds of this debenture issue, as detailed in Schedule "A" to the debenture by-law attached as Document 1. The debt servicing associated with this debenture issue was approved by Council in the 2023 budget. The transaction is scheduled to close on December 4, 2023. A debenture by-law must be enacted in order to successfully close the transaction.

DISCUSSION

Debenture By-law \$200 Million

In accordance with Delegation of Authority By Law No. 2023-67, the Interim Treasurer executed the Purchase Offer delivered by the undersigned managers (National Bank of Canada) acting on behalf of the underwriting group (National Bank of Canada, RBC, Scotia Bank, TD Bank, BMO, CIBC, and Laurentian Bank) all acting as principals, offering to purchase from the City of Ottawa all, but not less than all, of 4.45 per cent sinking fund debentures in the principal amount of \$200 million (the “Debentures”) to be dated December 4, 2023.

Details of the debentures are as follows:

Settlement Date:	December 4, 2023
Deal size:	\$200 million
Maturity Date:	June 4, 2033
Rating:	Moody’s: Aaa S&P: AA+
Coupon:	4.45%
Spread to Ontario:	+10
Issue Price / Yield:	99.04 / 4.576% <i>(after syndicate fees)</i>
Proceeds:	\$199,080,000

The Debentures shall bear interest payable semi-annually on June 4 and December 4. The Debentures shall mature on June 4, 2033 (the “Maturity Date”).

The 2023 budget included the debt servicing attributed to this debenture issue and no new budget pressures occur as a result of this debenture issue. No Provincial or Council debt limits have been exceeded as a result of the debenture issue.

The Debenture structure provides for the refinancing of up to \$153 million of the \$200 million. The average life of each capital work being financed is 30 years or greater allowing for the term of the debentures to be up to 30 years. Issuing a ten-year refinancing debenture versus a 30-year debenture allows for the refinancing of a portion of the capital works on or before the ten-year maturity date. The advantages of issuing ten-year refinancing debenture versus issuing a 30-year debenture are:

- 1) The all-in interest rate was lower on the ten-year term reducing annual debt payments and cost savings to the City over the term.
- 2) On the ten-year maturity date, the city will have the flexibility to refinance up to \$153 million of the debenture for an additional ten to twenty years or retire all or a portion of the debt if favorable budgets permit reducing or eliminating future debt servicing at that time.

- 3) Feedback from the City's banking underwriting group confirmed that investor demand was stronger in the ten-year sector for the City of Ottawa issuance.

The new issue was well received by Investors. The all-in effective yield for this debenture issue of 4.576 per cent reflects a ten basis points spread over the ten-year Ontario benchmark bond. This issue is comparable to other recent issues from municipal peers, which is displayed in Table 1.

Table 1: Municipal Debenture Issues Comparisons

Issuer	Credit Rating	Issue Date 2023	Term	Yield	Spread vs Ontario
Vancouver	AAA S&P Aaa Moody's	18-Oct	10-year	4.920%	+7
MFABC	AAA S&P Aaa Moody's	12-Oct	10-year	4.960%	+8
Ottawa	AA+ S&P, Aaa Moody's	20-Nov	10- year	4.497%	+10
Region of York	AAA S&P, Aaa Moody's	22-Nov	10-year	4.473%	+11

The passing of this debenture by-law is a required step to completing the issuance of these debentures. Following the enactment of the by-law, City staff will complete the settlement of the debenture on December 4, 2023, whereby the National Bank of Canada will deposit the debenture cash proceeds into the City's bank account followed by the City, through external legal counsel, delivering the debenture certificates to the Canadian Depository for Securities Limited, completing the transaction.

RURAL IMPLICATIONS

There are no specific rural implications associated with this report.

CONSULTATION

Not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendation in this report. Section 401 of the Municipal Act, 2001, as amended, authorizes a municipality to incur debt for municipal purposes and to issue debentures in relation to debt. The City of Ottawa's

Delegation of Authority By-law 2023-67, Schedule "B", Sections 12 authorize the Chief Financial Officer/City Treasurer to proceed with debt issue at any time for project debt previously approved by Council. Subsection 12(3) of By-law 2023-67 further authorizes the Chief Financial Officer/City Treasurer and City Manager to place the debenture by-law directly on the Agenda of the Debenture Committee for enactment.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

FINANCIAL IMPLICATIONS

The financial implications are outlined in this report.

TERM OF COUNCIL PRIORITIES

This report supports the City's on-going commitment to financial sustainability and transparency.

SUPPORTING DOCUMENTATION

Document 1 - Debenture By-law authorizing the issue of a \$200 million debenture.

DISPOSITION

Once the by-law has been enacted, Treasury staff will coordinate the execution of all required documentation and complete the final requirements to settle the debenture.