

Subject: By-law to Authorize a \$225 Million Debenture Issue

File Number: ACS2024-FCS-FIN-0010

Report to Debenture Committee on 27 September 2024

**Submitted on September 25, 2024 by Isabelle Jasmin, Deputy City Treasurer,
Corporate Finance, Finance and Corporate Services Department**

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Ward: Citywide

**Objet : Règlement visant à autoriser l'émission d'obligations totalisant 225
millions de dollars**

Numéro de dossier : ACS2024-FCS-FIN-0010

Rapport présenté au Comité sur les débetures

le 27 septembre 2024

**Soumis le 25 septembre 2024 par Isabelle Jasmin, Trésorière municipale adjointe,
Service des finances municipales, Direction générale des finances et des
services organisationnels**

**Personne ressource : Mark Martin, Gestionnaire, Trésorerie, Service des finances
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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION(S)

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 \$225 million.

RECOMMANDATION(S) 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 débentures pour un montant nominal de 225 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 September 24, 2024 with the City's Banking Syndicate for the issue and sale of sinking fund debentures in the principal amount of \$225 million, on the credit of the City of Ottawa (the "September 24, 2024 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 2024 budget. The transaction is scheduled to close on October 2, 2024. A debenture by-law must be enacted in order to successfully close the transaction

DISCUSSION

Debenture By-law \$225 Million

In accordance with Delegation of Authority By-law No. 2024-265, the Interim Treasurer executed the Purchase Offer delivered by the Banking Syndicate (Royal 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 3.75 per cent sinking fund debentures in the principal amount of \$225 million (the “Debentures”) to be dated October 2, 2024.

Details of the Debentures are as follows:

Settlement Date:	October 2, 2024
Deal size:	\$225 million
Maturity Date:	October 2, 2034
Rating:	Moody’s: Aaa S&P: AA+
Coupon:	3.75%
Spread to Ontario:	+1x
Issue Price / Yield:	99.311 / 3.75% (after syndicate fees)
Proceeds:	\$223,449,750

The Debentures shall bear interest payable semi-annually on April 2 and October 2. The Debentures shall mature on October 2, 2034 (the “Maturity Date”).

The 2024 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 \$34.2 million of the \$225 million. The average life of each capital work being financed is 40 years or greater, allowing for the term of the debentures to be up to 40 years. Issuing a ten-year refinancing debenture versus a 40-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 40-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 \$34.2 million of the Debenture for an additional ten to thirty 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 debentures were issued under the City Sustainable Bond Framework with the majority of projects being financed meeting both the social and green criteria of the framework ([Sustainable Debenture Framework \(ottawa.ca\)](https://ottawa.ca/sustainable-debenture-framework)).

The new issue was well received by Investors. The all-in effective yield for this Debenture issue of 3.785 per cent reflects a ten and a half 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 2024	Term	Yield	Spread vs Ontario (*Quebec)
Toronto	AA S&P Aa1 Moody's	29-Jul	10-year	4.294%	+12
Montreal	AA- S&P Aa2 Moody's	5-Sep	10-year	3.892%	+19*
MFABC	AAA S&P Aaa Moody's	20-Sep	10-year	3.756%	+5
Ottawa	AA+ S&P, Aaa Moody's	24-Sep	10- year	3.785%	+10.5

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 October 2, 2024, whereby the Royal 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.

FINANCIAL IMPLICATIONS

The financial implications are outlined in this 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 2024-265, 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 2024-265 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.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report.

ACCESSIBILITY IMPACTS

Finance and Corporate Services adheres to the requirements of the *Accessibility for Ontarians with Disabilities Act, (2005)* in its operations, programs and initiatives. This report is administrative in nature and has no associated accessibility impacts.

DELEGATION OF AUTHORITY IMPLICATIONS

Delegated authority was exercised as set out under the Delegation of Authority by-law 2024-265, Section 12 of Schedule "B". The exercise of delegated authority shall be reported to Council at the earliest opportunity and is presented in Document 1.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

TERM OF COUNCIL PRIORITIES

This report supports the current 2023-2026 Term of Council Priorities as well as the City's commitment to financial sustainability and transparency.

SUPPORTING DOCUMENTATION

Document 1 – Debenture By-law authorizing the issue of a \$225 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.