

**Report to  
Rapport au:**

**Council  
Conseil**

**8 November 2017 / 8 novembre 2017**

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**Submitted by  
Soumis par:**

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**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS2017-CSD-FIN-0026**

**SUBJECT: BY-LAWS TO AUTHORIZE A \$102 MILLION DEBENTURE ISSUE**

**OBJET: RÈGLEMENTS VISANT À AUTHORIZER L'ÉMISSION  
D'OBLIGATIONS TOTALISANT 102 MILLIONS DE DOLLARS**

#### **REPORT RECOMMENDATIONS**

**That Council enact a Debenture By-law substantially in the form attached as Document 1 to authorize the issuance of debentures in the total principal amount of \$102,000,000.**

#### **RECOMMANDATIONS DU RAPPORT**

**Que le Conseil 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 102 000 000 \$.**

## **BACKGROUND**

Council has authorized the City Treasurer under “Delegation of Authority By-law 2016-369” to proceed with one or more debt issues at any time during a calendar year during the term of Council provided that the actual debt charges in the calendar year are within the Council approved operating budget for that year, that Council has been advised of any resulting impact on budgets in future years, and the project debt authority has been previously approved by Council. The standard process for issuing debentures requires that the Treasurer and City Manager place debenture by-law on the agenda of Finance and Economic Development Committee or Council to enact the debenture by-law. The Treasurer is also required to provide an information report to Council upon conclusion of the placement and pricing of the debenture issue that identifies the details of the debenture issue and the projects to which the debenture funding was applied.

In October 2016 staff responded to an inquiry from the Chair of the Environment and Climate Protection Committee to explore the potential for issuance of City debt in the form of Green Bonds. Based on that initial analysis it was determined that issuing a Municipal Green Bond was a viable option for the City, and staff targeted Q3 or Q4 of 2017 for a possible bond issue.

Over the course of the past year, staff monitored and evaluated developments in the issuance and investments in the Green Bond Market. As institutional investors are increasingly seeking “green” investments, the market has developed, and the amount of capital available to fund green projects continues to rise. In preparation for the debenture issuance planned for Q4 2017, staff consulted with issuers, banks, dealers, investors, and external consultants to identify the requirements and opportunities for municipal debt issuance of a Green Bond at this time.

Debentures issued as Green Bonds share the same characteristics as standard fixed income instruments as far as price, yield, maturity and credit ratings. Green Bonds exclusively fund green projects and are subject to additional administrative requirements in the form of documentation to establish principles and commitments regarding the use of the funds. The market has matured with a voluntary process of oversight and standardization with established Green Bond Principles set out by the International Capital Markets Association. To participate in this market, issuers must develop a Green Bond Framework that sets out commitments regarding the use of proceeds and selection of types of projects to be funded, along with reporting around the progress of the projects and the environmental goals.

## DISCUSSION

In accordance with Schedule “B”, Section 11, By-law No. 2016-369, the Delegation of Authority By-law, as amended, the Treasurer has proceeded to issue a 30-year debenture on November 2, 2017 in the total principal amount of \$102,000,000 at a yield to investors of 3.250%. Debt financing had been authorized by Council for each project receiving financing from the proceeds of this debenture issue as detailed on Schedule “A” to the debenture By-law attached as Document 1. This transaction is scheduled to close on November 10, 2017 and a debenture By-law substantially in the form attached as Document 1, is required to be enacted by Council in order to successfully close the transaction.

This debenture has been sold and classified as a “green debenture” and is the first Canadian Municipal green bond to be issued in Canada. This debenture is within approved authorities for 2017 borrowings. As a Green debenture, this debt funding will be used for Ottawa’s Light Rail Transit Project. The business case for this project identified specific environmental benefits (e.g. Greenhouse gas emission reductions) and it is an ideal candidate for a Green Bond issue.

Although still relatively new in Canada, the Canadian Green Bond Market has seen successful issues from Export Development Canada (EDC), the Province of Ontario, the Province of Quebec, and Toronto Dominion Bank. As the first municipality in Canada to issue a green bond, the City of Ottawa worked with these issuers to undertake an analysis of the needs and opportunities of the market. This consultation indicated that Canadian Municipalities, with their numerous green projects and internal governance processes, are naturally structured to issue green debentures that meet the industry accepted standards. Staff worked closely with Sustainalytics, a green bond industry expert, the Bank Dealer network, and other green issuers mentioned above to identify the requirements for green debenture issuance at this time.

Analysis indicated that there were no barriers or hurdles to undertaking a Green Bond issuance within the City’s existing debenture issuance practices and environmental activities. The City’s current debt issuance process and authorities under a debenture by-law permits the use of funds for capital infrastructure projects. The City’s environmental priorities, initiatives, reporting, and project governance are robust and align well with the Green Bond market’s expectations of governance, monitoring and reporting. Leveraging the City’s existing commitments and practices regarding environmental priorities and projects meant that staff was able to prepare a Green Debenture Framework consistent with market practice and obtain formal [external expert](#)

[opinion](#) confirming compliance with investor needs. The [City of Ottawa's Green Debenture Framework](#) has been posted on Ottawa.ca to coincide with the issuance and ensure access to investors as part of the new [investor relations page](#).

Investor demand for this issuance was strong and the issue was significantly over-subscribed. Investors with Green mandates and/or UN PRI signatories represented 96% of overall sales. The green debenture issuance price at 3.259 per cent represents a more competitive borrowing rate of two basis points lower than a regular debenture issue, which results in lower borrowing costs of \$400 000 on the \$102 million debenture. Staff anticipates re-opening this issue to fund future LRT requirements. This will improve liquidity and benchmark presence of the issue making it more attractive to investors.

With the execution of this green debenture, total debt outstanding is \$2.27 billion. Debt servicing continues to remain below the amount approved by Council under the 2017 Budget and the debt to equity ratio has remained stable. The City does not plan to issue further debt in 2017 and 2018. The total debt issued in 2017 was \$432 million. The early issuance of the \$155 million scheduled for 2018 was completed in the previous debenture issuance in 2017 to take advantage of lower interest rates and avoiding \$17 million in interest costs.

## **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

## **CONSULTATION**

The public consultation process is not applicable for this report.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

Not applicable.

## **ADVISORY COMMITTEE(S) COMMENTS**

Not applicable.

## **LEGAL IMPLICATIONS**

Section 401 of the Municipal Act, 2001, as amended, authorizes a municipality to incur debt for municipal purposes, and further authorizes a municipality to issue debentures in relation to debt. The City of Ottawa's Delegation of Authority By-law 2016-369, Schedule "B", Sections 11 and 12, authorize the City Treasurer to proceed with debt

issue where the project debt authority has been previously approved by Council. Subsection 15(3) of By-law 2016-369 further authorizes the City Treasurer and City Manager to place the debenture by-law associated with debt issued directly on the agenda of the Finance and Economic Development Committee or Council. The debenture by-law is attached as Document 1 for reference purposes.

### **RISK MANAGEMENT IMPLICATIONS**

There are no risk impediments to implementing the recommendations in this report.

### **FINANCIAL IMPLICATIONS**

The debenture issue does not involve any new debenture authority but provides the financing authorized by Council at the time the capital works were approved. This issue is estimated to bring the Net Long-Term Debt position to \$2.27 billion at year-end 2017 that is consistent with the estimate provided in the 2017 Budget.

The payments of principal and interest required by this issue were included in the debt service estimates provided for the 2017 Budget. For 2017, total tax and rate supported debt service costs for long-term debt are estimated to represent 5.70% of City raised revenues. The debt service costs associated with this issue are well within the 25% limit set by the Province and the City of Ottawa's Fiscal Framework target of 7.5%.

### **ACCESSIBILITY IMPACTS**

There are no accessibility implications with this report.

### **TERM OF COUNCIL PRIORITIES**

The recommendations in this report support the 2014-2018 Term of Council Priorities, in particular Financial Sustainability and Sustainable Environmental Services.

### **SUPPORTING DOCUMENTATION**

Document 1 – By-Law No. 2017-355 Debenture By-law authorizing the issue of a debenture of \$102,000,000

### **DISPOSITION**

Corporate Services in consultation with Legal Services will take all steps required to finalize the debt issuance and the debenture by-law associated with this report shall be on the agenda of Council for enactment.