

**Report to  
Rapport au:**

**and Council  
et au Conseil**

**12 July 2017 / 12 juillet 2017**

**Submitted on July 11, 2017  
Soumis le 11 juillet 2017**

**Submitted by  
Soumis par:**

**Isabelle Jasmin, Deputy City Treasurer, Corporate Finance / Trésorière  
municipale adjointe, Finances municipales**

**Contact Person**

**Personne ressource:**

**Mark Martin, Manager Treasury, Gestionnaire Trésorerie  
613-580-2424 ext./poste 21307, mark.martin@ottawa.ca**

**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS2017-CSD-FIN-0020**

**SUBJECT: CITY DEBENTURE ISSUANCE**

**OBJET: ÉMISSION DE DÉBENTURES DE LA VILLE**

**REPORT RECOMMENDATIONS**

**That City Council,**

- 1. Delegate the authority to the Mayor or his designate with the authority over the July / August time period to execute and enact the necessary debenture by-laws associated with this report to authorize the issuance of debentures where the project debt authority has been approved by Council.**
- 2. Approve the inclusion in the 2018 budget of a one-time transfer from the reserves to bridge the increased debt servicing costs anticipated with the planned debt issue.**

## RECOMMANDATIONS DU RAPPORT

### Que le Conseil :

1. **Délègue l'autorité au maire ou à son remplaçant, pour la période allant de juillet à août, permettant d'exécuter et d'édicter les règlements municipaux nécessaires sur les débetures associées à ce rapport en vue d'autoriser l'émission de débetures dans les situations où le Conseil a approuvé le pouvoir d'endettement.**
2. **Approuve l'inclusion dans le budget de 2018 d'un virement unique provenant des réserves pour compléter le service de la dette anticipé avec l'émission obligataire prévue.**

## EXECUTIVE SUMMARY

Each year Council approves a capital budget which includes specific projects that are funded from a number of sources including the use of long-term debt financing. These capital budgets constitute the appropriate authority for the use and issuance of long-term debt and the servicing costs of the debt. Debt funding for a project must be established before the actual implementation of the project begins. It cannot be subsequently added as a new source of financing to a project once the actual construction of the works or the purchase of the asset has commenced.

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

- a. the actual debt charges in the calendar year are within the Council approved operating budget for that year;
- b. Council has been advised of any resulting impact on budgets in future years; and
- c. 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.

An interim delegation of authority was approved in July 2016 to bridge the summer period when there were no Council meetings scheduled in late July and August 2016. At the July 13, 2016 Council meeting, Council approved that the Mayor or his designate be authorized to execute and enact the necessary by-laws over the July / August time frame should the opportunity arise to place a debenture issue into the financial markets. This approval ensured that the City was in a position to take advantage of optimal market conditions and could issue a debenture within that time period.

## **BACKGROUND**

If Council or a Committee has previously considered the matter, include a brief history or chronology of the item, including dates on which the item was considered, by which Committee, and motions/decisions made at those meetings. If existing policy or a precedent exists, it should be noted in this section of the report.

## **DISCUSSION**

As was approved in 2016, staff is recommending that an interim delegation of authority be approved in 2017 to bridge the summer period when there are no Council meetings scheduled in late July and August 2017. Based on discussions with the City's financial agents, the current financial market conditions are again conducive to the City placing a debenture issue into the market place during July/August 2017. Interest rates and terms have remained at near record low levels to date in 2017, however statements from the Governor of the Bank of Canada and forecasts from leading economists are signalling that increases to borrowing rates are imminent.

An evaluation of market conditions indicates that the City would be able to issue a \$330 million debenture in July. Considering this borrowing opportunity, staff have reviewed the debt plan for 2017 and 2018 to identify opportunities to mitigate the risk of future higher borrowing costs in a rising rate market. Undertaking this debenture would allow the City to lock in lower interest rates by undertaking the budgeted \$175 million in planned borrowing for 2017 as soon as possible. In addition, the City also has the ability to mitigate rising rates by issuing \$155 million that was scheduled for 2018 debt issuance. Based on interest rate forecasts from the banking sector, an analysis of borrowing costs comparisons estimates that the City will be able to avoid \$17.6 million in future interest costs over the term of the 31-year debenture if the City issues the debt in Q3 2017 as compared to issuing the debt in Q3 2018.

Given the potential for these significant reduced interest costs, the recommendation is to include borrowing planned for 2017 and 2018 in the \$330 million debt issue in July.

This issue is for debt on capital projects all previously approved by Council. This funding will support a range of critical areas, including 50% of funds allocated to Sewer projects, 20% of funds to City Wide projects, and the remaining 30% to Water and Transit. Key projects which will be funded with this debt issue include the LRT Confederation Line and the Stage 2 Preliminary Plan, the Combined Sewage Overflow Storage Tunnel, the Manotick Servicing System, and the Solid Waste New Operations Centre.

The debt servicing required by this larger issuance in 2017 is higher than the original plan. The debt servicing required in 2018 on the \$330 million is above what is available in the 2018 budget, but it is available in the 2019 budget. To support the recommendation to issue earlier and avoid the \$17.6 million in interest costs, staff are also recommending that a one-time transfer be taken from various capital reserves to bridge the debt servicing required in 2018 and which only becomes available in 2019. The additional servicing will require a one-time transfer in the projected amount of \$4.4 million from the following reserves: City Wide Reserve, Transit Reserve, Water Reserve, and Waste Water Reserve. The majority of the \$4.4 million will be transferred from the City Wide and Waste Water reserves. The reserve balances are sufficient to fund this one-time transfer and support the 2018 capital budget as planned.

For any debenture issuance during the period of the requested delegation is in force, between July 12 through August 30, 2017, an information report will be submitted to Council at the earliest opportunity after each debt issuance. Any debenture issuance carried out subsequent to August 30, 2017 will be subject to standard practice and will be placed directly on the Agenda of the Finance and Economic Development Committee or Council as authorized by Subsection 15(3) of the Delegation of Authority By-law.

### **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

### **CONSULTATION**

The public consultation process is not applicable.

### **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 by borrowing money or in any other way, 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 13 authorize the City Treasurer to proceed with debt issue and bank loans respectively. Subsection 11(3) of By-law 2016-369 further authorizes the City Treasurer and City Manager to place the debenture by-law associated with debt issued during the term of Council directly on the Agenda of Finance and Economic Development Committee or Council.

As described in this Report, in the event that there are no meetings scheduled, any debenture by-laws required over the July and August time period will be executed and enacted by the Mayor or his designate and will be relied upon along with the by-law confirming the proceedings of the Council meeting of July 12, 2017 as authorization for debt issuance associated with this Report. Debenture By-laws required following August 30, 2017 will be placed on the Agenda of Finance and Economic Development Committee or Council.

**RISK MANAGEMENT IMPLICATIONS**

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

**FINANCIAL IMPLICATIONS**

As outlined in the report.

**ACCESSIBILITY IMPACTS**

There are no accessibility implications with this report.

**TERM OF COUNCIL PRIORITIES**

The recommendations in this report support the 2015-18 Term of Council priorities (FS1 "Demonstrate sound financial management").

**DISPOSITION**

This report and the confirming Council by-law of the July 13, 2017 meeting will confirm authorization by Council for debt issuance associated with this Report.