

---

**Subject:** Debt Information Report – 2024 Debenture Issuance

**Report To:** Corporate Services Committee

**Report date:** Wednesday, May 8, 2024

---

## Recommendations

1. That this report **BE RECEIVED** for information; and
2. That this report **BE CIRCULATED** to the Local Area Municipalities Council members for information.

## Key Facts

- The purpose of this report is to advise Council of the Region's intention to issue debentures in 2024 for both the Region as well as the Local Area Municipalities (LAMs), in accordance with debenture issuance procedures that have been established.
- Each year the Region and LAMs require the issuance of debentures for Council approved capital projects. During construction, these projects were internally financed and are now either complete or are nearing completion and debenture financing must be secured. A total issuance of \$219.3 million is being proposed (see Appendix 1 to Report CSD 17-2024).
- Of the proposed \$219.3 million debt issuance, \$141.3 million relates to Regional debt which will increase the Region's 2024 outstanding debt from \$366.5 million to \$472.9 million. Previously authorized but unissued debt for the Region will decrease by \$141.3 million, from \$497.9 million to \$356.6 million.
- The Region largely raises funds through the sale of Niagara Region debentures in the capital markets or through the Infrastructure Ontario (IO) lending program.
- Regional staff monitor the rates for the IO lending program and capital markets and propose the issuance of debentures in consideration of interest rate levels, cash flow and timing of requirements.
- Current and future debenture approvals and issuances are recommended in consideration of the impact on our Annual Repayment Limit (ARL), Standard and Poors (S & P) impacts and our IO Sector Limit which are all discussed in more detail in the report.

## Financial Considerations

The Region plans to issue debentures in 2024 for its financing requirements and that of certain LAMs identified in Appendix 1 to Report CSD 17-2024. The debenture issuance requirements for 2024 are summarized as follows:

Table 1 – Summary of Debt Requirements

Debt Term	Region Amount	LAM Amount	Total
1-10 Year Debt	-	\$35.3M	\$35.3M
15-30 Year Debt	\$141.3M	\$42.7M	\$184.0M
<b>Total</b>	<b>\$141.3M</b>	<b>\$78.0M</b>	<b>\$219.3M</b>

Total issued debt will be recorded as a long-term liability on the Region's financial statements with a corresponding debt recoverable from the LAM for the amount issued on behalf of the LAMs. Debt servicing costs associated with the Region's approved debt have been included within the Region's operating budget. The projected debt servicing costs associated with the Region's debt requirement of \$141.3 million is estimated at \$9.4 million and can be accommodated within the approved budget.

Each year the Region includes in its annual budget the estimated cost of debt servicing for Council approved but unissued debt. When developing budgets staff consider forecasted interest rates in order to ensure the full cost of debt servicing is included in the annual budget. The region has \$476 million of approved but unissued debt. Knowing that not all unissued debt is required currently, staff will continue to monitor interest rates and recommend debt issuance when projects are substantially complete and while taking into consideration interest rates and cash flow requirements. Debt servicing costs for the LAMs are budgeted by each individual LAM and recovered by the Region from the LAM.

The majority of the Regions debt requirement in 2024 relates to the two new Long Term Care homes (\$135.2 million). IO approved the Region's application for debt financing of the two new Long Term Care Homes in Fort Erie and St. Catharines in 2023. The debt will be financed over 25 years to align with the Construction Funding Subsidy (CFS). The CFS received helps offset the debt servicing costs and is calculated using a set per diem based on market segment.

Other Regional and Municipal debt considerations for 2024 and going forward include:

- Instructure Ontario Sector Limit

Following the approval of the significant debt financing for the two new Long Term Care Homes of \$135 million, IO made finance staff aware that the Region is approaching its sector limit. All municipalities in Ontario are subject to a concentration limit, referenced as a Sector Limit, which is the same amount across all Upper and Single Tiers, not dependant on size or geographic location. The sector limit places limitations on the amount of IO debt that the Region and its LAMs will be able to access in the future. As of discussions held in March 2024, the sector limit for the Region was identified as \$623 million with \$39.6 million remaining unutilized. It is estimated that an additional \$16 million of sector limit room will become available each year as other debt obligations fall off. As IO is heavily relied upon for its availability of longer term (30 year) financing relative to the market debentures the sector limit will require the Region and LAMs to work more collaboratively to work within the limit or consider alternative financing methods.

- Standard and Poor (S & P)

On October 19, 2023, S&P reaffirmed Niagara's rating of AA+. The rating reflects the views on Canadian municipal governments' improved institutional framework. The rating also incorporates S&P's opinion of Niagara's exceptional liquidity, strong budgetary performance and financial management, and moderate debt burden. Niagara continually strives to improve our credit rating, as it sends a strong, positive message to investors, and directly impacts our cost of borrowing in the capital markets. One criteria evaluated by S&P is consolidated debt outstanding over total operating revenues, staff were advised that the Region should strive to remain below 60% in order to sustain its current credit rating. The Region's 2023 S&P ratio was 62%. A downgrading of the Region's credit rating could result in higher interest rates for the Region's debt which will impact Regional and LAM operating budgets.

- Annual Repayment Limit (ARL)

The Province imposes on each municipality an Annual Repayment Limit (ARL) of the amount of operating revenues that can be dedicated to servicing debt. Region's ARL is forecasted to be 7.89% after the 2024 debenture issuance, well below the 25% ARL set by the Province. The ARL for each LAM is provided in Appendix 2 to Report CSD 17-2024 and is based on the latest available published Financial Information Return (FIR) which is generally 2022. While the Region has significant room to absorb debt servicing

costs within the ARL, an increase in debt does put pressure on operating budgets and the increase in debt outstanding would put pressure on the S&P evaluation of total debt outstanding.

- **Financing Strategy**

The Regions Capital financing Policy is a strategy for establishing adequate levels of funding for capital projects that address sustainment, growth and new strategic investments. The policy supports debt for growth and strategic investments in an effort to be strategic within the debt constraints. It also ensures that as current property owners use capital assets they are paying for the life cycle sustainment costs through annual operating budget transfers to capital reserves.

## **Analysis**

Each year, the Region raises funds through the sale of Niagara Region debentures in the capital markets or through the IO lending program to finance previously approved capital projects for both the Region and the LAMs. While projects are under construction funding is generally provided internally and once projects are complete financing must be secured. The authority to issue debentures is granted solely to regional government in accordance with the *Municipal Act*.

A listing of the proposed debenture amounts are shown in Appendix 1 to Report CSD 17-2024:

- **For the 1-10 year term**, the proposed requirement for the municipalities of Fort Erie, Lincoln, St. Catharines, Niagara Falls and Welland totals \$35.3 million.
- **For the 15-30 year term**, the proposed requirement for the municipalities of Grimsby, St. Catharines, Lincoln, West Lincoln, Niagara-on-the-Lake and Niagara Falls totals \$42.7 million. The proposed requirement for the Region's Long Term Care Homes and other wastewater projects totals \$141.3 million.

The Region monitors the markets and in consultation with our fiscal agents determines the most appropriate time to enter the capital markets. During the first few months of 2024, a few capital market debentures issuances have taken place including those from the Province of Newfoundland & Labrador (30 years 4.592%), Canada Housing Trust (5 years 3.716%) and the Province of Alberta (30 years 4.238%).

The Region engages its fiscal syndicate in the sale of Regional debentures in the capital markets; the syndicate is comprised of three fiscal agents: CIBC World Markets, RBC

Capital Markets and National Bank Financial. RBC Capital Markets will be the lead for the 2024 capital market transaction as per the annual established rotation.

Staff are also proceeding with debenture issues via the IO lending program throughout the remainder of 2024. Given that the Region is approaching its sector limit, other options for longer term financing will need to be considered. One option is to issue longer term debt through the capital markets, which can only be accessed through a bullet bond, and requires a sinking fund. The region currently has one sinking fund, that relates to debt issued for the Region and the City of St. Catharines, in 2010. Sinking funds require the annual investment of funds over the term of the debenture and the funds must be accounted for and reported on separately including annual audited financial statements. Staff have not pursued this particular type of debt since 2010 as a result of the administration required. Resources required to administer further sinking funds would need to be considered with this option. The capital markets offer serial or amortizer loans for terms 20 years or less, which is another option. This option could result in potential operating budget pressure as 30 year projects would need to be financed over shorter amortization periods. Approximately \$353.9 million or 70% of the Regions unissued debt is currently budgeted for based on a 30 year term.

These rates are indicative of current conditions including the past increases to the Bank of Canada rate, and it should be noted that rates may change according to subsequent market conditions and timing of the actual debenture issue. Interest rates for both IO and capital markets are in line with budget assumptions therefore staff are not anticipating further pressure as a result of interest rates at this time.

- The 10 year rates for IO and capital markets is approximately 4.31% and 4.199% respectively.
- The Region's last 10 year capital markets issuance was in 2022 at a rate of 4.056%.
- The 30 year IO rate is currently 4.60%.
- In March 2024, the Region settled an IO amortizing debenture on behalf of Wainfleet at a rate of 4.70% for 15 years.

Regional and LAM staff are in discussions around the future of the Regions debt program with the goal of establishing common debt approval and issuance principles in support of maintaining our credit rating with S & P and supporting the debenture needs of both the Region and LAMs for longer term debt. To support this work there will need to be more investment made in understanding our consolidated future capital needs and available funding sources. These conversations will also consider other debt funding

instruments, such as some of the more recent announcements at the Provincial and Federal levels.

### **Alternatives Reviewed**

The only alternatives available to the Region are:

- The decision of whether to issue debt with IO or capital markets however there are some limitations regarding the term of the debt and the administrative effort associated with setting up a sinking fund.
- The timing of the debenture which staff will monitor based on interest rate levels and cash flow requirements.

### **Relationship to Council Strategic Priorities**

The proposed 2024 debt issuance will fund capital infrastructure projects that support Council's strategic priorities of:

- Effective Region
- Equitable Region

### **Other Pertinent Reports**

- CSD 54-2023 – 2024 Consolidated Levy Operating Budget
- CSD 50-2023 – 2024 Budget - Water and Wastewater Operating Budget, Rate Setting and Requisition
- CSD 43-2023 – 2024 Capital Budget
- NTC 17-2023 – 2024 Proposed Operating & Capital Budget Submission and Requisition – Niagara Transit Commission
- CSD 48-2023 – 2024 Budget – Waste Management Services Operating Budget and Requisition

---

**Prepared by:**

Dorothy Szymkow, CPA  
Senior Budget Analyst  
Corporate Services

---

**Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner/Treasurer  
Corporate Services

---

**Submitted by:**

Ron Tripp, P.Eng.  
Chief Administrative Officer

This report was prepared in consultation with Beth Brens, Associate Director, Budget Planning & Strategy and Pamela Hamilton, Supervisor – Corporate Budgets and reviewed by Helen Furtado, Director, Financial Management & Planning/Deputy Treasurer.

**Appendices**

Appendix 1            Proposed 2024 Debenture Amount

Appendix 2            Annual Repayment Limits