

Subject: Debt Information Report – 2019 Debenture Issuance

Report to: Corporate Services Committee

Report date: Wednesday, June 12, 2019

Recommendations

1. That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide information on the 2019 debenture issuance requirements as follows:

Debt Term	Region Amount	LAM Amount	Total
1-15 Year Debt	\$39.1M	\$32.1M	\$71.2M
20-30 Year Debt	\$32.0M	\$2.6M	\$34.6M
Total	\$71.1M	\$34.7M	\$105.8M

- Issuance of the proposed \$71.1 million in Regional debentures will increase the Region's 2019 issued/outstanding debt from \$357.0 million to \$392.8 million (net of 2019 principal repayments of \$35.3 million, see Appendix 2).
- Previously authorized but unissued debt for the Region will decrease from \$195.8 million to \$129.6 million.
- This debenture issue will increase the Region's annual repayment limit from 7.26% to 8.23%, well below the 25% Annual Repayment Limit (ARL) set by the Province.
- The Debt Risk Management Framework was unanimously not supported at the February 20, 2019 Corporate Services Committee, and as a result the Region is relying solely on the due diligence conducted by the Local Area Treasurers.
- Niagara Region's fiscal agents will negotiate on Niagara Region's behalf the sale of debentures for financing requirements in 2019 for the Region and certain local area municipalities (LAMs) identified in Appendix 1;
- Should issuing debentures through the capital markets become a less desirable financing option based on prevailing interest rates, Infrastructure Ontario (IO) debenture financing may be used to the extent possible for the funding of capital projects identified in Appendix 1
- The debenture amount in this report for local area municipalities does not include 2019 requests of \$12.2 million that are being considered for issuance exclusively through Infrastructure Ontario. These will be reported separately to committee once all the information is available and approvals have taken place.

Financial Considerations

The total debt will be recorded as a long term liability on Niagara Region's financial statements with a corresponding debt recoverable from the LAM for the amount issued on behalf of the LAMs. All debt servicing costs associated with Niagara Region approved debt have been included within the Region's operating budget. The estimated debt servicing costs associated with Niagara Region's debt requirement of \$71.1M total to \$5.9M. All debt servicing costs for the LAM are budgeted by the LAM and recovered by the Region from the LAM. The latest published ARL for each LAM is included in Appendix 1.

Analysis

Each year, as the need arises, Niagara Region raises funds through the sale of Niagara Region debentures in the capital market to finance its capital needs and those of the area municipalities. This authority is granted solely to Regional government in accordance with the Municipal Act.

A listing of the preliminary debenture requirements through the capital markets is shown in Appendix 1 (Debenture Request):

- **For the 1-15 year term** the Regional portion totals \$39.1 million. This requirement includes projects for Niagara Regional Housing, Roads, Niagara Regional Transit, General Government, Properties Management, and Police. Included in this requirement is the refinancing of a balloon payment totaling \$4.85M for previously issued debt. At the time of debenture issuance for these projects, the longer term debt was not available, as a result the Region issued a debenture for the shorter duration available, with the option to refinance for an additional ten years. The proposed requirement for the municipalities of Wainfleet, Niagara Falls, Welland, St. Catharines, Pelham, and Niagara-on-the-Lake totals approximately \$32.1 million.
- **For the 20-30 year term** the Regional portion totals \$32.0 million for Roads, Public Health, Police, Wastewater, and Water. The proposed requirement for the municipality of Lincoln is \$2.6M.

Niagara's Fiscal Syndicate is comprised of three Fiscal Agents: National Bank Financial, CIBC World Markets, and RBC Capital Markets. CIBC World Markets will be leading the 2019 Capital Markets transaction as per the established annual rotation. Discussions with the Region's Fiscal Agents indicate that the market is receptive at this time for municipal bonds and prevailing all-in costs are around 3.0% **for a 1-25 year debenture**.

However, it should be pointed out that the markets are moving and these rates may change according to subsequent market conditions and timing of the actual debenture

issue. For comparison purposes, the Region was able to obtain an all-in rate of 3.207% in 2018 for the 1-25 year serial debenture issuance of \$65.8 million.

Niagara Region staff have compared the capital markets rates with those of Infrastructure Ontario's lending program. The Region is able to obtain more favourable rates through the Capital Markets in comparison to Infrastructure Ontario at the present time. Through the Capital Markets the Region can secure financing more quickly, with settlement expected this Summer, whereas the IO debenture would close in the Fall. The 25 year rate is 3.08% through Infrastructure Ontario and 3.0% through capital markets as at May 7, 2019.

Alternatives Reviewed

There would be no option for the Region to not proceed with issuance of debentures, given the debt has already been approved through prior capital budgets and capital projects are nearly complete. Staff can choose to issue debentures either through the Capital Markets or Infrastructure Ontario. The 25 year rate is 3.08% through Infrastructure Ontario and 3.0% through the capital markets as at May 7, 2019. Staff recommends proceeding with the debenture issuance through the Capital Markets, given the favourable interest rates. In the event that the capital markets become less favourable as a result of interest rates, debentures may be issued through Infrastructure Ontario.

Relationship to Council Strategic Priorities

This is an information report to communicate the term and proposed amount of the capital markets debenture issue. The proposed debt will fund capital infrastructure projects that were previously approved by Council through the annual Capital Budget. These projects support the sustainment of existing infrastructure as well as infrastructure required to support growth in the Region in alignment with Council's strategic priorities.

Other Pertinent Reports

2019 and prior approved Capital Budgets

Prepared by:

Talib Valli
Senior Treasury Analyst
Enterprise Resource Management
Services

Recommended by:

Todd Harrison, CPA, CA
Commissioner/Treasurer
Enterprise Resource Management
Services

Submitted by:

Ron Tripp, P.Eng.
Acting, Chief Administrative Officer

This report was prepared by Talib Valli, Senior Treasury Analyst, Margaret Murphy, Associate Director, Budget Planning & Strategy and Helen Chamberlain, Director, Financial Management & Planning.

Appendices

Appendix 1	Debenture Request
Appendix 2	Annual Repayment Limit

PROPOSED DEBENTURE AMOUNT

Summer 2019

The Regional Municipality of Niagara

1-15 Year Term

Region

Niagara Regional Housing	\$	15,170,730
Roads ¹	\$	8,015,063
Niagara Regional Transit	\$	11,835,466
General Government	\$	3,000,000
Properties Management ²	\$	454,688
Police ³	\$	606,250
Total for Region	\$	39,082,196

Area Municipalities

Wainfleet	\$	1,495,500
Niagara Falls	\$	4,300,000
Welland	\$	4,238,000
St. Catharines	\$	16,143,576
Pelham	\$	4,018,355
Niagara-on-the-Lake	\$	1,864,313
Total for Area Municipalities	\$	32,059,744

TOTAL 1-15 YEAR TERM

\$ 71,141,940

20-30 Year Term

Region

Roads	\$	10,912,500
Public Health	\$	2,640,000
Police	\$	8,766,676
Wastewater	\$	5,536,000
Water	\$	4,146,500
Total for Region	\$	32,001,676

Area Municipalities

Lincoln	\$	2,616,265
Total for Area Municipalities	\$	2,616,265

TOTAL 20-30 YEAR TERM

\$ 34,617,941

TOTAL PROPOSED DEBENTURE AMOUNT - SUMMER 2019

\$ 105,759,881

Footnotes:

1. Includes balloon payment refinancing of \$3,789,062.50
2. Balloon payment refinancing of \$454,687.50
3. Balloon payment refinancing of \$606,250.00

	Debt Outstanding As at Dec. 31, 2018	Sinking Fund Asset Adjustment	Total Adjusted Debt as at Dec 31, 2018	YTD Debt Issued in 2019	Principal Payments in 2019	Adjusted Debt Outstanding As at Dec. 31, 2019	Forecasted Issuance for 2019	Total Debt Outstanding, including Unissued and forecasted As at Dec. 31, 2019	Annual Repayment Limit %
Niagara Region:									
IT Solutions	2,563	-	2,563	-	(550)	2,014	-	2,014	
Court Services	9,147	-	9,147		(289)	8,858	-	8,858	
Properties Management	11,767	(380)	11,387		(1,579)	9,807	455	10,262	
General Government	-	-	-		-	-	3,000	3,000	
General Government	23,478	(380)	23,098	-	(2,419)	20,679	3,455	24,134	
Police	84,400	(1,418)	82,982		(4,812)	78,170	9,373	87,543	
Roads	123,205	(1,637)	121,568		(15,978)	105,589	18,928	124,517	
NRT	-	-	-		-	-	11,835	11,835	
Transportation	123,205	(1,637)	121,568	-	(15,978)	105,589	30,763	136,352	
Public Health	7,986	-	7,986		(1,580)	6,406	2,640	9,046	
Emergency Medical Services	6,332	-	6,332		(721)	5,611	-	5,611	
Public Health	14,318		14,318		(2,301)	12,017	2,640	14,657	
Community Services	14,780	-	14,780		(1,539)	13,242	-	13,242	
Seniors Services	7,269	-	7,269		(973)	6,296	-	6,296	
Community Services	22,049		22,049		(2,511)	19,538	-	19,538	
NRH	24,205	-	24,205		(3,019)	21,186	15,171	36,357	
Planning	63	-	63		(31)	32	-	32	
Sub-Total Levy	291,717	(3,435)	288,283	-	(31,072)	257,211	61,401	318,612	
Wastewater	63,154	(7,257)	55,898		(2,894)	53,004	5,536	58,540	
Water	13,050	(1,805)	11,245		(540)	10,705	4,147	14,852	
Waste Management	1,558	-	1,558		(763)	795	-	795	
Waste Disposal	-	-	-		-	-	-	-	
Waste Diversion	-	-	-		-	-	-	-	
Waste Management	1,558	-	1,558	-	(763)	795	-	795	
Sub-Total Rate	77,762	(9,062)	68,700	-	(4,197)	64,504	9,683	74,186	
Total Niagara Region:	369,480	(12,497)	356,983	-	(35,268)	321,715	71,084	392,798	8.23%
External:									
Fort Erie	7,383	-	7,383		(1,049)	6,333	-	6,333	3.69%
Grimsby	3,485	-	3,485		(345)	3,140	-	3,140	0.28%
Lincoln	4,485	-	4,485		(470)	4,015	2,616	6,631	4.05%
Niagara Falls	48,219	-	48,219		(3,758)	44,460	4,300	48,760	3.16%
NOTL	2,225	-	2,225		(421)	1,804	1,864	3,668	3.34%
Pelham	30,089	-	30,089		(1,855)	28,234	4,018	32,252	11.72%
Port Colborne	28,749	-	28,749		(1,504)	27,246	-	27,246	7.08%
St. Catharines	115,636	(1,688)	113,948		(11,983)	101,966	16,144	118,109	8.61%
Thorold	1,065	-	1,065		(115)	950	-	950	1.72%
Wainfleet	266	-	266		(53)	213	1,496	1,708	1.10%
Welland	50,046	-	50,046		(6,034)	44,011	4,238	48,249	9.04%
West Lincoln	15,025	-	15,025		(529)	14,496	-	14,496	0.28%
Local Area Municipalities	306,672	(1,688)	304,984	-	(28,117)	276,866	34,676	311,542	
NPCA	700	-	700		(484)	216	-	216	
Total External:	307,372	(1,688)	305,684	-	(28,601)	277,083	34,676	311,759	
Total Consolidated:	676,851	(14,185)	662,667	-	(63,869)	598,797	105,760	704,557	