

Subject: Debt Information Report – 2025 Debenture Issuance

Report to: Corporate Services Committee

Report date: Wednesday, April 9, 2025

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 2025 for both the Region and the Local Area Municipalities (LAMs), in accordance with established debenture issuance procedures.
- 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 \$157.0 million is being proposed (see Appendix 1 to Report CSD 16-2025).
- Of the proposed \$157.0 million debt issuance, \$79.9 million relates to regional debt which will increase the Region's 2025 outstanding debt from \$358.7 million to \$438.6 million. Previously authorized but unissued debt for the Region will decrease by \$79.9 million, from \$428.7 million to \$348.8 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 are proposing two capital markets debt issuances this year in June and December 2025 in alignment with the 2025 Council approved business case, and one debt issuance through the IO lending program in October 2025.
- 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 and cash flow management.

- Current and future debenture approvals and issuances are recommended in consideration of the impact on our Annual Repayment Limit (ARL), Standard and Poor (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 2025 for its financing requirements and that of certain LAMs identified in Appendix 1 to Report CSD 16-2025. The debenture issuance requirements for 2025 are summarized as follows:

Table 1 – Summary of Debt Requirements

Debt Term	Region Amount	LAM Amount	Total
1-10 Year Debt		\$31.3 M	\$31.3 M
15-30 Year Debt	\$79.9 M	\$45.8 M	\$125.7 M
Total	\$79.9 M	\$77.1 M	\$157.0 M

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 \$79.9 million is estimated at \$5.4 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 to ensure the full cost of debt servicing is included in the annual budget. The region currently has \$428.7 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 Region's \$79.9 million debt requirement in 2025 relates to the long-term care home project. IO approved the Region's application for debt financing of the new long term care home in 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 2025 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 in 2023, 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 dependent 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 the end of 2024, the sector limit for the Region was identified as \$623.5 million with \$76.7 million remaining unutilized. It is estimated that an additional \$20 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 (25 and 30 year) financing, relative to the market debentures, the sector limit will require the Region and LAMs to continue to work collaboratively to stay within the limit or consider alternative financing methods.

Standard and Poor (S&P)

On October 8, 2024, 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.

In their 2024 report, S&P Global Ratings lauded the Niagara Region for sound and transparent financial management protocols. It also deemed strengths of the regional economy to include sectors such as manufacturing and trade, healthcare, and the innovative Port Colborne electric vehicle battery separator facility currently under construction. Still, S&P predicted that the Niagara Region will face adversity in preserving its AA+ credit rating as it adds debt to upgrade essential infrastructure needs, especially in the realms of transportation and water/wastewater.

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 (Region and LAMs) over total operating revenues (Region and LAMs), staff were advised that the Region

should strive to remain below 75% in order to sustain its current credit rating. The Region's 2024 S&P ratio was 61.4% and 2025 forecasted ratio would be 63.9% based on proposed debt issuance in this report. It is expected that the S&P ratio will increase to 70.1% in 2026 and could exceed the 75% in the next five years based on forecasted LAM debt requirement and approved unissued Regional debt. 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 5.69% after the 2025 debenture issuance, well below the 25% ARL set by the Province. The ARL for each LAM is provided in Appendix 2 to Report CSD 16-2025 and is based on the latest available published Financial Information Return (FIR) which is generally 2023. 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.

Macroeconomic Outlook

According to the Region's main bank, RBC, the threat of significant international trade disruptions is overshadowing what would have been a substantially improving Canadian economy. The positive effect of lower interest rates had been showing up earlier than we expected a quarter ago without the tariff threats. RBC anticipates the Bank of Canada will cut the overnight rate to 2.25% by the summer this year due to the ongoing Canada-US trade war. 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 and cash flow management.

Financing Strategy

The Regions Capital financing Policy (Appendix 3 to Report CSD 16-2025) 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. The Region is forecasting that total 16 capital projects will be complete or nearing

completion in 2025. These projects were approved with debt financing by Council through budget process. Due to declining interest rates and effective cash flow management, staff are recommending to not proceed with debt financing in 2025.

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 is shown in Appendix 1 to Report CSD 16-2025:

- **For the 1–10-year term**, the proposed requirement for the municipalities of Welland, St. Catharines, and Lincoln totals \$31.3 million.
- **For the 15–30-year term**, The proposed requirement for the Region's Long Term Care Home project is \$79.9 million. The proposed requirement for the municipalities of Lincoln, Niagara Falls, Port Colborne, Niagara-on-the-Lake and St. Catharines totals \$45.8 million.

Capital Markets

The Region monitors the markets and in consultation with our fiscal agents determines the most appropriate time to enter the capital markets. Some of the main benefits of implementing two debt issuances through the capital markets include:

- **Interest rate risk management** – by issuing debt more frequently the Region reduces risk to interest rate fluctuations. If rates rise, only a portion of the year's debt is affected rather than the entire issuance. On the other hand, the Region will be able to take advantage of lower interest rate through the second issuance should the rates fall later in the year.
- **Diversified investor base** – multiple issuances provide more opportunities for different investors to participate, potentially improving demand and reducing borrowing costs. Some investors may prefer shorter or longer maturities depending on market conditions.

- **More competitive pricing** - If demand is high at one issuance but low at another, a twice-yearly approach provides flexibility to tap the market when conditions are more favorable, potentially securing better interest rates.
- **Cashflow and budgeting flexibility** - municipalities often have ongoing capital projects with varying cash needs. Issuing debt in two smaller tranches allows better alignment of debt proceeds with project expenditures, reducing the risk of idle cash and improving budget management.
- **Improved public perception and transparency** - frequent issuance can demonstrate proactive financial management, reassuring taxpayers, rating agencies, and investors that the municipality is carefully planning its debt strategy.

While issuing debt twice a year may increase administrative and legal costs slightly, these benefits are expected to outweigh the downsides, especially for municipalities with large or ongoing capital programs.

Table 2 – Summary of Capital Markets Issuances

Municipality	June Issuance	December Issuance	Total Capital Markets Debt
Niagara Region			
Lincoln	\$2.1 M		\$2.1 M
Niagara-on-the-Lake	\$1.7 M		\$1.7 M
St. Catharines	-	\$9.3 M	\$9.3 M
Welland	\$9.9 M	\$10.5 M	\$20.4 M
Total	\$13.7 M	\$19.8 M	\$33.5 M

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. National Bank Financial will be the lead for the June 2025 capital market transaction as per the annual established rotation.

Infrastructure Ontario (IO)

Staff are also proceeding with debenture issues via the IO lending program throughout the remainder of 2025.

Table 3 – Summary of IO Issuance

Municipality	IO Debt
Niagara Region	\$79.9 M*
Lincoln	\$21.9 M**
Niagara Falls	\$15.1 M
Port Colborne	\$6.5 M
Total	\$123.5 M

Notes:

* \$79.9 million for Long-term Care Home in St. Catharines was reflected in the IO unutilized debt room at the end of 2024;

** Out of the \$21.9 million, \$15.0 is pre-approved IO construction loans which were reflected in the IO unutilized debt room at the of 2024.

Table 4 – Available IO Debt Room

2024 Amount Remaining	\$76.7 M
2025 Principal Payment	\$20.0 M
2025 Amount Remaining	\$96.7 M
2025 Proposed IO Issuance (Table 3)	(\$123.5 M)
Add Back Amounts Accounted for in 2024	\$94.9 M
2025 Amount Remaining at Yearend	\$68.1 M

Sinking Fund

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 amortized 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 \$343.8 million or 80% of the Regions unissued debt is currently budgeted for based on a 30-year term.

Borrowing Rates

- The current 10-year rates for IO and capital markets are approximately 3.60% and 3.575% respectively.
- The Region's last 10-year capital markets issuance was in 2024 for \$27.5 million at an average rate of 4.140%.
- The current 25-year IO rate is 4.33%.
- In September 2024, the Region settled an IO serial debenture for a Regional Long Term Care Home at a rate of 4.34% for 25 years.

These rates are indicative of current conditions including the past decreases 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.

Future Debt Planning and Modernization

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. Both Region and LAM staff are actively monitoring and applying for applicable grant funding which would potentially reduce debt requirement following funding approval.

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 2025 debt issuance will fund capital infrastructure projects that support Council's strategic priorities of:

- Effective Region
- Equitable Region

Other Pertinent Reports

[CSD 64-2024 2025 Consolidated General Levy Budget](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=0281408c-b40e-404a-b9b0-5cdd3582ac52&Agenda=Merged&lang=English&Item=22&Tab=attachments>)

[BRC-C 25-2024 2025 Consolidated General Levy Budget Update Memo](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=6fe248c3-7e32-435a-8ffc-103cabcc703d&Agenda=Agenda&lang=English&Item=12&Tab=attachments>)

[CSD 48-2024 2025 Budget – Water and Wastewater Operating Budget, Rate Setting and Requisition](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=93252d78-80cf-4c36-9b0f-2f9cb97010a3&Agenda=Merged&lang=English>)

[CSD 46-2024 2025 Capital Budget](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=5b219e1e-806b-4418-92d6-0adf0327c6cd&Agenda=Agenda&lang=English&Item=13&Tab=attachments>)

[CSD 44-2024 Waste Management 2025 Operating Budget and Requisition](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=6ed594dd-1cef-4a22-92e7-186d204662a7&Agenda=Agenda&lang=English>)

[BRC-C 2-2024 2025 Proposed Operating Budget and Special Levy Requisition –
Niagara Transit Commission](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=93252d78-80cf-4c36-9b0f-2f9cb97010a3&Agenda=Merged&lang=English>)

[BRC-C 3-2024 Niagara Transit Commission Additional Budget Information](#)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=93252d78-80cf-4c36-9b0f-2f9cb97010a3&Agenda=Merged&lang=English>)

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Appendices

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| Appendix 1 | Proposed 2025 Debenture Amounts |
| Appendix 2 | Annual Repayment Limits |
| Appendix 3 | C-F-027 Capital Financing Policy |