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CITY OF **VANCOUVER**

ADMINISTRATIVE REPORT

Report Date:	February 11, 2008
Author:	Kenneth Bayne
Phone No.:	604.873.7223
RTS No.:	07214
VanRIMS No.:	05-1800-10
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TO: Vancouver City Council

FROM: General Manager of Corporate Services / Director of Finance

SUBJECT: 2008 Debenture Program

RECOMMENDATION

A. *THAT Council approve the issuance of up to $125 million City of Vancouver debentures utilizing debenture authority approved as part of the 2006 to 2007 Capital Budgets as follows:*

Funding Category	*Proposed Debenture*
Sewers	*$27,800,000*
Waterworks	*11,900,000*
Public Works	*31,700,000*
Public Safety & Civic Facilities	*31,100,000*
Parks and Recreation	*3,000,000*
Community Legacy Facilities	*19,500,000*
Total	*$125,000,000*

B. *THAT, during the next three month period, the Director of Finance be empowered to act and instruct the City's Fiscal Agent to proceed with the issue, after consultation with the Mayor, the Chair of the City Services and Budgets Committee, and the City Manager, or a majority of them, and to set the rate, price, and other terms on which the debentures will be issued by the City.*

It should be noted that once the Director of Finance instructs the fiscal agent to offer the debenture in the public markets, Council will be required to pass the appropriate borrowing by-law to authorize issuance of the debenture.

COUNCIL POLICY

Council gets its authority to issue debentures from two sources. Under provisions of the Vancouver Charter, Council has the authority to approve borrowing authority for water and sewer purposes. For all other purposes, Council's authority to approve borrowing authority and to issue debentures follows from approval of the electors to specific borrowing questions normally associated with the City's capital planning process.

The requirement to borrow funds to finance capital expenditures is established by Council at the time of the approval of the annual Capital Budgets.

As a pre-condition to an external debenture issue, City Council authorizes the Director of Finance to set the rate, price and other terms and conditions on which the debenture issue will be marketed, including the power to instruct the City's Fiscal Agent to proceed with the issue. In doing so, Council commits itself to follow through with the debenture issue and to pass the appropriate borrowing by-law after the debentures are sold.

PURPOSE

The purpose of this report to seek Council's authorization for the Director of Finance to issue City of Vancouver debentures to finance the City's capital expenditure program.

BACKGROUND

In 1970, the City opted to maintain a borrowing program outside of the newly created Municipal Finance authority. Council noted a number of issues in making this decision, including the lack of direct representation on the MFA; the loss of control over amounts borrowed and debenture terms and timing by passing responsibility for financing capital program to MFA; the need to contribute to a debt repayment reserve at MFA; and the loss of control over any sinking funds accumulated against City issue debt. Since 1970, the City has continued to borrow in its own name and to manage a significant debenture portfolio, with full control over the process exercised by Council. At the same time, the City continues to maintain a credit rating and market access equivalent to MFA.

The City' on-going program of borrowing by debentures to finance capital expenditures is tied to the capital expenditure planning process. Under normal circumstances, debt is repaid over a ten year period so that the cost of the capital works is spread out over that period of time. The City is required to make full provision in its annual budget for the principal and interests costs associated with its borrowing program, ensuring that debenture holders are paid the interest component and that sufficient funding is available at maturity to retire the obligation.

The City's strong financial position means that the timing for a debenture issue is most often influenced by conditions for market acceptance of an issue and prevailing interest rates rather that by cash flow considerations (i.e. when the funds are required to finance capital expenditures). The City completed its last debenture issue in September 2007 with $125 million in sinking fund debentures sold in the Canadian market. The "all-in" cost of that issue was 4.83%, among the lowest on debt currently held by the City.

The City utilizes a "fiscal agent" to provide advice on the City's debenture issues and to lead a syndicate of investment brokers who purchase the City debentures and market them to investors throughout the world. The current syndicate is co-led by RBC Global Markets and CIBC World Markets, two of the largest public sector debenture management firms in Canada.

DISCUSSION

1. Debenture Timing

The City's September 2007 debenture issue was a 10 year sinking fund issue and was structured to facilitate a "re-opening" in the first half of 2008 if market conditions were appropriate. Re-opening an issue doubles the value of debentures outstanding and increases liquidity which is important for many of the institutional investors who purchase City of Vancouver debentures. An issue of $125 million will result in an issue with a total value of $250 million.

Following on this strategy, staff have been monitoring the capital markets. A number of conditions suggest that the timing is right for a debenture issue in the next few weeks. With the uncertainty in the markets arising from the significant declines in the US economy and the liquidity concerns arising from the Asset Backed Commercial Paper failures, short term and long term interest rates continue at historically low levels and have actually fallen since the September 2007 issue. These are conditions precedent to the re-opening strategy of the 2007 issue. At current rates, an issue at this time would likely be in the range of 4.6%, the second lowest for the City's debenture program since the 1970s. While an issue at this time would include pre-funding of some capital expenditures, there is the opportunity to find interim investments for the debenture proceeds at yields very near the cost of borrowing.

As a result of these conditions, it is important that the City be positioned to proceed to market a debenture issue to take advantage of these market conditions, including having the necessary approvals in place.

In marketing a debenture issue, the borrower needs to have complete flexibility to decide on the timing of the sale, the structure of the issue, the market into which the issue will be offered (public, private, domestic, Europe) and the interest rate and price of the issue, right up to the point of sale. The timetable of Council meetings at which approval for debenture issues can be sought does not support this degree of flexibility. It has been Council practice to give the authority to initiate an issue of debentures to the Director of Finance and a group consisting of the Mayor, the Chair of the City Services and Budgets Committee and the City Manager. Essentially, this group is empowered to make the final decisions leading to the issuance of the debentures. Once this group approves the sale, Council is committed to pass the necessary by-law as part of the debenture documentation package. This arrangement has worked very well in the past and is recommended for the 2008 issue.

Staff consider a number of issues in determining the appropriate timing of a debenture issue. As noted, issues tend to be timed to market conditions into which an issue will be launched rather than to the timing of specific capital expenditures. In the interim, internal resources are available to finance the capital program. Over the years this has reaped significant benefits to the City because we have been able to take advantage of market opportunities rather than be at the mercy of fluctuating interest rates.

The City has an excellent credit rating, making City debentures an attractive investment in domestic markets but opening the door to issues in other markets as well. Moody's Investor Services rates Vancouver at AAA (stable); Standard and Poor's at AA+ (high). These are among the best municipal ratings in the country and are equivalent to the ratings of many Canadian regional municipalities and the Municipal Finance Authority and make City of Vancouver debentures very attractive to investors.

2. Borrowing Authorities

It is anticipated that the borrowing will be comprised of the following authorities associated with recent Capital Plans:

Category	Available Authority 2006 – 2008 Capital Plan	Proposed Debenture
Sewers	$27,805,000	$27,800,000
Waterworks	11,928,000	11,900,000
Public Works	31,785,000	31,700,000
Public Safety & Civic Facilities	31,989,100	31,100,000
Park & Recreation	3,000,000	3,000,000
Community Legacy Projects	19,500,000	19,500,000
Totals	$126,007,100	$125,000,000

The existing borrowing authority for Sewer and Water projects has been approved by Council as part of the 2006 and 2007 Capital Budgets. The balance of the issue is derived from borrowing authorities approved by the electorate for Public Works, Public Safety, Civic Facilities, Parks and Recreation and Community Legacy Facilities. Specific Council approval for program and project expenditures has been provided in Capital Budgets associated with Capital Budgets from 2006 and 2007.

3. Fiscal Agent

As a periodic participant in the capital markets, it is impossible for the City of Vancouver to be up to date on the borrowing conditions or to have access to the extensive infrastructure necessary to market a debenture issue. The City therefore relies on a "fiscal agent" to assist with our borrowing program. The "fiscal agent" provides expert advice on a variety of issues related to issuance of debentures, including market conditions, the timing, size and structure of debenture issues; orderly marketing procedures to avoid conflicts with similar competing borrowers; favourable marketing of the name of the borrower to the capital markets. This service is particularly critical when the City is preparing to launch a debenture issue because significant savings in interest costs are possible if a borrower can position itself to take advantage of favourable market conditions. When the City is ready to launch an issue, the fiscal agent is responsible for managing the sale of the issue through a syndicate of brokers.

The City's debenture syndicate is co-led by RBC Capital Markets and CIBC World Markets. RBC Capital Markets has assisted the City with the placement of a number of successful debenture issues dating back to the 1970s. CIBC World Markets has acted as a dominant member of the syndicate for many years and led the City's 2005 debenture issue.

The co-lead model in the City's syndicate is based on the understanding that the role of the fiscal agency will alternate between the RBC Capital Markets and CIBC World Markets. As RBC Capital Markets led the last City issue, CIBC World Markets will act as fiscal agent for the debenture issue contemplated in this report.

FINANCIAL IMPLICATIONS

Issuance of debt by the City will require that the associated debt charges (principal and interest payments) be added to the Operating Budget. An issue of $125 million will incur approximately $15.6 million in annual debt charges beginning in 2008. Funding is available in the 2008 Operating Budget to offset 2008 costs. Ongoing costs will be mitigated by anticipated maturities providing offsetting reductions in debt charges and by the use of debt charges stabilization reserve funds.

CONCLUSION

The Director of Finance is seeking authority to take advantage of anticipated market conditions by having authorities in place to issue a City of Vancouver debenture in the next few months.

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