



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: July 9, 2008
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TO: Vancouver City Council
FROM: General Manager of Financial Services/Director of Finance
SUBJECT: 2008 Debenture Program: Extension of Borrowing Authority

RECOMMENDATION

THAT, until the borrowing authority approved by Council in February 2008 is exercised, 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 is to seek an extension of the borrowing authority approved by Council in February, for the Director of Finance to issue up to \$125 million of City of Vancouver debentures to finance the City's capital expenditure program.

BACKGROUND

On February 26, 2008 Council approved the following recommendations authorizing the Director of Finance to execute the 2008 borrowing program:

- 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:*

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

- 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.*

DISCUSSION

The period since Council authorized the Director of Finance to issue up to \$125 million in City of Vancouver debentures has been a turbulent one in the Canadian financial markets. Relative Borrowing costs for all public and private sector borrowers are unfavourable as investors have demanded increased risk premiums to purchase almost all debt. The abundance of caution among investors has resulted in a significant contraction in market issuance by all levels of government. For many issuers - even those with the highest credit ratings - being able to reasonably price an issue in the market has been extremely difficult.

These difficult market conditions have resulted in unacceptable conditions for the City to launch a debenture issue. During this period, there were virtually no municipal issues in Canada, with the exception of those placed privately by brokers. The Municipal Finance Authority launched a \$440 million, 10 year issue in mid May which was taken up by the market, although it was viewed as being priced to attract investors.

In recent months, markets began to settle and the staff believe an opportunity to take advantage of more favourable market conditions may come in the next few months, perhaps even during the period of the Council break. In order to provide flexibility during difficult market conditions, an extension to the authority approved in February is sought until the issue is launched.

Consistent with the authority provided in February, any debenture issue will require the concurrence of a group consisting of the Mayor, the Chair of the City Services and Budgets Committee and the City Manager. 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.

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 2009. Funding provided in the 2008 Operating Budget will be carried into 2009 to partially offset these costs and the balance of the necessary funding has been anticipated in the planning for 2009. 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

Providing an extension to the authority to issue debentures to fund the City's capital expenditure program will provide the Director of Finance with the flexibility to issue at a time that is most advantageous to the City.

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