CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	July 8, 2019
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Meeting Date:	July 24, 2019

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: 2019 Debenture Program

RECOMMENDATION

A. THAT Council authorize the issuance of up to $100,000,000 of City of Vancouver debentures, utilizing borrowing authorities approved as part of the 2015, 2016, 2017 and 2018 Capital Budgets as follows:

Water	$ 1,000,000
Sewer	$ 23,952,076
Parks	$ 8,000,000
Recreation and Exhibition Facilities	$ 32,500,000
Public Safety Facilities	$ 1,047,924
Streets and Bridge Infrastructure	$ 7,300,000
Street Lighting, Traffic Signals and Communication Systems	$ 4,000,000
Community Facilities	$ 13,700,000
Civic Facilities and Infrastructure	$ 8,500,000
	$ 100,000,000

B. THAT, until the borrowing authorities established pursuant to Recommendation A are exercised, the Director of Finance, in consultation with the Mayor, the Chair of the City Finance and Services Committee, and the City Manager, or a majority of them, be empowered to act and instruct the City's bank syndicate to proceed with the issuance of the debentures, and to set the interest rate, price, and other terms and conditions on which the debentures will be issued by the City.

It should be noted that once the Director of Finance instructs the bank syndicate to offer the debentures in the public market, Council will be required to enact the appropriate borrowing by-law to authorize issuance of the debentures.

REPORT SUMMARY

The purpose of this report is to seek Council's authorization for the Director of Finance to issue up to $100,000,000 of City of Vancouver debentures as part of its regular debenture funding program to finance the City's capital programs.

The borrowing authorities as outlined in this report were established in the 2015-2018 Capital Plan through Council and electorate approval, and the requirement for debenture funding approved by Council as part of the 2015, 2016, 2017 and 2018 Capital Budgets. Funding for the debt servicing charges (principal and interest) arising from the proposed borrowing will be provided in the annual Operating Budgets. As the final step in the process, the Director of Finance is seeking authority to exercise these authorities to finance the capital programs.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

It has been Council practice to fund capital programs for the waterworks, sewerage & drainage, and energy utility systems from debenture borrowing. As part of the City's long-term debt management strategy, the water utility has transitioned its infrastructure lifecycle replacement program from debt financing to pay-as-you-go, and the sewerage & drainage utility is undergoing a similar transition. This will help lower the City's overall debt and save interest costs over the long term. Looking ahead, the City will continue to explore opportunities, where appropriate, to transition the general capital programs to a higher proportion of pay-as-you-go to improve the City's long-term debt profile and maintain its high quality credit ratings.

The balance of capital programs are funded from a combination of debenture borrowing, direct contributions from the annual Operating Budget (Capital from Revenue), Development Contributions, special-purpose reserves, internal loans, fees and levies collected from property owners, and contributions from senior governments and other funding partners.

Section 242 of the *Vancouver Charter* gives Council the authority to borrow funds for the construction, installation, maintenance, replacement, repair and regulation of waterworks, sewerage & drainage and energy utility systems without the assent of the electorate. Section 245 requires that the borrowing authority for all other purposes be established through the electorate's approval of a borrowing plebiscite.

The requirement to borrow funds to finance capital programs is established by Council at the time of the approval of the annual capital budget and through special approvals. Borrowed funds are generally paid back over 10 years to ensure that a systematic borrowing program can be administered, that outstanding debt does not accumulate to unacceptable levels, and that annual debt servicing charges (principal and interest) are maintained at a level that does not put undue pressure on the operating budget. As part of prudent financial management, the City does not pre-finance capital investments. The practice has been to optimize the use of existing cash balance versus debt issuance to minimize borrowing costs. The recommended debenture issuance is within the approved debt financing envelope as part of the Capital Plan, and the proceeds will be used to replenish funds already allocated and expended on the capital programs/projects mentioned in Recommendation A.

Section 247A of the *Vancouver Charter* requires that full provision of annual debt servicing charges (principal and interest) be made in the annual budget. This ensures that debenture holders are paid the interest component at the prescribed rate and time and that sufficient funding is available to retire the obligation at maturity.

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

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

REPORT

Background/Context

The City is the only local municipality in British Columbia that manages its own borrowing program outside of the Municipal Finance Authority of British Columbia (MFABC). Pursuant to Council's authority as stipulated in the *Vancouver Charter*, the City borrows in its own name and manages its debenture portfolio with full autonomy over the timing of issuances, amounts, terms and conditions of the debenture issues, and management of the sinking funds accumulated against City of Vancouver debentures.

The City's credit ratings continue to be among the best municipal ratings in Canada with Aaa (stable) by Moody's Investors Service and AAA (stable) by S&P Global Ratings, making City of Vancouver debentures an attractive investment in both domestic and international markets. With respect to market access, the City has enjoyed the same level as the MFABC with no material difference in pricing.

Given the City's record of strong financial and liquidity position, the timing for debenture issuance is most often driven by capital market conditions such as global risk appetite, interest rate environments, and investors' demand. The City has been accessing the market annually, with the recent inaugural Green Bond completed in September 2018: $85 million 10-year sinking fund debentures, maturing on September 21, 2028, at an "all-in" cost of 3.189%.

The City utilizes a bank syndicate of investment brokers to provide expert advice on debenture issues and to purchase City of Vancouver debentures and market them to domestic and international investors. The bank syndicate comprise of Canadian investment brokers being Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank Financial, Royal Bank of Canada, Scotia Capital, TD Bank, Casgrain and Canaccord which collectively provide the widest debenture issuance coverage of investors for Canadian public sector issuers.

Strategic Analysis

Market Conditions

Global economic activity shows early signs of a potential slowdown driven by market volatility due to global trade tensions, regional events, and uncertainty in Europe, Asia, and other areas that have kept interest rates low by historical standards. Despite market volatility, investors' appetite for municipal debentures with good credit quality remains strong. Recently, the estimated "all-in" cost for a 10-year issue is in the range of 2.50% to 3.00%, which would continue to be low by historical standards. The City has typically issued 10-year debentures, with the exception of a 40-year debenture issued in 2012 to take advantage of the low rate environment. Staff will continue to monitor the market situation to determine an opportune time to issue, likely in the fall. The Director of Finance recommends that the City be positioned to proceed to market up to a $100,000,000 debenture issue and have the necessary approval in place.

Integral to the City's cash management strategy, any debenture proceeds that are not immediately required to fund capital programs will be invested on an interim basis to reduce the debt carrying costs. On the other hand, should market conditions change drastically that preclude such a launch, the practice has been to optimize the use of existing cash balance versus debt issuance to minimize borrowing costs.

Debenture Issuance Process

Given the market volatility and dynamics, the City needs to have a high degree of flexibility in determining the timing, structure, interest rate and pricing of the debenture issue right up to the market launch. The schedule of Council meetings at which approval for a debenture issue can be sought does not support such degree of flexibility. It has been Council practice to delegate the authority to initiate a debenture issue to the Director of Finance, in consultation with an advisory group consisting of the Mayor, the Chair of the City Finance and Services Committee, and the City Manager. This group is empowered to make the final decision leading to the issuance of the debentures in accordance with the parameters of this report. Once this group approves the sale, Council is committed to enact the appropriate borrowing by-law as part of the debenture documentation package. This arrangement has worked well in the past and is recommended for the upcoming issue.

The City's debenture program includes both green and regular bond issuances. In 2018, the City developed a Green Bond Framework (https://vancouver.ca/files/cov/green-bond-framework.pdf), evaluated and screened capital projects that were eligible within the City's Green Bond Framework, and issued its inaugural green bond in September 2018. As not all of the City's capital projects are eligible as green under the Green Bond Framework, the program will alternate between issuing green and regular debentures. This year we will issue a regular debenture.

Bank syndicate

As a periodic participant in the capital market, the City relies on its bank syndicate to provide expert advice on market conditions; timing of issuances, size and structure of the issue; orderly marketing procedures to avoid conflicts with competing issuers; and marketing strategy to achieve the lowest possible borrowing cost for the City. When the City is ready to launch an issue, the City's bank syndicate is collectively responsible for managing the sale of the debentures. A senior lead from the bank syndicate will be chosen by the City to lead manage the debenture issuance.

Borrowing Authorities

The $100,000,000 debenture issue contemplated in this report is comprised of the following borrowing authorities established from the 2015-2018 Capital Plan:

Council approved borrowing authorities:		
Water	$	1,000,000
Sewer	$	23,952,076
Plebiscite approved borrowing authorities:		
Parks	$	8,000,000
Recreation and Exhibition Facilities	$	32,500,000
Public Safety Facilities	$	1,047,924
Streets and Bridge Infrastructure	$	7,300,000
Street Lighting, Traffic Signals and Communication Systems	$	4,000,000
Community Facilities	$	13,700,000
Civic Facilities and Infrastructure	$	8,500,000
	$	**100,000,000**

Debenture Structure

The City has been a regular annual debenture issuer in recent years. As reported in the 2018 Annual Financial report, the City had $1,083.2 million in external debt outstanding as of December 31, 2018. The City has accumulated $494.2 million in Sinking Fund reserves for retirement of this debt which leaves a net external debt outstanding of $589.0 million. The summary of outstanding debt and details of the City debenture issues are included in Appendix A.

Financial Implications

The annual debt servicing charges (sinking fund instalments and interest) on a $100,000,000 debenture issue are estimated at approximately $13 million, subject to bond market conditions upon issuance. Funding will be provided in the annual Budgets. On-going debt charges will be offset by anticipated debt maturities and/or use of debt stabilization reserves.

CONCLUSION

The Director of Finance recommends that the City be positioned to proceed to market up to a $100,000,000 debenture issue and have the necessary approval in place.

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City of Vancouver Debentures

Capital Plan Debenture	Amount ($ 000's)	Maturity	Interest Rate
2009 – 10 year term	125,000	2019-12-02	4.90%
2010 – 10 year term	125,000	2020-06-01	4.50%
2010 – 20 year term	3,202	2030-09-30	1.71%
2011 – 10 year term	140,000	2021-12-02	3.45%
2012 – 40 year term	120,000	2052-10-18	3.70%
2013 – 10 year term	110,000	2023-10-24	3.75%
2014 – 10 year term	105,000	2024-10-16	3.05%
2015 – 10 year term	90,000	2025-11-20	2.90%
2016 – 10 year term	90,000	2026-12-15	2.70%
2017 – 10 year term	85,000	2027-11-03	2.85%
2018 – 10 year term	85,000	2028-09-21	3.10%
2018 – 10 year term	5,000	2028-11-20	4.07%

At December 31, 2018

Total outstanding	1,083,202
Less: Sinking Fund Reserve [1]	494,182
Net outstanding	589,020

Notes:
1 - $435,456 is the statutory minimum sinking fund reserve
Source: 2018 Annual Financial Report, page 20 and 46