



REPORT

Report Date: January 6, 2021
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RTS No.: 14261
VanRIMS No.: 08-2000-20
Meeting Date: February 9, 2021
[Submit comments to Council](#)

TO: Vancouver City Council

FROM: General Manager, Finance, Risk and Supply Chain Management

SUBJECT: Federation of Canadian Municipalities Green Municipal Fund Loan Agreement

RECOMMENDATION

THAT Council authorize the Director of Legal Services, in consultation with the Director of Finance, to, on behalf of the City, negotiate and execute an agreement with the Federation of Canadian Municipalities (Green Municipal Fund) for a loan of up to \$3,726,200 to fund the New Sewage Heat Capacity for False Creek Neighbourhood Energy Utility Project in place of the City's debenture program and on terms as generally described in Appendix A to this Report.

REPORT SUMMARY

The successful implementation of the City's 2019-2022 Capital Plan requires senior government and partnership funding.

On March 12, 2019, (RTS 13018) Council approved an application to Investing in Canada Infrastructure Program – CleanBC Communities fund for \$10.7 Million toward the New Sewage Heat Capacity for False Creek Neighbourhood Energy Utility Project ("the Project").

On September 18th, 2019, (RTS 12722) Council approved an application to the Federation of Municipalities (FCM) Green Municipal Fund (GMF) for a loan of up to \$11.6 million and a grant of up to 15% \$1.8 million toward the Project. At that time, staff noted that if the City was successful in its application, staff would seek Council approval for the loan agreement with FCM.

On August 21, 2020 the City was approved for a grant of \$10,214,869 from the Investing in Canada Infrastructure Program – CleanBC Communities Fund (ICIP – CCF) for the Project.

The approval of the ICIP-CCF grant of \$10.2 Million reduced the amount of funding required from the FCM GMF. In September 2020, the FCM approved a loan of up to \$3,726,200 and grant of up to \$558,930 (15% of loan) for the project.

The combination of the maximum loan and grant from the FCM GMF is forecast to save the City an estimated \$260,000 over the 10-year term of the loan compared to the City's most recent debenture issuance.

The City is now preparing to enter into the loan agreement with FCM for the Project. Subject to Council approval, this loan will be secured in place of the City's external debenture funding for this project, all within the borrowing authority established in the 2019-2022 Capital Plan and the previously approved budget.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

It has been Council practice to fund capital expenditures from a combination of debenture borrowing, direct contribution from the annual Operating Budget (Capital from Revenue), Development Cost Levies and Community Amenity Contributions from developers, special-purpose reserves, internal loans, fees and levies collected from property owners, and contributions from senior governments and other funding partners.

Under the Vancouver Charter, Section 242 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.

The requirement to borrow funds to finance capital expenditures is established by Council at the time of the approval of the annual capital budget and through special approvals.

Section 247 A of the *Vancouver Charter* requires that full provision of annual debt servicing charges (principal and interest) be made in the annual operating budget.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The Director of Finance recommends approval of the recommendations in this report.

REPORT

Background/Context

FCM's GMF provides loans in combination with grants to implement capital projects that demonstrate innovative solutions or approaches to municipal environmental issues and generate lessons and models for municipalities of all sizes across Canada. The program funds projects in the following areas: energy, transportation, waste and water.

On March 12, 2019, Council authorized the City to apply to the Investing in Canada Infrastructure Program - CleanBC Communities Fund (ICIP – CCF) for a grant of up to \$10.7 million for the New Sewage Heat Capacity for False Creek Neighbourhood Energy Utility Project (the Project). On August 21, 2020 the City was approved for a grant of \$10,214,869 from the Investing in Canada Infrastructure Program – CleanBC Communities Fund (ICIP – CCF) for the Project.

On September 18, 2019, Council authorized the City to apply to the FCM GMF for a loan of up to \$11.6 million and a grant of up to 15% of the loan amount (or \$1.8 million) toward the same project.

These funding programs provide the City with the opportunity to reduce the long-term cost of service for NEU customers, helping improve the cost competitiveness of the NEU's low carbon service with traditional GHG-intensive forms of heating that rely on natural gas, and reducing the City's debt financing requirements for the utility.

Staff is now seeking Council approval to enter into the loan agreement with the FCM.

Strategic Analysis

FCM's GMF provides loans in combination with grants to enable cost-effective financing for eligible capital projects. The grant, which is set at 15% of the loan amount, is intended to offset the borrowing costs associated with the loan.

For this loan, the loan interest rate is the greater of:

- the Government of Canada ten-year benchmark bond yield indicated at www.bankofcanada.ca for the Business Day immediately preceding the Loan Disbursement Date plus (B) 2.22% per annum; and
- 3.10% per annum

Based on recent ten-year benchmark bond yields, the FCM loan interest rate is projected to be in the range of 3.02% to 3.10%. Based on a rate of 3.10%, the effective borrowing rate for the combined loan and grant would be approximately 0.35%, well below the City's borrowing rate of 1.42% on its most recent 10-year debenture issue. The combination of the loan and grant from the FCM GMF is forecast to save the City an estimated \$260,000 over the 10-year term of the loan compared to the City's most recent debenture issuance

Subject to Council approval, the Director of Finance will enter into direct negotiations with the FCM to finalize detailed loan conditions and terms as outlined in the attached form of By-law in Schedule A and bring a completed By-law for each project back to Council for approval at the time the loan is made.

Implications/Related Issues/Risk

Financial

Under the Vancouver Charter, Section 242 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.

The FCM loan will be secured in place of the City's external debentures for the project, within the Council approved borrowing authorities established by Council in the 2019-2022 Capital Plan and the debenture funding requirement approved by Council as part of the approved multi-year capital project budget.

The FCM GMF loan of up to \$3,726,200 will be used in place of the City's debenture program. Upon finalization of the FCM GMF loan and grant amounts, staff will bring forward a budget adjustment to use the FCM grant in place of any remaining approved debenture funding for the project.

Any portion of the FCM grant not put toward the project capital cost will be used towards annual debt service charges for the FCM GMF loan (principal and interest) with the remaining funding for the annual debt servicing charges provided for in the annual budget for the Neighbourhood Energy Utility.

Legal

Subject to Council approval to enter into the loan agreement with the FCM, a Borrowing By-law will be brought back to Council for approval at the time the loan is to be made.

CONCLUSION

Staff recommend that Council authorize the Director of Legal Services, in consultation with the Director of Finance, to enter into a loan agreement with the FCM GMF for up to \$3,726,200 for the New Sewage Heat Capacity for False Creek Neighbourhood Energy Utility Project. The combination of the loan and grant will allow the City to save a total of approximately \$260,000 in debt service costs over the term of the loan.

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CONDITIONS OF THE DEBENTURE

1. The debentures issued pursuant to the By-law (collectively the “Debentures” and individually a “Debenture”) are issuable as fully registered Debentures without coupons.
2. The Debentures are direct, unsecured and unsubordinated obligations of the City. The Debentures rank concurrently and equally in respect of payment of principal and interest with all other debentures of the City except for the availability of money in a sinking or retirement fund for a particular issue of debentures.
3. This Debenture is one fully registered Debenture registered in the name of FCM and held by FCM.
4. The City shall maintain at its designated office a registry in respect of the Debentures in which shall be recorded the names and the addresses of the registered holders and particulars of the Debentures held by them respectively and in which particulars of the cancellation, exchanges, substitutions and transfers of Debentures, may be recorded and the City is authorized to use electronic, magnetic or other media for records of or related to the Debentures or for copies of them.
5. The City shall not be bound to see to the execution of any trust affecting the ownership of any Debenture or be affected by notice of any equity that may be subsisting in respect thereof. The City shall deem and treat registered holders of Debentures, including this Debenture as the absolute owners thereof for all purposes whatsoever notwithstanding any notice to the contrary and all payments to or to the order of registered holders shall be valid and effectual to discharge the liability of the City on the Debentures to the extent of the sum or sums so paid. Where a Debenture is registered in more than one name, the principal of and interest from time to time payable on such Debenture shall be paid to or to the order of all the joint registered holders thereof, failing written instructions to the contrary from all such joint registered holders, and such payment shall constitute a valid discharge to the City. In the case of the death of one or more joint registered holders, despite the foregoing provisions of this section, the principal of and interest on any Debentures registered in their names may be paid to the survivor or survivors of such holders and such payment shall constitute a valid discharge to the City.
6. The record date for purposes of payment of principal of and interest on the Debentures is as of 5:00 p.m. on the sixteenth calendar day preceding any Payment Date including the maturity date. Principal of and interest on the Debentures are payable by the City to the persons registered as holders in the registry on the relevant record date. The City shall not be required to register any transfer, exchange or substitution of Debentures during the period from any record date to the corresponding Payment Date.
7. The City shall make all payments in respect of semi-annual instalments of combined (blended) principal and interest on the Debentures on each Payment Date commencing on [Instruction: Date which is six months after the Disbursement Date (and which matches the first payment date in the amortization schedule)] (other than in respect of the final payment of principal and outstanding interest on the maturity date upon presentation and surrender of this Debenture) on such terms as the City and the registered holder may agree.

8. Following [Instruction: Insert mid-point date of Term], the City may on any subsequent semi-annual payment date, on not less than thirty (30) days notice to FCM, prepay all or part of the principal that is then outstanding, provided it simultaneously pays all accrued interest thereon plus, as a bonus, an additional three percent (3%) of the principal amount prepaid. In the case of a prepayment of a part of the principal, the amortization schedule set out in the Schedule shall be adjusted accordingly. In the case of a prepayment of a part of the principal, the amount of such prepayment cannot be less than the sum of one hundred thousand dollars (\$100,000.00). Upon delivery of such notice, the City shall be obligated to effect prepayment in accordance with the terms of the notice and this section. Any amounts prepaid may not be re-borrowed.
9. If the City defaults in the payment of any instalment of combined (blended) principal and interest at any time appointed for payment thereof, the City shall, until such overdue principal and/or interest amount(s) has/have been paid in full, pay to FCM interest on the principal that is from time to time outstanding at an annual rate that equals the total of: (a) [Instruction: Insert the rate determined by Section 2.06a of the Combined Loan and Grant Agreement], plus (b) two point five percent (2.5%) per annum, calculated from the date of such default.
10. Whenever it is necessary to compute any amount of interest in respect of the Debentures for a period of less than one full year, other than with respect to regular semi-annual interest payments, such interest shall be calculated on the basis of the actual number of days in the period and a year of 365 or 366 days, as appropriate.
11. Payments in respect of principal of and interest on the Debentures shall be made only on a day on which banking institutions in Ottawa, Ontario, are not authorized or obligated by law or executive order to be closed (an "Ottawa Business Day"), and if any date for payment is not an Ottawa Business Day, payment shall be made on the next following Ottawa Business Day and no further interest shall be paid in respect of the delay in such payment.
12. The Debentures are transferable or exchangeable at the office of the Treasurer of the City upon presentation for such purpose accompanied by an instrument of transfer or exchange in a form approved by the City and which form is in accordance with the prevailing Canadian transfer legislation and practices, executed by the registered holder thereof or such holder's duly authorized attorney or legal personal representative, whereupon and upon registration of such transfer or exchange and cancellation of the Debenture or Debentures presented, a new Debenture or Debentures of an equal aggregate principal amount in any authorized denomination or denominations will be delivered as directed by the transferee, in the case of a transfer or as directed by the registered holder in the case of an exchange.
13. The City shall issue and deliver new Debentures in exchange or substitution for Debentures outstanding on the registry with the same maturity and of like form which have become lost, stolen, mutilated, defaced or destroyed, provided that the applicant therefor shall have: (a) paid such costs as may have been incurred in connection therewith; (b) (in the case of a lost, stolen or destroyed Debenture) furnished the City with such evidence (including evidence as to the certificate number of the Debenture in question) and indemnity in respect thereof satisfactory to the City in its discretion; and (c) surrendered to the City any mutilated or defaced Debentures in respect of which new Debentures are to be issued in substitution.

14. The Debentures issued upon any registration of transfer or exchange or in substitution for any Debentures or part thereof shall carry all the rights to interest if any, accrued and unpaid which were carried by such Debentures or part thereof and shall be so dated and shall bear the same maturity date and, subject to the provisions of the By-law, shall be subject to the same terms and conditions as the Debentures in respect of which the transfer, exchange or substitution is effected.
15. The cost of all transfers and exchanges, including the printing of authorized denominations of the new Debentures shall be borne by the City. When any of the Debentures are surrendered for transfer or exchange to the Treasurer of the City shall:
(a) in the case of an exchange, cancel and destroy the Debentures surrendered for exchange; (b) in the case of an exchange, certify the cancellation and destruction in the registry; and (c) enter in the registry particulars of the new Debenture or Debentures issued in exchange.
16. Reasonable fees for the substitution of a new Debenture or new Debentures for any of the Debentures that are lost, stolen, mutilated, defaced or destroyed and for the replacement of lost, stolen, mutilated, defaced or destroyed principal and interest cheques may be imposed by the City. Where new Debentures are issued in substitution in these circumstances the City shall: (a) treat as cancelled and destroyed the Debentures in respect of which new Debentures will be issued in substitution; (b) certify the deemed cancellation and destruction in the registry; (c) enter in the registry particulars of the new Debentures issued in substitution; and (d) make a notation of any indemnities provided.
17. Except as otherwise expressly provided herein, any notice required to be given to a registered holder of one or more of the Debentures will be sufficiently given if a copy of such notice is mailed or otherwise delivered to the registered address of such registered holder. If the City or any registered holder is required to give any notice in connection with the Debentures on or before any day and that day is not an Ottawa Business Day then such notice may be given on the next following Ottawa Business Day.
18. Unless otherwise expressly provided herein, any reference herein to a time shall be considered to be a reference to Ottawa, Ontario time.
19. The Debentures are governed by and shall be construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable in British Columbia.