CITY OF VANCOUVER

COUNCIL REPORT

Report Date:	June 13, 2023
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Meeting Date:	July 12, 2023

Submit comments to Council

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: Debenture Program 2023

Recommendations

A. THAT Council authorize the issuance of up to $100 million of City of Vancouver debentures, utilizing borrowing authorities from the 2019-2022 Capital Plan and approved as part of the 2019, 2020, 2021 and 2022 Capital Budgets as follows:

Sewers	$	50,215,676
Neighbourhood Energy Utility	$	8,829,324
Replacement of existing civic facilities	$	40,955,000
Total	$	100,000,000

B. THAT, until the borrowing authorities established pursuant to Recommendation A are exercised, the Director of Finance 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.

C. THAT, pursuant to Recommendation A and B, Council authorize the issuance of City of Vancouver Sustainability Bond as part of its regular debenture funding program, as it amplifies the City's commitment to environmental and social sustainability.

Purpose and Executive Summary

The purpose of this report is to seek Council's authorization for the Director of Finance to issue up to $100 million of City of Vancouver debenture as part of its regular debenture funding program to finance the City's capital programs. This debenture issuance may take the format of a Sustainability Bond dependent on market conditions and investor demand at the time of issuance, and to be decided upon by delegated authority from the Council to the Director of Finance.

The borrowing authorities as outlined in this report were established in the 2019-2022 Capital Plan through Council and electorate approval, and the requirement for debenture funding approved by Council as part of the 2019, 2020, 2021 and 2022 Capital Budgets. As the final step in the process, the Director of Finance is seeking authority to exercise these authorities to finance the capital programs. Funding for the debt servicing charges (principal and interest) arising from the proposed borrowing will be provided in the annual Operating Budgets.

The City issued its inaugural Green Bond in 2018 under the Green Bond Framework. In 2021, as the first Canadian government issuer, the City issued its inaugural Sustainability Bond under the Sustainability Bond Framework which includes both green and social capital projects. The summary of the Sustainability Bond Framework is included in Appendix A. The City's Sustainability Bond was awarded "Sustainability bond of the year - local authority/municipality" for 2022 by the Environmental Finance magazine.

The Sustainability Bond program represents the City's commitment to promoting and supporting environmental and socially responsible objectives. The program also aligns with the City's priorities to embed sustainability into financing and investment activities to help contribute positively to society while enabling the transition to a low carbon, socially responsible, and climate resilient future.

Council Authority/Previous Decisions

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. 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.

In Section 247A of the Vancouver Charter, Council may require that full provision of annual debt servicing charges (principal and interest) be made in the annual operating budget. This debt repayment fund 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 appoint and 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 debenture is issued.

On July 20, 2021, Council authorized the issuance of $100 million of the inaugural Sustainability Bond, and delegated to the Director of Finance the authority to initiate and execute the debenture issue. On July 5, 2022, Council authorized the issuance of $120 million of conventional bond and delegated the same authority to the Director of Finance.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

The City funds capital investments from a range of sources (who pays) using a balanced mix of payment methods (when to pay).

Funding sources (who pays)

- **Property tax and user fees** to fund capital renewal work
- **Development contributions** (Development Cost Levies, Community Amenity Contributions, Density Bonus contributions, etc.) to fund growth-related amenities and infrastructure
- **Partner contributions** from senior levels of government, BC Housing, TransLink, foundations and philanthropists

Payment methods (when to pay)

- **Pay in advance** – set aside funds in reserves ahead of future capital investments
- **Pay-as-you-go** – allocate current revenues to fund ongoing capital programs
- **Pay over time** – finance large-scale capital investments that are cost-prohibitive to be funded on a pay-as-you-go basis, and enable taxpayers that benefit from the capital investments to share the costs over time

The City determines its long-term borrowing capacity by limiting the ratio of annual debt servicing to operating revenue at a maximum of 10%. This is to ensure that the City does not accumulate debt at unacceptable levels, and that annual debt servicing does not put undue pressure on the annual budget. 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. A similar strategy is being undertaken for the Sewer utility. This will help lower the City's overall debt and save interest costs over the long term, and create room in its debt capacity to accelerate the asset renewal program in future years. The City will continue to monitor and adjust its financial strategy to strike a balance between debt financing and pay-as-you-go.

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 vehicle in both domestic and international markets. The City has enjoyed the same level of market access as the MFABC at similar pricing.

The City has been accessing the market annually. 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 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 may comprise Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank Financial, Royal Bank of Canada, Scotia Capital, TD Bank, Casgrain & Company Limited, and Canaccord Genuity, which collectively provides the widest debenture issuance coverage of investors for Canadian public sector issuers.

Discussion

Market Development

Over the past decade, the global demand for green or sustainability bonds has experienced strong growth as a result of a robust increase in investors' appetite for environmentally and socially responsible initiatives. Global Green, Social, Sustainability and Sustainability-Linked (GSSS) bond issuances reached $1 trillion in 2022, and $460 billion end of May this year, which is 6% higher than issuances during the same time last year.

New issuers across public and private sectors continue to enter the sustainable debt market. In the Canadian public sector, Province of Ontario, Province of Quebec, Export Development of Canada, City of Toronto, City of Ottawa, and Canada Pension Plan Investment Board have issued Canadian dollar Green Bonds.

Market Conditions

The Bank of Canada hiked overnight interest rate from 0.25% to 4.75% since the spring of 2022. The aggressive hiking cycle has resulted in significant bond market volatilities. Despite this increased market volatility, investors' appetite for municipal debentures with good credit quality remains strong.

The current indicative "all-in" cost for the City for a 10-year issue is in the range of 4.25% to 4.35%. The City has typically issued 10-year debentures, with the exception of a 40-year debenture issued in 2012. Treasury Services staff will continue to monitor the market situation to determine an opportune time to issue. Depending on market conditions, the issuance may take place during the fall of 2023 or into the first half of 2024. The Director of Finance recommends that the City be positioned to proceed to market up to a $100 million debenture issue and have the necessary approval in place.

Debenture Structure and Issuance Process

The City has been a regular annual debenture issuer in recent years. As reported in the 2022 Annual Financial Report, the City had $1,013.7 million in external long-term debt outstanding as of December 31, 2022. The City has accumulated $402.3 million in Sinking Fund reserves for retirement of debt which leaves a net external debt outstanding of $611.4 million. The summary of outstanding debt is included in Appendix B.

The City's bank syndicate is collectively responsible for managing the sale of the debentures. A senior lead from the bank syndicate will be selected by the City to lead the debenture issuance.

Being consistent with past practices, Council shall delegate to the Director of Finance the authority to initiate and execute a debenture issue in accordance with the parameters set out in this report. Prior to executing a debenture issue, the Director of Finance will provide update on terms to the group consisting of the Mayor, the Chair of the City Finance and Services Committee, and the City Manager. Once the Director of Finance executes the sale of debentures into the primary market, Council is committed to enacting the appropriate borrowing by-law as part of the debenture documentation package.

Financial Implications

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

Legal Implications

This program is authorized by Part V of the Vancouver Charter.

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APPENDIX A

City of Vancouver Sustainability Bond Framework

(https://vancouver.ca/files/cov/vancouver-sustainability-bond-framework.pdf)

The City has developed the Sustainability Bond Framework (the “Framework”) with the intent to issue multiple green, social, or sustainability bonds (combined green and social capital projects) and use the proceeds to finance, in whole or in part, capital projects that support its environmental and social goals of transitioning to a low-carbon, climate smart and socially inclusive society. The Framework defines eligibility criteria in 11 areas:

1. Renewable Energy
2. Energy Efficiency
3. Green Buildings
4. Clean Transportation
5. Pollution Prevention and Control
6. Sustainable Water and Wastewater Management
7. Environmentally Sustainable Management of Living Natural Resources
8. Climate Change Adaptation
9. Affordable Housing
10. Access to affordable basic infrastructure
11. Access to essential services

The City engaged the consulting firm, Sustainalytics, to review the City of Vancouver Sustainability Bond Framework and provide a second-party opinion in 2020. Sustainalytics stated in its opinion that the City of Vancouver Sustainability Bond Framework is credible, impactful, and aligns with the ICMA Sustainability Bond Guidelines. (https://vancouver.ca/files/cov/vancouver-sustainalytic-sustainability-bond-framework.pdf)

APPENDIX B
City of Vancouver Debenture Structure
As at December 31, 2022

Bylaw	Issued ($ 000's)	Maturity	Interest rate
10565	120,000	2052-10-18	3.70%
10797	110,000	2023-10-24	3.75%
11080	105,000	2024-10-16	3.05%
11362	90,000	2025-11-20	2.90%
11673	90,000	2026-12-15	2.70%
11941	85,000	2027-11-03	2.85%
12203	85,000	2028-09-21	3.10%
12561 (re-opening)	100,000	2052-10-18	3.70%
10117	2,206	2030-09-30	1.71%
12307	3,000	2028-11-20	4.07%
12814	100,000	2030-11-06	1.40%
13149	100,000	2031-11-05	2.30%
12484	2,000	2032-12-22	4.58%
Total debentures	**992,206**		
Unamortized premium[1]	21,481		
Gross debt	**1,013,687**		
Less: sinking fund reserves	(402,285)		
Net debt outstanding	**611,402**		

Notes to table:

1 – The unamortized premium relates to the accounting treatment for re-opening of the 2052 debentures under Bylaw 12561.