CITY OF VANCOUVER

COUNCIL REPORT

Report Date:	June 25, 2024
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Submit comments to Council

TO: Standing Committee on City Finance and Services

FROM: Deputy Director of Finance

SUBJECT: Debenture Program 2024

Recommendations

A. THAT Council authorize the issuance of up to $125 million of City of Vancouver debentures, utilizing borrowing authorities approved as part of the Capital Budgets between 2019 and 2023 as follows:

Borrowing authorities from the 2019-2022 Capital Plan:		
Street and bridge infrastructure	$	3,684,487
Street lighting, traffic signals and communications systems	$	7,779,320
Maintenance of community and civic facilities	$	12,120,000
Renovations of community and civic facilities	$	10,727,899
Maintenance and renovations of parks	$	5,758,250
Replacement of existing community facilities	$	31,812,850
Replacement of existing civic facilities	$	1,550,000
Subtotal 2019-2022 Capital Plan:	$	73,432,806
Borrowing authorities from the 2023-2026 Capital Plan:		
Street and bridge infrastructure	$	42,000,000
Core operating technology	$	9,567,194
Subtotal 2023-2026 Capital Plan:	$	51,567,194
Total	$	125,000,000

B. THAT, until the borrowing authorities established pursuant to Recommendation A are exercised, the Deputy 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 Deputy 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.

Purpose and Executive Summary

The purpose of this report is to seek Council's authorization for the Deputy Director of Finance to issue up to $125 million of City of Vancouver debenture as part of the regular debenture program to finance the City's capital programs.

The borrowing authorities as outlined in this report were established in the 2019-2022 Capital Plan and the 2023-2026 Capital Plan through Council and electorate approval. The requirement for debenture funding was approved by Council as part of capital budgets between 2019 and 2023. As the final step in the process, the Deputy 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.

Council Authority/Previous Decisions

Section 242 of the *Vancouver Charter* authorizes Council to borrow funds for the construction, installation, maintenance, replacement, repair and regulation of waterworks, sewerage and drainage and energy utility systems without the assent of the electorate.

Section 245 of the *Vancouver Charter* requires that the borrowing authority for 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, outstanding debt does not accumulate to unacceptable levels, and annual debt servicing charges (principal and interest) are maintained at a level that does not put undue pressure on the operating budget.

Section 247A of the *Vancouver Charter* provides that Council may require that 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 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, or the Deputy Director of Finance in the absence of 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 enact the appropriate borrowing by-law to authorize issuance of the debentures.

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 maintenance and 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 – to fund eligible capital projects

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 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, 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. This makes the City of Vancouver debentures an attractive investment in both domestic and international markets. Given the City's record of strong financial and liquidity position, the City has enjoyed the same level of market access as the MFABC at similar pricing.

The City has consistently been accessing the market on an annual basis. The timing for debenture issuance is typically driven by capital market conditions, including global risk appetite, interest rate environments, and investor demand.

The City utilizes a bank syndicate of investment brokers to provide expert advice on debenture issues and 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, and Casgrain & Company Limited, which collectively provides extensive debenture issuance coverage for Canadian public sector issuers.

Discussion

<u>Market Conditions</u>

In June 2024, the Bank of Canada reduced its overnight interest rate from 5.00% to 4.75%, marking its first rate cut since March 2020. This decision was driven by sustained evidence of easing inflation and a slowing economy. Despite the bond market volatility arising from successive interest rate hikes between 2020 and 2023, investor demand for municipal debentures with strong credit quality remains robust.

The current indicative "all-in" cost for the City for a 10-year issue is in the range of 4.35% to 4.50%. The City has typically issued 10-year debentures and may consider longer term subject to market conditions. Depending on market situation, the issuance may take place as soon as Q4 of 2024. The Deputy Director of Finance recommends that the City be positioned to proceed to market to issue up to $125 million in debenture and have the required approvals in place.

<u>Debenture Structure and Issuance Process</u>

The City has been an annual debenture issuer in recent years. As reported in the 2023 Annual Financial Report, the City had $997.5 million in external long-term debt outstanding as of December 31, 2023. The City has accumulated $390.0 million in Sinking Fund reserves for retirement of debt which leaves a net external debt outstanding of $607.5 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, or the Deputy Director of Finance in the absence of 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 Deputy 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 Deputy 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) for a $125 million debenture issue are approximately $15.5 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*. If the Recommendations in this report are adopted, the City will be authorized to issue up to $125 million in debentures.

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APPENDIX A
City of Vancouver Debenture Structure
As at December 31, 2023

Bylaw	**Issued ($ 000's)**	**Maturity**	**Interest rate**
10117	1,947	9/30/2030	1.71%
10565	120,000	10/18/2052	3.70%
11080	105,000	10/16/2024	3.05%
11362	90,000	11/20/2025	2.90%
11673	90,000	12/15/2026	2.70%
11941	85,000	11/3/2027	2.85%
12203	85,000	9/21/2028	3.10%
12307	2,500	11/20/2028	4.07%
12561 (re-opening)	100,000	10/18/2052	3.70%
12814	100,000	11/6/2030	1.40%
13149	100,000	11/5/2031	2.30%
13511*[1]	-	10/28/2032	3.70%
13598	1,838	12/22/2032	4.58%
13828	100,000	11/3/2033	4.90%
Total debentures	**981,285**		
Unamortized premium[2]	16,212		
Gross debt	**997,497**		
Less: sinking fund reserves	(390,044)		
Net debt outstanding	**607,453**		

Notes to table:

1 – Excludes the $120,000,000 internally held debenture under Bylaw 13511.

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