CITY OF VANCOUVER

COUNCIL REPORT

Report Date:	June 24, 2025
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Submit comments to Council

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: Debenture Program 2025 (Sustainability Bond)

Recommendations

A. THAT Council authorize the issuance of up to $150 million of City of Vancouver debentures, utilizing borrowing authorities approved as part of the Capital Budgets between 2021 and 2025 as follows:

Borrowing authorities from the 2019-2022 Capital Plan:		
Neighbourhood Energy Utility	$	3,000,000
Borrowing authorities from the 2023-2026 Capital Plan:		
Electrical Services in Public Spaces	$	3,000,000
Renewal and Upgrades of Public Safety and Other Civic Facilities	$	28,500,000
Emerging Climate Adaptation Priorities	$	1,000,000
Senior Government Partnership and/or Other Emerging Priorities	$	14,500,000
Sewers & Drainage	$	100,000,000
Subtotal 2023-2026 Capital Plan:	$	147,000,000
Total	$	150,000,000

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.

Purpose and Executive Summary

The purpose of this report is to seek Council's authorization for the Director of Finance to issue up to $150 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 2021 and 2025. The borrowing authorities include debenture funding for Neighbourhood Energy Utility system extension projects from the 2019-2022 Capital Plan which were delayed to align with the timing of developments to be serviced by utility. 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 its Green Bond Framework. In June 2020, the City upgraded this framework into a new Sustainability Bond Framework which includes both green and social capital projects. This Sustainability Bond Framework represents a further progression in the City's efforts to promote and support environmental and socially responsible goals and objectives. The framework provides flexibility to issue any one of Green Bonds, Social Bonds, or Sustainability Bonds (combining green and social capital projects). The framework 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.

The City's Sustainability Bonds shares the same financial and legal characteristics as other City debentures issued in the past which are backed by the" full faith and credit" of the City of Vancouver. The main difference with the Sustainability Bond is the dedicated use of debenture proceeds. Under the Sustainability Bond Framework, net proceeds from the Sustainability Bonds will be used to finance Council approved capital projects that advance social and/or environmental objectives as determined by the City. Eligible criteria for capital projects are set out in the City's Sustainability Bond Framework.

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 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 continues to hold among the highest municipal credit ratings in Canada, with Aaa (stable) from Moody’s Investors Service and AAA (stable) from S&P Global Ratings. These ratings make the City of Vancouver debentures an attractive investment in both domestic and international markets. Supported by a strong track record of financial and liquidity management, the City has maintained the same level of market access as the MFABC at similar pricing.

The City has consistently accessed the capital markets on an annual basis. The timing of each debenture issuance is dependent on 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 comprises 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

Market Conditions

Following several interest rate cuts since June 2024, the Bank of Canada lowered its overnight interest rate from 5.00% to 2.75% in response to persistent signs of easing inflation and a slowing economy. In recent months, the U.S. government has introduced, or threatened to introduce, tariffs on imported goods from Canada and other trading partners. These trade actions have led to heightened economic uncertainty and increased volatility in financial markets, both domestically and globally, due to concerns over cost inflation for business and broader implications for economic growth. The ongoing uncertainty surrounding future trade negotiations and retaliatory measures has contributed to a more cautious environment among investors. Despite ongoing volatility in the bond market, investor demand for municipal debentures with strong credit quality remained resilient.

The current indicative “all-in” cost for the City for a 10-year issue is in the range of 4.15% to 4.25%. The City has typically issued 10-year debentures and may consider a longer term, subject to market conditions. Depending on market developments, the issuance could occur as early as Q4 of 2025. The Director of Finance recommends that the City positions itself to proceed to market for an issuance of up to $150 million in debenture and obtain the required approvals in advance.

City of Vancouver Sustainability Bond Framework

The City has developed the Sustainability Bond Framework (the “Framework”) to facilitate the issuance of green, social, or sustainability bonds – encompassing both green and social capital projects. Proceeds will be used, in whole or in part, to finance capital projects that support the City’s environmental and social objectives of transitioning to a low-carbon, climate smart and socially inclusive society. The Framework, which aligns with the ICMA Sustainability Bond Guidelines, defines eligibility criteria in 11 areas:

A. Renewable Energy
B. Energy Efficiency
C. Green Buildings
D. Clean Transportation
E. Pollution Prevention and Control
F. Sustainable Water and Wastewater Management
G. Environmentally Sustainable Management of Living Natural Resources
H. Climate Change Adaptation
I. Affordable Housing
J. Access to affordable basic infrastructure
K. Access to essential services

Debenture Structure and Issuance Process

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's Standing Committee on City Finance and Services, 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

As reported in the 2024 Annual Financial Report, the City had $1,015.4 million in external long-term debt outstanding as of December 31, 2024. The City has accumulated $383.2 million in Sinking Fund reserves for retirement of debt which leaves a net external debt outstanding of $632.2 million. The summary of outstanding debt is included in Appendix B.

The annual debt servicing charges (principal and interest) for a $150 million debenture issue are approximately $18.7 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 $150 million in debentures.

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APPENDIX A
City of Vancouver Debenture Structure
As at December 31, 2024

By-law	Issued ($ 000's)	Maturity	Interest rate
10117	1,682	9/30/2030	1.71%
10565	120,000	10/18/2052	3.70%
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	2,000	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	1,669	12/22/2032	4.58%
13828	100,000	11/3/2033	4.90%
14146	125,000	10/25/2034	4.00%
Total debentures	**1,000,351**		
Unamortized premium[2]	15,130		
Gross debt	**1,015,481**		
Less: sinking fund reserves	(383,237)		
Net debt outstanding	**632,244**		

Notes to table:

1 – Excludes the $120,000,000 internally held debenture under By-law 13511.

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