

Committee of the Whole (2) Report

DATE: Tuesday, June 6, 2023 **WARD(S):** ALL

TITLE: 2023 ISSUANCE OF DEBENTURES

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: DECISION

Purpose

To obtain Council approval to authorize the Regional Municipality of York to issue debt on behalf of the City of Vaughan.

Report Highlights

- Under provisions of the Municipal Act, 2001, municipalities including the City of Vaughan are permitted to borrow funds to pay for capital expenditures.
- During the annual budget deliberations, Council approves capital projects and their associated funding sources, including debt.
- The City is requesting an issuance of debt in the amount of \$45,489,000 to finance approved capital projects with associated debt funding, and which have incurred costs, but debt has not yet been issued (as of December 31, 2022), to be repaid over 10 years.
- All external debt is issued by the Regional Municipality of York on behalf of the City of Vaughan.

Recommendations

1. THAT Council authorize the Regional Municipality of York to issue debt in the amount not to exceed \$45,489,000 on behalf of the City of Vaughan repayable over a term not exceeding ten (10) years to fund capital work completed and previously authorized by Council to be financed from long-term debt as listed in Attachment 1;

2. THAT a by-law be enacted authorizing the Regional Municipality of York to issue debt on behalf of the City of Vaughan; and
3. THAT the Chief Financial Officer and City Clerk, together with the City Solicitor, be authorized to execute any documents required to affect the foregoing.

Background

Under provisions of the Municipal Act, 2001, municipalities including the City of Vaughan are permitted to borrow funds / issue debt to pay for capital expenditures. Where there is a two-tier government structure, debt must be issued by the upper tier municipality (Regional Municipality of York or York Region) on behalf of the lower tier municipality (City of Vaughan).

Capital projects are funded by various sources including Development Charges for growth capital, grants from other levels of government such as the Canada Community Building Fund, tax- and rate-supported Infrastructure Reserves, other contributions, and debt. The City of Vaughan strategically utilizes debt to fund renewal and replacement of critical assets and other capital projects when there is no other funding source available, and when it makes financial sense.

All capital projects and their associated funding sources are included in the annual Capital Budget for Council consideration and approval during budget deliberations. By virtue of approving the Capital Budget each year, Council also authorizes staff to utilize debt as required to finance capital projects.

An issuance of debt in the amount of \$45,489,000 is required in 2023 to finance approved capital projects with debt as a funding source, and which have incurred costs up to December 31, 2022, but debt has not yet been issued. A detailed listing of approved capital projects with debt financing is provided in Attachment 1.

Previous Reports/Authority

[REGION OF YORK – AUTHORIZATION TO ISSUE DEBENTURES](#)

Analysis and Options

The City recently completed its Long-Range Fiscal Plan (LRFP) and Asset Management Plan (AMP), both of which identified a funding gap of between \$1.8 billion and \$2 billion for renewal and replacement of existing assets over the next 20 years. The LRFP also identified debt as one of the important tools to help narrow this gap and support long-range financial sustainability.

While there are interest costs associated with borrowing, debt can be an efficient and effective financing tool when used appropriately. The City strategically utilizes debt to provide liquidity to fund capital projects, acquire critical assets where costs are expected to increase in the future and finance assets with longer lifespans that will benefit residents in the future, spreading payments over the life of the asset.

The issuance of an additional \$45,489,000 in debt complies with provisions under sections s.1.j, s.2.j, s.3.j and s.4.j of the Municipal Act, 2001 and the City's internal Debt Policy (12.C.09), as proceeds will be used to fund approved capital expenditures.

The re-payment term of the loan is ten (10) years from the time of issuance. Debt servicing costs are estimated to be \$5,504,000 per year for principal and interest (beginning in 2024) based on York Region's 10-Year bond rate of 4% as of May 2023. Actual rate charged will be York Region's going rate for a 10-year bond at the time of issuance (Fall 2023).

With the additional debt, the City's Debt Service Ratio is anticipated to be 2.3% of own sourced revenues in 2024. This is well below the limit of 25% legislated by the Province of Ontario and the City's self-imposed limit of 10% outlined in the Debt Policy.

York Region requires a 4-5 month notice period for the issuance of debentures. Upon Council approval and enactment of the by-law authorizing long-term debt, staff will submit an official request to York Region for an issuance of debt in the Fall of 2023 on behalf of the City of Vaughan in the amount of \$45,489,000, subject to approval by York Region Council.

If authority to issue debt through York Region is not approved by Council, alternative sources of funding will be required to pay for costs already incurred. This could include re-directing funding from other capital projects which may result in deferral / cancellation of projects, using other discretionary reserves and/or increasing property taxes.

Financial Impact

Annual costs to service the debt over ten (10) years are estimated at \$5,504,000 including principal and interest (based on York Region's 10-Year bond rate of 4% as of May 2023). These costs have been incorporated into the 2024-2026 Financial Plan. The actual annual repayment amount, which is dependent on the interest rate available at the time of the debenture issuance will be included in the 2024 Budget submission for Council consideration and approval (expected in December 2023).

Operational Impact

The Chief Financial Officer (CFO)/Treasurer assumes the overall responsibility for the capital financing program of the City of Vaughan.

The Financial Planning & Development Finance Department, together with Financial Services Department are responsible for budgeting the annual debt repayment obligations, managing the proceeds of the debentures, and transferring debt payments to York Region.

Broader Regional Impacts/Considerations

The City of Vaughan's external debt is issued by York Region. With Council's authorization, the CFO/Treasurer will submit to York Region in writing, a request to participate in their Fall 2023 issuance of debentures.

Conclusion

The City of Vaughan recognizes that issuance of debt must be made prudently in the context of the optimum utilization of all available funding sources within statutory limitations. The City will continue to utilize debt to fund capital expenditures only when it makes financial sense and supports long-term sustainability.

For more information, please contact:

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Deputy City Treasurer, ext. 8271

Kenneth Quan, Senior Manager, Corporate Financial Planning & Analysis, ext. 8029

Attachment

1. Capital Projects With Debt Funding (December 31, 2022)

Prepared by

Alex Ly, Senior Analyst, Investments, ext. 8312

Approved by

A handwritten signature in blue ink, appearing to read "Michael Coroneos".

Michael Coroneos, Deputy City
Manager, Corporate Services, City
Treasurer and Chief Financial Officer

Reviewed by

A handwritten signature in black ink, appearing to read "Nick Spensieri".

Nick Spensieri, City Manager