

DATE: June 13, 2023

TO: Mayor and Members of Council

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

RE: COMMUNICATION – Council – June 20, 2023
(Item 3, Report No. 28)
2023 ISSUANCE OF DEBENTURES

Recommendation

1. That Council authorize to proceed with the issuance of debentures of \$45,489,000 through York Region as requested in the Staff Report, 2023 Issuance of Debentures presented at Committee of the Whole 2 on June 6, 2023 (Item 3, Report No. 1)

Background

This communication is in response to the motion adopted by Council at Committee of the Whole (2) on June 6, 2023 requesting staff to review potential options to borrow \$45,489,000 internally to fund capital expenditures previously approved to be funded by debt instead of issuing debentures through the York Region.

Analysis

Staff have reviewed the City's reserves and reserve funds as potential sources to borrow internally to fund capital projects in lieu of issuing debt.

Development Charge (DC) Reserves and Reserve Funds

Since all the capital projects on the list to be funded by debt are rehabilitation / renewal of existing assets or the portion of new assets which benefit existing residents, they cannot be funded by DC Reserves and Reserve Funds. These reserves can only be used for growth capital projects. In addition, many of these reserves are already constrained, and the introduction of Bill 23 will create funding short-falls in the DC reserves, which could spill-over to non-DC sources to compensate for the short-fall.

Canada Community-Building Fund (CCBF)

As of March 31, 2023, the total balance of the CCBF was \$27.1 million, with commitments of \$39.6 million. The difference will be funded by the 2023 allocation of

\$10.1 million expected to be received in July and November and part of the 2024 allocation. Therefore, the CCBF cannot provide funding for internal borrowing.

Discretionary Reserves and Reserve Funds

The City's Discretionary Reserves and Reserve Funds are for sustainability, rehabilitation or replacement of existing infrastructure including those funded by rate programs (water, wastewater and stormwater) or special purposes (e.g. Vaughan Hospital Reserve).

- Tax-Supported Infrastructure Reserves - the total uncommitted balance of tax-supported infrastructure reserves as of March 31, 2023 was \$7.3 million. However, these funds are required for future infrastructure renewal which are expected to increase significantly over the next 10 to 20 years as indicated by the Asset Management Plan.
- Rate-Supported Infrastructure Reserves - these reserves are funded by ratepayers and reserved only for renewal/replacement of water, wastewater and stormwater assets. The stormwater reserve is already constrained will require an updated strategy to ensure there is sufficient funding.
- Sustainability Reserves - under the Municipal Act, municipalities are not permitted to run an operating deficit and/or borrow for operating expenditures. Although there is sufficient funding in the City's sustainability reserves from which to borrow, the purposes of these reserves are to:
 - Stabilize property taxes by smoothing out fluctuating revenues and/or expenses in certain programs and services such as Development Planning and Winter Maintenance;
 - Fund known future liabilities (e.g. employee benefits);
 - Ensure the City does not run an operating deficit; and
 - Maintain affordable property taxes rates.

Balances in these reserves are either below or at the minimum threshold. Staff review these reserve balances regularly against future requirements and liabilities and make additional contributions as required from annual surplus of the respective programs or the general overall surplus.

Other Considerations

The City's only considers issuing debt when all alternative sources of funding have been exhausted, including internal borrowing.

Borrowing internally for repair and rehabilitation of existing capital is not sustainable as these expenses are ongoing and the City's financial resources are finite. As assets age, these expenses will continue to grow, placing significant pressure on property taxes and utility rates. The Long-Range Fiscal Plan identified debt as one of the important tools to help narrow this funding gap and support long-range financial sustainability. The City's

10-Year Capital Plan includes the gradual utilization of debt, easing pressures by spreading payments over the life of the asset.

In 2013 when the City borrowed internally, it was to fund a specific project, the Hospital Precinct. The City also implemented a dedicated Hospital Levy providing stable and consistent funding to repay to loan ahead of schedule.

Conclusion

The City of Vaughan utilizes debt to fund capital projects only when it makes financial sense and supports long-term sustainability. Decisions to fund capital with debt are made with prudence and mostly as a last resort, i.e. when no other funding is available. As the City shifts to longer term planning, fiscal strategies including the use of debt have been implemented to maintain critical infrastructure, the levels of service they provide and to manage cash flows. Deviating from the long-term strategy could result in potential short falls to future cash flows, deferral / cancellation of projects, unfunded future liabilities and/or higher property taxes.

It is therefore recommended to proceed with the issuance of debentures of \$45,489,000 through York Region as requested in the Staff Report, 2023 Issuance of Debentures presented at Committee of the Whole 2 on June 6, 2023.

For more information, contact:

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Respectfully submitted by



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