

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
Your File/V/Réf.

DATE 10 September 1997

TO/DEST. Co-ordinator
Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **1997 DEBENTURE FINANCING REQUIREMENTS**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council authorize the Finance Commissioner:

- 1. To proceed with a debenture issue of \$33,000,000 at an estimated average all in cost of 6.16% (subject to market conditions);**
- 2. To incur, pay and distribute all costs associated with the issue;**
- 3. To bring forward debenture by-laws for execution by Council.**

BACKGROUND

Financing - Requirements

The Region last issued debentures in the public financial markets for its own requirements on June 18, 1996 when it funded various capital works in the amount of \$36,000,000 as part of a \$50,000,000 debenture issue launched in the Canadian domestic market.

Although no debenture issue was originally planned for Regional purposes in 1997, given the current rates of interest it is possible to advance a small amount of funding (\$9.9 million) for Region Wide projects forecasted to be financed in 1998. Also, several capital projects within the Police Services Capital Budget (\$8.4 million) are unfinanced and require funding at this time. This will maintain annual debt service costs in those funds at existing levels.

In addition, the costs of the Carp Communal Water and Sewer System are required to be funded. The project was completed and benefiting property owners were offered the alternative of paying for their share of the project cost immediately or financing their share of the costs over 10 or 20 years. The amount required to fund the portion for those property owners who selected the long term financing alternative as well as funding for the balance of the project costs to be recovered from the future growth area are included in the proposed issue. Details of all the Regional projects to be financed by debentures through the proposed issue are set out in Annex A.

The Region has also received requests to issue debentures on behalf of certain area municipalities. At the present time, the following requests require funding in 1997:

<u>Municipality</u> (000's)	<u>TERM</u>				
	<u>5 years</u>	<u>10 years</u>	<u>15 years</u>	<u>20 years</u>	<u>Total</u>
Area Municipalities					
Ottawa		8,400			8,400
West Carleton		74		897	971
Gloucester			2,346	488	2,834
		8,474	2,346	1,385	12,205
Region	6,873	11,575		2,347	20,795
Total	6,873	20,049	2,346	3,732	33,000

FUNDING ALTERNATIVES

In determining the annual capital financing program for the Region and Area Municipalities, consideration is given to capital market trends, economic forecasts, and the cash management program of the Region. Long term financing of capital works has been underwritten in the past both through the public markets and as an "internal" investment of the Region's Reserve Funds and Sinking Funds.

In assessing these alternatives, it is recognized that the Region has access to a variety of capital markets through its fiscal agents and these markets are continuously monitored to assess borrowing opportunities. These markets include the Euro-Canadian market, the U.S. public market, the domestic market and private placement opportunities that may arise. The Canadian public financial markets continue to be an effective source of funding for Ontario municipalities.

On a number of occasions in the past the Region has also utilized Reserve Funds not immediately required through the issuance of an "internal" debenture. The total internal financing of capital works to date has amounted to \$78.3 million of which approximately \$65.6 million pertains to projects of Area Municipalities. Internal financings have ranged from small amounts to as much as \$12,937,000 on December 17, 1993. An internal debenture issue offers various advantages; the effective use of the Region's cash, the extension of term of reserve fund investments, the ability to more closely match

commitments with investment maturities, the ability to structure the issue to suit the borrower, as well as cost savings resulting from the elimination of underwriting commissions.

In considering the underwriting of this issue, the use of the Region's Reserve Funds as a source of financing was reviewed at length. Although an investment of the size proposed (\$33 million) would involve committing a large amount of these funds at one time, the structure of the financing and the distribution of the cash requirement can be structured to the benefit of the Region and provides an effective use of the Region's Reserve Funds. The addition of this proposed issue to long term investments of the Region's Reserve Funds would increase the Region's holdings of its own issues to \$131.7 million representing 19.3% of issued and outstanding Regional debt. This conforms to the limits set out in Ontario regulation 74/97 which restricts the amount of its own debentures which a municipality can hold at any one time to 25% of issued and outstanding debt.

INTEREST RATES

Long term interest rates have continued their declining trend since the high rates of the early 1990's as shown in the attached Annex B. Interest rates trended higher early this year as a result of the Federal Reserve Board's concern that the U.S. economy could not sustain its current rate of growth without increasing the risk of inflationary pressures. However North American economies, particularly the U.S. have continued to surprise market observers by providing steady growth, low unemployment and as of yet no evidence of any resurgence in inflation. As a result, long term interest rates have continued to decline to their lowest levels in the last 20 years. Interest rates in Canada are now lower than U.S. interest rates from short term rates to 30 year government bonds. This condition of the "yield curve" in Canada is currently sustained as the Canadian economy can absorb higher rates of growth before some inflationary pressures are felt.

The following average yields, based upon current market conditions, would apply to a 20 year serial debenture at this time. Average yields are subject to market conditions on the date of the launch of the debenture issue:

		<u>Yield</u>
Term	1 - 20 years	
Average Yield	1 - 5 years	5.35%
	6 - 10 years	6.25%
	11 - 15 years	6.86%
	16 - 20 years	7.19%
All-In Cost	20 years	6.16%

PUBLIC CONSULTATION

Capital works and related debenture authorities have been previously reviewed and approved by Regional Council and the respective area municipality councils as part of the annual budget process. No further public consultation has taken place at this time.

FINANCIAL IMPLICATIONS

Since the payment of the debt created by the proposed issue for area municipalities will be fully recovered from these municipalities, the issuance of the debenture does not involve any additional financial commitments by the Region. Debt service costs attributable to the issuance of debentures for the Region for Police Services have been included in the 1997 Debt Charge budget while the debt services costs associated with other Regional works will be met from debt charge reductions as existing debt matures.

CONCLUSION

In order to meet the requirements for permanent financing for certain area municipalities and for certain Regional works, it is recommended that the Region proceed with a 20 year instalment debenture issue of \$33,000,000 and this issue be placed internally with the Region's Reserve Funds.

*Approved by
J.C. LeBelle
Finance Commissioner*

GFM/bm

Attach.

Schedule of Capital Projects and Debenture Requirements

Proposed 1997 Debenture Issue

Number	Description	Budget \$	Spending Actual \$	Authority \$	Debentures Issued To Date \$	Proposed	Term
Region Wide							
30604	Walkley Road (Russel to 417)	18,570,000	17,159,948	7,459,000	4,176,000	1,858,000	10 years
30616	March Rd. - Queensway to Soldant Dr.	17,302,000	16,587,805	5,942,000	1,400,000	4,275,914	10 years
30663	Regional Rd. #47 (Innes to Jeanne D'Arc)	41,949,000	41,372,184	9,909,342	5,939,000	974,684	10 years
31051	Cummings Bridge	10,335,000	5,014,443	9,530,000	564,000	589,605	10 years
54421	Emergency Housing - Families	3,540,000	3,376,460	3,540,000	2,520,000	856,460	10 years
54422	Emergency Housing - Women	2,400,000	2,381,688	1,440,000	100,000	1,303,337	10 years
Water							
41714	Carp Communal Water	8,605,000	5,482,354	1,721,000	-	1,645,400	10 & 20 years
Sewer							
42017	Carp Sewer Project	4,600,000	3,319,746	918,000	-	900,200	10 & 20 years
Police Services							
23801	Building Maintenance Repairs	2,159,000	932,957	2,159,000	-	932,957	10 years
23802	Major Building Alteration	1,783,000	584,781	1,783,000	-	584,781	10 years
25201	Vehicles Replacement	3,548,000	2,634,321	715,000	-	715,000	5 years
25202	Emergency Equipment	100,000	100,467	100,000	-	100,000	5 years
25203	Monitoring Equipment	692,000	13,861	692,000	-	13,861	5 years
25205	Protection Equipment	1,296,000	1,290,234	1,296,000	-	1,290,234	5 years
25207	Identification Equipment	1,147,000	74,109	1,147,000	-	74,109	5 years
27901	Computer Equipment Purchases	926,000	350,627	926,000	-	350,627	5 years
27921	Records Maintenance & Retrieval	11,931,000	6,674,992	7,631,000	-	4,329,431	5 years
	Total	130,883,000	107,350,977	56,908,342		20,794,600	

10 Year Canadian Bond Yields (weekly basis)

