

2. 1998 DEBENTURE ISSUE

COMMITTEE RECOMMENDATIONS

That Council approve:

- 1. That the Finance Commissioner be given authority to undertake a \$30.0 Million debenture issue in the domestic bond market to finance various capital projects;**
- 2. That the Finance Commissioner be authorized to execute and deliver all documentation and to incur and pay all expenses that may be required to complete the sale of debentures;**
- 3. That a confirmation report and debenture by-laws be submitted to the next regular meeting of Regional Council for execution.**

DOCUMENTATION:

- 1. Finance Commissioner's report dated 28 Jul 98 is immediately attached.**

REGION OF OTTAWA CARLETON
 RÉGION D'OTTAWA CARLETON

REPORT
 RAPPORT

Our File/N/Réf.
 Your File/V/Réf.

DATE 28 July 1998

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

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **1998 DEBENTURE ISSUE**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council approve:

- 1. That the Finance Commissioner be given authority to undertake a \$30.0 Million debenture issue in the domestic bond market to finance various capital projects;**
- 2. That the Finance Commissioner be authorized to execute and deliver all documentation and to incur and pay all expenses that may be required to complete the sale of debentures;**
- 3. That a confirmation report and debenture by-laws be submitted to the next regular meeting of Regional Council for execution.**

BACKGROUND

In accordance with *The Regional Municipalities Act*, Section 111 (1), RSO 1990, the Region of Ottawa-Carleton is authorized to issue debentures for its own purposes and also Area Municipalities within the Region. All Area Municipalities were contacted to determine their requirements. No requests for long term funding were received from other municipalities.

During the annual budget review, Regional Council approves various capital projects to be funded through the issuance of long term debentures. Currently, the Region has un-issued debenture authorities in the amount of \$252.2 Million and unfinanced capital works requiring long term financing in the amount of \$82.3Million. In order to finance these capital requirements, the Region engages five of the leading Canadian investment firms through the use of a fiscal agency agreement to underwrite and market the Region's debentures. Regular discussions are held with

the Region's fiscal agency members to monitor market conditions and to receive advice about the timing of an issue, structure, rates and the appropriate market to access long term funding. Interest rates, currently at all time lows, provide an opportunity to permanently finance some of these requirements.

FINANCIAL MARKETS

In determining the best funding opportunity for the Region, staff review all markets and compare the cost of financing in each market to determine the lowest cost of funds. In evaluating opportunities in foreign currency markets, those currencies approved by legislation, it must be kept in mind that all foreign currency borrowings must be undertaken with a hedge into Canadian dollars to limit the impact of foreign currency exposure. All comparisons are made on a total cost of funds basis in Canadian dollars.

Reference to foreign public markets indicates that at this time there are no funding opportunities that would result in a cost of borrowing advantage over terms offered in the domestic bond market. As a result of Canadian interest rates that are lower than rates in the U.S. market and the continued decline in value of the Canadian dollar relative to the U.S. dollar, the domestic bond market offers borrowers the lowest cost of funds.

INTEREST RATES

Long term interest rates have steadily declined over the past few years. Current interest rates for long term financing are at their lowest levels in the history of the Region of Ottawa-Carleton. As displayed in the attached Canadian Yield Curve chart, yields of long term Canada bonds have declined approximately 250 basis points since July 1996. This is significant for Ottawa-Carleton as the yields earned on these securities are the benchmark from which debentures issued by RMOC are measured. The forecasts for interest rates prepared by the major banks and investment houses indicate that current levels are sustainable, with a potential minor increase in the latter part of the year. CIBC Wood Gundy, the lead manager of the Region's fiscal agent group, forecasts in their monthly economic publication, "Monthly Indicators", 30 yr. Government of Canada rates to move up over the last half of this year to an average yield in the last quarter of 6.15%. One of the major factors which could influence this increase surrounds the declining value of the Canadian dollar relative to the U.S. dollar and the measures of support that may be undertaken in the coming months.

CAPITAL FINANCING REQUIREMENTS

In determining the amount of debentures to be issued by the Region at this time, reference was made to the 1998 and 1999 Budget and the capital formation modules that are prepared each year to determine the impact of capital funding on future tax rates. It was determined that the debt service cost at current market rates and at a term of twenty years in the amount of \$30.0 Million would conform to budget estimates. This would result in an annual debt service amount that would be within the projected budget envelopes and would not increase the net tax requirement.

The capital projects that are recommended for financing at this time include road and bridge projects amounting to \$20 Million and police and social service projects in the amount of \$10 Million. Under current legislation, projects must be financed over a term that recognizes the economic life of the asset being financed. It is proposed that the road and bridge projects be amortized over a period of twenty years, while the police and social services projects which are related to communication and computer facilities be financed over a period of five years.

PROPOSED ISSUE

The proposed issue will be placed in the domestic market based upon the terms as indicated. The Region's fiscal agents have provided an indicative pricing summary based upon market conditions on July 27, 1998. While the terms reflect market conditions of that day, **these rates are subject to change based on the actual market rates on the date of issue.** The proposed debenture issue terms are as follows;

Instalment debentures (term 1-5yrs)	\$10.0 million
Term debentures (term 20yrs)	<u>\$20.0</u> million
Total Par Value	\$30.0 million
Yield to Public instalment	5.57 % (average yield 1-5yrs)
Yield to Public term	5.87 %
Total average yield of issue	5.84 %
Estimated all-in cost	5.92 %

PUBLIC CONSULTATION

In accordance with Section 112 (1) of *The Regional Municipalities Act*, R.S.O. 1990, c.R.8, the Region has authority to undertake the capital financing of these projects and Council approval has been obtained through the annual Budget process.

FINANCIAL IMPLICATIONS

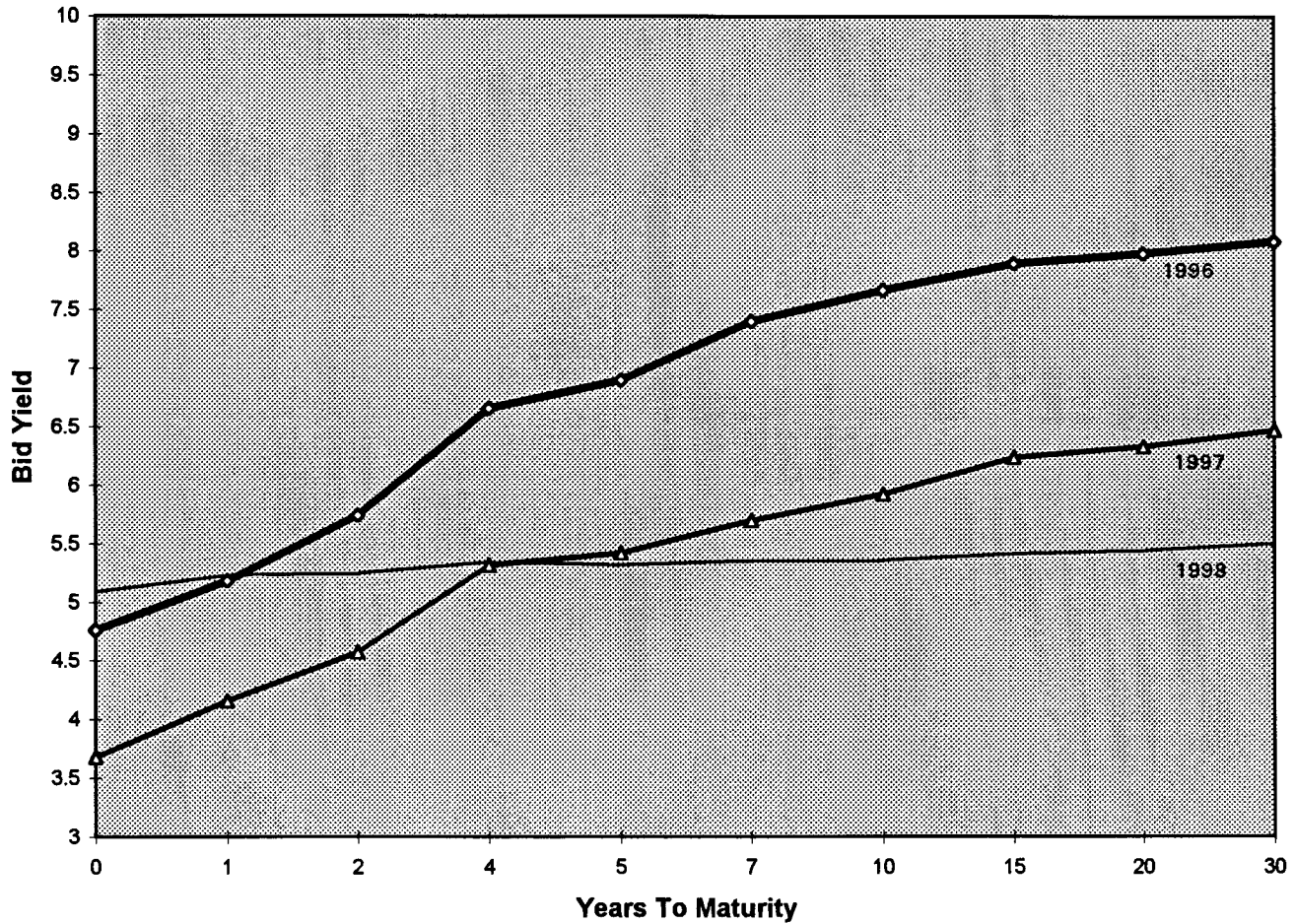
Payment of the debt service costs associated with the issuance of debentures will be a first charge on the succeeding years budgets until the final maturity of the debenture. Estimated debt service costs are within projected budget envelopes and will not increase the net tax requirement.

CONCLUSION

In order to ensure the Region accesses the financial markets in an expeditious manner and realizes the most cost effective cost of funds, it is recommended that the Finance Commissioner be given authority to negotiate a \$30.0 million public debenture issue in accordance with terms contained in this report.

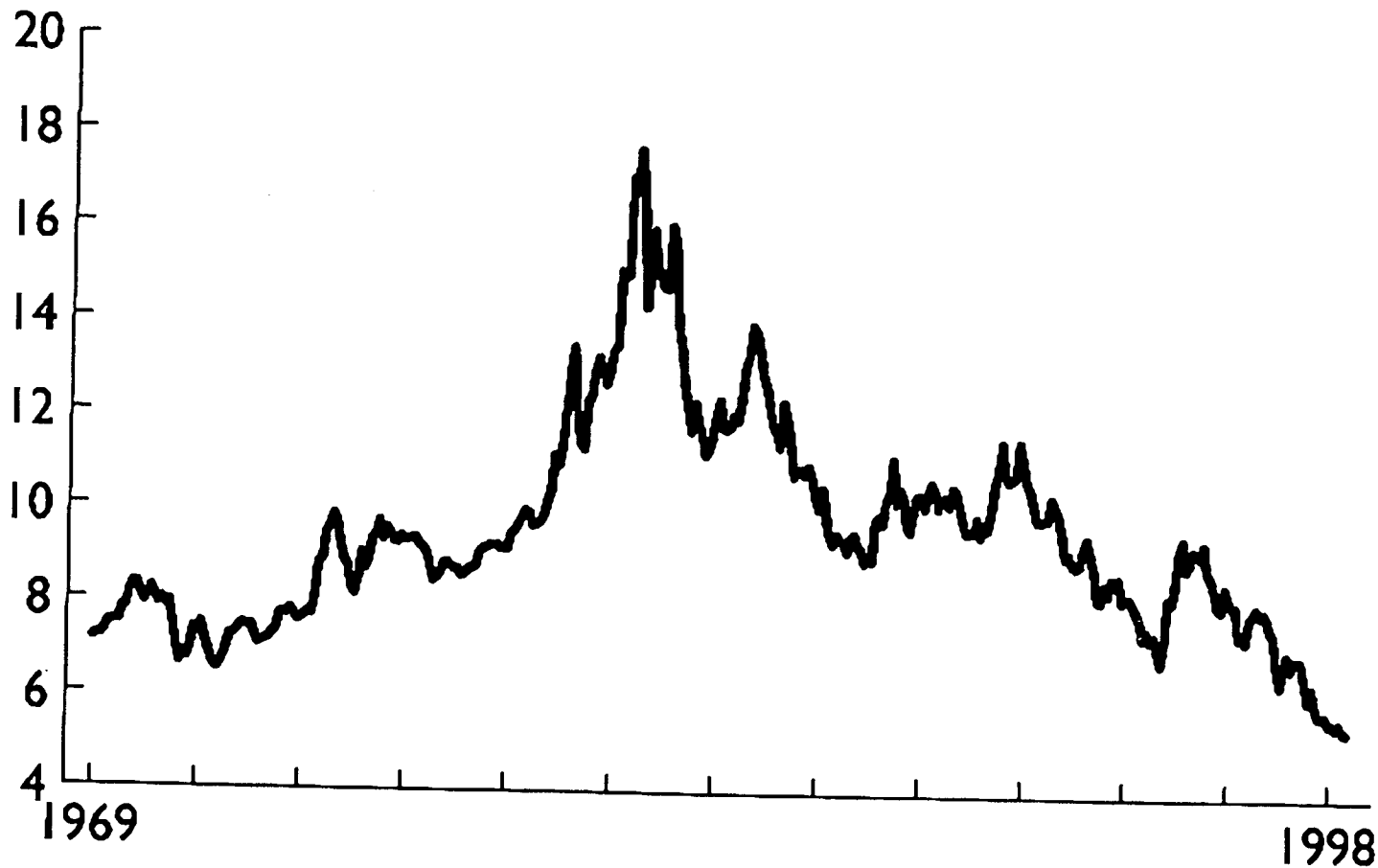
*Approved by D.F. Gray, Director, Debt & Treasury Services
on behalf of J.C. LeBelle, Finance Commissioner
Attach. (2)*

Canadian Yield Curves



Canadian 30-year Bond Yield

(percent)



Courtesy of Nesbitt Burns Economic Research