

DECISION/DIRECTION NOTE

Title: Request for authorization to issue \$138 Million in Sinking Fund Bonds

Date Prepared: August 27, 2020

Report To: Regular Meeting of Council

Councillor and Role: Councillor Dave Lane, Finance & Administration

Ward: N/A

Decision/Direction Required:

Approval of the attached resolution authorizing the issuance of \$138 Million in sinking fund bonds.

Discussion – Background and Current Status:

The City of St. John's periodically issues debt in the form of Sinking Fund Bonds to finance major capital projects. The borrowed funds represent the City's share of projects funded through cost-shared programs, typically with the Provincial and Federal governments. This is a common practice for municipalities in Canada as this enables the cost of large and expensive infrastructure projects to be spread across a time frame that is more aligned with the useful life of the constructed asset.

As per Provincial legislation, approval from the Department of Municipal Affairs has been sought and granted. It is important to note, this borrowing is in no way related the current pandemic and will be in no way used to fund the City's annual operating expenditures.

The 2020 bond issue is being requested to fund expenditures that have previously occurred or committed relating to the following programs and projects.

Program	Description	Amount
2014-17 MYCW	Costs incurred under numerous projects under the Province's 2014-17 Multi-Year Capital Works program.	26,808,457
2017-2020 MYCW	Costs incurred under numerous projects under the Province's 2017-20 Multi-Year Capital Works program.	21,016,582
BBBP CP4	Costs incurred related to upgrade of Bay Bulls Big Pond water treatment facility.	13,035,750
Convention Centre Expansion	Expansion of downtown Convention Centre. Portion remaining after Provincial, and Federal contributions and the 2016 bond issue.	5,018,325
CWWF	Costs incurred under the Federal and Provincial government's jointly funded Clean Water Waste Water Fund.	4,584,580

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Program	Description	Amount
ICIP - Kenmount Road - Phase 2&3	City share of costs incurred under the Federal government's Investing in Canada Infrastructure Program.	2,535,564
Paul Reynolds Community Centre	Construction of Paul Reynolds Community Centre. Provincial cost shared funding received from the 2012-14 MYCW top up program.	33,628,439
PHLP/BBBP/Stimulus 2009	Construction of Bay Bulls Big Pond, and Petty Harbour Long Pond water treatment facilities as well as several projects under the 2009 Stimulus funding program. All projects were cost shared by the City, Regional Municipalities, and the Federal and Provincial Governments.	4,698,823
Primary Waste Water Treatment	Initiative started in 2002 to develop a new sewage collection and treatment facility for sewer in St. John's harbour. The project was jointly funded by the Federal and Provincial Governments, FCM, and the municipalities of St. John's, Mount Pearl, and Paradise. Total project cost was \$154.9M. The majority of the City's cost has been funded from previous debt issues.	4,098,816
PTIC	Costs incurred under the Federal government's Provincial Territorial Infrastructure Component (New Building Canada Fund).	11,211,887
Water Main Transmission Fund	Costs incurred under the City's Water Main Transmission Program. Council directive previously determined City would borrow 100% of cost incurred under this program.	11,340,000
Unallocated	To be allocated to future capital project(s) to reduce future borrowing requirements.	22,778
Total to Borrow		138,000,000

Key Considerations/Implications:

1. Budget/Financial Implications:

Debt service payments on bond issues are due semi-annually, beginning 6 months following the date of issue. In preparing Budget 2020, it was anticipated the bond issue would occur in the first half of the year, thus requiring one semi-annual payment in 2020. However, given a review of cash balances and economic conditions which existed in the first part of the year, the issuing of bonds was delayed to the second half of the year. As a result, the first debt service payment on the 2020 issue will not become due until the first half of 2021. This will save the City approximately \$2.1 million in net debt service charges for 2020. The interest rate for this issue is 2.916% with a minimum required sinking fund principal payment of 2.5%, for a total annual debt service cost \$7.5M on a gross basis, or \$4.2M net of recoveries.

2. Partners or Other Stakeholders:

Of the \$138 Million, 12.3% pertains to capital projects completed on the Regional Water system. As a result, 12.3% of the annual debt service cost of the 2020 issue will be allocated to the Regional Water operating budget to be shared amongst the participating municipalities based on usage. 3.6% of the 2020 issue pertains to the expansion of the Convention Centre and as such 3.6% of the annual debt service charges on this bond issue will be recovered from the Tourism and Marketing Levy.

3. Alignment with Strategic Directions/Adopted Plans:

Capital infrastructure is critical to many aspects of the City's strategic plan. Managing debt and financing relates to the strategic direction of "A Sustainable City" and the goal of being "financially responsible and accountable". Staff continues to monitor debt service levels to ensure they do not exceed the benchmark of 17.5%. Debt service levels must always be a consideration when evaluating and making decisions related to major capital spending.

4. Legal or Policy Implications:

5. Privacy Implications:

6. Engagement and Communications Considerations:

7. Human Resource Implications:

8. Procurement Implications:

9. Information Technology Implications:

10. Other Implications:

Recommendation:

That Council approve the attached resolution permitting the City to issue and sell bonds for an amount of \$138 million for the purpose of funding the capital expenditures outlined in this memo.

Prepared by:

Kris Connors
Manager, Budget and Treasury

Approved by:

Derek Coffey
Deputy City Manager, Finance and Administration

Report Approval Details

Document Title:	Authorization to issue \$138 Million in Sinking Fund Bonds.docx
Attachments:	- Resolution2020-Final.pdf
Final Approval Date:	Aug 28, 2020

This report and all of its attachments were approved and signed as outlined below:

Derek Coffey - Aug 28, 2020 - 2:09 PM