Staff Report

To	**Committee of the Whole**
Service Area	Office of the Chief Administrative Officer
Date	Tuesday, April 1, 2025
Subject	**Debenture Issue Authority**

Recommendation

1. That the capital projects identified in Table 1 of the Debenture Issue Authority report number 2025-160, dated April 1, 2025, be approved for debt financing in 2025 or 2026 in the amounts as listed.
2. That the City Treasurer be authorized to proceed with the marketing, through the City's fiscal agent, of the debenture issue(s) in the principal aggregate amount of not greater than $118.15 million for terms not exceeding 20 years.
3. That the 2025 associated debt servicing costs be approved to be funded from the City's applicable capital reserve funds as outlined in accordance with Table 2 in the Debenture Issue Authority report number 2025-160, dated April 1, 2025.

Executive Summary

Purpose of Report

To obtain Council authorization to market debentures required to finance approved capital projects, specifically the Baker District Redevelopment, South End Community Centre, and the refinancing of the 2016 debenture under by-law (2016)-20084.

Key Findings

- The City will need $92 million in debenture funding over the next two years for the South End Community Centre and the Baker District. The City will also need $26 million for the refinancing of a 2016 debenture.
- The City has not issued a debenture since 2021, which has avoided higher debt servicing costs.
- With the proposed debenture issuance, the City's debt levels will remain well within the statutory and policy debt limits.
- With authority provided to staff through to the end of 2026, the City has flexibility to mitigate interest rate risk with multiple issuances limited at $118.15 million.

Strategic Plan Alignment

Issuing debentures to finance capital projects supports the Future Guelph Strategic Plan's Foundations of maintaining the City's healthy financial position. The City's debt to operating fund revenue ratio is directly linked to the City's credit rating as S&P Global (S&P) reviews and updates the credit rating annually. In 2024, S&P reaffirmed the City's credit rating as AAA with a stable outlook. The report cautions that there are downward rating pressures ahead due to a large capital plan in 2024-2026 increasing the reliance on debt.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

Financial Implications

The proposed debenture issuance forms a significant part of the long-term strategy for financing capital projects that renew and replace aging infrastructure and serve to accommodate population growth in alignment with the City's Strategic Plan.

The overall costs of servicing this level of debt have been incorporated into the long-term capital plan presented to Council as part of the 2025 Budget Confirmation. All Council-approved Debt Management Policy metrics will continue to be met after the proposed debenture issues.

Report

Background

The City's Debt Management Policy outlines the process of issuing debentures as follows:

- Debt financing is approved by Council during the annual capital budget process.
- Finance staff will prepare a report to Council requesting authorization to market a debenture issue through the City's fiscal agent.
- Once the debenture issue has been placed (i.e. sold), a debenture by-law is prepared including all details of the issue for Council approval.
- Settlement of the transaction then occurs, and the City receives the funds within a few days.

The Baker District Redevelopment and the South End Community Centre are currently being constructed and are expected to be complete in 2026. The next debenture issue will be placed before the projects reach completion; however, staff will be working with the City's fiscal agent to find an optimal time to issue debentures to minimize debt servicing costs.

The Province sets the legislative framework for municipal debt where municipalities must adhere to the Annual Repayment Limit (ARL). This limits a municipality's annual debt servicing charges to 25 per cent of own-source revenues. The City is projected to use 2.9 per cent of own-source revenues after the 2025 debenture issuance. Accordingly, the City has significant capacity to issue more debt from a legislative authority perspective.

In the Debt Strategy through the 2025 Budget Confirmation, debt is an approved source of financing for the projects and amounts listed in Table 1. The debt strategy outlines the projected debt issuances of $50 million per year from 2025 to 2029, plus additional debt of $15.7 million in 2030. These projections are based on previous debenture issuances and the estimated capacity of the market to buy City of Guelph debentures. The authority for the 2025 and 2026 issuance gives the City flexibility to issue debentures when market conditions are favourable. The debt strategy will adjust to the market conditions and actual debentures issued through the 2026 Budget Update and future updates.

Staff are seeking the flexibility to go to market immediately when the fiscal agent assesses it to be the best opportunity. The fiscal agent can provide advice based on other products in the market regarding amount and term, enabling just-in-time decision-making with a maximum Council approved financing envelope of $118.15 million in 2025 and 2026.

In 2026, the City will refinance a “balloon payment” from a refundable debenture issued in 2016 under by-law (2016)-20084. This debenture has a principal payment of $26,150,000 due July 2026, which will be refinanced. This refinancing is part of the debt strategy and meets the strategy at the time of the 2016 debenture issuance. The projects financed in the 2016 debenture are the Police Headquarters Renovations, the Victoria Road Recreation Centre Renovations and Clair-Laird Hanlon Interchange.

Requirement for debenture financing

With planned debt issuances of $50 million per year from 2025 to 2029 to finance the capital budget, the proposed debt to be issued in Table 1 will be required for adequate liquidity.

The projects identified in Table 1 were previously approved as part of annual budgets, including the underlying requirement for debt financing. Further, Table 2 provides information on the source of revenue that will be utilized to fund the debt repayment and interest costs.

Table 1: Debenture financing by project ($ thousands)

Capital Project	Approved Debenture Financing Authority	Debt Previously Issued	Remaining Debt Authority	Maximum Amount of Debt to be Issued in 2025 and 2026
South End Community Centre (RF0093)	$77,017	$37,550	$39,467	$39,000
Baker District - Central Library (LB0028)	$40,615	$11,575	$29,040	$29,000
Baker District - Parkade (PG0079)	$5,600	$0	$5,600	$5,000
Baker District - Infrastructure (SS0025)	$19,200	$0	$19,200	$19,000
Refinancing Debentures	$26,150	$0	$26,150	$26,150

Capital Project	Approved Debenture Financing Authority	Debt Previously Issued	Remaining Debt Authority	Maximum Amount of Debt to be Issued in 2025 and 2026
Total	$168,582	$49,125	$119,457	$118,150

Table 2: Debenture funding source ($ thousands)

Capital Project	Total	Tax Funded	Rate Funded	Development Charge Funded
South End Community Centre (RF0093)	$39,000	$5,275		$33,725
Baker District - Central Library (LB0028)	$29,000	$29,000		
Baker District - Parkade (PG0079)	$5,000		$5,000	
Baker District - Infrastructure (SS0025)	$19,000	$19,000		
Refinancing Debentures	$26,150	$13,079		$13,071
Total	$118,150	$66,354	$5,000	$46,796

Project Updates

The South End Community Centre and the Baker District redevelopment service a growing population as well as renew aging infrastructure. These projects are both Tier 1 projects for the City. The target completion date for these projects is fourth quarter (Q4) 2026.

Economic Overview

It is currently estimated that the cost of borrowing will be between 4.05 and 5.02 per cent (inclusive of the issuing agent and legal fees). The cost of borrowing is subject to change, and a majority of the City's cost of borrowing is determined by the prevailing yield on Government of Canada bonds. The market has some volatility, so the City's fiscal agent is recommending patience and flexibility when finding the best opportunity for the City.

Figure 1 shows the yield on 10-year government bonds over the past 10 years. The yields have decreased from their previous highs in 2023 but are still higher than the yield when the City's most recent debenture was placed in 2021. The prevailing yield on the Government of Canada bond currently sets approximately 80 per cent of the cost of borrowing for municipalities. So, fiscal policy at upper levels of government will have an impact on the cost of borrowing for the City.

Figure 1: Historical 10-Year Yield of Government Bonds

Issuance Timing

With the authority provided through this report, staff will coordinate with the fiscal agent to place the debentures. This process will involve optimizing the time of the issuance to minimize the debt servicing costs. This will also include understanding the preferences of the potential investors and ensuring those preferences meet the needs of the City. This process can take time to ensure a debenture is placed that meets the needs of the City and potential investors. Until the City is ready to place the debenture, the amount that gets placed can only be estimated. The $118.15 million authority gives staff flexibility to place debentures that minimizes debt servicing costs.

Once a decision is made on the size and duration of the debentures to be placed, final costs of borrowing will be communicated, and a repayment schedule will be provided for Council approval through a debenture by-law. Settlement of the debenture will take place shortly thereafter.

Debt Capacity

Annual Debt Repayment Limit

In order for Council to provide debenture issuance authorization, an updated calculation of the ARL has been provided in Attachment-1. The ARL is the debt and financial obligation limit, pursuant to subsection 4(1) of Ontario Regulation 403/02. The debt servicing payments resulting from the proposed debenture issuance will fall well within the ARL prescribed by the Ministry of Municipal Affairs and Housing

(MMAH). The City is projected to use 2.9 per cent of the own-source revenues in 2025 after this debenture issuance. When the remainder of the debenture authority is issued in 2026, the City is projected to use 3.8 per cent of own-source revenues.

Other Debt Limitations

The City's Debt Management Policy provides an internal debt capacity limit that is more conservative than the ARL. Further, the City's credit rating agency, S&P, also uses a debt ceiling as part of their assessment of the City's financial condition. Table 3 forecasts the debt limitation indicator with the Debt Management Policy and S&P's debt ceiling.

Table 3: Debt limitation comparison

Debt limitation	Source	Maximum allowable	Forecasted 2026
Debt servicing as a percentage of operating fund revenue	City Debt Management Policy	10%	3%
Total debt as a percentage of operating fund revenue	City Debt Management Policy	55%	25%
Total debt as a percentage of operating fund revenue	S&P	30%	25%

As shown in Figure 2, the debt as a percentage of operating revenue will likely cross the 30 per cent S&P debt ceiling in the next three years but will not approach the Debt Management Policy limit.

Financial Implications

The 2025 and 2026 debenture issuance is part of the long-term financial strategy required to achieve the objectives of the corporate capital plan, which supports the overall City Strategic Plan. The increased debt burden was planned and approved through previous capital budgets and is within the Debt Management Policy limits as visualized in Figure 2: Total Debt to Operating Revenue, and Figure 3: Debt Servicing to Operating Revenue, below.

Figure 2: Total Debt to Operating Revenue

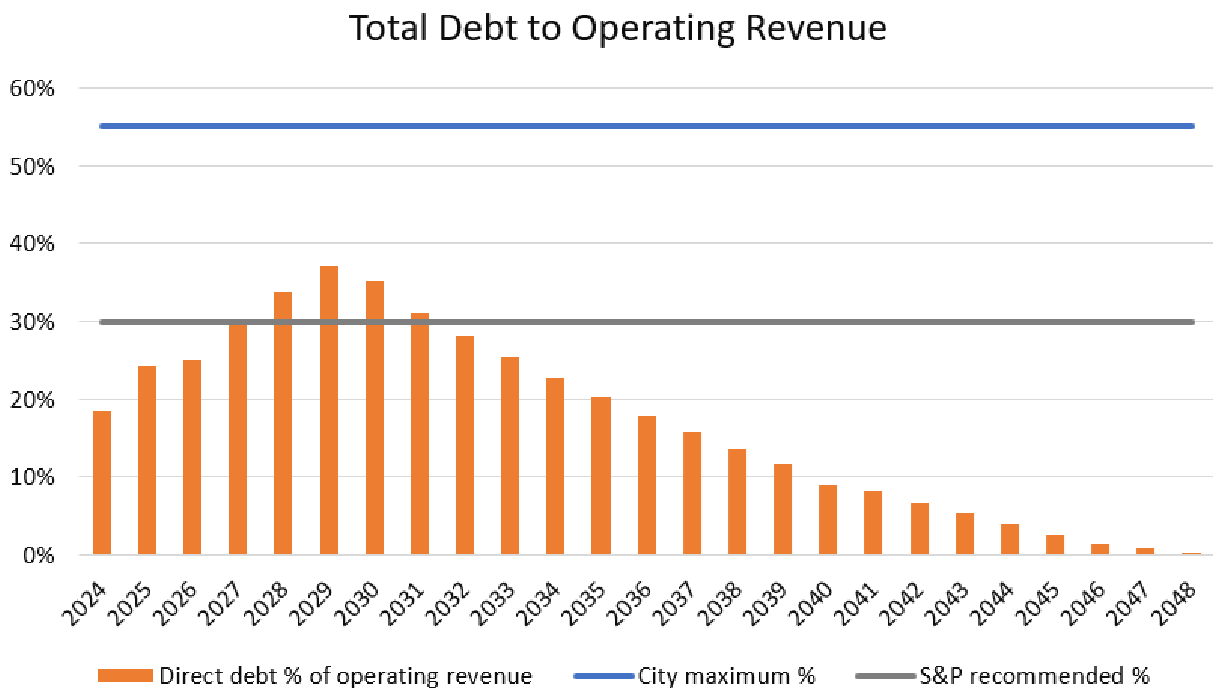
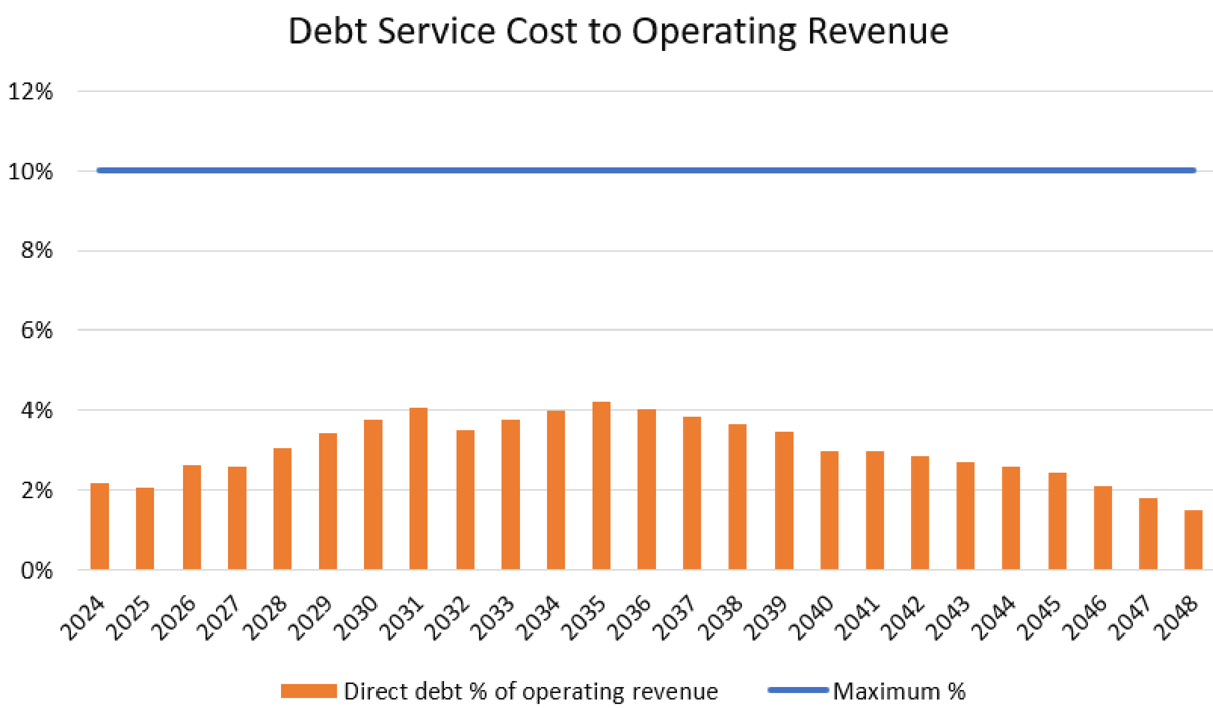


Figure 3: Debt Servicing to Operating Revenue



The City's credit rating is reviewed annually and in 2024 was reaffirmed as AAA by S&P. It is important to note that S&P reviews many factors when considering the City's score. These factors include the City's financial management practices and the adoption of a multi-year budget. So, while increasing the debt level of the City can negatively impact the City's credit score, there are mitigating factors.

The City's annual debt servicing costs will increase in 2025 based on the timing and size of the 2025 debenture issue(s). These costs were incorporated into the long-term capital funding model; however, they were not specifically budgeted for in 2025. Staff recommend that Council approve funding of the costs, from identified sources in Table 2 above, in the range of $420 thousand to $1.6 million for 2025. The amount reflects interest only for 2025, which is dependent on the timing, size, and rate of the actual issuance in 2025.

Consultations and Engagement

None.

Attachments

Attachment-1 Annual Repayment Limit

Attachment-2 Debt Issuance Authority Presentation

Departmental Approval

None.

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