Making a difference...together

REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, JULY 06, 2022

SUBJECT **Debt Term Implications**

ISSUE

To provide a summary of the changes in Municipal Finance Authority (MFA) debt issuance term and implications to the Capital Regional District (CRD), Capital Regional Hospital District (CRHD) and the Capital Region Housing Corporation (CRHC).

BACKGROUND

At the December 2021 Capital Regional District Board meeting, the Municipal Finance Authority Debt Issuance Terms report was received for information and referred back to the Finance Committee for further discussion. At the January 2022 Finance Committee meeting, MFA staff provided a presentation that discussed the need for a new approach to accessing capital markets for local government long-term borrowing. At the January 2022 CRD Board meeting, staff were directed to report back with additional information through the Finance Committee.

This report summarizes analysis by staff based on information available through May 2022.

Going forward, the MFA in response to market conditions at the time of long-term debt issuance will execute initial locked borrowing terms (maturity) for new loan and refinancing requests. The MFA is signaling they will likely fix initial rates through longer debt terms to reduce borrowing risk. This change in practice will impact the frequency for local governments to exercise repayment options and refinancing of long-term debt. The MFA communicated this change in approach through their presentation to the Committee included in Appendix C of this report.

IMPLICATIONS

Prior to the Fall 2021 issuance, for long term debt placed with maturities of 15 years or more, the MFA practice was to issue 10 year followed by 5 year bonds. This exercise provided local governments with repayment and refinancing options at the 10 year and subsequent 5 year renewals (if applicable).

Following Fall 2021, the MFA communicated a change that will no longer commit to initial financing terms less than maturity in response to changes in capital markets. The historical practice of shorting maturity had been in place for many years with various benefits including the aforementioned flexibility in addition to reduced financing costs for local governments.

In staff to staff discussions with the MFA, the change in approach to placing long term debt is based on market availability and pricing of short term commercial bonds. Staff have reviewed the new approach and will make changes to the CRD, CRHD and CRHC public consultation and communication documents, annual budget processes and guidelines for debt. The MFA has agreed these changes will only impact new borrowings while existing debt will continue with the previous refinancing options (every 5 years following initial debt term) with early payout opportunities.

The process for securing long term debt is often a multi-year, multi-step process that includes public consultation, various approvals, loan authorization and security issuing bylaws. The most significant impact for CRD, CRHD and CRHC will involve borrowings where modelling, cost analysis, and options have been communicated as part of the public engagement process, which can be extensive and commencing years in advance of security issuing bylaws.

The revised MFA approach to initial term financing reduces flexibility by decreasing or removing debt retirement and refinancing opportunities. For instance, a 20 year borrowing would historically have options at years 10 and 15. Given market conditions the MFA could lock in the borrowing for a 20 year term in the market, removing the historic option opportunities.

As directed at the January Board meeting, staff have reviewed a sample of past practices on debt for the CRD, CRHD and member municipalities summarized in Appendix A. The exercise found 14 occurrences in the CRD, 8 in the CRHD and 3 with member municipalities where early debt retirement was exercised at a refinancing option.

Additionally, Appendix B summarizes 7 CRD long-term issuances placed in the last 5 years where the maturity term was greater than 20 years, including Core Area Wastewater project debt where the financing strategy forecasted repayment options to retire all debt by 2032.

CONCLUSION

The revised MFA approach to financing new loans and refinancing existing loans have been reviewed for consideration. The change in process was analyzed and the impact to the CRD reviewed. The new MFA approach will require the CRD to review and update budget process and guidelines. Staff will conduct this review and continue to monitor the impact of the new MFA approach on budgeting, financial planning, and public consultations.

RECOMMENDATION

There is no recommendation. This report is for information only.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Kevin Lorette, P. Eng., MBA, Acting Chief Administrative Officer

ATTACHMENT(S)

Appendix A: MFA Long-Term Debt – Early Payout Option Examples
Appendix B: CRD’s current debt-outstanding analysis
Appendix C: MFA Power Point Presentation from January 5, 2022 Finance Committee meeting