

Authorization to Borrow – External Borrowing for Utilities Capital Projects

ISSUE

Water and wastewater capital projects previously approved with borrowing as a source of funding by City Council, have progressed to a point that the borrowing is now required. City Council approval is required to allow the Administration to proceed with establishing the method and terms of borrowing. After the borrowing terms are finalized, a borrowing bylaw is prepared and submitted to City Council for consideration to complete the borrowing and transfer of funds.

RECOMMENDATION

That City Council grant authorization to the Chief Financial Officer to accept the terms of a \$48.6M one to ten-year serial debenture from the City's fiscal agent, provided the all-in cost of borrowing does not exceed 5.50%, and subject to approval of the appropriate Debenture Bylaw.

BACKGROUND

The Cities Act and Bylaw [No. 8171](#), The Public Notice Policy Bylaw, 2003 requires Public Notice Hearings for any civic borrowing. Several City Council approved projects were identified through the budget process for borrowing and Public Notice Hearings were held for these projects and approved on the dates listed below.

At its Public Hearing meeting on March 12, 2012, City Council resolved in part:

“That City Council authorize the planned borrowing to finance the following projects approved, in principle, through Capital Budgets and capital plans:
c) up to \$7,500,000 for the Wastewater Energy Recovery Project (Capital Project 1247);”

At its Public Hearing meeting on February 11, 2013, City Council resolved in part:

“That City Council authorize the planned borrowing to finance the following projects approved, in principle, through Capital Budgets and Capital Plans:
f) up to \$5,800,000 for the Wastewater Electrical Redundancy Standby Generator (Capital Project 2211).”

Capital Project P.01247 and P.02211 were both cancelled with remaining funds transferred to P.02579 at City Council's Regular Business Meeting on [October 23, 2017](#), where it was resolved:

1. “That Capital Project #1247 – WWT – Energy Recovery and Capital Project #2211 – WWT Electrical Redundancy be cancelled at this time; and

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2. That the remaining previous approvals of \$9.745 million from Capital Project #1247 – WWT – Energy Recovery and Capital Project #2211 – WWT – Electrical Redundancy be transferred to Capital Project #2579 – WWT – Digester Tank 4.”

At its Public Hearing meeting on [January 29, 2018](#), City Council resolved in part:

“That the planned borrowing to finance the following projects approved, in principle, through Capital Budgets and Capital Plans be approved:

3. up to \$21,960,000 for the Water Treatment Plant’s Transfer Pumping and Electrical Upgrades (Capital Project 2565);
4. up to \$10,080,000 for the Wastewater Treatment Plant’s Fourth Digester Tank (Capital Project 2579);”

At its Public Hearing meeting on [January 25, 2021](#), City Council resolved in part:

“That the planned borrowing to finance the following projects be approved, in principle, through Capital Budgets and Capital Plans:

1. up to \$30,881,000 for the North East Sector Reservoir (Capital Project 2219)”

DISCUSSION/ANALYSIS

The Administration has received approval to pursue financing for certain water and wastewater capital projects that now require funding in 2024. The City of Saskatoon’s (City) process is that although borrowing has been approved as a source of funding for a project, that actual borrowings do not occur until sufficient progress, in the professional judgement of the City’s internal Investment Committee, has occurred. This approach aims to minimize interest costs by not taking out borrowing earlier than required. The projects below have progressed to a point where borrowing is now required as previously approved, and the Administration is recommending proceeding with the borrowing.

Wastewater Utility Funding

<i>Project</i>	<i>Amount</i>
Wastewater Treatment Plant’s Fourth Digester Tank (P.02579)	\$11,600,000

Water Utility Funding

<i>Project</i>	<i>Amount</i>
North East Sector Reservoir (P.02219)	\$29,800,000
Treatment Plant’s Transfer Pumping and Electrical Upgrade (P.02565)	\$7,000,000

The City’s fiscal agents, Royal Bank of Canada and National Bank, believe a City one- to ten-year serial debenture issue will be successful in the current market. This structure is designed for the issuer (City of Saskatoon) to make annual principal payments on the debenture and as a result pay down the outstanding balance sooner which will help to lower the cost of borrowing. A one- to ten-year debenture would mean the City will have a principal payment beginning in year one and will continue to make annual principal payments until year ten at which point the entire outstanding balance will have been paid back to investors.

Investors continue to show interest in the one to ten-year debenture structure and with the amount of debt being issued for these projects it will also satisfy investors' desire for larger line sizes. With the City holding a AAA credit rating as issued by Standard & Poor's Global Ratings and being an infrequent debenture issuer, this should help to generate interest in the City's debenture issuance from the market. The City's fiscal agents believe these factors will help the City to issue a serial debenture successfully and achieve a favourable all-in cost of borrowing.

The City's fiscal agents have expressed that June should serve as a good time to issue a debenture. The municipal borrowing environment has remained quite favourable judging by the success of recent debenture issues. The recent issues from the City of London, Regional Municipality of Halton, and the Municipal Finance Authority of British Columbia were all issued successfully on the issuer's behalf. Another recent new issue came from the City of Calgary which had its inaugural deal in 2024 and it was greatly oversubscribed indicating there was significant interest for this issue. Investors remain interested in the benefits of investing in strong municipal credits which offer an attractive yield spread over their respective provincial issues.

Upon receiving authorization to borrow, the Administration will work with the City's fiscal agency and will continue to monitor the capital markets to determine an opportune time to complete a successful debenture sale. This will involve observing changes in economic and capital market conditions, the monitoring of absolute market yields and applicable yield spreads, as well as gauging the level of investor interest. The Administration proposes to issue one- to ten-year serial debentures with interest paid on a semi-annual basis. The current expected all-in cost of borrowing is expected to be within a range of 4.50% to 5.00%, however, the recommendation includes approval of 5.50% to allow for up to a 0.50% borrowing rate contingency without having to seek further City Council approval.

FINANCIAL IMPLICATIONS

There are sufficient funds in the utilities budget to support the estimated debt service payments for the ten-year term of the debenture.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

Following the acceptance of a serial debenture sale, the Administration will forward a report to City Council outlining the specific terms of the financing transaction, together with the required Debenture Bylaw, for City Council's consideration and approval.

REPORT APPROVAL

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