**Agenda – Executive Policy Committee – September 20, 2017**

## REPORTS

### Item No. 8 Sinking Fund Trustees Debenture Refinancing

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That borrowing authority of up to $17 million be approved for the retirement of the November 17, 2017 debentures.

2. That Council appoint Mel Chambers, Paul Olafson and Rob Provencher, effective January 1, 2018, to serve as Sinking Fund Trustees until such time as they resign from their duties.

3. That Council approve not charging Investment Management Fees to the Sinking Fund Trustees.

4. That the Director of Legal Services and City Solicitor be requested to submit the necessary borrowing by-law to Council.

5. That Council enact an amendment to the Execution of Documents By-law (draft amending by-law attached) which will authorize the Chief Financial Officer to execute documents to finalize the terms and conditions of loans to the City, loans and loan guarantees provided by the City, and debentures issued by the City once these have been approved by Council.

6. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

# ADMINISTRATIVE REPORT

**Title:** **Sinking Fund Trustees Debenture Refinancing**

**Critical Path:** **Executive Policy Committee – Council**

## AUTHORIZATION

| Author | Department Head | CFO | CAO |
|---|---|---|---|
| Rob Provencher, Manager of Financial Services | M. Ruta | M. Ruta | D. McNeil |

## EXECUTIVE SUMMARY

The City of Winnipeg has two debenture issues that are managed by the Sinking Fund Trustees.

The November 17, 2017 maturity of $30 million has approximately $13 million of assets, and the Sinking Fund Trustees will require a contribution of up to $17 million to fund the shortfall and retire the debt. Borrowing authority for the retirement of this debt is being requested through this report, and the City will refinance the projected shortfall either through a ten year amortizing bank loan or debenture. There is no further requirement for the City to contribute to this Sinking Fund.

The February 2, 2029 debt issue of $60 million was assumed by Manitoba Hydro through the sale of Winnipeg Hydro to Manitoba Hydro. However, the debt was issued by the City of Winnipeg and remains an obligation of the City to make interest payments and retire the debt at maturity. Manitoba Hydro is required to pay to the City of Winnipeg the annual interest servicing cost and the principal value of the debenture issue at maturity.

As a result of the February 2029 debt being assumed by Manitoba Hydro, the role of the Sinking Fund Trustees adds limited value as there are no investments to manage. Two Sinking Fund Trustees (Eric Stefanson and Garry Steski) have submitted their resignation to the City of Winnipeg's Chief Financial Officer effective December 31, 2017, and Nestor Theodoreau's appointment expires on December 31, 2017.

Council has been delegated the authority under the City of Winnipeg Charter to determine the remuneration for The Sinking Fund Trustees. It is recommended the remuneration for the Sinking Fund Trustees be reduced from $2,600 annually to $0, and three City employees be appointed by Council to serve as Sinking Fund Trustees.

## RECOMMENDATIONS

7. That borrowing authority of up to $17 million be approved for the retirement of the November 17, 2017 debentures.

8. That Council appoint Mel Chambers, Paul Olafson and Rob Provencher, effective January 1, 2018, to serve as Sinking Fund Trustees until such time as they resign from their duties.

9. That Council approve not charging Investment Management Fees to the Sinking Fund Trustees.

10. That the Director of Legal Services and City Solicitor be requested to submit the necessary borrowing by-law to Council.

11. That Council enact an amendment to the Execution of Documents By-law (draft amending by-law attached) which will authorize the Chief Financial Officer to execute documents to finalize the terms and conditions of loans to the City, loans and loan guarantees provided by the City, and debentures issued by the City once these have been approved by Council.

12. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

## REASON FOR THE REPORT

Council approval is required for the borrowing authority requested and to appoint Sinking Fund Trustees.

## IMPLICATIONS OF THE RECOMMENDATIONS

Savings of approximately $2,600 annually would be achieved until 2029 for Trustee remuneration. City Investment Management fees of $100,000 for 2017 and future years will not be charged to the Sinking Fund Trustees to reduce the borrowing requirement. The incremental costs for debt and finance charges will be approximately $16,000 in 2017 and $12,000 thereafter until 2029.

## HISTORY/DISCUSSION

The City of Winnipeg, until January 1, 2003, was acting under the authority of The City of Winnipeg Act and was empowered to raise funds through the issuance of debt securities or other means of borrowing. The City issued many Sinking Fund Debentures to fund capital expenditures. Sinking Fund Debentures require that the City provide for their retirement or maturity through making annual contributions or levies into a pooled reserve known as the Sinking Fund. The debenture by-law for each debenture issue established the annual payment

to the Sinking Fund. The annual obligation to pay this levy is considered a debt of the City which must be paid to the Sinking Fund Trustees and was a requirement of the City of Winnipeg Act. The Sinking Fund Trustees are required to pay to the City, at or before maturity of each respective Sinking Fund Debenture, all amounts collected by way of levy, including interest.

The City of Winnipeg Act was repealed by the Province of Manitoba effective January 1, 2003, and replaced with The City of Winnipeg Charter. Under Section 520 of The City of Winnipeg Charter, the Sinking Fund Trustees continue to have the same rights and obligations as outlined under the former City of Winnipeg Act for Sinking Fund Debenture By-laws issued prior to December 31, 2002 and any future re-financing of these by-laws. Therefore, eliminating the role of the Sinking Fund Trustees would require an amendment to The City of Winnipeg Charter. Section 322 of the City of Winnipeg Act also requires the Trustees to provide Council with annual audited financial statements.

The legislation change to the City of Winnipeg Charter on January 1, 2003 does not permit the Sinking Fund Trustees to manage new Sinking Fund Debentures issued by the City of Winnipeg. Declining bond yields over the last decade and surplus withdrawals by the City of Winnipeg have contributed to the Sinking Fund earning less than the required 5% return. As a result, the projected shortfall to retire the debenture maturity in November 2017 is approximately $17 million.

The City was compensated by the Sinking Fund Trustees $100,000 annually for investment management fees. Commencing in 2017, the City has recommended in this report not charging this fee. The fund will no longer be paying trustee fees of approximately $2,600 but will continue to pay estimated audit and other expenses of approximately $12,000 per year. These costs will be absorbed in the corporate debt and finance charges budget in Corporate Finance.

**FINANCIAL IMPACT**

## Financial Impact Statement

**Date:** September 13, 2017

**Project Name:**

Sinking Fund Trustees Debenture Refinancing

**First Year of Program** 2017

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Capital** | | | | | |
| Capital Expenditures Required | $ - | $ - | $ - | $ - | $ - |
| Less: Existing Budgeted Costs | - | - | - | - | - |
| Additional Capital Budget Required | $ - | $ - | $ - | $ - | $ - |
| **Funding Sources:** | | | | | |
| Debt - Internal | $ - | $ - | $ - | $ - | $ - |
| Debt - External | - | - | - | - | - |
| Grants | - | - | - | - | - |
| Reserves, Equity, Surplus | - | - | - | - | - |
| Other - | - | - | - | - | - |
| Total Funding | $ - | $ - | $ - | $ - | $ - |
| Total Additional Capital Budget Required | $ - | | | | |
| Total Additional Debt Required | $ - | | | | |
| **Current Expenditures/Revenues** | | | | | |
| Direct Costs - Audit, trustee, custodial and banking fees | $ 16,000 | $ 12,000 | $ 12,000 | $ 12,000 | $ 12,000 |
| Direct Costs - foregoing of investment management fees (lost revenue) | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Less: Savings from reduced Trustee renumeration | - | (2,600) | (2,600) | (2,600) | $ (2,600) |
| Net Cost/(Benefit) | $ 116,000 | $ 109,400 | $ 109,400 | $ 109,400 | 109,400 |
| Less: Existing Budget Amounts | $ 116,000 | 109,400 | 109,400 | 109,400 | 109,400 |
| Net Budget Adjustment Required | $ - | $ - | $ - | $ - | $ - |

**Additional Comments:**

1. There is no financial impact for up to $17 million of 10 year debenture issuance as this debt cost was approved in the 2017 Operating Budget.

2. The costs will be absorbed through the annual Corporate operating budget for debt and finance charges; account 001-573070-120001-999.

(Original signed by T. Yanchishyn)
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

## CONSULTATION

Legal Services

## OURWINNIPEG POLICY ALIGNMENT

Section 02 of OurWinnipeg (A Sustainable City) provides policy guidance and states social, environmental and economic sustainability are essential to Winnipeg's long-term well-being.

The elimination of the role of the externally appointed Sinking Fund Trustees and associated savings aligns with economic sustainability goals to ensure the long-term economic well-being of the City.

## SUBMITTED BY

Department: Corporate Finance Department
Division: Financial Services
Prepared by: R. Provencher, Manager of Financial Services
Date: September 11, 2017
File No. n/a




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