
REPORT TITLE: Canada Infrastructure Bank Credit Facility

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That The Regional Municipality of Peel enter into a Credit Agreement with Canada Infrastructure Bank, on business terms satisfactory to the Chief Financial Officer and Commissioner of Corporate Services, and on legal terms satisfactory to the Regional Solicitor, substantially in accordance with the approval of the transaction issued by City of Brampton Council on March 9, 2022;

And further, that The Regional Municipality of Peel enter into a Funding Agreement with the City of Brampton, on business terms satisfactory to the Chief Financial Officer and Commissioner of Corporate Services, and on legal terms satisfactory to the Regional Solicitor, substantially in accordance with the approval issued by City of Brampton Council on March 9, 2022;

And further, that The Regional Municipality of Peel seek reimbursement of external legal fees pursuant to the Accelerator Funding provided for in the Memorandum of Understanding between the Canada Infrastructure Bank and City of Brampton;

And further, that the Chief Financial Officer and Commissioner of Corporate Services and the Regional Treasurer and Director of Corporate Finance be authorized to complete the transaction associated with the Credit Agreement and Funding Agreement, including the execution of all documents required or appropriate for that purpose or for the purposes of receiving Accelerator Funding.

REPORT HIGHLIGHTS

- Canada Infrastructure Bank has developed a financing program to support the adoption of 5,000 Zero Emission Buses across Canada.
- The City of Brampton and Canada Infrastructure Bank have entered into a Memorandum of Understanding in respect of potential financing opportunities related to transit system electrification in furtherance of the Canada Infrastructure Bank program.
- The City of Brampton expects to enter into a Zero Emission Buses Performance Agreement with Canada Infrastructure Bank, subject to final approval by City of Brampton Council on March 23, 2022.
- Under the *Municipal Act, 2001* only upper tier municipalities may borrow for the long-term capital needs of their local municipalities. To facilitate the loan the Regional Municipality of Peel is required to enter into a Credit Agreement with Canada Infrastructure Bank on behalf of the City of Brampton pursuant to the *Municipal Act, 2001*. Any borrowing under the Credit Agreement will be in compliance with the *Municipal Act, 2001* and the Region's policies.

Canada Infrastructure Bank Credit Facility

- Further, the Regional Municipality of Peel and the City of Brampton will enter into a Funding Agreement to ensure reimbursement to the Region.
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DISCUSSION

1. Background

The Canada Infrastructure Bank (CIB) is a federal Crown corporation with a mandate that includes working with federal, provincial, territorial, municipal and Indigenous sponsors and private sector investors to explore innovative approaches to financing and delivering infrastructure projects in Canada that are in the public interest. The CIB has developed a zero emission buses (ZEBs) financing program that targets a \$1.5 billion investment to assist in accelerating the adoption of approximately 5,000 ZEBs across Canada to reduce greenhouse gas emissions. It is expected that repayment of any loans under the CIB initiative will be sourced solely from actual savings generated by the municipality's lower cost of operating ZEBs compared to the higher cost of operating diesel buses. This loan supports Brampton's goals to reduce greenhouse gas emissions, consistent with the Region's commitment to climate change and declared climate emergency in November 2019.

In early 2021, the City of Brampton (Brampton) staff informed the Region of a potential financing opportunity to support the electrification of Brampton's transit system buses. In July 2021, Brampton received City Council endorsement to enter into a non-binding Memorandum of Understanding (MOU) with the CIB to engage in discussions on financing opportunities and negotiations associated with the electrification of Brampton's transit system buses. The Region was also engaged at that time as it was expected that the Region would act as the borrower pursuant to the *Municipal Act, 2001*. Council was advised of this potential transaction in an In Camera report titled "Local Municipal Request for Infrastructure Financing" on July 8, 2021.

Municipalities' borrowing powers are expressly set out in legislation. Under the *Municipal Act, 2001* (the "Act") and related Ontario regulations (the "Regulations"), lower-tier municipalities have limited powers as it relates to borrowing and/or issuing debentures directly. However, through the upper-tier municipality, certain types of borrowing (e.g. issuance of debentures and bank loans) are permitted. Any borrowing undertaken by the Region is required to be in compliance with the Act.

On December 10, 2021, the Province of Ontario enacted changes to the legislation which permits Ontario municipalities to enter into conditional loan agreements for long-term borrowing for capital purposes with the CIB (O. Reg. 653/05). As the upper-tier municipality, only the Region may act as the borrower under the Credit Agreement with CIB. To date, CIB has announced its commitment to reducing greenhouse gas emissions via ZEBs through partnerships with both the City of Edmonton and the City of Ottawa.

2. Analysis

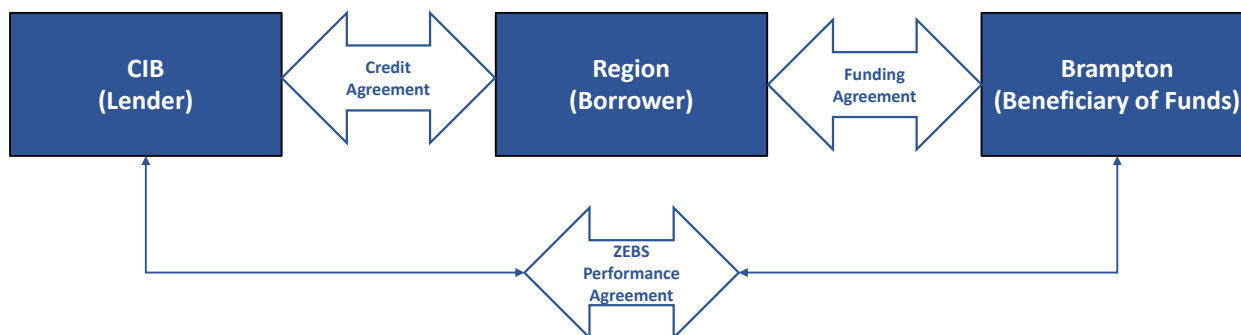
The CIB is a federal Crown corporation with a mandate that includes catalyzing and accelerating the adoption of ZEBs across Canada. The Region has been working collaboratively with Brampton and CIB through the Infrastructure Canada's ZEBs Transit Fund to access eligible funding through a credit facility arrangement. The program offers a low cost loan to finance the incremental cost of a ZEB in place of traditional diesel fueled

Canada Infrastructure Bank Credit Facility

buses. It is expected that the lower operating costs associated with ZEBs will fund the loan with CIB. If savings do not materialize, the loan will be forgiven.

Brampton, CIB and the Region have agreed in principle to a loan arrangement which provides Brampton with access to a credit facility from CIB with a maximum borrowing amount of \$400 million at an interest rate of 1 per cent to support the replacement of some of Brampton's greenhouse gas emitting buses with ZEBs.

The Region, as the borrower, will act as a conduit between CIB, the lender, and Brampton, in accordance with the Act. To further business and legal due diligence objectives, the three parties have agreed to the governance structure set out in the chart below. The loan arrangement will consist of three agreements that together, form the loan arrangement between the parties.



Credit Agreement

The Credit Agreement sets out the terms of the credit facility between CIB (lender) and the Region (borrower). It is expected that the credit facility will be drawn in tranches over the availability period from the closing date (expected 2022) and December 31, 2027 in alignment with Brampton's purchase of ZEBs and for a term of approximately 21 years (i.e. until 2046). The parties have agreed in principle to extend the maturity date of the conditional loan arrangement on terms satisfactory to Brampton, CIB and the Region if required. Should the Credit Agreement be extended, the Funding Agreement and ZEBs Performance Agreement would also be extended for the same period.

Funding Agreement

The Funding Agreement governs the relationship between Brampton and the Region pursuant to the Credit Agreement and the ZEBs Performance Agreement. Brampton will request funding which then advances via the Region through this Funding Agreement. Repayment of principal and interest will also be made via the Funding Agreement. This agreement provides assurances that each party will comply with all terms of the agreements entered into in relation to this credit facility.

ZEBs Performance Agreement

The ZEBs Performance Agreement sets out the terms under which the savings regime is determined, which then dictates whether the loan is required to be repaid or may be forgiven. This agreement is between Brampton and CIB. The Region is not a party to this agreement.

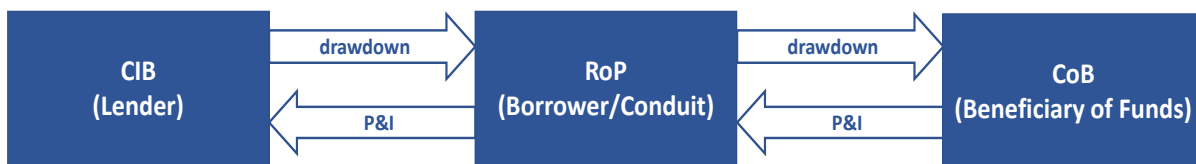
Canada Infrastructure Bank Credit Facility

Regional Borrowing

This loan is a deemed debenture under the Act. As such, all amounts to be borrowed under the credit facility require Regional Council approval authorizing the Debt Issuance Committee to pass the borrowing bylaw. The borrowing process under this credit facility will remain consistent with the Region's current debenture process.

As part of the Region's annual process, Brampton will provide an upset borrowing limit for the ensuing year. On an annual basis, or more frequently as required, staff will seek Regional Council approval through the Borrowing Limits report. This approval authorizes the Debt Issuance Committee to pass the required by law at the time of borrowing. Brampton will be required to provide the Region authorizing documentation supporting the transaction and staff will request a Debt Issuance Committee meeting to pass the borrowing by-law.

In addition to the Region's obligations as the upper-tier under the Act, the Region will be required to flow funds between Brampton and CIB. The agreements set out the process for Brampton to request advances and make payments to CIB. Loan repayment is conditional on realized operational savings from operations of ZEBs compared to traditional diesel fueled buses. The calculation of savings is the responsibility of Brampton and CIB under the ZEBs Performance Agreement, and the Region is only obligated to pass through principal and interest payments (P&I) received by Brampton to CIB.



Debt Outstanding

On January 13, 2022, Council approved a borrowing limit for 2022 in the aggregate amount of \$306.1 million to meet the requirements of the Region and local municipalities. All debentures issued by an upper-tier municipality are direct, joint and several obligations of the upper-tier municipality and its lower-tier municipalities.

The Region's net debt outstanding as at December 31, 2021 was \$1,660 million including the net debt of the local municipalities. On March 7, 2022, the Region issued \$50 million in installment debentures on behalf of the City of Mississauga.

Canada Infrastructure Bank Credit Facility

Regional Municipality of Peel Debt Outstanding (\$millions)	
Region of Peel	\$ 1,605
City of Mississauga	\$ 237
City of Brampton	\$ 43
Town of Caledon	\$ 18
	\$ 1,903
less: Sinking Fund assets	\$ 362
	\$ 1,541
Peel Housing Corporation	
Mortgages	\$ 96
Canada Mortgage & Housing Corporation Loan	\$ 23
	\$ 119
Total Net Debt Outstanding	\$ 1,660

*unaudited and does not include March 7, 2022 \$50 million installment debenture for City of Mississauga

In addition to the current debt outstanding, the Region expects to borrow approximately \$150-\$200 million in 2022 and \$150 million in 2023 for its own purposes, in addition to \$56 million in 2022 and \$132 million in 2023 to meet the needs of the local municipalities. Any borrowing by Brampton related to the credit facility between the Region and CIB would be in addition to amounts in the current debt plan. To date, Brampton Council, through the 2022 budget, has approved \$6.8 million debt to support the purchase of ZEBs.

Regional Municipality of Peel Debt Forecast (\$millions)		
	2022	2023
Region of Peel	\$ 200	\$ 150
City of Mississauga	\$ 52	\$ 40
City of Brampton	\$ -	\$ 82
Town of Caledon	\$ 4	\$ 10
Total Local Municipal Debt	\$ 56	\$ 132
Total Debt Forecast	\$ 256	\$ 282

RISK CONSIDERATIONS

The Region has worked collaboratively with Brampton to support the business and legal due diligence process and negotiations of this credit facility. Appropriate assurances from Brampton, including confirmation that Brampton remains within its internal and provincially prescribed debt limits, will be required prior to any request to advance funds under the credit facility to ensure the Region is not unduly exposed to any financial and/or operational risks.

Canada Infrastructure Bank Credit Facility

The agreement in principle with Brampton and CIB contemplates and minimizes the Region's financial and operational exposure. Safeguards have been negotiated with the parties to limit the obligations of the Region as it relates to the business and technical terms of the arrangement. The Region's role is to enter in the credit facility with CIB and act as a conduit for the flow of funds. The Region does not have any responsibilities related to determining amounts to be repaid on the loan and CIB has authority under the Credit Agreement to seek recourse directly with Brampton. Under the Act, all debentures (for which all existing debentures, bank loans and CIB loan are considered deemed debentures) are considered direct, joint and several obligations of the upper-tier municipality and its lower-tier municipalities. Ordinarily, the Region would be expected to cure the default of a lower-tier municipality where they failed to meet their debt obligations, with resulting consequences for the remaining lower-tiers. However, given the nature of the arrangement and CIB's mandate, the parties have agreed (and the agreements provide) that the Region will not be responsible for curing or resolving disputes as between CIB and Brampton, with the result that the Region and remaining lower-tiers are protected in the event of a default or dispute as between CIB and Brampton

The credit facility is set at a fixed interest rate of 1 per cent, a rate more favourable than the Region can currently access in the capital markets for a similar debenture given the current market conditions. The fixed nature of the loan also removes any risk of rising rates over the term of the credit facility thereby providing interest rate certainty throughout the loan period.

Increased borrowing needs of the local municipalities are not expected to have an impact on the Region's Annual Repayment Limit (ARL) as calculated by the Ministry of Municipal and Housing Affairs, as debt issued on behalf of the local municipalities is not included in this calculation for the Region's purposes. While there is no impact on the Region's ARL, the Region's credit rating does consider the costs of servicing all Regional debt outstanding, including debt issued on behalf of the local municipalities. Additional debt may place downward pressure on the Region's credit rating which in turn may impact the Region's reputation and may increase the Region's borrowing costs. Staff continue to monitor financial metrics and at this time, there is no immediate concern of a downgrade.

FINANCIAL IMPLICATIONS

There are no direct financial implications to the Region as Brampton will be responsible for all payments to CIB pursuant to this credit facility.

CIB has agreed to advance up to \$2 million under its Project Acceleration Initiative for eligible expenditures required to reach financial close through the MOU between Brampton and CIB. This funding includes reimbursement of the Region's external legal costs.

CONCLUSION

The report seeks Council authorization to complete due diligence and negotiations with City of Brampton (Brampton) and Canada Infrastructure Bank (CIB) as it relates to the establishment of the credit facility, including execution of all necessary agreements and documents required for the successful financial close with CIB and Brampton. This initiative is aligned with the Region's climate change goals.

Authored By: Julie Pittini, Director, Treasury Services