



P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 15.1.2
Halifax Regional Council
June 4, 2024

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed

Cathie O'Toole, Chief Administrative Officer

DATE: May 6, 2024

SUBJECT: **Canada Infrastructure Bank Borrowing Agreement**

ORIGIN

Staff initiated report.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, SNS 2008, c 39 states:

83 (1) The Municipality may borrow to carry out an authority to expend funds for capital purposes conferred by this Act or another Act of the Legislature.

111 (2) No money may be borrowed by the Municipality or a committee created by an inter-municipal services agreement pursuant to the provisions of this Act or another Act of the Legislature until the proposed borrowing has been approved by the Minister.

112 (1) Where the Municipality is authorized to borrow money, subject to the approval of the Minister

(a) the sum shall be borrowed by the issue and sale of debentures, in one sum or by instalments, as determined by the Council; and

(b) the Council shall determine

(i) the amount and term of, and the rate of interest on, each debenture,

(ii) when the interest on a debenture is to be paid, and

(iii) where the principal and interest on a debenture are to be paid.

113 (1) Where the Municipality is authorized to borrow money, the Municipality may, with the approval of the Minister, postpone the issue of debentures and borrow the money on terms and conditions agreed upon with the lender.

Municipal Government Act, SNS 1998, c 18

88 (1) No money shall be borrowed by a municipality, village, committee created by an intermunicipal services agreement or service commission pursuant to the provisions of this Act or another Act of the Legislature until the proposed borrowing has been approved by the Minister.

Recommendation on page 2

RECOMMENDATION

It is recommended that Halifax Regional Council authorize the CAO to negotiate a memorandum of understanding with the Canada Infrastructure Bank to borrow from CIB for capital infrastructure projects as they become eligible, which meet the bank's lending criteria, and direct the CAO to execute the memorandum of understanding.

BACKGROUND

The Canada Infrastructure Bank (CIB)¹ is a key component of Canada's strategy to foster long-term economic growth through infrastructure development. Established in June 2017, the CIB operates as a Crown corporation, functioning independently to execute its mandate.

1. Purpose and Mandate

The Canada Infrastructure Bank aims to invest CAD \$35 billion from the federal government in infrastructure projects that are in the public interest and attract private and institutional investment. The main goal is to leverage additional infrastructure funding from private sector investors to create a larger pool of resources for infrastructure projects, thereby reducing the financial burden on taxpayers.

2. Areas of Focus

CIB focuses on investment in several key sectors of public infrastructure that have revenue-generating potential and where there is significant interest from private and institutional investors. These sectors include:

- **Public Transit:** Enhancing public transportation systems to improve capacity and efficiency.
- **Green Infrastructure:** Projects aimed at reducing greenhouse gas emissions, such as renewable energy initiatives and energy-efficient building upgrades.
- **Trade and Transportation:** Infrastructure that supports trade and the movement of goods, including ports, airports, and roads.
- **Broadband:** Development of high-speed digital infrastructure across underserved regions.
- **Clean Power:** Investments in renewable energy and transmission to support the transition to a low-carbon economy.

3. Investment Strategy

CIB operates by using public funds to attract and leverage private sector and institutional investments for new revenue or benefit-generating infrastructure projects. It seeks to provide innovative financing solutions, such as loans, loan guarantees, and equity investments that are repayable over time. The aim is not just to fund but also to ensure the sustainable management and operation of infrastructure projects.

4. Housing Supply Growth Initiative²

The Canada Infrastructure Bank has launched a new initiative focused on expanding the housing supply, aiming to tackle the pressing issue of housing affordability across Canada. This initiative is dedicated to financing projects that increase the availability of affordable, sustainable, and accessible housing. A key element of this program includes partnerships with public, private, and non-profit sectors to leverage investment and expertise in constructing new housing units. The CIB commits substantial financial resources to this cause, emphasizing not only the quantity but also the quality of housing, ensuring that new developments are energy-efficient and well-integrated with necessary infrastructure. By facilitating the funding of large-scale housing projects, the CIB seeks to streamline the development process, reduce barriers, and accelerate the timeline from conception to completion, thereby making a significant dent in the housing supply shortage.

¹ [Canada Infrastructure Bank \(CIB\) | Canada Infrastructure Bank \(CIB\) \(cib-bic.ca\)](https://www.cib-bic.ca/)

² [Infrastructure for Housing Initiative | Canada Infrastructure Bank \(CIB\) \(cib-bic.ca\)](https://www.cib-bic.ca/en/infrastructure-for-housing-initiative)

DISCUSSION

Debt financing through the issuance of debentures offers numerous benefits for HRM when it comes to funding capital projects. One of the primary advantages of this financing method is the ability to spread the cost of large infrastructure projects over their useful lives, which aligns payments with the benefits derived from the project. This prevents the current generation of taxpayers from bearing the full cost of improvements that will benefit the community for decades. Moreover, debt financing allows HRM to undertake major capital projects immediately rather than waiting until sufficient funds are accumulated, which can be particularly crucial in addressing urgent infrastructure needs or in capitalizing on economic opportunities that require timely action. By using debt, HRM can also maintain a more consistent level of expenditure year-over-year, which aids in budget stability and long-term financial planning.

Regarding the legal and regulatory framework, the [Nova Scotia Municipal Government Act](#) plays a crucial role in how HRM manages its debt. This Act typically requires that municipalities like HRM borrow money by issuing debentures through the Nova Scotia Department of Finance and Treasury Board (Formerly Municipal Finance Corporation). This arrangement is designed to streamline municipal access to capital markets and to ensure fiscal responsibility. The province acts as a central borrowing agency for municipalities, which pools the borrowing requirements of multiple municipalities to issue composite debentures. This pooling mechanism often results in more favorable interest rates and terms due to the increased bargaining power and the reduced risk perceived by investors. The Act compels HRM and other municipalities to adhere to strict regulations regarding the amount of debt they can incur and the purposes for which this debt can be used. These regulations ensure that municipalities do not overextend their financial capabilities and that borrowed funds are used for projects that provide tangible long-term benefits to the community.

Through the letters provided in Attachment 1 & 2, the Department of Finance and Treasury Board and the Department of Municipal Affairs and Housing have provided HRM with express permission to borrow directly through CIB instead of following the typical provincial debenture issuance for any capital project that meets their specific eligibility criteria as noted in the areas of focus section of the background information above. HRM has thus far identified five priority capital project categories which would be good candidates for borrowing under CIB. These are noted below.

Priority HRM projects under CIB:

1. Zero emission bus fleet
2. Bus depot infrastructure upgrades
3. Cogswell District redevelopment project water and wastewater infrastructure
4. Priority growth and development zones water and wastewater infrastructure
5. Climate Action Tax green building retrofits

Advantages to Borrowing from CIB

Borrowing through the Canada Infrastructure Bank rather than directly from the province via debenture issuance presents several benefits for HRM. One of the main advantages is the potential access to lower interest rates and more favorable terms due to the CIB's focus on infrastructure development and its investment mandate. CIB works to connect municipalities with local private sector or institutional lenders as well as providing capital directly to diversify risk and provide interest rates that are competitive or better than the market. Another strong advantage is the flexible payment terms on debenture issuance offered by CIB. CIB attempts to align the repayment of debt with the benefits realized by the capital project being financed. This means as HRM realizes savings from the maintenance and operation of zero emission buses, operating cost of energy retrofitted buildings, or housing benefits of clean water and wastewater, the repayment of the cost of capital is spread over the extent of this benefit. Debentures can also be repaid early without penalty which gives HRM additional flexibility. Zero emission bus borrowing benefits further from a special low interest rate which is summarized below.

Borrowing from the Canada Infrastructure Bank for Zero-Emission Buses at a 1% Interest Rate

The Canada Infrastructure Bank is currently offering a limited-time financing opportunity for municipalities interested in transitioning to zero-emission bus fleets. This initiative features a 1% interest rate, specifically designed to make it more feasible for local governments to invest in environmentally friendly transportation solutions. The favorable terms are part of CIB's broader strategy to support sustainable infrastructure projects that contribute to a low-carbon economy. The borrowing terms from the CIB are structured to be flexible, accommodating the specific needs and repayment capacities of the municipality. Typically, these terms include long repayment periods that align with the lifespan and cost-saving benefits of the buses, ensuring that municipalities can manage repayments without fiscal strain and as maintenance savings are realized. This initiative not only aids in reducing upfront financial barriers but also supports long-term environmental and economic sustainability.

The Halifax Regional Municipality stands to gain significant advantages by partnering with the Canada Infrastructure Bank to finance the acquisition of zero-emission buses. The proposition of borrowing at a 1% interest rate presents a financially strategic opportunity. Securing a loan at a 1% interest rate from the CIB is notably beneficial for HRM as it represents a significant discount on the current interest rates available through the typical NS Dept of Finance and Treasury Spring and Fall debenture offerings. The most recent 2023 Fall debenture offering contained an effective interest rate of 5.29%. This favorable interest rate could produce substantial savings to interest expense over the life of the debenture which would amount to potentially millions of dollars saved by HRM. The reduced financial burden of low-interest financing allows HRM to allocate funds more effectively and potentially increase the scale of the bus fleet conversion project without proportionately increasing the budgetary impact.

If the zero-emission bus fleet fails to meet the operating efficiency or maintenance targets as set out in the agreement with CIB, a portion of the loan may become forgivable. This offers another substantial benefit of borrowing through CIB to finance the acquisition of the zero-emission bus fleet.

FINANCIAL IMPLICATIONS

There are no financial implications until debentures are issued. Subsequent staff reports with financial impacts will be provided at the time of debenture issuance.

RISK CONSIDERATION

No risks identified.

COMMUNITY ENGAGEMENT

No community engagement was performed at this time.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

Halifax Regional Council could choose to:

1. Not approve borrowing from the Canada Infrastructure Bank.

ATTACHMENTS

Attachment 1 - Provincial CIB Borrowing Approval, Finance & Treasury Board
Attachment 2 - Provincial CIB Borrowing Approval, Municipal Affairs & Housing

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Daniel Freeman, Senior Financial Consultant, Finance & Asset Management

March 21, 2024

Jerry Blackwood, CPA, CGA
Executive Director / Chief Financial Officer
Finance & Asset Management
Halifax Regional Municipality
Halifax Nova Scotia

VIA EMAIL: blackwj@halifax.ca

Dear Jerry Blackwood:

Thank you for your letter dated February 14, 2024 seeking Ministerial approval for HRM to borrow from the Canadian Infrastructure Bank (CIB).

On behalf of the Minister of Finance and Treasury Board, I am pleased to inform you that HRM has the authority to borrow from the CIB for projects as outlined in your letter on the condition that HRM follows the municipal borrowing process that is currently in place. HRM should proceed, when ready, with submitting a borrowing request in the usual manner to the Department of Municipal Affairs and Housing (DMAH), and, if approved, the Minister of DMAH will provide a Ministerial Certificate of Approval for the said request.

Yours truly,

A solid black rectangular box used to redact the signature of the Deputy Minister.

Kelliann Dean
Deputy Minister
Finance and Treasury Board

February 23, 2023

John Traves, Q.C.
Municipal Solicitor-Executive Director
Email: travesj@halifax.ca

Dear John Traves:

I would like to take this opportunity to clarify the position of the Department of Municipal Affairs and Housing on the matter of the Canada Infrastructure Bank with regards to borrowing and lending and to apologize for the delay in our response.

It is our position that the Canada Infrastructure Bank is indeed an agent of His Majesty in right of Canada when providing financial services. Therefore, it is our view that there is nothing to prohibit the Halifax Regional Municipality from borrowing directly from the Canada Infrastructure Bank.

Sincerely,



Andrew Atherton
Executive Director
Municipal Services