

Section I – Items for Board of Directors Action

TO: Chair and Members of the Executive Committee
Friday, April 14, 2023 Meeting

FROM: Michael Tolensky, Chief Financial and Operating Officer

RE: **UPDATE ON THE FINANCE AGREEMENT FOR THE NEW
ADMINISTRATIVE OFFICE BUILDING PROJECT**

KEY ISSUE

Update to the Board of Directors on the amended interest financing terms and conditions for the New Administrative Office Building Project.

RECOMMENDATION:

IT IS RECOMMENDED THAT the Chief Executive Officer be authorized to renegotiate the updated finance agreement for the new administrative office building project;

AND THAT the update to the finance agreement for the new administrative office building, be received.

BACKGROUND

Board of Directors Resolution #A145/19 authorized staff to issue Notices of Borrowing to the project financial services provider, Canadian Imperial Bank of Commerce (CIBC), according to a loan schedule based on the project cash flow. TRCA and the project financial services provider, CIBC, worked together to develop a quarterly amortization schedule for a \$54,000,000 term loan that best reflects the payment schedule from TRCA's partner municipalities, commencing on January 4, 2022 and ending on January 2, 2047, representing a period of 25 years.

The municipal partners of TRCA, including the City of Toronto and the Regions of Durham, Peel and York have committed up to \$60,000,000 of funding for the project over 30 years, as approved by their individual Councils.

The financing agreement was signed with a Canadian commercial bank on February 26, 2019. As part of the transaction, TRCA entered into an interest rate swap to forwards fix the interest payable by TRCA at 3.658% on \$50,000,000 of the available \$54,000,000 credit.

At the September 24, 2021 Board of Directors meeting (RES.#A182/21), the Board was informed of a delay in project completion and the need to revise the interest rate swap. The revised financing agreement provided a window from January 2, 2023 to June 1, 2023, with an end date of 25 years from start date with an in swap rate of approximately 4.111%. The project is facing further delays and requires a revision to the existing interest rate swap.

Board of Directors Resolution #A14/21 provided delegated authority to the Chief Executive Officer as follows:

“Staff request to TRCA’s Board of Directors to delegate approval authority to the Chief Executive Officer to update the financing interest terms and conditions for the New Administration Office Building Project”

Amending the construction financing and the interest rate hedge with CIBC will secure the most cost-effective financing option for TRCA. Resolution #A14/21 authorized TRCA officials to take whatever action may be required to implement the agreements, including obtaining necessary approvals and execution of documents.

RATIONALE

Given the substantial delay in project completion, it is anticipated that the construction loan conversion will take place after January 2, 2024. This delay has required TRCA to enter an additional interest rate swap and renegotiate the interest rate for the new administration building construction loan.

It is in TRCA’s best interest to enter a new swap as soon as practicable to mitigate the potential impacts of rising interest rates. The Construction Manager has provided a project schedule which has been carefully reviewed by the TRCA and TRCA’s third party project management consultant, JLL, and current total completion is scheduled for Q4, 2023. TRCA staff have anticipated further slippage in the schedule, therefore, to provide flexibility against any unforeseen delays, TRCA staff have requested CIBC to provide a window of June 2, 2023 to June 30, 2024, for when the new swap would start and thereby provide staff with flexibility to address further construction delay.

Relationship to TRCA’s 2022-2034 Strategic Plan

This report supports the following Pillar and Outcome set forth in TRCA’s 2023-2034 Strategic Plan:

Pillar 4 Service Excellence::

4.4 Transparent decision making and accountable results

FINANCIAL DETAILS

The original financing agreement with CIBC signed February 26, 2019, committed TRCA to an interest rate swap at 3.658% on \$50,000,000 of the available \$54,000,000 credit starting January 4, 2022. The financing agreement was revised September 28, 2021, providing an extension period from January 2, 2023, to June 1, 2023, with an end date of 25 years from start date with an in-swap rate of 4.111% (including stamping fee of .74bps).

An additional revised financing agreement will provide a window period from June 2, 2023, to June 30, 2024, with an end date of 25 years from start date. Current interest rate yields project that the cost to extend the swap would be 2bps higher with an in-

swap rate of approximately 4.131% (including the stamping fee). The window period provides TRCA a flexible start to the swap any day within the period which will accommodate construction schedule risk. Note that the 4.131% rate is not fixed but is an estimate of what the rate will be at the time of entering into the swap agreement.

The financial impact (net present value) of the additional interest that will need to be paid over the life of the interest rate swap due to the year delay is anticipated to be approximately \$92,000.

DETAILS OF WORK TO BE DONE

The revised financing agreement with CIBC is required to be signed by June 1, 2023.

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