

Section III – Items for the Information of the Board

TO: Chair and Members of the Board of Directors
Friday, September 24, 2021, 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 this staff report 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 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. 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.

Board of Directors Resolution #A141/21 provided delegated authority to the Chief Executive Officer in part as follows:

THEREFORE, LET IT BE RESOLVED THAT the Chief Executive Officer or their designate be delegated authority to amend the construction financing and amend the interest rate hedge with CIBC in order to secure the most cost-effective financing option for TRCA;

THAT authorized TRCA officials be directed to take whatever action may be required to implement the agreements, including the obtaining of necessary approvals and execution of any documents;

AND FURTHER THAT staff report back on the agreements to the Board of Directors at the September 2021 meeting.

Amending the construction financing and the interest rate hedge with CIBC will secure the most cost-effective financing option for TRCA. Resolution #A141/21 authorized TRCA officials to take

Item 8.6

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, the construction loan conversion will now take place after January 2, 2023. This delay has required TRCA to enter into an additional interest rate swap and renegotiate the interest rate for the new administration building construction loan. Staff recommended that the timing of the renegotiated interest rate swap coincide with completion of the mass timber structure which is the current critical path item in the construction schedule. The mass timber structure will be completed by the end of November 2021. Although the building will not be weathertight until Q1 of 2022, the completion of the building structure allows for other trades to start work and thereby greatly reduces any future risk to the schedule.

It is in TRCA's best interest is to enter a new swap as soon as practicable to mitigate the impacts of rising interest rates as the economy recovers from the impacts of COVID-19. The Construction Manager has provided a project schedule which has been carefully reviewed by TRCA's third party project management consultant, JLL, and TRCA staff are confident that the project completion will occur after January 2, 2023. However, as there remains over a year of construction in a period of uncertainty due to the ongoing COVID-19 pandemic TRCA staff have requested CIBC provide a window of time for when the new swap would start and thereby provide staff with flexibility to address further construction delay.

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 revised financing agreement provides a window 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 approximately 4.134%. 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 4.134% 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 in excess of \$1,100,000.

Relationship to Building the Living City, TRCA 2013-2022 Strategic Plan

This report supports the following strategy set forth in TRCA 2013-2022 Strategic Plan:

Strategy 7 – Build partnerships and new business models

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