

# Update: Infrastructure Ontario's Loan Program

Zone 2 Treasurers Meeting, October 19, 2017



# Infrastructure Ontario (IO)

- ▶ Agency of the Ontario government responsible for building, managing, financing, and enhancing the value of Ontario public assets
- ▶ Provides a range of services that support the Ontario government's initiatives to modernize and maximize the value of public infrastructure and realty
- ▶ Upholds Ontario's commitment to renew public services, in partnership with the private sector



# IO's Division Structure

## Project Delivery Division

### Major Projects

Acts as procurement and commercial lead for all major public infrastructure projects in the province

### Commercial Projects

Provides advice and negotiation support to the government and public sector partners regarding commercial transactions, including major land developments

## Real Estate and Lending Division

### Real Estate

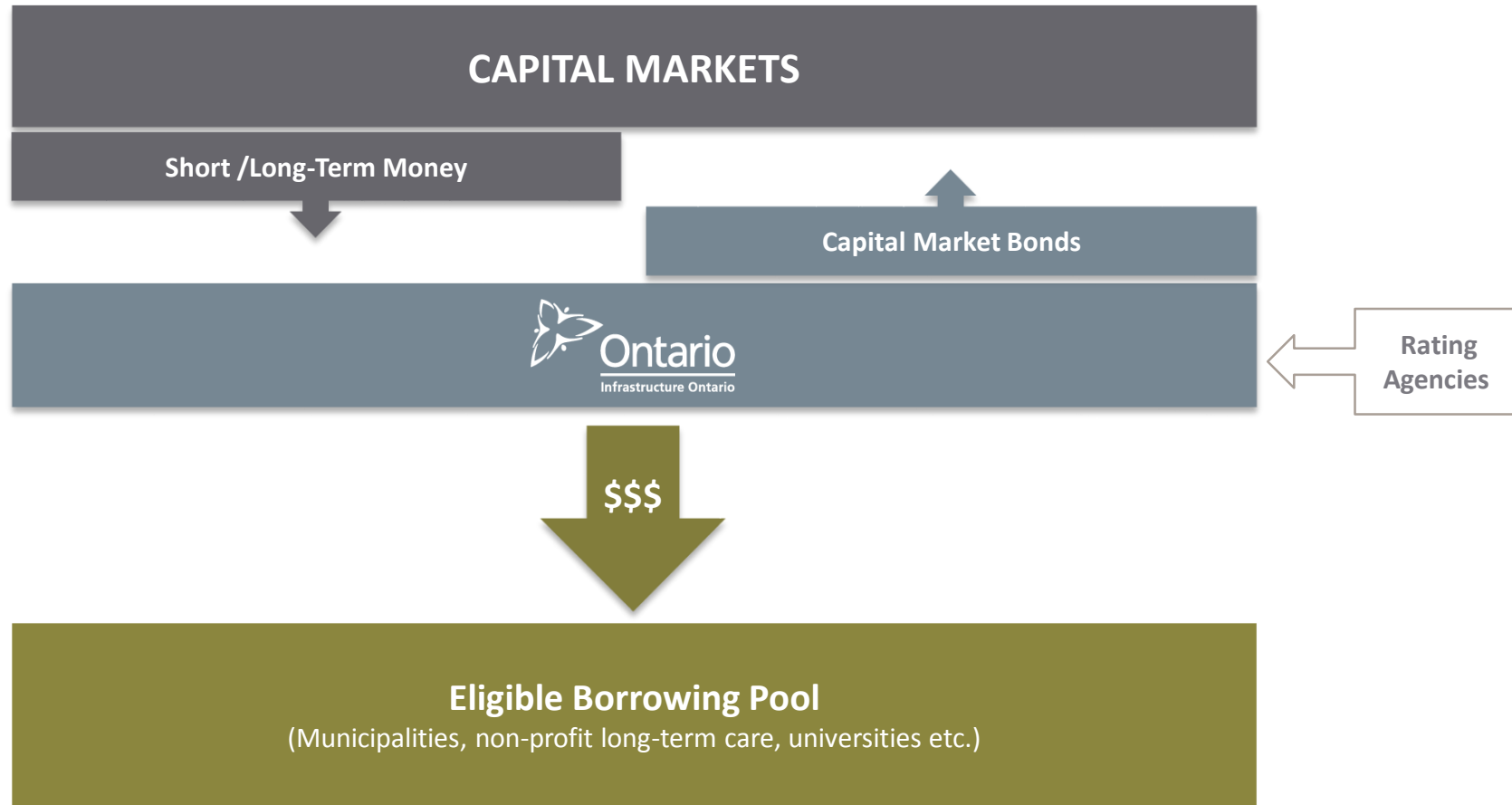
Modernizes and enhances the government real estate portfolio through asset planning, facilities contract management, and real estate advisory services

### Loan Program

Supports the renewal of public sector infrastructure by delivering low-cost and low-risk loans to eligible clients

# The Loan Program

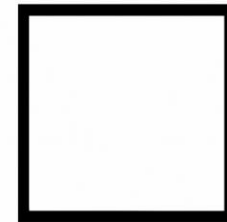
# Loan Program: Providing Access to Capital Markets



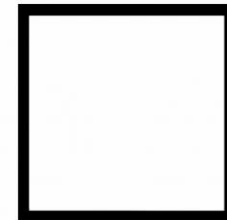
# Infrastructure Funding Strategies

- ▶ There are two fundamental ways that the broader public sector can choose to fund infrastructure:

**Full Cost**  
*"Pay As You Go"*



**Loan  
Financing**



# Full Cost “Pay As You Go”

- ▶ The traditional approach to building and renewing infrastructure
- ▶ Can only undertake projects that are fully-funded using finite sources:
  - Reserves
  - Development charges (increase)
  - Tax increases
- ▶ Apply for senior government assistance when available

**Full Cost**  
*“Pay As You Go”*



**Loan Financing**



# Funding Considerations

- ▶ The cost of deferring the project
  - Rise in operations and maintenance costs
  - Lost opportunity costs
- ▶ May limit the opportunity for growth
  - Will population or industrial growth be limited without the new infrastructure?
- ▶ Project financing
  - Time to raise or save the required capital
  - Ability and cost of servicing loans
- ▶ Impact of construction cost increases
- ▶ Uncertain economic conditions





# Loan Financing

- ▶ Assume manageable debt
  - Current and future tax-payers share the benefits over the life of the asset
- ▶ Projects are financed over extended periods of time
  - Match finance term to asset life (5 to 30 years)
  - User fees collected
  - Development charges
- ▶ Apply for senior government assistance when available

**Full Cost**  
*"Pay as you go"*



**Loan Financing**



# The Loan Program

- ▶ Provides affordable long-term financing solutions to help renew public infrastructure and deliver value to customers and residents across Ontario
- ▶ Efficient access to the Capital markets
  - IO leverages the strength of its good credit rating and passes savings along to its borrowers
  - No need to be rated
- ▶ Long-term fixed rates up to 30 years with bonus short-term flexible (construction) rate, if required
- ▶ Longer terms than generally available elsewhere
  - Terms are designed to match useful life of the asset
- ▶ Two kinds of long-term rates – Serial and Amortizer



# The Loan Program

- ▶ Rates are the same for all borrowers within each sector
- ▶ Affordable all-in blended rates
  - No additional transaction fees or commissions
- ▶ All capital expenditures are eligible
- ▶ Online application (WebLoans)
  - Dedicated knowledgeable staff

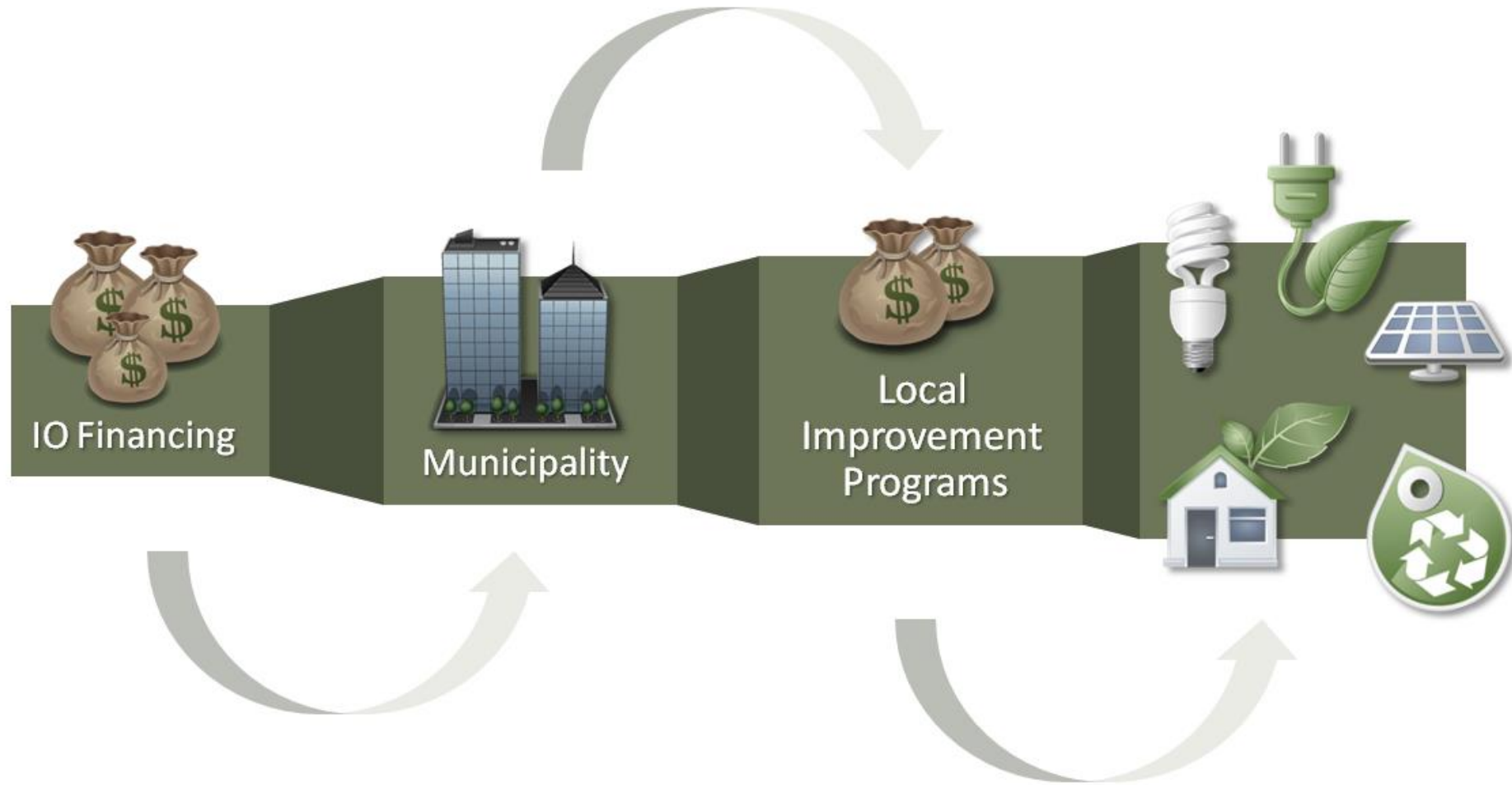


# Applying for a Loan

- ▶ WebLoans online application
- ▶ Credit and legal review
  - Projects are reviewed to ensure that they are viable and meet eligibility criteria
- ▶ Execute Financing Agreement
  - IO provides templates and our knowledgeable staff is available to assist throughout the process
- ▶ Draw money
  - Capital financing available for short term construction loans and long-term debentures



# Financing for Local Improvement Programs



# Indicative Interest Rates (as of October 16, 2017)

Term	Construction	Serial	Amortizer
1 Month	1.98%	-	-
5 Year	-	2.54%	2.55%
10 Year	-	2.99%	3.01%
15 Year	-	3.26%	3.30%
20 Year	-	3.44%	3.49%
25 Year	-	3.56%	3.61%
30 Year	-	3.62%	3.68%

# What's New at IO

## ▶ Capital Line Loan Facility

- Designed for borrowers with recurring and/or multi-year capital expenditures;
- Combine multiple loan applications into one;
- The Capital Line limit will be based on borrower's estimated capital works to be financed;
  - Available for up to five (5) years;
  - In whole or in part by the issue of debentures;
- 'Facility Sub-Limit' will be applied, as determined by the borrower, for interest only, short-term loans;
  - As short-term loans are repaid, or converted to debenture, the remaining Capital Line balance can be accessed;
  - Typical IO short-term loan requirements apply;
  - Five year term completed (or earlier), an extension may be requested and new terms re-set after IO review;

# What's New at IO

## ▶ Capital Line Loan Facility Example

- Total loan application of \$30 million over a five year period, as determined by the borrower;
  - The 'Facility Sub-Limit' is determined by the borrower to be \$10 million (maximum available for short-term financing at any one time);
  - Year one: \$6 million used in short-term construction financing for project work;
  - Year two: \$4 million is available for short-term financing unless the \$6 million is termed out in which case the full \$6 million is available in year two;
  - Long-term interest rates are set as per IO's normal debenture process;
    - Advances must be repaid and/or debentured within 120 days of substantial completion;



# What's New at IO

## ▶ Floating Rate Capital Loan

- Designed as a non-revolving facility for borrowers to draw short-term loans;
- Suited to borrowers who anticipate receiving future revenue to pay for specific capital works;
  - Interest only payments monthly for up to 5 years from the date funds are first advanced;
  - Floating interest rate yet to be set;
  - Partial draws permitted throughout the requested term;
  - At maturity, e.g. 5 years, interest only balance must be repaid or debentured;
  - Any reimbursed or converted amounts cannot be re-borrowed;

# What's New at IO

## ▶ Floating Rate Capital Loan Example

- New wastewater facility to be constructed to accommodate growth;
  - Loan application submitted to IO as 'Floating Rate Capital Loan' used to finance the project construction;
  - Development charges to be collected over 2 – 3 years to repay IO loan;
  - As charges are collected, IO loan principal can be repaid;
- Previously, IO short-term construction financing was only offered as part of a planned debenture;
- Now, the collected charges can be used to pay down the IO loan over 2 to 3 years with no fixed principal/interest payments other than the monthly short-term interest;