

OSIFA



Ontario Strategic Infrastructure Financing Authority

## Ontario Strategic Infrastructure Financing Authority (OSIFA)

Low-Cost, Longer-Term and Fixed-Rate Loans  
for Local Infrastructure Needs

**Ontario East Municipal Conference**  
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**Presented by: Susan T. McGovern**  
Vice President  
Community Relations &  
Communications

## Ontario Strategic Infrastructure **OSIFA** Financing Authority (OSIFA)

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- OSIFA is an innovative financing vehicle established in the 2004 Ontario Budget to provide Ontario municipalities, universities and other broader public sector partners with access to low-cost, longer-term fixed-rate loans to renew and build critical public infrastructure.
- Municipalities participating in OSIFA's loan program are collectively saving millions of dollars in interest charges and transaction fees over the life of their loans – savings that benefit local taxpayers.

## OSIFA Provides Low-Cost, Long-Term Fixed-Rate Financing

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- Pooled financing allows all borrowers to benefit from the same low interest rate.
- \$1.12 billion reserve fund is invested by the Authority to help cover program delivery costs.
- Reserve fund is key to OSIFA's high credit ratings, along with the credit strength of the borrowing pool.
- The strong credit quality of OSIFA's borrowing pool ensures the long-term fiscal health of OSIFA's infrastructure renewal loan program.
- OSIFA has been rated as well to better than the Province by the 3 top credit rating agencies:
  - Standard & Poor's AA+
  - Moody's Aa2
  - DBRS AA
- OSIFA issues Commercial Paper and Infrastructure Renewal Bonds to fund loans to borrowers.

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## OSIFA's Loan Program for Municipalities

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OSIFA's infrastructure renewal loan program is focused on Ontario's municipalities, aiming to offer affordable infrastructure financing for key municipal priorities:

- Clean water infrastructure
- Sewage infrastructure
- Waste management infrastructure
- Municipal roads
- Municipal bridges
- Public transit
- Municipal long-term care homes
- Renewal of municipal social housing
- Culture, tourism and recreation infrastructure



OSIFA is now accepting applications from municipalities until **October 14, 2005**.

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## Municipal Culture, Tourism and Recreation Projects



- OSIFA was broadened in the 2005 Ontario budget to now include financing for culture, tourism and recreation infrastructure that supports the provincial government's *Tourism Strategy* and *Active 2010* policy.
- Many municipalities, especially smaller and northern communities, have asked that culture, tourism and recreation infrastructure be added as OSIFA's priorities.
- Eligible municipal projects would include (but not be limited to):
  - Public libraries established under the *Public Libraries Act, 1990*
  - Community recreation or cultural centres, including arenas, swimming facilities, and centres for the performing arts
  - Museums as defined in the *Ontario Heritage Act, 1990*
  - Convention centres established by by-law or resolution of a municipal council
  - Outdoor recreation facilities, parks and trails established by by-law or resolution of a municipal council

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## Municipal Loan Program Overview



- OSIFA's Municipal Loan Program is committed to assisting more than 160 municipalities with up to \$2 billion in low-cost and longer-term loans to build and renew critical infrastructure projects.
- Round 1 of OSIFA's 2005-06 Municipal Loan Program is complete, resulting in 28 municipalities approved for up to \$126 million, pending OSIFA's technical and credit reviews.
- Round 2 of the Municipal Loan Program is currently open until October 14, 2005 and includes culture, tourism and recreation infrastructure projects in addition to the original categories.

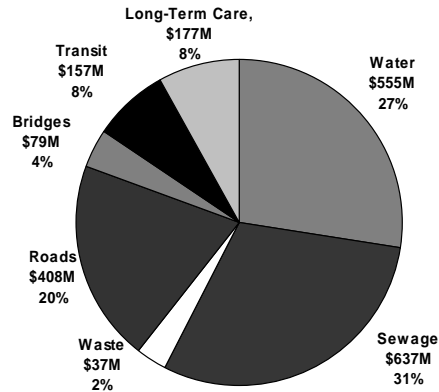
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## Municipal Loan Program Overview



- OSIFA's Municipal Loan Program is committed to assist more than 160 municipalities with up to \$2 billion renewing over 1,000 local projects across Ontario.
- 60% of OSIFA applications are for water, sewage and waste infrastructure projects.
- Round 1 of OSIFA's 2005-06 Municipal Loan Program is complete, resulting in 28 municipalities approved for up to \$126 million, pending OSIFA's technical and credit reviews.
- Round 2 of the Municipal Loan Program is opened until October 14, 2005 and includes culture, tourism and recreation infrastructure in addition to the original categories.



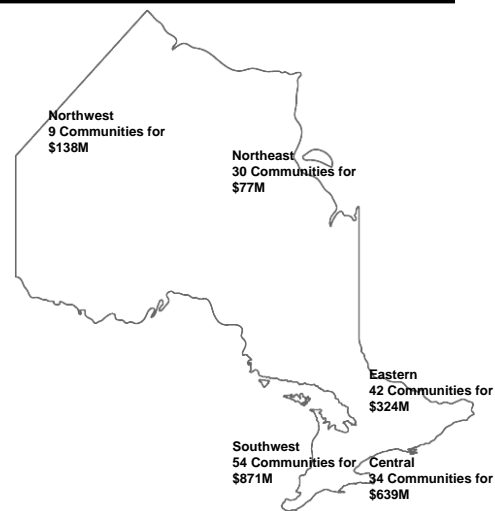
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## Municipal Loan Program Regional Distribution



- Mix of small, large, rural and urban municipalities from all regions of the province.
- 143 municipalities with populations under 100,000 and 22 with populations greater than 100,000.
- Loan requests range in value from \$55,000 to \$150 million.
- Over one third of Ontario municipalities have participated in previous rounds of OSIFA's municipal loan program.
- More than 9 million Ontario residents will benefit from OSIFA financing.



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## OSIFA & Eastern Ontario Partners in Infrastructure

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- To date, 42 Eastern Ontario communities have applied to OSIFA for 60 low-cost and longer-term loans for more than \$324 million to invest in their local infrastructure needs.
  - Eastern Ontario applicants represent over a quarter of all communities that have applied for OSIFA financing.
  - OSIFA is assisting with long-term capital planning, including \$198M for water and sewage infrastructure; \$77M for roads and bridges; \$8M for waste management and public transit and \$40M for long-term care infrastructure.
- OSIFA's partnership with Eastern Ontario municipalities has ensured the best value for local taxpayers.

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## Benefits Borrowers & Taxpayers

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- Lower interest rates than most borrowers could otherwise attain from traditional financing methods.
- Efficient access to capital markets for unrated borrowers through OSIFA.
- Transaction costs minimized because of pooled financing.
- Interest rates posted on OSIFA's website are "all-in". There are no additional OSIFA transaction fees or commissions.
- Longer financing terms at fixed rates that are generally not available from traditional financing sources.
- Financing terms from 5 to 40 years to better match payments to the useful life of assets.
- The advantage of the asset being paid over its useful life assists today's generation in making the necessary investment but sharing the cost with tomorrow's users.

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## Meeting Municipal Needs



- All-in interest rate.
  - OSIFA's posted interest rates includes all costs. No additional OSIFA transaction or commission fees.
- Minimum documentation required for streamlined application process.
- Easy on-line application and a toll-free 1-800 number to support excellent customer service.
- All necessary templates provided online, to reduce administrative and legal costs for borrowers.
- Availability of low-cost, short-term financing during construction.
- Availability of low-cost, long-term fixed-rate financing at a pre-determined debenture purchase date.

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## Examples of Potential Saving Estimate as at September 9



Loan Amount: \$10 million  
Length of Loan: 10 year  
OSIFA Rate: 4.06% (Amortized bond, all-in rate)

Model 1: Unrated Municipality with relatively good credit at an interest rate (amortizing debenture) of 4.41% in traditional financial markets.

**Approximate savings over life of loan  
\$208,000**

Model 2: Smaller Municipality at an interest rate (amortizing debenture) of 4.76% in traditional financial markets.

**Approximate savings over life of loan  
\$418,000**

NOTE: Rates and figures are updated weekly and are posted on OSIFA's website. This is meant only as an example.

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## Municipal Application Process Technical and Credit Review



- Once complete, an application undergoes a technical review to verify that projects meet eligibility criteria.
  - In addition to its own staff, OSIFA relies on expertise of other line ministries to provide advice on the relative merits of projects from environmental, public health, and non-financial perspectives including fit with government priorities.
- A credit review of applicants is carried out by OSIFA to assess their borrowing capacity.
  - OSIFA assesses a municipality against financial soundness criteria such as overall conformity with Debt & Financing Obligations limits and the impact of project debt service obligations on financial position.
- Once all necessary reviews are complete and the appropriate approvals in place, OSIFA notifies the municipality and sends an Offer Letter to confirm the request for financing prior to forwarding a Financial Agreement for execution.
- OSIFA's credit reviews ensure that borrowers can meet their OSIFA obligations, protecting the integrity of the borrowing pool for all clients.

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## Financing Agreement and Payments to Municipality



- Provided that the application and required documentation is complete, the length of time to receive funds can be as short as a few weeks from signed Financing Agreement to first payment.
- As part of the OSIFA Financing Agreement, the municipality signs a pre-authorized debit form. This electronic banking arrangement allows OSIFA to make payments to the municipality's account and also to withdraw interest and loan payments from the account according to an agreed upon schedule.
- OSIFA requires **only five business days** to process an advance request.
  - The Treasurer must certify that expenditures have been incurred in accordance with the Financing Agreement. OSIFA does not need to review individual receipts and invoices.

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## Financing Options



### All borrowers receive the same affordable interest rate

#### Short-Term Financing

- Financing is available during the construction period of an approved project based on incurred costs. Interest is calculated and payable by the municipality monthly on the 1st day of each month based on the posted short-term rates.

#### Long-Term Fixed-Rate Financing

- Once the project is complete or when the pre-determined debenture purchase date is reached, OSIFA sends a debenture purchase offer to the municipality for up to the approved amount of the loan per the financing agreement.
- The loan interest rate varies with the term of the loan; a 10-year loan term would have a different rate than a 40-year loan. Municipalities may select repayment terms of 5 to 40 years.
- Municipalities must select a repayment period that does not exceed the expected life of the capital asset.

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## Infrastructure Renewal Bonds



- On February 17, 2005, OSIFA issued its inaugural series of Infrastructure Renewal Bonds (IRBs) to fund its infrastructure renewal loan program to institutional and individual investors.
- The \$650 million issue far exceeded expectations. \$45 million was made available to, and purchased by, retail investors.
- OSIFA will use the proceeds from the sale of IRBs to continue to fund its infrastructure renewal loan program.
- Because of OSIFA's strong credit characteristics, the IRBs were priced at a very tight spread over Province of Ontario bonds. This meets the needs of investors and provides OSIFA with low-cost, longer-term financing. As a result, OSIFA can continue to provide low-cost and longer-term loans to its borrowers.
- IRBs are an efficient and attractive financial instrument. They maintain a link among investors and Ontario communities.
- And coming later this year, a retail series of IRBs will go on sale providing Ontarians with a good solid investment for their future and the future of their communities. This retail-targeted series of IRBs will complement the existing IRB sales to institutional investors.

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## Contact Information

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**OSIFA would also appreciate any comments or suggestions that you may have about our loan program.**

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**Vice President**

Community Relations and Communications

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