

## Issuance of Debentures

<b>Date:</b>	September 22, 2009
<b>To:</b>	Debenture Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2009\Internal Services\Cf\Dc09027cf – et (AFS #10581)

### SUMMARY

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This report requests that the necessary Bills be introduced and adopted by the Debenture Committee at its meeting on September 29, 2009 to give effect to the issue of sinking fund debentures in the amount of \$400 million that were syndicated in the domestic capital market on September 21, 2009.

### RECOMMENDATIONS

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The Deputy City Manager and Chief Financial Officer recommends that:

1. The Debenture Committee approve the provision of long term financing of certain capital works through the issue of sinking fund debentures in the amount of \$400 million in accordance with the terms and conditions set out in the Purchase Letter entered into by the Mayor and the Deputy City Manager and Chief Financial Officer on September 21, 2009 as further described in this report.
2. Authority be granted for the introduction of the necessary Bills to the Debenture Committee to authorize the issue of debentures, to authorize the new arrangements with CDS Clearing and Depository Services Inc. (“CDS”) and to authorize the issue of replacement debenture certificates and revenue bonds all as described in this report.
3. The Debenture Committee authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto.

## **Financial Impact**

The 2009 debt charges of \$4.4 million associated with this debenture issue have been included in the 2009 operating budget in the Non-Program Corporate and Capital Financing account.

The annualized debt charges of \$51.3 million associated with the \$400 million issue will be included in the City's 2010 operating budget in the Non-Program Corporate and Capital Financing account.

## **ISSUES BACKGROUND**

By-law No. 1326-2008 was enacted by Council on December 10, 2008 and authorized the Mayor and the Deputy City Manager and Chief Financial Officer ("DCM/CFO") to enter into agreements for the issue and sale of debentures during the year 2009 to provide an aggregate amount not exceeding \$700,000,000 to provide long-term financing for capital works.

By-law No. 1326-2008 was amended by By-law No. 702-2009, "To adopt a new Municipal Code Chapter 30, Debenture Committee" (the "Amended By-law") which was adopted by Council at its meeting held on August 5 and 6, 2009. Pursuant to the Amended By-law the terms of any such agreement to issue debentures must be reported by the DCM/CFO to the Debenture Committee for approval and the terms of the debenture issuance must be reported to Council for information no later than the second regular Council meeting following such approval.

The Amended By-law delegated the authority to the Debenture Committee to borrow money or to provide long-term financing of capital works by issuing debentures in accordance with the terms of any such agreement entered into by the Mayor and DCM/CFO and to enact the requisite borrowing by-laws in accordance with the annual borrowing limit established by Council, the City's Financing of Capital Works Policy and Goals and all applicable legislative requirements.

The Amended By-law also delegated authority to the Debenture Committee to pass the requisite by-law(s) to enter into new arrangements with CDS to ensure that CDS accepts new issues of debentures and revenue bonds and maintains existing debentures and revenue bonds as book entry only securities in the CDS system, acting as Canada's central depository for securities. The Amended By-law also delegated authority to the Debenture Committee to pass the requisite by-law to authorize the issue of replacement debenture certificates and revenue bonds, on such terms and conditions as the Debenture Committee deems appropriate, including a bond of indemnity as a condition of the issue thereof, before the passing of the by-law to authorize the new arrangements with CDS.

This debenture issue in the Canadian domestic market of \$400 million sinking fund debentures for a term of approximately 10 years is required to finance previously

approved capital expenditures. Details of the capital projects being financed are included in the by-law as part of the debenture issue approval process.

After this debenture issue, \$300 million in borrowing authority remains for the remainder of 2009 pursuant to the Amended By-law.

## **COMMENTS**

Acting in accordance with the aforementioned authorities and the advice of the City's debt issuance syndicate lead manager, Scotia Capital Inc. and co-leads RBC Dominion Securities Inc. and CIBC World Markets Inc., negotiations were completed on September 21, 2009 for the public issuance of sinking fund debentures in the Canadian domestic market. The transaction was the City's first debenture issued in 2009 and received an excellent reception in a bond market which has improved considerably since March 2009 after global markets began to improve their liquidity and provide more borrowing opportunities.

The sinking fund debentures were issued with a par value of \$400 million, a term of approximately 10 years and an interest rate of 4.50% per annum with an overall financing cost of 4.612% and represents the lowest cost of funding that was available to the City in either the domestic or international credit markets.

The sinking fund debentures were issued with the City having the option of being able to reopen the debenture issue during the remainder of 2009 and 2010, thus increasing its liquidity which attracts investors who want to trade their holdings more actively in response to secondary debt market conditions. The reopening option also establishes a benchmark that will be useful for pricing future debenture issues.

The debenture issue's term-to-maturity blends current capital market conditions with the matching of the economic life of various capital expenditures to their financing terms. This matching is consistent with both the *City of Toronto Act, 2006* and a principle adopted by Council in 2005 as part of the Long Term Fiscal Plan.

The structure and pricing of the transaction achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by the *City of Toronto Act, 2006*.

Delivery of the debentures and the receipt of proceeds will occur on October 2, 2009.

The issue will be book-based with no physical certificates as were previous debenture issues. This process continues to generate savings for the City related to the printing, registration and distribution of the securities since CDS administers the interest and principal payments to the debenture holders at no cost to the City.

## **CONTACT**

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## **SIGNATURE**

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Cam Weldon

Deputy City Manager and Chief Financial Officer