



**STAFF REPORT
ACTION REQUIRED**

Authority to Issue a Debenture to the Canada Mortgage and Housing Corporation to Secure Capital Program Funding

Date:	January 15, 2010
To:	Debenture Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2010\Internal Services\Cf\Dc10004cf (AFS #11281)

SUMMARY

This report requests authority to issue a debenture for \$57,743,758 to the Canada Mortgage and Housing Corporation (CMHC) to finance some of the eligible project costs of the City’s Capital Budget and Plan through CMHC’s Municipal Infrastructure Lending Program.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. The Debenture Committee approve the issue of a fifteen year amortizing debenture in aggregate principal amount of \$57,743,758 to CMHC under the Municipal Infrastructure Lending Program, in accordance with the terms and conditions set out in the Commitment Letters and the Loan Agreement entered into by the Mayor and Deputy City Manager and Chief Financial Officer, and in accordance with this report.
2. Authority be granted for the introduction of the necessary bills to the Debenture Committee to authorize the issue of the debenture described in Recommendation #1.
3. The Debenture Committee authorize the appropriate City officials to take the necessary actions to give effect thereto.

Financial Impact

The cost to the City for the payment of interest and principal will be funded through the City's Operating Budget. The debenture interest rate will be determined by CMHC on January 21, 2010. The rate set at the comparable Government of Canada rate plus approximately 50 basis points, representing an estimated 50 basis point lower cost than comparable City debt at current market rates.

DECISION HISTORY

At its meeting of December 8, 2009, City Council approved the 2010 Capital Budget and 2011 – 2019 Capital Plan. Within that approval, authority was granted by City Council to the Mayor and Deputy City Manager and Chief Financial Officer to execute Loan Agreement(s) with Canada Mortgage and Housing Corporation under the Municipal Infrastructure Lending Program. The above-noted report can be viewed through the following link:

<http://www.toronto.ca/legdocs/mmis/2009/ex/bgrd/backgroundfile-25460.pdf>

Additionally, the Mayor and Chief Financial Officer have authority to enter into agreements in 2010 to issue debentures to a maximum amount of \$700,000,000 pursuant to By-law No.1264-2009.

<http://www.toronto.ca/legdocs/bylaws/2009/law1264.pdf>

Authority to approve the issue of debentures to provide long term financing of capital works and to enact the requisite borrowing by-laws has been delegated to the Debenture Committee by City Council pursuant to City of Toronto Municipal Code Chapter 30, Debenture Committee.

BACKGROUND

As part of the 2009 Federal Government stimulus budget, the Municipal Infrastructure Lending Program (the "MILP") delivered through Canada Mortgage and Housing Corporation (CMHC) provides up to \$2 billion in direct low-cost loans to municipalities to invest in housing-related municipal infrastructure.

The MILP offers loans to municipalities currently at an interest cost below the City's cost of debt. The City of Toronto submitted application for a number of projects approved for debt financing as part of its Capital Budget. CMHC has reviewed the applications and identified eligible program costs to Toronto, and now in exchange for these long-term funds, the City is to issue a Debenture.

This requirement is consistent with legislation governing the means by which Ontario municipalities, including the City, may borrow for long-term capital purposes. Pursuant to the *City of Toronto Act, 2006*, the City may only borrow long-term capital funds by issuing a debenture, entering into a loan agreement with a financial institution, or issuing a revenue bond. Accordingly, a debenture must be issued by the City in order to legally secure long-term capital financing from CMHC.

COMMENTS

The debenture interest rate will be set by CMHC on January 21, 2010 using the Government of Canada yield for a term of 15 years and is the rate at which CMHC borrows its amortizing funding from the Federal Department of Finance plus approximately 50 basis points representing CMHC's costs and compensation for any risks assumed by CMHC in providing the loans. At current market rates this represents an estimated 50 basis points lower than the City cost for comparable debt. The final rate will be transmitted to the Debenture Committee through a supplementary report.

As of January 12, 2010, the Government of Canada rate is $3.57\% + 0.50\% = 4.07\%$ per annum for a 15 year term which is the duration of the debenture. Although the interest rate for a 15 year Government of Canada bond will vary according to capital market conditions until the debenture is issued, City staff do not expect that there will be a significant difference to the cost of funds as quoted in the above example.

Delivery of the debenture and the receipt of proceeds from CMHC will occur on February 1st, 2010, subject to the debenture by-law being adopted by the Debenture Committee. Annual principal and interest payments will be made over the 15 year amortization period on the anniversary date when the debenture is issued, February 1, 2010.

Staff have compiled a list of additional debt financed projects that may be eligible for similar consideration in the future, subject to CMHC rates remaining attractive relative to City cost of debt.

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SIGNATURE

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