

## **Issuance of Debentures**

<b>Date:</b>	April 23, 2010
<b>To:</b>	Debenture Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\Cf\Dc10019cf (AFS #

### **SUMMARY**

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This report requests that the necessary Bills be introduced and adopted by the Debenture Committee at its meeting to be held on April 28, 2010 to give effect to the issuance of sinking fund debentures in the amount of \$400 million that were syndicated and sold in the domestic capital market on April 21, 2010.

### **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 April 21, 2010 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.
3. The Debenture Committee authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto.

### **Financial Impact**

The 2010 debt charges of \$13.3 million associated with this debenture issue have been included in the 2010 operating budget in the Non-Program Corporate and Capital Financing account.

The annualized debt charges of \$28.1 million associated with the \$400 million issue will be included in the City's 2011 operating budget in the Non-Program Corporate and Capital Financing account.

## **ISSUES BACKGROUND**

By-law No. 1264-2009 was enacted by Council on December 8, 2009 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 2010 to provide an aggregate amount not exceeding \$700,000,000 to provide long-term financing for capital works.

By-law No. 702-2009, "To adopt a new Municipal Code Chapter 30, Debenture Committee" was adopted by Council at its meeting held on August 5<sup>th</sup> and 6<sup>th</sup>, 2009. Pursuant to Chapter 30 of the City's Municipal Code, 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.

Chapter 30 of the City's Municipal Code delegates 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.

This sinking fund debenture issued in the Canadian domestic market of \$400 million for a term of 30 years is required to finance previously approved capital expenditures. Details of the capital projects being financed are included in the borrowing by-law and the proceeds of this issue will partially finance the TTC subway car purchase, the Spadina Subway, transportation infrastructure such as bridge reconstruction and the Waterfront Development.

After this debenture issue, \$248 million in borrowing authority remains for the remainder of 2010.

## **COMMENTS**

Acting in accordance with the aforementioned authorities and the advice of the City's debt issuance syndicate lead manager, CIBC World Markets Inc., and co-leads RBC Dominion Securities Inc. and Scotia Capital Inc., negotiations were completed on April 21, 2010 for the public issuance of sinking fund debentures in the Canadian domestic market. This transaction was the City's first debenture issued in 2010 as well as the first with a 30 year term in over 30 years.

The City issued a \$400 million debenture for a 30 year term at a coupon interest rate of 5.20%, priced at 99.283 to yield 5.248% with an all-in-cost of funds of 5.295%, including commissions.

The issue achieved a good reception and sold well with wide distribution and placement of bonds in various accounts across Canada and the United States.

The sinking fund debentures were issued with the City having the option of being able to reopen the debenture issue during the remainder of 2010 and 2011, 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 yield 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.

The 2010-2019 capital budget established a 30 year financing requirement of \$1.7 billion and with this \$400 million issuance, the City has locked in a favourable cost of funds for 23.5% of its total long-term financing requirements over the next 10 years

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 April 30<sup>th</sup>, 2010.

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

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