

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

Date:	June 21, 2010
To:	Debenture Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Dc10032cf (AFS #12310)

SUMMARY

This report requests authority to issue a debenture for \$42,256,242 to the Canada Mortgage and Housing Corporation (CMHC) to finance eligible project costs within the City's 2009 and 2010 Capital Budget through CMHC's Municipal Infrastructure Lending Program.

This amount is within the Council approved \$700 million debt issuance limit for 2010. If approved, the City will have issued \$500 million under this authority so far in 2010.

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 \$42,256,242 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 annual payment of interest and principal in the amount of \$3,755,533.92 million will be funded through the City's Operating Budget beginning in 2011. The debenture interest rate of 3.83% was determined by CMHC on June 21, 2010. The rate was 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.

At its meeting of January 25, 2010, the Debenture Committee approved the issue of a fifteen year amortizing debenture in aggregate principal amount of \$57,743,758 with an interest rate of 3.98% to CMHC under the Municipal Infrastructure Lending Program.

The staff report also indicated that a list of additional debt financed projects had been compiled that may be eligible for similar consideration in the future, subject to CMHC rates remaining attractive relative to City cost of debt. A further \$42,256,242 in projects have been deemed eligible by CMHC under the program and this report seeks approval from the Debenture Committee for the issue of a debenture to CMHC for that amount.

<http://www.toronto.ca/legdocs/mmis/2010/db/bgrd/backgroundfile-26473.pdf>

<http://www.toronto.ca/legdocs/mmis/2010/db/bgrd/backgroundfile-26751.pdf>

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 provides loans to municipalities at an interest cost that is currently below the City’s cost of debt. The City submitted a preliminary application for financing a number of projects included as debt financed in the Capital Budget. CMHC has reviewed the applications and identified eligible program costs, and is prepared to supply financing at its next issuance on July 2, 2010.

A debenture must be issued by the City in order to legally secure long-term capital financing from CMHC. This requirement is consistent with legislation governing the means by which Ontario municipalities, including the City, may borrow for long-term capital purposes.

COMMENTS

The debenture interest rate was set by CMHC on June 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 is an estimated 50 basis points lower than the City cost for comparable debt.

Delivery of the debenture will occur on June 30, 2010 and the receipt of proceeds from CMHC will occur on July 2, 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 next business day following the anniversary date, when the debenture is issued, July 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.

The program ends March 31, 2011, and all financial expenditures must be substantially complete by March 31, 2012.

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SIGNATURE

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