

## **Issuance of Debentures**

<b>Date:</b>	August 13, 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\Dc10046cf (AFS #12793)

### **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 August 19, 2010 to give effect to the issuance of sinking fund debentures in the amount of \$200 million that were syndicated and sold in the domestic capital market on August 12, 2010 and will be issued on August 20, 2010. The debentures were issued with a term of 30 years, in keeping with the strategy adopted by Council for financing the 2010-2019 Capital Budget and Plan.

### **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 issuance of 30 year sinking fund debentures in the amount of \$200 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 August 12, 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 annualized debt charges of \$14 million associated with the \$200 million debenture 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 and 6, 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.

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 \$200 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 Allstream Conference Centre development and transportation infrastructure such as bridge and road reconstruction.

The City's borrowing program of \$700 million has been completed for 2010, consisting of \$400 million issued in April, 2010 and \$200 million with this current issue, for a total of \$600 million issued for a 30 year term in the public capital markets, plus \$100 million borrowed from Canada Mortgage and Housing Corporation (CMHC).

## **COMMENTS**

Acting in accordance with the aforementioned authorities and the unanimous advice of the City's debt issuance syndicate lead manager, RBC Dominion Securities Inc., and co-leads CIBC World Markets Inc. and Scotia Capital Inc., negotiations were completed on August 12, 2010 for the public issuance of sinking fund debentures in the Canadian domestic market. This transaction was a reopening of the City's first debenture issued in 2010 with a 30 year term.

On August 12, 2010, the City issued a \$200 million debenture for a 30 year term at a coupon interest rate of 5.20%, priced at 104.073 to yield 4.937% with an all-in-cost of funds of 4.981%, 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.

This debenture was a reopening of the \$400 million debenture issued in April 2010, thus increasing its total size to \$600 million 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 City debenture issues.

As the \$200 million reopening was pricing to yield 4.937%, reflecting current capital market conditions, it has reduced the overall cost of funds for the total \$600 million to 5.10% from the original 5.25% for an annual interest savings of 0.15% or \$900,000 on a weighted-average basis.

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 approximately \$1.6 billion and with this \$200 million issuance, along with the previous \$400 million issuance, the City has locked in a favourable cost of funds for approximately 37% of its total long-term financing requirements over the next 30 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 August 20, 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