



**STAFF REPORT
ACTION REQUIRED**

Authority to Issue a Debenture to the Federation of Canadian Municipalities to Secure Funding for the Toronto Police Services

Date:	October 5, 2010
To:	Debenture Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2010\Internal Services\CF\Dc10048cf (AFS #12826)

SUMMARY

This report requests authority for the City to issue a debenture for \$2.0 million to the Federation of Canadian Municipalities (FCM) to finance a portion of the costs of the Toronto Police Services Training Centre (“the Project”) through FCM’s Green Municipal Fund Loan Program. In addition, the Toronto Police Services will also be receiving a \$300,000 grant from FCM in conjunction with the loan to finance the Project.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. The Debenture Committee approve the issuance of a twenty year amortizing debenture in a maximum aggregate principal amount of \$2.0 million to FCM, in accordance with the terms and conditions set out in the Loan Agreement entered into by the Mayor, the Deputy City Manager and Chief Financial Officer and the City Clerk dated December 9, 2009, 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

There will be a cost to the City to pay interest on the debenture. The interest rate of 2.00% has been set in accordance with FCM's formula which sets the interest rate at the Government of Canada benchmark 20 year bond yield – 1.50% or 2.00%, whichever is the greater.

The interest cost will be funded from the City's non-program operating budget.

DECISION HISTORY

The project was approved as part of the TPS's 2004 capital budget submission and construction commenced in February 2007 and was completed in 2009.

The report authorizing staff to submit FCM applications was adopted on October 2, 3 and 4, 2001 (Report 12(7) of the Policy and Finance Committee), and Motion No. J (17) adopted by Council on June 18, 19 and 20, 2002, granted authority to enter into FCM contracts.

Authority to approve the issuance 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.

By-law No. 1326-2008, as amended, provides authority for the Mayor and Deputy City Manager and Chief Financial Officer to enter into agreements in 2009 to issue debentures to a maximum amount of \$700 million.

BACKGROUND

FCM has introduced procedures to its Green Municipal Funds' loan program that require that municipalities issue debentures to FCM in exchange for the funds being lent to the municipality.

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 FCM.

Pursuant to By-law No. 1326-2008 the Mayor and Chief Financial Officer entered into the Grant and Loan Agreement dated December 9, 2009 with FCM in respect of the Project, which agreement provides, amongst other things, that the City shall issue a twenty year amortizing debenture in a maximum aggregate principal amount of \$2.0 million to FCM and receive a grant for \$300,000.

COMMENTS

The Project has been completed and is operating and the City has finalized its application for funding to FCM. One of the FCM requirements is that the City issue debentures as security for a loan of \$2.0 million to fund this Project.

The Training Facility has achieved LEED (Leadership in Energy & Environmental Design) Silver certification by achieving a 43.5% estimated annual energy savings relative to the Model National Energy Code for Buildings.

In addition to administrative offices, the facility includes an auditorium, classrooms, shooting ranges, and two gymnasiums.

It is located on approximately 6.67 hectares of former industrial land and features renewable geothermal energy from 140 wells which are 122-metre deep that will fulfill a majority of the building's heating and cooling needs. Heat-recovery units have been installed on the air-handling units and with other energy-efficiency enhancements, seasonal heat loss and heat gain has been reduced. Lighting controls have also reduced electricity consumption.

Overall, these measures will lower energy consumption from an estimated 66,000 gigajoules to 35,000 gigajoules annually.

The total project cost was budgeted and approved at \$76,400,000 with eligible costs for FCM financing at \$62,212,000 which are subject to an FCM audit.

The project is being financed by the following sources:

Source	Source Name	Description	Amount	Commitment
Municipal	City of Toronto	Capital Financing	\$64,005,400	April 23, 2004
Federal	Department of Defence	Cash Contribution	10,094,500	February 15, 2008
FCM	FCM	Grant	300,000	December 18, 2008
	FCM	Loan	2,000,000	December 18, 2008
		Total Project Cost	\$76,400,000	

The debenture interest rate will be provided by FCM in accordance with their formula which sets the interest rate at the greater of (a) 1.50% below the average yield for a Government of Canada 20 year benchmark bond in effect five (5) days before the debenture by-law is passed, and (b) 2.00%. As of October 3, 2010, the interest rate derived from the formula is $3.00\% - 1.50\% = 1.50\%$.

As specified in section 2.06 of the agreement, the annual rate shall not be lower than 2.00% per annum. Based upon current capital market conditions, it is unlikely that the interest rate of 2.00% per annum will change five days before the Debenture Committee's meeting to be held on October 18, 2010.

Delivery of the debenture and the receipt of proceeds from FCM will occur after October 18, 2010 subject to the debenture bylaw being adopted by the Debenture Committee at its meeting on that date.

Interest will be compounded semi-annually with a 20 year amortization period with payments occurring semi-annually on the anniversary date when the debenture is issued which will be determined after October 18, 2010.

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SIGNATURE

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