

Issuing a Debenture to the Federation of Canadian Municipalities as a Requirement to Secure Funding

Date:	April 16, 2009
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2009\Internal Services\Cf\Ec09008Cf – et (AFS #9841)

SUMMARY

This report requests authority to issue a debenture of \$600,000 to the Federation of Canadian Municipalities (FCM) to finance a loan provided by the City to Artscape for capital works at the Artscape Wychwood Barns.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Subject to report EX31.5 “Capital Loan and Grant from the Federation of Canadian Municipalities for the Artscape Wychwood Barns, as amended by Executive Committee, receiving Council approval at its meeting to be held on April 29 and 30, 2009:
 - a) the Deputy City Manager and Chief Financial Officer and the City Clerk be authorized to enter into an agreement with FCM, for the issuance and sale of a ten year amortizing debenture in a maximum aggregate principal amount of \$600,000, such agreement be on terms and conditions satisfactory to the Deputy City Manager and Chief Financial Officer in consultation with the City Solicitor;
 - b) the Deputy City Manager and Chief Financial Officer and the Mayor be authorized to issue the debenture to FCM on behalf of the City; and
 - c) authority be granted for the introduction of the necessary bills in Council to give effect thereto.

FINANCIAL IMPACT

There is no direct cost to the City since the debenture is being issued on behalf of Artscape, who will pay all of the associated debt charges to the City, who will in turn forward the funds to the FCM.

This debenture will be a financial commitment of the City. If Artscape defaults on its obligation, then the City will withhold the amount of the default from any grants that would have been provided to Artscape.

DECISION HISTORY

At its meeting on April 7, 2009, the Executive Committee amended report EX31.5 “Capital Loan and Grant from the Federation of Canadian Municipalities for the Artscape Wychwood Barns by adding the following recommendation:

1. The Deputy City Manager and Chief Financial Officer to report to the next Executive Committee meeting on the new requirement by The Federation of Canadian Municipalities (FCM) for a municipality to issue a debenture to FCM to secure funding and to request additional authorities that will be required for the City to issue a debenture to FCM in relation to the Artscape loan.

ISSUE BACKGROUND

FCM has recently introduced new procedures to its Green Municipal Funds loan program which requires 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.

While the City has delegated authority to apply for as well as accept funding from FCM, the City requires Council’s authority to issue a debenture to FCM.

COMMENTS

FCM is requiring that the City issue a ten year amortizing debenture to it in the maximum aggregate principal amount of \$600,000 for the Artscape Wychwood Barn loan.

The Artscape Wychwood Barns Project is equipped with a geothermal system to provide heating and cooling to its buildings. The system consists of a geothermal field located to the west of the buildings underneath the City of Toronto Wychwood Barns Park, and associated equipment distributed throughout the buildings in tenant studios and utility rooms. The FCM grant and loan will finance the geothermal system.

The debenture interest rate will be set by FCM after the debenture issuance is approved by Council in accordance with their formula which sets the interest rate at 1.50% below the current market rate that the Government of Canada uses to issue its own debt.

As of April 14, 2009, the Government of Canada rate is 2.93% - 1.50% = 1.43% per annum for a 10 year term which is the duration of the debenture. Although the interest rate for the 10 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 April 14, 2009 example.

Delivery of the debenture and the receipt of proceeds from FCM will occur after May 27, 2009, subject to the debenture bylaw being adopted by Council at its May 26 and 27, 2009 meeting.

Interest will be compounded semi-annually with a 10 year amortization period with payments occurring semi-annually on the anniversary date when the debenture is issued which will be determined after May 27, 2009.

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SIGNATURE

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