



STAFF REPORT ACTION REQUIRED

Financing of Capital Works Policy and Goals and Multi-Year Debenture and Temporary Borrowing Authorities

Date:	February 3, 2011
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2011\Internal Services\Cf\Bc11004cf (AFS #11705)

SUMMARY

This report requests Council's approval of:

1. the "City of Toronto's Financing of Capital Works Policy and Goals" as contained in Appendix A,
2. the authority for the sale and issuance of debentures during Council's term, 2011 to 2014 inclusive, to finance tax-supported and Solid Waste Management capital expenditures approved by Council, and
3. the authority to temporarily borrow funds, if required, pending the receipt of tax revenues and the issuance of debentures and bank loans during Council's term, 2011 to 2014.

These measures are necessary to support the City's efforts to further enhance its fiscal sustainability, flexibility and credit worthiness.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve the City of Toronto's Financing of Capital Works Policy and Goals as contained in Appendix A of this report.
2. Council authorize the Mayor and the Deputy City Manager and Chief Financial Officer to enter into an agreement or agreements during each of the years 2011, 2012, 2013 and 2014 for the sale and/or issuance of debentures, not to exceed \$900 million in each of the years 2011, 2012, 2013 and 2014, and to enter into

- any additional agreements necessary to provide for the reduction of interest rate risk with respect to the interest payable under the debentures, the reduction of currency risk with regard to the principal and interest payable under the debenture, or to minimize the cost or risk associated with the debentures due to fluctuations in interest rates.
3. Chapter 30, Debenture Committee, of the City of Toronto's Municipal Code be amended to reflect Recommendation (2).
 4. City Council authorize the Deputy City Manager and the Chief Financial Officer to reopen an existing debenture issue if it is determined that the reopening will be advantageous to the City depending upon capital market conditions during each of the years 2011, 2012, 2013 and 2014.
 5. The annual temporary borrowing limit to meet current expenditures in each of 2011, 2012, 2013 and 2014, pending receipt of tax levies and other revenues in each of those years, be established at \$300 million per year, and authority be delegated to the Mayor and the Deputy City Manager and Chief Financial Officer to temporarily borrow for current expenditures to this limit in each of 2011, 2012, 2013 and 2014.
 6. The annual temporary borrowing limit for capital purposes for each of 2011, 2012, 2013 and 2014 be established at \$300 million per year, and authority be delegated to the Mayor and the Deputy City Manager and Chief Financial Officer to temporarily borrow for capital expenditures to this limit in each of 2011, 2012, 2013 and 2014.
 7. The 2011 sinking fund levies of \$131,226,014.41 for the City of Toronto and \$2,293,802.99 for the Toronto District School Board be approved.
 8. Authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.
 9. The appropriate City of Toronto officials be authorized to take the necessary actions to give effect thereto.

Financial Impact

The debt charges associated with prior and new borrowing is disclosed annually to Council as part of its deliberations on the budget and through in-year variance reports and year-end financial reporting. Debt charges are affected by past levels of borrowing, interest rates on new debt, the amount of debt issued and the term of the debt repayment. The recommended 2011 operating budget includes \$407 million in tax supported debt charges which is projected to increase to an annualized amount of approximately \$600 million over the term of the borrowing authorized in this report. Debt charges for Solid

Waste Management are budgeted at \$28 million in 2011 and are forecasted to increase to \$52 million in 2014. Following is a table showing the projected debt charges.

Debt Charge Forecast: 2011 to 2014 and Annualized 2015 (\$Million)

	2011	2012	2013	2014	2015
Tax Supported	407	445	516	579	600
Solid Waste	28	40	44	52	59
Total	435	485	560	631	659

Following is a summary of the projected debt issuance for the term of the policy recommended in this report, based on the recommended 2011-2020 Capital Budget and Plan.

Debt Issuance per 2011- 2020 Capital Budget (\$Million)

	2011	2012	2013	2014
Baseline Debt (Debt Capacity for New Projects)	200	0	120	228
New Debt, Tax Supported	452	1,134	742	279
Sub-Total, Tax Supported	652	1,134	862	507
Solid Waste Management				
Solid Waste Base Program	25	29	63	57
Green Lane Landfill Site (Previously Approved)	135	0	0	0
Total	812	1,163	925	564

The average total budgeted debt issuance over the four year period is \$866 million. This report recommends a maximum annual debt issuance of \$900 million which takes into consideration the following factors:

1. Actual capital expenditures associated with each year's approved capital budget will be less than the approved limit of \$866 million.
2. There will be certain amounts previously spent but not yet financed from previous years.
3. Capital market conditions will affect both the timing and the amount of debt which can be issued in each year. Staff estimate that the markets will be able to absorb up to \$900 million in each year. Any amounts which cannot be financed through debt in a given year are temporarily financed using the City's working capital.

If the entire temporary borrowing authority is utilized during 2011, the maximum financial impact would be approximately \$0.4 million in interest charges that would be reflected in the 2011 Operating Budget in Non-Program – temporary borrowing. For the years 2012, 2013 and 2014, the financial impact would be similar to 2011, depending upon the level of short-term interest rates and capital market conditions.

DECISION HISTORY

City of Toronto's Financing of Capital Works Policy and Goals

At its meeting on March 7, 2007, Council approved the "City of Toronto Financing of Capital Works Policy and Goals" through the adoption of Executive Committee EX5.1.

<http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-02-27-ex05-cr.pdf>

The policy was amended by Council at its meeting held on August 5th and 6th, 2009.

2009.EX33.13 - Delegation of Council's Debenture By-law Enacting Authority

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.13>

Authority to Issue Debentures

Council enacted by-law 1264-2009 "To authorize agreements respecting the issue and sale of debentures for the year 2010" on December 8, 2009 which authorized the Mayor and Deputy City Manager and Chief Financial Officer to enter into an agreement or agreements with a purchaser or purchasers, during the year 2010 for the sale and issue of debentures upon such terms and conditions including price or prices as they deem expedient to provide an amount not exceeding \$700,000,000.00.

2009.EX38.1 - 2010 Capital Budget and 2011 - 2019 Capital Plan

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX38.1>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.MM52.25>

Authority to Temporarily Borrow Funds

At its meeting held on March 5th, 6th, 7th, and 8th, 2007, Report EX4.2 "Temporary Borrowing Authority" was adopted by Council. This report contained recommendations that authorize Council to delegate to the Deputy City Manager and Chief Financial Officer the temporary borrowing limits for both capital and current expenditures for each remaining year of the then current term of Council. By-law 263-2007 and By-law 263-2007 were adopted by Council on March 7, 2007 to give effect to this report.

2007 EX4.3 - Multi-Year Temporary Borrowing Authority

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-03-05-cc03-dd.pdf>

ISSUES BACKGROUND

City of Toronto's Financing of Capital Works Policy and Goals

Paragraph 8 of subsection 212 (1) of the *City of Toronto Act, 2006* (COTA) requires Council to adopt and maintain a policy with respect to the financing of capital works before an agreement to issue debt to support the City's capital budget can be entered into.

Authority to Issue Debentures

The City traditionally adopts an annual by-law delegating authority to the Mayor and the Deputy City Manager and Chief Financial Officer to negotiate and enter into agreements for the issuance and sale of debentures up to an annual limit established by Council. This provides flexibility to commit to issue debentures when market conditions are most favourable to the City.

Authority to Temporarily Borrow Funds

Subsection 5(1) of Ontario Regulation 610/06 under COTA permits the City to authorize the temporary borrowing of funds for current expenditures, if required, until property taxes and user fees are collected, subject to a maximum of 50% of the total estimated revenues between January 1 to September 30 as set out in the operating budget and 25% of the total estimated revenues between October 1 to December 31.

Under this Regulation, the City is also permitted to undertake temporary borrowing, under individual project approvals, for capital projects to be financed in whole or in part by the issuance of debentures or by a bank loan and is permitted to undertake temporary borrowing for school board purposes.

City of Toronto Long Term Fiscal Plan

Council adopted the comprehensive Long Term Fiscal Plan in 2005 which contained a number of strategies, principles and policies to improve the City's finances. Within the plan were the following principles which are applicable to this report:

- The cost of servicing new debt should not negatively affect the City's credit rating which should be maintained at the Current level (AA for long term debt) or higher.
- Debt repayment period should not exceed the useful life of the asset for which the debt is incurred.

COMMENTS

In order to construct the infrastructure that is needed to provide services to the taxpayers, the City can issue debt in conjunction with other methods of capital financing such as contributions from current operations, reserves and reserve funds.

The size of the City's expenditures necessitates the use of debt to assist in the financing of the projects contained in the capital budget. Debt can provide the City with affordable financing by matching the repayment term to the economic useful life of the project

instead of funding the entire cost from current revenues. Otherwise, present taxpayers could be paying for the entire cost of a project that will be operating for many years and provide a benefit to future residents.

The City may issue long-term debt only for capital purposes and cannot borrow for operations except through the issuance of promissory notes that must be repaid when the current year's tax levy is collected. Municipalities differ from other orders of government since the principal must be amortized over the term of the debenture and repaid to investors or contributed to a sinking fund that will provide for repayment when the debt matures. In contrast, the Federal and Provincial governments are allowed to refinance their debt when it matures instead of repaying the principal from their own internal funding resources.

Prior to the passage of COTA, the City was subject to the provincially-established limit on the amount of debt that could be issued such that debt charges could not exceed 25% of the City's own-source revenue. COTA removed the provincial requirement and provided City Council with the authority to approve its own debt service guideline which is contained within this report. All other municipalities in the Province are still subject to the 25% limit.

Capital Funds Provided from the Operating Budget

By allocating a level of "capital from current" funding from the operating budget to the capital budget annually, the City is able to reduce the amount of debt that is required to finance capital projects. Sometimes referred to as a "pay as you go" policy, these funds can be used to pay for assets that have a shorter useful life such as computer hardware and software and cannot be readily financed through debentures having a term to maturity of one to three years.

Given the ongoing funding requirements of the City's infrastructure, it is being recommended in the 2011 to 2020 Capital Budget that capital funding from the operating budget be increased by 10% on an annual basis in order to further reduce the need for debt issuance and provide more funds for financing projects with a shorter useful life.

Credit rating agencies support this policy and it is viewed as a positive factor when evaluating the City's credit rating.

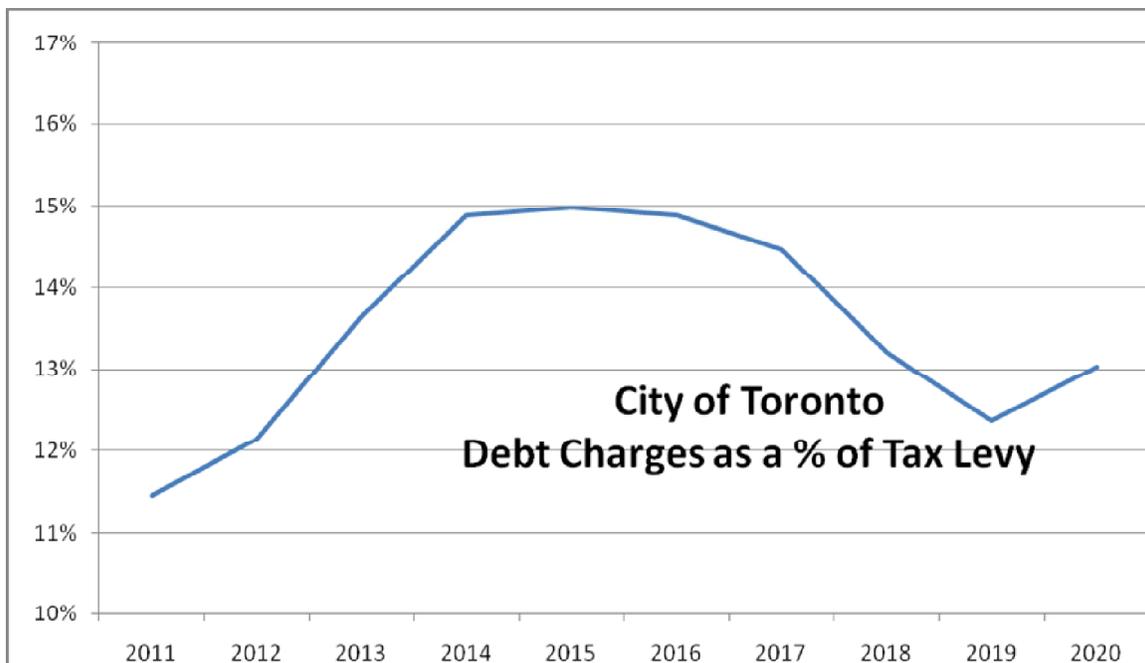
Debt Service Limits

1. Property Tax-Supported Debt

A key part of the capital financing policy is the placement of a limit on debt to provide fiscal discipline which helps ensure a strong credit rating and, therefore, access to debt with lower interest rates. While there are a number of options for establishing such a limit, the recommended policy focuses on limiting the debt charges to 15 percent of property taxes for the tax supported capital debt. This level ensures that at least 85 cents of every property tax dollar raised is available to fund the operating cost of City programs

and no more than 15 cents is dedicated to servicing the debt. This level has been in place for many years and is a contributing factor to the City's high credit ratings. In addition to tax supported debt, the City has also issued a small amount of "self liquidating" debt for programs such as the Energy Retrofit Program and the Bloor Street Transformation project. Because the amounts are modest, debt charges associated with self liquidating debt are included within the above limit. Solid Waste Management is subject to a separate recommended limit as described below.

The following graph shows the projected debt charges as a percentage of property taxes based on the staff recommended 2011 to 2020 capital budget and plan, which shows that the program adheres to the recommended policy limit of 15%.



2. Solid Waste Management Debt Funded by User Fees

The debt service costs for debt issued to finance the capital requirements for Solid Waste Management are funded by the user rates and are not provided by the City's tax base.

Given that this program is funded as self-supporting with their debt fully recoverable from the rate base, debt charges resulting from the financing of the capital required by these functions should not exceed the target of 20% of their own-source revenue. Own-source revenues are defined as any revenues generated by the respective programs that are fully within the control of each program. This figure is higher than the 15% figure for the tax supported program due to the nature of its capital program and the ability of rates to support debt charges. The rate structure is able to recover these debt charges

while adhering to the principle that the users of the service pay for the capital required to provide these services and the financing is not subsidized by the City's tax base.

The ratio of debt charges to own source revenues for Solid Waste is approximately 9% in the recommended 2011 operating budget and is projected to increase to 15% by 2014 during the duration of the policy contained within this report and to approximately 20% by 2020.

City of Toronto's Financing of Capital Works Policy and Goals

The attached amended Financing of Capital Works Policy and Goals in Appendix A satisfies the requirements of COTA that requires Council to adopt and maintain a policy that ensures Council's compliance by addressing the debt issuance and management provisions contained in COTA.

Adherence to the policy will assist the City in supporting the planning capital spending and achieving the lowest cost of funds, given current capital market conditions. The policy will also help the City maintain the highest possible credit rating through prudent long-term financing planning as well as maintaining the City's reputation as a respected participant in global capital markets.

Authority to Issue Debentures

In order to maintain flexibility and the ability to finance capital expenditures that were previously approved but not yet permanently financed, authority to borrow up to a \$900 million limit for City purposes is being requested annually from 2011 until 2014 inclusive. This limit represents a realistic view of the amount of City of Toronto debt that the capital market investors could absorb during a given year without causing the cost of the debt to increase due to oversupply concerns. The \$900 million does not exactly match the amount of debt required in the 2011 capital budget since it takes into account that there is a lag between a capital project receiving approval and the need to permanently finance the associated expenditures. Actual debt issuance takes into consideration capital spending in previous years which has not yet been permanently financed with debt, market considerations, and requirements for actual capital spending levels associated with the 2011 to 2020 capital budget

It should also be noted that, included within the debt authority for 2011 is debt to be issued to finance the balance of the Green Lane landfill site, purchased in 2007. This is consistent with the financing plan approved by Council at that time under which approximately \$100 million of the \$220 million site cost was financed following the purchase of the site and the balance of \$120 million was deferred until the conclusion of the contracts to dispose waste in Michigan. This helped align the overall costs of acquiring the site with the financial inflows. Approximately \$120 million plus temporary financing costs of roughly \$15 million will be debt financed in 2011 in this regard.

The proceeds from debentures issued under the recommended authority will be used to finance capital expenditures that have been incurred or committed for approved projects. A successful debenture issue requires the ability to respond to financial market conditions

in a timely manner to obtain the most advantageous rates and terms. The delegation of authority to commit to debenture issues to the Mayor and the Deputy City Manager and Chief Financial Officer up to an annual limit allows for such responsiveness to market conditions.

The debenture authority approved by Council for 2010 was \$700 million. Due to favourable capital market conditions and timing considerations, debenture issuance in the entire amount was completed during the year to finance the City's capital requirements.

The recommended capital financing policy continues the role of the Debenture Committee which has been delegated by Council the authority to borrow funds on behalf of the City, in accordance with the policy, the debt required to support each year's capital budget, and the overall debt limits set by Council.

Authority to Temporarily Borrow Funds

This report seeks the authority for temporary borrowing for both capital and operating purposes as a precaution against the unlikely situation where the City did not have sufficient cash flow to meet its financial obligations. The temporary borrowing authority is viewed positively by the City's credit rating agencies, since it provides the City with a financial safeguard in addition to bank lines of credit and the City's financial reserves and reserve funds. There is no cost unless the City needed to access funds through this authority, in which case the interest charges would fall within the amounts budgeted within the Non-Program account in the operating budget.

Council has traditionally approved the limits for temporary borrowing for operating and capital purposes on an annual basis. Starting in the previous Council term, temporary borrowing for both current and capital expenditures was approved in 2008 for the remainder of the previous Council term. With the advent of multi-year budgeting, it is advantageous for Council to approve temporary borrowing for the current term of Council.

The annual amount of \$300 million was approved by Council for temporary borrowing for capital projects pending the issuance of long-term debt for the years 2007 to 2010. The same annual limit is recommended for 2011 to 2014.

Based upon the preliminary forecasted operating and working capital requirements for 2011 to 2014, it is proposed that \$300 million be established as the annual limit for temporary borrowing for current expenditures pending the receipt of tax and other revenues for the year. This amount is less than the allowable legislative limit but is projected to be sufficient to provide the necessary flexibility for the operation of the City's cash management and temporary borrowing programs during the year.

Approval of the 2011 Sinking Fund Levies

Subsection 255(4) of COTA states:

“If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the city treasurer shall prepare for city council, before the budget for the year is adopted, a statement of the amount.”

This requirement is addressed in this report as Recommendation #7. Included in the recommendation is 2011 funding for debt issued in prior years for the Toronto District School Board. These funds are fully recovered from the TDSB.

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SIGNATURE

Cam Weldon

Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A – City of Toronto's Financing of Capital Works Policy and Goals

Appendix A

City of Toronto's Financing of Capital Works Policy and Goals

1. Policy Statement

It is recognized that the City of Toronto has a reputation as a respected participant in global capital markets. Adherence to its financing of capital works policy and goals will enhance this reputation and ensure the City's continued access to these markets in order to raise funds through the issuance of debt securities in an efficient and cost-effective manner for the purpose of capital financing.

The City of Toronto is committed to achieving the lowest cost of funds when financing capital works, based upon current capital market conditions. When making decisions regarding the financing of a capital expenditure through the issuance of debt, Council must be satisfied that the lowest cost alternative is utilized from a total cost of funds perspective.

This policy ensures that Council complies with the debt issuance and management provisions contained in the *City of Toronto Act, 2006* (COTA) and its regulations while providing Council with the flexibility to meet the City's annual capital needs during its term-of-office.

The City seeks to maintain the highest possible credit rating. While the City recognizes that external economic, natural or other events may affect its credit rating, it is committed to ensuring that actions within its control are prudent and necessary as they relate to the issuance and management of short and long term debt.

2. Authority and Accountability

Paragraph 8 of subsection 212 (1) of COTA requires Council to adopt and maintain a policy with respect to the financing of capital works, including the limits on the annual costs associated with the financing, before the City can enter into an agreement to issue debt.

For each term of Council, Council will enact a by-law delegating to the Mayor and the Deputy City Manager and Chief Financial Officer the authority to enter into agreements for the issuance of debentures in each year of the Council term up to an annual amount.

For each term of Council, Council will enact a by-law delegating to the Mayor and Deputy City Manager and Chief Financial Officer the authority to temporarily borrow funds (a) to meet current expenditures, if required, pending the receipt of tax revenues and (b) for capital works or permanent improvements to be financed in whole or in part by the issue of debentures or by bank loans.

Financial markets require the City to have the ability to act on financing opportunities in a timely and efficient basis in order to secure the best pricing and terms.

3. Debenture Committee

Authority to adopt debenture by-laws has been delegated to the Debenture Committee under the City of Toronto Municipal Code Chapter 30, Debenture Committee.

The Debenture Committee has four members:

- The Mayor;
- The Budget Chair;
- The City Manager; and
- The Deputy City Manager and Chief Financial Officer

The Mayor is the Chair of the Debenture Committee, and the Budget Chair is the Vice Chair of the Debenture Committee.

The majority of committee members constitute a quorum.

The committee members serve by virtue of their positions and until their successors are appointed.

The authority to make final decisions with respect to the following matters, to the extent that the authority has not already been delegated, is delegated to the Debenture Committee:

- The authority, for the purposes of the City, to borrow money or provide financing for any capital work by issuing debentures, revenue bonds and entering into bank loan agreements in accordance with such terms and conditions as are set out in any agreement for the issue of debentures, revenue bonds or the entering into of such bank loan agreements entered into by the Mayor and Deputy City Manager and Chief Financial Officer in accordance with Council's by-laws delegating the authority to enter into any such agreement up to an annual limit established by Council, all in accordance with this Policy and with all legislative requirements; and
- The authority to pass the requisite borrowing by-laws to authorize the issue of any debentures, the issue of any revenue bonds and the entering into of any bank loan agreements approved in accordance with Subsection A(1) and to authorize any one or more City officers to do all things and execute all other documents, instruments and agreements in order to give effect to the issue of any debentures, the issue of any revenue bonds and the entering into of any bank loan agreements; and

- The authority to pass the requisite by-law(s) to enter into new arrangements with CDS Clearing and Depository Services Inc. (“CDS”) to ensure that CDS accepts new issues of debentures and revenue bonds and maintains existing debentures and revenue bonds as book entry only securities in the CDS system and to authorize any one or more City officers to do all things and execute all other documents, instruments and agreements in order to give effect to the arrangements with CDS; and
- The authority to pass a by-law to authorize the issue of replacement debenture certificates and revenue bonds on such terms and conditions as the Debenture Committee deems appropriate, including a bond of indemnity as a condition of the issue of replacement debenture certificates and revenue bonds, before the City passes the by-law(s) to authorize the new arrangements with CDS.

4. Debt to be used only for Capital Financing Purposes

The City is not authorized by legislation and will not issue debt obligations or use debt proceeds to finance current operations with the exception of temporary financing that is permitted under Subsection 5(1) of Ontario Regulation 610/06 under COTA.

The City is, however, permitted to issue debt for capital projects.

Under this same Regulation, the City is permitted to undertake temporary borrowing under individual project approvals for capital projects that will be financed in whole or in part by the issuance of debentures or by entering into a bank loan agreement and to be repaid when permanent financing sources become available.

The City will utilize debt for the acquisition, construction, renovating, repairing or remodelling of capital works where the project cannot be funded from current operating revenues or other sources and where the Deputy City Manager and Chief Financial Officer considers it to be prudent to finance the project over the useful life of the asset.

5. Capital Financing provided from the Operating Budget "Capital From Current (CFC)"

As part of the City’s capital financing policies, if economically feasible and determined to be affordable, Council will allocate funds from its operating budget to be contributed to funding capital expenditures on an annual basis which will have the effect of reducing the amount of required financing for capital expenditures.

This financing is suited for maintenance/upgrade projects and is first applied to finance capital projects with an economic life of five years or less, and any remaining amount would be used to reduce long-term borrowing which would otherwise be raised through the issuance of debentures.

6. Debt Service Limits

a. Capital Programs Supported by the Property Tax Levy

Provided that the annual costs associated with debt financing shall not exceed 15% of the tax levy, the City shall finance, from time to time, capital works that the City considers necessary or desirable for the public, as included in its Ten Year Capital Plan, in accordance with applicable generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board. The budgeted debt charges that will be incurred due to debt issuance will be included in the annual Operating Budget.

The annual costs associated with tax-supported debt financing shall not exceed 15% of the property tax levy.

The carrying costs of tax supported debt as a percentage of the property tax levy is subject to various factors such as the debt requirements contained in the capital budget, new projects that may not be contained in the approved capital budget but arise through events that could not have been foreseen, spending rates that affect capital project completion, the amount of unfinanced capital and capital market conditions such as the level of interest rates.

b. Capital Programs Supported by User Fees

The debt service costs for debt issued to finance the capital requirements for Solid Waste Management are funded by the user rates and are not provided by the City's tax base.

Given that this departmental program is funded as self-supporting with their debt fully recoverable from the rate base, debt charges resulting from the financing of the capital required by these functions should not exceed the target of 20% of their own-source revenue. Own -source revenues are defined as any revenues generated by the program that are fully within the control of the program.

The rate structure is able to recover these debt charges while adhering to the principle that the users of the service pay for the capital required to provide these services and the financing is not subsidized by the City's property tax base.

As part of each year's approval of the operating and capital budgets for Solid Waste Management, Council will be provided with a forecast of the ratio of debt service costs (if any) to the total own source revenues.

7. Short-term Borrowing for Capital Purposes

Since it is the City's practice to temporarily finance its capital expenditures from working capital until it is permanently financed, there are occasions when the City must borrow funds to finance these obligations on a short-term basis.

As indicated in Section 2, Council will enact a multi-year temporary borrowing bylaw for the Council term that will authorize short-term borrowing for a capital project up to an annual amount approved by Council.

8. Credit Ratings

The City seeks to maintain the highest possible credit rating that can be achieved without compromising the delivery of services and programs through prudent budgetary and debt management policies and procedures.

The City believes that it enhances its ability to issue debt in the global capital markets when the lowest cost of funds is achievable by being rated by the following rating agencies on a continuous basis:

- Moody's Investor Service
- Standard and Poor's
- Dominion Bond Rating Service

9. Long-term Financial Planning

To enhance the credit rating and prudent financial management, the City will conduct long-term financial planning through the adoption of a ten-year capital plan and a long-term fiscal plan that will disclose the amount of debt and its projected cost that will be required to finance capital expenditures over the term of Council.

10. Matching the Term of Debt to Capital Asset Life

Under COTA, the maximum term for debt issuance is 40 years or the useful economic life of the asset – whichever is less.

With experience, the City has found that the issuance of debentures to finance "state of good repair" projects generally have a useful life that conforms to a 10 year maturity and this term is usually very acceptable to the capital markets.

Debt with a term of 30 years is usually issued for infrastructure such as rapid transit, municipal buildings, Waterfront revitalization and certain transportation assets such as bridges that have a useful life of 30 years or greater.

A debenture term to 30 years increases the affordability of the debt and reduces the impact on the operating fund since the annual principal repayment is amortized over a longer term. This process also allows the cost of the asset to match the benefits for future

taxpayers who will be using the assets and by not unduly burdening current taxpayers with paying for the entire asset during the early years of its operation.

11. Debt Structures

Debt should be structured to achieve the lowest net cost of funds, given the constraint of debt maturities and current capital market conditions. To the extent possible, the City will structure its debt obligations to require repayment as soon as feasible so as to recover its borrowing capacity for future use and minimize costs where possible.

Sinking Fund Debt

Under COTA, the City is authorized to issue debt that requires an annual payment to be made to a sinking fund controlled by the Sinking Fund Committee so that these contributions, when invested at an actuarial interest rate, will provide for the repayment of the debt at maturity. The Committee is comprised of four citizen members with specialized expertise and knowledge that supports and contributes to the quality of the investment management of these funds and the Deputy City Manager and Chief Financial Officer as Chair of the Committee.

The citizen members are appointed by City Council and the Committee has the sole authority for managing the sinking funds' investments and administrative policies.

Instalment Debt

Under COTA, the City is authorized to issue debt that will mature in a given year on an instalment or serial basis whereby the principal portion of the debt becomes due and according to a repayment schedule that was established when the debt was issued.

Variable versus Fixed Debt Issuance

Under COTA, the City may issue up to 10% of its outstanding debt in the form of variable rate debt where the interest rate fluctuates according to a pre-determined formula or benchmark rate such as a Treasury bill or Government of Canada bond. This type of debt should only be issued if market conditions provide an opportunity for the City to lower its borrowing costs while maintaining the ability to convert the debt into a fixed interest rate if warranted by future capital market conditions.

Re-opening of a Debt Issue

The City will reserve the right to re-open a debenture that has previously been issued and increase its par value if this provides a lower cost of funds than other available borrowing alternatives while increasing the size and liquidity of the original debt issue and broadening the City's investor base.

Bank Loans

As a source for financing capital works, the Deputy City Manager and Chief Financial Officer shall consider bank loans and recommend that the City enters into a bank loan agreement if it conforms to this policy and achieves the goals of providing a lower cost of funds and flexible terms than other available debt instruments. This authority has not been delegated and any such agreement requires Council approval.

Construction Financing

In order to match projected debt charges with future revenues that will be generated after a facility is constructed and operating, the City may issue construction financing whereby the interest or principal payments or both can be deferred up to five years before payment is required. The Deputy City Manager and Chief Financial Officer will recommend this financing if it is determined to be in the best interests of the City.

12. Revenue Bonds

The issuance of revenue bonds will be addressed by a statement that will amend this policy before the City contemplates issuing revenue bonds as allowed under Ontario Regulation 610/06 Financial Activities.

13. Derivatives and Hedging

The use of derivatives and hedging as related to the issuance of debt will be addressed by a statement that will amend this policy before the City contemplates issuing debt denominated in a foreign currency as allowed under Ontario Regulation 610/06 Financial Activities.

14. Accessing Capital Financing Programs Offered by Other Orders of Government

When evaluating whether to participate in a loan or debt program being offered by the federal or provincial orders of government, the interest rate and terms will be compared to the City's all-in cost of borrowing and the program must provide a lower cost of funds and competitive terms in order to be considered.

15. Issuing Debt on Behalf of Another Jurisdiction

If the City is requested by the Toronto District School Board or the Toronto Catholic School Board to issue debt on their behalf, the City will consider the request as it affects the City's overall borrowing program and deal with the report on a timely basis. Council approval is required before the City will agree to issue debt on behalf of the school boards.

The authority to consider a request and the City's authority to issue the debt is contained in the following section 246 of COTA:

“The City may borrow money for the purposes of a school board if the school board exercises jurisdiction in all or part of the City and requires permanent improvements as defined in subsection 1 (1) of the Education Act.

16. Legal Support

A specific borrowing bylaw must be adopted to authorize the issuance of debentures or the entering into a bank loan for the purpose of capital financing that is covered by this policy.

The City Solicitor provides legal advice with regard to the City debt financing transactions and, in the opinion of the City Solicitor, should the scope of the proposed transaction require, recommend that legal advice be obtained from an independent source. This advice would cover the initial proposal and extend to the various contracts and agreements that would have to be executed in conjunction with the transaction.

The debt issuance syndicate is responsible for retaining external counsel who provides the legal opinion for the investors.

17. Reporting and Disclosure Requirements – Construction Financing Debt

The Deputy City Manager and Chief Financial Officer shall prepare and present to the Council a detailed report per the requirements of section 16 of Ontario Regulation 610/06 “Financial Activities”. This applies to outstanding debt issued under clause 7(1)(d) of 2(d) of the same Regulation which relate to construction financing debt where the payment of interest, principal or both are deferred during the period of construction.

“(1) If the City has any outstanding debt under clause 7 (1) (d) or (2) (d) in a fiscal year, the treasurer shall prepare and present to the council once in that fiscal year, or more frequently if the council so provides, a detailed report on all of that debt.

(2) The report under subsection (1) shall contain,

(a) a description of the estimated proportion of the total debt of the City under clause 7 (1) (d) or (2) (d) to the total long-term debt of the City and a description of the change, if any, in that estimated proportion since the previous year's report;

(b) a statement by the treasurer as to whether, in his or her opinion, all debt under clause 7 (1) (d) or (2) (d) of the Act was issued in accordance with the statement of policies and goals relating to construction financing adopted by the City;

(c) an update of the detailed estimate made under clause 15 (2) (c) with respect to the terms of the City's expectations of revenue generation from the undertaking;

(d) a record of the date of the repayment of each instalment of principal, interest or both principal and interest made during the period of construction of the undertaking for which the debt under clause 7 (1) (d) or (2) (d) was issued;

(e) a statement of the outstanding instalments of principal, interest or both principal and interest repayable during the currency of the debt issued under clause 7 (1) (d) or (2) (d) that will be due and payable in each year; and
(f) such other information as the council may require or that, in the opinion of the treasurer, should be included.”

The report, if required, shall be presented to Council on an annual basis after the end of the City’s fiscal year after the City’s accounts are closed.

18. Annual Reporting of Sinking Fund Levies

Subsection 255(4) of COTA states:

255 (4) If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the city treasurer shall prepare for city council, before the budget for the year is adopted, a statement of the amount.

This statement requires mandatory reporting as part of each year's operating budget regarding the amount of funds that need to be levied during the year to retire the City's sinking fund debt.

February 3, 2011