TORONTO

# STAFF REPORT
# ACTION REQUIRED

# Interim Authority to Issue Debentures during 2011 and Authority to Enter into Lending Agreements with CMHC

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| **Date:** | January 5, 2011 |
| **To:** | Executive Committee |
| **From:** | Deputy City Manager and Chief Financial Officer |
| **Wards:** | All |
| **Reference Number:** | P:\2011\Internal Services\Cf\Ec11002cf – AFS #13095 |

## SUMMARY

This report requests Council's authority to enable Toronto Community Housing Corporation (TCHC) to obtain low interest financing under the Federal Municipal Infrastructure Loan Program administered by the Canada Mortgage and Housing Corporation (CMHC).

Specifically, authority is requested for the Deputy City Manager and Chief Financial Officer to execute Commitment Letters with CMHC in 2011 to borrow up to $22 million, and for the Mayor and the Deputy City Manager and Chief Financial Officer to be delegated authority to enter into the related loan agreement with, and issue debentures to, CMHC on behalf of the Toronto Community Housing Company in the maximum amount of $22 million, and finally that this delegated authority to borrow and issue debentures be deemed to be the City's 2011 interim debt commitment limit and authority.

## RECOMMENDATIONS

**The Deputy City Manager and Chief Financial Officer recommends that:**

1. City Council delegate authority to the Deputy City Manager and Chief Financial Officer to execute Commitment Letters issued to the City by the CMHC under the Municipal Infrastructure Lending Program in 2011, for loans not to exceed a total of $22 million.

2. City Council delegate authority to the Mayor and the Deputy City Manager and Chief Financial Officer to execute the Loan/Debenture Agreement(s) with the CMHC in 2011 under the Municipal Infrastructure Lending Program (in respect of loans for which Commitment Letters have been signed pursuant to Recommendation 1) for the City to borrow from CHMC and to issue debentures to CMHC an amount not to exceed $22 Million for a term(s) not to exceed the shorter of 20 years or the useful life of the project(s) for which the debenture(s) are issued.

3. The delegated authority to issue debentures set out in Recommendation 2 be deemed to be the City's interim debt commitment limit and authority for 2011 as required by the City of Toronto's Financing of Capital Works Policy and Goals, and that Council adopt the requisite by-law to give effect to the 2011 interim debt commitment limit and authority.

4. Authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.

5. The appropriate City of Toronto officials be authorized to take the necessary actions to give effect thereto.

### Financial Impact

Since the debenture(s) is being issued to the CMHC on behalf of the TCHC, there is no financial impact to the City since TCHC will be responsible for the payment of the debt charges within its existing subsidy from the City.

## DECISION HISTORY

Annually, Council has adopted a by-law that authorizes the Mayor and Deputy City Manager and Chief Financial Officer to enter into agreements for the issuance of debt that is within an approved dollar limit as it provides the capital markets and external legal counsel with a clear delegation of authority that allows for needed flexibility in timing the issuance of debt and managing risk within volatile financial markets. This process also adds procedural continuity, transparency as well as accountability for capital market transactions that are undertaken on behalf of the City. This annual by-law is required by the City's Financing of Capital Works Policy and Goals.

2009.EX38.1 - 2010 Capital Budget and 2011 - 2019 Capital Plan
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX38.1

2010.DB6.1 - Authority to Issue a Debenture to the Canada Mortgage and Housing Corporation to Secure Capital Program Funding
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.DB6.1

Authority to approve the debentures committed to under delegated authority and to enact the requisite debenture by-laws has been delegated to the Debenture Committee, pursuant to Chapter 20, Debenture Committee, of the City's Municipal Code.

2009.EX33.13 - Delegation of Council's Debenture By-law Enacting Authority
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.13

## ISSUE BACKGROUND

The 2010 debt commitment limit and authority by-law was By-law 1264-2009, as amended by Council on August 27, 2010 by By-law 1144-2010.

The debt commitment limit approved by Council for 2010 was $700 million and was fully utilized due to the need for funds to finance approved capital projects and favourable capital market conditions that were encountered during 2010.

Although TCHC is permitted under Council's shareholder direction to issue debt in its own name, the debt financing from the CMHC requires the City's previous approval.

Before the City can approve the loan in 2011 on behalf of TCHC, Council approval of the 2011 debt commitment authority and limit by-law is required. This annual by-law delegates authority to the Deputy City Manager and Chief Financial Officer, and Mayor to enter into agreements for the issuance of debentures up to a maximum amount per calendar year. Due to the timing of Council's consideration of the 2011 – 2020 Capital Budget, this won't occur until late February or early March. In order to take advantage of the timing and favourable interest rates of this current CMHC loan, it is necessary to adopt an interim 2011 debt commitment limit and authority by-law.

## COMMENTS

As part of the 2009 Federal Government stimulus budget, the Municipal Infrastructure Lending Program (the “MILP”) delivered through (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 and TCHC's cost of debt by approximately 50 basis points (0.50%). In 2010 the City borrowed $100 million under this program.

TCHC intends to use the proceeds of the loan to finance three capital projects related to the redevelopment of Regent Park. The largest amount is required to pay for 'municipal' infrastructure – sidewalks, streetlighting etc. The other two projects relate to high efficiency electricity generation and distribution within the development.

Legally, a debenture must be issued by the City in order to be able to secure long-term capital financing from CMHC on behalf of the TCHC. Because the program is set to

expire and the last opportunity for the issuance of the debenture by the City in order to access the program is March 1, 2011, it is necessary for Council to approve an interim debt commitment limit and authority for 2011 of $22 million for the CMHC deadline to be met. If the deadline is not able to be met, TCHC will not receive the reduced interest rate and will pay approximately $100,000 per year more, or $2.0 million over the 20 year term of the borrowing.

The Deputy City Manager and Chief Financial Officer intends to recommend an amended debt commitment limit and authority by-law for 2011 and an amended Capital Financing Policy, to be co-ordinated with the Council adoption of the 2011 to 2020 Capital Program at its meeting on February 23 to February 28, 2011 inclusive.

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## SIGNATURE

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