



STAFF REPORT ACTION REQUIRED

Multi-Year Debenture and Temporary Borrowing Authorities - 2015 to 2018

Date:	November 21, 2014
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Cf\Ec14027Cf (AFS #20342)

SUMMARY

This report requests the delegation of Council's authority to the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee) together with the Deputy City Manager & Chief Financial Officer, in respect of the following three borrowing activities on behalf of the City for the current term of Council:

- a. negotiating and entering into agreements for bank loans and for the sale and issuance of debentures and revenue bonds to provide long-term financing for the City's capital program, up to the recommended annual limits;
- b. temporarily borrowing primarily for operating expenses pending the receipt of annual taxes and other revenues during Council's term, up to the recommended annual limits; and
- c. temporarily borrowing for approved capital works pending long term financing, up to the recommended annual limits.

Since 2011, this authority has been delegated by Council for the duration of the Council term, within annual monetary limits. Prior to 2011, the authority was delegated annually.

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

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council authorize the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee) and the Deputy City Manager & Chief Financial Officer, during each of the years 2015, 2016, 2017 and 2018, to:
 - a. enter into agreements for the sale, or the issuance and sale of debentures, and revenue bonds and for entering into bank loan agreements, upon such terms and conditions, including price, as they deem expedient, for the purposes of borrowing money to obtain or provide long-term financing of any capital work, in an annual amount not to exceed \$900 million per year;
 - b. enter into any additional agreements necessary to provide for the management of interest rate risk, the management of currency risk or to minimize the costs or risks due to fluctuations in interest rates, all associated with the debentures, revenue bonds, or bank loan agreements upon terms satisfactory to them;
 - c. to reopen an existing debenture issue if it is determined that the reopening will be advantageous to the City, depending upon capital market conditions.
 - d. to temporarily borrow amounts that the City considers necessary to meet expenses of the City for the year and of prescribed amounts. whether or not they are expenses for the year, that the City requires in the year as set out in the applicable regulation under the City of Toronto Act, 2006 (COTA) until such time as the taxes are collected and other revenues are received, provided the total amount so borrowed plus the principal amount of any outstanding temporary borrowings together with all accrued interest thereon at any time will not exceed \$300 million per year;
 - e. to temporarily borrow for capital works pending the issuance of debentures or entering into bank loans, in an amount not to exceed \$300 million per year.
2. City of Toronto Municipal Code Chapter 30, Debenture and other Borrowing, be amended to reflect Recommendation 1, and authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.
3. City of Toronto's Financing of Capital Works Policy and Goals be amended to reflect Recommendation 1.

Financial Impact

The debt charges associated with previous and new borrowings are approved annually by Council and are contained in the Capital and Corporate Financing/Non-Program section of the Operating Budget. Debt charges are affected by past levels of borrowing, interest rates on new debt issuance, the amount of debt issued and the term of the debt.

Staff estimates that the capital markets and annual budget will be able to absorb up to \$900 million of the City's long-term debt issuance in each year. Any amounts which cannot be financed through long-term debt in a given year will be temporarily financed using the City's working capital and/or temporary borrowing facilities until debentures can be issued, or bank loans can be entered into, to provide permanent financing.

DECISION HISTORY

At its meeting of February 23, 2011, City Council considered and adopted a report from the Deputy City Manager and Chief Financial Officer entitled "Financing of Capital Works Policy and Goals & Multi-Year Debenture and Temporary Borrowing Authority" as part of Executive Committee Item EX3.3, authorizing the delegation of authority to the Mayor and the Deputy City Manager & Chief Financial Officer for the years 2011, 2012, 2013 and 2014 to (a) enter into agreements for the sale and issue of debentures upon such terms and conditions as they deem expedient, up to \$900,000,000 annually, (b) temporarily borrow to meet the current expenditures of the City until such time as the taxes are collected, in an amount not exceeding \$300,000,000 annually, and (c) temporarily borrow, pending the issuance of debentures or entering into a bank loan agreement, in an amount not exceeding \$300,000,000 annually.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX3.3>

Council enacted By-laws No. 330-2011, 331-2011 and 332-2011 to give effect to this decision.

<http://www.toronto.ca/legdocs/bylaws/2011/law0330.pdf>

<http://www.toronto.ca/legdocs/bylaws/2011/law0331.pdf>

<http://www.toronto.ca/legdocs/bylaws/2011/law0332.pdf>

At its meeting of June 6, 2012, City Council codified the above-mentioned borrowing authorities for the 2011-2014 Council term into Chapter 30, Debenture and Other Borrowing, of the City of Toronto's Municipal Code, established the Deputy Mayor and the Budget Chair as officials who could act as the Mayor's alternate in exercising the delegated borrowing authorities, and enacted By-law No. 796-2012 to give effect to this decision.

<http://app.toronto.ca/legdocs/tmmis/viewAgendaItemHistory.do?item=2012.EX20.5>

<http://www.toronto.ca/legdocs/bylaws/2012/law0796.pdf>

ISSUES BACKGROUND

Authority to Issue Debentures and other Long-term Debt

The City has authority under Ontario Regulation 610/06 to issue debentures, enter into bank loan agreements, and to issue revenue bonds to obtain or provide long-term financing of capital works for its purposes.

The City has traditionally adopted a by-law delegating the authority to the Mayor, and either the Deputy Mayor or the Budget Chair as alternates (the "Mayor's Alternates") together with the Deputy City Manager & Chief Financial Officer, to negotiate and enter into agreements for the issuance and sale of debentures up to an annual monetary limit as approved for the term of Council.

This report recommends extending the delegated authority to entering into bank loan agreements and issuing revenue bonds.

The delegation of this authority provides timing flexibility to commit to the issuance of debentures and revenue bonds and the entering into of bank loan agreements when capital market conditions are most favourable to the City.

Authority to Temporarily Borrow Funds

Ontario Regulation 610/06 also permits the City to authorize temporary borrowing for prescribed expenses, if required, until taxes are collected and other revenues are received, 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 works to be financed in whole or in part by the issuance of debentures, revenue bonds or bank loans.

The authority to exercise these two powers has also traditionally been delegated to the Mayor (or Mayor's Alternate) and the Deputy City Manager & Chief Financial Officer within the parameters of annual limits.

COMMENTS

The City borrows money to finance capital works. It cannot borrow to finance operating expenditures under COTA, with the exception of temporary borrowing for prescribed

expenses pending the receipt of taxes and other revenues for the year as discussed in more detail in this report.

The objective for capital financing is to maximize all funding from external sources, including federal and provincial governments, development charges, donations and reserve funding, before using the City's own revenue sources, namely operating contributions and debt.

The requirement for debt is approved when the Capital Budget is adopted by Council annually. Debt is used for the acquisition, construction, renovation, repair or remodelling of capital assets where the project cannot be funded from current operating revenues or other funding sources, and the Chief Financial Officer & Deputy City Manager considers it prudent to use debt to finance the project. Projects funded with debt must have a useful life that is at least equal to the term of the debentures, revenue bonds or bank loans used for their financing.

The magnitude of the City's capital expenditures necessitates the use of debt to contribute to the financing of projects contained in the Capital Budget. Debt provides 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 operating revenues. Otherwise, present taxpayers would be paying for the entire cost of a project that will be operating for many years and providing a benefit to future residents.

Municipalities differ from other orders of government in that the principal amount of a municipality's long-term debt must be amortized over the term of the debt obligation and repaid over the term of the obligation or deposited into a sinking fund that will provide for repayment when the debt matures. In contrast, the Federal and Provincial governments 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 has been established by Council in its Financing of Capital Works Policy and Goals at 15% of the property tax level. This is more conservative than the provincial limit. All other municipalities in the Province (except for York Region) are still subject to the 25% limit.

Authority to Issue Debentures and other Long-term debt

In order to maintain flexibility and the ability to finance capital works that were previously approved but not yet permanently financed, authority to issue long-term debt up to a \$900 million limit for City purposes is being requested annually from 2015 until 2018 inclusive. This limit represents a realistic view of the amount of City debt that may be required during the term of Council and the amount that 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 limit does not necessarily match the amount of debt required in the Capital Budget since it takes into account the lag between approval of a capital project and the need to permanently finance it.

A successful debt issue requires City staff to have the ability to respond to capital market conditions and volatility in a timely manner to obtain the most advantageous interest rates and terms. The delegation of authority to commit to issuing debentures provided to the Mayor (or Mayor's Alternate) and the Deputy City Manager & Chief Financial Officer up to an annual limit allows for responsiveness to capital market conditions and its inherent volatility.

Following the City committing to issue the long-term debt, the Debenture Committee must authorize it. Recognizing that such approvals for long-term debt must be obtained in a timely manner as required by capital market participants, City Council delegated authority to approve debt issuance and to adopt the necessary borrowing by-laws to the Debenture Committee. This Committee can meet at the call of the Chair giving it more flexibility than City Council which has a prescribed meeting schedule. The Committee, established in 2009, is comprised of the Mayor, Deputy Mayor, Chair of the Budget Committee, the City Manager and the Deputy City Manager & Chief Financial Officer.

Before the Debenture Committee was established, it had been difficult for staff to synchronize debt issuance and market timing with Council meeting dates. The Debenture Committee provides the flexibility needed to time debt issuance so that it coincides with investor demand and market liquidity, thus enabling the City to respond to financial markets and their inherent volatility.

This report also recommends extending the delegation of authority for long-term borrowing to include bank loan agreements and revenue bonds to provide the City with the flexibility to utilize these methods of financing. Depending upon capital market conditions, bank loans may be preferred to debenture issuance when a project needs to be financed on a shorter-term basis with customized repayment terms. Revenue bonds may be appropriate when there is a need to finance a project from its own-source generated income and, from a risk management viewpoint, it is necessary to obtain non-recourse financing that is not guaranteed by the City as such bonds generally have their own credit rating.

The debenture authority approved by Council for 2014 was \$900 million. Considering capital market conditions and annual budget constraints, debenture issuance in the amount of \$600 million was completed during the year to finance the City's capital requirements. The amount of debentures issued in a year is based on a combination of factors including the applicable limit, annual budget constraint on debt charges and capital market conditions.

The details of the 2014 debenture issuance are:

Issue Date	Amount	Interest Rate	Term
March 10, 2014	\$300,000,000	4.15%	30 years
March 21, 2014	\$300,000,000	3.40%	10 years

The City currently has \$5.0 billion gross debenture debt or \$3.0 billion net of the Sinking Funds debt outstanding. From 2015 to 2018, \$1.7 billion of the City's outstanding debenture debt will mature and it is forecasted that \$2.8 billion debenture debt will be issued during the same period as contained in the City's approved 2014 to 2023 capital budget and as shown in the chart below.

Projected Outstanding Debenture Debt (\$ million)					
	2014	2015	2016	2017	2018
Gross Debenture Debt beginning balance	4,644.7	5,000.0	5,300.0	5,425.0	5,725.0
Debenture Debt Retired	(244.7)	(300.0)	(475.0)	(500.0)	(425.0)
Debenture Debt Issued (forecast)	600.0	600.0	600.0	800.0	800.0
Projected Gross Debenture Debt at year end	5,000.0	5,300.0	5,425.0	5,725.0	6,100.0
Estimated Sinking Funds Balance	1,998.0	1,988.1	1,732.6	1,550.7	1,444.4
Projected Net Debenture Debt at year end	3,002.0	3,311.9	3,692.4	4,174.3	4,655.6

Authority to Temporarily Borrow Funds

This report requests authority to temporarily borrow for both capital and operating purposes in order to maintain the flexibility of the City's cash management program. Temporary borrowing facilities will enhance the City's flexibility to allocate funds not immediately required by the City into longer term investments to increase income under the appropriate market conditions.

Again, authority is recommended to be delegated to the Mayor (or Mayor's Alternate) and the Deputy City Manager and Chief Financial Officer to temporarily borrow for both capital and current purposes up to an annual limit of \$300 Million in each case.

Temporary borrowing can be used when it is beneficial to borrow primarily for operating expenses pending the receipt of annual taxes and other revenues or bridge the financing of approved capital projects pending long-term financing.

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SIGNATURE

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