



REPORT FOR ACTION

Authority to Issue a Debenture

Date: July 19, 2018
To: Debenture Committee
From: Interim Chief Financial Officer

Wards: All

SUMMARY

This report requests that the necessary Bill be introduced and adopted by the Debenture Committee to give effect to the issuance of a 30 year sinking fund debenture in the amount of \$300 million that was syndicated and sold in the domestic and global capital markets on July 18, 2018 and will be delivered to investors on August 1, 2018.

This report also provides details of the projects that are being debt-financed from the proceeds of this transaction contained in Attachment A.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends that:

1. The Debenture Committee approve the provision of long-term financing of the capital projects listed in Attachment A through the issuance of a 30 year sinking fund Green debenture in the amount of \$300 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, RBC Capital Markets, Inc. dated July 18, 2018 (the "Purchase Letter"), and as further described in this report.
2. Authority be granted for the introduction of the necessary Bills to the Debenture Committee to authorize the issuance of debentures.
3. The Debenture Committee authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto.

FINANCIAL IMPACT

The 2018 debt charges of \$6.1 million associated with this debenture issue are included in the City's 2018 Operating Budget in the Non-Program Corporate and Capital Financing account.

Annualized debt charges for 2019 are \$16.5 million, including the annual sinking fund deposit and coupon interest payment.

DECISION HISTORY

Chapter 30, Debentures and other Borrowing of the City of Toronto Municipal Code, authorizes the Mayor (or the Deputy Mayor or the Budget Chair) and the Interim Chief Financial Officer ("Interim CFO") to enter into agreements in 2018 for the issue and sale of debentures to an aggregate amount not exceeding \$900 million to provide long-term financing for capital works. The terms of any such agreement to issue debentures must be reported by the Interim CFO to the Debenture Committee for approval.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX1.3>

City Council approved an increase to the authority delegated to the Mayor or the Mayor's Alternate and the Interim Chief Financial Officer to enter into agreements on behalf of the City for the sale and issue, of debentures and revenue bonds, and for entering into bank loan agreements, from the current annual limit of \$900 million to \$950 million for 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX31.2>

The Interim Chief Financial officer reported to the Debenture Committee about the City's new green debenture program at its meeting on March 28, 2018. The report indicated that the program responds to changes in global investor demand and aligns with the City's environment and energy sustainability goals, and may result in slightly lower borrowing costs.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.DB11.2>

COMMENTS

Acting in accordance with the aforementioned authorities and the unanimous advice of the City's debt syndicate's lead manager, RBC Dominion Securities Inc. and the co-lead managers National Bank Financial Inc., CIBC World Markets Inc. and BMO Capital Markets, the syndicate's offer to purchase the City's first green debentures, as contained in the Purchase Letter, was accepted on behalf of the City by the Mayor and the Interim Chief Financial Officer.

The City issued a \$300 million sinking fund debenture on July 18, 2018. This \$300 million issue with a 30 year maturity and a coupon interest rate of 3.20%, maturing on August 1, 2048, was priced to yield 3.213% to investors with an effective cost of 3.250% to the City when dealer commissions are included. The issue will settle on August 1, 2018.

This debenture has been sold and classified as a “green debenture” and is one of the first Canadian Municipal green debentures issued. The City of Toronto's green debentures share the same financial and legal characteristics as other City's general obligation debentures issued in the past. They are backed by the credit and taxing power of the City. The main difference is a limitation on the use of proceeds. Under the Green Debenture Program, net proceeds from debentures are used to fund Council approved capital projects that align with the Council-adopted long-term environmental sustainability strategies, such as Transform TO.

This issue was over-subscribed with orders from 36 investors. The City's all in costs were at an interest rate of 3.25% which is the lowest 30-year rate the City has ever achieved. The Toronto spread over Province of Ontario benchmark was 21 basis points which was slightly less than the City's typical non-green issue. The savings, in present value terms, are approximately \$600,000 to the City. This favourable financing is attributable to positive market conditions, investor confidence in Toronto, investor relations work in recent years, and the growing demand for green debentures.

This debenture is within approved authorities for 2018 borrowings. The proceeds will finance previously approved capital expenditures from Toronto Transit Authority (TTC) and Facilities related to rail and light rail infrastructure and vehicles eligible in accordance to the City's Green Debenture Program Framework as the core and supporting infrastructure for Sustainable Clean Transportation and listed in Attachment "A".

This \$300 million debenture issue follows a \$300m 10-year debenture issued in March leaving up to \$350 million of the approved \$950 million 2018 debt issuance program remaining to be completed during the balance of the year. Assuming the program is issued in full, the forecasted unfinanced capital balance for 2018 year-end is \$731 million.

The structure and pricing of this transaction achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by the *City of Toronto Act, 2006*.

Delivery of the debenture and receipt of the proceeds will occur on August 1, 2018.

CONTACT

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SIGNATURE

Joe Farag

Interim Chief Financial Officer

ATTACHMENTS

Attachment A: City of Toronto 2018 Debenture Issue Summary

ATTACHMENT "A"

City of Toronto
30-year Debenture Issue
Summary
"Green" Debenture
July 2018

Section	Amount Funded (millions \$)	Percentage of Total
Facilities and Real Estate	\$ 117.3	39.1%
Toronto Transit Commission	\$ 182.7	60.9%
Total to Date	\$ 300.0	100.0%

Facilities and Real Estate - \$117.3 million ⁽¹⁾

- 2 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Union Station Revitalization – Phase 1 Construction	80.6	2013	2014	In Progress
Union Station Revitalization – Phase 3 Construction	36.7	2016	2016	In Progress

Toronto Transit Commission - \$182.7 million ⁽¹⁾

- 5 projects funded

Project	Amount (\$ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Leslie Barns LRT Storage and Maintenance Facility	42.0	2016	2017	2015
Scarborough Subway Extension	35.1	2017	2017	In Progress
Purchase of Subway Cars	26.7	2018	2018	In Progress
Bridges and Tunnels	36.7	2008	2018	In Progress
Subway Track	42.2	2016	2018	In Progress

⁽¹⁾ **Note:** A "look-back" period of up to three years is the standard in the Green Bond market. Projects included in this debenture issue, although approved in previous budgets, only includes portions back three years to meet this criteria.