TORONTO

REPORT FOR ACTION

Authority to Issue a Debenture

Date: April 29, 2019
To: Debenture Committee
From: Chief Financial Officer and Treasurer
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 10-year sinking fund debenture in the amount of $300 million that was syndicated and sold in the domestic and global capital markets on April 26, 2019 and will be delivered to investors on May 9, 2019.

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 Chief Financial Officer and Treasurer 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 10-year sinking fund 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, National Bank Financial Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated April 26, 2019 (the "Purchase Letter"), and as further described in this report.

2. Authority be granted for the introduction of the necessary Bill 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 2019 debt charges of $7.0 million associated with this debenture issue are included in the City's 2019 Operating Budget in the Non-Program Corporate and Capital Financing account.

Annualized debt charges for 2020 are $34.8 million, including the annual sinking fund deposit and interest payments.

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 Chief Financial Officer and Treasurer ("CFO") to enter into agreements in 2019 for the issue and sale of debentures to an aggregate amount not exceeding $1.0 billion to provide long-term financing for capital works. The terms of any such agreement to issue debentures must be reported by the CFO to the Debenture Committee for approval.
https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-123459.pdf

COMMENTS

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

Transaction:
The City issued a $300 million sinking fund debenture on April 26, 2019. This $300 million issue has a coupon interest rate of 2.65% and maturity date of November 9, 2029. This debenture issue was priced to yield 2.67% to investors with an effective cost of 2.736% to the City when dealer commissions are included. Delivery of the debenture and receipt of the proceeds will occur on May 9, 2019.

Term:
This issue has a 10.5 years term to maturity. The term is 6 months longer than the usual 10-year term which is to align with the issuance strategy to reopen this issue in 2020. The reopening is expected to bring the final total for this particular debenture to at least $500 million. The large total debenture size enhances both the investor demand during primary issuance and the liquidity of the debentures in the secondary market. Many large investors, such as foreign central banks, only invest in debentures

with a minimum of $500-$700 million total debenture size. During investor relation conferences and meetings, existing and potential investors also indicated that the illiquidity of municipal debentures in the secondary market, which is attributable to the small issue size, has been a key factor hindering their appetite to buy the City's debentures in the past.

Timing:
The transaction was timed to take advantage of the attractive interest rates level. The underlying Government of Canada interest rates are extremely attractive (about 45 basis points below the 12-month average). The Bank of Canada forecasted interest rates to move slightly higher. According to Bloomberg's survey, the 10-year Government of Canada interest rate is forecasted to increase about 30 basis points by the end of 2019. Also, Province of Ontario's spread levels have tightened after the release of its recent budget. Toronto's spread levels (over Ontario) have also improved from the levels in early 2019. In addition, provincial issuance supply is expected to increase in the coming weeks with Province of Ontario now out of their Budget blackout period. There are also other municipal financings expected to come to the market in the coming weeks.

Cost:
The City's all in cost was at an interest rate of 2.736% which is 30 basis points lower than the last 10-year issue in 2018. The Toronto spread over the Province of Ontario yield curve for this issuance was 22 basis points. In addition to accessing the capital markets at the right time, this attractive financing is in large part attributable to investor confidence in Toronto and the focus of investor relations work in recent years.

Distribution:
This issue achieved an excellent reception with wide placement distribution of debentures to 41 institutional accounts located across Canada, the United States, and Europe, as well as retail investors.

Use of Proceeds:
This debenture is within approved authorities for 2019 borrowings. The proceeds will finance previously approved capital expenditures from the following programs: City Clerk's Office, City Planning, City Theatres, Facilities Management, Fire Services, Long Term Care Homes Service, Solid Waste Management Services, Toronto Paramedic Services, Toronto Transit Commission and Transportation Services.

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.*

CONTACT

Joe Farag, Executive Director, Corporate Finance
Tel: 416-392-8108; E-mail: Joe.Farag@toronto.ca

Randy LeClair, Manager, Capital Markets, Corporate Finance;
Tel: 416-397-4054; Email: Randy.LeClair@toronto.ca

Betsy Yeung, Senior Investment Advisor, Capital Markets, Corporate Finance
Tel: 416-392-6302; E-mail: Betsy.Yeung@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment A: City of Toronto 2019 Debenture Issue Summary

ATTACHMENT "A"

City of Toronto
2019 Debenture Issue Summary
Project Listing – 10 year
April 26, 2019

Divisions	Amount Funded (millions $)	Percentage of Total
City Clerk's Office	$1.6	0.5%
City Planning	$3.3	1.1%
City Theatres	$1.6	0.5%
Facilities Management	$14.1	4.7%
Fire Services	$3.0	1.0%
Long-term Care Homes & Services	$10.3	3.4%
Solid Waste Management Services	$11.4	3.8%
Toronto Paramedic Services	$2.3	0.8%
Toronto Transit Commission	$179.2	59.7%
Transportation Services	$73.2	24.4%
Total to Date	$300.0	100.0%

City Clerk's Office - $1.6 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Infrastructure to Support Council Meeting	$1.6	2014	2018	In Progress*

*To be completed by the end of 2019

City Planning - $3.3 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Places – Civic Improvements - 2013	$ 1.7	2013	2018	2018
Places – Civic Improvements - 2015	$ 1.6	2015	2018	2018

City Theatres - $1.6 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Sony Center Exterior Wall Replacement	$ 1.6	2016	2017	2018

Facilities Management - $14.1 million

- 8 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Global Corporate Security System (various locations)	$0.50	2017	2017	In progress*
703 Don Mills – Chiller Replacement	$3.40	2013	2013	2016
703 Don Mills – Parking Garage Rehabilitation	$1.00	2014	2014	2018
157 King East (St. Lawrence Hall) –Cupola restoration and various structural repairs	$1.20	2014	2014	2018
5100 Yonge Street (North York Civic Centre) – Installation of new HVAC system for dental office and Councillor offices	$1.20	2014	2014	2015
390 The West Mall – Electrical & mechanical system replacement/upgrade including fire alarm system replacement	$1.80	2015	2017	2018
Electrical Resiliency Program	$2.80	2016	2016	In progress*
5100 Yonge Street (North York Civic Centre) – Replacement of window glazing system and roof membrane	$2.20	2015	2015	In progress*

*Completion scheduled for Q4 2019

Fire Services - $3.0 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Specialized Trucks & Equipment	$ 1.5	2014	2017	2018
Thermal Imaging Cameras	$ 1.5	2015	2016	2017

Long term Care Homes - $10.3 million

- 6 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
2016 SOGR BUILDING UPGRADES	$1.8	2016	2016	2018
2015 Health & Safety Life Safety Systems	$1.3	2015	2015	2018
2012 Health & Safety HVAC* Repairs/Upgrades	$1.2	2012	2012	2014
2016 Health & Safety HVAC	$2.5	2016	2016	2018
2017 Health & Safety HVAC	$2.3	2017	2019	In Progress
2017 Health & Safety Specialty Systems	$1.2	2017	2017	In Progress

*HVAC system are a heating, a ventilation, and an air-conditioning unit

Solid Waste Management Services - $11.4 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Green Lane Landfill – Development - 2011	$ 11.4	2011	2011	Ongoing and In progress*

*Council approved cash flow commitments to 2023

Toronto Paramedic Services - $2.3 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Portable Radio Replacement	$ 1.0	2016	2016	In Progress
Ambulance Radio Replacement	$ 1.3	2016	2016	In Progress

Toronto Transit Commission - $179.2 million

- 8 projects funded

Project	Amount ($ millions)	Date of Budget* (1st Approval)	Date of Budget (Last Approval)	Year Completed
Signal Systems - Various	$4.5	NA	2019	Ongoing and In Progress
Power Distribution/ Electric System – 2000 & Prior	$6.1	NA	2019	Ongoing and In Progress
Surface Track	$14.7	NA	2019	Ongoing and In Progress

Replacement of 40ft Diesel Buses or Equivalent	$105.6	NA	2019	Ongoing and In Progress
Equipment - Various	$27.7	NA	2019	Ongoing and In Progress
Rail Non-Revenue Vehicle Purchase	$6.8	NA	2019	Ongoing and In Progress
Traction Power - Various	$10.3	NA	2019	Ongoing and In Progress
Streetcar Overhaul	$3.4	NA	2019	Ongoing and In Progress

*These State of Goods Repair projects belong to capital programs that have been ongoing since the inception of these modes of transportation.

Transportation Services - $73.2 million

- 11 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Traffic Congestion Management - 2015	$ 7.9	2015	2015	2017
Traffic Plant Requirements/Signal Asset	$ 3.6	2016	2019	Ongoing and In Progress*
Traffic Congestion Management - 2016	$ 7.1	2016	2019	Ongoing and In Progress*
Traffic Congestion Management - 2017	$ 3.1	2017	2017	2018
Vision Zero Road Safety Plan (previously Local Geometric Traffic Safety Improvement)	$ 7.1	2017	2019	Ongoing and In Progress*
Regent Park Revitalization	$ 3.3	2010	2016	Ongoing and In Progress*
Guide Rail Replacement	$ 2.6	2016	2019	Ongoing and In Progress*
Improvement to the Easterly Elevated Dec	$ 2.0	2008	2013	2015
Major Road Rehabilitation	$ 31.1	2015	2019	Ongoing and In Progress*
Interim Rehabilitation of Roads	$ 4.3	2016	2016	2017
Tactile Domes Installation	$ 1.0	2016	2016	2018

*Multi-year program