DB2.1

REPORT FOR ACTION

Authority to Issue a Debenture

Date: September 10, 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 20-year sinking fund green debenture in the amount of $200 million. The debenture was syndicated and sold in the domestic and global capital markets on September 9, 2019 and will be delivered to investors on September 24, 2019.

Details of the projects that are financed from the proceeds of this debenture are contained in Attachment A of this report.

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 20-year sinking fund green debenture in the amount of $200 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, CIBC Capital Markets, Inc., and entered into by the Mayor and the Chief Financial Officer and Treasurer dated September 9, 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 $2.8 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 $13.1 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 CIBC World Markets Inc., and the co-lead managers RBC Dominion Securities Inc., National Bank Financial Inc., and BMO Capital Markets, the syndicate's offer to purchase the City's green 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 $200 million sinking fund debenture on September 9, 2019. This $200 million issue has a coupon interest rate of 2.60% and maturity date of September 24, 2039. This debenture issue was priced to yield 2.646% to investors with an effective cost of 2.692% to the City when dealer commissions are included. Delivery of the debenture and receipt of the proceeds will occur on September 24, 2019.

Term:
This issue has a 20-year term to maturity to align with the useful asset life of the underlying capital projects.

Timing:
The transaction was timed to take advantage of the attractive interest rate level. The underlying Government of Canada interest rates were extremely attractive (about 50 basis points below the 12-month average). Interest rates for bonds with longer maturities (e.g. 10-, 20-, 30-years) are expected to move slightly higher going forward.

Investor demand was high after a very light issuance period over the summer and has been recently supported by stabilizing geopolitical tension and positive economic data. However, provincial and other municipal issuance supply is expected to increase in the coming weeks. City of Toronto timed this debenture issue ahead of other competing issuers.

Cost:
This issue was well over-subscribed. The City's all-in costs were at an interest rate of 2.692%, which is the lowest 20-year rate the City has ever achieved. It is also 86.6 basis points lower than the last 20-year issue in 2018. The Toronto spread over the Province of Ontario benchmark was 25 basis points, which was less than the City's typical non-green issue. The savings to the City, in present value terms, is approximately $600,000. In addition to the favourable market conditions and the timely and opportune access to the capital markets, the attractive financing terms of this debenture can also be attributable to investor confidence in Toronto, the focus of investor relations work in recent years, and the growing demand for green debentures.

The 2019 debt charges associated with this debenture issue are $2.8 million and the annualized debt charges for 2020 are $13.1 million (including the annual sinking fund deposit and interest payments). The debt coupon interest and sinking fund repayments are included in the approved 2019 budget and future forecasts.

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.*

Distribution:
This issue achieved excellent reception with wide placement distribution of debentures to 53 institutional accounts located across Canada, the United States, Europe, Asia, and the Middle-East.

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

This debenture is within approved authority for 2019 borrowing. The proceeds will finance previously approved capital expenditures from the following programs: Transportation Services, TTC, Facilities Management, Shelter, Support & Housing Administration, and Waterfront Secretariat as detailed in Attachment A to this report.

Other:
Council authority has been delegated to the Mayor and the CFO and Treasurer to issue an annual amount not to exceed $1.0 billion in new debt during each of the years 2019, 2020, 2021 and 2022. The planned 2019 borrowing program is $950 million. This $200 million green debenture issue follows a $300 million 10-year debenture issued in April 2019. This leaves up to $450 million of debt issuance room remaining for the balance of this year.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment A: City of Toronto 2019 Debenture Issue Summary

ATTACHMENT "A"

City of Toronto
20-year Debenture Issue Summary
"Green" Debenture
September 2019

Divisions		Amount Funded (millions $)	Percentage of Total
Facilities and Real Estate	$	40.9	20.5%
Shelter, Support, and Housing Administration	$	86.0	43.0%
Toronto Transit Commission	$	4.7	2.4%
Transportation Services	$	24.3	12.1%
Waterfront Secretariat	$	44.1	22.0%
Total to Date	$	200.0	100.0%

Facilities and Real Estate - $40.9 million

- 5 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Arenas Lighting Retrofits	1.0	2016	2018	2018
Solar PV Fitting Program	3.0	2016	2019	In Progress
Sustainable Energy Plan – 2016	5.6	2016	2019	In Progress
Sustainable Energy Plan – 2017	5.3	2017	2019	In Progress
TCHC Multi-Year Retrofit	26.0	2018	2019	In Progress

Shelter, Support, and Housing Administration - $86.0 million

- 2 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
TCHC Existing Portfolio Revitalization	40.0	2018	2019	In Progress
TCHC Capital Projects	46.0	2018	2019	In Progress

Toronto Transit Commission - $4.7 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Transit Surface Track	4.7	1999	2019	In Progress

Transportation Services - $24.3 million

- 9 projects funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
2017 History Toronto Bike Plan/Off Road Bike Trail	0.3	2015	2018	2018
Cycling Infrastructure – 2011	3.0	2011	2015	2015
Cycling Infrastructure – 2012	4.4	2012	2015	2015
Cycling Infrastructure – 2013	5.6	2013	2015	2015
Cycling Infrastructure – 2015	1.2	2015	2018	2018
Cycling Infrastructure – 2016	2.3	2016	2019	In Progress
Cycling Infrastructure – 2017	6.5	2017	2019	In Progress
PTIF Cycling - Flemington Park-Thorncliffe Park Neighbourhood Cycling Connections	0.4	2017	2019	In Progress
PTIF Cycling - Installation of Cycling Facilities on Lakeshore Boulevard West	0.6	2017	2019	In Progress

Waterfront Secretariat - $44.1 million

- 1 project funded

Project	Amount ($ millions)	Date of Budget (1st Approval)	Date of Budget (Last Approval)	Year Completed
Port Lands Flood Protection	44.1	2017	2019	In Progress