DB4.1

REPORT FOR ACTION

Authority to Issue a Debenture

Date: December 2, 2019
To: Debenture Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report requests that the Debenture Committee approve the issuance of a 10-year sinking fund debenture in the amount of $100 million and enact the necessary borrowing by-law to give effect to this debenture issuance. The debenture was syndicated and sold in the domestic and global capital markets on December 2, 2019 and will be delivered to investors on December 16, 2019.

The transaction is a reopening of a debenture issued earlier this year that totalled $300 million, bringing the total outstanding to $400 million with a coupon interest rate of 2.65% and a maturity date of November 9, 2029.

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 10-year sinking fund debenture in the amount of $100 million in accordance with the terms and conditions set out in the purchase letter provided by the lead manager, BMO Capital Markets and entered into by the Mayor and the Chief Financial Officer and Treasurer dated December 2, 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 charge associated with this debenture issue is $377,534 and is included in the City's 2019 Operating Budget in the Non-Program Corporate and Capital Financing account.

The annualized debt charge is $11.5 million in 2020 (includes sinking fund deposit and 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 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 BMO Capital Markets, and the co-lead managers CIBC World Markets Inc., National Bank Financial Inc., and RBC Dominion Securities, 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 $100 million sinking fund debenture on December 2, 2019. This debenture is a re-opening of the City's April 2019 debenture issuance. The debenture has a coupon interest rate of 2.65% and a maturity date of November 9, 2029. The debenture was priced to yield 2.351% to investors with an effective cost to the City of 2.418% (when dealer commissions are included). Delivery of the debenture and receipt of the proceeds will occur on December 16, 2019.

Term:
This debenture has a 10-year term to maturity to align with the useful asset life of the underlying capital projects.

Timing:
The transaction took advantage of favourable capital market conditions. The underlying 10-year Government of Canada interest rate was attractive at about 8 basis points below the 12-month average. Investor sentiment continued to improve since the City's last debt issuance due to lessening market uncertainty regarding Brexit, United States-China trade relations, monetary policy direction, and a slowing global economy. Being the final municipal issue before the end of the year, the City of Toronto timed this issue ahead of further provincial debt issuances expected over the next two weeks.

Cost:
The City's all-in interest rate cost is 2.418%, which is the lowest 10-year rate the City has ever achieved. It is also 32 basis points lower than the last 10-year debenture issued in April 2019. The Toronto spread over the Province of Ontario benchmark was 17 basis points. In addition to the favourable market conditions and the timely access to the capital markets, attractive financing terms of this debenture can be attributed to investor confidence in Toronto and the focus of investor relations efforts in recent years.

The 2019 debt charge associated with this debenture issue is $377,534 and the annualized debt charge for 2020 is $11.5 million (including annual sinking fund deposit and interest payment). The annual debt charges are included in the approved 2019 budget and future forecasts. In addition, the total annual debt charges of all outstanding debentures that are supported by the City's property tax levy are within 15% of such tax levy as required by the City's policy.

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 good reception with a wide placement distribution of debentures to 18 institutional accounts located across Canada.

Use of Proceeds:
This debenture is within approved authority for borrowing in 2019. The proceeds will finance previously approved capital expenditures from the following programs: Economic Development and Culture, Facilities Management, Long Term Care Homes & Services, Toronto Public Library, and the Toronto Transit Commission (TTC) 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 $100 million debenture issuance follows a $350 million 30-year sinking fund debenture issued in November 2019, a $200 million 20-year Green debenture issued in September 2019, and a $300 million 10-year debenture issued in April 2019. This final debenture concludes the City's borrowing program for this year.

CONTACT

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

Betsy Yeung, Manager, Investments, 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 – Project List