

## **Multi-Year Debenture and Temporary Borrowing Authorities - 2019 to 2022**

**Date:** January 9, 2019

**To:** Executive Committee

**From:** Chief Financial Officer and Treasurer

**Wards:** All

### **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 Chief Financial Officer and Treasurer, in respect of the following long-term borrowing activities for the current term of Council. This activity includes 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.

Following the City committing to issue the long-term debt through the delegated authority to enter into such a commitment being exercised by the Mayor (or Mayor's Alternate) and the Chief Financial Officer and Treasurer, the Debenture Committee must authorize it. The Committee is comprised of the Mayor, Deputy Mayor, Chair of the Budget Committee, the City Manager and the Chief Financial Officer and Treasurer. 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.

In addition, the report requests the delegation of Council's authority to the Chief Financial Officer and Treasurer to negotiate and enter into agreements for bank loans and promissory notes not to exceed 365 days in respect of certain short-term borrowing activities on behalf of the City for the current term of Council. These activities include:

- a. temporary 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
- b. temporary 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 access the capital markets in an efficient and effective manner so as to achieve its capital and operating requirements.

## **RECOMMENDATIONS**

---

The Chief Financial Officer and Treasurer recommends that:

1. City Council authorize the Mayor (or as an alternate to the Mayor, either the Deputy Mayor or the Chair of the Budget Committee) and the Chief Financial Officer and Treasurer, during each of the years 2019, 2020, 2021 and 2022, 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 \$1.0 billion per year provided that such debt issue is in compliance with the Council approved debt guidelines as amended from time to time;

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; and

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.

2. City Council authorize the Chief Financial Officer and Treasurer, during each of the years 2019, 2020, 2021 and 2022, to:

a. 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 \$500 million per year, or;

b. temporarily borrow for capital works pending the issuance of debentures or entering into bank loans, in an amount not to exceed \$500 million per year.

3. City Council authorize the Chief Financial Officer and Treasurer to establish a Promissory Note Program as described in this report as a means of exercising the temporary borrowing authority recommended in Recommendation 2 of this report , including the authority to enter into any required agreements between the City and the

relevant parties in order to facilitate the Promissory Note Program, including dealer agreements, all upon such terms as are satisfactory to the Chief Financial Officer and Treasurer in consultation with the City Solicitor.

4. City Council amend Municipal Code Chapter 30, Debenture and other Borrowing, to reflect Recommendations 1 and 2 above, and authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.

5. City Council amend the Financing of Capital Works Policy and Goals to reflect Recommendations 1 and 2 above.

## **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.

This report sets an upper limit for annual borrowing over the four year term of Council, however actual borrowing will be based on the Capital and Operating Budget process completed each year. Currently there are several items that may impact annual borrowing in future years. These items include, but are not limited to, the following:

- Reducing the amount of unfinanced capital;
- Borrowing for Toronto Community Housing Corporation (TCHC) which has previously relied on other methods outside of the City as a source of financing;
- Possible increase of the debt service guideline.

Given these items, and in order to maintain financial flexibility, staff are recommending that Council delegate to the Debenture Committee the issuance of \$1.0 billion in debenture debt in each year for the current term of Council. 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 December 11, 2014, City Council considered and adopted a report from the Deputy City Manager and Chief Financial Officer entitled "Multi-Year Debenture and Temporary Borrowing Authorities - 2015 to 2018" as part of Executive Committee Item EX1.3, authorizing the delegation of authority to the Mayor and the Deputy City Manager & Chief Financial Officer for the years 2015, 2016, 2017 and 2018 to (a) enter into agreements for the sale and issue of debentures upon such terms and conditions as they deem expedient, up to \$900 million 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 million annually, and (c) temporarily borrow, pending the

issuance of debentures or entering into a bank loan agreement, in an amount not exceeding \$300 million annually.

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

Council enacted By-law No. 75-2015 to give effect to this decision.

<https://www.toronto.ca/legdocs/bylaws/2015/law0075.pdf>

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 million 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 million annually, and (c) temporarily borrow, pending the issuance of debentures or entering into a bank loan agreement, in an amount not exceeding \$300 million 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>

## **COMMENTS**

---

### **Background**

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 to finance 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 and Treasurer considers it prudent to use debt to finance the project. Projects financed 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.

Municipal debt differs from debt issued by other orders of government in that the principal amount of a municipality's long-term debt must be amortized and repaid over the term of the debt 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. The debt service guideline 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**

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 Chief Financial Officer and Treasurer, 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.

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.

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 \$1.0 billion limit for City purposes is being requested annually from 2019 until 2022 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 \$1.0 billion 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 Chief Financial Officer and Treasurer 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 through the delegated authority to enter into such a commitment being exercised by the Mayor (or Mayor's Alternate) and the Chief Financial Officer and Treasurer, 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 Chief Financial Officer and Treasurer.

Before the Debenture Committee was established, it was 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.

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 2018 was \$950 million. Considering capital market conditions and annual budget constraints, debenture issuance in the amount of \$950 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 2018 debenture issuance are highlighted in Table 1:

**Table 1**

Issue Date	Amount (\$)	Interest Rate (%)	Term (Years)
Mar 30, 2018	300,000,000	2.955	10
July 18, 2018	300,000,000	3.213	30
Sep 21, 2018	350,000,000	3.504	20

As at December 31, 2018, the City's gross debenture debt outstanding was \$6.5 billion. From 2019 to 2022, \$1.1 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 2017 capital budget and as shown in Table 2 below.

**Table 2**

<b>Projected Outstanding Debenture Debt (from Approved 2018 Capital Budget) (\$ million)</b>					
	2018	2019	2020	2021	2022
Gross Debenture Debt beginning balance	6,025	6,550	7,130	7,967	7,867
Debenture Debt Retired	425	400	0	650	0
Debenture Debt Issued and forecasted	950	980	837	550	400
Projected Gross Debenture Debt at year end	6,550	7,130	7,967	7,867	8,267
Estimated Sinking Funds Balance	1,506	1,509	1,918	1,760	2,188
Projected Net Debenture Debt at year end	5,044	5,621	6,049	6,107	6,079

It should be noted the figures presented in Table 2 are from the approved 2018 capital budget as the current year (2018) has not yet been finalized. Looking forward, there are a number of unresolved items that may cause an increase in the City's borrowing in future years. Some of these items include, but are not limited to, the following:

- Reducing the amount of unfinanced capital;
- Borrowing for Toronto Community Housing Corporation (TCHC) which has previously relied on other methods outside of the City as a source of funds;
- Possible increase of the debt service guideline.

This report recommends a higher annual limit of \$1.0 billion in order to have some flexibility in the case of increased borrowing in future years. Although this is an annual limit over the four year term, the actual annual long-term debt requirement will be reviewed and approved by Council during the budget process each year.

### **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 Chief Financial Officer and Treasurer within the parameters of annual limits. This report would authorize the Chief Financial Officer and Treasurer to enter into temporary borrowing arrangements including bank loans and short-term promissory notes subject to the limitations outlined above.

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.

Authority is recommended to be delegated to Chief Financial Officer and Treasurer to temporarily borrow for both capital and current purposes up to an annual limit of \$500 million in each case. Staff recommends this authority be delegated solely to the Chief Financial Officer and Treasurer given the short-term nature of promissory notes (usually mature between 7 to 90 days) and the fast settlement of these securities. It would be difficult to participate in the promissory note market without the ability to quickly handle the administrative and documentation process.

Currently, the City has a short-term borrowing facility with its banker, the Royal Bank of Canada. Although it is rarely used, the interest rate charged is based on the Canadian Bank Prime Rate less a small discount. Interest is only charged on the amount used for the number of days outstanding.



In the past, the City has been able to draw on funds not immediately required on a temporary basis as a means to avoid using any short-term borrowing facility and the related interest costs. However, with the establishment of the Toronto Investment Board the ability to draw on these long-term funds on a temporary and short-term basis is now constrained.

By establishing a Promissory Note Program the City would obtain a more favorable interest rate than the current short-term borrowing facility at its bank. The interest rate differential between the bank and the promissory note is estimated at approximately 100 basis points (1.00%). In addition, the City would enhance its flexibility and respond to short-term emergency situations by having another temporary borrowing option rather relying on a single source.

Similar to the long-term debenture issuance, a successful short-term borrowing program 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 promissory notes to the Chief Financial Officer and Treasurer up to an annual limit allows for responsiveness to capital market conditions and its inherent volatility.

## **CONTACT**

---

Joe Farag, Executive Director, Corporate Finance  
Phone: 416-392-8108; Fax: 416-397-4555; E-mail: [joe.farag@toronto.ca](mailto:joe.farag@toronto.ca)

Randy LeClair, Manager, Capital Markets  
Phone: 416-397-4054; Fax: 416-397-4555; E-mail: [randy.leclair@toronto.ca](mailto:randy.leclair@toronto.ca)

## **SIGNATURE**

---

Heather Taylor  
Chief Financial Officer and Treasurer